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"I THINK INDIA IS GOING TO SURPRISE THE WORLD"

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In conversation with
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Ben

Thank you so much for joining me today. It's an absolute pleasure to be here. We're very excited to be talking to you.

Sashi

Thank you; and the pleasure is mine.

Ben

So we'll start at the very top. HDFC has been a darling performer for many Indian funds, emerging market funds - and even global portfolios - over the last 20.. 30 years. I could ask any fund manager why this is, and what they love about the business, but I think it'd be far more interesting to ask you. So, why do you think, the stock / business has done so well?

Sashi

No, it's a very important question. I think it's the way it was built. I think number one is we had probably one of the top-notch professionals running this company. Two is it was floated by a very reputed brand, the HDFC brand. Three is the entire business model, the founding fathers, Mr. Puri and the entire founding team, the way they sort of came in and then built it on fundamental principles.

So, what are these principles? Number one, they felt that look, obviously, we are a startup. We need to ensure that there is, it a kind of a business model where there's a huge amount of a runway or a market opportunity. The beauty is India, itself, was a great opportunity. India was opening up. The financial services sector was underserved and underpenetrated. Even today as we speak, it is still underserved and underpenetrated, though the private sector has nibbled away a lot of market share since 1994 when the economy opened up. So, the fact that you had a large market opportunity, the fact that there was the banking system that was largely driven by state owned banks. The fact that technology was not necessarily a foundation corner in these banks at that point in time. So, the private sector banks, especially the philosophy of HDFC Bank was to have an open, scalable technology architecture and virtually near real time transactions.

We were very clear that we need to cater to the full spectrum of the GDP of the country. If you understand the GDP of the economy, almost 60% of India's GDP is consumption. The balance; 40%, is divided between private sector capital expenditure, and government spending. So, our model had to be a mirror of the GDP of the country. If you had to be a play on the Indian economy, you need to have participation in all the segments, whether it is corporate, whether it's retail, whether it is even the treasury part of the business. So, we set that up in a very small way, we built the businesses by first understanding the behavior of consumers. Whether it's a corporate segment, whether it's a retail segment or the SME segment. We realize that, look, when you're starting up you need to be very conservative. You need to first understand what are the consumer behaviors, their banking behavior and their transaction behavior before you could start to even offer credit products.

So way back in 1995-96, one of the gaps in the banking system was on the cash management services - I think the founding fathers found that as a huge opportunity to build an open, scalable, technology platform and we started to offer cash management services as one of our first product offerings. And that was a gap in the offerings of other banks; so therefore, they were able to take a fair amount of share at ease in the cash management space. Once you started to understand and started to see the flows in that, we started to understand the working capital cycle of such corporations and therefore started to start to lend to them as well. That's when we started the working capital business.

As that particular aspect grew, we realized that if you need to really scale up the corporate business, you need granular deposits. So, we started to set up the retail franchise from then on and we said we need to expand our distribution because we need granular deposits to be able to fund these streams. So, we started to open retail accounts. We started to give a nice offering in terms of anywhere, anytime banking -we were probably one of the first to offer net banking and mobile banking in those days.

Then we realized that look, if a customer walks in, he's not just content about keeping his money, he also needs to be provided with retail asset products. But then we said that we don't want to give it to everyone, we want to go only for those customers where we understand their banking behavior; and we were always upfront. Right from day zero, our credit offering was based on data analytics. So, I think one of the most important investments that the team did was on data analytics, right from day zero. They were visionaries and they really knew how to run their business and set up these foundations, which we have now scaled up with time.

So, when you start to understand the behavior, once you start to give loans to your existing customers and you try and build the book and you see the consumer behavior, the credit behavior over multiple business cycles, then you can refine and retune some of the algorithms in the credit models, which is what we did. As we started to learn more about it, we started to expand and even try and get some new-to-banking customers. Because we relied more and more on the founding principles of understanding consumer behavior, identifying which are the good credit customers, and offering credit to existing customers basis banking behavior and basis data analytics, we could maintain a very squeaky clean asset portfolio.

And obviously, with time, we started to scale up. We did it very steadily. When you look at it, we never overstretched ourselves. We knew our capacities. We knew what is the limit that we could do. And therefore, when you see our history over the last 27 years, we have been a classical compounding story. CAGR has been reasonably consistent and very predictable because we did not bet the bank on any one product or any one customer segment. We understood the customer. Second, we understood consumer behavior, and then we offered the products to suit this behavior. You have to be patient; you need to be very conservative. We had a lot of USPs. For example, we probably were one of the pioneers to have an independent credit architecture. Normally, if you see globally, and even in India at that time, the credit verticals were all converging into the business vertical. So, you will never have that kind of independence. We said no, we need to have an independent credit architecture which could challenge the business guys in terms of what is right, what is it that they're comfortable in offering, in making a policy or a product program before they can offer credit products.

This has been a great learning experience even for people who have spent more than 25, 26 years in the bank. It's a fascinating story even for people like me and I keep saying I'm really blessed that we've gone through this.

So, in summary, the crux of our story is that we had a strategy which can be copied by anyone. We have a great set of people, which anyone can poach. We have technology, which people can buy, okay? But there is a certain culture which is unique to HDFC Bank. Culture which no one can replicate. That's our execution capability. And that is what differentiates us from everyone else. And even if I were to move out and set up a new bank, can I replicate this story? No way. So, there is something unique about this as to how the founder, the founding CEO, or the founding team really built this architecture. It's a one-in-a-billion architecture.

Ben

It's a wonderful story and thank you for that very, interesting, detailed overview.

And to bring it to present day where we are in the cycle, credit growth seems to be back in the system. Government spending is back. It could be at the start of a new Capex cycle for India. What does that mean for the banking sector as a whole and more specifically, for you guys?

Sashi

I think we are probably at a stage where India's growth is going to be equal to maybe what China was 20 years ago, where US was in the '80s. I think if you already go back in the last four decades, there were about 13 countries which grew at CAGR of about 7% and now, we are at an inflection point wherein this year of course we will be probably one of the fastest-growing countries in the world. But the next two, three decades, there'll be probably only five countries which will have a CAGR of about 6% to 7%. India being a large democracy, I think we probably will grow anywhere between 5% to 7%. We are already the fifth-largest country in the world in terms of GDP. I think we are very well on our way over the next eight years or so to be the third largest economy in the world.

I think the kind of foundations that have been laid in the recent past by the government; from the monetary policy perspective as well and from the regulator, to make the financial system extremely resilient and robust, I think the economy is going to be really blessed to have this kind of financial system. Because ultimately, we need credit to power this kind of growth, and we see we are at an inflection point where whether you take any of the metrics - more importantly in terms of the per capita income, we are at an inflection point where the demand for consumerism and consumer / durable goods etc. or even the demand for financial products is going to be on a geometric progression.

So, financial services and large banks, which are well placed in terms of capital, in terms of distribution, in terms of brand, in terms of asset quality, in terms of the entire business models, I think will only enjoy and reap the benefits of this growth.

So, I'm an India bull. I feel that there will be a lot of naysayers, but I'm very optimistic about the kind of growth that we will see in the next decade in terms of 6% to 7% as a CAGR for growth. We will become the third-largest economy in the world. Maybe not in 10 years, but in 15 years, we will be doubling up per capita income. The kind of investment that we are seeing from the private sector is pretty extraordinary and especially when you see that the composition of investment is beginning to flow more into the renewable sectors, which means that we will be self-sufficient in terms of energy needs, which is one of our biggest drawbacks today as a country because we rely on a lot of fossil fuels for our energy needs. When you become self-sufficient, it just changes the entire composition for us.

And obviously, I'm not saying that I'm happy, but the fact that the geopolitical situation in the world, I think India, being reasonably insulated with the kind of political stature that we have gained within the country, the stability that has been established over the last eight years, there is a clear visibility that the stability, whether it's in the political stability or the economic stability, will be there for a longer period of time. The fact that we have the opportunities that could emanate because of our geopolitical stature where countries which are likely to grow in the future would want to have back offices in India; the China Plus One Strategy for example, I think all this is going to be a wonderful combination for us to continue this kind of growth that we are going to be seeing. And I've not even spoken about the infrastructure spend that the government is planning. I think that's going to be just an icing on the cake.

So, we are quite excited about it. I think India is going to be one of the best destinations. If you really look at our strategy, we are all India-focused. A lot of questions keep coming to us to say that, are you planning to move out of the country; can you do other geographies? There's no need. The opportunity is so huge out here (in India), why would I do this and Dissipate our bandwidths elsewhere? We have some wonderful plans over the next decade or so.

Ben

It's great to hear. And bring it back now to the bank, whichever way you cut the data. Some 400-500 million bank accounts have been opened since Modi's premiership started; we hear this stat a lot, but I think it'd be interesting to ask you what that actually means for your business. I mean, clearly, it means more customers, but then what are the second and third order derivatives of this headline stat?

Sashi

When this thought was introduced way back in 2014, I think there were a lot of people who scorned this idea as to why. But I think this was probably one of the brilliant thought processes that one could have. One of the melees in the system then was the fact that there was a lot of leakage of the social spending that was happening. And with 400, 500 million bank accounts getting opened, it ensures that the leakages were minimized and mitigated. And I think ultimately, the end objective was-- the end beneficiaries should be to get whatever was intended for them. That's number one, and I think it has happened. When you really look at the per capita itself, the reason for one of the increases in per capita is that the intended beneficiaries got the largest of the social spending. Two, from a banking perspective, it just formalizes the entire flow of money. so, once you have a formalized way of understanding what's happening in the transaction behavior of customers in these accounts, the ability to provide credit, which is far more comforting and comfortable rather than giving it basis, just mere documentation.

So, this is a reason why the eligible population for credit has actually gone up over the last eight years. And you look at our own self, we now have a fair amount of confidence to go deeper into the geographies, whether it's the semi-urban and/or rural India. For the most part we were an urban metropolitan bank, but now, 50% of our distribution is in semi-urban and rural areas. And why? I mean, obviously, we now got a lot of confidence because we have the ability to understand consumer behavior even in the rural parts of the Country but for the reasons that you mentioned, because now there are a lot of people who have bank accounts, there are a lot of people where we are now able to understand their consumer behavior. So, bases the data analytics, we now know and maybe even pre-approve some of the customers, even the rural areas, to be able to provide credit.

So, I think all that has happened in terms of the structural changes that we have seen over the last eight years, in many ways, not just in the number of accounts getting opened, the GST implementation where people found it so difficult to implement, but now look at it, this is Godsent. And the fact that we, and I'm sure all the other banks, would be relying on the GST data to be able to provide fair amounts of credit to some of the MSMEs... And you look at it, MSME is one of the fastest-growing segments in the country. And even in our own bank, when we reorganize ourselves, that's the fastest growing vertical in the bank and that's going to be the one which is going to power not only the bank, the banking system, and also the economy as well.

So, when you talk about all these things, the ripple effects, the derivative of all this is the availability of credit is going to be much more than what we would've in research. These are the foundations that have been laid out and I think we are all grateful for all kind of implementations that has happened over the last eight years.

Ben

Now I can't sit down with anyone from the financial services industry and not ask about fintech and technology. It does seem to me the emerging world seems to be, certainly within financial services, more open to adopting tech - and we see a lot of fintechs and digital payments and businesses of this nature emerging here in India. How do you stop fintech companies from 'eating your lunch'? Is it a case of working with them? Is it a case of heavy spend on tech by yourselves? What's the play here with technology?

Sashi

FinTech's have really broadened and opened our brain. Frankly, whilst we may have said that maybe 25 years ago, the kind of technology we had was probably up there but obviously, over the last five, seven years, technology in banking has changed. I mean, financial services as a whole has changed. And these fintechs who have patronized a lot more microservices architecture, more open-source technologies have really brought in great ideas as to what we need to do.

I think the kind of agility that they have demonstrated, the kind of new technologies which they have adopted, the kind of user experience that they have been able to provide is a kind of huge learning for some of the older legacy, traditional players like us. I think it was an eye-opener. But having said that, I think probably our regulations have been way ahead of the curve because when you're dealing with customers and especially in financial services, you need to have a fair amount of, what shall I say, safeguards, whether it is in the deposit protection in terms of data privacy, data confidentiality, security, cybersecurity. And so, it is imperative that you cannot just come out with platforms out of a garage. There are certain principles that the regulators have spelled out for financial institutions. And so, if you need financial stability, it is imperative that anyone who offers liquidity directly or indirectly to the world at large, to our citizens will need to conform to these kinds of regulations.

So, I think the fintechs have now realized that if you have to enjoy the fruits of such a large opportunity, then it is imperative that you need to partner with large institutions, which means that they have to conform to the regulations, especially on the cyber tech regulations, which has been so beautifully articulated by the Indian regulator. I have not seen any jurisdictions that have this kind of perspective, which is really a blessing. And I think we probably, again, are at an inflection point. I can talk for ourselves where we have now over the last two years, we have gone ahead in terms of how we have hollowed the core of our existing systems and moved on to microservices architecture. We have moved on to the cloudification of our applications. We have now amplified all our services.

So, the amount of investments that we have done or we are doing is going to be manyfold compared what we had ever done before. But that is extremely important because that's going to be the foundation. Technology is going to be more kind of an enabler to the business model. It's going to be driving the strategies of our various customer segments.

So, I think, I don't see fintechs eating our lunch. I see a lot more partnerships with fintechs because let's face it,if we want to enjoy the benefits of a fintech, which is nimbleness, agility, great user interfaces and user experience, the adoption of commoditized technology hardware's, open source technologies, - which is what we need to patronize - it means that even large tech companies will have to converge into what the fintechs are doing. Already the kind of digitization the government has embarked and created a lot of open platforms, whether it's our NPCI/UPI platform, whether it is the India Stack, whether it is the GST platform, whether it is the OCEN rails or whether it is the Account Aggregator rails that has been implemented – I think these are all structurally sourced-- it's going to make a difference not only to our existence, to our growth, and also our contribution to the world economy.

Ben

And picking up on that point, the contribution to the world economy and your capacity as the CEO of one of the country's biggest banking groups, you must spend a bit of time outside of the country with peers and investors. How are you seeing the perception of India and how is this changing?

Sashi

Oh, I think I can see a very perceptible change over the last 18, 24 months. Well, the kind of political stability that is now established in the country, the kind of stature we've got in the world stage, the kind of digitization that we have proved to the world at large, the fact that we have a financial system that is extremely resilient, the fact that we were able to balance one of the worst pandemics in our lifetime reasonably very well, the fact that we continue to be one of the fastest growing economies in the world, the fact that we continue to be one of the most resilient democracies in the world. No other country will offer this kind of diversity.

So, the fear of any totalitarian rule is not possible when you have such a diverse, large country. So, that gives a lot of confidence in terms of freedom for people from outside to invest in a country where the runway is so huge. The fact that we are going to be the third largest economy in eight to 10 years is something given. The fact that we are all probably looking at a growth rate of 6% to 7% is given. But what's going to surprise the world is that it could be even faster and larger because of the kind of energy that is there in the system and energy in the demography. Because it's a young demography and a very productive demography with technology as an overlay, I think India is going to surprise the world.

So, it's very fascinating. As I said, a lot of changes that you're seeing from the external perspective, the kind of infrastructure that is being added, whether it's roads, whether it's rail, whether it's ports, whether it's the airports and multiple others. I think we have shown to the world the kind of superiority in terms of self-reliance and in terms of being ahead of the curve in that area as well.

So, I think it's going to be a great destination. I see a lot of people now probably recognizing that this is going to be a great alternative in this region. We are already seeing a fair amount of FDI flows coming in and it's just a tip on the iceberg. And you will start to see much more as India opens up and starts to move ahead over the next couple of years.

Ben

Fantastic. Well, look, I'm conscious of time, so probably just time for one last question. Once the merger is complete, you will be one of the world's largest banking groups by market cap and you are going to be in charge. How do you want your legacy to be remembered if there is such a thing? And I know it's a very modest organization, but--

Sashi

There is no such legacy that I would like to leave. The only legacy that I would like to, it's just something that I've been trained in this wonderful school of HDFC Bank, and I've been mentored that way, is to just improve on the culture part of it. We have a great culture. It's a very unique culture. And that is porbably one of the USPs of why we are different. We just want to take it to a new level, enhance it and continue to take it to the new level because the sustainability of an organization depends on this. One is treating our large workforce with a lot of respect, and that is one of the biggest cultures that we are wanting to have, especially the seniors. We have 161,000 people and it's growing. We need the entire supervisory architecture, which is just about 10% of that, which needs to ensure that we handle, nurture, care and collaborate. Because once you do that, the energy that the employees will give back to the organization and to the customers is going to be phenomenal.

The second one is on the service-first culture to the customers. I think we have-- that's been, again, one of our fortes. But I must acknowledge that we can do better. We're not there yet, but the entire might of the organization is working towards that. I know it cannot happen overnight, but a combination of technology, a combination of the attitude to ensure that we give adequate respect to the customers and so that you can get respect is something that we just want that culture to seep in.

So, we are focusing on these two. We've always been extremely good on that, but we want to take it to the next level. And that is the only thing that will give me satisfaction. The financial metrics of the market capitalization is not going to give me any joy, but in these two aspects, if I achieve some amount of tangibility and some kind of a needle shift, I think that'll give me a fair amount of satisfaction.

Ben

Fantastic. Well, thank you so, so much for speaking with me today.

Sashi

Thank you, Ben. Wonderful talking to you.

Ben

Thanks a lot.