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Kotak Mahindra vs HDFC Bank: Are they following divergent strategies or are similar at their core?

BY [SUMAN LAYAK](#), ET BUREAU | APR 09, 2017, 07:55 AM IST

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Kolkata of the early 1990s may not have fired the imagination of a BHU engineering grad with an IIM-A diploma to boot. For 30-year-old Dipak Gupta, there was an added burden. He ran the city office of the consulting and accounting firm AF Ferguson, while his family stayed in Mumbai. Five days a week at a cousin's home in Kolkata's College Street, and weekends in Mumbai was a dreary routine.

In 1992 Gupta was happy to escape this dual-city existence and take up a Mumbai job with Kotak Mahindra Finance Ltd (KMFL), led by a 33-year old entrepreneur, [Uday Kotak](#). The electrical engineer and management grad moved from consulting to a hire-purchase and leasing business. Just that, at that time, Gupta confesses he did not know hire purchase from leasing.

It's been 25 years since Gupta hit the ground running, working with aircraft and boiler leases, innovative leasing ideas which were firsts in India. KMFL has since converted to a bank (in 2003). Today Kotak Mahindra Bank, with a market capitalisation in excess of Rs 1.6 lakh crore, is taking one more leap of faith with a no-frills mobile banking model. There are parallels with Gupta's move from Kolkata. This leap will help the bank escape from a box. [Kotak Mahindra Bank's](#) retail banking play has been largely restricted to the "mass affluent customer".

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KOTAK BANK	HDFC BANK
Started in 2003, converting an NBFC to a bank	Started in 1994, as a greenfield operation started by HDFC
Led by an entrepreneur, Uday Kotak , with a background in financing	Led by a professional banker, Aditya Puri , ex-Citibank
Disruptor, offers high savings account interest rate	Growth focused on deposits, current and savings accounts
Mobile banking is a new offering that could change its dynamics	Leader in salary accounts, broker financing
Focused on being profitable with every customer	Focused on growth, profitability follows



Uday Kotak's new gamble, a zero-charges, mobile-only banking product named 811 is riding on the Reserve Bank of India's Aadhaar based process that allows a bank to authenticate a customer on the basis of the Aadhaar number alone over a smartphone. It is a huge technology bet for Kotak, who is gambling on doubling his customer base to 16 million in the next 18 months.

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Gupta lets on that Kotak personally was scared of technology, till a couple of years back. That's when he left his Blackberry for an iPhone. For those who love league tables, the announcement of 811 by Kotak on March 29 was a bit of a dampener. The expectation was of something bigger — possibly a merger with Axis Bank. Rumour mills were working overtime for a month: if not Axis, bets were on a buyout of Mahindra Financial Services of the Mahindra & [Mahindra Group](#).

The Kotak-Axis merger would have created the second highest valued bank in India by market capitalisation, overtaking [ICICI Bank](#) and the public sector State Bank of India. Market leader [HDFC Bank](#), led by consummate banker [Aditya Puri](#), then would have been in direct



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"We have said let us make this simple and stupid. Zero balance and zero charges for 811 customers. We think it is sustainable"

Uday Kotak, executive vice-chairman,
Kotak Mahindra Bank

line of sight for Uday Kotak, the entrepreneur.

Kotak versus HDFC Bank can be the stuff of reality shows. The two are similar in many ways (see Different Strokes for Different Folks), yet as different as chalk and cheese.

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At a recent business meet in Mumbai, Puri said that [digital wallets](#) is not a viable business, and that banking charges and better services should go hand in hand. Meanwhile, Kotak has made his intent to grow very clear. In an interview with ET on March 30, he said that he considered the digital opportunity as big a play as consolidation and asset reconstruction (dealing with bad loans).

"If you deposit exceptional amount of cash, it costs me. Pay my cost. I am not a free enterprise. I have to give returns to shareholders"

Aditya Puri, MD, HDFC Bank

The bank is raising Rs 5,400 crore in equity and it can spend in any area. Banker turned entrepreneur V Vaidyanathan, chairman of Capital First, feels Kotak has changed the game.

"Most leading private banks, whether ICICI, HDFC Bank or Kotak, have built state-of-the-art institutions and are seamlessly navigating into the new digital world. With 811, Kotak has changed the narrative for now, but it is only a matter of time before all institutions start to think that way," says Vaidyanathan who, a decade ago, was instrumental in building ICICI Bank's portfolio of retail assets.

David and Goliath

At the HDFC Bank House, the headquarters of HDFC Bank in Mumbai's Lower Parel business district, the senior pros are in no hurry to respond to Kotak. Much like Kotak, HDFC Bank too has a senior team (of 30-40 people) that came together in the 1990s, and many of them have stuck on. Aditya Puri was heading Citibank in Malaysia in 1994, when HDFC Bank was being set up, and Paresh Sukthankar, who is deputy managing director today, had joined in after Puri from Citibank India.

"We have always targeted growth ahead of the market — three to four percentage points more than the industry," says Sukthankar, indicating that the bank will keep growing faster than the industry. And he makes it clear that there will not be a me-too mobile banking product. If Kotak was all about the mass affluent, HDFC Bank, says Sukthankar, already has around 55% of its branches in semi-urban and rural areas. And if Kotak Bank is riding on digital India initiatives (811 is a play on November 8, 2016, the day demonetisation was announced), Sukthankar says HDFC Bank is bridging the gap between India and Bharat.

"In many ways we have exploded the myth of being an urban bank." The two banks had actually tied up in 2006 to share each other's

“With 811, Kotak has changed the narrative for now, but it is only a matter of time before all Institutions start to think that way”

V Valdyanathan,
chairman, Capital First



ATMs.

At the time Kotak had around 75 ATMs while HDFC Bank had a little more than 1,300. In the last 11 years HDFC Bank has spread itself to 2,500 cities/towns, while Kotak today has around 1,400 branches. A look at the financials for the nine months ended December 2016 (see How They Stack Up) of the top five Indian banks by market capitalisation shows the catch-up Kotak Bank has to play.

At a total income of Rs 15,741 crore, it is one-tenth of State Bank of India (SBI), around one-fourth of HDFC Bank and ICICI Bank and a little more than a third of Axis Bank. Net profits at Rs 2,435 crore, however, almost equal those of Axis, and are one-third of ICICI Bank's and SBI's and 23% of HDFC Bank's. In terms of advances and deposits, too, it is around a quarter of HDFC Bank. This is what makes the intent to double its customer base in 18 months and the noise around mergers and acquisitions significant. Sukthankar also points out that HDFC Bank is no alien to growing through acquisitions itself.

...BUT CUT FROM THE SAME CLOTH

Started a decade apart, both banks had a **strong brand** to begin with

Both were lucky to land banking licences that are **doled out rarely**

Both banks have built the basics of banking, branches and **ATMs**

The **minimum balance and service charges** regime is present in both banks

Profitability focus is a common trait in the strategy of HDFC Bank and Kotak

With **75%** of the market with **PSU banks**, which are unable to respond to changing environment, both Kotak Bank and HDFC Bank are targeting a growth in **clientele**



The HDFC Bank and Times Bank merger in 2000 was one of the first of Indian private sector banks — and not under distress or under the guidance of the regulator. Later in 2008, Centurion Bank of Punjab merged into HDFC Bank. In many ways, Kotak Mahindra Bank is a smaller version of HDFC Bank, almost like a twin born a decade later with the same genes.

A senior banker, who knows both Puri and Kotak well, says they are similar in their approach to banking: hard-nosed and profitability-focused. Also, both banks have assiduously avoided betting too big on infrastructure and large corporate debts, something large competitors like SBI or ICICI Bank have to contend with.

Sukthankar explains how HDFC Bank's exposure to various sectors mirrors the Indian economy. "India is a domestic consumption-led economy, with 60-65% of the GDP accounted for by consumption, and this is how our loans and advances exposure is also structured." Gupta of Kotak tells a different story.

In the late 1990s, there were around 4,000 large non-banking finance companies, but by 2000 only around 10 of them survived. "A lot of our learning came from that period and we created a separate bad assets division. A lot of our lending is directed by: how will I recover this if it goes bad?"

As a result of this focus on risk, Kotak Bank and HDFC Bank have the best non-performing asset numbers. With Kotak at 1.07% and HDFC Bank at 0.32%, the two are way better placed than the competition.

“Kotak tries to make sure every customer is profitable from the word go, whereas HDFC Bank’s strategy is to first acquire the customer and then find profitability”

PH Ravikumar,
chairman, Vastu



Different Ways

PH Ravikumar, a former senior banker with ICICI Bank, founder managing director of commodity exchange NCDEX and now an affordable housing finance entrepreneur, says about Puri: "Often I have seen him ask people who come to meet him if they have an HDFC Bank account. He wouldn't ask me, as I am former ICICI Bank, but those accompanying me to his office would be invited to become HDFC Bank customers."

Ravikumar points out one key difference between Kotak and HDFC Bank. "At Kotak they try to make sure every customer is profitable from the word go, whereas HDFC Bank's strategy is to first acquire the customer and then find profitability."

Two major pillars of HDFC Bank's growth have been the grab (along with ICICI Bank) for the salary accounts of India's private sector and emerging as a banker of choice for the brokerage business.

"The financial markets needed products that cater to their needs, not just funds but also products that help them in the environment and we provided those products," says Sukthankar. He also reiterates that HDFC Bank wants to see a customer become profitable during the "life cycle", if not immediately.

WHAT IF KOTAK AND AXIS MERGE

Top six private sector banks by market cap (₹ crore)

HDFC Bank	3,68,686.27
ICICI Bank	1,61,355.05
Kotak Mahindra Bank	1,60,977.31
Axis Bank	1,20,646.32
IndusInd Bank	84,434.67
Yes Bank	70,894.53

Market capitalisation, as on April 7; Source: BSE
Note: Both Kotak and Axis Bank have denied merger rumours

Another differentiator for Kotak is the higher interest rate for its savings bank accounts at 6% (now also offered by Yes Bank), again something that larger banks like HDFC Bank or ICICI Bank did not hurry to copy. You could call it a guerrilla tactic of a smaller competitor, although Gupta of Kotak explains it in a different way.

"We see this as a term deposit that we would have otherwise got at 7% or more." Sukthankar counters that this would invariably raise a bank's lending rates. There is one more reason why HDFC Bank is not worried about Kotak's mobile banking push. Sukthankar says that HDFC Bank leverages its branch network much better than even the public sector banks that have a presence in similar areas. "Our smaller branches do auto loan, gold loan, tractor loans, agri loans and small business loans, while those of many other banks do not offer such a comprehensive suite."

If Sukthankar implies that there is some learning here for Kotak Bank, it may have already happened — through its acquisition of ING Vysya Bank in 2014. Gupta explains that one of the learnings from ING was the amount of business that its branches could generate in the immediate vicinity, especially by lending to small and medium enterprises located nearby.

Puri vs Kotak

Kotak Bank, however, promises to do a lot more over the smart phone. Gupta tries to position the 811 account as a multipurpose vehicle that can double as a wallet and a virtual debit card. The customer gets one transaction in cash free and then will have to pay charges if she wants to come to the branch for more physical interaction.

HOW THEY STACK UP

At standalone level, Kotak Bank has the smallest income among the top five Indian banks by market cap (₹ crore)

BANK	TOTAL INCOME	NET PROFIT AFTER TAX	(%) NET NON-PERFORMING ASSETS	TOTAL DEPOSITS	TOTAL ADVANCES
SBI	1,53,259.09	7,669.28	4.24	20,40,778	14,97,164
HDFC Bank	60,041.79	10,559.57	0.32	6,34,705	4,95,043
ICICI Bank	57,075	7,776.45	4.35	4,65,284	4,57,469
Axis Bank	42,052.16	2,454.18	2.18	3,70,790	3,47,175
Kotak Mahindra Bank	15,741.44	2,435.02	1.07	1,49,352	1,29,261

For April-Dec 2016; Source: ETIC, Capitaline

"The cost of acquiring a physical customer used to be Rs 1,000 to Rs 6,000, with the normal KYC process. Now it is down to Rs 500 or less," explains Gupta, adding that serving the customer will also cost less and therefore will make business sense. The reach-out to prospective customers will be largely through advertising channels.

In the ET interview, Uday Kotak had said, "We think it's sustainable and at this point there is no intent to charge." While Kotak is offering a zero-balance account at the low end, Aditya Puri is speaking about charges at the higher end. Puri told ET, in a March 8 interview: "Pay my cost. I am not a free enterprise. I have to give returns to shareholder."

The journeys may be via different routes but the destination is one. And the good news for both Kotak and Puri is that there is huge growth awaiting banks, especially those in the private sector that are not burdened with nonperforming assets. Says Ravikumar: "The private sector players now have 25% share of the market. In the next five years, this will go up to 50%."

There are new markets too and payments bank licences are also being given out by the RBI. A senior financial services entrepreneur, who did not want to be named, says: "A banking licence is the key here. Once that is in the bag, it is a question of keeping one's head and grabbing new customers." In the interview with ET, Puri had pointed out that as far as the unbanked and unorganised sector is concerned, HDFC Bank has a virtual monopoly as he has put out his products across the country.

"We are having the best time of our lives," he said. Puri, however, retires in four years, upon turning 70, and succession planning is already being discussed. At 58, Kotak has more time on his side and — if size is a criterion — more to do, too.

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