Success Story of HDFC Bank

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"Banking is not very complicated, and you need to keep it that way. We have no stress on our portfolio, healthy margins, a distribution network that's spread across the length and breadth of the country, cutting-edge technology–and enough capital."

Aditya Puri, Managing Director and CEO, HDFC Bank.

"Large Indian banks have been spending on average 2 to 4% of their revenue annually on technology enablement. In comparison large global banks have been spending in the range of 7 to 10%. Keeping in mind the growth in digital way of customer acquisition & servicing, digital payments and cyber security requirements, banks will have to rethink on their technology spend. However, these investments to qualify the criteria of impact on customer experience, revenue growth and cost optimisation."

AsimParashar, partner at PwC India, in, 2021.[2]

"There's no question that there is a slowdown– consumption is lower, and there's a slowdown in the rural economy. HDFC's biggest strength is its consistency of management–the same person has been leading the bank for two decades."

JigneshShial, banking analyst at Mumbai's Quant Capital, in 2015.[3]

Introduction

Being started in 1994, with a capital of around Rs 100 crore under the leadership of Aditya Puri, HDFC bank touched nearly Rs. 600 crore capital by the end of 2020. Over the period of 23 years, the bank launched various productsfor the benefit of customers. And initiatives in the area of rural development, promotion of education, skill development & livelihood enhancement, Healthcare &hygiene, Financial Literacy & Inclusion and many more. That led RBI to put HDFC Bank as D- SIB (Domestic- Systematically Important Bank). Over the period of growth, the bank was focused on maintenance of low NPA i.e.2% -3%, increasing deposits, expanding its ATM network at a frenetic pace, launching mass internet banking, adopting the market requirements and launching the products (like corporate loans, personal loans, construction finance and many more) accordingly. HDFC bank also emphasized on maintaining corporate loan as 5%, personal loan as 74%, construction finance as 12%, Lease rental discounting of commercial property as 9% of the entire loans. That helped the bank to consider loans as its biggest asset throughout the years.While continuing its growth, HDFC bank did two mergers (i.e. with Times Bank[4] and Centurion Bank of Punjab (CBoP)[5]. That had a positive impact on the financial performance of the bank.

The analysis of different financial parameters of the bank like financial capital, manufactured capital, intellectual capital etc. showed an overall growth of HDFC bank. Over the period of 24 year, the bank tried to minimise its liabilities. As a result, its borrowings showed a downtrend and reached to Rs.144628.54 crore. Similarly, the increasing number of branches, ATMs, and credit cards highlighted a positive trend of manufactured capital of HDFC bank. Likewise, Intellectual capital, Human capital, natural capital, social & relationship capital increased over the years. Along with this, both Interest income and other income of HDFC bank, increased to Rs.1,14,812.65 and 23,260.82 in 2020, showing an increase of 910388% and 1392763% respectively. During the period of growth, the bank had faced various challenges.

Started in March, 2019, Covid– 19 pandemic became a serious challenge for the Indian financial services industry. As an impact of this pandemic, banks had seen a fall in demand, lower incomes and production shutdowns that adversely affected the businesses of banks. As a result, the Government of India (GOI) moved to amalgamate 27 public sector banks (PSBs) into 10 large banks.Similarly, the growing NPAs of private sector banks showed the bad lending practices. Though HDFC bank had gone through this stage of Covid – 19 pandemic, but its strategyof managing NPAs, distribution of products based on customer preferences, and focusing on increasing incomes through customer adoption helpedthe bank to sustain its leading position and achieve success.

In June 2021, HDFC bank, one of the leading bank of India, announced its plan to revamp its digital offerings and upgrade legacy IT infrastructure. For which, it was expected to go through two processes, i.e. 'digital factory' and 'enterprise factory'. Creation of digital factory' would be aimed to upgrades processes across consumer credit products, credit card offering, change credit card underwritingand small business loans. Whereas "enterprise factory", would be working on upgrading legacy infrastructure. As the digital factory project was focused on small-ticket consumer credit from credit cards to personal loan credit lines, the entire process could be concluded on a user's mobile phone.For this, the bank has tied up with fintech firm Zeta[6]. Telling about this partnership, BhavinTurakhia, founder, Zeta, said, "*His company is working with HDFC Bank for 're-defining banking in India'*."[7] Similarly, enterprise factory would be focused on upgrading existing IT systems and building a new data centre in the medium term. Narrating about the new technology initiatives of HDFC bank, Macquarie Research, SashidharJagdishan, HDFC bank CEO, said, "*They [HDFC Bank] are already migrating applications to a cloud-based architecture and would strive to completely move towards cloud-based systems in the medium term*."

About the Bank

In 1994, HDFC Bank was incorporated as a subsidiary of the Housing Development Finance corporation(HDFC)[9]in Mumbai, Maharashtra, India. And started its operation with the leadership of Aditya Puri (Puri) – former Chief Executive Officer (CEO) of Citi Bank. While joining the bank, Puri realized the opportunity lied with private sector banks of India. He identified, even though public sector banks of India had the brand name, the money, and the distribution network, but they did not have the best of products. Contrary to this, foreign banks had the products but did not have a universal brand and also did not have adequate money. That motivated Puri to launch the mixture of products, the brand name, and the money. Accordingly, HDFC bank began its operation with corporate-lending but later it switched the emphasis to the retail segment for both the advances and low-cost deposits courtesy corporate salary accounts.The performance of the bank was based on four principles, i.e. customer focus, risk management, technology-led innovation, and a "first among equals" culture. That led to the growth of the bank on year on year basis. The profitability of the bank shows a tremendous growth since its inception to the year ended 2020,which increased from 20.28 crores to 26257.31 crores.

But in 2015, Government of India observed a decrease in credit growth to 9% as compared to 14% in the previous year. As a result, GOI announced banking reforms. According to which, state-run banks – which acquired 70% of Indian banking market– were allowed to get more capital only after achievement of certain goals like controlling bad loans or meeting targets on return on assets. This announcement allowed private banks like HDFC to expand their market share. Observing the growth opportunities, HDFC Bank started offering loans to blue-chip companies. It also attached itself to India's emerging salaried class. At the same time, the bank signed up a large number of accounts that received pay checks through direct deposit. Over the years, HDFC bank added credit cards, auto loans and personal loans,e-commerce,merchant banking servicesand treasury management to its product line. The analysis of six capitals of the bank for the period 1996-2020 was presented below:

Financial Capital

This includes customer deposits,share capital,reserves & surplus and borrowings (Refer to Table 1).The capital of the bank at the time of its inception was only 150 crores,which increased to 548.33crore. It was found that there was a tremendous increase in its reserves and surplus from 0.8 crores toRs.1,70,437.70crore. Strong reserves position of this bank shows high credit worthiness of HDFC bank. Likewise, the net worth[10] of HDFC Bank in 1996 wasRs. 221 crore which increased to Rs. 2245 crore in 2003 - showing a growth of around 915%. Positive and increasing net worth indicated about the good financial health of the bank. Even though the borrowings of the bank increased over the years, but it showed a steady growth and in some years, it displayed a downtrend. For example, in the year 1995, the borrowings of HDFC bank was Rs. 40.12 crore, which increased to Rs.4,790.01crore in 2005 by showing slow growth. Then it decreased to Rs. 2,815.39 crore in 2007. After the merger in 2008, the borrowings of the bank showed a downtrend.Even if it increased to Rs.12310.49 crore in 2018, but by March, 2020 it decreased to Rs.144628.54 crore. That indicated the decrease in the liabilities of the HDFC bank, which was a positive sign for the growth of the bank.

In2005, the Bank raised capital in the form of add-on American Depository Shares (ADS), which were listed on the New York Stock Exchange on January 21, 2005 at a price of US$ 39.26 per ADS. Each ADS represents 3 equity shares. The issue size was US$ 261 million plus a green shoe option of 15% (US$ 39 million), which was exercised. Net of issue expenses, the Bank received US$ 291 million. Consequent to this issue, the share capital of the Bank increased by Rs. 22,92 lacs and the reserves of the Bank increased by Rs. 1,251,84 lacs as share premium after charging off issue related expenses.

Manufactured Capital

Manufactured capital facilitated bank's engagement with customers, people, the society and other stakeholders. It comprisedof banking outlets, point of sale terminals, corporate offices and ATMS. It also covers bank's IT infrastructure and security as well as infrastructure development through CSR projects (Refer to Table II).

The number of branches ATMs grew by more than three times and reached to 5416 and 14901 in 2020 as compared to 1725 and 4232 in 2010 respectively. Similarly, the point of sales terminals increased from Rs.1.22 lacs toRs. 17.97 lacs in 2020 showing a growth of 1372%. To make its services more convenient for its customers, HDFC bank offered both credit card and Debit card facility,which showed an increase over the years. The number of Credit card in 2010 was Rs.44.5 lac which grew by 225% and reached to Rs.145lac by 2020. Similarly, the number of Debit card increased from Rs.98.3 lac in 2010 to 321 lac in 2020 by showing a growth of around 227%.

Intellectual Capital

This capital constitute of adoption of data analytics and emergent technologies such as artificial intelligence and machine learning to increase operational efficiencies. The knowledge and expertise incorporated within bank systems, processes and procedures andthe equity built in the HDFC Bank brand constitute its intellectual capital. The bank built a vibrant enterprise ecosystem and were making rapid progress to transition from the traditional product-oriented approach to a customer-oriented approach. The bank started services like Analytics based pre-qualified offers and pre-approved offers, System-generated sanctions, Straight through processing of limits, Exclusive 24*7 self-servicing portal for MSMEs, ENET – corporate Net Banking with connectivity to customer's ERP for smooth accounting operations, Trade on Net (TON) supporting customers to carry out trade transactions such as LC/BG onlineetc. The bank also offered services to its customers like PayZapp,smartBuy,which enabled customers online payments over 2000 + online merchants and brands.Bank's API stack was best-in-class and containsreal-time credit and verification algorithms to be able to provide an instant soft-approval to an open-market customer.API sourcing was now live with multiple fintech partners and with Indigo Airlines for the newly launched Ka-Ching Credit Card.

Human capital

The success of any firm depended upon the employees, their diverse skills,expertise and industry knowledge. The company had 51,888 regular employees in the year 2010, which increased to 1,16,971 regular employees in 2020. Out of that 18.3% were women employees. In order to increase the loyalty of employees HDFC bank offered Employee stock option (ESOP)[11] of 45,00,000 shares to its employees.

Social & Relationship Capital

The way the bank manage stakeholder expectations constituted the socialand relationship capital. These stakeholders were its customers, trade partners and merchant or communities. ThroughParivartan(means change), the bank work closely with variouscommunities to improve their lives andlivelihood opportunities. As a responsible corporate citizen HDFC bank joined hands to support the victims during landslide and floods in Uttarakhand and Orissa, the employees donated relief efforts and distributed solar lamps to 22 villages the Bankalso provided primary and secondary healthcare services to 50 villages by joining hands with an NGO.

Supporting the nation's developmental agenda 54,000 Women had been supported through SHG/ JLG(self Help Group/Joint Liability Group) loans via HDFC bank's Common Services Centres (CSC network). Its association with CSCs was helping us offer cost-effective services to the under-banked in the hinterlands of India. The CSCs, managed by Village Level Entrepreneurs (VLEs), serve as access points in delivering essential public utilities, healthcare, financial, education and agrarian services alongside social welfare schemes and diverse B2C services. The bank was leveraging this network to provide banking solutions nationwide.

Working with Central, state and local governments, HDFC Bank became the second largest collector of direct taxes. It enabled government institutions to achieve a higher degree of customised digitisation across fund flows, eliminating leakages and enhancing efficiency and transparency. So far, the Bank had partnered with government authorities and conceived more than 300 customised digital solutions for them in the form of Start-Up fund and SmartUp banking. HDFC bank was working with multiple state governments, incubators and accelerators to promote entrepreneurship through its SmartUp programme for start-ups, providing support to social start-ups through its start-up fund.

Good corporate governance was a way of life at HDFC Bank. The hallmark of this was the separation of the risk and creditFunctions leading to prudent lending decisions. At the bank level,the objective was not just to comply with the law of the land butalso to conduct business in a fair, transparent and ethicalmanner. The Bank was committed by ensuring the highest level ofethical standards, professional integrity, corporate governanceand regulatory compliance. This was articulated through a well-documented Code of Conduct that every employee has to affirmannually that he/ she will abide by.

HDFC bank Contributed Rs.70 Crore toPM CARES Fund, Helped hospitals by providing PPEkits, ventilators and more. It also helped by supplying dry ration to daily wage-earners and farmers.

Natural Capital

The natural resources the bank consumed to conduct business and deliver its products and servicesconstitute natural capital. Bank's energy consumption, CO2 emissions, paper consumption and waste managementimpact this capital. The bank harnessed renewable energy at its offices and driving paperless transactionsthrough deployment of digital toolsand automation. During the year2019-20, 261.92 metric tonnes e-waste recycled, 10 lac + trees were planted.

Overall performance of HDFC bank since its inception

The bank which announced its first annual report in the March, 1995, reported 8.019 crore of profit after tax with zero non-performing assets (Refer to Table III). The net profit increased to Rs. 26,257.31 crores in2020. The EPS of the bank increased year on basis till 2011. But after stock split of 1:5, each and every share was divided to 5 shares. In the year 2011,EPSwas Rs. 85 per share. If it was calculated for spitted shares then it would come to Rs.17/- per share. This was increased gradually till 2019. Similarly, DPS of HDFC bank showed an increasing trend since 1995 to 2010. Even after the stock split, the increasing trend continued up to 2019 and the DPS reached to Rs. 15.

In the years 2000 and 2008, the bank undertaken its corporate restructuring by merging with Times bank and centurion bank. In February 2000, HDFC Bank merged with Times Bank. This was the first merger of two private banks in the New Generation private sector banks category. Under this merger, shareholders of Times Bank received 1 share of HDFC Bank for every 5.75 shares of Times Bank.

The second merger happened in 2008, when CBoP(Cenurion Bank of Punjab Ltd)was acquired by HDFC Bank. Under this merger, shareholders of CBoP received 1 share of HDFC Bank for every 29 shares of CBoP.Post-merger, the financial results for the year ended March 2009 was considered as the results of the merged entity. As an impact of merger, the financial performance during the fiscal year 2008-09 remained healthy with total net revenues (net interest income plus other income) increasing by 42.6% to Rs. 10,711.8 crores from Rs. 7,511.0 crores in 2007-08. The revenue growth was driven both by an increase in net interest income and other income. Net interest income grew by 42.0% primarily due to increase in the average balance sheet size by 46.5% and a net interest margin of 4.2%.Other income registered a growth of 44.1% over that in the previous year to Rs. 3,290.6 crores. Similarly, Net profit increased by 41.2% from Rs. 1,590.2 crores in 2007-08 to Rs. 2,245.0 crores in 2008-09. Its earning per share increased from Rs. 46.2 to Rs. 52.9 per equity share. Total Deposits increased from Rs. 100,768.6 crores to Rs. 142,811.6 crores. After the merger, the bank had a significantly larger network and reach across the country as compared to the previous financial year. Observing the trend of both Interest income and other income of HDFC bank, it was found that in 1995, both the incomes were 12.61 and 1.67 respectively. Which increased to Rs.1,14,812.65 and 23,260.82 in 2020, showing an increase of 910388% and 1392763% respectively.

During FY 20, the Bank has paid special interim dividend of 'Rs.2.50 per equity shares (post-split), to commemorate 25 years of the Bank's operation. The Reserve Bank of India, vide its circular dated April 17, 2020 decided that banks should not make any further dividend pay-outs from profits pertaining to the financial year ended March 31,2020 until further instructions, with a view that banks must conserve capital in an environment of heightened uncertainty caused by COVID-19.Accordingly, the Board of Directors of the Bank,at their meeting held on April 18, 2020, had not proposed any final dividend for the year ended March 31, 2020. The net interest income grew year on year basis. Other Income grew from 1.67 crores to Rs.17,625.9 crore in theyear2019. The largest component was Fees and Commissions, which increased by 21.2 % to Rs.13,805.5 crore. Foreign Exchange and Derivatives Revenue was Rs.1,720.4 crore, gain on revaluation and sale of investments was Rs.386.8 crore, and recoveries from written-off accounts were Rs.1,430.8 crore.The capital adequacy ratio (CAR) was a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The capital adequacy ratio, also known as capital-to-risk weighted assets ratio (CRAR), was used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier-1 capital, which could absorb losses without a bank being required to cease trading, and tier-2 capital, which could absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors. The Bank's total Capital Adequacy Ratio (CAR) as per Basel III guidelines was at 17.1% as on March 31, 2019 (14.8% as on March 31, 2018) as against a regulatory requirement of 11.025% which included Capital Conservation Buffer of 1.875%, and an additional requirement of 0.15% on account of the Bank being identified as a Domestic Systemically Important Bank (D-SIB).

Conclusion

The success of HDFC bank was mainly based on its focus on five core values: product leadership, customer focus, operational excellence, people and sustainability. Rising income levels and aspirations in semi-urban and rural (SURU) markets of India have led to an increased demand for quality financial products and services. As a responsible leader in the financial services space, HDFC bank had always believed in making best-in-class banking products and services accessible to all sections of the society. The ability to identify and tap into the immense potential of these markets early on has been key to the success of HDFC bank.

Table 1

Financial capital of HDFC Bank From 1995 - 2020 (figures rounded to two decimals)

Year	Deposits (Rs.in Crore)	Capital (Rs.InCrore)	R&SRs. in Crore	Borrowings (Rs. Crore)
31-3-1995(first annual report)	641.90	150	0.80	40.12
31-3-1996	685.67	200	21.08	45.2193
31-3-1997	1279.07	200	43.98	199.28
31-3-1998	2191.74	200	85.13	54.70
31-3-1999	2915.11	200	138.93	447.88
31-3-2000	8427.72	243.25	508.24	1428.74
31-3-2001	11,658.11	243.60	669.49	1,232.90
31-3-2002	17,653.81	281.37	1,660.91	1,823.02
31-3-2003	22,376.07	282.05	1962.78	2084.65
31-3-2004	30,408.86	284.79	2,407.09	2,307.82
31-3-2005	36,354.25	309.88	4,209.97	4,790.01
31-3-2006	55,796.82	313.14	4,986.39	2,858.48
31-3-2007	68,297.94	319.39	6,113.76	2,815.39
31-3-2008	100,768.60	354.43	11,142.81	4594.92
31-3-2009	142,811.58	425.38	14,220.95	2685.84
31-3-2010	167,404.44	457.74	21,061.83	1291.57
31-3-2011	208,586	4,65.24	24,911.13	1439.41
31-3-2012	246,706	4,69.34	29,455.04	2384.65
31-3-2013	296247	475.88	35,738.26	3300.66
31-3-2014	367,337	479.8101	42,998.82	3943.89
31-3-2015	450796	501.299	61,508.12	4521.36
31-3-2016	546,424	5,05.64	72,172.13	8496.89
31-3-2017	643640	512.51	88,949.85	7402.89
31-3-2018	788771	5,19.02	105,775.97	12310.49
31-3-2019	9,23,141	544.66	148661.69	117085.12
31-3-2020	11,47,502	548.33	170437.70	144628.54

Table II

Manufactured capital of HDFC bank

Year	Branches	ATMs	Point of sale (No. in lacs)	Credit card (No. in lacs)	Debit card (lacs) terminals
2010	1725	4232	1.22	44.5	98.3
2011	1986	5471	1.84	50.5	115.5
2012	2544	8913	2.22	56	141.1
2013	3062	10743	2.43	64.2	157.6
2014	3403	11256	2.16	51.4	174.2
2015	4014	11766	2.45	59.7	216.3
2016	4520	12000	2.83	72.8	230.3
2017	4715	12260	4.30	85.4	235.7
2018	4787	12635	6.61	106.9	243.2
2019	5103	13160	9.61	124.9	270
2020	5,416	14,901	17.97	145	321

Source: HDFC bank annual reports

Table III

Overall performance of HDFC bank since its inception: (figures are rounded to two decimals)

Year	EPS (basic)		DPS	Interest income (rs. In crores)	Other income (rs. In crores)	PAT (rs.crs)	Capital adequacy on ratio	Return capital(%)
31-3-1995 (first annual report)		-	12.61	1.67	8.019			
31-3-1996	1.04	-	115.56	13.53	20.28	23.5		
31-3-1997	2.03	0.80	161.74	31.59	40.5	13.5		
31-3-1998	3.16	1.00	240.80	62.01	63.15	13.9		
31-3-1999	4.12	1.30	376.08	68.07	82.4	11.9		
31-3-2000	5.93	1.60	679.87	119.54	120.04	12.2		
31-3-2001	8.64	2.00	1,259.46	176.57	210.12	11.1		
31-3-2002	11.0	2.5	1,702.99	335.90	297.04	13.9	18.3	
31-3-2003	13.8	3.0	2,013.61	465.55	387.60	11.12	18.1	
31-3-2004	18.0	3.5	2,548.93	480.03	509.50	11.66	20.1	
31-3-2005	22.9	4.5	3093.49	651.34	665.56	12.2	20.4	
31-3-2006	27.9	5.5	4,230.18	1,123.98	870.78	11.4	17.5	
31-3-2007	36.3	7.0	6,647.93	1,516.23	1,141.45	13.1	19.4	
31-3-2008	46.2	8.5	10,115.00	2,283.15	1,590.18	13.6	18.5	
31-3-2009	52.9	10.0	16,332.26	3,290.60	2,244.93	15.7	16.2	
31-3-2010	67.6/13.5	12/2.4	16,172.90	4,573.63	2,948.70	17.4	16.8	
31-3-2011	85/17	16.5/3.3	20,380.77	4,945.23	3992.49	16.2	16.5	
31-3-2012	22.1	4.3	27,874.19	5,783.62	5,167.09	16.5	18.4	

31-3-2013	28.5	5.5	35,064.87	6,852.62	6,869.64	16.8	20.1
31-3-2014	35.5	6.9	41,135.53	7,919.64	8,743.49	16.1	20.9
31-3-2015	42.1	8	48,469.91	8,996.34	10,215.9	16.8	20.4
31-3-2016	48.8	9.5	60,221.45	10,751.72	12,296.2	15.5	18.
31-3-2017	57.2	11	69,305.96	12,296.49	14,549.7	14.6	18.0
31-3-2018	67.8	13	80,241.35	15,220.31	17,486.8	14.8	18.2
31-3-2019	78.6	15	98,972.05	17,625.87	21,078.1	17.1	16.3
31-3-2020	48	-	1,14,812.65	23,260.82	26,257.31	18.5	16.8

Source: HDFC bank annual reports

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