

Resignations turn spotlight on governance issues at HDFC Bank

Indian lender already struggling with slow revenue growth and falling profit after landmark merger

KRISHN KAUSHIK AND CHRIS KAY
MUMBAI

A sudden leadership vacuum at India's largest private sector bank has laid bare years of corporate governance issues and weak growth after a landmark merger.

HDFC Bank, which has assets worth Rs43.6tn (\$460bn), about a third of the total held by India's non-state-owned lenders, is rushing to find a new chief executive after Sashidhar Jagdishan unexpectedly announced his exit at the end of August.

His resignation came less than six months after the bank's chair, Atanu Chakraborty, stepped down over "ethical differences" with senior management.

The series of high-level departures has raised concerns about governance at a systemically important bank already struggling with slowing revenue growth and falling profitability after a merger with its parent company.

HDFC is "entering a phase of leadership transition after a series of adverse developments, challenges in operating performance after its merger... and significant erosion of shareholder wealth over recent years", said analysts at Mumbai-based brokerage Motilal Oswal.

HDFC is a heavy hitter in India's banking sector, second in size to the government-owned State Bank of India. It accounts for the heaviest share of two key stock indices, making up nearly 10 per cent of the blue-chip Nifty 50 and more than 6 per cent of MSCI India.

Jagdishan served as chief executive from 2020 and oversaw its merger with mortgage provider HDFC Limited, which created India's second most valuable company at the time. But he frequently butted heads with Chakraborty, who was appointed non-executive chair in 2021.

The chief executive appeared to win out when Chakraborty resigned in March, but the chair's final bow — an allusion to "ethical differences" without providing any details in his resignation letter — sparked questions about governance at the bank. Two law firms hired by HDFC to probe Chakraborty's assertion found no evidence to support it, the bank said in June.

In May, the local newspaper Indian Express reported that HDFC had allegedly disguised Rs450mn (\$4.8mn) in interest payments as marketing spend to bypass rules against preferential rates between 2017 and 2021, which overlapped with Jagdishan's time as chief financial officer. The higher interest was allegedly offered to a state-run company to attract its deposits.

The bank's board initiated a probe of the arrangement. In July, it concluded that Jagdishan and two senior colleagues had engaged in "business overreach", but there was no "personal enrichment" or "improper motive".

However, because of "potential divergence" between the executives' conduct and regulators' guidance, the board — which included Jagdishan — fined each of the three executives Rs100,000 (\$1,060) and issued warning letters.

Amit Tandon, founder and managing director of Institutional Investor Advisory Services, said that it would have been "difficult" for the Reserve Bank of India, which regulates the sector, to approve HDFC's reappointment of Jagdishan after his term ended next month.

The stress on Jagdishan, who had



An HDFC branch in Mumbai, India. Below right: Sashidhar Jagdishan, who has announced his departure as chief executive; and bottom: Atanu Chakraborty, who bowed out as chair earlier this year — Dhiraj Singh/Bloomberg, Hindustan Times/Getty Images

risen through HDFC's ranks to take over his role from a well-liked and long-serving chief executive, was "too much" for "someone private like him", said an industry peer at a top bank. "He is not a sales guy."

HDFC told the FT that Jagdishan's decision to step down was "personal" and "despite persuasion by the board, he reiterated his decision to not seek a reappointment".

US investors have filed a class-action lawsuit in New York, arguing that large share price drops after Chakraborty's resignation and the interest payment allegations showed the company had withheld crucial information.

HDFC shares have dropped nearly 30 per cent since the start of the year, compared with a 9 per cent fall for the Nifty 50.

The bank dismissed the shareholder lawsuit as "common" in the US following a share price decline and said it was "not a reflection" of any wrongdoing.

Besides the interest payment controversy, the bank's "core performance has also been weak", said a Mumbai-based banker who has known Jagdishan for more than two decades. HDFC was "too obsessed with protecting their margins" and ended up "underinvesting in growth levers for the future".

In the quarter to the end of June, the bank reported a record-low net interest margin, a key measure of lending profitability. It had steadily declined over the past three years from above 4 per cent to 3.26 per cent.

Analysts said that, while the leadership was conservative in deploying capital in areas such as new technology, the pressure to defend margins had contributed to an aggressive sales culture at branch level.

Local media reported last month that investors in Dubai were weighing complaints to Indian regulators over HDFC allegedly marketing a \$100mn fund from Luxembourg-based asset manager

HDFC is down nearly 30% this year



Carlisle without fully disclosing its risks.

This was after Dubai's financial regulator barred a local HDFC branch from taking on new clients over compliance issues last year.

The branch allegedly mis-sold high-risk Credit Suisse additional tier-one bonds, which were wiped out when the Swiss bank collapsed in 2023. HDFC fired three senior executives over the issue in March this year and said at the time that it was committed to maintaining high governance standards.

In response to the Carlisle dispute, HDFC told the FT it had shared "all relevant information relating to the product" with its customers and that some had wanted the bank to "cover their entire losses" from the fund, "which we cannot do".

The company has struggled to lift performance after its 2023 merger, which added HDFC Limited's vast Rs6.2tn (\$65.7bn) loan book to the bank's balance sheet.

The combined group's market capitalisation has fallen from more than \$170bn to nearly \$117bn, while annual retail lending growth has dropped from roughly 20 per cent just before the merger to 7.2 per cent in the quarter to the end of June.

Motilal Oswal analysts said the search for a new leader might help address concerns around ructions at the bank.

In addition to Jagdishan's departure, strategy head Bhavin Lakhpatwala resigned in June and chief financial officer Srinivasan Vaidyanathan will retire in November, leaving the door open to an overhaul.

"We believe the key question is not just who replaces Mr Jagdishan, but what profile the bank wants," said analysts at Nomura.

"The next CEO will need to accelerate growth, improve deposit mobilisation/returns, extract merger synergies and, importantly, rebuild confidence around governance."

HDFC shares have dropped nearly 30% since the start of the year, compared with a 9% fall for the Nifty 50