"HDFC Bank Limited Q2 FY2023 Earnings Conference Call"

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

Moderator: Ladies and gentlemen good evening and welcome to HDFC Bank Limited Q2 FY2023 Earnings Conference Call and the Financial Results presented by the management of HDFC Bank. 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 a brief commentary by the management. 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. I now hand the conference over to Mr. Srinivasan Vaidyanathan, Chief Financial Officer, HDFC Bank. Thank you and over to you, Sir.

Srinivasan V: Thank you Rutuja. Good evening to all. Let us start with a brief overview for the context. We believe that the continued recovery in domestic demand boosted with the onset of festive season and higher government Capex provide support to the growth while there are risks coming from the possibility of global slowdown, higher inflationary pressure and an uneven monsoon, consumer demand and fiscal spends are likely to keep the economy stimulated. Geopolitical instability, strong US dollar, etc., continue to occupy center stage during the quarter. Activity indicators released during July to September quarter indicates that economic activity continues to hold up despite global risk. High frequency and other indicators have risen so far this year and is also promising to provide further opportunity and optimism in the economy. Labor market conditions are also improving in the rural areas has seen that the fall in the MGNREGA work demand and a rise in its growth. RBI raised the policy rate by 100 basis points in the quarter taking the repo rate to 5.9%, the Central Bank has hiked rates by 190 basis points since May 2022. The Central Bank has kept its stance unchanged at withdrawal of accommodation while supporting growth. We estimate that the GDP growth will be around 7% for financial year 2023.

Let us go through key piece: On the distribution expansion, we added 121 branches during the quarter and about 500 more branches are in various stages in the pipeline to be opened in the next few months. We have 15,691 business correspondence an increase of 73 over prior quarter. Gold loan processing are now offered in 2960 branches an increase of 900 branches in the current quarter and up 2.2 times over March 2022. Payment acceptance points have grown by 269000 in the quarter to 3.5 million and have grown by over 1 million versus prior year a growth of 41%. Wealth management has now offered in 502 locations through hub and spoke model, we have expanded by 145 new locations in the quarter. We plan to drive increase in the market share through deepening in B30 City.

In customer franchise building, our people have acquired 2.9 million new liability relationships exhibiting a healthy growth of 22% over prior year and 11% over prior quarter. Over the last five quarters we have steadily acquired over 2 million new customer liability relationships per quarter enabling us to further broad base and deepen our relationships in time to come. On cards we have issued 1.2 million cards during the quarter.

Total card base is now 16.3 million. During the quarter we also closed 2.4 million cards which have been inactive for a period of time in accordance with the RBI circular.

We have focused on granular deposits. Total deposits amounted to 1673000 Crores an increase of 4.3% over prior quarter and up 19% over prior year. In retail deposits, we added 71,000 Crores during the quarter and 2,35,000 Crores since prior year September. Retail constitutes about 83% of total deposits, retail deposits have been the anchor of our deposit growth. CASA deposits recorded a strong growth of 15.4% year-on-year ending the quarter at 7,59,000 Crores with the CASA ratio at 45.4%. Retail CASA grew by 19% and retail total deposits grew by 20.4% year-on-year. Term deposits registered a robust growth of 22% year-on-year ending the quarter at 9,13,712 Crores.

On the advances side, which were at 14,79,873 Crores grew by 6.1% sequentially and 23.4% over prior year. Our retail advances growth was robust domestic retail grew by 21.4% year-on-year and 4.9% quarter-on-quarter. Card spends have grown 9% over prior quarter.

Commercial and rural banking, which drives our MSME and PSL book continued its momentum with a year-on-year growth of 31% and quarter-on-quarter growth of 9.4%. Our SME businesses are present in 90% of the districts in the country, rural business reach expanded to 1.42 lakh villages and is on track to reach the objective of 2 lakh villages. Wholesale segment witnessed a strong growth year-on-year of 27% and quarter-on-quarter growth of 9%.

On the technology front, the bank continued its momentum on the technology and digital transformation to provide greater customer experience through a digital and enterprise factory. HDFC Bank One that is the customer experience hub was launched and we migrated phone banking, virtual relationship banking, and tele sales from this platform in the recent quarter. It enhances our customer relationship management process using AML and conversations BOT enabling round-the-clock self service capabilities to human interaction. Phone banking voice support role out is underway across the country adding more cities along with multilingual support. We see this as a significant step in our journey to create an engaging customer experience while at the same time bringing in productivity improvement to our call center operations.

We launched PayZapp 2.0 to our closed user group for performance optimization and improved payment experiences, we expect to broad base the role out shortly. SmartHub Vyapar app the one stop merchant solution was formally launched to facilitate instant digital and paperless merchant on-boarding and allow merchants to accept intra operable payment across multiple payment modes including cards, tap and pay, UPI and QR code. The platform is adding more than 60,000 merchants every month. As of end September over 1.6 million small businesses are on the SmartHub platform. In Q2 we received a total of 261 million visits on our website averaging about 30 million unique customers per month with a year-on-year growth of around 12%. Our well established distribution network combined with our focus digital offering and relationship management continue to fuel growth. Balance sheet remains resilient, LCR for the quarter was at 118%, capital adequacy ratio is at 18% and CET one is at 16.3% including profits for the half year ended September 30, 2022.

Let us start with the revenue, net revenues were at Rs.28,617 Crores. Core net revenues were at 28,870 Crores excludes the trading and mark-to-market losses, which grew by 18.3% over prior year and 6.2% over prior quarter driven by advances growth of 23%, deposit growth of 19% and total balance sheet growth of over 20%. Net interest income for the quarter at 21000 Crores grew by 18.9% over prior year and 7.9% over prior quarter. The core net interest margin for the quarter was at 4.1% prior year was also at 4.1% and prior quarter was at 4%. Based on interest earning assets, the core net interest margin was at 4.3%.

Moving on to details of other income. Fees and commission income constituting 3/4th of other income was at 5800 Crores and grew by 17% over prior year and 8% over prior quarter. Retail constitutes approximately 93% of the fees. The fixed and derivatives income at 948 Crores was higher by 9.3% compared to prior year. Trading and mark-to-market losses were 253 Crores loss. The mark-to-market losses are mainly from our AFS investments in our corporate bonds, and PTCs due to rate moments in the front end yield curve. Prior quarter was also at a negative 1312 Crores and prior year was a gain of 676 Crores, which were then opportunistic from an investment portfolio. Other miscellaneous income of 1098 Crores includes recoveries from written off accounts and dividends from subsidiaries, excluding trading on mark-to-market losses total other income at Rs.7849 Crores grew by 16.7% over prior year.

Moving to operating expenses for the quarter, which were at 11225 Crores, an increase of 21% over prior year an increase of 6.9% over prior quarter. As I mentioned earlier, we added 1813 branches and 2226 ATMs since last year, 121 branches and 248 ATMs last quarter taking the total network strength to 6499 branches, 18868 ATMs and 15691 business correspondence. Cost to income ratio for the quarter was at 39.2%.

Moving on to PPOP, our core PPOP grew by 16.6% year-on-year and 5.8% sequentially. Our pre-provision operating profit was at Rs.17,392 Crores, pre-provision operating profit for the quarter is 5.37 times of total provisions. Coming to asset quality, the GNPA ratio was at 1.23% as compared to 1.35% prior year and 1.28% in the prior quarter. Out of the 1.23%, about 19 basis points of standard that the core GNPA ratio is at 1.04. However, these are included by us as one of the other facilities of the borrower in NPA. Net NPA ratio was at 33 basis points, prior year was at 40 basis points and preceding quarter was 35 basis points. The slippage ratio for the current quarter is at 36 basis points or about Rs.5700 Crores.

During the quarter recoveries and upgrades were about 2500 Crores or about 19 basis points. Writeoffs in the quarter were about 3000 Crores are approximately 22 basis points. There were no sales of stressed or written-off accounts in the quarter.

The restructuring under the RBI resolution framework for COVID-19 as of September end stands at 53 basis points 7851 Crores. In addition, certain facilities of the same borrower which are not restructured is approximately 9 basis points. On provisions, the total provisions reported were around 3200 Crores as against 3900 Crores for the prior year and 3200 Crores during the prior quarter. The provision coverage ratio was at 73% as against 71% in prior year and it was at 73% in prior quarter two. At the end of current quarter, contingent provisions and floating provisions remained close to the prior quarter level at 11000 Crores, general provisions were 6800 Crores. Total provisions comprising specific floating, contingent and general provisions were about 171% of gross nonperforming loans. This is in addition to the security held as collateral in several of the cases. Floating and contingent and general provisions were about 1.19% of gross advances as of September quarter end.

Now coming to credit cost ratios, the total annualized credit cost for the quarter was 87 basis points, prior year was 130 basis points, and prior quarter was 91 basis points. Recoveries which are recorded as miscellaneous income amounted 22 basis points of growth advances for the quarter as against 23 basis points of prior year as well as prior quarter. The total credit cost ratio net of recovery was at 64 basis points as compared to 103 basis points in prior year and 68 basis points in prior quarter.

Now coming to profits: Profit before tax was at 14152 Crores. Net profit after tax for the quarter at 10606 Crores grew by 20% over prior year.

Now some highlights on HDB Financial Services, this is on an Ind-AS basis. The momentum in disbursements continued during the quarter which was at 9860 Crores registering a healthy growth of 29% year-on-year and 8.5% sequentially. Customer franchise grew to 10.4 million customers with a 6% additions during the quarter and an increase of 33% year-on-year. HDB Financial Services has started to augment the distribution network and opened four branches in the quarter taking it to 1407 branches spread across 1009 cities and towns. The total loan book as of September end stood at 63112 Crores with secured loan comprising 75% of the total book. Net revenue for the quarter was 2201 Crores a growth of 14.9% on a year-on-year basis. Cost to income for the lending business was at 38.4%. Provisions and contingencies for the quarter were at 351

Crores as against 398 Crores for prior quarter and 634 Crores for prior year. Quality of the book in the current quarter have sustained an improvement shown in the last two quarters. Stage 3 as of end September stood at 4.9% after factoring in the 1.1% impact of the new RBI guideline from last year reflecting sustained healthy collections. The provision coverage ratio on secured and unsecured book stood at 46.5% and 92% respectively. Profit after tax for the quarter ended September 30, was 471 Crores as against 192 Crores for the quarter ended last year same time. Return on assets slightly over 3% and return on equity 18.5%. Earnings per share for the quarter Rs.5.96 and book value per share was Rs.131. HDB remains well capitalized with capital adequacy ratio at 20.8%, HDB also continues to augment its digital investments to enable the next level of growth in its business across segments while maintaining healthy asset quality.

Now moving onto HSL again on an Ind-AS basis. The physical network for the customer acquisition remains steady. HSL has 215 branches across 147 cities and towns as of end September. HDFC Securities has grown its client base very strongly with a year-on-year growth of 36% over prior year September taking the overall client base to 4.14 million. HSL digital offering are enjoying very good traction in the market over 91% of retail working revenue is from trades that are originated digitally. The total reported revenue for the quarter was at 468 Crores as against 489 Crores in the prior year and net profit after tax was at 191 Crores as against 240 Crores in the prior year, earnings per share in the quarter was 120 to 120.59 and book value per share was at 1084.

In summary, strong momentum coupled with the seamless execution in delivering comprehensive range of products and services has helped us capitalize on growth opportunities. Our results reflect continued robustness across various parameters, advances growth 23%, total deposits growth of 19% and retail deposits growth of 20.4%, core operating profit growth excluding bond sales of 16.6%, profit after tax increased 20% delivering the return on asset of over 2% and ROE of over 17%. Earnings per share reported in the quarters are 19.1 book value per share stands at Rs.456.2.

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

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

Mahrukh Adajania: Hello Sir, congratulations. My first question is on the liability growth going ahead of course this quarter was impressive with strong retail growth, but as we move closer to the merger and if you assume that RBI does not give any dispensation then how would the liability strategy change. Would it be focused on wholesale borrowing, wholesale deposits and even this quarter your wholesale borrowings have also grown with deposits. So what is the color or what kind of borrowings would these be.

Srinivasan V: In terms of the deposit strategy or the funding strategy as you have articulated over the last three months including the May month or the June month when we have met many of you continues that, that is the very important aspect focus area for our execution. There are several components of this strategy, which is branch led, relationship based and we articulated in terms of how self funding across various products to deepen those relationships and get the funding is important. So we gave you some examples of various opportunities that are there. That remains and continues to be the focus and that is why you see that the retail push is there 71,000 Crores of growth in the quarter on retail and same way last quarter retail did 50,000 Crores of deposit growth in last quarter. So we are building up that momentum in retail as you see. The branch network that we open branch network is a more medium-term long-term so that the pipeline in two, three years time continues to be there that is what the branch is. So currently it is about harvesting and utilizing those branches, 60% of those branches are migrating from one vintage bucket to another vintage bucket that is what is driving and including bringing in the new customers so that continues to be the main stay of the strategy. There are other market borrowings that opportunistically happened and that will continue depending on what happens in the market our treasury takes those call and depends on what funding for the day is required, but this is how that is handle there.

Mahrukh Adajania: My next question is if you could share any outlook on margins not necessarily in the very near-term, but where do you see margins going say two to three quarters down the line on a standalone basis, I know merger will put pressure on margin. So any outlook on standalone margins.

Srinivasan V: No, as generally talked about margins rather than on outlook but you see now that the bank does not provide any forward looking guidelines, but I do wanted to take that and so that we think about what that margin means. Typically we have operated between 3.94% to 4.45%, that is a typical range at which we operate at and when we operate at that range, the mix of products is very important which is the retail mix between 53% to 55% and the wholesale mix, wholesale component of that mix is 45% to 47%. Over the last two, three years it is switched retail is now at 45% wholesale is at 55%, it has switched, somewhere at the low end of that range now the rate cycle is going up. So you are seeing some slight pickup in the margin because there is a lead and lag effect so most of the wholesale products we have about 55% of the book which is floating index based floating rate and we have another 45% of fixed rate, fixed rate mostly is in the retail type of loan and within that floating rate as the rate moved up you are seeing that the lead effect on the assets in pricing happen that is there. So there are two aspects one the interest rate cycle moved a bit up there is always a opportunity to the extent the rate goes up yield and lag, lag on the deposits yield on the loan that is there and the second aspect is that you continue to see the mix change that needs to happen as we have said the economy is 60% consumption less that is how over a period of

10, 20 years we have had lead in the retail and now that momentum is picking up, we saw the last quarter retail book growth of over 20% on advances, sequential growth close to 5% and even in the June quarter it was similar so you are seeing that it is 20 plus right that is the kind of rate at which the retail is moving and as long as you see that continue to move up you see that the mix is moving that also gives the opportunity for the margin to move up so these are the two aspects you can keep in mind in your models to think about how the margin moves.

Mahrukh Adajania: Okay Sir, thank you.

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

Suresh Ganapathy: I have two questions one is on the deposit rates itself. So the Reserve Bank of India has hiked rates by 190 basis points, but none of your banks have even hike deposit rates even by half of that amount so if I look at track your own deposit rates in the one year to two year category they have only gone up by 50, 60 basis points in the last six months so there is a significant gap between what RBI is doing versus what you guys are doing from a monetary policy transmission. Now that the second half is going to be a bit tighter and tougher what is the outlook on deposit rates itself because it is grossly inadequate compared to what the Reserve Bank of India itself is doing so how do you see that panning out that is point number one and the second question is on branch addition itself that you have a targeted branch opening of 1500 to 2000 branches every year. If I look at the first half the number of branches added if I am not wrong is 350 so again significantly below that target so how do you look at the branch additions, you think this second half is going to be very strong I will just squeeze in one more question with respect with this NCLT approval which has come for convening our shareholders meeting does this means that the pace of approvals are better than expectation which means that the September deadline that we are talking about the merger which was initially said in the presentation can be brought forward. Thank you.

Srinivasan V: First is in terms of the deposit rates as such. See the way we think about the deposit, the CASA is a different aspect it is completely administered so we leave that, the time deposits that we are talking about. The way we price the time deposits is that if you think about certain public sector peers and private sector peers so the bank in its high court determines in terms of how to be competitively priced and when you look at that we are more or less in line with certain private sector peers that is how the pricing is so that it is not at an advantage or a disadvantage we are there and so it is only about execution capability to get the so it is not rate based rate driven kind of a sales for a marketing process it is more of a relationship based and a kind of our ability to grow network and bring the customer point of view. Then if you think about the public sector peers, there are certain points in the curve that we are higher typically in the medium to longer end of the curve we are slightly higher and in the shorter end of the curve we are slightly lower not by our design if you look at our term deposit yield curve it is a clear upwards sloping in curve was point to point in the curve it is upwards sloping that there are other players who are different from that ALM management I guess the different pricing so that is how we monitor that and see how at which price point we need the money and thereby the pricing is done in such a way so there is no such formula of any repo pricing or other kind of a treasury bill or a GSEC type of pricing that determines the deposit rate, it is about the demand it is about the positioning in the market in terms of at what price point we are able to get that so that is how we approach it and go through that, that is one aspect of it. The second aspect of it you touched upon the branches, yes you are right we have been slow, typically it is like that as we put this strategy together and get those places scanned and analyzed in terms of where the maximum propensity is there for us to be present to get those customers and the deposits we have done a lot of that and we do see here that there is a ramp up going to happen in the second half on the branch build and as I told you the branch build it is more a medium-term to long-term thing because the breakeven itself is 18 to 24 months, but as soon as we get the branches there is some new accounts that come in so there is a new account value that we measure and monitor to manage that so that there is a good traction gain and then there is a existing customer depth of relationship and also that is a secondary aspect that we monitor and manage that so yes you will see in the second half accelerated process in terms of the branch opening. See as at the moment more than 500 branches in the pipeline in various stages of completion in the coming months we will get them to be open soon. The third aspect of it is in NCLT the short answer and then I will give you a little explanation. So the short answer is are we on the timeline more or less we think we are on those timelines maybe there is a quarter or a few months early we have previously indicated September call it Q2, Q3 kind of a timeframe maybe the way it is going it maybe for Q1, Q2 so that is where I would put it maybe there is a few months if they are running ahead, but not a big deal on that front but there are still lots of processes left, right which is after the EGM is done we need to file scheme petition with the NCLT seeking their approval and again the scheme should be in line with what the shareholders approved and that is what goes finally for NCLT consideration and once that is done NCLT goes to various agencies in the country like government agency and various state agencies and so on so to get a NOC and that is a long drawn process if that happened and then there is some newspaper advertisement the calling for hearing or calling for any comments or questions and so, so that is the big process that gets followed and after all of that is done that is when there is an NCLT sanctioning that happens. This could take six, seven months, eight months the entire process after the shareholders approval.

Suresh Ganapathy: So clarity on RBI exemptions.

Srinivasan V: As regards the RBI's exemptions we continue to be in dialogue on that there is no particular line of clarity or anything, but conversation continues on that front.

Suresh Ganapathy: Thanks Srini.

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

Kunal Shah: Congratulations. First question particularly with respect to payment products growth on both on a quarter-on-quarter and year-on-year it seems to lagging a bit to the industry, but we are not seeing any loss in market share with respect to spend, credit card spend. So is it more in terms of the behavior of the transactor verses revolvers how should we look into this or maybe it is more of a other payment product contribution that is leading to near 2% sequential growth.

Srinivasan V: Yes, on the spend we see good amount of traction coming on the spend and what transactor driven spend we do see customers who are spending has very good liquidity that is I think last time also I said and it is more or less at that similar level which is if you look at our card customers liability balances is close to 5 times the loan balances of those customers on an average total, at the total average so we see enormous amount of liquidity so the pay downs are quite high. The revolver rates has not picked up revolver rates are still not that 70%, 75% of the pre-COVID level so last quarter this quarter we have not seen revolvers picking up, we do look at revolvers into three or four buckets which is called for lack of another better term chronic revolvers which means somebody who revolves more than six times, nine times in a given 12 months. Somebody who revolves three to six months somebody who revolves zero to three months and so the kind of analysis we see, we see that people who have the tendency in to revolve over a longer period has actually come down and maybe there is an early time for pickup that means that one to three months revolver type of profile customers are slightly picking up so we do see something that is very early we have not seen that credit card customers revolvers coming bang on post the COVID we do not see that.

Kunal Shah: Secondly with respect to the commercial banking so again when we look at the breakup of GNPA there is still improvement as far as retail and corporate is concerned, but commercial except agri is still steady and given the entire inflationary impact which we are seeing some export oriented industries might also get impacted because of global recession. So what would be our view with respect to the outlook as far as commercial banking is concerned given that the growth is also at our rapid pace and what incremental measures we are taking in this kind of a scenario of global slowdown.

Srinivasan V: See the strength of the commercial banking excluding the agri that you are saying about the SME segment more particularly the hub of the SME segment we see quite a robustness and that goes to the model origination model and management model relationship model of that customer lending is one of the value proposition I think previously we have talked about or we have said that or even in May month we presented where the self funding ratio as we call it which is the liability generated by this segment through their own cash management account and through the promoters account and through their employees of course that is the 80%, 85% self funded which that is part of the business model to ensure that there is a kind of a good monitoring process for credit management, that is part of that model that is part of the stability that comes from there and again the secondary collateral more than 85%, 90% secondary collateral so in addition to the primary collateral of land or plant and machinery on stock and trade and so on the secondary collateral is also very important so there is a much more skill and again for the bank and the customers to work together that is part of how we handle. So the cycles that you have seen even through the COVID cycle this particular segment that we came quite good.

Kunal Shah: But are we tightening any norms over here just looking into global slowdown or maybe exports sector.

Srinivasan V: We have not seen the need yet, we still see good cash flow strong cash flows coming in and our credit takes the call on case to case basis on the type of loss.

Kunal Shah: Thank you and all the best.

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

Rahul Jain: Thank you, hi, and congrats to you and the team for good numbers. Just had two important questions. One is can you just help us understand on the headcount side we have added about close to 9000 odd in this quarter how many more do we need to hire for this year, I would have imagined we may have preempted or maybe prepone some hiring for the upcoming branch expansion is that the right way of looking at it or we need to do more hiring as we move along and even for the next couple of years how do we think about the headcount.

Srinivasan V: See yes there is some level of hiring for the branches happened and will happen for more new branches as we determine and complete that location we start to go into hire that as soon as the location is signed the hiring starts so that is a shipment in the branch is happening and the people are lined up to come. So if that happens and will happen, but however the broader question that you ask is how you should think about the headcount itself at a total level. Yes we do think that with the digital efforts that we are putting through and the journey, several of the journeys I think last quarter we talked about a calendar of various digital journeys to go through in Q3, Q4 we do see lot of traction gain on the digital front so thereby at the rate at which historically we added we probably do not need to add at that rate that is one and there are certain kind of a sales force feet on street maybe operating even in our subsidiary and if necessary we are going to bring them on our books to so it maybe simply a shift of headcount coming from subsidiary in to the bank because for better management we are going to give them higher value relationship management so we will bring them into the bank and hire so it is not a particular number that determines anything in terms of these are the two, three ways in which we think and do. One branch we need two not replace attrition from as we go into the digital journey and as we bring people the pure feet on street sales force into the bank for higher relationship management there will be some addition so that is how we should think about it.

Rahul Jain: Just if I may do a follow on how much would be sales force out of this 161000 employees.

Srinivasan V: See there are about 45000 I think the last number we reported I think was in the March, but that is similar number that 45000 people if you see is the sales force which is there and then there are a few layers above that, that are supervisory layers of the sales force and if you look at those levels there will be levels 10 or 11 below the CEO.

Rahul Jain: Just another question was on the creditor deposit which since have expanded in this quarter and it is now at about closer to 88%, 89% and in addition to this when we see our incremental market share in deposits has increased quite a bit in the last year or so. So when you look ahead in the future let us say in the next couple of quarters how do we think about the combination of credit and deposit growth now playing out can we sustain this incremental market share gains because the system is now rationing up the efforts on deposit mobilization by offering higher rates etc., or we will also have to kind of up the game there because the CD ratio whatever we had to juice out we have already been juice out how do we take about these.

Srinivasan V: See in terms of the CD ratio or in terms of the deposit growth and the advances growth and how to see that there are I know we are in a particular interest rate cycle, but if you have to go back to five years or even ten years in the past there have been two or three cycles and see what has happened over those two or three cycles and if you see that 2012 to 2017 2.4, 2.5 times that is the rate of growth on both sides and if you go to 2017 to 2022 that is the kind of a similar 2.3 times rate of growth so I will point you to through the interest rate cycle over a period of time call it a decade we can go one more five year block behind that over a period of decade that is a kind of the rate of growth and that is how we are capacitized and that is how the execution is happens.

Rahul Jain: Thank you so much Srini and wish you good for the future quarters.

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

Abhishek Murarka: Thanks for taking my question and congratulations for the quarter to you and your team. Just a few questions one is going back to the NIM conversation, now you pointed out that the mix is where it is and that is why we are at the lower end of the range and it is the rates that are going up that is playing out. So suffice to sort of figure from this that as the deposit rate start catching up we should get back to a 4% kind of level for NIM or is that not going to be the case and you would be able to maintain this additional spread that you have got.

Srinivasan V: As it relates to rate related that is where you are focused on. There is a lead and a lag effect, so if you see the rate that have changed 90 basis points in the June quarter and 100 basis points in the September quarter and as the market prediction is that there is more to come in the December quarter and March quarter. We do not know what the terminal rate is for sure yet, but as this rates go up there is this continuation of this lead and lag effect goes through and that is one, and two it is also about that deposit mix funding, we have the opportunity to increase our penetration in time deposit. You see the time deposit grew by 22% and the objective of that time deposit mix is that we have a very low penetration 14% to 15% of our customers is where we have penetrated on time deposit and we think there is an enormous opportunity through the engagement process that in the past we probably did not need and so the engagement was light and now we are enhancing our engagement to ensure that we are able to have that right kind of a dialogue with the customer on that. So it depends on the mix of the deposit product and it also depends on the lead and lag effect and how long the rate cycle goes, so then that determines.

Abhishek Murarka: So basically what you are seeing is even with the same mix you expect yields to be going up more and your deposit gathering strategy will not be entirely rate dependent. So to that extent you should be able to gain on spread, is that the correct understanding.

Srinivasan V: To the extent that we lead the rate on the advances and lag the rate on deposits that you should see a pickup coming and whether that is what we will do I will not know because it depends on (Inaudibles-42:36) circumstances as we execute on the ground.

Abhishek Murarka: My second question is on HDB when I look at the GNPA there on a sequential basis they are pretty flat can you just give some color on what is happening there in terms of asset quality and also what is the restructured book there, how much if it is in MORAT and any provisions you are carrying on that. So just some color on asset quality for HDB.

Srinivasan V: See the HDB asset quality I think I did allude to say in terms of the improved delinquency or the state previously from 5 to 4.9 or something. So they are in the trajectory of that improvement and we believe that the trajectory continuous, it should continue to be there, that is one thing. The second thing in terms of the provision coverage on the NPA the secured book provision coverage is 46% and the unsecured book provision coverage is 92% and on the overall loan book itself 75% of the total loan book is secured loan book. So this is quite a good type of book and the customer segment is such a customer segment that got significantly impacted in the COVID that is part of the NPA spike that you have seen and as the economy is stabilizing and became stronger, you see that slight improvement and more to go with that.

Abhishek Murarka: So in GNP also is it 75% secured and 25% unsecured or that was for the full book.

Srinivasan V: The 75% secured is for the whole book for the GNPA I do not have it in front of me but I am sure HDB at some point in time will be publishing when they publish their results.

Abhishek Murarka: And restructured book in HDB how much would that be excess provisions anything that you are carrying over there.

Srinivasan V: There is some management overlay like the way we do have and continues to be there that restructured book on HDB I do not think they have published yet.

Abhishek Murarka: Okay, no worries. Just a last question on this MTM loss. So we still have trading losses whereas you explained or you alluded to corporate bonds and PTC's contributing to that. Can you sort of explain the reason for this mostly rates have gone up on the short end and there you do not need to do any MTM on the tables, etc., So can you just explain this.

Srinivasan V: See if you look at the corporate bond book it is not about bills it is about the corporate bonds and the pass through certificates which are predominantly PSL driven or qualified pass through certificates which are there. If you look at the rate, the base rate that determines the valuation of the bonds and PTC's are published by the various association that publishes the rate. The base rate is the GSEC rate. The six month rate is up to 77 basis points in the quarter, one year 67 basis points, two year 42 basis points and so on. So that is the kind of the front-end part of the curve where the rates are up. The long end part of the curve if you look at the 10-year rate are down 9 basis points quarter-on-quarter, but these bonds and PTC's that we have they are more on the front end side, they are more. So, if you look at the disbursement of the bond book it is like a pretty good normal distribution around that one and a half, two year type of range of bucket that is where the normal distribution is there, that is one element the GSEC yield curve on the front end of the curve that is one of the element that goes into valuation. So as the rate spike you see the value coming down, these are not economic mark-to-market. The second aspect of it in the valuation is also the spread, bond spread, and as part of the evaluation process the bond spreads has come down which is you would imagine the bond spreads are down to some extent and if you see the bond spreads, I think in the front end also the bond spreads are down if you see for example the NBFC AAA spreads in the six months is down 6 basis points and one year down 21 basis points and two years down 11 basis points it is down. Similarly corporate AAA one year is 9 basis points down, two year is 11 basis points down. So the bond spreads is another element of the valuation they are also down. However, as you know in the valuation the bond spreads are flowed, their flowed at 50 basis points. So until the bond spreads grow past that level and then starts to improve up or down it is inconsequential on that front. So it is a lot driven by the GSEC and in this case the positioned portfolio is towards the normal distribution around the one and a half, two year mark and so it depends on the trade that is changed in the front end.

Abhishek Murarka: Got that, that is clear. Thanks for this. This is very useful, and all the best.

Moderator: Thank you. The next question is from the line of Prashant Kumar from Sunidhi Securities. Please go ahead.

Prashant Kumar: Thanks for the opportunity. My question is with linkage of RUPAY credit card on UPI what will be the impact of credit card business slightly on pricing perspective, pricing for the low value Pi on credit card or higher value transaction of MDR for UPI on credit card will be similar to other credit card, or it will be settled down to the incentive to given in the range of around 0.2% to 0.4% you can give some color.

Srinivasan V: These are very early stages on that front. How the market settles we will have to wait and see what happens to that and as far as we are concerned we are predominant Visa MasterCard issuers on that front and RUPAY cards are as a small proportion of our card case that is one. The second, the UPI as it goes to UPI what is the kind of how that the UPI pricing itself settles and how it is going to impact we have to wait and see where it goes at this moment it is not clear and the transaction sizes that come through these are also important and currently that what we have through MasterCard, Visa the transaction sizes are quite high and good for us.

Prashant Kumar: And on the asset quality side, I had just on data keeping. So what is the slippages and what is the write-off and upgrade and recovery, if you can give, if it is handy.

Srinivasan V: Yes, I did provide that previously but I can give that again to you. The slippages in the current quarter was about 36 basis points or 5700 Crores. The recoveries and upgrades both 19 basis points 2500 Crores, the write-offs about 22 basis points 3000 Crores.

Prashant Kumar: Thank you so much, that is it from my side.

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

Saurabh: Sir, just can you talk about the corporate banking fee this 9% quarter-on-quarter growth. So where is it coming from, are you displacing some public sector banks in some of the large corporate or is it just reducing the risk filters at the side and just a related question on that will be the consequence of that build up should be NIM's could obviously come off but at the ROI level it should still be a 2% business or how will you think about it.

Srinivasan V: Two aspects of it. First let me address your ROA part of it, yes, all our pricing decisions as well as the business decisions are determined, the models determined through what returns it provides the models do not go through to say what NIM it provides. So the models go through to say what returns it provides, and these are quite a good relationship based businesses in the wholesale and we have had quite a good traction again largely contributed I think by the telecom sector in the quarter, there is some energy related that came through there are some PSU's also in this very high quality good PSU's with whom we want to have we already have big relationships we have done that. They are priced very well and they have priced to get the returns that is in line with the banks overall returns the 2% that we have seen and which you have seen which you have published for the March report also I think you have seen that wholesale or retail our returns are quite good and we continue to do business on that those lines. Again which I did not mention yet but I think you touched upon whether there is a price competition or what yes 25000, 30000 Crores of wholesale loans we have let go this quarter because as you have seen our pricing how we moved on pricing right from May quite fast and there are others who take their time or their own things and the process to price to catch up. So that when their price is not good we let go of the volumes. We let go of that particular transaction not let go of the relationship of the customer because these are all good relationships, so we keep this relationship but if that particular transaction does not work we are very clear that particular transaction does not work.

Saurabh: And the second question is there was an interview by Mr. Parag Rao where he said half the digital transformation is over and the IT costs will probably speak out and he also mentioned that on the Smart Hub it was going to reach about 21 million merchants from approximately 3 million. So how should we think about this impacting your Opex should we now hope that your Opex at some point moderate or you choose to reinvest any gain you get on either your credit cost or your NIM on Opex side how should you think about it?

Srinivasan V: Again you have two aspects to this, one aspect is in terms of the digitalization itself in terms of that, but the context of that I think was that the Merchant Vyapar App that we formally launched and I think I had mentioned that the Merchant Vyapar App when it took off earlier had a quite a good traction we get in almost call it per month 60000 merchants in the recent months and we have more than 1.6 million signed up under this app as a merchant we have more than 3.5 million merchants but 1.6 million under this smarter platform which is Vyapar App that is part of what I thinf93%k he alluded to and that is where in that context only he said that we will go past the 20 million in terms of getting the merchants into this. Again this is not just a payment product initiative this is more of a both the liability relationship asset relationship in addition to getting that payment relationship that is what is that and it helps it gives a lot of value to those merchants to do business with us because there is a lot of value-added features that go with it. That is one part of what you asked. The second part of what you asked is what does it do to cost and so on so forth. So I think the past we have said that our cost to income before COVID was about 39.5 and through the COVID as the retail kind of a transactions and the opportunity to do various things were lower, it came down all the way to 36, 37 now it is past 39 it is back to 39, 39.5 that is where the cost to income is and I think we said it go to 40, 41 quarter-to-quarter, quarter-to-quarter is not a measure, but over a period of a full year if you see 40 is not a place that you would imagine it can go to 40 as we make those investments to come because as we see the benign credit because the average credit cost if you see this quarter 80, 90 basis points, last quarter 90, 95 basis points. So there is an opportunity to reinvest and get that maturity cycle up on anything from a branch maturity cycle to people maturity, branch maturity cycle is 18, 24 months, people maturity cycle could be 6, 9 months and so that is part of what the investments go to say take this opportunity to invest it and of course within overall return framework.

Saurabh: This 20 million merchants is just HDFC Bank it does not include your Fintech Partnership or does it include that.

Srinivasan V: That is right it is the merchant relationships with the bank.

Saurabh: Thank you Sir.

Moderator: Thank you. The next question is from the line of Manish Shukla from Axis Capital. Please go ahead.

Manish Shukla: Good evening and thank you for the opportunity. First question is can you remind us what are the some of the key dispensations or relaxations that you sought from RBI for the merger and realistically by when do you think you will start getting visibility on the same.

Srinivasan V: On this front the same items I think that we talked upon on May 31st remains, which is, is there a possibility on the CRR SLR glide path, that will continue to focus on greater and faster credit growth both in the economy and supported by us is something that we are in discussion we told you and the second thing is also in terms of the priority sector lending which kicks in 12 months after the effective date. So in this case for example continue the same September kind of a time frame 2023 thinking about December 2024 kind of a time frame from when that will come what part of a glide parts that can have so that we could organically originate. So as I think we alluded to that 1.42 lakh villages we have moved to now we were less than 100000 villages if you go back 12, 15 months ago, we come here and we are on track to go to that 200000 villages to operate. So that is part of how we organically build this and certain other things that we told you in terms of opening up a little around the 3000 mark now on the branches originating gold loan and we wanted to do to around 5000 branches again part of that initiative to ensure that we get the right kind of quality on the priority sector lending. So there are these are the action plans that comes for organic, but the kind of call it a glide path is to get to that we organically do this that is what and where are we on the state we continue to have that conversation with the regulator there.

Manish Shukla: By the time you seek shareholder approval towards end of November are you expecting any visibility on any of these.

Srinivasan V: There is no particular timeframe but the bilateral conversations the regulators are private so there is no details about that, but at least that is something that there is no time frame and one thing that I do want to highlight here that which we have mentioned this in May also the merger is not predicated on this, the models are not necessarily assumed that these need to come these are good to have, not necessary as such.

Manish Shukla: Moving onto liabilities now once you acquire a large mortgage book from HDFC Limited potentially you can fund it using long-term affordable housing bonds. So what are your thoughts around the same how many of those bonds you think you can issue and does that mean that in the interim your LDRs as a merged entities could be higher than what historically we have seen for HDFC Bank standalone.

Srinivasan V: No, certainly that is part of the equation and we would use those opportunities to get that because from a cost point of view we will be indifferent to that because you know that the assets on the other side are floating rate assets price of the market benchmark and but there are hedging instruments in the market to ensure that the interest rate risk is managed, but at the same time the liquidity maturity is also managed through these affordable bonds and these affordable bonds do provide as you know offset, offset means the relief from a CRR SLR subject to certain qualifying criteria they also offer opportunities to take off the ANBC and thereby reduce the PSL.

Manish Shukla: Sure that is very clear. Thank you those were my questions.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to Mr. Vaidyanathan for closing comments.

Srinivasan V: Thank you Rutuja. Thank you participants for coming in today joining us, it was our pleasure. If you still have open questions or any other things to interact, we are open at any time. Thank you. Bye! Bye!

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