

Dialogue

Chartered Accountants at the helm

The Institute of Chartered Accountants of India has invited successful and renowned Chartered Accountant, and CEO designate of HDFC Bank, CA. Keki M Mistry. CA. Uttam Prakash Agarwal, President, ICAI also deliberated. CA. Prateek Jain, CFO, AIG Investments and Co-opted member in Committee for Members in Industry moderated the discussion. The following are the edited excerpts from the webcast.

CA. Uttam Prakash Agarwal: Webcasting was my dream project when I took over as the President of the Institute. Through webcasting mode, we can reach each one of you, the members and students, not only at the time when we desire but when you desire, when you want to learn and understand. It is great way of communicating. Through this medium we can provide interaction with highly rated experts available in our country.

The role of chartered accountant has changed over time. They are not merely *postmortem officers*. Five years back, people used to think that the chartered accountants are *Compliance Officers*. Today, they have proved that the Chartered Accountants are not the Compliance Officers but are the Business Solution Providers. Time has gone when Chartered Accountants used to sit as a Chief Accountant. Today, my Chartered Accountants sit in the Board Room; they are the strategic partners, business solution provider. Their function is not restricted to accounting, auditing or banking. Today the Chartered Accountants have a role in all the sectors.

CA. Keki Mistry who happen to be a Chartered Accountant first and then the Vice-Chairman and Managing Director, recently has also been appointed as CEO of the HDFC Group. We can learn a lot from his wisdom and knowledge.

CA. Prateek Jain: Mr. Mistry is no stranger for us and needs no introduction. A Chartered Accountant from ICAI, and a Certified Public Accountant from US, Mr. Keki Mistry brings with him three decades of varied experience in banking and financial services.

Within the next couple of weeks, he would be stepping in the shoes of illustrious Shri Deepak Parikh whom the nation has recognized as one of the drivers of the financial sector reforms in the country.

How do you feel about it and what would be your key challenges?

CA. Keki Mistry: Let me thank first of all the President and Prateek for inviting me here to talk to all of you. It is a great privilege and honour to be part of the Institute from where I passed out 30 years ago.

As far as I am concerned, nothing has changed. Deepak Parikh will continue to be actively involved in the affairs of the HDFC. He will continue to chair some of our internal committees. His advices, his guidance, his support will always be with us.

If you ask me, what are the challenges, they are to continue doing what we have been doing all these years. In HDFC, we have clearly set for ourselves certain targets, certain goals, certain aspirations and certain objectives and we work every year to try and attain these objectives.

For example, we have set four objectives for us. This is historical. Our first objective is to increase our return on equity every year. If we look at our return on equity, in 1995, it was 15.5 per cent and every year from 1995 to 2007, return on equity went up the previous year by a minimum of one percentage point. In 2007-08, we raised equity. As a result, the return on equity came down. Last year, return on equity was 18.8 per cent and our target will be to try and increase return on equity again by at least one percentage point every year.

Our second goal has been asset quality. We have continuously told the investors that we were focused in a big way on asset quality. Our focus on quality is reflected historically. From 1977, over a period of 32 years, our total loan losses, money that has not been able to recover, has been only 0.04 per cent of what had been disbursed

Our third goal is Operational Efficiency, which is reflected by a very low cost income ratio. Our cost-income ratio last year was 8.8 per cent. We believe that given the size of the markets in India, given the shortage of housing, given the low level of penetration, the sector should be growing at about 20 per cent a year for the next several years. I think that is really, what we need to try to continue to achieve, continue simultaneously trying to focusing on the broad principles, around which we have built the organization for so many years.

CA. Prateek Jain: *Sir, from Assistant Manager in 1981 to the CEO, how would you trace your journey for the last 30 odd years?*

CA. Keki Mistry: My first preference and my love has always been finance. I love finance in the broader sense of the word. It is accounting, it is finance and it is corporate planning. Over a period of time, in a financial organization like HDFC, everyone has to be well versed in the finance. Therefore, you find that most people in HDFC have a financial background. So, with these people, we have all grown; we have set up the organization as a team as a well-knit group and I think that is the way, it would continue to be.

CA. Prateek Jain: *Sir, can you enlighten us, how the basic qualification as Chartered Accountant has enabled you to reach the pinnacle of your organization.*

CA. Keki Mistry: I think the qualification as Chartered Accountant has tremendous value to you. As a Chartered Accountant, you are very meticulous; you are able to analyse and understand the subject much better than someone who has a very broad kind of vision on what is going on. You are more focused on what you do and I think that the principles are more focused upon greater attention, details are given much more care, and much more effort into developing are the best plus point as a CA.

CA. Prateek Jain: *Mr. President, this would be music to your ears when he says that CAs are meticulous, focused and has a great attention to the minutest detail. Your thoughts on that!*

CA. Uttam Prakash Agarwal: That is the potential of a Chartered Accountancy. More particularly, the three years' articleship training which all of us have undergone as highlighted by Mr. Mistry. I feel that we should not underestimate the role of articleship training in moulding our professional life. What Mr. Mistry has said, will go to my younger generation as to how he has grown from the post of Assistant Manager to this great position.

CA. Keki Mistry:

I think I would add another dimension that as a Chartered Accountant, one should focus not only on the accounting aspect. For a Chartered Accountant, there is a much larger role and many of the decisions in today's time and world are based on sound analysis of the financial viability of any project any new venture. So, Chartered Accountants have a huge responsibility, an important role to play in achieving these targets. I think the Chartered Accountant is the one who brings more sanity, more strength and more thinking into any new project that an organization embarks on.

CA. Prateek Jain: *Sir, you have been the key strategist in taking HDFC Limited into new horizon. How different is, your recipe and what are your guiding principles for the management.*

CA. Keki Mistry: I think there is no difference; there is no new recipe. It is being really focused on what you want to do. You have to have a very clear-cut objective, a very well defined target and then you have to work your way towards attaining that objective and target.

CA. Prateek Jain: *You have been emphasizing on the words focus and meticulousness for what Indian CA has been recognized for years. Sir, in terms of the current state of Indian economy, does it reflect the maturity or otherwise of the corporate practices in India? How do you compare the Indian scenario with this international practice in corporate governance and what are the corporate governance practices your organization follow, which you would like to mention?*

CA. Keki Mistry: If you ask me the corporate governance practices that we have in India, believe me, we are among the best emerging markets. One or two stray instances of bad practices, bad governance does not change that or does not alter that. Even in the largest of the companies, there are exceptions, there are cases where one or two or three companies have not followed the principles of corporate governance. That should not change the fundamental facts that India has very strong corporate governance. As the foreign institutional investors started investing larger amounts into Indian markets, they were very concerned about the governance. So, that is the time when many Indian companies started looking at governance in a bigger way and most of this was voluntary compliance. It is not that there were no legal rules or legal laws on governance, legal rules did come up over a period of time. For example, the listing agreements for stock exchanges, there is a clause 49 for which the Indian companies have no idea but most of the principles of corporate governance that have practiced in India came as a voluntary effort by the concerned company to follow the best practices. I think, India does have the best of practices and there is nothing, which is lacking in India.

CA. Prateek Jain: *Mr. President, what about your thoughts on the corporate governance in India?*

CA. Uttam Prakash Agarwal: Corporate governance, I will say, the way it should have been taken up by the corporate houses, has not been taken up. Most of the companies see it just as compliance. In the true sense if Corporate Governance is implemented, then India will prove across the globe that how a corporate house should work. In some of the companies the Audit Committee Chairmen are from different areas and they do not know the *basics* of auditing. Audit committee has a very important role in this corporate governance.

CA. Keki Mistry: I just want to add what President said that Clause 49 of the Listing Agreement requires companies to have audit committees and a majority of the members of the audit committee must be independent members. Also, it says that the Chairman of the audit committee must be someone with a finance background or with finance knowledge. I think that, to some extent, answers some of these issues. Having said that, in my view, I think all the members of the audit committee must be independent and in my view, management representatives should not be the members of the audit committee.

CA. Prateek Jain: *HDFC is one of the organizations, which remained unaffected in the recent global crisis in spite of the fact that the organization is exposed directly to home loans. What are the key risk management practices you follow in your organization?*

CA. Keki Mistry: We follow very close risk management practices in HDFC. We have a Risk Management Committee. Almost every section, every department is represented in that risk management committee. The risk management committee meets periodically. Its role is to try and understand what are the new risks that HDFC would face and then to find ways and means of mitigating that risk. There is a process of identifying risks. Let me tell you that the comparison of India with the western world is not correct for a number of reasons. Penetration of the mortgages in India is very low. The mortgage liquidity ratio in India is seven per cent. The mortgage liquidity ratio in US is 80 per cent. Now, when the penetration levels are so high and still the banks over there need to grow at 20-30 per cent a year, then the only way they can grow out is to come with products which is inherently risk free.

CA. Prateek Jain: *Sir, ICAI, as an Institute, has been providing world-class finance professionals and, as President mentioned, a complete business solution provider. In your view, how can we put across this message to the larger international audience?*

CA. Keki Mistry: I think, effort has been made successfully. So, it will help India in getting recognition globally amongst other accounting bodies. I was in the UK some time back and I was talking to the members of the Institute there. They were speaking high of the ICAI. So, I think, efforts have been made and have been made successfully. But, what we need to do is more seminars and programmes where we invite people from overseas into India. We had a very successful conference in Agra a few months ago. More such seminars, probably will help people and other countries to understand the level of professionalism that we have in the accounting profession in India.

CA. Uttam Prakash Agarwal: I would also like to add that for first time we had a programme last month with the Institute of Chartered Accountants of England in India. That was the first time we invited eminent personalities and their President had participated in the programme. So, the ICAI has already started working in the direction.

Everybody knows that there is a mandatory provision that members in the practice have to undergo a 20-hour CP Programme. For industry members it is 10 hours which we have not made mandatory. As there are a lot of changes taking place, we want that our members should be updated through programmes such as seminars.

CA. Prateek Jain: Sir, what are the lessons learnt from the current global financial crisis?

How should India as a country, and Indian CA's in senior management position, should guard themselves from such crisis?

CA. Keki Mistry: I think that it goes back to what I said earlier that be really focused in what you want to do. Just do not grow for the sake of

wanting to grow or just for the sake of growing / being big in size. I have mentioned the goals that we set for ourselves every year. It is, being focused on what you want to do, not doing anything out of the role. Remain within your core competency. The global crisis happened for reasons, which were very different from India. India is largely a domestic economy. Eighty five per cent of India's economy is domestic and therefore, the impact of what happens in the western world would have a relatively or significantly lesser impact on India than it would have on any other country. The regulations in India are extremely good. So, we kept ourselves within our ambit. We tried to ensure that we have not just gone and blindly copied global practices because they were prevalent elsewhere. So, we stuck to our basics and that has been our strength.

CA. Prateek Jain: *Sir, we believe there are a sizeable number of Chartered Accountants serving in your organization. How have they contributed towards the strategic and operational development of your organization?*

What are the areas where ICAI and HDFC can jointly work for development of Chartered Accountants as a profession with a focus on economical and social development of our country as well as contributing for their own development?

CA. Keki Mistry: See, we have about 1570 employees working in the whole of HDFC. So, it is not a very large work force that we have. I am talking of pure HDFC. I am not talking of the Group. In the Group, we have a far larger number of people. Out of 1570 employees, we have about nine to ten per cent of staff as Chartered Accountants. So, Chartered Accountants in an organization like HDFC being a financial institution always have a big role to play. There is always going to be a critical and important role that has to be played by Chartered Accountants in HDFC.

CA. Prateek Jain: *Sir, would you like to speak something to our Chartered Accountant members?*

CA. Keki Mistry: I would say, "Be proud of your profession. Be proud of what you have done in your studies. The CA Institute is a moulding ground. Believe me, I honestly believe in saying this with full conviction that what I learnt in the three years, while doing my CA, was far more than I could have expected to learn or I probably have thought that I would learn if I had taken any other profession. So, be proud of your profession. Yes, those three years are difficult. I remember my earlier years of articles where every day you are hoping that the time passes. Believe me that the experience you garner during those three years of articles, extends you enormous benefits, enormous depth and enormous use in your future career."

CA. Prateek Jain: *Is there something, which you still want to achieve both professionally and otherwise?*

CA. Keki Mistry: Professionally, I really do not want to achieve anything. But, on personal note, I would like to do something for poor people. That is a personal thing, very personal thing. I want to build up a home for poor people.

CA. Uttam Prakash Agarwal: *What guidance you could provide to the Indian Chartered Accountants who qualify now and, in future, the Keki Mistry of this country?*

CA. Keki Mistry: I would say, "Don't think of money. Honestly, don't look at money. Money will come on its own in the course of time. If you look at industry, (1) you should look at companies which practice the best governance because at the end of the day, the companies which practice governance or good governance are the companies with whom we can go far in life. (2) You should look at companies where the growth prospect is high. Do not look only at the accounting function. As you work in the companies, start looking at other areas where you would be able to make a contribution and believe me, if your contribution is good, it will be recognized; it will be rewarded and you will go a long way in your career."