The Financial Express – One Key differentiator is our best-in-class asset quality – 08.04.2022

INTERVIEW: SRINIVASAN VAIDYANATHAN, chief financial officer and group head – finance, HDFC Bank

‘One key differentiator is our best-in-class asset quality’

The pandemic has made HDFC Bank adopt a more digital-driven, science-based approach to lending, **Srinivasan Vaidyanathan,** *chief financial officer and group head — finance, tells* **Shritama Bose,** *adding that sound execution should keep the company ahead of the competition. Excerpts:*

Has the pandemic in any way changed your perception of who your customer is?

I wouldn't say that it has changed that aspect. But, due to the accelerated digital thinking, we'll get more customers as digital enables the customer acquisition funnel to increase and the turnaround time to consummate the relationship is faster. We want to ensure that we capture the customer for simply a transaction, which is what digitalisation is doing, and we want to replicate that in relationship management. We are trying to make that analytics-based. The system through analytics is now telling the relationship manager what conversations to have, where the customer needs some service in terms of nominations or address change, what is the propensity of a customer from a product and depth of relationship point of view so that he can make the right need-based sale or provide the right service to the customer. So we are driving it through science rather than purely through art. Covid has taught us to have a more science-based and digital-based approach. The market to acquire the customer has now become much bigger. Policies such as video KYC have also allowed us to do this better. But we are still adding branches because that's important to some customers.

HDFC Bank has been a market favourite for its consistency, but others are catching up. Do you feel investors want something more from you now?

We are known for consistency of performance and best-in-class execution across parameters. Between 2017 and 2021, our advances have grown 2.3 times, between 2016 and 2020 – pre-Covid – it was still 2.3-2.4 times and between 2011 and 2016 it was 2.5 times. We have seen the other banks in the system either in consolidation or growth mode. If you look at market share, during the 21-month Covid period, our share in incremental growth was about 25%, even though our loan market share is 10-11% and deposit market share is 9-10%. When investors look at execution, in addition to consistent returns they also look at productivity and efficiency metrics like deposits per branch, revenue per branch, etc. On that count we continue to be best-in-class amongst our competitors. Similarly, there's return on assets (RoA) which investors closely look at. We have been consistent at 2% RoA over a period of time and competitors are now catching up. For many banks, investors have seen the return on equity going below the cost of capital and only now is it meeting that. Our price to book ratio has been in the range of 3x-4x five years ago and continues to be around that level. It shows that the multiple you pay for the bank is constant but as the bank grows in the high teens, you get a compounding return. The other key differentiator is our asset quality which continues to be best-in-class and stable across cycles.

> **Covid has taught us to have a more science-based and digital-based approach. The market to acquire the customer has now become much bigger. Policies such as video KYC have also allowed us to do this better. But we are still adding branches because that's important to some customers.**

The share of revolving customers in the credit card market is falling. How do you deal with that?

This is a cyclical rather than structural change in customer behaviour which is induced partly by where we are in the economic recovery and partly due to conditions specific to HDFC Bank. Rational customers would typically gravitate towards secured funding first because it is the lowest-cost, which is where they moved after Covid. The second port of call would be a lower-cost unsecured product, such as a personal loan. Only then will they come to a card-based borrowing, which is higher-cost. Customer behaviour through the pandemic has been pretty tight. Initially there were fewer avenues to spend, when things opened up the second wave came, after that we started to tighten things. In terms of credit policy we wanted people to be stable before they took more exposure. Things are slowly coming back. Spends grew 24% last quarter, but card loans grew only 10%. Customers now have more liquidity and they are spending. There's another type of customer — the 'revolver' who will exhaust all other avenues before coming to a higher-cost borrowing. We have been risk-off mode given the uncertainties. The cycle is now gradually coming back and it will be a few quarters before the top line starts to return. Also, for about nine months we didn't book any new customers. We have now accelerated customer acquisition and brought in about 1.3 million customers between August and December. It will be a few quarters before they are activated and start revolving.

Have you identified any governance lapses in the case of mis-selling of GPS devices?

The bank has zero tolerance for mis-selling. Individual aberrations have been fully dealt with and that has been done through training and closer supervision. We internally looked at the issue and dealt with the people who were individuals not following processes and procedures. We have further strengthened our compliance framework and reinforced focus on the 3Cs — culture, conscience and customers — across the organisation.