

## **HDFC Bank-HDFC Merger: 'Elephants Can Dance As Well,' Says CEO Sashidhar Jagdishan**

Mumbai (Maharashtra) : HDFC Bank Ltd. and HDFC Ltd. are set to merge to create a financial sector behemoth, with a full suite of banking products under it. While the merger will take 12-18 months to complete, it will eventually create an entity with a balance sheet of over Rs 18 lakh crore.

Sashidhar Jagdishan, HDFC Bank's CEO, who will remain the chief executive of the merged entity, fielded queries on the sidelines of a press meet to explain what the merger will mean for the lender.

You sounded fairly confident you will be able to meet the liquidity and reserve requirements by the time the merger goes through. Could you tell us what your rough calculations are for additional liquidity required?

SLR and CRR requirements should not be a drag. I think both institutions have enough excesses, which could qualify for that. Nevertheless, of course, this is just a point in time. Over the next 18 months, assuming that's the time it will take for regulatory approvals to come through, both institutions will be growing, so the requirements will be larger. We are expanding our distribution, and if we are trying to step up our distribution even further now, hopefully, we should plan to see how to keep nibbling away—both from a deposit franchise perspective and also from a high quality liquid assets perspective.

Broadly, your NIMs is at 4-4.5%. Some of that will get compressed in the merger. While there will be long-term synergies and many other benefits that will emerge, what is the compression we are talking about?

Net interest margins on a standalone basis is not what you need to look at. For a certain mix of business assets, whether it's retail or wholesale, which is what we have seen, if you have a retail mix of about 53-55%, then you should operate in a margin of 4.1-4.4%.

As Keki Mistry was mentioning, proportion of mortgages will go to 30% plus. With that, the margin direction will be around 3.7-4%. But credit costs will also go down.

### **What are your plans for HDB Financial?**

HDB Financial Services is in a segment which is independent. They lend to a customer base about two notches below HDFC Bank. It's a very well run company. They have just come out of a tough period. But now, as we speak, I think they are returning back to their original pre-Covid mojo. It's something that we are all proud of. It's independent, it's a financial investment in the bank. We would love to have it as a subsidiary of the bank. But having said that, if at all there is any regulatory directions or instructions that come about, we will comply with that too. There is economic sense to monetise if at all there is need to pare our holding.

**Are there any overlaps or redundancies because of the merger?**

No, not at all. We are guzzling for people. We welcome them. We will embrace all the people into the fold. In fact, we need more people. It's a great opportunity for us to really expand our distribution on products. There isn't going to be any rationalisation. We will convert all our branches into the bank branches and start to sell all the products. All the people who come in, we welcome them, we embrace them. Frankly, my hunch tells me that we will need more people.

**Will you offer VRS to employees if they want to exit?**

That's something that HDFC Ltd. will have to think about. I don't have visibility on what is the thought process. But frankly, I don't see a need for that, because we are not having any plans to think otherwise. I think all of them are extremely important. They have a lot of expertise—40 years of expertise, which we don't have. So we would love to welcome all of them.

We will be happy to do a kind of exercise where we can have new common layers and levels and designations.

**Will some of the HDFC branches in the metros have to go?**

No, not required. In fact, earlier on, we used to have a distance of seven kilometres—the average between any branches. Look at all of us, we don't want to go beyond one kilometre. That's the customer's expectation. So, happy to have concentration of branches around with a shorter distance as well. So even if you have close proximity, I think it's welcome.

**There's a huge influx of people with housing finance expertise of over 40 years into the bank now. Do you think then that your distribution strategy will get skewed too much towards the home loan side?**

No. Frankly, even prior to this particular thought process, we were ramping up our distribution. Look at how much we have opened. We didn't have any iota of clue that we would be thinking through this. We already have plans of 1,000 branches a year or the next couple of years. So now, with this kind of a thought process, it makes sense even to step it up even further. So no change. It's not because of mortgages. All our products-, whether it's SME, whether it's the consumer retail assets, whether it's mortgage, we are going to be powering our growth from here.

**Any thoughts on how much you want a mortgage book to be? Is there any target on it?**

We want a diversified book. That's very clear. We don't want any concentration risk. That's been the philosophy not now but over the last 27 years. You look at what we have done so far. It's very well diversified. That's the way it will be. So we have actually an inadequacy in terms of a lower penetration so obviously we will try and step it up. But having said that, our penetration or other asset product is also not complete. It's still not reached a saturation point. So there is an opportunity to also have that power.

**What's the next milestone?**

No, we don't work for any targets or milestones. I think that's something that comes naturally to us. You may not want to believe it, but the reality is that even if I am not there, this engine that has been created by the founding fathers, it's such a fantastic platform that it will grow on its own. We are an institutionalised engine.

"Elephants can dance as well."

The point is on a larger base, can I continue to grow in line with the credit demand? I would say yes.