

ET EXCLUSIVE Q&A CHANDA KOCHHAR MD & CEO, ICICI Bank

# Time to Hardsell India as a Land of Opportunities

The country's economic momentum is strong, but we run the risk of missing the bus if we don't end uncertainties, says ICICI head Kochhar



VARANI SAHU

**W**hen Chanda Kochhar became ICICI Bank's chief executive in 2009, it was not the best of times. The person, who put growth above the rest, had to sing a different tune to staff, that stability is more important than growth. She convinced them, Kochhar tells **MD Govardhana Rangan & Bodhisatva Ganguli** in an interview. The result is both investors and depositors trust ICICI Bank, again. Excerpts:

**You took over when the bank itself was passing through a crisis in May 2009. If you look back over the two-and-a-half years, what has been your biggest accomplishment?**

I think it's the team's accomplishment. What I feel good about is the fact that clearly we were able to bring about the consolidation that we aimed at. A change in the composition of deposits & change in the composition of advances. The task was not just to execute a change. It was to drive the entire team to understand why the consolidation is required and fit it into the much longer term. The ability of the organisation to absorb the requirement for having to go through a consolidation phase, to quickly adapt to that, and then to quickly execute it as per plan is a great achievement for an organisation that for some time only looked at growth.

**Most data show worsening business outlook. How bleak is it?**

There is some part of the economic fundamentals actually still showing some resilience, which is our domestic consumption. But the other part is really to do with the mood, to plan for future. That, I think, is very low. People are worried about inflation. People are worried about interest rates. But over and above, people are quite worried about the investment climate. So, you know the fact that whether approvals for projects will come or not, if the approvals come will they be withdrawn suddenly at a certain point in time or will these be questioned. And suddenly, everything will come to a halt. So, I think this fear of uncertainty is really keeping people away from committing to new projects.

**Power is seen as a stressed sector. Can it be a drag on the banking sector?**

When you talk of the power sector, it is unfair to say that the whole sector has emerged as a stress sector. There are challenges, but the

challenges are not the same for every project. If you have a project, where, say, you've committed to sell power at very low rates, and at the same time, your raw material is not tied up, then you are affected with a huge increase in raw material prices. Then, I think, the project has an issue. But if there are projects, where the tariff is much higher than some of the other projects, there is a pass-through available. Partly you are relying on coal where a mine is operating, but partly relying on a Coal India linkage. I think, even if you assume that linkage may not work out, you may have to import some amount. The cost may go up, but that increase can be passed on partly through tariffs. The equity of the promoter comes down and somewhere the returns come down, but they don't reach a stage where the loans don't get serviced. Some may just sail through the way they are and some may need little handholding, for a

year or two. Some may have a serious issue.

**We have to aim for stability before we can aim for rate cuts. I think that stability will come soon, because we are close to the peak**

**What are the stressed segments?**

The small and medium enterprises. Given the kind of volatility, the resilience of smaller enterprises is always much less or their ability to absorb many of the volatile factors is much smaller. If you have interest rates going up, wages going up, rupee-dollar impacting you, if you were importing in some way, and you are dealing with a large vendor who will squeeze you on payments all the time because of the interest rates going up, then all the pressures come together. Some of the SMEs went through one round of restructuring 1-2 years ago, and it was expected that by now they would come out of that. I think, the economic factors are putting a pressure

**What about ICICI Bank?**

Our SME portfolio is much smaller in proportion. So, for us, I really don't see any major NPA shocks. The retail portfolio is doing fine. The SME portfolio is small and we are monitoring it quite well. We have actually selected the better projects. So, we will have much less amount of worry. You may have a few large projects (in trouble) and you may have a few large corporates who may need handholding for some time. But I don't think, we are seeing such a huge deterioration in asset quality. At least, I am feeling quite comfortable with all the asset quality.

**You spoke about the few large corporates who need handholding. How severe is it going to be?**

In many of these, our exposures are actually

or the sufficient factor which should change the mood, is to make people confident that if I embark on the implementation of a project, then I will be able to see it through. Maybe, for a year or so, interest rates will be high. But then, you look at the interest rates view in a project over a 10-year period. But this uncertainty is what really spoils the mood.

**Data show that new projects have dipped sharply. What does that reflect on the state of the economy?**

Past projects will give us a momentum for a year or so. If we get some sort of momentum on new investments over the one year, we would probably be OK. Today is the time when we should have actually been attracting foreign funds, creating India as a land of opportunities, going out there and telling them that there is hardly any growth in many other countries, India has the underlying economic momentum. I think, we are losing that opportunity. In that sense, the loss of opportunity is much higher. We are reaching the brink.

**The RBI governor has signalled a pause on rate hikes. Will interest rates fall anytime soon?**

First, we have to aim for stability. Or no increase, before we can really aim for reduction. I think that stability will come soon, because we are close to the peak (of the tightening cycle). But it's too early to expect a reduction and that's not just on account of inflation. If we see, the world over, (supply of) dollar is becoming very tight and very short, that's because given whatever is happening, nobody really wants to move dollars. Nobody wants to take additional exposure. US banks are reducing exposure to European banks. European banks used to lend to industry—that is drying up. So, it's a kind of a cycle that has started. Basically, while there are a lot of dollars, nobody wants to move dollars. So, the liquidity has become very tight. This will impact the overall liquidity. So, interest rates per se

will also move on the basis of overall liquidity. I don't think we can really expect interest rates to come down as such.

**The central banks of Turkey etc are in a monetary loosening phase. Brazil and China have also indicated that they will stop the tightening phase. But India is still in a different part of the curve.**

As I said, we are probably close to stopping the tightening. But to expect a reduction, it's a little early.

**Indian corporates have been borrowing overseas for the interest rate advantage. So, what is in store for them and Indian banks now?**

Of course, those who have borrowed are facing the challenge of the rupee-dollar movement. But in case of a 10-year loan, for one or two years, it's definitely going to be high. (But) over a longer period, the impact is not as high on the total amount of the loan. The more important thing is that the ability to raise fresh funds in the dollar market (and this) is where there would be more challenges. So, for people to fund their requirements, they will have to rely more on the rupee funding as of now, which means that the interest costs will be high. In the past, there was a possibility of using foreign currency funds and bringing down the interest costs. That possibility is becoming lesser and lesser.

**How long do you expect this to last?**

High interest rate regime would depend on the overall liquidity and whether credit is picking up or not. The one good part is that while all these developments are taking place on the global side, on the domestic side, the deposit pick-up has been quite good. The deposit rate growth is almost close to 17%, credit growth rate is 18%. In that sense, that's partly a cooling factor vis-à-vis the fact that global liquidity is becoming tighter.

govardhana.rangan@timgroup.com

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