



INDIA'S BEST BANKS / BANK OF THE YEAR

HDFC BANK

THE BANKING OUTLIER

HDFC Bank is deepening the digitisation push even as it exploits the 'Bharat' opportunity cautiously and profitably.

BY ANAND ADHIKARI
PHOTOGRAPH BY
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The state of the Indian banking industry is somewhat unclear. Credit growth has been languishing in single digits over the past few years. A majority of banks, including private sector ones, are saddled with stressed assets. The ₹141 lakh crore industry is falling back on a single growth engine – retail banking. But the mood at HDFC Bank headquarters in central Mumbai is distinctly upbeat. The bank is certainly in a sweet spot with both retail and corporate engines firing. "Our good time is not dependent upon somebody else's problems," says Aditya Puri, MD & CEO of the bank since its inception in the early 90s.

The good times of the bank are a con-

ADITYA PURI
MD & CEO
HDFC BANK

quence of a conscious strategy to ensure 'growth with profitability', focusing on digitisation and also expanding in semi-urban and rural India where 60 per cent of the population resides. Even in the best of times, the bank never chased growth, avoided risks and deployed capital judiciously. The bank's business model was first tested post the global financial meltdown when many banks faced headwinds because of the focus on retail, especially unsecured segments like credit cards and small ticket size personal loans. Then, in the last four-five years, the industry saw a deterioration in the corporate loan book built during the last decade, especially in the commodity sectors like steel and infrastructure. But even in these challenging times for Indian banking, HDFC Bank grew its revenues, net profits and balance sheet consistently. There is now an opportunity for the bank to pick and choose corporate as well as retail businesses with the public sector banks (PSBs) set to lose market share because of their own balance sheet issues. "We are not even trying to grow beyond a certain level because then you get adverse selection," says a cautious Puri.

The bank that has amassed a balance sheet size of close to ₹10 lakh crore, in a little over two decades, has a clear roadmap for growing its business. It has stolen a march over ICICI Bank, another private sector giant, that has a balance sheet size of ₹8.13 lakh crore. "If the balance sheet coming our way is based on growth and our credit standards, also maintains our margins and leads to substitution of money lenders in the rural and semi-urban areas, it is good for us and also good for the country," says Puri.

In the Business Today-KPMG study, the bank has

HDFC BANK VS OTHER BANKS

A comparison of the top four big banks, shortlisted on the basis of quality of assets, productivity/efficiency, quality of earnings and capital adequacy



Total assets in ₹ crore
Figures for 2010/11 Source: B7 KPMG Study

attempted the mid corporate and SMEs, to the organised sector. In fact, there is a huge opportunity to wean away the customers of PSBs. The private bank has a huge line of products, especially in the advisory space, to service them. Puri is already seeing green shoots in the economy. "The temporary disruption through demonetisation and GST is now behind us. People are seeing a return to normalcy. That will require automatic increase in working capital. There are sectors like cement, two wheelers, FMCG, steel, etc. that are seeing more than green shoots." He, however, adds a line of caution: "Full scale private investment may take time."

The bank's retail engine, which constitutes close to half of its lending, has been clocking robust growth. Unlike other banks that have mortgages as the biggest chunk of their portfolio, HDFC Bank does the home loans for its parent HDFC for a fee. Auto and personal loans are the biggest segments for HDFC Bank. Business banking, too, contributes a large share. The bank has been very success-

shown an all round growth on almost all parameters - growth, size and strength. It has emerged as the "Bank of The Year" and is also the fastest growing bank. But Puri says the bank is not in the business of being the largest. "We are also not in the business of being the fastest. We are in the business of doing business within the defined parameters of risk and return and incidentally, if we become the largest and the fastest, that's Gods grace," says Puri.

Under corporate banking, HDFC is focused more on the lucrative working capital and short term loans and officials of public sector banks (PSBs) assert that the bank stays away from long term project loans and also core sectors. The bank, however, has a strategy in place to gradually grow its corporate book. It's now eyeing business from the formalisation of the economy post GST. There will be a gradual shift, especially



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"THE BANK IS AVAILABLE ON MULTI CHANNELS FROM MOBILES, DESKTOPS TO BRANCHES"

Ritesh Chugh
Digital Banking
Head, HDFC Bank

ful in cross selling loans to existing customers. In fact, the bank started offering personal loans and credit card to its dependable customers first. But there are challenges too in the retail segment. Most of the much sought after products like home loans, credit cards and personal loans are becoming a commodity where margins will come under pressure because of the huge competition. Many banks are already exploring new areas like consumer durables, affordable housing, micro loans, etc. HDFC Bank too is also building its consumer durable business. "This is the business that will keep growing. The aspirational needs of future India will be for consumer durables and for setting

up small businesses," says Puri.

Analysts point out that the bank's unsecured loans are also growing at a fast pace - today they are about 36 per cent of the bank's total book. Currently, the bank's unsecured loans are mostly to internal customers after analysing their credit worthiness. "I don't see any major concern on unsecured loans," says Puri.

The bank is also banking on another growth engine - rural and semi-urban areas. In the past four-five years, the bank has spent a good amount of time understanding the market. Currently, the revenue contribution of these areas is about 22 per cent. "We have tested out all our strategies. The prospects are even better," says Puri. The bank has a flagship 'Kisan Gold Card' which is like an omnibus kind of platform for buying motorcycles, tractors and accessing crop loans, etc. "There is a good quality of growth available in these areas. We do not need to push anywhere to take a higher risk or lowering our margins in our existing business," says Puri. In fact, more than half of its branches are based in India's hinterland.

22%

THE CONTRIBUTION OF RURAL AND SEMI-URBAN AREAS TO HDFC BANK'S TOP LINE

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