

ET EXCLUSIVE Q&A

RAJIV LALL
CHAIRMAN, IDFC

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'It's a Marathon, not a Sprint. We'll Need 5-7 Yrs to Establish Ourselves'

Stock markets may be cheering IDFC's banking licence, but its chairman **Rajiv Lall** says his business plans are for a decade and there could be no immediate gains. In an interview with ET's **MC Govardhana Rangan** and **Anita Bhoir**, Lall discusses the long road ahead to become a success story. Edited excerpts:

What do you think made the RBI think favourably about you to grant the (banking) licence?

We put our best foot forward on our application. We didn't have to make a case why we would be a good bank. We had to tell them what we will do and how we would go about being a good bank. We had to give them a sense on how, historically, this organisation was built. This organisation has very strong governance, processes, deep pool of capital and strong management. We have what we believe is a well-thought-out plan for execution of our banking aspiration.

What plan did you present to the RBI?

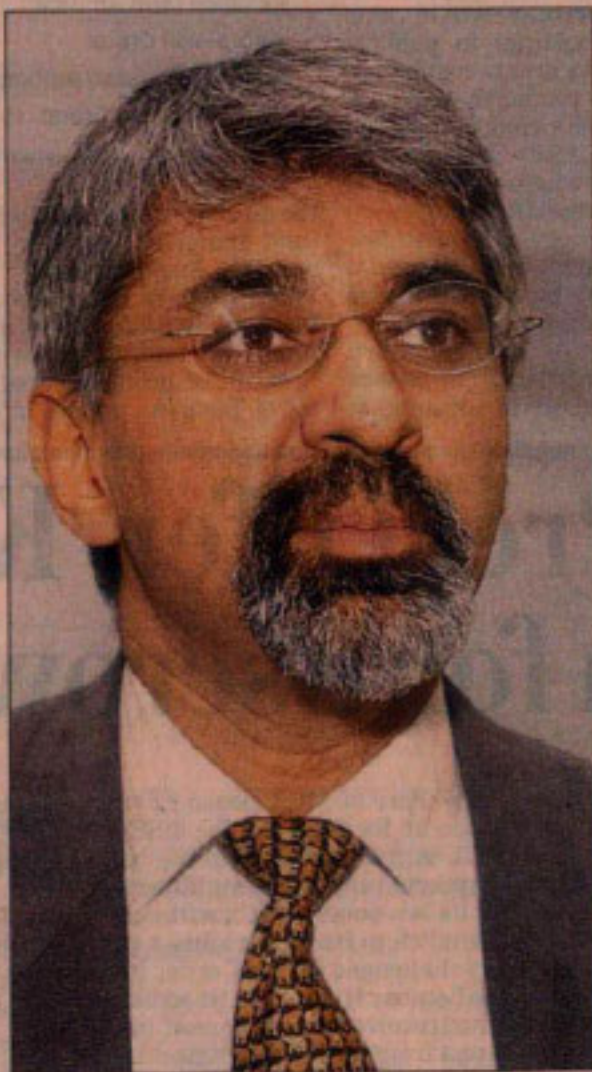
We are looking at a nine-year time frame, where the first three years would be about consolidation, stability and investment. The next three years would be about growing, and the final three years would be about acquiring scale. It is not a one-year thing. We would need five to seven years to establish ourselves. It is a marathon, not a sprint.

The environment is quite competitive and certainly not what it was when HDFC Bank and ICICI Bank came into being. How do you plan to compete?

I think the writing is very much on the wall. Banking has not been competitive enough, that is why the RBI is keen to make banking licence available on tap. Banking is only going to get more competitive. The idea behind the policy is to eliminate and reduce the scarcity value of a banking licence. It is not that you have a banking licence and the market cap goes up. Regulations are also improving, that will make it better for new-comers. You have to generate value by creating service that customers want and that is what competition is all about. There is an opportunity. Unless we are different, we will not survive. We have to come up with a value proposition, be it price or convenience.

Your position is similar to what ICICI's was. Will the path be the same, like growth through acquisition?

ICICI had disproportionate share of corporate banking. Over time, they diversified and developed a foot print in retail. Ours, by definition, should be a similar trajectory, where relatively corporate banking remains large but will give way over time to retail banking. There are some difference between ICICI and our starting position. The ICICI transition took much longer. They were running the bank and a parallel institution for a longer time. We feel our



great advantage is that we will not have any large branch infrastructure and we have very few employees. We have no legacy technology platform we are wedded to and have a very deep pool of capital. The best capitalised start-up bank. There are greater merits to pursue organic growth than acquiring a bank. You are also buying other baggage in the form of legacy – employees and technology.

How would you structure the bank?

IDFC is a listed entity. It has three to four entities under IDFC, there is an asset management company and an investment bank. Under IDFC, there will be a non-operative finance holding company (NOFHC), which will house the bank and existing subsidiaries. The assets that sit today on the IDFC balance sheet will be transferred to the bank's balance sheet. In the end state, you would have IDFC as the parent. Under this there would be the NOFHC and underneath this would be several subsidiaries of

which the largest would be the bank. The difference, however, in our case is that our bank will be listed on day one. So we will have two listed entities – IDFC the parent, and underneath that, the bank.

So the shareholders of IDFC would be the shareholders of the bank?

We have a duty and obligation to our shareholders for them to have an interest in the bank.

How do you plan to trim foreign holding in the bank?

We would reduce foreign holding by doing a preferential issue for domestic investors. A small offering to domestic investors. We have already enforced a cap on foreign ownership. We will now further dilute. There would be a dilution of about 3%. It is not good for shareholders now, but we have to do it.

ON COMPETITION

Banking has not been competitive enough, that is why the RBI is keen to make banking licence available on tap. Banking is only going to get more competitive.

Is it really worth it? Why can't you remain an NBFC?

From my days as private equity investor during the Asian crisis, I have seen illiquid balance sheet vanish overnight. There were non-bank companies – access to bond markets vanished overnight. 2008 was not a pleasant experience either. Why have Goldman Sachs and Morgan Stanley turned into bank holding cos? From a systemic and liquidity point of view, it makes sense. From a business point of view, it makes sense as well. As IDFC, we were a very volatile stock. We were the second derivative on the macro economy – the change of the change of the change. That kind of volatility is not good for a finance company. Diversification makes sense. We are taking this logic to a logical conclusion.

Are you not quite a late entrant?

If we had entered the market 10 years ago, we would have been just another bank. This allows us to be a differentiated bank. That is partly because of regulatory change and partly due to technological change. Now, 50% of rural India has 2G and 3G. Those who were trying to build it 10 years ago did not have them. From ground zero, I am not tied to anything.

How would you be different?

There is no magic formula that I can give you. Our research shows there is enough frustration among existing customers. If there is something we come out with that is different, we may be able to persuade customers to move.

Will you seek forbearance on maintenance of CRR and SLR?

We will not seek regulatory forbearance on maintenance of CRR and SLR.

How would you achieve priority sector targets?

We have 18 months to start. If I were to give you a rhetorical answer – because we want to be a universal bank, our aim is to serve both India and Bharat. Lots of bankers are beginning to realise – if HDFC Bank is shifting gears to Bharat it is a reflection of what is happening in rural India. It has become much more interesting and bankable proposition. There is a lot more activity in rural India than traditional bankers have given it credit for. I do not like to call it financial inclusion; We will call it banking for Bharat. It is not just checking the box and opening no-frills account.

Are you betting on a priority-sector status to infrastructure? Would it have made sense to wait for differentiated bank licence?

We have not pursued that conversation. We have not sought 'if you give us that, we will do this'. My mother always taught me that a bird in hand is worth two in the bush. I have a provisional licence in hand, the conditions of which are clear to me. I have the patience, capital and perspective to abide by that. I don't want to wait and gamble on how the differentiated licence may look like.

Many are worried about your asset-liability mismatch and its costs.

A huge exaggerated bogey is made out of it. We won't have deposits overnight. It will take years. In the meantime, we have to rely on bond funding, term deposits. There are no restrictions that prevent a bank from raising bond financing on the liability side to fund infrastructure. Banks choose not to do that because, to them, the cost of bonds is relatively higher than their deposit cost. For us, even if I am borrowing through infrastructure bonds, I would be no less competitive than what I am now.

What about human resources?

We are very fortunate. We were expecting some 4, 5 licences. Now, effectively, just two. Bandhan is a very different animal from us. The war for talent that we feared is not going to happen. We can have our pick.

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