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HDFC Bank sees green shoots as Indian companies borrow again

By Reuters | Updated: Dec 04, 2015, 05:42 PM IST

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MUMBAI: **HDFC Bank** BSE -0.04 %, India's largest lender by market value, said it is beginning to see "green shoots" in corporate loan growth, as companies begin to borrow and spend again after almost two years of reining in.

The combination of a more conservative stance among state-run banks - hit by bad loans - and a lack of demand as the economy slowed, has held back Indian business lending. But there are signs of a change.

HDFC Bank's long-time managing director, Aditya Puri, said he saw early hints of a recovery among automobile, telecoms and consumer goods, and even small and medium companies.

"This is more working capital (demand) at the beginning, but we are starting to see term loan growth in the last month or two," he said in an interview at the bank's Mumbai headquarters.

Puri, whose conservative, retail-focused bank's profit has outpaced rivals for a decade, says he expects Indian banking sector loan growth to come in at 12-14 percent this fiscal year to March - probably ahead of last year's 12.6 percent but a slowdown from over 20 percent six years ago.

His bank should be ahead of the market by 5 to 6 percentage points, he added.

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To maintain growth in the face of a corporate slowdown, HDFC Bank, like others, has bet on lending to individuals, boosting unsecured products such as credit cards and personal loans.

That segment, targeted by rivals such as ICICI and State Bank of India, is among the market's most competitive. But Puri brushed off worries HDFC Bank could take on excess risk in the race for margins.

"There is no need to go up the risk ladder or down the margin ladder," he said, adding HDFC Bank focuses on India's "middle and upper middle".

RURAL PUSH

Run by former Citibank executive Puri since its launch in 1994, HDFC Bank was for a while the world's most expensive bank, as investors cheered its consistent double-digit growth.

Puri says this growth rate is sustainable, thanks to a conscious effort to embrace technology and an aggressive push into smaller towns and villages across India.

It has been making inroads into those areas for the last three years and they now account for roughly a fifth of its book. Unlike its public sector rivals, HDFC Bank does not have a network of branches outside the cities.

Business there, Puri says, is growing at twice the clip of India's large cities and should make up 40 percent of the bank's loan and deposit book over time, thanks to technology that allows him to offer cheap, quick and personalised products.

Being a retail-focused bank, HDFC Bank has sidestepped a damaging infrastructure lending boom, and so has minimal bad debts, unlike almost all other major lenders in India.

HDFC Bank has also increased its investment banking presence, but Puri said he would not compete for the top spots in India's league tables, given rock-bottom fees paid by the Indian state and large corporates.

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