



Mid-sized Banks/IndusInd Bank



Not the best.

The Corporate Bank

IndusInd Bank's Romesh Sobti and his team transform a staid bank into a winner.

By ANAND ADHIKARI



Change Agents: (From left) Suhail Chander, Head - Corporate and Commercial Banking, IndusInd Bank; Kalpathi Sridhar, Chief Risk Officer; Romesh Sobti, Managing Director and CEO; Sumant Kathpalia, Head - Consumer Banking; Paul Abraham, Chief Operating Officer



Eye to Eye

How IndusInd stacks up against its closest rivals

Early in 2008, as he drove past the Ballurpur Road branch of IndusInd Bank in Delhi, Romesh Sobti was aghast to see its signage only partially lit. The ground floor branch in a buzzing market area was only partly visible at night. The new generation private bank was missing out on potential business in a hill station frequented by foreigners.

It rankled Sobti. He had quit ABN AMRO as its India head a month earlier and was about to join IndusInd Bank. Next morning, Sobti, then 61, landed at the branch. The staff, which knew the 'foreign' banker joining IndusInd Bank was in town, was ready with a garland and a traditional welcome. What the middle-aged branch manager was not prepared for was the blunt approach of his Managing Director-to-be. "What time do you go home?" Sobti asked. "Half of your branch's signboard has no light." The message was clear: the manager was expected to take a CEO-like ownership of his branch, looking into everything, from basic matters like branch hygiene to making it profitable.

In the three-and-half years that he has been in charge at IndusInd Bank, Sobti has driven this culture home with a trip hammer. And it shows in the results. In the BT-KPMG Best Bank Study 2011, the 17-year-old bank has emerged the overall winner in the mid-sized category of lenders with a balance sheet size of less than ₹50,000 crore. The turnaround and productivity improvement at IndusInd Bank since he joined, "is the result of performance culture", says Sobti, who earlier rose to the top position at ABN AMRO India in about 18 years.

The Hinduja-owned lender – the London-based non-resident Indian family owns 20 per cent of IndusInd Bank – is probably the first bank from a corporate background to reach the top slot.

It is a shot in the arm for the corporate groups planning to apply for banking licences when the Reserve Bank of India allows new banks to set up shop.

Sobti has followed a brick-by-brick approach to smartly expand the IndusInd Bank portfolio. He plugged the biggest product gap at the bank – home loans – by tying up with housing major Housing Development Finance Corp Ltd. or HDFC. It did not make sense to create a home loan product, he insists. The pricing on such loans, or the interest charged by a bank from a borrower, is the lowest in the consumer assets food chain of car loans, personal loans and credit cards. "Home loans are fully secured and have the lowest yield compared to other consumer loans," he says. Capital linkages – you have to provide for an average ₹9 as capital for every ₹100 extended as a home loan – and a higher cost-to-income ratio of around 40 per cent add up to making home loans unattractive for small banks such as IndusInd. "When the big player does it more efficiently, why should I replicate it? I would rather market his product and earn a fee," says Sobti.

The bank under Sobti has been methodical in thinking out of the box. "What differentiates us from others is innovation," says Sumant Kathpalia, Head, Consumer Banking. An option offered to customers on its ATMs, short for automated teller machines, enabling them to withdraw notes in denominations of their choice, was an idea suggested by a marketing team member at a brainstorming meeting. ATMs, until then, would give ₹1,000, ₹500 or ₹100 notes with no choice for the customer. IndusInd Bank made a small technology fix to its ATMs seven months ago and now its 600-and-more ATMs offer half a dozen denomination combinations. About

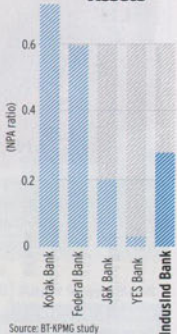
Balance Sheet Size



ROCE*



Net Non-performing Assets



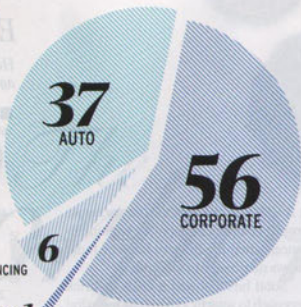
To read Romesh Sobti's interview log on to www.businesstoday.in/indusind-sobti



Uneasy Ride

Share of auto loans in total loan portfolio is very high

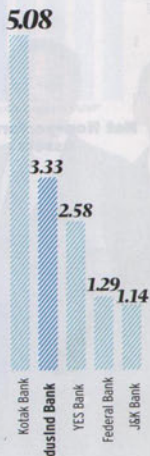
EQUIPMENT FINANCING
HOME & PERSONAL LOANS



Figures in per cent
Auto includes commercial vehicles, cars, and two- and three-wheelers. Data as on March 2011;
Source: IndusInd Bank

Stock Market Favourite

IndusInd Bank enjoys a high market price to book value ratio, second only to Kotak Mahindra



Source: Market research reports

half the traffic at IndusInd ATMs, says Sobti, is of customers of other banks who specifically come in to use this option.

In another unique feature, the bank prints images of cheques issued by a customer on the reverse side of monthly bank statements. As for business operations, Sobti encourages his senior managers to adopt particular states. So, Chief Operating Officer Paul Abraham has taken ownership of the business in Kerala. "That's the way of keeping a finger on the pulse of the bank," says Sobti. Innovations such as these have gone into building the bank's business, earning the attention of the investor community. (See *Stock Market Favourite*.)

Sobti has focused equally on effective communication. "When you create change, it has to be absorbed by the entire organisation." Three years ago, this golf enthusiast and his team coined the 3-3-3 slogan. Translated, it meant in three years, the bank would grow three key performance parameters – return on assets, return on equity and net interest margin, or NIM, – three times. The new slogan now is 3-2-1: the bank will be No. 1 in return on assets, return on equity, and NIM; will double its profits, customers and branches – all in three years.

In other words, IndusInd Bank is seeking scale, the key lever for which will be its 300-odd bran-

ches. The branch strategy is not a mindless expansion. "We want to create density in select 20 to 25 cities," says Kathpalia, the consumer banking head. The game plan is to increase the low-cost current and savings account, or CASA, deposits from 27 per cent to over 35 per cent within three years. That will be a modest increase compared to lenders such as HDFC, which has a CASA of over 50 per cent. A good base of CASA – unlike raising high interest fixed deposits – helps in building a high margin business.

The strategy on assets is to grow the loan book between 25 and 30 per cent every year, but IndusInd Bank also plans to increase branches, customers and fee income manifold. "We are following a universal banking approach," says Sobti. On the consumer banking side, the bank is gradually diversifying a portfolio that is skewed towards auto loans of all types. (See *Uneasy Ride*.) No bank, barring HDFC Bank, has managed to outstrip the kind of network IndusInd has built in vehicle financing. "We have the domain expertise and the business is profitable," says S.V. Parthasarthy, Head, Vehicle Finance.

Like that of all other mid-sized banks, the future of IndusInd Bank too is pivoted around its senior management team. As a September research report by IFCI Financial Services points out: "The execution risk would arise if the bank observes significant attrition at the senior management level." For Mumbai-based independent financial advisor Pankaj Namdharni, the concerns lie "in the rising cost of funds, cost of operations due to expansion and non-performing assets".

Sobti, who earlier this year got an extension for three years, knows there are risks, but the journey is one of steady growth. At the end of his interview with BT, the IndusInd Bank CEO is already focusing on the next big thing on his calendar: his 4 pm webcast to his 8,000 plus employees, a quarterly engagement he keeps without fail.

Motivated troops, he knows, will be the biggest differentiator in the race to his next goal: a balance sheet size of ₹1,00,000 crore. ♦

