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When First Global's Devina Mehra spotted 'muscle man' potential in 'boy' HDFC Bank

Synopsis
In 1996, Devina put out her analysis of the HDFC Bank stock – one of her firsts after she founded First Global with her former Citibank colleague and life partner Shankar Sharma.

Sharing her insights on Puri's strategy, Devina feels the bank's decision to not take large exposure to the booming infrastructure sector back then and its eventual entry into retail banking worked wonderfully.

NEW DELHI: **Devina Mehra** of **First Global** tells an interesting story! She spotted the potential in the **HDFC Bank stock** way back in 1996, but there was an element of something extra there: the top brass at the newest lender had come in from **Citibank**, where she herself was their colleague.

That was when the stock traded at an adjusted price range of Rs 3-4. "My experience of working under them gave valuable extra insights," says she.

In 1996, Devina put out her analysis of the **HDFC Bank** NSE -0.54 % stock – just a couple of years after she founded First Global with her former Citibank colleague and life partner **Shankar Sharma**. Her firm gave a 'buy' recommendation when the stock was trading at Rs 38 (before a 10:1 split). The market-cap of the lender was Rs 760 crore then.

She did not set any price target as per her firm's policies, but the report said the 'boy' would turn into a 'muscle man' in five years.

Did she think it will emerge a multibagger stock and become one of India's most-preferred blue chip one day?

"We did think it would do very well. And yes, we had it featured prominently in our 'Emerging Blue Chip Conference' in 1999," she recalls.

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The stock just took off thereafter. "We did think it was headed to blue chip status. But no one, not even **Aditya Puri**, could have predicted what happened over the next 25 years. No one can look 25 years ahead," she said.

Since 1996, HDFC Bank has delivered a mindboggling 30,247 per cent returns. In cash terms, it would mean Rs 100 invested in the stock back then would have become over Rs 30 lakh now. In comparison, the 30-share pack Sensex added 1,177 per cent in the same period.

“Thrilled to see it. The 'Baby' to 'Arnold Schwarzenegger' transformation happened before our eyes, didn't it?,” Devina said in a tweet this past week, sharing an image of the first report on the lender.

Not that her insight on the insiders alone helped Devina form a view on the stock. There were solid fundamental reasons too. In the 90s, Indian banking was dominated by public sector banks. “Good companies did not want to work with small banks. ICICI Bank was the only other viable private bank, and there was space for professional lenders,” Devina recalls.

HDFC Bank has delivered stellar growth year after year ever since under the leadership of Aditya Puri, who is scheduled to retire as CEO this October. In that, he has also become the longest-serving head of any private bank in the country.

The bank last week named Sashidhar Jagdishan, a bank insider since 1996, as Puri’s successor.

Sharing her insights on Puri’s strategy, Devina Mehra believes the bank's risk management: for example, the decision to not take large exposures in the booming infra space then and eventual entry into retail banking worked wonderfully for the company.

Dalal Street is currently divided on the prospects of domestic banks and financial institutions because of projections of an imminent spike in bad loans when the EMI holiday that came in as a Covid-19 relief comes to an end this month.

While many analysts say it is the perfect time to invest in these beaten-down stocks, another half of them are advising investors to avoid them completely.

Devina falls in the latter camp, and says she is bullish not on the banking space today, as the economy is in dire straits, hit by the pandemic and the consequential demand destruction, which will impact both asset quality and credit offtake.

Despite this general aversion towards banking stocks, HDFC Bank remains a favourite among analysts. On the publicly available Reuters Eikon database, 21 analysts had ‘buy’ recommendations on the stock and a similar number had ‘outperform’ ratings as of August 11. There were three ‘hold’ and one ‘underperform’ ratings.

Devina’s tip for investors in the current market? “Tactical asset allocation is the way to go. Apart from single assets, people should also avoid single country risk and diversify globally. Investors should also keep reviewing their exposure and allocation frequently,” says she.
