Ref. No. SE/2022-23/213

November 7, 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/half-year ended September 30, 2022</u>

We refer to our intimation dated November 3, 2022, informing that the Corporation has uploaded the audio recording of the earnings call hosted by it on November 3, 2022 to discuss the financial results for the quarter/half-year ended September 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/2022-11/transcript_of_earnings_sept_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Further, please note that no unpublished price sensitive information was shared/discussed by the Corporation during the said earnings call.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
GIRIDHARILA
L AGARWAL

Digitally signed by AJAY GIRIDHARILAL AGARWAL
DN: c=IN, o=Personal, postalCode=400012, st=Maharashtra, 2.5.4.20=df6fa28f0ebcbd0b235468562f30f680ed255edb5e0aa03b39666ff0b19a233a, pseudonym=CF8A997C242608F6C8C337B6B1D83B1FE0805091, serialNumber=1BF1D7F7AF65B60DA7A5156E5838C579562187D5D08667416A94E3B6585668E6, cn=AJAY GIRIDHARILAL AGARWAL
Date: 2022.11.07 18:04:25 +05'30'

Ajay Agarwal
Company Secretary

Encl. a/a

"HDFC Limited's Q2 FY23 Earnings Conference Call"

November 3, 2022

MANAGEMENT: **MR. KEKI M. MISTRY – VICE CHAIRMAN & CHIEF EXECUTIVE OFFICER**
MS. RENU SUD KARNAD -- MANAGING DIRECTOR
MR. V. SRINIVASA RANGAN – EXECUTIVE DIRECTOR
MR. CONRAD D'SOUZA – MEMBER, EXECUTIVE MANAGEMENT & CHIEF INVESTOR RELATIONS OFFICER
MS. ANJALEE TARAPORE – ADDITIONAL SENIOR GENERAL MANAGER

Moderator: Ladies and gentlemen, good afternoon and welcome to HDFC Limited's Q2 FY'23 Earnings Conference Call. As a reminder, all participant lines will be in 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 and Chief Investor Relations Officer -- Mr. Conrad D'Souza; and Additional Senior General Manager -- Anjalee Tarapore.

I would like to hand the conference over to Mr. Keki M. Mistry. Thank you, and over to you, sir.

Keki M. Mistry: Good Afternoon Everyone.

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

The Board of Directors at its meeting held earlier today approved the financial results for the half year ended September 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 Corporation:

The Monetary Policy Committee at its meetings held in August and September 2022 increased the policy repo rate by 100 basis points in aggregate, 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 had mentioned in our previous earning call too, the interest rate actions have had a short term impact on both Net Interest Income and Net Interest Margin during the last six months.

Over the last few months we have seen rate action by RBI and we have correspondingly passed on the rate increases to our customers. There has however been a transmission lag between the increase in the interest cost on our liabilities and asset repricing. I will explain this in detail later.

In July 2022, the RBI had increased the limit of External Commercial Borrowings under the automatic route from US$ 750 million to US$ 1.5 billion per financial year. In August 2022 we have raised US $ 1.1 billion under this window. The ECB is the largest social loan globally and the first social ECB loan out of India.

The momentum in the economy was strong through the first half of the current year. This is reflected in a sharp pick up in individual loan disbursements and a 20 percent growth in the individual loan book on an AUM basis. 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 half year and the quarter ended September 30, 2022.

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

Our individual loans approvals for the half year ended September 30, 2022, were higher by 35 percent compared to the corresponding period in the previous year.

For the same period, individual loan disbursements grew by 36 percent over the corresponding period in the previous year.

Housing disbursements constituted 93 percent of individual disbursements in the current year

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 second quarter, we sold individual loans aggregating to Rs 9,145 crores.

The individual loans sold during the last 12 months amounted to Rs 34,513 crores.

The total loans sold during the six months ended September 2022, amounted to Rs 18,678 crore.

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 20 percent. If the loans amounting to Rs 34,513 crores had not been sold during the preceding 12 months, then the growth in the individual loan book would have been 28 percent.

On a Balance Sheet basis our individual loan book increased to Rs 4,65,752 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 September 30, 2022 amounted to Rs 93,566 crores. HDFC continues to service these loans. Individual loans outstanding on an AUM basis amounted to Rs 5,59,318 crores.

As at September 30, 2022 our non-individual loan book grew by 1 percent on an AUM basis compared to the previous year.

Whilst we continue to have a 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 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.

Construction finance loans unlike lease rental discounting loans have a longer disbursement period as they are disbursed based on progress of construction and after the developer has brought in his equity.

The total Assets Under Management (AUM) as at September 30, 2022 amounted to Rs 6,90,284 crores as compared to Rs 5,97,339 crores in the previous year - a growth of 16 percent.

If no loans had been sold during the preceding 12 months, then the growth in the total loan book would have been 21 percent.

Prepayments on retail loans, on an annualised basis, amounted to 10.3 percent of the opening loan book.

The average size of individual loans for the period ended September 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 43 percent during the corresponding period in the previous year.

Our thrust on affordable housing loans has continued.

During the half year ended September 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 10.9 lacs and to customers in the LIG segment amounted to Rs 19.7 lacs.

If we break up the loan book outstanding on September 30, 2022 on an AUM basis into different categories then individual loans constituted 81 percent of the total loan book, as compared to 78 percent in the previous year.

Construction finance constituted 9 percent, of the total loan book, Lease rental discounting loans constituted 6 percent of the total loan book while corporate loans constituted 4 percent.

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

98 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 51 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 disbursed an aggregate amount of Rs 1,783 crores till September 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 September 30, 2022 the outstanding loans under OTR 1 and OTR 2 amount to Rs 4,244 crores which is equivalent to 0.7 percent of the loan book - as compared to a peak of 1.4 percent in September last year.

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 six months 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 and the NPA reporting under the revised guidelines was deferred to the quarter ending December 2022.

The Corporation, however, had continued to report NPAs 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 September 30, 2022, calculated under the old norms, Gross Non-performing individual loans stood at 0.73 percent, (down from 1.10 percent in September 21). This is a 37 basis points reduction or a 34 percent improvement in percentage terms.

The overall gross performing loans stood at 1.44 percent (down from 2.00 percent in September 21). This amounts to a 56 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.

December 21 was the first quarter when we were required to report NPAs under the new norms brought in by RBI.

As of September 30, 2022, calculated under the new norms, Gross Non-performing individual loans stood at 0.91 percent - down from 1.44 percent in December 21.

Similarly, gross non-performing non-individual loans stood at 3.99 percent, down from 5.04 percent in December 21.

As per the new regulatory norms, the gross non-performing loans as at September 30, 2022 stood at Rs 9,355 crores. This is equivalent to 1.59 percent of the loan portfolio (down from 2.32 percent in December 21).

As at September 30, 2022, the Corporation carried a provision of Rs 13,146 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 5,94,788 crores is broken up as under :

Stage 1	94.2 percent
Stage 2	3.9 percent
Stage 3	1.9 percent

We have seen a 3.4 percentage point reduction in the aggregate of Stage 2 and Stage 3 assets from the peak of 9.2 percent in June 2021 to 5.8 percent of the Exposure At Default over the last five quarters.

During the quarter, we have charged the Profit and Loss Account with a sum of Rs 473 crores towards provisioning.

The aggregate charge to the Profit and Loss Account for the six months is Rs 987 crores.

The ECL to EAD Coverage ratio for Stage 2 assets is 23 percent and for Stage 3 is 55 percent.

The provisions carried as a percentage of the EAD amounted to 2.21 percent.

Annualised credit cost for Q2 was 29 basis points compared to 33 basis points during Q1 in the current year.

Credit costs for the six month period is 31 basis points.

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.

During the quarter we invested an amount of Rs 2,000 crore in the equity of HDFC Life.

If we were to mark to market the listed investments as at September 30, 2022 the unrealised gains, (which is the difference between the market price as on September 30, 2022 and the carrying cost), would be Rs 2,24,781 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 September 30, 2022 stood at 22.5 percent of which Tier I capital is 21.9 percent and Tier II capital 0.6 percent. The capital adequacy is well above the regulatory requirement.

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 22,043 crores. Hence, Tier I Capital is Rs 1,01,398 crores as against the Reported Net Worth in September 2022 of Rs 1,23,441 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 half year ended September 30, 2022 is 16.3 percent.

As at September 30, 2022 the Corporation's total borrowings amounted to Rs 5,29,034 crores.

Term loans including the External Commercial Borrowings of USD 1.1 billion equivalent drawn in August 2022 and Refinance from the National Housing Bank accounted for 27 percent of borrowings.

Market borrowings i.e. NCDs and Commercial Paper accounted for 42 percent of the borrowings.

Deposits as at the quarter end amounted to Rs 1,62,884 crores and constitute 31 percent of the borrowings.

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

The first two quarters have seen a 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 increases in the repo rates of 190 basis points over the last two quarters and the consequent transmission lag between the increase in borrowing costs and the increase in lending rates.

Let me talk of the NII impact.

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

1] In the first half 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.

Secondly, in the first quarter of the previous year there was a disruption in the business activity due to the second wave. As a result of ample liquidity in the system during most of the first half 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 period. This led to us benefitting from the lower swap rates which resulted in an expansion in NIM. At that stage itself we had indicated that the higher composite level of NIM reported in the first half was not sustainable. This delinking corrected in the second half of last year.

2] Thirdly, RBI increased the repo rate four times since May 2022 aggregating to 190 basis points. The last increase of 50 basis points was on September 30, 2022. In the run up to the expectation of the rate hike, market rates and swap rates increased and this has had an impact on our borrowing costs. We have increased our lending rates in response to this hike by 50 basis points with effect from October 1, 2022. Therefore, the benefits of this hike will be received over the next quarter

As you are 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 an impact on the NII growth for this period. As we have passed on the increase in rates by increasing our PLRs, there was a slight short-term impact on NII growth during the period. This should be regularised over the next few months.

In July 2022 we have 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

3] Lastly, the proportion of the retail loan book has increased to 81 percent over the last few quarters.

The Return on Equity on both the retail and the non-individual business is the same. The spreads on the Non-Individual loans are however higher due to higher capital allocation and higher credit costs

Net interest Income (NII) purely on the basis of interest without taking cognisance of the profit on sale of loans during the quarter ended September 30, 2022 amounted to Rs 4,639 crores compared to Rs 4,110 crores in the corresponding period of previous year - a growth of 13 percent

For the half year ended September 30, 2022 amounted to Rs 9,086 crores compared to Rs 8,235 crores in the corresponding period of previous year.

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 compared to an annualised AUM growth of a similar 16 percent

Secondly, as a result of volatile equity markets the gain on fair value of investments through the profit and loss account was Rs 151 crores in the first half as compared to Rs 548 crore in the corresponding period 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 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 on a sequential basis as a result of improved asset quality.

Dividend in the second quarter is higher than the corresponding quarter of the previous year primarily on account of dividend received from HDFC Bank Limited.

We have always targeted a NIM of between 3.3 and 3.5 percent.

Net Interest Margin for the quarter and the half year ended September 30, 2022 stood at 3.4 percent.

The spread on loans over the cost of borrowings for the half year ended September 30, 2022 was 2.28 percent. The spread on the individual loan book was 1.91 percent and on the non-individual book was 3.65 percent.

The spread on loans during the first half 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 95 crores as compared to Rs 228 crores in the corresponding period of the previous year.

This was due to average level invested this year in liquid funds at Rs 4,185 crores as compared to Rs 12,800 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 is around Rs 45,000 crore.

The average level of liquidity held during the period was Rs 41,000 crore as compared to Rs 25,000 crore in the corresponding period last year.

There was no profit on sale of investments during the second quarter.

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

Dividend received during the quarter was Rs 1,360 crores compared to Rs 1,171 crores in the second quarter of last year.

During the half year, we earned Rs 2,046 crores by way of dividend income as compared to Rs 1,188 crores in the corresponding period of the previous year.

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

During the quarter ended September 30, 2022, for investments classified as Fair Value Through Profit and Loss Account (FVTPL), the Net Gain on Fair Value Changes stood at Rs 142 crore.

For the half year for investments classified as Fair Value Through Profit and Loss Account (FVTPL), the Net Gain on Fair Value Changes stood at Rs 151 crore, as compared to Rs 548 crore in the corresponding period of the previous year. This is largely on account of the volatility in the equity markets during the current 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 half year includes an amount of Rs 145 crores compared to Rs 268 crores during the same period in the previous year.

For the period ending September 30, 2022, the cost income ratio stood at 9.5 percent.

The cost income ratio is relatively higher during the period on account of the increased retail business over the last year, 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 half year ended September 30, 2022 the standalone profit before tax was Rs 10,004 crores (compared to Rs 8,576 in the previous year) a growth of 17 percent.

Tax provision during the 6 months ended September stood at Rs 1,881 crores compared to Rs 1,795 crores in the previous year.

The tax rate for the 6 month period during the current year was 18.8 percent - compared to 20.9 per cent in the previous year

The standalone profit after tax for the half year stood at Rs 8,123 crores compared to Rs 6,781 crores in the previous year - a growth of 20 percent.

For the quarter ended September 30, 2022 the standalone profit before tax was Rs 5,414 crores (compared to Rs 4,671 crores in the 2nd quarter of the previous year) a growth of 16 percent.

Tax provision for the second quarter amounted to Rs 960 crores compared to Rs 890 crores in the 2nd quarter of the previous year.

The standalone profit after tax for the 2nd quarter stood at Rs 4,454 crores, compared to Rs 3,781 crores in the 2nd quarter of the previous year, resulting in a growth of 18 percent.

Pre Tax return on average assets was 3.1 percent. The post tax return on average assets was 2.6 percent.

The basic and diluted EPS (on a face value of Rs 2 per share) was Rs 44.7 and Rs 44.5 respectively.

The consolidated profit before tax for the half year stood at Rs 14,765 crores as compared to Rs 13,075 crores in the corresponding period last year.

After providing Rs 2,148 crores for tax the consolidated profit after tax for the period stood at Rs 12,617 crores as compared to Rs 10,981 crores - a growth of 15 percent.

The profit attributable to the Corporation was Rs 11,862 crores as compared to Rs 10,299 crores in the previous year - a growth of 15 percent.

As at September 30, 2022 the Corporation had 3,869 employees.

Total assets per employee stood at Rs 169 crores. (compared to Rs 167 crore in the corresponding period of the previous year).

Annualised Net profit per employee was Rs 4.2 crores compared to Rs 3.9 crore during the same period 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.

Pursuant to the "no objection" for the merger from the stock exchanges, NSE & BSE, Pension Fund Regulatory and Development Authority, SEBI, IRDA and RBI, the Competition Commission of India has approved the proposed amalgamation.

Further the National Company Law Tribunal, Mumbai Bench has passed an order in the matter of the amalgamation pursuant to which a meeting of the shareholders of the Corporation has been convened on November 25, 2022.

HDFC's distribution network spans 709 outlets which include 212 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.

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

The Corporation's Corporate Social Responsibility activities focused primarily on Healthcare, Education, Persons with Disabilities and Environmental Sustainability.

CSR activities were conducted either directly or through the H T Parekh Foundation. The CSR spend during the half year was Rs 107 crores.

Under the National CSR Awards 2020, instituted by the Ministry of Corporate Affairs (MCA), Government of India, HDFC was awarded 'Overall Excellency in CSR' for large companies and 'CSR in National Priority Areas - Supporting Technology Incubators'.

The above are some of the highlights of the results for the period ended September 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. The questions will be answered by me or any of my colleagues.

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

Suresh Ganapathy: Keki, just a couple of questions. One is, the margins, of course, they have been flat QoQ. the thing here is that all the banks, specifically ones which have had large mortgage portfolio have seen a very sharp quarter-on-quarter increase in margins, whereas your margins have remained flat. Now, of course, we understand that the quarterly to monthly reset was done last quarter. So, I think this quarter would have seen at least three months and still we have not seen any margin expansion. So, what explains this flat margins even on a quarter-on-quarter basis?

Keki M. Mistry: Let me answer that question, Suresh. And Conrad or Rangan can answer further. See, what happens is every time there is an increase in interest rates, our lending rates get revised over a period of three months, so you get the effect 1/3, 1/3, 1/3, whereas the borrowing costs increase immediately. So, whatever the increases in the repo rate prior to June, the full benefit of that passed on to the customers, benefit has been received during the course of the current year. But the increase in interest rates made during the course of the quarter, again, we have increased interest rates simultaneously for our customers, but the benefit of that will come over a period of three months. So, for example, if interest rates increase, let's say theoretically at the end of September, then the benefit of that rate increase on the asset side will start coming in from October, whereas on the borrowing side, the debit starts hitting us from the month of September itself. So, in a rising interest rate environment, this lag is there for roughly about one and a half months, which results in roughly I would say 10 to 12 basis points compression in margins. But as interest rates stabilize over a period of time, that will go away. The same happens on the reverse side, when interest rates go down, you get the immediate benefit straightaway and then over a period of one and a half months, it neutralizes. Now, in case of banks, it is different because banks do not reset the assets or reset the loans every three months, they reset the loans every month. So, the moment the repo rate goes up, their lending rates go up immediately from that month itself, whereas for us it comes with a one and a half month lag.

Suresh Ganapathy: So, to understand this a bit better, let's assume hypothetically that in the October-to-December quarter no rate hikes happen by the Reserve Bank of India, nothing changes. Because of the fact that there is a lead lag issue, logically speaking October-to-December should see a margin increase for you, because the asset repricing lag will happen?

Keki M. Mistry: That is absolutely correct.

Suresh Ganapathy: And if the rates were to go up in October-to-December quarter, then this issue is going to persist even in October-to-December quarter because you will see the liabilities also getting repriced upwards?

Keki M. Mistry: Right.

Suresh Ganapathy: The second issue is on growth, I mean, it's not an issue, it's a good thing, I mean, you're talking about eight year high loan growth. Now, we are seeing some slowdown in the IT sector, rates have gone up. How do you look at it, is this growth sustainable, is it broad based, I mean, just any qualitative comment on growth, would be great.

Keki M. Mistry: So, Suresh, the growth is broad-based. It is happening from every part of the country. The metros, which is Mumbai, the Delhi, the Bangalore --, these were the places which were not really contributing much to business two years ago. And we have explained the reasons time and again. And if you're interested, I can get into more details on why two years ago, the Mumbai's and Delhi's were growing at a slightly lower rate. Now, over the last one and a half years or two years or so, business in Mumbai and Delhi and Bangalore have been growing at a much more brisker and a much more faster rate. The value of a property in Mumbai or Delhi is obviously going to be a lot higher than the value of a property than a Tier-2 or a Tier-3 town. Therefore, consequently, the average loan amount goes higher. Our average loan amount last year was Rs.33.1 lakhs, our average loan amount in the current year is Rs.35.7 lakhs, which reflects the increase in business from the metros. So, whilst the growth is broad-based, the Tier-two, Tier-three towns which were a larger contributor to growth two years ago, their contribution to growth has come down slightly, not because they have slowed down, but simply because the metros have grown at an even faster pace.

Renu Sud Karnad: Even in the metros, the higher value loans have seen a lot more traction in the last few months than they were earlier. So, people have gone back and started buying say four or five crore homes in a greater manner than they used to do earlier. I think within a Mumbai, within a Delhi we've seen that happen.

Keki M. Mistry: But having said that, it's not that the affordable housing segment has not grown, that has also continued to grow and 23% of the business we did in number terms came from the economically weaker section and the lower income group.

Conrad D'Souza: Just to clarify on your first question on the fact that we have moved from quarterly to monthly, these are only incremental disbursements since then. So, the earlier discussion on how the rate hikes would play out over a quarter will continue for most of the book, it's only on the incremental that we have moved to monthly resets.

Keki M. Mistry: As you said, if RBI theoretically does nothing on interest rates in the coming quarter, then obviously, the full benefit of the rate hikes till 30th September will flow through to the P&L account.

Suresh Ganapathy: One last question I will squeeze in regarding the merger. Now, you of course have Rs.5 lakhs crores of borrowings and deposits put together. First, to begin with your deposits of course are at a higher rate. Now, is there a worry that… it's a difficult question for you guys to answer, but the fact that once it moves on to the bank and it gets repriced at a lower rate, some of these depositors will move either an engagement which is being carried out with the depositor network that, no, this is with the corporation, and maybe they will stay on, so something on that any qualitative?

Keki M. Mistry: Let me start by answering that question and then Rangan if you're on the call you can add to what I'm saying. See, the point is that as far as HDFC itself is concerned, when a depositor has placed a deposit with HDFC, let's say for a period of five years, and that rate is theoretically, let's say, (25 is a theoretical number), 25 basis points higher than a bank's rate, then that higher rate will continue through the life of that deposit. So, if it's a five-year deposit, it will be for five-years, if it's a one-year deposit, it will be for one-year. On maturity at the end of that period, which may be five-years or one-year or whatever it is later, then the deposit will get repriced to the current rate. But till that time, it will continue at the old rate. We have come out with a new product recently, which we call 'Sapphire Deposits'. Rangan, you may want to just talk about how much money we have mobilized in a matter of a short period of time.

V.S. Rangan: We launched this for medium-term deposits. This is basically, we call it as 'Sapphire Deposits'. And it's done quite well actually. I must say that we launched it just about three to four weeks ago. It's basically garnering almost close to Rs.5,000 crores and there is a lot of good demand in the medium-term segment. On the deposits they will actually migrate into the bank, and on maturity, they will obviously get repriced at whatever is the current rate at that point in time in the banking system.

Suresh Ganapathy: What about the borrowings front, are you booting long-dated borrowing so that you get some breathing space for the bank when the merger happens, incrementally we are seeing in the market a lot of 10-year NCDs being played, so, is there any colour on that, Keki?

V.S. Rangan: I think, on the longer term, one obviously is the fact that the book being longer, there is a good growth on the retail side, which are obviously longer-term loans. So, therefore, you need to augment it with long term money which they are doing it in any case. And if you really look at the way the interest rate curve in the market is concerned, obviously, you will have to swap these liabilities into floating rate for appropriate duration. You may have to swap it for a one year, two year, three year period, depending on where interest rates are. And accordingly, you then come back to a floating rate where you start matching it to the lending rate on the retail. That's what we're doing as far as this is concerned. So, obviously, it also in a way helps in terms of what you're saying about in terms of elongating them, eventually probably having lesser maturities as you get into the bank. But that is more incidental, I would say, but from a business perspective, as a standalone balance sheet, it makes sense to do it this way because the assets are actually growing on the longer side. So, we will have to build up the liability on the longer side.

Keki M. Mistry: So, as you're aware Suresh, we have always kept a matched balance sheet, we do not take mismatches on maturity. And therefore, since the duration on individual loans is longer than the duration on non-individual loans, we have to necessarily marginally increase the duration of our liabilities.

Moderator: The next question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: I just wanted to know the stock of SLR investments.

Keki M. Mistry: We have Rs.45,000 crores of investments in government securities at HDFC.

Mahrukh Adajania: The LCR is?

Keki M. Mistry: 79%.

Mahrukh Adajania: You did mention about the slow growth in lease rentals and in the non-individual segment. But if you could give some more colour, it's only largely driven by pre-payments or -?

Keki M. Mistry: I explained this in the last call also, but I'll do it once again. If you look at it historically, construction finance loans used to constitute roughly between 13% and 14% of our total loan book. If you go back to pre-COVID days of if you go back to 2017 or '18, you would have seen that proportion. Over the last three or four years, construction finance loans as a component of total loans has come down from 14% to 9%. The lease rental discounting loans and broadly remaining the same match, will be roughly 6% to 7%, current level is 6%. So, that has not declined, it's the construction finance component, which has largely declined. The reason for the decline in the construction finance component was that the period from 2017 to 2020 saw some degree of stress in the real estate sector, in areas like Mumbai and Delhi, in the metros. And we can go into details on why that happened if you were interested, but we discussed this time and again. Now, because of the stress in the real estate sector, there was a lot of media talk and analyst reports about unsold properties, which were ready but had not been sold. And because of this unsold property, there were not too many projects that were launched during that period. Real estate sector particularly in the metros, in the Mumbai's and Delhi's and Bangalore's started picking up from around October of 2020 with the reduction in the stamp duty rates and many other things which happened at that point of time. So, after 2020, a number of new projects have got launched. We have a very healthy pipeline in terms of customers who are taking loans, we have a very healthy pipeline of construction finance loans, which we've approved. But here you must understand that the disbursement for a construction finance loan is much lower and much more back-ended than the disbursement for lease rental discounting loans. In a lease rental discounting loans, the disbursement is made upfront because the property is ready, the property is leased out, there is rental being received and therefore the disbursement is made up front. But in a construction finance loan, the disbursement will be made progressively over a period of time based on the progress of construction. And in that also, the developer has to first put in the share of the equity before we start making disbursements. And if you take a project in a Mumbai or a Delhi, typically it would take anything between three to five years to do the project, depending on the size of the project. So, disbursements tend to be back-ended. Now if we had a pickup in the new projects being launched in the latter half of 2020, the disbursement for these projects would largely happen in the coming quarters, whereas what we would have disbursed now in this quarter would have been a loan, which would have got approved in 2018 or 2019, when in any case, the launch of new projects were slower.

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

Kunal Shah: So, firstly, on the non-individual portfolio, as we get into the entire merger process, is there any portfolio which has been earmarked which might not be acquired by the bank and there is a resolution or maybe the repayments, which are being assured in that portfolio, and if any, what would be the quantum of that?

V.S. Rangan: On the non-individual portfolio, we've not actually gone into the items which will not go into the bank and so on and so forth. Because as part of the merger, we have asked RBI for certain forbearances on the assets and liabilities which are moving into the bank, that is number one. Number two is as far as some of the loans, which may not qualify in the bank, which in the final event, if they get the forbearance and they can- sort of be paid out later.So we don't think that amount is actually going to be very substantial and it's going to be very, very manageable, few 1,000 crores of rupees, that's all.

Keki M. Mistry: In reality, the answer to your question is that generally the loans that we do are loans that banks would do. We don't do anything which a bank would not be able to do, except just two things. One is acquisition funding, which may have been done occasionally in the past and the other is loans against shares for corporates, which again we may have done occasionally in the past. To my mind, these are only the two broad categories of loans which we could have done and which banks can't do. And the value of those loans, as Rangan said, will not be material at all.

Kunal Shah: Any reason for increasing the spreads apart from maybe the overall pool of NPA coming down, and that would have helped in terms of interest accrual. But otherwise, we see that spreads on quarter-on-quarter basis would have been up by almost 35, 40-odd basis points

Keki M. Mistry: The reason spread would have gone up was what my answer to Suresh's question was, that when interest rates go up, the increase in cost to us is immediate, the benefit of that increase, which is in terms of the increase in lending rate, that comes over a period of three months. So, whatever were the increases in interest rates in the first quarter, when we saw some pretty sharp increases by RBI, that benefit which would have flown in the second quarter which was not there in the first quarter. That probably explains that.

Kunal Shah: On non-individual side?

Keki M. Mistry: Yes, both individual and non-individual. Non-individual would also be because of the resolution of some of these loans.

Kunal Shah: Yes, it would be primarily because of the resolution no, because there is almost like 35, 40 bps-.

Keki M. Mistry: The spread change on individual loans will be because of the rate increase impact and non-individuals will be because of resolution.

Kunal Shah: During this entire repricing, do we offer any discounts to the existing customers so to ensure that the repayments and pre-payments are low? And would that have any impact on the spreads on the individual loans or that's the normal course of business?

Conrad D'Souza: No, Kunal, there is no discount. Since it's based on a term extension method, you retain the installment and extend the term. And there would be few cases which will go beyond a certain threshold term which we negotiate and get a part prepayment or whatever or increasing the installment, but there are no discounts given.

Kunal Shah: Yes, so maybe a strong relationship with a particular corporate salaried accounts, particular developer, maybe we would have sourced loans for them or so and then trying to see that if they come with some price bargain, do we do that after the hikes which have been there?

Keki M. Mistry: No, we have not done in a single case.

Moderator: The next question is from the line of Jignesh Shial from InCred Capital. Please go ahead.

Jignesh Shial: On the spreads and margins, detailed explanation you have already given. I had two things to have just more clarity. Incrementally, we are seeing that if the rates are consistently going up, definitely, somehow the demand is likely to get disturbed out here. So, going forward we will be taking a bit of a hit on our spreads, just to make sure that the overall demand momentum remain pretty decent? And along with that, is it easier for us to pass on the rate hike to affordable segment side compared to premium segment or a mid income level segment side, is there a difference in passing it on or it remains more or less same?

Keki M. Mistry: The answer to the second question is, it makes no difference, whether it's in an affordable housing segment or in higher income group, the change in interest rates is always passed on immediately to the customer. Your first question on how higher interest rates will impact demand, my answer to that would be as follows, let's take a comparison of a housing loan, which is over a 15-year timeframe, even though the duration may be shorter, original term is 15-years, and let's say a personal loan, which has a 15-month term. When you're taking a personal loan for buying some expensive equipment, for example, you want to borrow that money at a time when interest rates are at the lowest, because for the entire 15-month period, you're not going to see any dramatic reduction in interest rates in the next 15-months. And therefore, you would want to borrow money at a time when rates are low, because then those rates will more or less sustain during the next 15-months. However, in a housing loan, it is very different because a housing loan is a 15-year loan. Interest rates in India will go up and interest rates will come down. If you take the last 15, 20 years, in my experience, we have seen so many, many, many innumerable cycles of rates going up, then stabilizing for some time, then rates going down, stabilizing, going up and going down. So, when you're taking a 15-year loan, it really does not make so much difference, where interest rates are at the point of time when you take a loan, because over that period of 15-years, if rates were low, they will become higher at some point, if they were higher, they'll become lower at some point. And everybody in India mostly gets floating rate loans, no one gets fixed rate loans. In a floating rate loan, you will get the benefit of falling rates when rates come down and you'll have to pay the higher costs when rates go up. So, it makes a much lesser difference from an economic standpoint in a long-term loan as compared to a short-term loan.

Jignesh Shial: So, basically, we are seeing that initially post-lockdown the momentum had been pretty decent in the housing loan on the demand side specifically. Initially, definitely some benefits coming up from the government in the case of stamp duty reduction and all. But according to you being on the ground, what basically is driving this demand specifically in the metros and the Tier-one cities, the key reason why you think that the demand is pretty heavy, and do you see this sustaining over a period of next six or 12 months or so?

Keki M. Mistry: My sense is that the demand will sustain. It's very early to talk about the current month, for example, but in two or three days that we've seen in November, has seen a fairly healthy number of new applications that we've received, but it's too early days, so I don't want to make a commitment on it. But my sense is that strong demand will continue. Housing is a basic necessity in India. And as long as people are comfortable with their jobs, they believe that the jobs are not at risk, the salaries are being received, people will need to buy a house. So, it's a requirement, it's a necessity, it is not something that you are buying a house because just they want to make an investment, you're buying a house because you need a house to stay.

Jignesh Shial: My second question was on the developer portfolio altogether. How you are seeing that particular portfolio shaping up in coming three years? We have witnessed sort of consolidation happen within the developer segment altogether, many of the large developers taking over, the smaller ones or not. How is your experience into developer lending portfolio side and how do you see that demand going forward?

Keki M. Mistry: I responded to that in detail in the question which I think Mahrukh had asked. Just to quickly recap, in the period of three years between 2018 and 2020, slowdown in the launch of new projects, because of that disbursements that we are seeing today are lesser than what they would otherwise have been. However, post the second half of 2020, project launches have increased. As project launches increase, the demand for construction finance loans also increases. But as I said in response to the earlier question, construction finance loan or like lease rental discounting loan, disbursement is made gradually slowly over the life of the loan, because it is linked to the construction of the project. as the developer has to first put in his equity, his construction has to come up to a certain level, then he comes in for additional funding, and at that stage, our inspectors go and look at what construction has happened and then disburse. So, the point is that the disbursements tend to be back-ended unlike a lease rental discounting loan.

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

Bunty Chawla: Just two data points if you can share. First is the absolute disbursement for the quarter as well as restructured assets as of September 2022?

Conrad D'Souza: The retail disbursements are around 44,000 crores and restructured assets are 0.7% of the book. So, there is no increase from the September numbers.

Moderator: The next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: Just two questions. The first one being what is the interest rate differential between our LAP and home loans?

Conrad D'Souza: The rough interest rate differential would generally be between 1.5% and 2%.

Shweta Daptardar: What is our incremental cost of funds?

Keki M. Mistry: Incremental depends on where you're borrowing, what term you're borrowing, which instrument you're borrowing from, we can't give an incremental number, like that.

V.S. Rangan: If you were to look at incrementally what we borrowed in the month of September, for example, the incremental cost was around 7%.

Keki M. Mistry: Let's understand, that this 7% that he is talking about is annualized cost, whereas the lending rate that we are talking of is a monthly rest. So, comparison in this context is not correct.

Moderator: The next question is from the line of Nilanjan Karfa from Nomura. Please go ahead.

Nilanjan Karfa: Keki, just a question on let's say, the incremental number of loans that we would have done in the last six to nine months from the newer centers where HDFC Bank was not operating or the relation was not happening, any color what those incremental loans, ticket sizes roughly would be, whether this will be more salaried or more self-employed, any color of the incremental loans that we are doing?

Renu Sud Karnad: I really think there is not much difference at all in that. I think what has happened is that HDFC Bank has extended acquiring for some of the smaller branches, some of newer locations. So, the average ticket size maybe in some of those cases, a little lower. But I think in terms of self-employed, employed, we have not seen any change. Self-employed has been reasonably good in the last few quarters and so, hasn't been any great hike or any differences yet.

Nilanjan Karfa: The point of asking is, there are so many newer affordable housing finance companies, which are thinking about growing bigger. We are obviously trying to get into that space, but –

Renu Sud Karnad: As Mr. Mistry already said, we've 23% of our loans are in that segment and we continue to grow in that segment. When you say affordable, these are basically lower cost homes also as you go into smaller geographies. As he mentioned earlier, the costs also come down, right. So, in terms of what we're seeing right now, is that the middle income, low middle income, they're all actually coming back into the market in the last three, four quarters. And I think that is what you're seeing the growth in. But employed, self-employed, the mix continues to be the same.

Nilanjan Karfa: What percentage of our individual loans would qualify the RBI priority sector norm?

Renu Sud Karnad: I wouldn't have that number off hand immediately, because there're also a value limit as far as the RBI priority sector is concerned, because there's a difference between what is in metros and otherwise. Maybe we'll get back to you. On our incremental loans, I won't have that number to give you right now.

Nilanjan Karfa: Outstanding also, if you have it?

V.S. Rangan: Outstanding will be about Rs.1,20,000 crores.

Moderator: The next question is from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh: Two questions. One is, what percentage of customers would opt for a term increase versus EMI increase? And secondly, will it be fair to assume that the market share in LRD would have remained, I mean, you would be holding on to your market share in LRD, and even in project finance?

Keki M. Mistry: Yes, we would certainly be holding on to our market share on LRD. As far as construction finance is concerned, even though you may see that the construction finance book has come down as a proportion of the total book, our market share would actually have gone up. Because if you see in that 2016-17 period, when a lot of new projects were being launched, at that time, the biggest lenders in the construction finance business used to be the likes of Indiabulls, and Dewan Housing, and Piramal and people like that, who have become significantly slower in the construction finance lending. So, our market share would have gone up. It's just that as I said between 2017 and 2020, not many new projects were launched, very, very few projects were launched, and the disbursement for these loans would only happen now or over a period of time. Sorry, what was your first question?

Saurabh: What percentage of your individual customers would opt for a term increase when rates go up or EMI increase?

Renu Sud Karnad: What happens, when the rates go up, default option is that the term goes up, if you've got a 15-year loan, it will become 15-year and a few months. It's only when we are not able to cover the interest and negative amortization sets in. At that point in time is when we get in touch with the customer and tell them that now what you're paying is not covering interest, so it's in your interest to either increase the EMI or maybe pay back a little portion of the principal if you're able to do that. So, I think that how it works. Default option really is the term goes up. And I would say 90%, 95% of them are like that. It's only the negative amortization cases that we actually call them and counsel customers. Because you see what happens, very soon maybe next year, the rates of the interest will come down and then again, we'll be able to reduce the term. So, because it's a long-term loan, as you know, that is the default option that we thought of because of the interest rate variability.

Moderator: The next question is from the line of Deepak Kapoor, an individual investor. Please go ahead.

Deepak Kapoor: I have a couple of questions. One question was regarding the RBI in-principle approval on the merger. We haven't heard anything from RBI you had requested on the statutory requirements. As to what is the view and thinking on that, given the fact that we are having a shareholder meeting later in the month, would we have some indication from RBI as to what is the thought process?

Keki M. Mistry: We have not heard anything from RBI either saying yes or no. We would be obliged under regulation to disclose it to the public the moment we get it. At the moment we have received nothing. But when we envisage the merger and we did our computation about the viability of the merger, I repeat we did not take into account we would receive any forbearance.

Deepak Kapoor: Would you think that information from RBI would be important for the shareholder meeting in terms of the approval to exactly know as to what -?

Keki M. Mistry: I think by and large more shareholders of either HDFC, HDFC Bank have already factored in or have made their assumptions or their calculations on the basis that the RBI approval does not come. If the RBI approval comes, it would be a bonus, it would be something which would be even more positively viewed in the market. But at the moment, I guess they would have assumed that it is not there, because nothing is there in public domain, I mean, I think they have not told us what their views are.

Deepak Kapoor: My second question was regards the news we just recently heard about the NIFTY index, where HDFC might be removed in December or January -

Keki M. Mistry: I would suggest you please look at the newspaper articles closely because this has been very clearly subsequently clarified by NIFTY that that is not the case. We can talk to you separately on that. It has been reported in the newspapers also, that we will not drop out of the NIFTY as you have indicated. That was some analyst view at that point of time. This was discussed both with SEBI and with NSE, and they have come out with a clarification.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for their closing comments.

Keki M. Mistry: So, I would just like to say thank you to everyone. We've had a good quarter. We hope and expect that the momentum we've seen in housing loans now for the last nearly 16 to 18 months will continue unabated in the period ahead. The economy is on strong wicket, job certainty is very high at the moment, and consequently consumer confidence is generally very high. And as I said, interest rates have gone up, but the impact of interest rates on a long term loan is a lot lesser than on a shorter term loan from an economic standpoint.

Conrad D'Souza: Thank you very much. And should any of you all have any follow on queries, please get in touch with us, and thanks Steven.

Moderator: 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.