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January 23, 2024

BSE Limited
Dept of Corporate Services
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400 001

National Stock Exchange of India Limited
The Listing Department
Exchange Plaza
Bandra Kurla Complex,
Mumbai 400 051

Dear Sir/Madam,

Sub: Transcript of Earnings Call for the third quarter ended December 31, 2023

We wish to inform you that pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the earnings call with analysts and investors held on January 16, 2024, with respect to the financial results of the Bank for the third quarter ended December 31, 2023, has been made available on the website of the Bank at the link: https://www.hdfcbank.com/personal/about-us/investor-relations

A copy of the transcript is annexed herewith.

This is for your information and appropriate dissemination.

Thanking you,

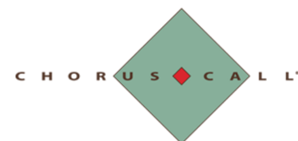
Yours truly,
For HDFC Bank Limited

Santosh Haldankar
Company Secretary
Encl: a/a

HDFC Bank Limited

Q3 FY24 Earnings Conference Call

January 16, 2024



MANAGEMENT: MR. SRINIVASAN VAIDYANATHAN – CHIEF FINANCIAL OFFICER – HDFC BANK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to HDFC Bank Limited's Q3 FY '24 Earnings Conference Call on the financial results presented by the management of HDFC Bank Limited. 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 this conference call, please signal an operator by pressing start then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Srinivasan Vaidyanathan, Chief Financial Officer, HDFC Bank. Thank you, and over to you, sir.

Srinivasan Vaidyanathan: Okay. Thank you Neerav. Good evening and a warm welcome to all the participants. There is an earnings presentation deck published on our website. Please refer to it as appropriate. As you get to it, in the meantime, let's cover a brief on the macroeconomic environment that operated during the quarter before we review the earnings. We continued to see healthy domestic economic activity driven by robust government spending, primarily in capital expenditure, improvement in domestic manufacturing and resilient services sector performance.

As you know, the GST collections grew 13% year-on-year.

Manufacturing and services PMI continued to remain in the expansionary zone. On the consumption side, improved consumer demand driven by sector spending resulted in robust growth across various sectors.

RBI kept its rate unchanged at 6.5% and retained its stance unchanged at “withdrawal of accommodation and modestly reduced its inflation forecast in the second half of the year. As we look ahead, the economic environment is poised for strong growth. India's year-on-year GDP growth for FY'24 is estimated at about 7%. And for FY'25, GDP growth rate is expected to be around 6.5%, continuing to be one of the fastest-growing major economies in the world.

Let's go through the key factors of the bank's growth journey. Advances can be referred to on page 7 and 8. Gross advances are at INR 24.7 trillion as of 31st December, reflecting the sequential momentum of INR1.1 trillion or 4.9%. Retail advances grew 3.3% quarter-on-quarter, primarily driven by strong performance in the mortgage business.

Retail mortgage disbursements of INR460 billion during the quarter, grew 18% over prior year. In the CRB business, it continued its strong momentum, registering a quarter-on-quarter growth of 6.7%. Wholesale segment, excluding non-individual loans of eHDFC grew 1.9% sequentially. Non-individual loans of eHDFC aggregated to INR0.99 trillion compared INR1.03 trillion as of last quarter end.

Focus on deposits continued. Looking at Pages 7 and 9, total deposits as of December end amounted to INR22.1 trillion, primarily comprising of retail deposits, which is at 84% of total deposits. Retail deposits, which are the bedrock of this franchise, grew well over INR530 billion or 2.9% during the quarter, while non-retail deposits reduced by INR118 billion quarter-on-quarter resulting in total deposit growth of INR411 billion or 1.9% during the quarter.

Current account deposits ended the quarter at INR2.6 trillion, registering a growth of INR80 billion or 3.2% sequentially and INR280 billion, 12.3% over prior year. Savings deposits as of December end at INR5.8 trillion grew INR99 billion or 1.7% sequentially and over INR440 million or 8.3% year-on-year.

Overall CASA deposits ended the quarter at INR8.4 trillion, resulting in a CASA ratio of 37.7%. Term deposits aggregated to INR13.8 trillion as of December end and grew by INR232 billion or 1.7% during the quarter.

On the distribution footprint expansion, referring to Page 10, it reflects our branch network, which stood at 8,091 outlets as of December end. Overall, there has been an increase of 908 branches over the last 12 months. During the quarter, we added 146 branches, which is at the rate of 1.6 branches per day.

Payment acceptance points are at 4.8 million, a year-on-year growth of 25% as adoption of Vyapar App built momentum. In CRB, our rural business reach expanded to ~210,000 villages, a growth of ~60,000 villages over last year.

In the customer franchise building, we added 2.2 million new customer liability relationships during the quarter and around 7.4 million relationships so far in the current fiscal year. Our customer base stands at 93 million customers. This provides an opportunity to further engage and deepen our relationships.

In order to position us for greater engagement, we have added ~41,000 employees over the last 12 months and ~10,000 during the quarter.

On cards, we issued we issued 1.6 million new cards in the quarter. Total card base stands at 19.9 million.

You'll see on page 11; balance sheet remains resilient. LCR for the quarter was 110%, capital adequacy ratio was at 18.4%, Tier 1 ratio at 16.8%.

Let's start with net revenues on pages 12 and 13. Net revenues for the quarter were at INR396 billion, which grew by 25.8% over prior year. Net interest income for the quarter, which is 72% of net revenues, and is at INR285 billion, grew by 23.9% over prior year. The core net interest margin for the quarter was at 3.4%, and on an interest earning asset basis, net interest margin for the quarter was at 3.6% and was flat to prior quarter.

Getting to details of other income on Page 15. Total other income at INR111 billion. Fees and commission income, which is almost close to two-third of the other income was at INR69 billion and grew by 15% over prior year. Retail constitutes approximately 94% of fees and commission. FX and derivatives income at INR12 billion was higher by 12% compared to prior year of INR11 billion.

Net trading and mark-to-market income were at INR15 billion for the quarter, prior quarter was at about INR10 billion. Other miscellaneous income of INR15 billion, includes recoveries from written-off accounts and dividends from subsidiaries.

Referring to Page 16 on operating expenses for the quarter, which were at INR160 billion, an increase of 28% over prior year. Cost-to-income ratio for the quarter was at 40.3%. Cost to assets was at 1.9%.

Coming to the asset quality on Page 17 to 19, the GNPA ratio was at 1.26% compared to 1.34% in prior quarter and 1.23% prior year. Out of the 1.26%, about 15 basis points are standard, but the core GNPA ratio is at 1.11%. However, these are included by us in NPA as one of the other facilities of the borrower is in NPA. Net NPA ratio for the quarter was 0.31%. Prior quarter was at 0.35%.

The slippage ratio for the current quarter is at about INR70 billion or 26 basis points. Last quarter was at about INR78 billion. During the quarter, recoveries and upgrades were INR45 billion. Write-offs in the quarter were at about INR31 billion. There was no sale of NPA accounts during the quarter.

On the provision side, total provisions reported were around INR42 billion. And excluding the contingent provision, it was INR30 billion as against INR29 billion during the prior quarter and INR28 billion for the prior year. As I just mentioned, the total provisions in the current quarter included additional contingent provisions of approximately INR12 billion, and it is pertaining to investments in AIF on a prudent basis. The fair value of AIF is up by INR5 billion, but 100% provisions are being taken at book value.

The core specific loan-loss provisions for the quarter of around INR26 billion as against INR25 billion in the prior quarter, the provision coverage ratio was at 75%. At the end of current quarter, contingent provisions and floating provisions were approximately INR154 billion, general provisions were INR105 billion.

The total provisions comprising specific floating, contingent and general were about 159% of gross nonperforming loans. This is in addition to security held as collateral in several of the cases. In addition, the bank holds contingent provisions of INR12 billion on a prudent basis to AIF I just mentioned. Floating contingent and general provisions, excluding the contingent provision on AIF were about 105 basis points of gross advances as of December end.

Coming to credit cost ratio, the total annualized credit cost ratio for the quarter, excluding the contingent provisions I just referred to, was at 49 basis points, prior quarter was also at 49 basis points.

Recoveries, which are recorded as miscellaneous income amounted to 13 basis points of gross advances for the quarter as against 16 basis points for the prior quarter. The total credit cost ratio, net of recoveries was at 35 basis points in the current quarter as compared 34 basis points in the prior quarter.

The profit before tax was at INR194 billion, which grew by 19.8% over prior year. After INR15 billion of tax provisions which are no longer required, consequently to the favourable orders received, net profits after tax for the quarter was at INR164 billion, grew by 33.5% over prior year.

Summaries of subsidiaries can be seen on Pages 21 to 26. On HDB -- to cover on HDB, the quality of the book continues to see sustained improvement with a gross stage 3 of 2.25% as of December against 3.73% as of prior year-end -- prior year. Provision coverage on Stage 3 book stood at 68%. Profit after tax for the quarter ended December increased to INR6.4 billion against INR6 billion for the quarter ended September 30. ROA and ROE annualized for the quarter of December stood at 3.1% and 19.9%, respectively. Earnings per share for the quarter was at INR8.04 and book value per share stands at INR164.6.

Now getting to HDFC Life on an IGAAP basis. The profit after tax for the quarter ended December was at INR3.7 billion, grew 16% year-on-year. India embedded value at INR452 billion improved 20% compared to prior year.

On AMC, quarterly average AUM at INR5.5 trillion grew 24% year-on-year. Profit after tax for the quarter amounted to INR4.9 billion, registering a year-on-year growth of 33%. Earnings per share for the quarter was at INR22.9.

HDFC ERGO on an IGAAP basis: Profit after tax for the quarter ended December was at INR1.3 billion, registering a growth of 6% year-on-year and a solvency ratio at 187% as of December end.

HSL, our securities company, the total reported revenue for the quarter -- total reported net profit for the quarter after tax was INR2.3 billion as against INR2 billion in Q2 '23. Earnings per share in the total was INR144 and book value per share stands at INR1,253.

On ESG, kicking up our CSR commitment, the bank has undertaken multiple projects across India, with an aim to address critical developmental issues such as sustainable livelihood, education, soil and water conservation, and key ratings and awards are in Page 27 for reference.

In summary, our results reflect robustness in growth across various parameters driven by employees passionately working with our customers to execute the business model, which has resulted in an advances growth sequentially of 4.9% and 2.9% sequential momentum in retail deposit growth. Profit after tax for the quarter increased by 33.5% versus prior year, delivering a return on assets in the quarter of about 2% and return on equity of about 15.8%. Earnings per share reported in the quarter is at INR21.6 on a standalone bank level and INR22.7 at the consolidated bank level. Book value per share on a stand-alone basis is at INR556, and on a consolidated basis, it is at INR576.

With that, may I request the operator to open up the line for questions, please?

Moderator: Thank you very much. The first question is from the line of Mahruk Adajania from Nuvama. Please go ahead.

Mahruk Adajania: Yes hi, good evening. Sir I have two questions basically, and the first one in general is on deposit growth. So, in general there's a lot of noise around RBI having a discussion with banks on LDR, plus deposit growth has been very, very tight in November and December irrespective of whether you've had a discussion with RBI or not. So how do you view deposit growth and LDR from

here on? If you could give us some sense, target or guidance on how LDR will pan out, or what LDR are you looking at, in FY '25?

And a related question to that is that if deposit taking remains tight irrespective of the LDR debate, then what would you choose? Would you choose to offer higher rates compared to competition because you ask rate for deposits is on the higher side now? Or would you choose lower margins if the deposit situation remains like this for say two quarters?

Srinivasan Vaidyanathan: Thank you, Mahruk, for asking. If I miss anything, come back, but let me start with your first one in terms of the deposits and the CD ratio itself, right? It probably addresses a broader point that many of them would have. If you think about -- first of all, any conversations with RBI is confidential, and it is between the regulator and the bank. So we will not be able to talk about any individual conversations or anything else. Keep that aside, your main point is in terms of the rate of growth of deposits as well as on the CD ratio, given where it is. So let's talk about that.

Now on the deposits if you see. Firstly, on the deposits I do want to mention that how we approached it here. At an overall level, our deposits grew by INR411 billion. At an overall level, our deposits were at that level. So INR411 billion. That's the total growth that we had. Within that, if you see the retail deposit growth of INR530 billion and 2.9% during the quarter.

However, non-retail deposits reduced by INR118 billion, INR118 billion quarter-on-quarter it reduced, almost 3.3% reduction sequentially in the nonretail deposit. Again, it is a very price sensitive space. We chose not to participate and get that price thing up. And we wanted to focus more and more on granular there. So that's one.

And if you think about the individual component of various deposits, we did -- I talked about the current account growing at 3.2%, and within the current account, the retail current account constitutes 72% and has been growing 3.8% sequentially. And the savings account deposits I'll come back and talk about the savings as such, right? There is something on the savings which is -- we need to see that, right - where you are seeing two things on savings. One, given the rate where we are in peak is the preference for time deposits. Two, in terms of the spend, we are seeing good amount of spend that is happening from the customers. In our own base, we can see 18%, 20% spend from -- on the issuing side -- on the acquiring side from a cards point of view. So people are spending. And one other measure or yardstick, we look at -- aggregate of our card customers, what is the balance that they have, right? If you look at the card ANR versus the deposit against it, almost 5.4x they have, right? That means for every 100 that I have as my card balance outstanding, I have 5.4x that in my savings -- in my deposit account in the bank.

So there seems to be more spending room there to go. So that's one. And from a rate cycle point of view. And how do you overcome that is to get more customers. I talked about 2.2 million customers, 7.4 million. These are the kind of what we have. Now coming to the -- what does it all do from a deposit growth..

Mahruk Adajania: Sir?

Srinivasan Vaidyanathan: Yes. I'm here. Can you hear?

Moderator: Yes, Mahruk, now you are audible.

Srinivasan Vaidyanathan: So getting to our CD ratio as such, right? Yes, the LDR, which is the CD ratio that you alluded to, it's a little more than 110% as we close the quarter. Over a period of time, if you see in this quarter, how did we manage the balance sheet. We had INR1.15 trillion growth in loans, if you see. And we funded that through INR411 billion on deposits. And you had investments going down by about INR485 billion and cash and cash equivalent by about INR96 million.

So essentially, we funded that by the balance sheet somewhat coming -- not on the asset side. We got that self- funded through some lower investments. That is what we're seeing in the LCR ratio going down to 110%. So some of the securities came down and cash came down as the ICRR ran down on October...

Mahruk Adajania: I'm unable to hear you.

Srinivasan Vaidyanathan: Neerav, can you hear?

Moderator: Yes, sir. Sir, line for Mahruk has dropped. We'll move to the next participant. Next question is from the line of Pranav from Bernstein. Please go ahead.

Pranav Gundlapalle: Hi. Good evening. Thanks for taking the questions.

Srinivasan Vaidyanathan: Good evening.

Pranav Gundlapalle: I think a question, again, related to deposits, the one question. When you think about deposits this quarter instead of say the INR400 billion that you accreted, if you had to double or triple that number, which is the biggest constraint? Is it the LCR, where you are hitting the constraint? Or is it simply the cost of deposits, or is it the lack of good lending opportunities? Where are you seeing the biggest constraint?

Srinivasan Vaidyanathan: Yes. The biggest constraint is in the area of deposits, right? And if you look at what has happened in the system, very important to look at the liquidity in the system, how it has moved. If you see, it has been positive ever since Q1 '20. The system liquidity has been positive since Q1 '20. And now it has moved to a negative territory. All the way, if you look right now, this is the first quarter -- full quarter - Q3, that it is a negative INR664 billion, right? That's the negative situation in the quarter, system has gone down by, that's the average that you're seeing.

So it is the lack of liquidity in the system. Rightfully so if you look at how RBI has managed, there is no rate change that has happened. But the inflation that spiked four months ago, five months ago, has been managed through liquidity constraints, right, through working on the liquidity side. That is what has happened on a temporary basis.

But over quarter-to-quarter, this is happening, but it is coming after more than three years, three and a half years, right? We are seeing liquidity on the negative, which has been there. If you look at last 10 years, there have been several quarters in the past in '13 or in '15, 2013, 2015, where it has been negative. But this order of magnitude negative is very recent, in the last three months it has become negative. So that deposit is an important ingredient, that is the important

constraint to growth, right? And we are at it. And within that, I will tell you retail has done reasonable. We would have liked retail to do 50% more, 80% more than where we did. But it is the wholesale, if you see not just a lack of growth, it's a degrowth in the non-retail on the deposit side. That is where it is very price sensitive. We chose not to participate in that price as much as possible.

We have avoided that so that we can consume some liquidity that we have and at the same time, make progress on the asset side. But that can't continue for long, as you know. LDR ratio is at 110-something. So we do need deposits to be kicking in for the loans to be operating. That also answers what Mahruk was asking, very similar thing that you're asking. Yes, we do need the deposits to be coming in.

Pranav Gundlapalle: Thanks, Srini.

Srinivasan Vaidyanathan: Thank you very much.

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

Suresh Ganapathy: Srini, so just to understand what is going to drive your margins in the future. Because if I look at it this quarter, you have sold off INR50,000 crores, your LCR is at 110%, you can't go below that. There is no excess liquidity assets at 110% LCR, right, and funding costs may remain elevated. So when you are saying I want to go from 3.4% to 3.7%, incremental CASA mobilization is getting to be a challenge.

Term deposit growth is high. Your HDFC Limited borrowings are sitting there at 70-odd percent. So deposit growth is looks difficult to meet your own loan growth requirements. When are you going to replace the eHDFC Limited liabilities. So amidst all these challenges, what will drive your margins, say, from 3.4% to 3.7%, say, over the course of next 18 to 24 months?

Will it be yield on loans? Because it doesn't look like it can go through cost of funds? That's the first question. If you can elaborate the movement in margins. Some indication as to what will be the components and how are you going to manage the eHDFC Limited liability replacement with deposits, point number one?

And the second thing is, 1,500 branches doesn't look like it's happening this year because we have only opened 290 branches -- sorry, 270 this year. So going to fall short of your 1,500 branches target by a wide margin. What is the thought process there? Over to you, Srini.

Srinivasan Vaidyanathan: Okay. Yes, thank you. I'll take the second one first, topically, from a branches point of view, yes, there are a little more than 500, 550 branches in the pipeline as we closed the quarter. And we are targeting somewhere maybe 800 to 1,000 branches or so, right? If we do 1,000 branches, it would be good. A little more than 500, 550 branches are in the pipeline. So that's something on the branches. 1,500 is not something that will happen by March, right? 1,000 is something that is possible. But at this time, we are having about 500 plus in the pipeline, that's 570 more precise in the pipeline.

The second aspect of it is in terms of your levers for margin and the deposits as such at total level. If you look at the mix of products that we are having, the mix of products, one of the important levers is the retail mix to be enhanced, right? Retail mix has been continuously coming down. And that is something that will help us to go. And off late, in the recent times, if you see, we haven't had that kind of a market rate of growth on the unsecured as such. Our personal loan has been growing 2% to 3% over the last two quarters.

So we do have opportunity space there. That's part of our credit kind of process, where periodically, they calibrate up and down. And now we believe that the overall credit both from an NPA point of view and credit cost point of view are at a benign state. And so whatever testing and other things we may do, we are positioned to have a good growth there. That's one.

Retail asset growth, particularly the non-mortgage retail asset, where there is a yield, needs to come up. And the mortgage is another big opportunity that we have, both existing customers, where we have almost 4.8 million preapproved, prequalified databases to go through, which we have done in our existing base who are eligible that we are making offers and talking about it. And also 5.6 million customers who already have somewhere we are targeting that.

So that's -- in terms of the retail mix needs to go up, that is an enhancer for the margin. And to some extent, it picks up on the ROA too, right? So that's an important mix. That's not what we have seen in recent times. In the recent times, the wholesale growth has been overwhelming the retail loan growth. We do need to reverse that. That's part of the process in terms of what we are going through.

Now getting to what are the other levers, which you also mentioned, but there are headwinds on that, right, CASA ratio. We are at 37.7%. Even before merger, we were 42%. Over a long period of time, we were 42%, 43% thereabouts. We are confident of getting the CASA ratio back up. There are two aspects to the CASA ratio. One is the customer spending will abate at some point in time.

And the second thing is that we are getting new customers. That is why it is important to get new customers, 2.2 million new customer liability relationships were brought in, in this quarter, 7.4 million over the nine-month period. It is important to bring new customers and get them to a maturity. So that is an important thing that we are working on to get that from a CASA ratio to go back up.

And also we're at the rate cycle -- the rates haven't moved for several quarters now. And by all accounts, we are at the peak of the rate cycle. And the deposit repricing that needs to happen in a quarter or so should be done, because the rate cycle started in May '22, and then the CASA should be back to its normal growth, right? So that's something on the CASA ratio. We are waiting for that to come.

The other aspect that you said, borrowings, whether the borrowings can -- how do you replace the borrowings with deposits? Yes, 8% of our balance sheet was borrowing, now 21% is borrowings. We do need to change that from -- to deposit funding. But one other aspect that we have started to pursue even in this quarter is that the borrowings can continue as borrowing. So

we got INR7,500 crores of long-term affordable housing bonds that we have, infrastructure bonds that we issued in this quarter.

The economics of that are like a deposit, not like a CASA deposit but like a time deposit, right, slightly better than a time deposit because you obviate the PSLC cost because the affordable housing is tagged against it. We do have almost INR1 trillion of affordable housing in our assets stable that we can stack to. The deposit insurance cost is obviated. And so there are some benefits that come. So it equates to slightly better than our time deposits at an overall level. But that doesn't mean we do not need CASA, but there are other opportunities on the borrowings, too.

Suresh Ganapathy: Okay. And just one final question on cost saving. You guys have said you will bring down from 40% to 35% over the course of next five years. I know it's a long journey, the fact that you're opening lower number of branches. Can we get to see some benefits, not quantifying, but some benefits in that reduction next year FY'25? At least there has to be a journey in that 500-basis point reduction, right? So we were at 40.4 -- I don't know, last quarter, and we are at 40.2 or something like that, I mean, around the same range. So, do you think it can really come down in the next one year or so? Sorry. Thanks. It's the last question.

Srinivasan Vaidyanathan: We are with you, Suresh, on that. Yes, we do expect normally -- while we don't give a forward-looking outlook, but on the cost to income, we have always said that we want to take it down to the mid-30s. And that we will progressively take it down on not just towards the back end, but there should be an expectation that the cost to income should be improving. And it is a function of certain efficiencies through better digital offering, that's one.

Several things that are in the pipeline on technology rationalization is one that is a good tailwind that should account for it. And the second thing is that as we work on some of these margins, which is both the asset mix, the CASA mix and the borrowings mix moving towards deposits, as we work towards that, the numerator is also an important contributor to get to that.

Suresh Ganapathy: Okay. Thank you so much.

Srinivasan Vaidyanathan: Thank you.

Moderator: Thank you. Next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Yes. Thanks. Good evening, Srini. Two, three questions. Number one, the whole debate between LDR and LCR. For you as a management team, what is it that you're focusing on? I know you've put out a certain trajectory for LDR, but right now the LCR has kind of come off to 110% as the previous participant pointed out, 110%, clearly, there's not really much room for it to go down. So what really is a key number to focus on for you all?

Srinivasan Vaidyanathan: Okay. Listen, both are important. It's like you need to walk and chew gum, right? You need to do both, which means LCR, as we have said before that we'd like to operate between 110% to 120%. We were at several quarters, 113%, 114%, 115% thereabouts. Then for a quarter, we went up, and then we have consumed -- as we see in this quarter, we have consumed, right? So it is important around that level to keep that level of cushion to some extent, right? That's one on the LCR.

LDR is important, right? We do want to ensure that the mix of funding moves more towards deposits. So LDR is important from that sense. And if you see, currently 110%. Then if you look at where can this go. Where can this LDR go? You look at our LDR prior to merger, it's very important, right, a recent discussion that is developing. Prior to merger, our LDR was at 85%, right? Then now it's at 110%. And if you remove the merger effect of the assets and the deposits on this, the LDR is more like a 89%, right.

And if you look at our historical range of what the bank has operated LDR over a long period of time, around that 85%, 87% that's kind of a range that's where we operated, historically, if you think about our LDR, that's where we operated. So the -- and today, if you strip out the merger effect, it's about 89%. So essentially, the LDR is a function of what has happened on the merger.

It's about two quarters run on the merger- we have run through two quarters, and we do have a kind of a path where we do want to replace borrowings with deposits and grow further loans with the deposits. That's the kind of a thought process. And so you should expect that the LDR to go down progressively over several quarters to come.

Rahul Jain: Yes. The reason why I asked this question also, Srini, is because we've bottomed out on LCR and we can't really go down any further. LDR is clearly elevated. So clearly, loan growth outlook and the visibility there on is looking a little difficult given the environment that we are in. So what do we prioritize, growth or margins? Regardless, growth and clearly, the loan growth has to come off for us to start and bringing these ratios to a more acceptable range. Or if you have to grow, then margins really takes a knock because you'll have to offer the increase in deposit rates further. So how are you trying to balance these two?

Srinivasan Vaidyanathan: Okay. So I do want to one thing mention, right. We are not caught up, and we are not into one level of rate of growth as such, right. If you look at our rate of growth, there are sometimes we are slower, sometimes we are faster. But all we have done is that over a period of time, we have always doubled in every four to five years. That's what we have done, right. quarter or even a year can be different.

But over a period of time, that is what we have done. So growth is not something that we are caught up with saying this is the rate of growth that we want. Over a period of time, we want to because that's the investment we have done, we need to harvest returns on those.

So we are focused on returns. So that takes you to the margin, right, would you focus on margin or growth. We certainly do not want growth for the sake of growth. If you look at our wholesale growth, we had 1.9% in the quarter. Enough demand was there. There were several banks undercutting, and we'll let that move on, right. We don't need to be participating if it does not give returns, we don't want to be there. And so that's something that we are focused on. We want to do the products that are going to give us the returns.

Now on the margin, very important that you talked about the margin. Margin is important, but the first passing is about the returns. What does it give from an overall ROA point of view. That's first part. Then it comes, because when you do a product pricing or a product choice to do to a customer, you're looking at returns more than the margins as such. Margins to the extent that the

mix appropriately gets calibrated, the margins -- for us, we have never had this margin conversation because our mix has been predominantly retail and the retail rate of growth over a decade, if you see, has always outstripped the wholesale. So there was not a necessity. There was no conversation about any margin because it comes with a hefty margin. And it comes with a credit cost also. And our credit cost is at a very benign state of sub-50 basis points right now. And if you look at our credit cost, adjusted for the mortgages, you'll see that the mortgages because of the denominator in the lower loss rates, when credit cost, what does the mean on the credit cost, call it 70, 80 basis points that's the mean and pre-mortgage merger 100, 110 basis points.

So what we -- due to the mix change that has impacted the margin that has come through in the credit cost line. So certainly, we are focused on profitable growth. But I hope that answers you in some manner that you are trying to seek.

Rahul Jain: Just two small questions. The branches, you said this year maybe 1,000. So is this a new trajectory that we're looking at? Or you'll go back to 1,500 or thereabouts in the following years?

Srinivasan Vaidyanathan: See, again, I'll tell you one other constraint that we are also working through on the branches with this URC. This URC is something that is required, right. The mix between the unbanked rural centre and so on. Selecting that availability. What is that URC that is available so that we are able to get that mix appropriately. So there is a targeted percentage with a regulatory target on URC that is more internally we would do, but we need to have a mix between the URC and the non-URC so that we can grow progressively across in a balanced manner within the regulatory approval. So that is what it is.

So if you look at whether we go back to 1,500, I think Sashi has alluded to that over a period of time, we do want to get to the 13,000, 14,000 type of branches, not just for the sake of branches. It is the geographical presence that we can have so we can tap into the pockets of both the deposits and lending opportunity in that area. So it's not just deposit, deposits and also the lending opportunity in the area. So we would be there, but there is no hard kind of -- we're not going to push ahead with only one number. But currently, this is what we are seeing.

Rahul Jain: Just a small question on the infra bonds. So you raised some money in the last quarter, I think INR7,000 crores, INR7,500 crores. Do you have eligible assets even sitting on the balance sheet against which you can keep raising this infra bonds? And how much would that be?

Srinivasan Vaidyanathan: We have eligible assets close to INR1 trillion, as I mentioned. So that's part of -- which is -- it can have a qualification in the sense that you may have PSL benefits because we will take it off the top line to the extent that you're able to tag the bond and the affordable housing. And you will get the other benefits that I mentioned, that the cost on the PSLC or the deposit insurance, those things are obviated.

But still, any day, we need CASA. But to the extent that there are time deposits, this economics is better than even -- slightly better than the time deposits due to these. Yes, there are enough asset room, if that's the question, do we have enough assets on the asset side to face off against these infra bonds, yes.

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Rahul Jain: Thank you so much, Srini.

Srinivasan Vaidyanathan: Thank you.

Moderator: Thank you. Next question is from the line of Kunal Shah from Citi Group. Please go ahead.

Kunal Shah: So given that the overall liquidity is tight plus the deposit traction all said and done this quarter has not been very encouraging. So when do we see in terms of tweaking the rates, given that now at least the repo rates have sustained, would we ever look at raising deposit rates beyond 7.2% just to make sure that we are on our target to get the deposits and at least sustain the growth momentum even on the asset side.

So will there be a thought -- no doubt, you have earlier said that we will look at branch expansion that's going pretty slow. Even in terms of like activation of the field force still not that great response. So at what time do we look at tweaking the rates just to ensure the deposit traction is what we were envisaging earlier, yes?

Srinivasan Vaidyanathan: Okay. See, deposit pricing is not a tool that we are having in our sales and relationship process, which means it is not a driver. The conversation would never go to say, I'm the best price to deposits, come here. It's not a conversation because that's how -- if you look at some of the comparative pricing on our deposits with our peers, we are more or less in that line, right, with our top peers, that's the kind of a pricing that we are positioned to. So we're not trying to differentiate on the pricing. We're trying to differentiate on other offering features. That's one on that.

Second, in terms of the market share, you touched upon the growth rate and the market share. I do want to allude to say that we do believe that on an incremental basis, 18%, 20% market share, we do garner, right. That's part of the -- whatever is the size that we have got, whatever is the level at which we are growing, we continue to maintain that superior rate of growth to the market, gaining market share on an incremental basis, getting that in the high teens to 20 type of incremental market share. Rates are not a play. We are not -- and that is part of the reason why the non-retail deposits degrow by 3.3% in this quarter.

Kunal Shah: Yes. Okay. And secondly, with respect to tax write-back. So last time when there was a write-back, you indicated that maybe it might not repeat and we should see it normalizing towards 25-odd percent. But that benefit is still continuing. So if you can highlight in terms of, is it expected to continue what is actually leading to this kind of -- or maybe a lower tax rate, I would say? Or maybe this is like the investment gains, which have been there. It's on that count if you can just highlight that?

Srinivasan Vaidyanathan: The tax benefits that we booked in are consequent to two things. One, there were certain favourable orders received relating to e-HDFC Limited past assessment. So that's one. And two, there were some favourable orders received relating to the bank for the past year. So that is based on those assessments, you have determined that certain provisions are no longer required. That's -- and it depends on time to time.

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And there is no such kind of a routine timing that I can predict when these orders come and when we get done. But yes, these are episodic from that sense. We receive favourable orders, we asses and we take it. And in this quarter, we have had two of them like that, yes.

Kunal Shah: Okay. So all orders which have been received, which have been favourable, they are more or less accounted for now?

Srinivasan Vaidyanathan: More or less. Yes.

Kunal Shah: Okay. And lastly, if you can highlight in terms of the maturity of the borrowing, eHDFC Limited borrowing over next one year, which is falling due, okay? And any quarter, we would see any kind of volatility in that maturity?

Srinivasan Vaidyanathan: Maturity profile is 20,000, 25,000. There is no big maturity at least over the next two to four quarters. It is evenly there. There's not a spike of INR1 trillion going away in a quarter or INR0.5 trillion going away in a quarter that kind of profile. And I think annually, we do publish the profile, and you should soon get to see that, yes.

Kunal Shah: Okay. Good. Thank you.

Moderator: Thank you. Next question is from the line of Chintan Joshi from Bernstein. Please go ahead.

Chintan Joshi: Thank you. Can you hear me?

Srinivasan Vaidyanathan: Yes, Chintan. Go ahead, please.

Chintan Joshi: Hi, Srini. So can I go back to the LD ratio discussion? What I'm hearing from you is that it does need to come down, but also growth will remain intact. So I'm trying to square the circle, how -- like the only way LD ratios improves is if you grow deposits faster than lending?

Is that what we should expect by FY '25? And the pace of that, if you can talk about -- do you have some target in mind? Or do you look at market conditions and do your best? How should we think about this?

Srinivasan Vaidyanathan: Thank you. One thing I do want to mention is that the growth rate -- sustainability of the growth rate is not irrespective of what the CD ratio is. CD ratio has to improve, right? As I mentioned, typically, we have been in that mid-80s to high 80s. The merger took it to where it is today, past the 100. And over a period of time, we do need to bring it down.

So we can't keep the CD ratio to be growing all the time. That's not a proposition that we are envisaging. So that takes the second part of what you asked in terms of the deposit growth and how you should think about the rate of growth.

Yes, we do envisage that the deposit rate of growth should outpace the loan rate of growth. And for the CD ratio to progressively come in and for the economics to work, the deposit rate of growth should be at least 300, 400 basis points higher than the loan growth, only then the economics will work better. So yes, that is kind of a thought process that we have.

Chintan Joshi: Sir, the other question I have is on borrowings and debt securities. If I look at eHDFC Limited balance sheet as of FY '23, there was about 1.7 trillion that was going to mature over the next year as of FY '23. However, we have not seen that mature. If anything, borrowings have gone higher today than the pro forma combined FY '23 balance sheets.

Is this -- what was the thinking behind this? Because one way of looking at this is there was an opportunity to reduce borrowing, but it was not taken because there was profitable lending growth out there. Is that the way you thought about it? Or if you can explain that thinking would be helpful?

Srinivasan Vaidyanathan: Okay. See, in this time period, now two quarters have gone by after the merger. And the borrowings have remained or actually gone up in this quarter by almost INR209 billion it has gone up, out of which about 7,500 is infra bonds, which economics work well, we have taken that. The rest are either market borrowings or other treasury-related actions.

So it is only one item which is the infra bond, which is the borrowing as such that has gone up. The rest are market-related activities, which are there, right, in that borrowing. The other aspect of it is that should you expect this to go down at the maturity? I think another person was asking about the maturity itself over the next several quarters.

Yes, there are maturities coming, and we envisage to the extent that economics work, we will have a similar replacement. If not, it has to be replaced by deposits. And that is part of how the rate of growth of deposits need to outpace the loan growth. Otherwise, we will not be able to keep up with the loan rate of growth.

Chintan Joshi: Understood. And finally, on the CRB business, which is growing really fast. What is the overall lending yield of the CRB loan book so that we can understand what is the mix impact on the overall lending yield from the CRB given that it's growing so fast?

Srinivasan Vaidyanathan: Okay. The CRB yield comes in about between 9% to 11%, depending on product. There are certain products that go above that. There are certain products which are around that 8.5%, 9%. But on an average, it's slightly above 9% type of yield at an aggregate level.

But there are several products, as you know, within the CRB segment from business banking to emerging corporates to agriculture loans to SLI loans to the commercial vehicle and so on and so forth. So it's a different price point. But on an aggregate average, if you look at it, it's north of 9%.

Chintan Joshi: So it is in line with the overall group lending yields. It's not above the average of the balance sheet, it is in line with it.

Srinivasan Vaidyanathan: It's a good assumption. Yes, it is not above the average. It is at that level, not dragging the overall average down as such in any meaningful manner, yes.

Chintan Joshi: Understood. Thank you.

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Moderator: Thank you. Next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Hi, good evening. Thanks for the opportunity. Srini, two, three quick questions. One is on the Bandhan Bank stake sale that has happened in this quarter. So if you can quantify the gains on the sale, how much has flown in this quarter from that?

Srinivasan Vaidyanathan: See, I talked about that 15 billion or so on the overall, I mentioned. So not necessarily -- I won't talk about any individual particular item, right, but from an overall point of view, I did talk about the mark-to-market and trading treasury investment portfolio income 14.7 billion, 15 billion, right, which is there.

Nitin Aggarwal: Right. So this is included in the total, but you're not like giving the separate number for that?

Srinivasan Vaidyanathan: It is included. Yes.

Nitin Aggarwal: Okay. And secondly, on the Credila, have you booked the gains in this quarter or it will come in 4Q? Like how are you looking at that?

Srinivasan Vaidyanathan: Okay. No, Credila, nothing has been booked in the December quarter. We are waiting for regulatory clearance before the transactions can close. So we are working through -- or the potential purchaser is working through certain things to provide. And we are hopeful to close soon, but there is no particular concrete time that I can give, right? They have to go through approval process before it can conclude.

Nitin Aggarwal: Okay. And lastly, on contingent provisions. This quarter, we have made INR1,200-odd crores of contingent. So any particular levels you want to reach or is it just like the flowback of the excess gains that we are having right now that we are using that? So any thoughts around how do we look at this contingent provision number?

Srinivasan Vaidyanathan: Okay. See, the contingent provision that we built in the quarter, 12.2 billion, we attributed on a prudent basis towards the AIF, right? There is RBI regulation to account for and look at AIF in a specific manner. So we took the chance to say on a prudent basis, we need to provide, and so we did build a contingent provision against this.

As I mentioned, the fair value of the AIF is almost 5 billion more than the carrying book value, but we made 100% provision on a prudent basis. So again, we evaluate this quarter-to-quarter. But that's the process, that's a regimented process to look at its quarter-to-quarter. There is no such targeted level of build or release that we have. We will assess it every quarter and certainly at every year-end.

Nitin Aggarwal: Right. Okay. Thanks so much Srini. Thanks a lot.

Moderator: Thank you. Next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: Yes, hi. Good evening, Srinivasan. Thanks for the opportunity.

Srinivasan Vaidyanathan: Good evening, Abhishek.

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Abhishek Murarka: Okay. So one question is on the unsecured loans. So after the RBI circular on risk-weighted assets and all, so the nudge that has been happening on NBFCs as well. What is your approach? So part one, what is your approach to unsecured loans, especially personal loans? Will that slow down?

If yes, when you were talking earlier about bringing up the yield on non-mortgage retail assets, how does that affect that strategy? And second, on NBFCs, again, what's the approach? Will you limit the percentage mix? Or will you sort of limit the absolute exposure? How do you plan to move ahead?

Srinivasan Vaidyanathan: Okay. Yes. Let's look at the retail unsecured that you alluded to. See, the retail unsecured is extremely profitable product, and we like it. And it has to go through our credit filter. And we've been in that for a long time. And one of the best scorecards we believe we have that. If you look at the delinquency profile on that, it's fantastic.

The delinquency profile, the NPA profile is better than the secured book that we have. So we like it. There are times it gets calibrated up and down, and we are confident of growing the book. And let me tell you one important thing on that unsecured as such. Premerger, on the retail book, our unsecured component was 41%. Post-merger, it is about 22%. So if anything, we created more kind of a runway for faster growth.

But when we say faster growth, we are not talking about something that is a 25%, 30% thereabouts kind of rate of growth. For us, faster growth is to go into high teens to 20% type of rate of growth. That's what we have had in the past. That's why I'm more than telling you what we will do and trying to tell you what we have done. And we think that, that is what we will do rather than do something new about it. So we have enough headroom, enough runway and opportunity on that. It's an extremely profitable product. So that's something to keep in mind on the unsecured.

NBFC, see, our approach to NBFC has always been one for lending, we do want that. For corporate houses, part of various NBFCs affiliated to corporate houses, something that we work with because that's a much broader relationship across the corporate group that we have. So that is quite profitable, and we like it and we work through that.

One thing that I do want to mention is that, yes, the risk weights do add in terms of the capital that is required for it. Irrespective of that, we look at the profitability. They are quite highly profitable at the enhanced risk weight, both ROA or ROE that you see, and we like to go with that.

Abhishek Murarka: So there will be no sort of approach to limit the, let's say, percentage of overall exposure to NBFCs in light of whatever nudges have come from the regulator, or caution, let's say, that would have come?

Srinivasan Vaidyanathan: Correct. The way to think about it is that where it is to be directed lending, which is priority sector is number one preference, right? And by the way, some of our NBFCs are government sponsored NBFCs, right? So -- and they're not into consumer lending at all. And so I do want to distinguish. Of course, the circular does not distinguish between different categories of NBFCs.

So our NBFC does not necessarily need to be lending only to consumers or of segmentation, which is lower than the bank-targeted segmentation for lending, no. NBFCs are also government-sponsored, government-linked NBFCs are there, where we have a good relationship with them.

Abhishek Murarka: Okay. And just another one on the cross-sell. At the time of the merger, we were talking about how you benefit from cross selling your products to the customers who are coming to the fold. How do we track that? And when do we start seeing those cross-sell benefits, either in terms of high retail fee or can you start disclosing some sort of cross-sell metrics? So how do we track whether that's really accruing or it's taking time?

Srinivasan Vaidyanathan: Very good. Thanks, you touched upon that. I'll tell you two, three things that we will start to publish and show it to you. One is that we said we want savings accounts. That's one, because we want to offer banking, not just a mortgage product. So if you look at one month, the last month, the December -- In October, we showed to the broader world in terms of how various digital approach that we have taken to offering this bundling of products. Savings account is an important part of the product suite that we offer.

Among the disbursals that we had, in one month, if you take 40,000-plus disbursals, first disbursals because I'm not counting for the disbursals which are on-going, right, second instalment, third instalment, leave that to the side. On the first disbursals that have happened in the month -- in December, roughly half-half is, existing to bank and new to bank, half-half of that. Among that half, which is the new to bank, almost 65% of them we have penetrated with the savings deposit.

So we've gone with the 65% penetration to start with, I'm talking about the December, where we are. And that penetration comes with the deposit balance, at least one to two months of EMI, which is INR30,000 to INR35,000 on an average we have taken from the customer base where we have opened. So we'll publish this. So one is savings account as a product and what is the penetration on that. That's number one. And I give you an example of 65% of new to bank, first disbursals, we have had that, and we want to take it to 90, 95, 99.

We'll keep tracking and reporting that. The second one is the credit cards. We're just beginning on that one, we will report on that as a product in terms of how we are offering credit cards. The third is consumer durable. Consumer durable, again, one is the offer. The second one is a drawdown because the customer will not -- we will make that offer on the consumer durable, customer will drawdown a month or a quarter or six months later as the house is ready for the person to move in.

So -- and then over a period of time, we will bring in the other products. So insurance also is something that we'll start to disclose, to see the penetration level of insurance. The things like the demat account and the mutual funds and those sorts of things, over a period of time, we will come with that. But there are nine products that we will come up with, out of which three are digitally enabled. The rest will be soon, and we will start to report them and show it to you.

Abhishek Murarka: Sure. Thanks. Srini, had to get some more granularity because the value that will help us figure out how the cross-sell effort is going. So, thanks for taking that.

Srinivasan Vaidyanathan: Thank you. We will put up a page or two from next time and we will have that.

Abhishek Murarka: Sure. Thank you.

Moderator: Thank you. Next question is from the line of Anand Bhavnani from WhiteOak Capital.

Anand Bhavnani: Thank you for the opportunity. I have a question on the consumer behaviour. This has more to do with seeing revolve rates on credit card being much lower than pre-COVID levels. Similarly, on the savings account side, the growth rate is weak. So, can one surmise that because of good apps available on mobile devices, consumers are now being very active and not giving in to the inertia on both the asset side, the credit cards, they are not revolving.

They are just taking personal loan or something? And similarly on the liability side, the slot consumers are moving away their deposits to an account where they're getting 7%, 8%, whereas we are giving, let's say, 3.5%. So have you done any behavioural analysis on both assets as well as liability side to see how across the broad spectrum of your customers, is there any data to prove through these thesis?

Srinivasan Vaidyanathan: See, in terms of the customers -- you touched upon the revolver. Thank you for touching upon that. See, the revolvers haven't grown. If anything, actually, in this quarter, we do -- we did see a slight reduction in revolver percentage, right? We're not seeing that. And in some other questions, I would allude to how card bunch of customers. Customers who have credit cards and savings accounts with us and you see their balances are five times, little more than five times -- 5.4 times their balances is what they have in the deposit accounts.

So that is also healthy. It was less than four, three years ago. Now it is 5.4. So it has grown. That's the second thing. The third thing in terms of whether some of the digital properties are enabling, less use of card revolving and alternatives. See, in our customer segment, that's not something that we are seeing because it is – which is more of -- the segment that we have chosen and working on is little more higher rate.

That means little higher score customers. I think we have talked about the revolver one to three months and four to six months and six-plus months -- call it, six-plus months revolvers. Across these three revolving categories, we are not seeing pickup happening. So that's part of the customer base, and that's part of the cash that they have, or some of them have got impacted through the COVID and come out of it and not survived and come through it and not indulging in any of these things.

And some of them who do, take it for a short period of time, right? So that's the one to three months category if you see they take for some short personal loan or they don't want a two-year or a three-year or whatever the tenor, personal loan, they want it for a short period of time, they don't mind taking it. So we do think that the category is very attractive and very nascent, because you know that there are only kind of 90 million-100 million credit cards in this country.

And we would expect that to be north of 500 million. So we have enormous room to go. The other aspect is that whether alternative payments UPI or anything, those kind of things or direct debit system, that would only increase the balances in the savings account. So somebody who is using UPI previously was drawing down cash and paying through.

So the cash was going out of the bank. Now the cash is in the bank account and is using UPI. So it only enhances -- anybody using UPI only enhances balances in the account. So there are pluses and minuses across all of these. But at the end of the day, the customer segmentation that we are working with, we're confident that, that would bring in the balances and grow, as the economy grows.

Anand Bhavnani: Sure. But the question is whether the minuses are overwhelming the pluses because the account opening these days is less like an hour's affair and if a bank is offering 7%, 8%, and we are seeing these banks which are offering 7%, 8% are seeing very high growth rates on their liability side. So is it that the smart customers of yours are now using these properties and it's a structural change and hence, it will be a headwind to our deposit accretion targets?

Srinivasan Vaidyanathan: Okay. But there are two -- again two things I want to respond to. One is the -- if you look at us from a market share point of view, we have been gaining market share. Our market share is at about 10.5%, and it continues to grow. On an incremental basis, I think I alluded to our assessment is 18% to 20%. So that's -- we are keeping up with that. Yes, there may be some customers who go. But from our rate offering point of view, we offer -- you're talking about the savings account rate. But on a time savings account rate is what we offer, 3%, 3.5%.

On the term deposit, we are more or less in line with the competition, significant peers. If you see, we are more or less in line with that on a term deposit rate point of view. From a savings account, yes, we do continue to -- that doesn't mean somebody else cannot grow. We are growing. And think about it, still the public sector banks from where all of the private sector banks, including the ones that you alluded to offering 7% or 8% on savings account, those are all in the private sector segment.

And the market share -- is coming from the public sector, because all the private sector banks are gaining market share.

Anand Bhavnani: Yes. Thank you. And all the best.

Srinivasan Vaidyanathan: Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Mr. Vaidyanathan for closing comments. Over to you, sir.

Srinivasan Vaidyanathan: Okay. Thank you, Neerav. Thank you all for participating. We appreciate you dialling in at this hour. If any more questions, comments, or clarifications are required, please feel free to reach out to us. Our Investor Relations team would be happy to connect directly to you or with me, and we can have a conversation. Thank you. Bye-bye.

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