Seeing opportunity in adversity

INTERVIEW WITH M D MALLYA
CHAIRMAN AND MANAGING DIRECTOR, BANK OF BARODA

M.D. MALLYA graduated in engineering from Karnataka Regional Engineering College (now the National Institute of Technology, Karnataka) and holds a post-graduate diploma in management from the Indian Institute of Science, Bangalore. He began his career in banking, joining the Corporation Bank in 1976 where he held a number of positions over an almost thirty year period before joining Oriental Bank of Commerce as Executive Director, where he oversaw the bank's merger with Global Trust Bank. He went on to be Chairman and Managing Director of Bank of Maharashtra and was appointed Chairman and Managing Director of Bank of Baroda in May 2008.

India's majority state-owned banks have progressed a long way from the old days when they were, by and large, conservative entities whose competitiveness and international reach were often constrained by government priorities rather than strictly commercial criteria. The liberalisation of India's banking industry since the 1990s has changed all that. Initially, the new private sector entrants may have stolen a march on the state banks in terms of the speed with which they adopted both new technologies and a more customer-orientated culture. But more recently, the state-owned banks have 'leapfrogged' their private sector rivals in terms of technology, while at the same time taking an increasingly independent and commercially-driven line when it comes to deciding on interest rates or extending credit.

M.D. Mallya, chairman and managing director of one of the largest of India's state banks, the Mumbai-based Bank of Baroda, has seen his and other public sector banks respond to the challenge of liberalisation by putting in place the technology and marketing-based criteria that now enable them to compete far more effectively. "Even though we are government-owned", he says, "we are primarily an own-managed bank with the autonomy to run our operations. That independence in strategic decision-making can be combined", he says, "with the priority of security for customers that goes with being a government-owned bank". Capital adequacy ratios as of mid-2009 stood at 14.56 per cent according to Basel II criteria, comfortably above the 9 per cent minimum requirement and better than most of its Indian peer group.

Bank of Baroda has placed particular focus on centralised corporate risk management so that it is able to monitor all facets of risks, the success of which can be seen during the recent downturn, where it has managed to keep a relatively low exposure to problematic sectors such as real estate. At the same time there has been rapid catch-up on private sector competitors in the utilisation of technology and in developing a more sales- and marketing-orientated culture right across the bank. With these in place Mallya believes "we are now on a level playing field with private sector banks as far as capabilities and infrastructure is concerned." Certainly, Bank of Baroda has been winning back market share, with total advances and deposits both rising by more than 28 per cent year-on-year in its most recently posted quarterly results.

The bank's development of sector-specific credit 'factories' for retail and small- and medium-sized enterprises (SMEs), utilising a platform developed by its strategic IT partner Hewlett-Packard, has enabled it to expand retail credit by nearly 20 per cent, and advances to the SME sector by more than 25 per cent, while the bank's farm credit grew by 31 per cent over the past year, enabling Bank of Baroda to leapfrog two of its main competitors in India's banking tables.

That growth has been achieved against a backdrop of global recession and without denting profitability. The bank's operating profit rose by 26.2 per cent year-on-year, while net profits soared by nearly 85 per cent. Mallya, who took charge of the bank in May 2008, just five months before the global financial crisis broke out, explains: "We were a very strong bank because we had been adhering strictly to the risk management principles and, therefore, in the whole crisis which followed we saw a lot of opportunities – both to win new business and to enhance the quality of the entire business.

"Even when the global crisis broke last year, when liquidity was difficult to come by, banks like ours did not have to depend on their home country for meeting their liquidity requirements. Every one of our international territories was able to manage its liquidity on its own. The reasons were that customer support continued, and even the inter-bank lending did not dry up."

Mallya believes that in all of Bank of Baroda's 101-year-history, it has never before been able to perform so well. "I would put it down", he says, "to the strong systems which the bank has put in place, and our strong base of the employees who have the appropriate skillsets to navigate through difficult circumstances." And, being in good shape, the crisis itself has provided new opportunities. "The year 2008-9 was perhaps", he says, "one of the bank's best years in terms of growth, the quality of that growth, and in terms of profitability."

Consistency of performance helps strengthen the bank's standing with customers and counterparties alike. "We are a bank," says Mallya, "which has been consistently successful in all the 101 years it's been registered, so the brand image is really strong, as is the soundness of its financial status. These are two areas that we can build on as we move forward." Another strength is the bank's increasingly customer-centric culture and the importance it attaches to long-term relationships with both corporate and retail clients. On the retail side, Bank of Baroda has almost 36 million customers, with whose continued support Mallya is confident the bank will be able to grow further.

In terms of the bank's overall capabilities to raise resources in international markets, Mallya argues that "we have been highly successful in raising funds at reasonable cost, either in the form of subordinated debt or in long-term instruments." Even during the depths of the credit crunch he points out "banks like ours were able to continue to have lines of credit from other banks, largely because there was no crisis of confidence as far as most Indian banks were concerned". Even without support from the parent bank in India, Baroda's international operations were able to continue raising funds through difficult times.

Internationally, Bank of Baroda has a presence in some 25 countries – from the United States and Europe through the UAE to Hong Kong and Singapore. Usually these are countries where people of Indian origin or Indian corporates have a significant presence. Mallya attributes the success of this overseas network partly to cultural synergies, though equally important is the bank's capability to serve its clients in areas like mergers and acquisitions in regions where Indian corporates are expanding. "I think this offers tremendous scope for increased business as far as the bank is concerned", says Mallya, "especially since we have been present in many of these areas for quite some time and therefore understand the local laws and culture." He is looking forward to international operations growing from roughly 23 per cent of the bank's overall business to nearer 25 per cent.

In the domestic market, priority areas for growth include retail, especially housing loans, corporate lending, SMEs and focused lending to rural communities. "Within the corporate lending space are segments with tremendous potential, like infrastructure or industries like cement and steel, are where the bank has been focusing strongly", comments Mallya. He is more wary of lending to real estate, whose problems Bank of Baroda largely escaped though low exposure. He is also seeking to increase fee income by growing the bank's role in distributing insurance, auto finance, mutual funds and other non-banking products through its extensive network of close to 3,000 branches across India with a customer base of around 36 million.

Mallya points to two important initiatives taken recently in distributing non-banking products. One, he says, "is a joint venture company for life insurance business, with Bank of Baroda holding around 44 per cent, UK insurer Legal & General, with a 26 per cent share, and another Indian public sector bank holding the balance." Regulatory approval has now been secured and he expects the company to be operational within three months. The second is to bring in Italian investment specialist Pioneer into a joint venture on mutual fund products, where recent regulatory changes should enable Bank of Baroda to compete more effectively against independent financial advisors by cross-selling to its banking customers.

Looking ahead to where Bank of Baroda will be in a decade's time, Mallya wants it to be "really strong in terms of its banking fundamentals, a bank that is perceived to be very customer friendly, and also one that is considered to be modern." On a more personal level, he sees it as a bank that "every customer would aspire to work with, and a bank that every aspiring person seeking a job would like to work for." F

With 36 million customers and a presence in some 25 countries, Bank of Baroda is well positioned to ride the wave of global economic recovery

The future's orange: Bank of Baroda will soon derive 25 per cent of its business from international operations