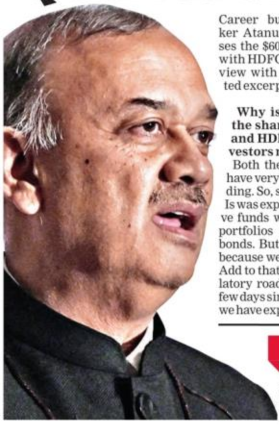
‘We have addressed investor queries on merger with HDFC’- 16-05-2022

ET INTERVIEW **ATANU CHAKRABORTY**
CHAIRMAN, HDFC BANK

‘We Have Addressed Investor Queries on Merger with HDFC’



Career bureaucrat-turned-banker Atanu Chakraborty discusses the $60-billion mega merger with HDFC in an exclusive interview with **Arijit Barman**. Edited excerpts:

Why is there a free fall in the shares of both the bank and HDFC Ltd? What are investors missing?

Both the bank and HDFC Ltd have very high foreign shareholding. So, some shake-up from FIIs was expected. Some of the active funds were rebalancing their portfolios and moving toward bonds. But they were not buying because we were not in the index. Add to that the murmurs of regulatory roadblocks. Over the next few days since the announcement, we have explained to each and every institutional investor. The net interest income (NII) was a consistent query. I think we have addressed them adequately. Finally, in this flux, there were some who took short positions. Some fall was expected but as people have understood the benefits, I am confident.

Why was the rush? Was there an extraneous consideration, some regulatory nudge? From start to finish, it took a fortnight.

There was neither any regulatory nudge, nor extraneous considerations. Sashi (Jagdishan) made the first presentation during October 2021. The bank's retail book was turning around with the average length of the book around 2 years. It was stable from a return on asset (RoA), return on investment (RoI) perspective. But in mortgage loans, the stickiness is far higher, and peers like ICICI Bank (under Sandeep Bakhshi) were pulling away. This was the lowest hanging fruit.

By October November, some options were explored to deal with this – should we start on our own? How about the backward option (merger with HDFC Ltd)? Other mortgage books we were not sure of.

We were just focused on the mortgage, which meant I had to take one large bite. Post- IL&FS and Dewan Housing, the differing regulations between HFCs and banks were also going away and the banking regulator RBI was nudging all large NBFCs to maintain SLR, proper provisioning, Priority Sector Lending Certificates (PSLC) for affordable housing. Bottom-line, the regulatory scrutiny was increasing, and it was done to bring in stability and safety in the system.

I don't want to put a label (of Emeritus)... I would like to ensure his (Deepak Parekh's) advice is available to all of us... There could be 6-7 options, including say Chief Advisor to the Group

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By January, we started looking at the books. We were also concerned about the Ukraine war and Covid resurfacing as IIT Kanpur had forecast.

Were the regulators on board right through?

Of course, but like always, they said we see the merit but will examine once it is brought to us as a binding proposal.

Did you ever consider a merger with ICICI Bank?

Not that I am aware of.

Many investors argue that the combined entity will be much larger in size and hence sustaining 20% growth on such a large balance sheet will be an arduous task. Add to that, HDFC Bank won't be able to do the high margin, high ROA real estate financing that HDFC Ltd used to do on its books, thereby diluting returns.

If you see the balance sheet, there is an improvement. Look at the advances of the bank at Rs 17 lakh crore and we will now see a 25% addition to that once we add HDFC Ltd.'s Rs 4.5 lakh crore. They are hobbled by the lack of low-cost funds; therefore, the net interest margins (NII) simply improves because the number of loans that can be done on the mortgage side is much bigger and remains a lucrative one. The rest of the business continues as such as we have a machine on the liability side that works very well. We have to crank it up a little bit. Therefore, to get that NII growth is much easier after this. Yes, we have no big interest to do real estate loans except the good ones that meet the RBI requirements. We are looking at the housing side of both affordable housing as regular housing lending and a sprinkling of real estate lending. They all are very good lucrative returns and bring stability to my book which enables my fast-moving retail to turn around even faster. The burden goes off their back and they turn around even larger numbers. So, I must continuously crank up my liabilities for which I have branches. Most people ask me – why are you adding a branch network? We believe in feet on the ground. Each branch turns profit as our cost to income is very low.

Are the bank's credentials as a premium revenue growth company under pressure? Bank of America's NII is higher than HDFC Bank's in the March quarter. This is unprecedented, say analysts.

If you see the net of our credit cost – return to risk weighted assets is the highest. Last year, due to the pandemic we had changed our focus more toward wholesale. It was a year of unpredictability as in the retail side it could have led to the possibilities toward loans turning into NPAs. We wanted to be sure that the ones we are lending are top quality. Our credit cost is our benchmark and that remains the lowest in the market. But as things improve, become more predictable, my retail book will move very fast and the housing segment. So frankly it was a strategic move. Overall, the growth of advances has not come down but it's the mix that has changed. But we will change it again. So, these are just one-quarter, two-quarter blips. We won't turn away from good wholesale as a bank of our size cannot shy away from it.

How do you simultaneously manage such a massive integration of human talent, technology, and yet consistently satisfy investors with consistent ROA, RoI Q-o-Q?

Let me preface by saying, RoA and RoI Q-o-Q will continue to remain the same. Close to 16% RoI and 2% plus return on assets (RoA) because if you see all the time, the strategy is to ensure the returns are good, the mix is good, your credit cost is kept lowest and the machine pushes more branches, more feet on the street, more leads getting generated. Let's not forget 650-700 odd branches are also getting added to our network. They will generate leads for other retail asset generations. What happens is a marginal dip on account of the stance the regulator takes of SLR and CRR but that's only very marginal. In SLR, in any case the HDFC Ltd has already moved very close to the bank and over 1.5-2 years both bank and HDFC Ltd (NBFC) will build up the buffer. Rest is regulatory remit as to how long they permit us to achieve this.

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