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‘Big Pvt Investment Yet to Start Flowing’

The Economic Times	Joel Rebello
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KAIZAD BHARUCHA
EXECUTIVE DIRECTOR, HDFC BANK

As executive director at HDFC Bank, Kaizad Bharucha is in charge of wholesale banking which includes loans to companies, agriculture and also to capital markets. Wholesale banking constitutes 45% of the bank's Rs 7.08-lakh crore loan book. In an interview, the HDFC Bank board member talks about the changes post the new bankruptcy law, interest rate scenario and the bank's plans for the future. Edited excerpts:

What changes has the new bankruptcy law brought to banking?
The IBC code is a brilliant step and brings a lot of comfort to the banking system. It brings a defined time frame for resolution of stressed assets. It's a code where the idea is to resolve rather than liquidate which is an important aspect. It also tells promoters that if you do not conduct your business in a manner that you are expected to, then you can be dispossessed of your company in a defined time frame, which earlier was not there. You could go to a court but it would take years for a resolution. It also brings in a lot of transparency and clarity for all stake holders in the system. It's an important piece of legislation and will serve us well in the financial sector.

How will it help your bank in the way you do business?
Given our level of NPAs, we will be the least beneficiary. But wherever we are a part of a consortium and have an exposure, it will help us. Obviously for banks, which have a larger percentage of impaired assets, I see a larger benefit accruing to them in the process. It does not change the way we do business. We always look at the management, promoter and cash flow and not the realisation of securities. Our outlook is based on the risk-reward in the sector and not on NCLT. This law makes it more vibrant, leads to more discipline.

How do you see the macro scenario in the next 6-8 months?
The volatility in the dollar-rupee is something which creates uncertainty, and is likely to continue for a while. People will have to be cautious where they are exposed to international trade. There are also other factors such as the fact that the rupee had not depreciated over the past few years compared with other emerging market currencies, so there's some catch-up happening there. We have also seen outflows on an aggregate basis, which have added to pressure. Then there are oil price movements, which mean there is pressure on the rupee because we are a large importer of the commodity. Volatility will continue for some time. I think the rupee will be in a band and people will have to be alert and watch that space very closely.

BHARAT CHANDA

ON IBC PROCESS

Given our level of non-performing assets, we will be the least beneficiary. But wherever we are a part of a consortium and have an exposure, it will surely help us

What is your take on the interest rate scenario?
Interest rates are likely to increase because of several factors which are well known. The timing will depend on data and events. We are certainly in a rising rates scenario. The transmission to a fair degree has already happened. If there is an expansion in rates, corporates will have to look at various instruments to manage the interest rate risks while entering the debt market, either through term loans or bonds. An active management of rate risks is something one should do.

Your MCLR is one of the lowest in the system. What is the opportunity for you to gain market share?
We use not only interest rates but bring other things to the table, including different products, like working capital loans, term facilities, dealer financing, non-funded facilities. It is an entire gambit of products offered on a digitised platform. Our turnaround times are also competitive through the relationship manager model. We also have a good salary offering programme, which brings about the differentiation to us, so pricing is not the only criteria. We will continue to use our geographical reach, gaining new-to-bank clients, get higher share of wallet, and use further level of digitisation and technology in making the services and user experience even better for customers.

Last time you mentioned that HDFC Bank was not totally averse to project loans, an area you are not known for. How has that progressed?
We continue to participate in project loans and term loans – it is not that we have not participated. For a bank of our size, it would not be feasible not to participate. But having said that, we will continue to be prudent as we evaluate each proposal and ensure that diligence that needs to be done is done at all points of time and where it is meeting the bank's standards, we will certainly participate. Today, we have roughly above 30-33% of our wholesale book in term financing and wholesale is about 45% of our total loon book. So, you can figure out the impact on the bank's balance sheet. These are projects across sectors, in transmission, roads, petrochemical without any large concentration. This ratio was lower a few years ago, but we have built up gradually in the past five to seven years of a low base.

Do you think there's an increased opportunity in the segment?
Private capex of meaningful size is yet to kick in. What we have seen is better working capital demand. We have seen better capacity utilisation across sectors, settling down of the GST, and more vibrancy in the SME space. From that point of view, on a year-on-year basis it has done well and even the bank has participated in those opportunities. However, greenfield and brownfield projects of any real size are yet to take off. Yes, capacity utilisation has improved from roughly mid-60% to above the 70% range, so there is an intrinsic demand. When you see auto ancillaries, engineering, food processing, services sector or healthcare and education, we have seen demand. Compared to last year, we are certainly seeing better credit demand. The latest RBI data show credit growth at 13.5% higher than the low single digits this time last year. So, there is a demand revival. But capex is some time away.

Are you open to buying portfolios from other banks? Restructuring opportunities?
It has to be sizeable. We are happy to examine at all points of time if it makes sense and is accretive. But there is nothing on the table right now. We have looked at a few for refinancing opportunities with the right promoters, industrial houses which are doing well, seasoned leaders in their field. There have been a few of those which we have participated in already. That opportunity is not getting bigger but participants are changing.

– Joel Rebello