A Bank for the Buck: The Story of HDFC Bank

Radha Ravichandran

Tamal Bandyopadhyay (2012). A Bank for the Buck: The Story of HDFC Bank, Jaico publishing house, Mumbai. Price Rs. 395, Pages 372, ISBN 9788184953961.

The book is about HDFC's venture into banking, the process of building a sound, efficient, technology-based bank in the private sector and narrates its evolution from 1995 to 2012. The author is an experienced financial journalist and writes extensively on Indian banking industry.

The book narrates how HDFC Bank was built brick-by-brick, assembling resources - mainly the manpower and business partners. It covers the life of the bank right from the conception of ideas, assembling like-minded experienced talented bankers and creating a corporate culture to mergers.

The book chronicles the setting up of the bank: working from a makeshift arrangement, technology deployment, foray into different market segments, exploration of new products and service offerings, dealing with some crisis management situations, image salvaging and organic and inorganic growth. The leadership style of the man at the helm is narrated covering both his personal traits and professional conducts.

The book is organized in 13 chapters. From Chapter 1 to Chapter 3 the author recounts the team building efforts at top management level and the finalization of a global partner by Deepak Parekh, Chairman of HDFC. Chapter 4 describes the setting up of the first branch and building a corporate culture of frugality and cost control. Chapter 5 chronicles the process of fund raising - both domestic IPOs and American Depository Shares, and the smooth transition of private equity from Natwest to Chase Capital.

Chapter 6 through Chapter 8 covers corporate banking practices and growth in corporate banking segment; HDFC Bank's venture into retail banking, Micro, Small and Medium Enterprises (MSME) and foray into rural banking. Chapters 9 and 10 recount the merger of HDFC Bank with Times Bank and Centurion Bank of Punjab. In Chapter 11, the author narrates the derivative scam and IPO scam, which dented HDFC Bank's reputation and the bank's efforts to come out clean. Chapter 12 describes the leader; his personal traits, leadership qualities to cite a few. In Chapter 13, the author raises several questions about the brand equity of the group, merger prospects, and the hero of the success story.

Chapter 1 details the efforts of HDFC Chairman Deepak Parekh, on getting the license to set up a bank in 1993, of scouting for the most suitable candidates to build, lead and manage the bank. He succeeded in convincing Adhitya Puri to take up the CEO position on the condition that Mr. Parekh would give him the freedom to run the bank. At that time Puri was then one of the select 50 talents CitiBank was nurturing and paying hefty salaries. Thakur, former Controller of Foreign exchange in India agreed to join the bank as Founder-Chairman. Parekh roped in his friend, a corporate executive, Vinod Yennemadi as part of the bank team. Puri insisted on HDFC brand name for the bank and had the final say.

Chapter 2 dwells on the selection of a partner for strategic alliance. It was imperative to have a foreign bank as partner to have global recognition and to facilitate lines of credit from foreign banks to help Indian importers. Parekh approached three prospective partners and finalized National West Minister Bank Plc (Natwest) of UK. Natwest chose not to be termed as a promoter and picked up 20 percent stake. The corporate office of HDFC bank was inaugurated with great fanfare by the then Finance Minister of India, Dr. Manmohan Singh. The strategic alliance did not contribute much to the growth of HDFC bank. Natwest got embroiled in some scam and decided to offload their 20 percent stake in HDFC Bank.

Chapter 3 recounts the search for the best fit for the top positions in the bank. Puri envisioned a modern bank with the products and services supported by the emerging ICT technology and matching the foreign banks. He also aspired for the distribution network and relations similar to public sector banks. Puri and Parekh hand picked the team (named the dirty dozen) and encouraged them to bring in their trusted lieutenants from other banks and corporate world. They selected three valuable employees of Bank of America to manage corporate banking, technology deployment and operations. To manage treasury and risk management Parekh and Puri persuaded two Citi Bank veterans. Bharath (Cousin of Parekh and friend of Puri) from UBS joined as head of Human Resources and Retail. Experienced bankers from HSBC, Citi bank, Deutche Bank AG, Bank of America and Reserve Bank of India were approached and were persuaded to join the team.

The author sketches a description of the early days of struggle during the setting up of the bank in the fourth chapter. The team was housed in Sandoz House in midtown Bombay with bare minimum infrastructure. They moved the bank to Kamala Mills. Meetings used to be held under trees; sometimes they worked in industrial sheds. The author also refers to instances pointing to the building up of the corporate culture of frugality like "bring your mugs for coffee; biscuits banned during meetings" etc. The bank's efforts in scouting for a suitable technology system - one of centralized and UNIX-based; and how Puri prevailed upon Citi Bank to sell the software are covered in this chapter.

Fifth chapter dwells on the first steps towards building business and raising capital. HDFC Bank benefited from the corporate relations of its promoter, HDFC. Several companies started banking with the new bank. But right from the beginning, the bank was particular about following fair, permissible and legal means in acquiring business. Many offers were turned down, as the bank did not want to pay commission on acquiring deposits. The author recounts the bank's initial public offer in 1995. The IPO was priced at par as Parekh was skeptical of a start up bank fetching a premium. But market lapped up the issue over subscribing by 55 times. The bank's shares were quoted at 300 percent premium within 2 months of the IPO. HDFC Bank issued ADS in 2000 with overwhelming response from the market. Puri insisted on allocation of the shares to bank's key relationships and prevailed over the lead managers. When Natwest decided to offload their 20 percent stake there was a fear that stock prices might plummet. The author describes how Puri saved the bank from the crisis by managing the smooth transition of 20 percent equity holding of Natwest into the hands of Chase Capital.

In chapter 6 the author describes how the team strived hard in the initial stages of HDFC Bank in getting clients and building a world-class bank. Their contacts with corporate world helped them to break the ice with corporate clients. The bank built corporate banking business through customized offerings for each of the clients. It indulged in Micro-Marketing, i.e. garnering the banking business of the whole chain of relations for corporate clients such as vendors, suppliers, their employees and so on. The bank targeted corporate clients of metropolitan cities one by one. It also managed to enter into the consortium of lenders for many corporate clients. With centralized processing, linking all branches online in real time, the bank offered transactional banking facility of collection, payment, settlement, refund, clearing of funds for corporate and investment banking and mutual fund businesses. HDFC bank succeeded in getting the clearing bank business for BSE and NSE. There is processing risk in this business where the bank is expected to match pay-in and pay-outs efficiently. The author narrates an incident where a payment crisis was efficiently handled by the bank.

The author traces the foray of HDFC Bank into retail banking, SME segment and private banking in Chapters 7 and 8. Retail banking segment required physical presence of the Bank through its branches. The bank selected the best available technology platform to support retail banking. It changed its logo to appeal to clients in the retail sector. It offered all sorts of loans except home loans, as the promoter was already occupying that space with the same brand name. The bank targeted financial institutions like LIC, government business like collection of taxes. SME sector was aggressively pursued. With superior technology and efficient services, the bank could attract high net worth individuals to do business with the bank.

HDFC bank entered into rural segment through MFIs, business facilitators, business correspondents, to meet priority sector lending targets as set by the RBI. Technology enabled hand held devises were used at the point of sale. Retail banking requires a balanced approach towards risk-return trade off. To quote the author "HDFC Bank takes risks in a measured manner and manages the risks. There are credit filters like limited exposure to certain sectors, exposure only to resilient companies, exposure limits per account etc."

HDFC Bank grew inorganically by merging Times Bank and Centurion Bank of Punjab. Chapters 9 and 10 are devoted to capture the drama, dilemmas and decisions behind the mergers. Times Bank floated by Bennett and Coleman Company was offered to HDFC Bank in 1999 in an informal meeting. It was the first friendly merger of banks in India, unlike the other mergers invariably orchestrated by RBI to salvage a failing bank, to protect the interests of the customers. The share swap ratio was fixed at a level: 5 shares of HDFC Bank for 23 shares of Times Bank. The market reacted favourably. The integration of people was done in an amicable manner. The bank added 39 more branches to its list of branches from this merger.

The integration of Centurion Bank of Punjab after its merger in 2008 took a long time . 20^{th} Century Financial Corporation and Keppe Group of Singapore set up Centurion Bank as a JV, at the same time as HDFC Bank. It changed hands to Rana Talwar of Sable Capital Worldwide Incorporation in 2003. It took up India operations of Bank of Muscat in 2003, merged Bank of Punjab in 2005 and Lord Krishna Bank in 2007. There was hard bargaining on both sides. Finally they agreed for a share swap ratio of 1 HDFC Bank share for 21 shares of Centurion Bank of Punjab (BoP). HDFC Bank added 404 branches from the merger. Integration of people was a tough job. Some employees of Centurion BoP left. HDFC Bank had to consider pay parity, assignment of roles etc. to employees of Centurion BoP. Both the banks used different software for their centralised processing. HDFC Bank retained its vendor and migrated Centurion BoP to their software. Market reacted negatively to the merger. Share value of HDFC bank fell by 3.5 percent to Rs.1422.7 immediately on the announcement of share swap ratio.

In spite of being a cautious and moderate risk-taking bank, HDFC Bank got embroiled in some scams. These are documented in Chapter 11 - appropriately titled as "Warts and all". HDFC Bank was one of the banks that was penalised by RBI in 2011 in the derivative scam. Banks were blamed for mis-selling derivatives to companies, luring them to speculate rather than as a hedging instrument. Though the penalty was only Rs. 15 lakh, the Bank decided to fight it out in court as a prestige issue, to prove that they were not at fault. Another scam which tarnished HDFC Bank's image, is the IPO scam in 2006. The Bank was held liable for not verifying the authenticity of retail investors. It was accused of not complying with the Know You Customers (KYC) norms in certain accounts. Some market intermediaries opened fake demat accounts and applied for IPO, posing as retail investors. A penalty of Rs. 30 lakh was imposed on the Bank. This was an eye opener to the bank. Instead of giving authority at branch level for opening accounts where customer profile is verified at the point of service, the bank centralised account-opening activity at select points as back office job. This allowed the bank to standardize KYC norms and have complete control on the most important aspect of the service spectrum.

The author has devoted a full chapter on Adhithya Puri. The author sketches Puri's personality, mannerisms, eccentricities, lifestyle, leadership qualities, through the voices of Puri's colleagues and friends. On one hand Puri's personal habits like not carrying a wallet with him, preferences like eating out in dhabas, his obsession to be back home by 5 P.M. are captured. On the other hand, Puri's shrewdness in identifying business opportunities, grasping issues, quickness with which he makes decisions, his eye on details and demand for perfection, ability to manage people-both persuasion to join/stay-on and shun non-performers/mismatches etc. describes his professional traits.

In the last chapter the author raises pertinent questions such as which brand is more popular - HDFC or HDFC Bank, who should get the credit for building the bank - Deepak Parekh or Adhithya Puri, will or will not HDFC Bank go for reverse merger with HDFC etc.

The author has weaved a story of the birth of a new generation bank, capturing in detail the ideation stage, the teething problems of a start up, growth trajectory, the ups and downs and the personality of the leader.

This book is a good read to understand the details, efforts, struggles, and perseverance in the process of building an institution. The importance of selecting the core team and ensuring best fit for each important focus area is emphasized as the prerequisite for a successful new venture. That a new entrant can outperform the industry leaders by adopting world-class technology platform is demonstrated by HDFC Bank. Budding entrepreneurs, planning for new start-ups in the present technology era can derive lessons from this book. HDFC Bank identified the untapped markets, potential service opportunities in the collection and payment systems and demonstrated that it can thrive amongst the incumbents against the odds of limited branch reach. The book also highlights how important it is to be cost conscious and elaborates the advantages of building core corporate values for the success of a bank.

Puri as the uncommon leader described in this book would encourage many aspiring leaders to be as natural to reality and be grounded as a common man. The role of Parekh as a visionary leader and Puri as the quintessential man behind the success of HDFC Bank are sure to inspire many.

Dr. Radha Ravichandran has almost 15 year of teaching experience at an undergraduate and graduate level.

We are what our thoughts have made us; so take care about what you think. Words are secondary. Thoughts live; they travel far.

- Swami Vivekananda