ET Q&A

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Almost No One is Entirely Unaffected by War, the Degree Varies by Sector

HSBC India CEO Hitendra Dave said companies are reworking supply chains to cushion the impact of the war, adding that Indian corporate balance sheets are stronger than before the COVID-19 pandemic. A conflict lasting beyond three months, however, could start weighing on growth and inflation, Dave said in an interview with **Sangita Mehta** and **Joel Rebello**. On mis-selling of products by banks, he said the practice is likely to persist as long as incentives remain in place. The recent correction in equity markets have made valuations more 'sensible' now. "The beauty of markets is they self-correct." Dave also outlined HSBC's ambition to rank among the top five private banks in India.

Edited excerpts:

We are in the fourth week since the war began. What are you hearing from borrowers?

The impact varies across our clients. Companies dependent on LNG, LPG, oil, fertilizers, and other feedstock are worried about availability and price. Most had inventory buffers for this period, but if this persists, operations will be hit as stocks run down. Exporters face higher logistics costs and uncertain demand in destination markets; even when orders hold, delivered costs have risen. Through the financial channel, equity markets have corrected and the currency has weakened, so plans for foreign-currency borrowings or bonds and equity issuance are largely on hold or being repriced. There are also indirect spillovers—airlines and hotels see fewer flights and tourists. So almost no one is entirely unaffected; the degree varies by sector.

How are you and your borrowers responding?

Companies are reworking supply chain planning. These are temporary fixes; you can't fully replace such inputs quickly. Each crisis is lessons: after Covid, firms diversified supply chains; now they may carry higher inventories, hoarse critical stock. Like other banks, we've done portfolio reviews. As of now, our clients are in good shape to face the challenges in the foreseeable future.

By "foreseeable future," do you mean a month or two?

We're taking it a couple of months at a time. There's nothing in our portfolio that concerns us unduly at this juncture. That said, we are more conservative today than we were a month ago? Naturally Yes.

When does this become a real pain point for India?

It's not a breaking-point issue yet, but it can slow growth. If companies can't produce because LNG, raw materials, or fuel don't arrive, output suffers. Thus far, much of the cost hasn't been passed on. How long before the government says I don't want to absorb the pain anymore. Most people think up to three months is the government's capacity to absorb shock. But if at the end of three months, things haven't changed, I think every government will be forced to take some hit on growth, fiscal situation, and inflation.

Does this also affect the private wealth business?

Yes. In such periods, incomes can shrink and investors typically become more risk-averse. Events like this bring risks to the fore, and with the stock market down 5–7% in three weeks, investors naturally turn more cautious. So, that's where I would say that it affects the wealth market. The product mix shifts toward conservative options.

Does this make you a more cautious lender?

Not so far—unless we see a significant impact. Between Covid and now, most large and mid-sized companies have much stronger balance sheets from the perspective of indebtedness and interest-servicing capacity. Had this occurred in 2020, it could have been calamitous for many; this time, our initial observation is that all balance sheets within our portfolio are very well prepared to handle a crisis of this nature. We are incrementally more conservative given the broader risk around us, but we have not shifted to "approve by exception only." We are maintaining a BAU (business-as-usual) stance for now.

THE COST OF WAR

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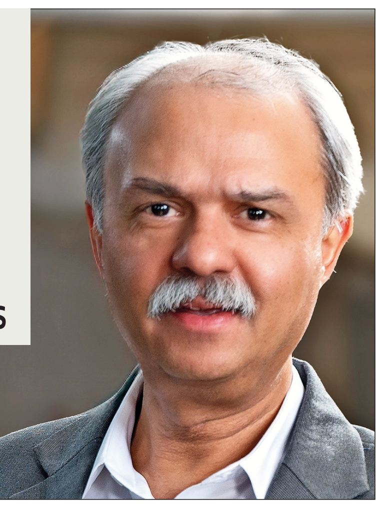
The way markets are behaving does this give banks opportunity to mobile deposits?

Indirectly, yes—risk-off phases make savers more cautious. Over the last 18 months, many mutual fund investors have seen mark-to-market losses; If they invested ₹100 say 18 months ago, then it might be worth ₹75–₹90 today depending on the fund, while a bank deposit of say ₹100 becomes ₹107. The gap is therefore ₹107 versus ₹85. Deposit sahi hai ! During the go-go years, deposits were derided for "only" earning 5–7% when some investors claimed 20–80% gains (from the equities market). They said 'mutual fund sahi hai' and only 'losers put money in bank deposits.' We—banks—didn't sufficiently communicate that deposits are principal-protected, interest-guaranteed, and liquid products. We allowed the industry to make two wrong comparisons. We don't want deposits to grow because mutual-fund investors lose money or because the IPO bull run slows. But the industry does need to be more imaginative, encourage balanced allocation—by all means invest, but keep a core portion in assured savings products.



MARKET MATRIX

Whether (FII) flows return (to India) will depend on less demanding valuations and relative value versus other markets

Deposits are still growing slower than advances. Are banks underestimating this risk?

I'd be surprised if management weren't seized of it. Despite sincere efforts over the last 12 months, it's still easier to grow loans at 13–14%, while getting deposits above 10% has become a real challenge. Two years ago, there was a sense that deposits could be raised at will; today most management recognise it's not so easy. There's also a structural shift in liquidity. Earlier, a large surplus sat largely in retail hands, which would feed bank deposit formation. Now a greater share is with institutional holders, and that composition change over the last decade has mattered. The central bank has pumped liquidity, but it hasn't converted into deposits because ownership of liquidity has changed. There's a broader distributional angle too. Over the last 5–10 years, the share of corporate profits going to wages has declined. Wages fund salaries, which flow into savings and deposits; when that share falls, deposit formation is affected. And the owner of deposits-shareholders or employees—that that ratio too has changed.

Are you seeing fresh private-sector investments?

In some sectors, capacity utilisation has risen meaningfully which is the usual trigger for expansion—and we do see private companies acquiring assets overseas. But in India, we are not seeing the kind of large greenfield capex—₹50,000-crore power, steel or cement plants- we saw in 2013–14. In hindsight, many of those projects were fully debt-funded with little equity, and we know how that ended. Today, if you require at least one-third equity, the promoter has to write a ₹15,000-crore cheque for a ₹50,000-crore project, which naturally raises the bar. Secondly, there has also been significant consolidation in cement, power, and steel. so many players are still digesting acquisitions rather than launching big new builds. But if the question is whether capex is being led by the public sector? The answer is a very, very strong yes. Oil marketing companies, power-transmission utilities and other PSU companies are leading the borrowing.

With a few conglomerates gaining share, is concentration risk building up for banks?

The fact is that everyone can participate in a tender. I've spoken to bidders who lost and said they didn't want to win at those terms. There are certain groups that are often willing to take long-term entrepreneurial bets that others won't. India is a highly competitive market; I do not think you can win anything just by being a large conglomerate or being close here or being close there. Of course, it helps but that happens in every country. The real gap is risk appetite and horizon: some groups think in 10–15-year terms, while many others focus on the next 2–5 years. Then there are promoter-level factors—ageing founders, second-generation choices, and the fact that manufacturing is hard.

Capital markets have slowed. How could this impact business?

Almost everybody is talking about valuations becoming more sensible. One reason for the slowdown, even before this crisis, was people were becoming extremely uncomfortable with valuations versus projections. It's an issue if you're selling at a price without visible cash flows, earnings, or dividends for years. IPO pricing will reset. Prices that found no buyers two months ago may find buyers at 20% lower. The beauty of markets is, they self-correct. You can't say, "I'll sell at ₹1,000, come what may." Overall, this is also a realignment by selling shareholders after two years of unbelievable valuations; coming down quickly is hard and some exuberance coming off is healthy. In some sectors valuations are now compelling; in others, they were very frothy and remain frothy.

What has prompted RBI to come up with a lot of pro customer measures such as mis-selling?

These are good steps—even from a regulated entity's point of view—because the banking system must be trusted. There has also been a surge in fraud—not just internal employee fraud but syndicates targeting customers. Senior citizens have been especially vulnerable, sometimes giving away large sums for small "rewards." On the mis-selling, who can deny it? You would have to be living on Mars to not believe that. Unfortunately, in India none of us believe that we will die. We think everybody will die except me. When you think that you are not going to die but if I have to make money by selling you an insurance on which you have to accept that you will die. Then I will have to sell it as an investment product. It can't be denied that every bank has tightened the process over the last few years. We have done everything possible on the suitability check. But there is only so much you can do. The regulator is observing that many banks are just mutual fund and insurance sales outlets. So they have stepped in. Also in insurance the upfront commissions are high. You will hardly hear mis-selling in mutual funds because incentive is not enough. So long as there are incentives people will look at earning it.

What is the outlook on growth and inflation?

Our inflation has been steady and stable. The near-term risk environment is clear, but it's hard to see growth fall too much. If 7.5–7.6% was the consensus, even in a worst case it's difficult to go below 6.5%, which is acceptable in this backdrop; the base case should be better. On inflation, even if fuel lifts it, there are offsets: food prices are favourable, food stocks are strong, and some perishables that won't be exported will find local markets. I would still be sanguine. It's disappointing that the growth story is a little disturbed, but we are in a far better place than most Asian markets.

So you think Goldilocks period is ending soon?

Hard to say while the conflict persists. If it passes quickly, the outlook is manageable; if we're still here six months from now, it's difficult. Currency could be under pressure, inflation less benign, and growth weaker. Goldilocks only matter if it lasts 2–3 years, not a quarter. By Goldilocks, I mean low, stable inflation, growth at 7–7.5%, a fiscal deficit trending right, and a current account deficit near 1%. The main concern has been continuous capital-market outflows—a valuation issue rather than something policy can fix overnight. Whether (FII) flows return (to India) will depend on less demanding valuations and relative value versus other markets. The policymakers are watching: when do foreigners stop selling—forget about buying.

What's next on HSBC's growth agenda? Any new businesses planned?

We aim to be among the top five private banks by profitability. We won't chase asset size—that's not our play. Our strengths are forex, trade and payments. So the path to top-five profits is transaction banking. We want to be the natural banker to every affluent Indian. We're also working on retail broking so affluent clients don't need another platform—brokerage income isn't the objective. We've been pleasantly surprised by interest in global investing via GIFT City under LRS; client demand to open GIFT accounts is rising, and this has become a focus area. On distribution, of the 20 branches we plan to open, we have opened branches in Baroda, Indore, Lucknow and Amritsar and two more by April-May.

Tech Picks

RAJESH PALVIYA, Head of Research, Axis Securities

GPIL — BUY — TARGET ₹305
Six-month triangular breakout at 274 levels, Huge rising volumes. Above the 20-day SMAs
LAST CLOSE ₹276 | STOP LOSS ₹266

COFORGE — BUY — TARGET ₹1,310
Daily price trend reversal, rising volumes, and closed above the 20-day SMA. Daily RSI positive
LAST CLOSE ₹1,162 | STOP LOSS ₹1,113

EMCURE — BUY — TARGET ₹1,755
Strong uptrend, multiple resistance zone breakout at 1575 along with huge volumes
LAST CLOSE ₹1,590 | STOP LOSS ₹1,535

F&O Strategy

GLENMARK FUTURE (28 APRIL EXPIRY) — BUY — TARGET ₹2,354
Since the start of the current expiry, stock has witnessed a steady long build-up, with price advancing
LAST CLOSE ₹2,178 | STOP LOSS ₹2,110

TCS FUTURE (28 APRIL EXPIRY) — SELL — TARGET ₹2,282
Upside remains restricted, with heavy Call writing at OTM strikes indicating a strong resistance zone
LAST CLOSE ₹2,394 | STOP LOSS ₹2,450

State Debt Deluge Keeps Bond Yields Under Pressure

By the Numbers

State government bonds raised in Q4FY26

Week of	Actually Raised	Indicative Amount in the Calender
March 27th	42,941*	12,000
March 24th	54,834	47,985
March 17th	57,525	47,985
March 10th	46,960	39,270
March 3rd	44,330	35,805
Feb 24th	46,100	44,221
Feb 17th	39,450	39,000
Feb 10th	47,620	42,750
Feb 3rd	38,050	42,800
Jan 27th	38,300	47,300
Jan 20th	13,000	38,600
Jan 13th	26,815	36,190
Jan 6th	30,100	30,100

*Auction will take place on March 27th

SOURCE: RBI

Rozebud Gonsalves

Mumbai: Indian government bond yields are expected to remain under pressure as markets prepare for a record weekly supply of state debt, with the final state loan auction of the financial year due Friday, traders said.

States raised ₹54,834 crore at Tuesday's auction, well above the indicative ₹47,985 crore, and dealers expect borrowing on Friday to again exceed the notified amount, with states likely to raise ₹42,941 crore against an indicated ₹12,000 crore in the calendar.

Total state development loan (SDL) supply for the week could approach ₹1 lakh crore, adding to pressure on central government bonds and pushing the 10-year benchmark yield towards 6.90% to 6.95%, market participants said.

"SDL supply of around ₹1 lakh crore in a single week is quite significant and could have a crowding-out effect, putting pressure on government bonds," said Mataprasad Pandey, vice president at Arete Capital Services.

"With such heavy issuance, the 10-year g-sec yield could move above 6.90% by Friday."

The benchmark 10-year yield closed at 6.87% on Wednesday, after rising steadily from 6.73% last week, tracking elevated crude oil prices and heightened geopolitical risks linked to the West Asia conflict.

"The pressure is felt in the market and when sentiment weakens, there is fear that causes yields to rise," said a bond trader at a primary dealership.

Saudi Wealth Funds to Maintain Global Bets

Bloomberg

The top official at Saudi Arabia's wealth fund said it remains committed to investments around the world despite growing concerns over the mounting economic costs of the war.

"The Saudi macroeconomic and physical position remains strong, stable and resilient," said Yasir Al Rumayyan, governor of the $1 trillion Public Investment Fund. "We measure our returns not in quarters but in decades, and PIF remains committed to its investments around the world."

Al Rumayyan was speaking at the Future Investment Initiative event in Miami, against the backdrop of a regional war that's now in its fourth week. Over the past month, Iran has attacked energy infrastructure across the oil-rich region, raising concerns that the kingdom and other Gulf nations might pull back from international investments.

Tehran's projectiles have hit Saudi Arabia's biggest oil refinery at Ras Tanura, and repeatedly targeted the kingdom's Shaybah oil field, which has the capacity to produce one million barrels of crude a day.

Still, Gulf sovereign investors are pressing ahead with global dealmaking. Savvy Games Group, a unit of the PIF, agreed to buy Moonton from ByteDance this month in a deal valuing the mobile games maker at $6 billion.