HDFC

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

www.hdfc.com

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August 1, 2022

BSE Limited
P. J. Towers,
Dalal Street,
Mumbai 400 001.

Kind Attn: – Sr. General Manager
DCS - Listing Department

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1,
Bandra-Kurla Complex, Bandra (East),
Mumbai 400 051.

Kind Attn: Head - Listing

Dear Sirs,

Sub: <u>Transcript of earnings call – financial results for the quarter ended June 30, 2022</u>

We refer to our intimation dated July 29, 2022, informing that the Corporation has uploaded the audio recording of the earnings call hosted by it on July 29, 2022 to discuss the financial results for the quarter ended June 30, 2022, on its website.

In this connection, pursuant to the provisions of SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021 notified by SEBI on May 5, 2021, please find enclosed the transcript of the said earnings call.

The said transcript is also uploaded on the website of the Corporation and can be accessed through the link: *https://www.hdfc.com/sites/default/files/2022-08/Transcript_Earnings_Jun_2022.pdf*

Further, please note that no unpublished price sensitive information was shared/discussed by the Corporation during the said earnings call.

We request you to take note of the above and arrange to bring this to the notice of all concerned.

Thank you,

Yours faithfully,
For Housing Development Finance Corporation Limited

Ajay Agarwal
Company Secretary

Encl. a/a

"HDFC Limited Q1 FY23 Earnings Conference Call"

July 29, 2022

MANAGEMENT

MR. KEKI M. MISTRY -- VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HDFC LIMITED
MS. RENU SUD KARNAD -- MANAGING DIRECTOR, HDFC LIMITED
MR. V.S. RANGAN -- EXECUTIVE DIRECTOR, HDFC LIMITED
MR. CONRAD D'SOUZA -- MEMBER OF EXECUTIVE MANAGEMENT AND CHIEF INVESTOR RELATIONS OFFICER, HDFC LIMITED
MS. ANJALEE TARAPORE -- GENERAL MANAGER, HDFC LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to HDFC Limited Q1 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded. We have with us HDFC's Vice Chairman and CEO, Mr. Keki M. Mistry; Managing Director, Ms. Renu Sud Karnad; Executive Director, Mr. V.S. Rangan; member of Executive Management and Chief Investor Relations Officer, Mr. Conrad D'Souza; and General Manager, Ms. Anjalee Tarapore. I now hand the conference over to Mr. Keki M. Mistry. Thank you, and over to you, sir.

Keki Mistry: Good Afternoon Everyone.

At the outset, I would like to welcome all of you to HDFC's earnings call for the first quarter of the current financial year.

The Board of Directors at its meeting held earlier today approved the financial results for the quarter ended June 30, 2022, which were subjected to a limited review.

Let me start with outlining a few developments in the economy over the last three months which have a bearing on the

The Monetary Policy Committee at its meetings held in May 2022 and June 2022 respectively increased the policy repo rate by an aggregate of 90 basis points, mainly on account of the uncertainty in the inflation trajectory. As a result, there has been an uptick in interest rates consequent to which we have increased deposit rates as well as rates on loan products.

As we will discuss later the interest rate actions have had a short term impact on both Net Interest Income

In July 2022, the RBI increased the limit of External Commercial Borrowings under the automatic route from US$ 750 million to US$ 1.5 billion per financial year. We are in the process of raising funds under this window of about US $ 1 .1 billion.

The momentum in the economy was very strong through the quarter and is reflected in a sharp pick up in individual loan disbursements and a 19 percent growth in the individual loan book which is the highest in the last 32 quarters. Similarly, collection efficiency has continued to improve with over 99 percent collection efficiency during the quarter.

Over the next few minutes I will give you a summary of the key highlights of the performance for the quarter.

Let me start by quickly summarising the progress of our business through the quarter.

Our individual loans approvals for the quarter ended June 30, 2022, were higher by 60 percent compared to the corresponding quarter in the previous year.

For the quarter ended June 30, 2022, individual loan disbursements grew by 66 percent over the corresponding quarter in the previous year.

Disbursements in Q1 were the highest ever disbursements in the first quarter of any financial year - over 60 percent higher than the previous best.

Housing disbursements constituted 93 percent of individual disbursements in the first quarter of FY23.

Growth in home loans was seen in the affordable housing segment as well as in the middle and high income groups.

92 percent of new loan applications were received through digital channels.

During the first quarter, we sold individual loans aggregating to Rs 9,533 crores.

The individual loans sold during the last 12 months amounted to Rs 32,499 crores.

These loans were assigned to HDFC Bank pursuant to the mortgage sharing agreement with the Bank.

Individual loan book growth on an AUM basis was 19 percent. If the loans amounting to Rs 32,499 crores had not been sold during the preceding 12 months, then the growth in the individual loan book would have been 28 percent.

This is the highest percentage growth in the individual loan AUM in nearly 8 years.

Our individual loan book increased to Rs 4,47,402 crores - a growth of 19 percent over the previous year. In addition to this, the individual loans sold by the Corporation and outstanding as on June 30, 2022 amounted to Rs 88,856 crores. HDFC continues to service these loans. Individual loans outstanding on an AUM basis amounted to Rs 5,36,258 crores.

As at June 30, 2022 our non-individual loan book grew by 8 percent on an AUM basis compared to the previous year.

Whilst we continue to have a healthy pipeline of non-individual business, over the last twelve months we have also seen repayments/prepayments of earlier facilities and resolution of some stressed assets and this has resulted in a lower growth in the non-individual segment.

We currently have a good pipeline of construction finance loans as well as in the lease rental discounting segment and we expect non- individual AUM growth to accelerate in the coming quarters.

The overall loan book is now Rs 5,81,040 crores - a growth of 16 per cent.

The total Assets Under Management (AUM) as at June 30, 2022 amounted to Rs 6,71,364 crores as compared to Rs 5,74,136 crores in the previous year - a growth of 17 percent.

If no loans had been sold during the preceding 12 months, then the growth in the total loan book would have been 23 percent.

Prepayments on retail loans, on an annualised basis, amounted to 10.2 percent of the opening loan book.

The average size of individual loans for the quarter ended June 30, 2022 stood at Rs 35.7 lacs as compared to Rs 33.1 lacs in FY22.

The contribution, in value terms, from the Higher Income Group - defined as customers with an annual family income of Rs 18 lacs or more has increased during the year to 50 percent from 45 percent during the corresponding quarter in the previous year.

Our thrust on affordable housing loans continued.

During the quarter ended June 30, 2022, 23 percent of home loans approved in terms of number of customers and 10 percent in value terms were to customers from the Economically Weaker Section (EWS) and the Low Income Groups (LIG).

The average home loan to customers in the EWS segment amounted to Rs 11.1 lacs and to customers in the LIG segment amounted to Rs 19.7 lacs.

If we break up the loan book outstanding on June 30, 2022 on an AUM basis into different categories then individual loans constituted 79 percent of the total loan book, the same as compared to the previous year.

Construction finance constituted 9 percent, of the total loan book, Lease rental discounting loans constituted 7 percent of the total loan book while corporate loans constituted 5 percent.

If you were to look at the incremental loan book growth, then for the quarter ended June 30, 2022, the entire growth is from individual loans.

However, we expect the proportion of individual to non-individual AUM to normalise in the next few quarters.

97 percent of the loans were sourced through distribution channels - however this is largely through HDFC Sales, a 100 percent subsidiary of HDFC Limited as well as through HDFC Bank.

HDFC Sales accounted for 50 percent of the loans sourced, while HDFC Bank accounted for 30 percent. Third Party DSAs accounted for 17 percent.

Thus, 83 percent of HDFC's individual business was sourced directly or through our associates.

The Emergency Credit Line Guarantee Scheme (ECLGS) was extended to mitigate the economic distress caused by the COVID pandemic.

Under ECLGS 1, 2 and 3, the Corporation has approved an aggregate amount of Rs 2,217 crores of which 80 percent i.e. Rs 1,764 crores had been disbursed till June 2022. Amounts disbursed under this facility are guaranteed by the Central Government.

The Reserve Bank of India permitted a one-time restructuring of loans under its resolution for COVID-19 related stress.

As at June 30, 2022 the outstanding loans under OTR 1 and OTR 2 amount to Rs 4,410 crores which is equivalent to 0.77 percent of the loan book - as compared to a peak of 1.4 percent in September 2021.

98 percent of the OTR loans are in the individual loan book.

The overall collection efficiency for individual loans has continued to improve and is now better than pre-Covid levels. The average collection efficiency for individual loans on a cumulative basis over the last quarter is over 99 percent.

RBI had on November 12, 2021 issued guidelines on harmonising NPAs across the financial system. Subsequently, RBI had deferred the effective date of the applicability of these guidelines to September 2022.

The Corporation, however, has continued to report NPAs for the quarter ended June 30, 2022 in accordance with the revised RBI circular of November 12, 2021.

There has been a significant improvement in asset quality over the last 12 months.

To facilitate comparison on a like to like basis, we have compared the Non Performing Assets based on the old method of computation.

As of June 30, 2022, calculated under the old norms, Gross Non-performing individual loans stood at 0.75 percent (down from 1.37 percent in June 21) - which is a 62 basis points reduction or a 45 percent improvement in percentage terms.

The overall gross performing loans stood at 1.61 percent (down from 2.24 percent in June 21). This amounts to a 63 basis points reduction or a 28 percent improvement in percentage terms.

Let me now come to Non Performing Assets calculated as per the revised RBI norms.

As of June 30, 2022, calculated under the new norms, Gross Non-performing individual loans stood at 0.98 percent - down from 1.44 percent in December 21.

Similarly, gross non-performing non-individual loans stood at 4.44 percent, down from 5.04 percent in December 21. December 21 was the first quarter when we were required to report NPAs under the new norms brought in by RBI.

As per the new regulatory norms, the gross non-performing loans as at June 30, 2022 stood at Rs 10,288 crores. This is equivalent to 1.78 percent of the loan portfolio (down from 2.32 percent in December 21).

As at June 30, 2022, the Corporation carried a provision of Rs 13,328 crores.

Under Ind AS accounting, both asset classification and provisioning have moved from the incurred loss model to the Expected Credit Loss model for providing for future credit losses.

Based on the model, the total EAD of Rs 5,79,988 crores is broken up as under :

Stage 1	93.5 percent
Stage 2	4.4 percent
Stage 3	2.1 percent

We have seen a 2.7 percentage point reduction in the aggregate of Stage 2 and Stage 3 assets from 9.2 percent in June 2021 to 6.5 percent of the Exposure At Default as of June 2022.

During the quarter, we have charged the Profit and Loss Account with a sum of Rs 514 crores towards provisioning.

The ECL to EAD Coverage ratio for Stage 2 assets is 23 percent and for Stage 3 is 53 percent.

The provisions carried as a percentage of the EAD amounted to 2.30 percent.

Annualised credit cost for Q1 was 33 basis points compared to 50 basis points during Q1 in the previous year.

As stated in our earlier earnings calls, as asset quality related issues get resolved, we should over the next few quarters be in a position to further normalise the credit costs to pre COVID levels. This in turn will have a positive impact on the Return on Equity.

We continue to hold all our investments in HDFC Bank, HDFC Life, HDFC Asset Management and all our other subsidiary and associate companies at the original cost of acquisition, which is the price we had paid whilst making those investments. These investments are not accounted for on a fair value basis.

If we were to mark to market the listed investments as at June 30, 2022 the unrealised gains, (which is the difference between the market price as on June 30, 2022 and the carrying cost), would be Rs 2,17,223 crores.

This unrecognised gain is not part of our net worth, nor has it been considered in our capital adequacy calculations.

Our capital adequacy ratio on June 30, 2022 stood at 21.9 percent of which Tier I capital is 21.4 percent and Tier II capital 0.5 percent. The capital adequacy is well above the regulatory requirement.

Dividend at Rs 30 per equity share for FY22 was approved by the shareholders at the AGM held on June 30, 2022 and has been accounted for in the first quarter.

At this stage it is important to talk about the Return on Equity.

Under the IndAS accounting requirement, Net Worth includes certain items which do not form part of Tier I capital under the prudential regulations.

These include -

1] IndAs Transition Reserve
2] Deferred Tax Liability on Special Reserve
3] Fair value gains on investments through OCI
4] Investments in Subsidiaries and Associates in excess of 10 percent of NOF
5] Securitisation gains recognised upfront in accordance with IndAS requirement

These items aggregate to Rs 19,886 crores. Hence, Tier I Capital is Rs 98,455 crores as against the Reported Net Worth in June 2022 of Rs 1,18,341 crores.

A more appropriate way of calculating the ROE would therefore be on Regulatory Tier I Capital as against the conventional method of computing it on total Net Worth.

Annualised ROE based on Tier I Capital for the quarter ended June 30, 2022 is 15 percent.

As at June 30, 2022 the Corporation's total borrowings amounted to Rs 5,17,452 crores.

Term loans including External Commercial Borrowings of USD 1.6 billion equivalent and Refinance from the National Housing Bank accounted for 26 percent of borrowings.

Market borrowings i.e. NCDs and Commercial Paper accounted for 41 percent of the borrowings.

Deposits as at the quarter end amounted to Rs 1,70,823 crores and constitute 33 percent of the borrowings.

Further to RBI increasing the limit of External Commercial Borrowings under the automatic route, the Corporation is in the process of raising a three year External Commercial Borrowing for on-lending for affordable housing and the facility will also align with some of the Sustainable Development Goals. Further details will be intimated shortly, but the expected all-in cost on a fully hedged basis will be comparable with domestic borrowing rates for a similar tenor. Our immediate plan is to raise an amount of US $ 1.1 billion.

I will now move to the Statement of Profit and Loss Account.

The first quarter has seen a somewhat volatile interest rate environment and therefore some of the numbers of the current year are not strictly comparable with the previous year

Firstly, as mentioned earlier NII and NIM were impacted by the mid-month increase in the repo rates in both May and June and the transmission lag between the increase in borrowing costs and the increase in lending rates.

Secondly, as a result of volatile equity markets the gain on fair value of investments through the profit and loss account was just Rs 8 crores in this quarter as compared to Rs 402 crore in the first quarter of the previous year.

Thirdly, the expense ratios are higher as we incurred expenses upfront on staffing, loan processing and branching to meet the significant increase in demand for housing loans. There was also an increase in legal expenses during the quarter as we saw an increase in business as well as resolution of some stressed assets. Needless to add, whilst these expenses have been incurred upfront the benefit of the expenses incurred will accrue over the next few quarters.

On the positive side, it is important to note that credit costs are lower than the credit costs in the corresponding quarter in the previous year as a result of improved asset quality.

Dividend in the first quarter is higher than the first quarter of the previous year primarily on account of dividend received from group companies. Dividend from HDFC Bank will be received in the second quarter.

Before I get to the Net Interest Income let me detail issues which have had an impact on the NII.

1] In the first quarter of FY23 we have had rate actions which have had an immediate impact on borrowing costs, which in turn, have not been simultaneous with the transmission of rates on the asset side.

2] Secondly, in the first quarter of the previous year there was a disruption in the business activity as a result of the second wave. As a result of ample liquidity in the system during quarter 1 of last year, the Overnight Interest Swap (OIS) rate on which some swaps are benchmarked delinked from the reverse repo rate and was lower by upto 40 basis points during that quarter. This led to us benefitting from the lower swap rates which resulted in an expansion in NIM to 3.7 percent during the first quarter of the previous year. At that stage itself we had categorically indicated that this level of NIM was not sustainable. This delinking corrected in the latter half of last year

3] Thirdly, in May 2022 RBI increased the repo rate by 40 basis points and there was a further increase of 50 basis points in the repo rate in June 2022 making it an aggregate of 90 basis points during the quarter.

As you as aware each individual loan has a quarterly reset mechanism and is based on the original month in which the loan is disbursed. Thus, in the event of any interest rate change the entire loan portfolio reprices over a three month period i.e. roughly one-third of the portfolio each month.

Thus, whilst we have had an almost immediate impact on borrowing costs, the lending portfolio will reprice over a quarter.

This transmission lag has had a material impact on the NII growth for this quarter. As we have passed on the increase in rates by increasing our PLRs by 90 basis points there was a short-term impact on NII growth during the quarter. This should be regularised over the next few months.

We have since revised the reset norms for our incremental individual loans from a quarterly cycle to a monthly cycle to reduce the impact of transmission of rate changes. This should minimise the risk of transmission in the event of any future rate hikes for new loans

4] Lastly, the proportion of the retail loan book has increased to 79 percent over the last few quarters.

Net interest Income (NII) purely on the basis of interest without taking cognisance of the profit on sale of loans during the quarter ended June 30, 2022 amounted to Rs 4,447 crores compared to Rs 4,125 crores in the corresponding quarter of previous year - a growth of 8 percent.

If we adjust for the one time impact of the transmission lag in passing on the rate hikes to the customers as well as the impact of the swap benefits in the previous year, the NII growth would have been 16 percent.

Net Interest Margin for the quarter ended June 30, 2022 stood at 3.4 percent.

The spread on loans over the cost of borrowings for the quarter ended June 30, 2022 was 2.25 percent. The spread on the individual loan book was 1.91 percent and on the non-individual book was 3.45 percent.

The spread on loans during the first quarter of the previous year was 2.29 percent.

Income earned from Deployment of surplus funds in Cash Management Schemes of Mutual Funds and Government Securities was much lower at Rs 39 crores as compared to Rs 124 crores in the 1st quarter of the previous year.

This was due to average level invested this year in liquid funds at Rs 3,900 crores as compared to Rs 15,500 crores in the corresponding period of the previous year.

With introduction of the Liquidity Coverage Ratio (LCR) in December 2021 the Corporations liquidity is largely held in Government Securities. The Government Securities holding as at June 30, 2022 is around Rs 36,000 crores.

The average level of liquidity held during the quarter was Rs 40,000 crores as compared to Rs 38,000 crores in the first quarter of the previous year.

There was a profit of Rs 184 crores on sale of investments during the first quarter compared to Rs 263 crores in the first quarter of last year. This was on account of the Corporation’s 10 percent stake sale in HDFC Capital Advisors.

The profit on sale of investments in the 1st quarter of the previous year was on account of divestment of a small part of our stake in HDFC Ergo and the entire stake in Good Host Spaces, which was an associate company.

Dividend received during the quarter was Rs 687 crores during the first quarter compared to Rs 16 crores in the first quarter of last year.

Dividend during the year was received predominantly from our group companies - HDFC Asset Management, HDFC Life, HDFC Sales and HDFC Credila.

Dividend from HDFC Bank was received in July 2022 and will be accounted in Quarter 2 of the current year.

During the quarter ended June 30, 2022, for investments classified as Fair Value Through Profit and Loss Account (FVTPL), the Net Gain on Fair Value Changes stood at only Rs 8 crores, much lower as compared to Rs 402 crores in the corresponding quarter of the previous year.

This is largely on account of the volatility in the equity markets during the quarter.

Under IndAs Accounting Standards, the stock options granted to employees are measured at the fair value of the options on the date of grant.

This fair value is accounted for as employee compensation cost over the vesting period of the options.

Accordingly, Employee Benefit Expenses for the quarter includes an amount of Rs 76 crores compared to Rs 146 crores during the first quarter of the previous year. The current year's charge includes an amount of Rs 18 crores pertaining to ESOPs granted in the first quarter.

For the quarter ending June 30, 2022, the cost income ratio stood at 9.5 percent.

The cost income ratio was higher during the quarter as a result of the increased retail business over the last six months, as well as the increase in the branch network. The benefits of these cost increases will be derived over the next few quarters.

Increased legal costs also contributed to the increase in the cost income ratio.

We expect the cost income ratio to remain in single digits for the year.

For the quarter ended June 30, 2022 the standalone profit before tax was Rs 4,590 crores (compared to Rs 3,905 crores in the 1st quarter of the previous year) a growth of 17.5 percent.

Tax provision during the first quarter amounted to Rs 921 crores compared to Rs 904 crores in the 1st quarter of the previous year.

The tax rate for the quarter was 20.1 percent - compared to 23.1 percent in the corresponding quarter of last year.

The tax rate is lower than the previous year as dividend earned from group companies is setoff against dividend paid by the Corporation and hence the dividend income is tax free.

The standalone profit after tax for the 1st quarter stood at Rs 3,669 crores, compared to Rs 3,001 crores in the 1st quarter of the previous year, resulting in a growth of 22.3 percent.

Pre Tax return on average assets was 2.9 percent. The post tax return on average assets was 2.3 percent.

The basic and diluted EPS (on a face value of Rs 2 per share) was Rs 20.2 and Rs 20.1 respectively.

The consolidated profit before tax for the 1st quarter stood at Rs 6,544 crores as compared to Rs 6,295 crores last year.

After providing Rs 970 crores for tax (Q1FY22 Rs 984 crores), the consolidated profit after tax for the 1st quarter stood at Rs 5,574 crores as compared to Rs 5,311 crores.

The profit attributable to the Corporation was Rs 5,308 crores as compared to Rs 5,041 crores in the corresponding quarter.

As at June 30, 2022 the Corporation had 3,766 employees.

Total assets per employee stood at Rs 169 crores. (compared to Rs 164 crores in the corresponding period of the previous year).

Annualised Net profit per employee was Rs 3.9 crores compared to Rs 3.6 crore during the first quarter of the previous year.

Let me now spend a few minutes to give you an update on the merger.

As you are aware on April 4, 2022, the Board of Directors of HDFC Limited and HDFC Bank Limited approved a composite scheme of amalgamation of HDFC with HDFC Bank, subject to requisite approvals from various regulatory and statutory authorities, respective shareholders and creditors.

Upon the Scheme becoming effective, the subsidiaries / associates of the Corporation would become subsidiaries / associates of HDFC Bank.

HDFC Bank will then be 100 percent owned by public shareholders and existing shareholders of HDFC will own 41 percent of HDFC Bank.

Both the stock exchanges, NSE & BSE, Pension Fund Regulatory and Development Authority and RBI have accorded "no objection" for the merger. The application has been made to the CCI and we are awaiting approvals.

The Board at its meeting held today approved the investment of an amount not exceeding Rs 2,000 crore in the preferential issue of equity shares to be made by HDFC Life Insurance Company Limited.

HDFC's distribution network spans 695 outlets which include 214 offices of HDFC's wholly owned distribution company, HDFC Sales Private Limited. HDFC covers additional locations through its outreach programmes.

We continue to engage deeply with all our stake holders on ESG.

Our disclosures and reports are on our website.

The Business Responsibility and Sustainability Report (BRSR) was laid out by SEBI, which will be a mandatory requirement from FY23. On a voluntary basis, the Corporation has prepared the BRSR for FY22 and the same is hosted on our website. The Integrated Report for the year ending March 2022 has also been released and hosted on our website.

For further information on ESG related queries you may engage with our Investor Relations team Anjalee and Conrad.

During the period, the Corporation's Corporate Social Responsibility activities focused primarily on COVID-19 relief, Healthcare Sanitation, Education and Livelihoods.

Additionally, our support for the especially abled cut across all our focus areas.

CSR activities were conducted either directly or through the H T Parekh Foundation. The CSR spend during the quarter was Rs 55 crores.

The above are some of the highlights of the results for the quarter ended June 30, 2022.

Before I conclude, I would like to wish each one of you good health and all the very best. Please stay safe.

We may now proceed to Q&A. I would request you to kindly introduce yourself and be brief with your questions.

Moderator: We will now begin the question and answer session. First question is from the line of Suresh Ganapathy from Macquarie Capital. Please go ahead.

Suresh Ganapathy: I just had a question on this life insurance stake increase. Now what is the logic of going up just by 1%? I understand HDFC Life just wanted Rs. 2,000 crore. But can you not take it to 50%? Or have you discussed with RBI that you can take it to 50%. Just some contours of the deal would be great.

Keki Mistry: All right. So, I'll tell you quickly. HDFC Life's solvency ratio had come down to about 176% as a result of the merger with Exide Life. Consequent to that, it was necessary for them to raise additional capital. And therefore, the idea was to take the solvency ratio to about 210%. And this Rs. 2,000 crore will take it up to 210%.

Suresh Ganapathy: I mean, is there any communication from the RBI? Can you hold 50%? Why can't you put another 1% and take it to 50%? Because it then really doesn't, I mean, face your problem of asking for increase of the stake. Is it right to do that?

Keki Mistry: So, Suresh, when we announced the merger, at that time, we had said that we would like our stake in the insurance company to go up to over 50%. But that said, we're still awaiting detailed guidelines and what the RBI would like us to do. So, if we were to do any further stake increase, it will obviously be with the knowledge and comfort of the regulators. This was necessarily as a result of the reduction in the solvency ratio of HDFC Life.

Suresh Ganapathy: And it doesn't require any approval from any regulatory authorities, right?

Keki Mistry: We probably should talk to the IRDA. We've already sent a letter to RBI. But this is more a regulatory requirement. So, it was the regulatory requirement to increase the capital and promoter stake.

Suresh Ganapathy: And the second aspect is on margins. Of course, it's come down a bit because of the interest rate resets, and of course, the increase in cost that you're talking about. But now with the likely resets going to happen over the course of next coming quarters, can you see these margins inching up from the current 3.4% levels and have a better NII growth?

Keki Mistry: I would certainly expect the NII growth to go higher as the quarters progress. I mentioned that in my opening remarks also. The NII growth was impacted largely because of specific events which happened during the quarter. And if you adjust for the transmission time lag and the higher base in the previous year, then the actual growth in the NII would have been 16%. And Conrad can give you those calculations, 16%, which is in line with the growth in the AUM. So, we would certainly expect the NII numbers to normalize in the coming quarters. .

Suresh Ganapathy: And what about the non-individual -- yes, sorry. Sorry, go ahead, Keki.

Keki Mistry: NII goes up, means logically, even the net interest margin should show some increase. But historically, as you would be aware, our net interest margin in earlier years used to be in the 3.3% to 3.4% range.

Suresh Ganapathy: And the final question on the non-individual book growth. Of course, it's gone up from a 9% decline about a year ago. I mean, with the pipeline and everything which is there, which you talked about, you guys are okay driving this growth, say, to double digits. Of course, no specific guidance that we're asking for. But you're confident of driving this growth even ahead of the merger?

Keki Mistry: I would expect the growth numbers to go up. It's been a little low in this first quarter. If you actually see the absolute amount of non-individual loans, is lower by about Rs. 3,000 crores compared to where we were in March. That is because of resolution of cases and also because of scheduled repayments which have happened in a few cases. But yes, we have a decent pipeline. We would certainly expect this number to rise. I would say, a double-digit growth is something which is very much on the cards as the year progresses.

Moderator: Next question is from the line of Mahrukh Adajania from Edelweiss Financial Services. Please go ahead.

Mahrukh Adajania: My first question is, could you please quantify the disbursements during the quarter?

Keki Mistry: The disbursements during the quarter were a little over Rs. 42,000 crores.

Mahrukh Adajania: Individual?

Keki Mistry: Individuals, yes.

Mahrukh Adajania: And the quantum on GSEC, so I heard liquidity was Rs. 40,000 crores, but the quantum of GSECs would we what?

Keki Mistry: GSEC was about Rs. 36,000-odd crores roughly, on an average.

Mahrukh Adajania: And I just had a question on the merger. So, basically, when the merger happens, how much of HDFC's book does not qualify for a bank's book?

Keki Mistry: Not very significant at all. Almost everything that we do is something the bank can also do. There may be just with 1 or 2 small, we do like, for example, if there is a loan with shares or something like that, then that would not qualify in the bank. But that for us is a very, very small amount.

Mahrukh Adajania: So, it'll be like less than 1% to 2% of the total loans.

Keki Mistry: I would say it would be less. Yes, I think it would be less than 1% to 2%.

Moderator: Next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Now firstly with respect to this repricing, just taking the question forward. So, in terms of the rates, it's fair to assume that we would have also passed on 90-odd basis points looking at the increase which has been there.

Keki Mistry: I mentioned that whatever has been the rate increased by RBI has been fully passed on to consumers. But the effect of those rates comes through over a period of 3 months, as you are aware, in the agreement.

Kunal Shah: So, when we have to fairly look at it in terms of the repricing, okay, because I think on the non-individual side, we have already increased the rates earlier as well. So, if I have to look on the overall pool, okay, how much would get repriced over maybe a month? And maybe you said like you have moved it to monthly reset as well to benefit, say, from this transmission. So, how much of the overall book would get repriced? And would it be fair to assume that, on the borrowing side, given the way MCLR hikes have been and particularly for our deposit high hikes have been, that would be relatively lower than the rates which we have increased on the lending side.

Keki Mistry: Well, first of all, the rates that we have increased on the lending side is equivalent to the increase in the interest rates in the system by RBI. We've increased our, we call it retail prime lending rate, we've increased that by 90 basis points. Now when we increase the rate, the customer's rate gets repriced every 3 months. You must be aware of that. So, it's not that supposing we reprice the loan, let's say, in the month of June, and a customer has taken a loan, let's say, hypothetically, in the month of May, then this loan will only get reset 3 months from May, which means it will get reset in August. So, even though we would have increased the interest rates in June, this particular customer loan will get reset in August. So, to answer your question, 100% of the book will get repriced over a period of 3 months. Now incrementally, going forward, for new loans, what we've done is we have reduced the period from 3 months to 1 month.

Kunal Shah: So, that's only on the incremental loans. And is it fair to assume that the borrowing side increase would be relatively lower, apart from maybe the bond market borrowing, but if I were to look at it on the bank borrowing and the deposits.

Keki Mistry: See, over a period of time, interest rates have been so volatile that for me to give you a number on where the interest rates are, it just changes literally every second or third day because with the Fed now raising rates by 75 basis points, as you know, our bond markets have rallied. And there has been a general belief that hikes will not be as significant as they were earlier expected. So, a combination of all of this is that it's a little difficult to sort of predict where the interest rate rises would sort of end up. But yes, logically, you're right. Deposits, whilst we increased rates, the rate hikes will be almost similar or a little less than the rate increase on the lending side.

Kunal Shah: And on restructuring, so restructuring book still seems to be flat. So, I just wanted to understand, is it like regular because you mentioned 98% is also individual within this. So, are there repayments which are coming through? But somehow, I think last quarter also, it was 0.8. This quarter, it is 0.77. And when do we see the repayments coming through for this entire restructured loan?

Keki Mistry: So, Kunal, to make you understand, the repayments are coming every day. So, what is happening is that the 0.8 will come to a lower number as the loan gets fully paid off. So, loan is not necessarily going to get fully paid off. Unless it gets prepaid, that number would not necessarily come down, even though the payments are on track. So, when I talk of this 99%-plus collection efficiency on a cumulative basis, it obviously takes into account all the restructured loans.

Kunal Shah: On principal moratorium, so once that's over, you will get some payment towards the principal as well, and we should see that proportion coming down, yes?

Conrad D'Souza: So, Kunal, we do report it. And I think if you look at the March numbers, and I think, again, it will be there in the September results, you will see what proportion of this portfolio has slipped into NPA. But the number is very, very low. So, which means money is coming as per the restructured payment plan.

Keki Mistry: And also, the borrower is making the payment for the EMI. The borrower is paying with EMI, monthly instalment, which has a principal component.

Kunal Shah: So, the question was maybe when should we actually see it coming off a bit? I will take it off-line from Conrad as well. And a couple of data points, so, one is now, where do we stand in terms of LCR?

Keki Mistry: We are at 71%.

Keki Mistry: The regulatory requirement however is lesser. The regulatory requirements at this point of time stands at 60%. So, we are about 11% higher than what is required by regulations.

Kunal Shah: And last quarter, it was 80%?

Conrad D'Souza: Yes. Kunal, this percentage changes on a daily basis depending on maturities. It's a rolling 30 days. So, it will never be a static number. But the average for this quarter has been 71%. On certain days, it could be 80%. The 80% which was reported would have been the number as of 31st of March.

Kunal Shah: And any write-offs during the quarter, quantum of write-offs?

Keki Mistry: I mean there would be some usual write-offs which should have happened. I think it's about Rs. 400-odd crores, which is normal which we've done also from a prudential sort of standpoint.

Moderator: Next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Sir, 2 questions from my end. One is, in the opening remarks, you had given a number that about 30% of the loans were sourced from associates. So, can you give us a sense of how many of the 6,500-odd branches that HDFC Bank has would have contributed loan origination?

Keki Mistry: HDFC banking accounted for 30% of the business that was done during this period. They have about 6,500 plus branches as of March. And they would be sourcing loans from at the moment from less than 2,000 branches. I wouldn't have the exact number, but I would say it's closer to about 1,800 or something in that range.

Anand Bhavnani: So, historically, what have been the reasons that we have not used the full extent of their on-ground presence?

Keki Mistry: There are 2 reasons which we've talked about in the past also when we talked about the merger, which you may be aware of. We had said that we would like to do loans only from locations where we have a nearby HDFC office. Because at the end of the day, the credit appraisal, the legal processes, the technical processes all have to be seen by HDFC. So, that's why we did not source loans from other locations. Also, in a way, we want to sort of keep some sort of limit on the total amount of business that just the bank could generate. But now after the merger is completed, there will obviously be no such requirement. The entire 6,500-plus branches of the bank will start sourcing housing loans for us. Also, I think HDFC Bank has put it on record that they have about 68 million customers. And out of 68 million customers, just about 8% have taken housing loan. And only 2% have taken housing loans from HDFC. So, therefore, there's ability to sell to this vast pool of customers who have not taken loans.

Anand Bhavnani: Second, sir, is accounting query. I see there is other comprehensive income. Can you give us some colour on that? It's quite a sizable number.

Keki Mistry: Rangan, you want to answer that? It will be largely the mark-to-market investments. So, there would have been some appreciation in the value of probably Bandhan Bank or something like that, which would have contributed to the higher other comprehensive.

Anand Bhavnani: No, sir. It's negative figure. Actually it's 469 negative.

Keki Mistry: So, it would contribute to the lower or other comprehensive income. This is a figure which is not in our control. It is market determined. So, all our investments in -- most investments other than the investment in things like RBL Bank, or our investment in CAMS, most of our other investments are through the OCI route. So, market price of shares will go up and down quarter-by-quarter. Some quarters may be higher, some quarters may be very lower. So, this is only a reflection of that, nothing else. It's market price related. You will also see that there are certain investments, like CAMS and RBL Bank, where we take the mark-to-market gain or loss to the profit and loss account. And there, as I mentioned earlier, against a gain of over Rs. 400 crores last year's first quarter, this year's gain has been only Rs. 8 crores. And this is because of the volatility that you see in equity market. The next quarter, this number could be higher or lower, we don't know. Based on the way markets have been over the last few days, if that trend continues, obviously, it will be a lot higher.

Anand Bhavnani: And sir, in terms of preparation for merger, any colour that you can give us?

Keki Mistry: I've already updated you on the process that we'll follow. Then the approvals viz, the Competition Commission approval, Competition Commission we've applied. We hope to get the approval soon.

Anand Bhavnani: And in terms of operations, currently, have we changed anything on ground operations?

Keki Mistry: At the moment, nothing. We continue to do businesses as usual.

Moderator: The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Sir, 2 questions. First is, with respect to the merger, in preparation of the merger, do we plan to make any changes to our liability mix before the merger so that the transition is smoother? And if yes, what would be that be and how it will impact our cost of funds? And secondly, on HDFC Life, sir, is there any clarity that after the merger, how the regulator will look at our stake in HDFC Life, which has been less than 50%? And are there plans to increase the stake to more than 50%, which will take away the supply overhang, which the stock may have?

Keki Mistry: Yes. I had mentioned this in response to a question, which I think Suresh Ganapathy had asked that why don't we increase our stake to 50%. The reason is today the Rs. 2,000 crores of capital we plan to put into the insurance company is largely a result fact that from a regulatory standpoint, their solvency margin has come down. And we would like that number to go up closer to 210%, which is why we are putting in Rs. 2,000 crores. We have not yet got any confirmation from RBI whether we can take our stake up to 50%, but that has always been our request.

Nidhesh Jain: But I think you have to a stake more than 50%, right? Probably close to 50% and 52%.

Keki Mistry: Our request to RBI is to take it up towards 50%. We have mentioned this in the call after the merger announcement.

Nidhesh Jain: And sir, any adjustment to the liability profile before the merger?

Keki Mistry: Very honestly, nothing significant. We are -- I mean, the mix of liabilities has broadly remained the same, whether you are looking at 31st March or you are looking at 30th June. Broadly, there would not be much change. But as I said, we are looking at this external commercial borrowing of USD 1.1 billion, which was not there in the last couple of years, because last 2 years, because of COVID, there was no way to access the international markets. But that has nothing to do with the merger. That's nothing to do with the merger.

Moderator: Next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: The question is on your ECL coverage on Stage 1 and Stage 2 loans. You have seen north of 1%, well above 1%. I think it's almost 3, 4 quarters now that the real estate cycle has turned around. So, somewhere we have much more comfort on what's happening to the asset quality or what can happen to the asset quality hereon. So, when would you kind of either renew some of these provisions or probably write off, some of the loans where you think that there is going to be genuine stress.

Keki Mistry: So, it's something we keep reviewing all the time. But we would always like to have a provision level which is higher than what is the regulation. But having said that, as I mentioned earlier, the credit cost, which is effectively charged to the P&L account plus the write-offs, has come down from about 50 basis points in the first quarter of last year on an annualized basis to about 33 basis points in the first quarter of the current year. But this 33 and 50, you must understand is annualized.

Moderator: Next question is from the line of Adarsh from CLSA. Please go ahead.

Adarsh Parasrampuria: Sir, this is a follow-up on that liability question. Just thinking, while the things have been static in the last few months, as you get more and more regulatory approvals in certain of the merger, would you intend to like increase the duration of some of the borrowings, given that the merged entity, the bank, would really -- even if there is a grandfathering, it just releases the pressure. So, I'm just trying to understand that, as you get into the merger for the next 12, 18 months, will you aim to increase duration, and that could cost money because longer-dated paper would cost more money?

Keki Mistry: Yes. But you must also understand, Adarsh, even when you raise long-term money, you swap it into current rates because all our loans are floating rate loans. So, whether you're doing 10-year borrowing or you are doing, theoretically, 1-year borrowing, your floating rate cost is not going to be very different. But yes, there would be a conscious attempt to try and see if we can increase the duration of our liabilities as we move into our banking structure. But obviously, it has to be something which has to make sense. Rangan, if you're there, can you add anything? All right. Let's carry on.

Adarsh Parasrampuria: So, I understand the swap, but you're saying that most likely, it should not affect margins in the interim period because you'll swap it?

Keki Mistry: It would not. I mean we don't need fixed rate funding for long term. We need floating rate funding. So, whilst we can extend the duration of our loan, it will not add to an increase in the borrowing cost.

Moderator: Next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: There are just 2 questions, again, kind of going back to the transmission. I think that you kind of explained the transmission of higher borrowing costs by increasing lending rates. So, from what I understood, if it is right, from the back book, I mean, individual retail loans will kind of get repriced every 3 months. But on incremental lending, you have now kind of reduced the repricing sequentially from 3 months to 1 month. So, is the understanding correct that --.

Keki Mistry: 1 second, let me clarify this, please. I said 3 months, yes, 3 months, but it's not that every borrower loan will get repriced on any particular date. The repricing happens 3 months from the date they've taken the loan. So, some people's loans will get repriced in May. Someone's will get repriced in June. Someone will get repriced in July. And over a period of 3 months, the entire book gets repriced. And yes, now we have moved it incrementally where we will do it on a monthly basis. So, this works both ways. When interest rates go up, it increases your cost. When interest rates come down, it benefits.

Abhijit Tibrewal: So, I mean reduction from 3 months to 1 month we got it has been done only on the incremental lending. Does it still kind of leave you open to the transmission lag, given that there are widening expectations of another 50 to 75 basis points increase in repo rates during the course of this fiscal year on the back book?

Keki Mistry: Yes. The bulk of it has already happened. The 90 basis points rate increases happened in a very short period of time. Personally, I don't believe that you will see a similar kind of an increase in the coming quarter. It would be more sort of extended over a sort of a longer time frame. But technically, very technically speaking, you are right. Duration of housing loans is about 5 years. And if all incremental loans that would have been given from the date we have repriced, we've changed this rule which is about 3 months ago, will get repriced immediately.

Conrad D'Souza: Abhijit, if I may just add. What Keki is mentioning pertains to the retail loans. As far as the wholesale loans are concerned, they do get repriced on a monthly basis even now.

Keki Mistry: Sorry. I should have mentioned that.

Abhijit Tibrewal: And second question that I have is, I mean, right now, I mean, where interest rates are rising, and you're increasing the lending rates, I mean is the first thing that we do is kind of try to extend the tenure of the loan, to the extent permissible, maybe maximum tenure of 30 years, maximum age perhaps of 60 years for an individual. Is that the first thing that we do? Or are we kind of also increasing the **EMIs**? And maybe a related question to this is, I mean, let's say, if there is another 50 to 75 basis points increase in repo rates during the course this year, and consequently, if they are kind of passed on through an increase in your retail PLR, can it kind of lead to higher delinquencies maybe in the second half of the year?

Keki Mistry: I can give you, based on past experience, this is not the first time that we've seen sharp increases in interest rates. We had seen sharp increases in interest rates happen in 2013, it was one example. And then there are many more where I can't really recall the year. What happens is whilst the housing loan on an average has a term of about 12 or 13 years at the time of origination, the actual duration of a housing loan is about 5 years. So, it never runs to the full 12 or 13 term as is originally fixed. There are 2 reasons for that. One is, all loans are amortizing loans. So, the moment you get your loan, you start paying back an instalment, and that instalment has got a principal component. So, with every passing month, the outstanding amount of the loan keeps declining. This is no. 1. No. 2 is the fact that people tend to prepay loan. I mentioned that in my opening remarks that we had about 10.2% of our loans prepaid ahead of schedule during the course of -- 10.2% on an annualized basis, but 10.2% is the prepayments that we saw in the first quarter annualized. Now these prepayments are not because there are full prepayments or someone refinancing these loans or anything of that sort. The bulk of these prepayments happen because people in India continue to remain reasonably debt averse. A lot of people come ahead of time and make a part prepayment of their loan to reduce the term of the loan or to reduce the amount of the loan or whatever. So, it's a very common practice. So, in this particular instance, where we've changed, initially it would be a change in the term. So, it goes up initially from, say, 5 years to, say, 5.5 years or whatever happens because of the 90 basis point increase. But in every single case, every, without exception, the loan is looked at from certain parameter. If the increase in the term is such that we are uncomfortable or if the increase in the term takes in beyond a certain extent, we will ask the customer to increase, that will make the EMI higher and getting him to pay a higher amount. This is a trend which has been going on now for the last 25 years. And we've never seen any increase in arrears as a result of the term getting up.

Abhijit Tibrewal: I mean I had a follow-up question here. So, I mean if we kind of increase the tenure, this tenure can be increased without taking explicit consent of the customer, right? I mean this tenure can be extended to keep the EMI.

Keki Mistry: Yes. All that is built into the agreement. But case by case, we would -- if we find that there is any discomfort we have, as I said earlier, because the term has gone higher or because beyond our comfort or because of whatever reason or the age of the customer, then we would just automatically increase the EMI and the customer will pay a higher amount going forward.

Moderator: I now hand the conference over to the management for closing comments.

Keki Mistry: So, I don't really have any closing comments. I've already messaged all my comments. Only thing I would say is that the NII reduction or the lower growth in the NII was largely a function of the transmission lag. And as the year progresses, this transmission lag will start sort of reducing. And as I mentioned earlier, if we were to adjust for the transmission lag and we were to adjust for the higher NIM in the previous year because of the reasons I mentioned, delinking of the reverse repo rate, then the net interest income growth would have been 16%, which is in line with the loan growth.

Moderator: Thank you very much. On behalf of HDFC Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.