

# How is OP Bhatt steering SBI through troubled times?

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This year, Om Prakash Bhatt, Chairman, [State Bank of India](#), was named the Best Banker of the Year for a good reason. Since he took charge at India's largest public sector bank in 2006, he has raised the bank's market share and loans from 15% to 16.5% and deposits from 15% to 17.5%. He has also regained the top slot for market capitalisation, a position it lost to ICICI in 2007. Indeed the turmoil in the banking sector has turned the tide in his favour.

Even as the aggressive ICICI, after breathless growth till 2008, is learning the virtues of a slowdown, SBI now is suddenly the darling of the customer. It is flooded with cash and is learning the culture of aggression. So, how has Bhatt managed this change and how will he use this wind behind him to steer his ship?

***Here is a verbatim transcript of the exclusive interview with OP Bhatt on CNBC-TV18. Also see the accompanying video.***

**Q: In the last year or two, your bank has quite aggressively recaptured the market share. Your advances-deposits market share has been growing at practically 1% in a year. You have certainly been helped by the tide. All over the world and in India, there has been a fear of foreign and private banks and migrations to public sector, it has happened in abroad and in India as well. How much would you attribute to this general turn of tide and how much of aggressive transformation have you done to the bank?**

A: The data is all there in the public domain. The tide did not turn after the news came from the West because of the problem in the financial sector. Much before that, SBI was gaining market share not only in deposits and advances, but within that in each sub-category. So, even if it is current account saving account (CASA) deposits, term deposits, and aggregate deposits were gaining market share even before September-October of last year.

If you likewise take asset size, whether it is home, auto, education, infrastructure loans, mid-corporates, large corporates, SSI, agriculture, etc we have been gaining market share. We have now taken over HDFC in home loans. Largest dispersals in auto loans have been taken from SBI, so it didn't happen now. After the crisis in the West, the flight to safety was only with the regards to deposits, but we have been growing in every other area as well. Even with regards to deposits, had we not been perceived to be a bank which has transformed itself, whether it is in terms of technology, products, pricing, ambience, service, and technology, do you think this bank would have got Rs 1,000 crore per day. This is the highest amount that any bank anywhere in the world has ever got, and we have got it for weeks.

**Q: This Rs 1,000 crore per day deluge is to some extent because of the irrational fear that has set in?**

A: Yes, but there are 27 public sector banks. So, why did it come to SBI alone and why not to other nationalized banks?

**Q: Do you think SBI can continue to maintain such a tempo? When you ask people about home loans, the first names that comes to the mind is HDFC and to a lesser extent, an ICICI. I was even speaking to a friend of mine who was looking for a home loan and I said that you should also look for a home loan product, its 8% fixed the first year and 9% fixed for the second and third year. The first question he asked was, will they come home if I call. So, the perceptions still is that will they give the same kind of service as the private sector people?**

A: If you look at the data in the market this year, where there was a slowdown, our home loans have grown twice as much we did last year. It has not happened in case of other banks. Across the country, there are more home loans by SBI than any other financial institution or bank in the country. When you define service, it is not all about coming home, it is also about trust, pricing, hidden charges, predictability and unpredictability with regards to rates in the future, customer service, and turnaround time is also important. In case of home loans, we are able to give it in six

days flat. We have in our group of 15,000 branches about 140 million customers, so it is not possible to give door-delivery service to everybody.

**Q: It was possible by the other entities - HDFC and ICICI?**

A: Their business model is different and this is why we had a problem because these people who were to go, they were not bank employees but were working on a commission basis.

**Q: In HDFC, employees also come home?**

A: Maybe; I don't know. Our business model is different. What I am saying is with that entire package of services that are tied to home loans, which includes so many things that I have talked about, people in this country seem to find it far more attractive, otherwise why is it that we are the highest home loan provider in the country today, both in terms of numbers of homes and volumes. I think the figures speak for themselves.

**Q: HDFC Bank came from nowhere, their history is 10-15 years and yet their cheap deposits are as high as 40% of their total deposits. In terms of aggregate, they will always be less than SBI because for SBI the base itself is much bigger. The speed at which HDFC Bank grew is primarily because they just captured the salary accounts. Will that be a focus area?**

A: Yes, it is a focus area. CASA is about 37-38% for us today. This is very high. When you say 37-38%, it is within the bank and the rest is in term deposits. But the bank is growing at a huge rate. Our CASA is growing at 23%. When the banking industry's deposits grew at 18%, my CASA along grew at 23%. Can you see the speed and scale on which we are moving? This CASA growth has not taken place just by itself. There has been a huge effort behind it.

**Q: In spite of having a low cost savings account growth for 23%, your spreads have fallen to 2.3%. If we compare it with other banks that have had to go through some turmoil like HDFC Bank, their net interest margins are still at 4%. How are you going to set this right, what kind of cost of money do you see in the next 18 months, do you see it falling?**

A: First, you must understand what has happened when my CASA was growing at 23%, fixed deposits were growing at 50%.

**Q: But you could have cut rates?**

A: We did, we have done it six times.

**Q: Your annual rate is still about 0.5% higher than 3-4 public sector banks?**

A: I am also a national institution. I have responsibility to my customers. There are more people in this country who live off the interest from their savings they get than live off the stock exchange.

**Q: Then, there is a conflict between the responsibilities you have towards the shareholder etc?**

A: We manage to look at profits and profitability.

**Q: If you are given a 4% margin?**

A: We have multiple responsibilities and we are balancing all of it quite well. We are the most profitable bank in the country and yet are able to give high rates on deposits and low rates on advances, and yet we are able to make high profits. You should appreciate and commend us for that. Not all banks are able to do that. Term deposits grew at 50%, CASA grew at 23%, aggregate deposits at 38%, and industry deposit grew at 90% twice the rate of the industry, If my deposit rate is 10% and I cannot make it 6% overnight from 10%, I will go to 9.5% or 9% or some thing like that. We don't want volatility. At that point of time, nobody knew how many deposits would come or how long credit growth will not take place. Nobody in the world and nobody in India knew it. There were expectations that's all, so we also live and build on expectations. The way we look at the future, credit growth has not taken place but deposit growth has taken place. A bulk of it took place in the case of fixed deposits and this is what has impacted our name. But because of these declining interest rates (six times) that we have been doing and because of the fact that credit offtake is not beginning to take place, there are quite a few things that are happening.

One, the amount of money that we are putting in reverse repo has dropped more than 40%, so that is one thing that has happened. Also, credit offtake movement is taking place which is why you will find that our NIM this quarter was down at 2.3%. I expect that in the quarter ending September it should go up by 4-6 basis points.

**Q: Do you see it coming back to 3% in the next 12 months or so?**

A: Maybe or maybe not, but it will continue to rise. During this year, there is about Rs 70,000 crore of high cost deposits, both bulk and retail which will get reprised. That would be to the extent of 200-250 basis points. We are the bank with the highest capital adequacy ratio that is more than 14.12% or thereabouts. Our Tier I is more than 9%, so we are a very well capitalized bank even if we are going so fast. We have capital and liquidity so when the growth takes off, we are very well positioned to serve this country.

*As a head of a public sector giant, Bhatt is often weighed down by rigidity while competing with private banks. However, his subsidiaries have always done well. SBI Life is the only insurer to report profits; SBI Caps is amongst the finest investment banks in the country, and SBI MF is a top performer in the field dominated by top aggressive private players.*

**Q: The strange part of your financial system is if you are the child of the government, then you have problems of salary, CTC etc and all kind of controls. But if you are a grandchild of the government, there is genuinely more freedom available like for instance SBI MF or for even UTI MF. They can pay their officers without any problem, there can be market-based salaries. In terms of policy environment, what would be your wish list with the government of India, would you prefer that at least that level of freedom be given without the public character of the bank not getting lost?**

A: What you are saying is not correct. We have the freedom to recruit people at market-related salaries on contract basis and we do it. We got our CIO for Technology which was at a market-based salary and our Chief Economic Advisor again at the market-rated salary. This is true across the board, but these people are in smaller numbers. My own sense about the banking business is that 95-98% of people who do banking, the kind of qualification and the kind of skills that are required of them are readily available. It is not that you have to pay exceptional salaries to all those. There is a small sub-set of people who are working in this department or maybe in the treasury etc, there we have the freedom to hire people from the market and give them whatever salary that is. We at SBI are doing it.

**Q: What are your plans in terms of consolidation, when do you think all your State Bank associates will be in the SBI fold in one balance sheet?**

A: I cannot give you a timeline on that because I need permissions from outside the bank. My own view is that consolidation is necessary for SBI. It could give us efficiencies. It will help weed out a lot of wastage which is there in duplication and other things. It will give bank a little bit may be 20-25% of more size which is what is required. Since people talk of us being a big bank, people are envious etc because of that. But there is a Chinese bank which is ten times larger than SBI. We know we are not that big and we are not big enough to serve the needs of India's corporates. The important parameter is that in terms of my net capital and the prudential loans set by RBI if I cannot meet the need of India's largest corporates, they will have to go to foreign banks or a consortium. which takes a lot of time, effort, and people to deal with a number of banks. We are not large enough and my own views are that consolidation is necessary. Not only for SBI but for the banking industry as a whole. There should be at least 3-4 banks of the size of this country and maybe 1-2 which as big or five times the size.

**Q: What is the realistic timeline according to you?**

A: Given a chance, I would like to merge all of them within the next six months. I do not know whether the chance will be given. We have merged only one bank so far which is State Bank of Saurashtra. There is another bank State Bank of Indore for which the board approvals are in place from both banks. We have advised this to the RBI and GoI. Now, you have to get permission from them to go ahead in the matter. Once we get the permission in 3-6 months, they will also be merged fully with SBI. When the merger of State Bank of Saurashtra took place, it was very smooth, no agitation, no adverse comments, nothing. For Indore, we will hopefully do the same thing. That is why we are confident that we can do with other banks also, but for that we have to wait till we get permissions in place.

**Q: Since your advances are growing, there might be constant need for capital, 22-23% at least. What is the capital plan as of now?**

A: Our current capital adequacy is in excess of 14%, so we won't need capital for asset growth. We can raise long-term capital. We have so many associate subsidiaries. From time to time, some of the new ventures need capital from us, we also need capital in case there is an opportunity to acquire a bank abroad. I say in case because I don't want to buy a bank to become

a bigger bank. If I get a bank which has say 100 branches in Russia or France, what am I going to do with it. I want to buy a bank which fits in with our plans of international business. Our plans are that we should be able to service Indian corporates who are going out. If that happens and if we get a bank which is by and large according to our requirement and if the pricing is right, we will need capital for that.

**Q: So, is there a target or a number that you are looking at in terms of international business?**

A: We have a target and growth will be partly organic growth. We are expanding by opening branches everywhere and even today in international business we are opening branches. My own sense is that as globalization is taking place, India is globalizing at a faster pace. Globalization will not go away despite all the problems that we have. India Inc is globalizing at a faster pace, so they need Indian banks to help them outside India. It is not only a question of cash, it is a question of other products and facilities that they need. For us to get up to size and scale and to be able to deliver all the requirements, our business in terms of balance sheets – both international and domestic - should be 25% and 75%. When I started in 2006, it was around 10%. It has crossed about 12.5% or more. The bank's balance sheet is growing very rapidly and in that very rapidly growing balance sheet, international is very fast because the target is to take it up to 25%. Now, 25% at this rate will take 5-8-10 years. If you have to reach there faster, then we need to acquire a bank.

**Q: Capital will be a key in all this. What have you heard from the government of India in terms of bringing the stake down to 51%, which will give you some elbow room to raise capital? What about the immediate rights plan?**

A: We don't have any such plan. With the current government there is not such a decision either because they have been busy with the budget etc. But there is allegedly a bill pending in Parliament to bring out stake down to 51%. If that is taken up, it gives us a little bit more room, so that will happen.

The year before last, the government gave us Rs 10,000 crore because the government bought into the story of SBI. They gave us capital and it strengthened us. It improved our ranking internationally, it enabled us to do far more than what we were able to do. They gave us capital which made us stronger. I have every reason to believe that the growth story of SBI that we are talking about in sync with India needs to grow. If that is bought by the government, there is no reason why we will not get more capital again. After all the government also wants the Indian economy and businesses to grow. They should be convinced that what is being done is right, that's all. In that sense, I don't have any doubts.