HDFC
HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED
www.hdfc.com

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February 7, 2022

BSE Limited P. J. Towers, Dalal Street, Mumbai 400 001.	National Stock Exchange of India Limited Exchange Plaza, Plot No. C/1, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051.
Kind Attn: – Sr. General Manager **DCS - Listing Department**	**Kind Attn: Head - Listing**

Dear Sirs,

Sub: Disclosure under SEBI (Listing Regulations and Disclosure Requirements) Regulations, 2015

We refer to our intimation dated February 2, 2022, informing the Corporation has voluntarily uploaded the audio recording of the earnings call hosted by it on February 2, 2022 to discuss the financial results for the quarter/nine-months ended December 31, 2021, 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 being uploaded on the website of the Corporation.

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

Ajay Agarwal
Company Secretary

Encl. a/a

"HDFC Limited Q3FY22 Earnings Conference Call"

February 2, 2022

REPRESENTED BY: MR. KEKI MISTRY – VICE CHAIRMAN & CHIEF EXECUTIVE OFFICER
MS. RENU SUD KARNAD – MANAGING DIRECTOR
MR. V. S. RANGAN – EXECUTIVE DIRECTOR
MR. CONRAD D'SOUZA – MEMBER OF EXECUTIVE MANAGEMENT & CHIEF INVESTOR RELATIONS OFFICER
MS. ANJALEE TARAPORE – GENERAL MANAGER

Moderator: Ladies and gentlemen good afternoon and welcome to HDFC Limited's Q3FY22 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 touchtone 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 & Chief Investor Relations Officer - Mr. Conrad D'Souza and General Manager - Ms. Anjalee Tarapore.

I would now like to turn the conference over to Mr. Keki M. Mistry. Thank you and over to you.

Keki M. Mistry: Good Afternoon Everyone.

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

The Board of Directors at its meeting held earlier today approved the financial results for the nine months ended December 31, 2021 which were subjected to a limited review.

Over the next few minutes I will give you a summary of the key highlights of the performance for the nine months and the quarter ended December 31, 2021.

As I had mentioned in the last earnings call, business during the first quarter was partially disrupted as a result of the second wave. We however saw a sharp recovery in the second quarter. This momentum has continued through the third quarter.

The third wave in January 2022 has seen a rise in infections but with lesser severity. We have had partial disruption at some locations but we do not expect a material impact on business.

The following were the main highlights of the third quarter -

RBI has continued to ensure that there is adequate liquidity in the system and we generally had stable interest rates during the quarter. In January 2022 we have seen a slight uptick in rates. We have increased deposit rates as well as rates on our non-individual loan products.

The inflation trajectory is within the RBI's comfort zone.

RBI has on November 12, 2021 issued guidelines on harmonising NPAs across the financial system. Accordingly, NPAs for the quarter have been computed in accordance with the circular.

Liquidity Coverage Ratio (LCR) became applicable from the quarter ended December 31, 2021. This has resulted in higher levels of liquidity carried during the quarter.

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

Our individual loans approvals for the nine months ended December 31, 2021, were higher by 45 percent compared to the corresponding period in the previous year.

During the nine months ended December 31, 2021, individual loan disbursements grew by 48 percent over the corresponding period in the previous year.

It is important to note that in the 3rd quarter of the previous year we had the reduction in stamp duties in Maharashtra.

Despite this, individual loan disbursements in the 3rd quarter were 15 percent higher compared to the corresponding period in the previous year and were sequentially 5 percent higher than during the second quarter. Similarly, individual loan approvals were 20 percent higher than in the corresponding quarter of the previous year.

The month of December 2021 saw the second highest monthly individual disbursements ever.

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

89 percent of new loan applications were received through the digital channels.

Approvals and Disbursements continue to be strong in January. As at January 31, 2022 approvals and disbursements have crossed the FY21 full year numbers and are both at 105 percent of the FY21 full year levels

Retail loan applications inflow in January 2021 has continued to be strong

During the third quarter, we sold individual loans aggregating to Rs 7,468 crores.

The total loans sold during the nine months ended December 31, 2021 amounted to Rs 20,089 crores.

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

Individual loans sold in the preceding 12 months amounted to Rs 27,591 crores as compared to Rs 16,956 crores in the previous year.

Individual loan growth on an AUM basis was 16 percent. If the loans amounting to Rs 27,591 crores had not been sold during the preceding 12 months, then the growth in the individual loan book would have been 24 percent.

Our individual loan book increased to Rs 4,08,356 crores - a growth of 16 percent over the previous year. In addition to this, the loans securitised by the Corporation and outstanding as on December 31, 2021 amounted to Rs 79,748 crores. HDFC continues to service these loans. Individual loans outstanding on an AUM basis amounted to Rs 4,88,104 crores.

With regard to the non-individual portfolio, we have seen a pick up in the lease rental discounting book since June 2021.

LRDs are disbursed against ready projects with tenants in place and hence the turnaround between approval and disbursement is relatively short.

Disbursement for Construction Finance is based on progress of construction and accordingly has a longer lead time between approval and full disbursement of the facility.

We presently have a good pipeline in construction finance loans as well as in the lease rental discounting segment and as I had mentioned in the last quarter, we expect to see a positive growth in non-individual loans for the full year.

As at December 31, 2021 our non-individual loan book amounted to Rs 1,30,638 crores.

The overall loan book is now Rs 5,38,994 crores.

The total Assets Under Management (AUM) as at December 31, 2021 amounted to Rs 6,18,917 crores as compared to Rs 5,52,167 crores in the previous year - a growth of 12 percent.

Prepayments on retail loans for the current year, on an annualised basis, amounted to 10 percent of the opening loan book.

The average size of individual loans for the period ended December 31, 2021 stood at Rs 32.3 lacs as compared to Rs 28.5 lacs in the previous year.

For the third quarter the average size of individual loans amounted to Rs 33.0 lacs.

The contribution from the Higher Income Group - defined as customers with an annual family income of Rs 18 lacs or more - has increased during the first nine months to 44 percent from 40 percent during FY21.

Our thrust on affordable housing loans continued.

During the nine months ended December 31, 2021, 30 percent of home loans approved in terms of number of customers and 13 percent in value terms were to customers from the Economically Weaker Section (EWS) or 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 19.5 lacs.

If we break up the loan book outstanding on December 31, 2021 on an AUM basis into different categories then individual loans constituted 79 percent of the total loan book, as compared to 76 percent in the previous year.

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

If you were to look at the incremental loan book growth and split that growth between individuals and non-individuals, then for the quarter ended December 31, 2021, the ratio of growth in individual loans vs non-individual growth is 94:6.

For the 9 months ended December 31, 2021 the ratio of incremental growth in the loan book is 95:5.

98 percent of the loans were sourced through distribution channels - however this is largely through HDFC Sales a 100 percent subsidiary of HDFC and HDFC Bank.

HDFC Sales accounted for 52 percent of the loans sourced while HDFC Bank accounted for 28 percent. Third Party DSAs accounted for 18 percent.

Thus 82 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 second wave of the pandemic.

Under ECLGS 1, 2 and 3, the Corporation has approved an aggregate amount of Rs 2,215 crores of which 74 percent i.e Rs 1,643 crores has been disbursed by December 2021. Amounts disbursed under this facility are guaranteed by the Government.

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

In this regard, the net aggregate amount of loans for which restructuring has been implemented under both OTR 1 and OTR 2 constitutes 1.34 percent of the loan book.

64 percent of these loans are Individual loans and 36 percent are non-individual loans.

Also, out of the total restructured loans, as much as 34 percent is in respect of just one non individual account. I am happy to mention that in January 2022 we have recovered Rs 683 crores against this account and we expect the residual to be settled shortly.

Post this recovery in January 2022 the total restructured book now constitutes 1.21 percent of the loan book.

The overall collection efficiency for individual loans has further improved in the third quarter. The average collection efficiency for individual loans on a cumulative basis over the last quarter is 98.9 percent.

RBI has on November 12, 2021 issued guidelines on harmonising NPAs across the financial system.

NPAs reported for the quarter December 31, 2021 are consequently in accordance with the RBI circular.

We had earlier indicated that as a result of the revised norms the reported NPA would go higher without a material change in credit costs. As you will observe NPAs have increased in December 21 whilst credit costs have reduced during the quarter to 27 basis points on an annualised basis.

As of December 31 2021, Gross Non-performing individual loans stood at 1.44 percent while gross non-performing non-individual loans stood at 5.04 percent.

As per regulatory norms, the gross non-performing loans as at December 31, 2021 stood at Rs 12,419 crores. This is equivalent to 2.32 percent of the loan portfolio.

Out of total reported gross NPA of Rs 12,419 crores.

Rs 1,219 crores is on account of individual loans which have been reclassified as Non Performing. in accordance with the November 12 circular but are less than 90 days past due.

Similarly, in respect of the non individual portfolio an amount of Rs 1,527 crores is in respect of loans which are less than 90 days past due as of 31st December.

This accounts for 30 basis points of the individual loan portfolio and 117 basis points of the non individual loan portfolio respectively.

Therefore, against a reported NPA of 2.32 percent, 51 basis points consists of loans which are less than 90 days past due on 31st December.

As per the revised regulatory norms, and the Corporation is required to carry a total provision of Rs 7,450 crores on December 31, 2021.

As against this, the actual provision carried is Rs 13,195 crores.

The excess provision over the regulatory requirement is Rs 5,745 crores i.e. 77 percent higher than the minimum required under the regulations.

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 5,38,543 crores is broken up as under :

Stage 1	92.2 percent
Stage 2	5.1 percent
Stage 3	2.7 percent

Stage 3 includes accounts with EAD of Rs 2,795 crores which are classified as Stage 3 where loans are outstanding for less than 90 days.

Even after considering the impact of the RBI circular, we have seen a reduction in the aggregate of Stage 2 and Stage 3 assets from the peak of 9.2 percent in June 2021 to 7.8 percent of the EAD as of December 2021.

EAD and ECL for Stage 2 & 3 are lower than the levels as at June 2021 by Rs 3,953 crores and Rs 282 crores respectively. This clearly reflects an improvement in the collection efficiency as well as stabilisation of credit costs on a marginal basis.

During the quarter, we have charged the Profit and Loss Account with a sum of Rs 393 crores towards provisioning.

The aggregate charge to the Profit and Loss Account for the nine months is Rs 1,531 crores.

The ECL to EAD Coverage ratio for Stage 2 assets is 17 percent and for Stage 3 is 49 percent.

The provisions carried as a percentage of the EAD amounted to 2.45 percent.

As of December 31, 2021, we carry a COVID-19 provisioning of Rs 1,187 crores (9 percent of the overall provision).

Annualised Credit cost for Q3 was lower at 27 basis points compared to 50 basis points and 32 basis points in Q1 and Q2 respectively. (For the nine month period, the annualised credit cost amounted to 35 basis points).

As asset quality related issues normalise we should over the next few quarters be in a position to 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 December 31, 2021 the unrealised gains, (which is the difference between the market price as on December 31, 2021 and the carrying cost), would be Rs 2,49,914 crores.

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

As a part of the capital raise in August 2020 we raised warrants at an issue price of Rs 180 and an exercise price of Rs 2,165 per share. The exercise period of the warrants is up till August 2023.

As of date no warrants have been converted into equity shares.

Our Tier I capital as of December 31, 2021 is Rs 92,942 crores.

Risk weighted Assets as of that date amounted to Rs 4,28,000 crores.

Accordingly, capital adequacy ratio is 22.4 percent of which Tier I capital was 21.7 percent and Tier II capital was 0.7 percent. The capital adequacy is well above the regulatory requirement of what we are required to carry.

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 -

IndAs Transition Reserve

Deferred Tax Liability on Special Reserve

Fair value gains on investments through OCI

Investments in Subsidiaries / Associates in excess of 10 percent of NOF

Securitisation gains recognised upfront in accordance with IndAS requirement

These items aggregate to Rs 22,458 crores. Hence, Tier I Capital is Rs 92,942 crores as against the Reported Net Worth of Rs 1,15,400 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 on Tier I Capital for the nine months ended December 31, 21 is 15.0 percent.

As at December 31, 2021 the Corporation's total borrowings amounted to Rs 4,89,002 crores.

Term loans including External Commercial Borrowings and Refinance from the National Housing Bank accounted for 27 percent of borrowings.

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

Deposits as at the quarter end amounted to Rs 1,55,807 crores and constitute 32 percent of borrowings.

61 percent of the deposits were onboarded digitally.

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

In the current quarter RBI has introduced a Liquidity Coverage Ratio (LCR) which has to be invested in High Quality Liquid Assets (HQLA). As at December 2021 for the purpose of LCR the Corporation carried approximately Rs 27,000 crores in unencumbered HQLA - held entirely in government securities.

Further, approximately Rs 13,000 crores is held in High Quality Liquid Assets as SLR against deposits and Rs 15,000 crores is maintained for general liquidity purpose.

The Corporation therefore has a liquidity buffer of approximately Rs 55,000 crores as against Rs 28,000 crores in the corresponding quarter of the previous year. There is therefore an increased impact of negative carry.

There was uncertainty on the eligibility of SLR holdings which qualify for the purpose of LCR. As a result, we carried a higher level of liquidity as at December 31, 2021. Post receipt of clarifications on the matter the revised HQLA requirements are Rs 11,000 crores lower. We shall bring down the excess liquidity during the course of the 4th quarter in line with the clarifications.

The interest earned on net worth in the current year is lower than the previous year due to lower interest rates.

In the current year the proportion of the retail loan book has increased from 76 percent to 79 percent.

Net interest Income (NII) purely on the basis of interest without taking cognisance of the profit on sale of loans during the nine months ended December 31, 2021 amounted to Rs 12,519 crores compared to Rs 10,943 crores in the corresponding period in the previous year - a growth of 14 percent.

The net interest income, calculated in a similar manner, for the quarter ended December 31, 2021 was Rs 4,284 crores compared to Rs 4,005 crores in the corresponding quarter of the previous year.

The sequential growth in NII during the 3rd quarter compared to the 2nd quarter was 4.24 percent. The sequential growth in the loan book during the quarter was 3.49 percent.

Net Interest Margin for the nine months ended December 31, 2021 stood at 3.6 percent compared to 3.5 percent during the corresponding period of the previous year.

The spread on loans over the cost of borrowings for the period ended December 31, 2021 was 2.26 percent. The spread on the individual loan book was 1.93 percent and on the non-individual book was 3.25 percent.

The spread on loans during the corresponding period of the previous year was 2.28 percent.

Income earned from Deployment of surplus funds in Cash Management Schemes of Mutual Funds was much lower at Rs 329 crores as compared to Rs 666 crores in the corresponding period of the previous year.

This was due to a sharp drop in short term rates where we earned 3.12 percent on our surplus liquidity as compared to 3.66 percent in the previous year and also The average level invested this year in liquid funds is Rs 13,549 crores as compared to Rs 23,749 crores in the previous year.

During the quarter, we received dividend income aggregating to Rs 195 crores.

During the nine months, we earned Rs 1,383 crores by way of dividend income as compared to Rs 623 crores in the corresponding period of the previous year.

There was no profit on sale of investments during the third quarter. During the nine months the Corporation has booked profit on sale of investments amounting to Rs 263 crores compared to Rs 1,398 crores during the same period during the previous year.

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 nine months includes an amount of Rs 329 crores compared to Rs 194 crores during the same period in the previous year.

The charge is on account of stock options which were granted during the second quarter of the previous year.

For the period ending December 31, 2021, the cost income ratio stood at 8.1 percent the same as during the corresponding period of the previous year.

For the quarter ended December 31, 2021 the standalone profit before tax was Rs 4,048 crores (compared to Rs 3,753 crores during the 3rd quarter of the previous year).

The standalone profit after tax for the 3rd quarter stood at Rs 3,261 crores compared to Rs 2,926 crores in the 3rd quarter of the previous year representing a growth of 11 percent.

For the nine months ended December 31, 2021 the standalone profit before tax was Rs 12,624 crores (compared to Rs 10,891 crores in the previous year) a growth of 16 percent.

Tax provision during the nine months ended December stood at Rs 2,582 crores compared to Rs 2,044 crores in the previous year.

The standalone profit after tax for the nine months stood at Rs 10,042 crores compared to Rs 8,847 crores in the previous year a growth of 14 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 55.58 and Rs 54.91 respectively.

The consolidated profit before tax for the nine months stood at Rs 20,195 crores as compared to Rs 17,533 crores in the corresponding period, last year - a growth of 15 percent.

After providing Rs 3,045 crores for tax - (Previous year Rs 2,715 crores) the consolidated profit after tax for the period stood at Rs 17,150 crores as compared to Rs 14,818 crores - a 16 percent increase over the corresponding period in the previous year.

The profit attributable to the Corporation was Rs 16,136 crores as compared to Rs 13,390 crores in the previous year an increase of 21 percent.

As at December 31, 2021 the Corporation had 3,514 employees. 97 percent of our staff have been vaccinated.

Total assets per employee stood at Rs 172 crores.

Net profit per employee was Rs 3.8 crores.

HDFC’s distribution network spans 651 outlets which include 206 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

During the quarter, HDFC was conferred with the "Best Integrated Report" by the Asian Center for Corporate Governance and Sustainability.

Our disclosures and reports are on our website.

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

The above are some of the highlights of the results for the period ended December 31, 2021.

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

Thank you.

Moderator: Thank you very much, sir. We will now begin the question and answer session. The first question is from the line of Mahrukh Adajania from Edelweiss. Please go ahead.

Mahrukh Adajania: My question is on re-pricing of loans when you hike rates. So, the old book does not re-price right. So, you can hike rates on a new loan without re-pricing the old book?

Keki M. Mistry: Well it depends on how we re-price the loans. The way we would normally do it is we would increase the Retail Prime Lending Rate. When we increase the Retail Prime Lending Rate then the existing loans, all loans are linked to the Retail Prime Lending Rate, and accordingly, even existing customers end up paying a higher rate.

Mahrukh Adajania: Right, but it happens effective that day only.

Keki M. Mistry: That would be effective from that moment, from whatever date we do it.

Mahrukh Adajania: What proportion of your liabilities would be linked to external benchmark?

V. S. Rangan: Yes, broadly, almost the entire bank loan book is actually linked to external benchmark either it is linked to Repo or it is linked to the T-Bill rate or the CP rate. And over and above that, our NCDs, we have a swap book of close to about Rs. 1,20,000 crores, where we have converted our NCDs from fixed rate to floating rate and this floating rate is linked to the MIBOR, the daily setting of the MIBOR.

So, basically, if you look at our bank loan book, it is close to about Rs. 97,000 crores plus with the NCDs of about Rs. 1,20,000 crores, say about 50% to 60% of the liability book is actually linked to external benchmark directly.

The rest of the book obviously, may not necessarily be linked to the external benchmark, but we have an option of either re-pricing them or repaying them, during the course of the tenor of the loan, So, that's the way the book is actually composed of.

Moderator: Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: So, firstly on LCR, so you said like with the eligibility of SLR, now, this will actually come up to 11k. But still when we look at it given well matched ALM and even if we have to look at it in terms of the shorter tenure maturity, does it seem like this is more of a one-off because of some repayments due or this is the normal LCR requirement, which will be carried forward. And given this is 50% odd in fact that number seems to be quite high. So, how should we look at it, it is more like we will retain this or this is more one-off or and just the introduction of the norms?

Keki M. Mistry: I think a little bit of this is a one-off, because there would be some amount of fairly large repayment which would have been due in the next month which is why it is high. My sense is that going forward it would be a little lower than this.

V. S. Rangan: Kunal basically the LCR is next 30 days repayments and disbursements and all that which needs to be covered. So, what is happening is over a period of time as we are borrowing, the new borrowings are also happening for a longer duration. So, automatically the LCR number also keeps readjusting to a lower level. So, you can readjust the LCR to a lower level depending upon the duration in which you are borrowing. So, as Keki said, we would think that this would have a room to go down further.

Kunal Shah: And this is 50% yet or maybe we have covered entirely?

V. S. Rangan: The starting is 50%, so as we reported we are at about 120%. So somewhere I think against the 50% we want to be there at about 60% to 70%. That's the range in which we will want to probably operate. So that will leave us with the gap of the surplus which we can use to deploy for the loans or we can repay some of the liabilities and things like that.

Keki M. Mistry: So basically Kunal, we would not want to be exactly at 50, but the 120 that we are at, it's obviously very high. And we would want to bring it down over the coming quarter.

Kunal Shah: So currently it is 120 with this Rs. 27,000 crores year marked.

V. S. Rangan: Yes, exactly.

Moderator: Thank you. The next question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: I am just not clear about this NPL increase. So you are saying that some Rs. 2,700 crores odd was standard or less than 90-day overdue, but you still decided to keep it as an NPA. And in housing loan where you not following daily method of calculation of NPA or where you are upgrading assets even without complete three months of repayment. Why this discrepancy between the reported NPA and the RBI rule?

Keki M. Mistry: Because the NPAs historically, what used to happen is that if a loan was outstanding for more than 90 days, and the customer paid let's say two instalments and not the entire three instalments, the loan would get upgraded and would no longer be classified as a non-performing loan -- that was the regulations that used to apply to us. Now, based on the clarification or the guidelines or what RBI has issued, in November 2021, a loan cannot get upgraded to a standard asset until the entire outstanding in respect of that account have been received.

Now, the difference on that for individual loans is about 30-basis points. As far as the non-individual loans are concerned, there is no difference between the RBI guidelines and what we have. The reason you have this large amount of loans which are less than 90 days outstanding, but have been classified as NPAs, is because we started, either we started seeing some stress on those accounts, and therefore, we downgraded them to NPA, they were always Stage-II, we downgraded them to Stage-III or alternatively it could have been a case of, I think, one or two loans which were restructured and therefore, were classified as non-performing loans.

Suresh Ganapathy: So, in other words just to understand this Rs. 2,700 crore could also be loans which have paid two EMIs, but earlier was shown as standard, and now you have decided to show us NPA, that would have --

Keki M. Mistry: That would have been shown as standard meaning, they were shown as Stage-II, and now they would be shown as Stage-III.

Suresh Ganapathy: How do you look at this? Final question, so I just want to reiterate this point, how do I look at this number? I mean, do you carry any excess provision or do you think the two numbers to look at is 1.8 and all this provision which is there --?

Keki M. Mistry: No, what number you wish to look at is honestly is your call, but the reported NPL as per the RBI guidelines is 2.32%. I am only mentioning that out of the 2.32%, 51 basis points is in respect of accounts where the outstanding is not 90 days, but obviously there is a stress on those accounts.

Moderator: Thank you. The next question is from the line of Sanket Chedda from B&K. Please go ahead.

Sanket Chedda: So, my question was on traction on the non-retail book this quarter, last quarter, we had about equal amount of growth that we had in retail. So, how do we see it panning from here on? We are seeing a lot of revival in activities particularly in real estate and a lot of construction activities also taking place. And we being maybe one of the pioneers or only the few good guys wherein NPL issues have not hit. So, are we thinking to go aggressive on our non-retail in the coming quarters? How do we see it?

Keki M. Mistry: So, as I told you, the individual loan book as of 31st December stood at 79%, and the non-individual book stands at 21%. And of that 21%, the breakup is 9% construction finance, 7% LRD and 5% corporate loans. This is outstanding on 31st December. If we were to look at the incremental growth in the loan book during the 3rd Quarter, it was 94% individuals and 6% non-individuals.

Now, as I mentioned in the talk, what happens is that when we have a LRD loan for example, the entire loan gets disbursed in one go. Whereas, if you have a construction finance loan, the construction finance loan gets disbursed over a period of time, because it takes a while for the construction to keep taking place. And then as the construction keeps taking place, the disbursement happens.

I also mentioned that we have a reasonable pipeline of such loans, and we would expect to close the year with a positive growth in the non-individual segment, against the negative (-1%) growth that we had in the December period.

Sanket Chedda: And I remember last quarter you had guided that 3.6% to 3.7% margins are not sustainable and we should ultimately move towards 3.3%, 3.4% kind of level. So this quarter, though we have seen some reduction in spread for individual loans, overall NIMs have not changed. Do we expect 10, 15, 20 bps reduction in the coming quarters?

Keki M. Mistry: I don't want to make a forward looking statement because honestly a lot of this depends on where interest rates are headed, how we change our rates, and so on and so forth. What I mentioned last quarter was that the 3.6%, I think we had last quarter, had come down from the 3.7%, which it was earlier. And I had said that somewhere NIMs will settle between the historical rate which was about 3.2% odd, and that 3.6% that we had last time. This quarter, we have not seen any change in the net interest margin, which continues to remain at 3.6%. So I would hope that we would be able to continue maintaining net interest margin at these levels. I would hope so, but as I said, a lot will depend on how interest rates pan out.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities Limited. Please go ahead.

Nischint Chawathe: The first is there was a sharp reduction in the non-individual NPA, especially when I compare it on like-for-like basis, which is removing the impact of the RBI definition change. So, was this like a particular account? Or were there number of accounts out here? And if you could give some guidance in terms of the …?

Keki M. Mistry: Sorry, I didn't, I couldn't follow the question, you are saying that there was a reduction in the NPA.

Nischint Chawathe: In the non-individual segment, excluding, I mean if I just set aside the impact of --

Keki M. Mistry: In the non-individual segment, there will be movement because these are bulky loans. So in a quarter, if you are able to recover money on some loan and the loan moves away or the loan gets fully paid off, then naturally the level of account, the level of Stage-II or Stage-III accounts will change.

Nischint Chawathe: But this quarter, was there any bulky account or …?

Keki M. Mistry: Yes, there would be a lot of accounts no, we have so many accounts, there would be some large account, which would have got paid off during the quarter.

Nischint Chawathe: And now that the definition of NPL or gross Stage-III whatever you call it, has been sort of reset. Would you look at revisiting the PD ratios, in your retail calculations?

Keki M. Mistry: See, obviously it is something that we would look at in the 4th Quarter, which is when we normally do analysis of likelihood of default and so on so forth. But the reality of the matter is that the loss ratio is not going to change, just because the definition of NPL changes. The loss ratio is still going to remain the same.

Nischint Chawathe: So the PD has to probably come down.

Keki M. Mistry: Yes. So, whilst there might be some impact, because of the default, the loss ratio to my mind would not change. But this is a statistical model, which will be worked on during the 4th Quarter. And when we have the March numbers, the March numbers would reflect the changes in the model.

Nichint Chawathe: And just final one, in light of improvement in the overall real estate cycle, how do you see the construction finance book growing from these levels?

Keki M. Mistry: I mentioned earlier that we are seeing a pipeline, a recent pipeline of construction finance loans, but as I said also that lease rental discounting loan the disbursement is immediate because the property is occupied, the rentals are coming in. So we can disburse the whole amount in one go. Whereas in a construction finance case, the disbursement happens progressively based on how the construction takes place, the disbursement is more progressive. So there is a decent pipeline. And as I said, would expect to see a positive growth for the whole year.

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

Nidhesh Jain: What is the share of individual housing loan in overall assets to comply with the RBI guidelines for the classification? I just want to understand whether we have headroom to increase the share of non-individual loans in overall assets or not, going forward?

Keki M. Mistry: So, the requirement is that 60% has to be housing, Rangan do you have the exact --

V. S. Rangan: The total housing book has to be 60% of the total assets and the housing finance for retail has to be 50%. This is to be achieved over a period of three years which kicks in somewhere in 2024.

Keki M. Mistry: Requirement of 50%, so from a headroom point of view, we have enough headroom.

V. S. Rangan: The other one we are at 57.7%

Nidhesh Jain: And all these numbers are on asset side, total assets right or on --?

V. S. Rangan: It is on total assets, it has to be computed on total assets.

Nidhesh Jain: So as the LCR liquidity runs down we may have slightly more headroom --

V. S. Rangan: Yes, so that cash whatever is there it will get deployed in assets. So, depending on which assets get deployed, the composition will change. Today it is classified as a non-housing asset. So as that money gets deployed into housing loans, it will start reflecting on the housing front.

Keki M. Mistry: Just to put that in perspective, against the 50% required for individuals we are at 53%. Now, on a balance sheet size as big as ours, a 3% margin can be quite substantial.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: The first question is that you can split the HL book into Cat A, Cat B and Cat C employees. And again, within the HL if you can speak on the customer, what is his average age, average income? What is the average FOIRs that is on book as of now, not the onboarding FOIR?

Renu Sud Karnad: I don't think we will have those figures. The average age would be around 37, 38 years. If you really want these numbers, we can get back to you. These are such varied loans to get an average, but what we can give you, depends on whether they are in the larger cities, whether it's a self-employed, whether it's an employed loan, so all these things are there. But generally our efforts are that the FOIRs that we are willing to live with should not be more than about 50% to 55% of the person's income, otherwise we won't give the loan.

The loan is based on his ability to repay, it is really customized to every customer, depending on what his other liabilities are and based on that, we work out an eligibility. Of course, we don't go beyond what we can fund as per NHB guidelines, which is 75% for loans over Rs. 75 lakh, keeping that in view, the credit underwriting is based on what his other loans are and the total liabilities that he has should not exceed between 50% to 55%. But we can give you exact numbers if you get back to us.

Keki M. Mistry: The average age customer is about 38 years, and the average loan-to-value ratio at origination, I repeat, at origination is about 67% to 68%, which means an individual at origination, has about 30% to 33% equity in the property, and all our loans are repaid through monthly instalments which start immediately. So, the moment the loan gets disbursed, the next month the individual starts paying an instalment and that instalment has got a principal component. So with every passing month, the outstanding amount to the loan keeps declining. And if we were to assume stable property prices, it means that the loan-to-value ratio for the loans outstanding in the books will over a period of time keep reducing.

Shubhranshu Mishra: My second question was the split of the housing loan book and Cat A, Cat B and Cat C customer?

Renu Sud Karnad: The housing loans book into Cat A, Cat B and Cat C customers.

Shubhranshu Mishra: Cat A companies, Cat B, we would have that split.

Renu Sud Karnad: So I would just say, we have a huge component of our loans are Government they are either Central Government or they are State Government or they are the Armed Forces. And I would say that we would put them as far as that is concerned in Cat A, right. So in terms of, again, it all depends on the person's position, his income, and that is how we appraise the case. It's not necessary that he has to be working with a Cat A employer. It is very customized, customized to that individual, to what his income is, what his savings habits have been, what is the past record or how his CIBIL score has been. And so it's really based on that, it's really not based on an employer categorization.

Moderator: Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: So the question was with respect to one of the non-individual account wherein some resolution was happening and that was as a steep haircut and HDFC was the largest lender to it. So given that overall provisioning under Stage-II and Stage-III on the non-individual side that's in fact coming off or stable, is it fair to assume that it's well accounted for and there would be no impact on account of that big resolution or maybe a higher haircut?

Keki M. Mistry: No, there would not be any impact, you would see that the credit costs for the quarter has actually come down to Rs. 393 crores.

Kunal Shah: So it’s well accounted for.

Keki M. Mistry: Yes, it’s well accounted for.

Kunal Shah: And secondly, in terms of ESOPs, so should we assume that maybe in couple of quarters, this cost will move away or in terms of --?

Keki M. Mistry: So these ESOPs were granted in August of 2020. And there is a two year vesting period. So in some part of the stock options, the vesting period was one year and for the other part, it is two years. So for a portion which is one year vesting, that is over. So there will be no further charge to the Profit & Loss account in respect of that vesting.

For the second vesting, which takes place in August 2022, there will continue to be some charge to the Profit & Loss accounts till August 2022. But obviously, the charge will come down. Because till August 2021, the charge was at its peak, because you had both the first round of options and the second round of options or both of which are charged was be debited to the Profit & Loss account.

Moderator: Thank you. The next question is from the line of Bunty Chawla from IDBI Capital. Please go ahead.

Bunty Chawla: Just a single data point, if you can share, absolute number, the disbursement done during this quarter?

Conrad D'Souza: The retail disbursements are around Rs. 40,000 crores.

Moderator: Thank you. The next question is from the line of Alpesh Mehta from IIFL Securities. Please go ahead.

Alpesh Mehta: Just one question, if I look at the total cumulative provisions from the balance sheet, the number has gone down from Rs. 13,340 crores to Rs. 13,195 crores and the charge to the P&L account **(Inaudible 00:53:25)** is around Rs 400 crores, so it looks like almost Rs. 540 crores of either a termination losses or a write-off, is the understanding right **(Inaudible 00:53:31)**.

Keki M. Mistry: I think we can give you that reconciliation later on. I wouldn't be able to give it to you off the cuff, but Conrad can give it to you later.

Moderator: Thank you. The next question is from the line of Karan Agarwal from Tusk Investments. Please go ahead.

Karan Agarwal: So, if I look at your presentation, as our numbers, it states that 30% of the loan has been, in volumes terms have been disbursed to low income group or middle income group, is that correct?

Keki M. Mistry: Yes.

Karan Agarwal: So from what I understand is that it is a different ballgame to disburse loans in this customer segment, which basically belong to Tier-II, Tier-III cities versus disbursing loans in Tier-I metro cities. So, how are we sourcing these loans? And what are the underwriting standards on these loans?

Keki M. Mistry: Well I just mentioned that this 30% has been there for a very long time. It has always been in the range of around 30% to 32%, for a very long time.

Renu Sud Karnad: And let me just say that these are from Tier-II and Tier-III cities, but many of them are employed, as it is today our self-employed is 20%, 80% of people are employed. So, the underwriting standards are very similar. Again, it goes really back to the person's saving, how much is his income? How much the loan will be would be based on the percentage of the income. How much is he putting in and what is his own contribution?

Honestly, being in a metro to get a loan from HDFC doesn't give you any benefit or being in a smaller city is not a negative at all, because this is a housing loan, it's based on the value of the property, location of the property, saleability of the property, how much is the person putting in, what is the rent that he is paying currently, it's all based on that.

So honestly, to do this business, we have not reduced or brought down our guards at all. The way we appraise the case has continued to be the same. We are equally cautious, we are equally careful for the loan that we do in the larger cities as we do in a smaller city. So I don't think there is any change in the way we are looking at it because these are not really, in case you have in mind that these are not cases where they are slum dwellers or they are not loans of three lakhs or five lakhs that we are doing. The average loan in these affordable housing is also about Rs 9 lakh to Rs. 10 lakhs. So people have income, they have regular income, these are not based on assumed income. So I just wanted to say the credit underwriting norms are really not different or brought down to be able to do this business.

Keki M. Mistry: Just to put it in perspective, the actual average loan amount to customers in the lower income group is 19.5 lakhs and to customers in the economically weaker section is Rs.11.1 lakhs.

Karan Agarwal: And what would be the yield that HDFC would be earning on those loans?

Renu Sud Karnad: The rates on these loans are slightly higher. So it's currently as we speak our rate of interest again, it all depends on that individual, what his credit rating is. We started using credit rating also as the benchmark as to how we price our loans. And just because they are in a smaller city doesn't necessarily mean that he will get a higher rate, but by and large customers would be getting anything between 6.7 to 6.75 to 6.8%. I am talking about an employed customer, self-employed customers are different, rates of interest can vary, it could be higher in self-employed customers, depending on the risk.

Moderator: Thank you. The next question is from the line up Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just one quick check, is the entire restructured book in Stage-II or some of it has NPL overlap?

Keki M. Mistry: No the entire restructured book would be either in Stage-II or in Stage-III, some of it would be Stage-III.

Sameer Bhise: Can you share the split?

Conrad D'Souza: Sameer as a part of the release to the exchange, it is there as a note I can give it to you separately, but it is also there in the table.

Moderator: Thank you. The next question is from the line of Hiren Kumar Desai. Please go ahead.

Hiren Desai: Have you seen any uptick in prices of the properties and corresponding change in the average size of loan? That is question one. And second question is the proportion of loan that we give which is fixed rate and floating rate?

Keki M. Mistry: The average loan amount has gone up during the course of the year. Our total average loan for this year, individual loans for this year is Rs. 32.3 lakhs. The average loan for the 3rd Quarter in isolation is Rs. 33 lakhs and last year the average loan amount was Rs. 28.5 lakh. If you were to compare 2nd Quarter with 3rd Quarter, 2nd Quarter average loan amount was Rs. 32.7 lakhs, 3rd Quarter is Rs. 33 lakh. So effectively, average loan amount has marginally gone up in this quarter, but had gone up, you could say, six months or nine months earlier.

Have property prices gone up? Look, this varies from city to city, location to location. In some locations, yes, could have seen an uptick in prices. But what has happened is income levels have gone up. Income levels have gone up quite sharply over the course of the last one or two years, because some of the companies held back on salary increases because during the first wave of COVID and later on as things started normalizing for them, they started giving salary increases, which would have made the individuals eligible for a higher loan.

Conrad D'Souza: Sameer just to answer your question, on the restructured loans, the NPA is around Rs. 130 crores which is under 2% of that portfolio.

Hiren Desai: My second question was the proportion of loans which are floating rate loans versus --?

Renu Sud Karnad: Most of our retail loans are floating rate loans, not even 2% or 3% are going to be on a fixed rate basis. We have seen that in the past also, when rates of interest start moving up some people come for fixed rate loans, but thereafter because there is a difference between the fixed rate loan and the floating rate loan. and as you know, for housing loans, they don't keep housing loans for more than five years or so, so very few people opt fixed rate loans.

Moderator: Thank you. The next question is from Umang Shah from Sarath Capital. Please go ahead.

Umang Shah: We had our last major fundraising in 2018. So just wanted to understand, at what level of debt to equity do you envisage raising new funds?

Keki M. Mistry: We do not envisage raising capital for a very long period of time. We would be guided more by the capital adequacy ratio rather than just the debt equity ratio. As against the regulatory requirements our capital adequacy ratio is significantly higher. Our Tier-I capital stands at 21.7%. So what we have to do over the next few years is to sweat the balance sheet more, increase the leverage, increase the debt equity ratio and consequently increase the Return on Equity. So we have no plans to raise equity for a very long time.

Umang Shah: The collection infrastructure is all managed in-house, all the employees are on our own payroll or are they outsourced?

Keki M. **Mistry**: Yes, that is all managed in-house.

Umang Shah: And even possession and selling off the property all of it is done in-house?

Keki M. **Mistry**: Yes.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the Management for their closing comments over to you.

Conrad D'Souza: On behalf of all my colleagues, we thank all of you for attending this call. In case you need any further clarifications, either get in touch with Anjalee or me. Thank you, Keki, Renu, Rangan and everybody on the call.

Keki M. Mistry: Thank you, everyone. Stay safe that's the most important thing.

Moderator: Thank you. Ladies and gentlemen, on behalf of HDFC Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.