HDFC Bank Limited

Q2 FY'25 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to HDFC Bank Limited's Q2 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, 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: Thank you, Neerav. Welcome to all the participants. I appreciate you all dialing in today. We'll start, we have our CEO and Managing Director, Mr. Sashi Jagdishan with us. We'll start with his opening remarks and then get back to you all. Sashi, over to you.

Sashidhar Jagdishan: Thank you, Srini, and thank you, friends. Let me first wish you a belated Dussehra festivities and also wish you in advance. Happy Diwali festivities, that's going to come in next week itself. Let me start with the macro environment, which we are witnessing. Liquidity has been gradually improving over the last couple of months. So that's bit of good news. However, the deposit rates continue to be elevated and sticky -- probably the credit growth still outpaces deposit growth in the system, and that maybe the reason why it continues to be sticky.

As we have witnessed in the previous high interest rate cycles, customer preferences continue to be towards time deposits, probably to lock-in at higher rates. Despite intense competition and the competitive environment, deposit growth has been very healthy. On an average basis, we have grown around 15% year-on-year. Retail branch continues to contribute around 80% to 85%, in fact, to be precise, 84% of the total deposits.

Let me talk about the advances under management. We have mentioned in earlier public forums and calls that we will bring down the CD ratio faster than what we had anticipated in the past. Let me spell out some of the bright spots of our credit growth. FY '25, we would probably grow slower than the system. FY '26, we may be at or around the system growth rate. FY '27, we should be faster than the system growth rate.

Our assumption is that from all the regulatory comments in the monetary policy statements, there will be a convergence of system loan growth and deposit growth rates somewhere during this period. In the light of the above strategy, the average assets under management grew by about 10.2% year-on-year. The margins have been stable in the range that we have been talking about at 3.45% to 3.5%. It's printed at 3.46%.

The gross NPA continues to be stable at about 1.4%. In fact, the gross slippages at 1.2% is better than what we had witnessed same time last year. The profit after tax grew at about INR16,800 crores. It shows an optical growth rate of 5.3%, but adjusted for the bond gains and for the tax adjustments that we enjoyed same time last year -- the adjusted growth rate is about 17%.

Let me pause out here. And we probably will take a lot of questions, and we have the team out here, Srini, Bhavin, who probably will also chime in for responding to your questions.

Srinivasan Vaidyanathan: Okay. Thank you, Sashi. Neerav, with that, you can open it up for questions, please.

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

Mahrukh Adajania: Yes, hi, good evening. My first question is on fee. So, it's grown strongly. Is there some securitization income in fees? And if you could also refresh us with the accounting for any securitization, as in where it should come? That's my first question. And my second question is on movement of contingent provision. So what kind or what class of loans would they have been used for, because I think the contingent provision looks lower Q-o-Q?

Srinivasan Vaidyanathan: Okay. Mahrukh, I'll take this question on the fees first. Fees at about INR8,000 crores, grew by about 17% year-on-year. Think about the fees, third-party products, the distribution products -- have been quite strong. It grew by almost 32% in this quarter, year-on-year. Year-on-year this quarter to last year's same quarter -- 32%. And if you think about all of the retail categories, assets, cards and retail liability, all of those other categories, on a combined basis grew by about 15%, 15.5% or thereabouts, right?

Wholesale, which has got certain episodic within that, we de-grew by about 5%. That's what you're seeing on a net basis, fees growing by about 17% thereabouts. Last quarter was between 14% and 15%. So, it's a very similar range anywhere between 14% to 17% is what -- when you look at it over several quarters, you will see that's the range at which the fees growth year-on-year. And quarter-to-quarter seasonality plays out. That was the first part of the question that you asked on the fees.

On the securitization that you asked, securitization comes with excess spread and the excess spread is not part of fees. That excess spread in this quarter, you know that we did it towards almost the end of the last week. So, there's not much of income or whatever is there. But that is excess spread and not a fee.

Sashidhar Jagdishan: And Mahrukh, it will be amortized over the life of a loan, nothing is upfronted. So, the fee item is not impacted by securitization at all.

Mahrukh Adajania: Got it. And will the margins optically look higher than yields from next quarter given that -- or no, not really because they'll be part of investments anyway, right? Yes. Okay. Sorry, and on contingent provisions?

Srinivasan Vaidyanathan: Okay. Contingent provision, if you see that there was a release of contingent provision. There's a footnote in the accounts that AIF provisions -- we received clarifications on AIF. We had reserved 100% of our contribution to the AIF. The clarifications came that we don't need to provide rupee for rupee of the amounts that we have provided to the AIF. It is sufficient to provide on a proportionate basis based on the AIF lending to the debtor company. And so appropriately, the provisions have been taken down.

Mahrukh Adajania: Okay. Perfect.

Srinivasan Vaidyanathan: There's nothing to do with credit. It was simply a regulatory provision that was created, and it was taken out.

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

Kunal Shah: Yes. So, the question is on RBI's draft circular in terms of the overlap in lending of group entities. So, what do you think should be the impact on HDB Financial and maybe till the time there is the final guidelines, would it any ways impact the listing of the HDB Financial that is being planned and that is required as per the regulatory requirement, yes?

Srinivasan Vaidyanathan: Okay, Kunal, thank you for asking. There are two aspects to what you're asking. One is draft circular. The word is -- underlying word here, it is draft, number one. Number two, the comments are required to be submitted by November 20, our bank, and I'm sure the banking fraternity would be providing similar comments. So, we'd like to wait to see what turns out to be the final, second. Number three, the context to keep in mind is also that HDB is a regulated entity operating under the license from Reserve Bank of India. So, it is a licensed entity. And there are certain conditions for license. It meets those conditions for license.

It is also supervised by the similar team that supervises the bank. The policies and the procedures adopted by HDB are consistent with what the bank does in terms of let it be income recognition, provisioning, lending standards that are required or where lending is prohibited and so on. So, the entity follows very similar principles, which means there is no arbitrage between the bank and HDB. There's no arbitrage as such, too.

The bank operates, as you know, for that particular product segments, those kinds of products, the bank operates on a program basis. And HDB by nature of the customer segment, which is very different from the bank customer segment, operates with a touch and feel closer to the customer through a branch network and operates handholding the customer on a periodic basis.

So, it's a very different model in terms of how HDB operates, and it's a necessity in this market where credit evolution is still in an early to mid-stage. So that's in terms of HDB as such in the draft circular for you to fit the context. We do not know what the final outcome will be. We'll be providing the feedback, and then we'll take it from there.

As it relates to IPO, you know that there is an upper tier circular, which came in some time a couple of years ago now, a circular actually came after the white paper of this draft circular that was given about almost three years ago. So subsequent to that white paper, there was a draft circular. The circular for the upper tier came that requires HDB to be listed by September '25.

The process for that listing was kicked off. As you know, we put out certain press releases after various Board deliberations here as well as in HDB between July and August, and the process has kicked off. As it relates to the timing or anything else, I would not be able to talk more specifically on that. That's part of the publicity guidelines as we enter into an IPO process, publicity guidelines do not permit to talk anything more specific at this stage.

Kunal Shah: Okay. That's helpful. And second question is on LDR. So, you indicated in terms of how we should look at the overall growth compared to that of the system averages. But when we look between our own loan and deposit growth, the way we have been maybe at least contracting the LDR, till what level should we assume that we'll be so aggressive in getting the LDRs down?

Would it be like 90, 95-odd level, and then we will get relatively more comfortable, or would there be any time period, maybe that we would have want to get it down or maybe we will see a much higher deposit growth compared to that of loan growth for next two, three quarters. And then maybe both of them should normalize, yes.

Srinivasan Vaidyanathan: Yes. Lots of details you provided there, Kunal. The point here is that the bank LDR was closer to the 86%, call it even 87% if you round it, that was the rate that we operated before the merger. We went all the way to 110%. And rightfully so because it was funded through longer-term borrowings.

Typically, a banking system, if you look at it, at least the top banks, if you look at it, the borrowing mix in the funding profile is about 7% to 8%. For us also, it was 8% before, and it went to 21%. So, for better economics and for alignment, repositioning the balance sheet was required.

So thereby, currently, it's at about 16%. The borrowing mix is at 16% or so. And the LDR when it will come down, the thought process we had, which our CEO had articulated over the last nine months is that we had thought that it would take four, five years to be at that level of what historically we have run, which is the mid-80s to high 80s.

Instead of that, there is an opportunity right now with the rate of credit growth being high over the last two years and is expected to come down to maybe the deposit level rate of growth. And so, in this scenario, it was appropriate for us to rethink to say, we will do it within two to three years to get to the high 80s, right? So, you asked me, is there a quarterly, as you described two, three quarters or a year, we don't want to get into quarterly or year. But certainly, an accelerated approach is what we have in mind.

And again, keep in mind, the way we are operating is that as far as the retail lending is concerned, retail loan is concerned, if you think about our mortgages, we are full force in the market in terms of marketing and selling mortgage because it provides better customer relationship.

Price, our price and the price of the legacy banks, which is where high differential exists. And so, there is a sensitivity to price there. But we grew, as you see there, almost 11.7% year-on-year.

And as it relates to non-mortgage retail, we grew 11% this year -- year-on-year in this quarter that you are seeing, but we have moderated the growth purely based on credit dynamics that our credit underwriting standards -- underwriting team looks at certain standards and calibrates that. And priority sector has grown 4%, 4.7% sequentially, which is at the rate of 16% to 20%. We need the priority sector, high quality, again, passing through whatever credit filters.

The larger ticket size loans are where we have used this tool of calibrating, again, being price conscious. If you look at even in this quarter, the bond spreads on a two-year AAA or a one-year AAA bond spreads have moved between 15 to 30 basis points up. Loan spreads in the market are pressurized to come down. And so, at this stage, we chose that it's not the way to go. And so, we moderated the growth on that.

So, there is no one particular target, as you saw. We talked about it for two minutes to say, there is not something that over the next one, two or three quarters that we can give you a target, but directionally, you've got what Sashi has been talking about for a few months now.

Sashidhar Jagdishan: And the reason for the change in our thought processes, we also believe from the various regulatory commentaries you have been listening and we all have been listening that it may coincide over the next two to three years, a change in the credit environment. So, we want to ensure now that we have mentioned, and we have been witnessing a very stable asset quality, we want to be extremely well positioned when the positive cycle probably changes in the next two to three years, we want to be well positioned to capture the kind of incremental growth that we have seen in the pre-merger levels.

That's one of the reasons why we are accelerating bringing down the CD ratio or the loan deposit ratio, which is what I mentioned in the beginning of my commentary as to what our glide path of credit growth would be vis-a-vis the system growth rate over the next 3 years, including FY '25, '26 and '27.

Moderator: Next question is from the line of Gaurav Singhal from Aspex Management. Please go ahead,

Gaurav Singhal: Yes. So, I have a couple of questions. The first is on the priority sector loans. Maybe if you can share some more detail on how much are we meeting organically? Because I noticed that in the last few quarters, our other assets as a percentage of total have gone up a lot, like used to be 3%, 4% premerger, and now it's like almost 6%. But this quarter, it has actually come down Q-o-Q. So, I'm just curious because we are meeting more priority sector requirement organically. So maybe if you can share some thoughts on that?

And the second question is about the non-mortgage retail that you mentioned, do we envisage us reaccelerating this and start gaining market share again because a lot of our peers actually are now seeing credit costs go up. And they were growing faster than you. So, do we -- in the next several quarters, see us gaining back market share as our peers' step back?

Srinivasan Vaidyanathan: Okay. Thank you for asking. Let's go to the PSL that you mentioned. Yes, I think as far as the PSL achievement is concerned for March '24 that is already published that you will be able to see it. It's in our annual report and various other disclosures. We are close enough in terms of at an aggregate level, our PSL was 50-odd percent aggregate level. And the small and marginal farmer in the weaker section, we were slightly under -- that's less than 1% or so that you have seen.

Sequentially, you'll see some other assets going down. That's various causes, that go up and down, including some RIDF maturity. So many things will happen that. That's about INR2,000 crores or so.

Then you talked about the PSL as we stand today. As far as the PSL is concerned, the only PSL that we focus on organically, because the rest are naturally part of the business model to grow, is on the small and marginal farmer and the weaker section, which typically, we are between the organic growth and the PSLC and the IBPC and the PTCs or the securitization that we do on the investment side, across all these sites, we operate somewhere between 9%, 9.5%, thereabouts, closer to the 9%, 10% is the target, as you know. So, we endeavor to close that gap as much as we can organically. The approach has been to do it organically.

I wouldn't say where we will end, because we don't know the market availability and how we do it, but that's at least the approach is that organically, we want to do as much as possible. And other tools are available at a price, for us to take. And that's where we are as we stand even in September. That's one on the PSL.

On the non-mortgage retail, I'm going to start, and then Sashi's going to say. You talked about market share, right, despite whatever you talk about our rate of growth slowing down. In the recent year, we slowed the unsecured loan to a rate of growth, which is 10%. In the recent time periods, 1 to 2 quarters this year, we slowed it down to between 9% and 10% rate of growth. And if you look at the year before, we grew at 19%, right?

So, the risk calibrates in terms of -- they're seeing it far ahead of time in terms of how to time it from a calibration, which is what has happened. And if you look at the non-performing loans on the retail side, our non-performing loans, GNPAs at 1.36% or thereabouts, retail GNPA is at about 0.8%. That's where the unsecured loans are also there.

From a market share that you alluded to, on PL, on the private side, that means leave the government segment to the side, we are the number one. If you look at auto, we will be the number one, right? So, in cards, we are the number one. So various products on the retail non-mortgage when you think about it, we are the market leaders across various product segments.

Even in the recent times, if you look at the high-quality customers, customers who are rated above 750, 760 score and above, which is a bureau score, which is not the model for us to originate, but that's for us to refer. We have one of the highest share both from applications incoming, inquiries, disbursals across all of those segments and in the stock, we are one of the highest from a higher-rated credit score point of view. I think that we don't have one particular target for credit to achieve there.

Sashidhar Jagdishan: And all the portfolio, as I said, beginning of the commentary, while the quality continues to be very stable across the board, and of course, there will be these quarterly fluctuations, but we are not overly concerned. So, it also sort of helps us to position ourselves very well, when we probably are ready when the cycle changes back into a positive territory. And that's the time when we will probably pick and choose the right customers at the right price, which will be contrary to some of the banking system trends.

Moderator: Next question is from the line of Pranav G. from Bernstein. Please go ahead.

Pranav G: The question is on the loan yields for the bank. I think if you look historically, the bank as well as the pro forma entity has always had a higher yield versus peers, we have a significant gap versus peers. Incrementally, are the bank's loan yields on par with peers, or are we still seeing a lower yield because of our conservative stance on underwriting?

Srinivasan Vaidyanathan: You have to look at it by segment, again, if you look at it by product on the mortgages, our published rates are anywhere between 8.8% to 8.9%. So, the private sector peers would be more or less within the same range - within a 10-basis points range. That is not the competition on the price. It is the legacy banks, the incumbent banks from ages, that's where the price differentials are almost 50 basis points or thereabouts. That's the mortgage as such.

So, the non-mortgage when you look at it, on the retail side, again, there is a risk-based pricing for the quality of the assets that you originate or the customer segment that you choose, the prices appropriately calibrated according to the risk models that come.

Similarly, on the CRB side, the commercial and rural banking, we have tried several price points from anywhere from 10 basis points to 20, 25 basis points over the last 6 months, the price has been extremely elastic, which means the higher the price, lesser the demand because, again, this is the incumbent legacy banks have lower price in that segment. And so, we haven't seen the ability to move the price up.

And that's what we are seeing even in the system when the repo rate has gone up by 250 basis points, the WALR or the Weighted Average Lending Rate has moved up only half of it or 150 basis points or thereabouts. But you will see that the public sector banks rate movement is far below that 120 basis points or thereabouts, essentially inhibiting the private sector to price up more in line with what the repo rates have moved up. So that's the factor there.

On the wholesale side, corporate large ticket side, I talked about the credit spreads. The credit spreads or the loan credit spreads are not keeping up in the same direction as the bond spreads. So thereby, that's again a choice to make in terms of how you price for that. I agree that the credit quality in that segment is extremely great. But still, you have to price for a life cycle credit cost and not for today's or tomorrow's credit cost. So that's where we are inhibited on that segment.

Moderator: Next question is from the line of Rahul Jain from Goldman Sachs.

Rahul Jain: Three questions. First is on the trajectory of the liquidity coverage ratio. So, I wanted to understand, we have been inching up that higher. Clearly, there is a draft regulation out there. So, is that something that you are taking into our assumptions and pushing this LCR higher? Or what exactly is the reason why you're thinking there? So that's question number 1.

Srinivasan Vaidyanathan: See, one, the liquidity coverage ratio is at 128. We have told you that our target that we normally tend to operate is between 110 to 120. And somewhere historically, we operated at that 115 or thereabouts plus/minus 1%, 2%. That's the kind of where one would desire to operate. However, in the recent times, last quarter was 123, this quarter was 128. Again, it is driven by the fact that we get more deposits, granular deposits, retail-driven deposits, which have higher value, good value. We want to get more deposits, which puts money in reserves.

And we have talked about our lending value proposition, about how we are addressing the lending loan growth as such. So, it's a fallout of how we are trying to get as much as possible, the optimal level of deposits that are available and calibrate the loan for current conditions and situations for repositioning the balance sheet as well as the credit filters. That's what it shakes out to be at that level.

Rahul Jain: So just to simplify, Srini. So LCR, would it further go up or you would run it down a bit because clearly now the mix is also changing and we would want to push up our margins also because the ROA also could potentially be better, or you will keep inching this up because there's an impending regulation that is out there or draft regulation that is out there?

Srinivasan Vaidyanathan: Yes. See, we'll have to wait. It's still in a draft form -- that regulation is still in a draft form. Feedback has been provided by us and by various organizations and associations, feedback has been provided. We'll have to wait through to see.

For example, if you see some of those anybody with a digital banking capability, net banking capability, including an UPI transaction capability, which is a digital capability and so on, so, it starts to be punitive where in a situation where we are trying to digitize many things, including day-to-day transactions. So, we do not know where it will land. So that's on one side, right? The draft regulation is something which is there. The feedback has been provided. We'll have to work through it. We do not know what that is, where it will come and end.

But the second aspect of it that you asked whether it will go up or come down or remain where it is. Again Rahul, it's a function of what happens with the market on the deposits. As we have said, we are positioned to get a good share of deposits, and we are calibrating our loan growth. So, we could remain where it is, or we could go up. But that is the last of the considerations, but it is about the customer franchise of growing those deposits and getting that loans at a level that we desire.

Rahul Jain: The reason why I asked this question is because in the balance sheet, quarter-on-quarter, the G-sec still went up by about INR15,000 crores, LCR also went up. I appreciate the point about the granularity of deposits and therefore, the lower runoff factor. But just wanted to get some directional sense. Fair enough. The other question is on the branch expansion, etcetera. So, what are the fresh thoughts out there? How are you all thinking about it?

Srinivasan Vaidyanathan: We grew 240-odd branches in this quarter, 350 something for the year so far. Last year, we grew 917 branches. Our objective has been to make those investments and branches now when the credit has been benign. And as you know, as you see that, it continues to be benign. And we have stopped giving exactly what number, whether it is 1,000 or 750 or 1,250 or whatever.

But our approach has been to grow branches to go into more areas where we need reach, but even in cities to make it much denser so that we could capture all the customers that are possible. So, we continue to grow at a pace, that will be calibrated time to time.

Rahul Jain: Got it. Appreciate it. Last question is on your latest thoughts on the credit quality, because I think you got the cycle again right on the unsecured, you stayed away. Now you're starting to grow that piece, while others are having the normalized experiences or elevated credit costs. So, what's your latest thoughts on asset quality in general, unsecured microfinance, any other segment that you are cautious about, anything that we all should know from your perspective where the credit concern may be starting to build up?

Sashidhar Jagdishan: No. We have been sort of mentioning this for quite some time. As Srini did mention for a couple of years, we have been calibrating our growth depending on what we have been seeing - the early indicators. But I think the call that has been taken by our credit architecture has come out well yet again.

And so, as we speak today, we are in an extremely comfortable position. Obviously, there are risks in the system. The impact of what's going to happen in the macro side is something that you and I may not be able to predict, but we are well positioned as we speak looking at our portfolio and that we don't have too much of a worry at this juncture.

Which is one of the reasons why, whilst it will take some time for the book to build. The retail, as you can see, we are seeing the retail disbursals going up. And this will take a little bit of time for the book to start to reflect that because a large part of the book will happen only in about, if you continue this kind of momentum over the next 12 to 18 months' time. But definitely, we'll be ahead of the curve and probably should capture the right customer segmentation at the right price going into the future.

So that's the thought process, but we are very watchful of what's happening in the environment, what's happening in the ecosystem. And good to say that as of now, we are not seeing any red alerts or amber alerts, and we continue to calibrate our growth depending on what pulse we have at the ground level.

And just to chime or complement or supplement what Srini has been talking on the LCR. The one thing that we don't want to control or -- is on the deposit franchise. The deposit momentum is not something that you can have as an overnight plug and play. It's a very large franchise, and there is a momentum that it needs to have, and we don't want to sort of curtail that kind of a momentum.

Obviously, we are working in a very competitive environment and a very tough macro and liquidity environment. So, there is a little bit of an uncertainty where we want to cushion ourselves in terms of a higher LCR.

In addition to that, we have just, both Srini and I just mentioned about the glide path on why and what we want to do on the credit growth rate. Obviously, that will lead to this extra amount of high-quality liquid assets, which probably you're right, may depress in the near end, some amount of margins, which we are okay, because we are not here in the shorter end, we want to ensure that the balance sheet and our financial statements are very resilient in the medium to long-term.

The third aspect, which you alluded rightfully is the fact that there is an overhang in terms of what will happen if the guidelines come into play, the draft guidelines when it comes in circular. Obviously, we want to position for that as well. So, the 129 or whatever that you're seeing is probably a kind of a temporary phenomenon, which we will keep on. We'll watch as to how the various macro and the regulatory framework keeps evolving.

And at some point, in time, I think it will normalize to the median levels at which we have operated, which is what Srini alluded to. I think it's just a timing difference that you are seeing this kind of slightly elevated LCRs, which will adjust itself into the future.

Moderator: Next question is from the line of Rikin Shah from IIFL Securities.

Rikin Shah: Just have one question. With faster normalization in the LDR, we are generating excess liquidity on the balance sheet. So, the cash balances have gone up almost by INR750 billion in this quarter. In the past, we have demonstrated to prepay some of the bond borrowings in addition to the scheduled maturity. But this quarter, we didn't see that. So, I just wanted to understand, do you still see those prepayment optionalities available in the quarters to come by or we could probably see for a few more quarters where this excess liquidity could sit on the balance sheet?

Srinivasan Vaidyanathan: Rikin, you're right. Our efforts are towards that endeavor. But as you know, a large part of the borrowings that we have inherited from erstwhile HDFC is noncallable. So, it requires a lot of negotiations across the table. Obviously, it has to find favor with the investors. It's not a done thing that this will happen. It depends on their interest as well.

But having said that, the efforts are on. Also, in line with what I just said, just about a moment ago towards -- in Rahul's question, we also want to ensure that we have adequate cushion and liquidity to balance off not just the probability of -- the sustainability of deposits going into the future. The draft guidelines that will come about and also the fact that if there's an opportunity to bring down the borrowings, yes, why not?

So, we have to play this depending on the circumstances and how all this plays out in the future. But if at all, we do have an opportunity to do so and still keep adequate cushion in terms of liquidity, why not, we will do that.

Moderator: Next question is from the line of Abhijith from Axis Mutual Fund.

Abhijith: Sir, the first question is the other opex. Growth is sharply down. What is driving these efficiencies? And what is the trajectory we should expect in the near term?

Srinivasan Vaidyanathan: Yes. The total expenses are growing at the rate of about 10% or so. You've seen that we have moderated the headcount to some extent in this quarter. It's a seasonal timing in terms of how we spend for what festival and so on. And again, certain third-party expenses of origination and so on could be calibrated. There are several layers that go into it. There's no particular strategy on that, yes.

Abhijith: And second question is I just want to understand, you have spoken about CDR trajectory.

Moderator: Abhijith, sorry to interrupt you, but we are losing your audio, your voice is breaking. Can I request you to come back in the question queue? Due to no response, we move on to our next participant. Next question is from the line of M B Mahesh from Kotak Securities.

M B Mahesh: Just two questions from my end. One is you have started to see a slowdown in the commercial banking space, especially on the emerging corporates, if you could just kind of highlight as to what's happened there?

Srinivasan Vaidyanathan: Emerging corporates. See, emerging corporates, I mentioned to you in some other context, Mahesh, that larger ticket-size loans are sensitive to rates and the rates are not moving in tandem with the bond spreads that are moving in the market, right? These are good rated emerging corporates. We need the right kind of a price for that quality, right? So -- and if you don't get it, it's calibrated to a lower level.

And -- but within that segment, we do grow, too. And there are certain in the segment, which provides us priority sector and also provides through them partnership, certain small and marginal farmer or agricultural allied activity loans. We patronize all of those. So, it's not that it's just only one way of just look at this. You balance across various parameters of cost price, including the priority sector cost price and so on.

But that's how we calibrate that. There's no, again, one particular way. It's just a business line that you manage.

M B Mahesh: Second question is on the deposit side and loan growth. Is there any number in mind when you're looking at below industry average and looking at where the sector is growing in terms of deposits or -- you don't have an opinion about it at all?

Srinivasan Vaidyanathan: See, the deposits, what we have seen is that the industry has grown anywhere between 10.5%, 11%. And we have grown more than that, gaining market share any time period, if you take a year, three years or five years, between 50 to 70 basis points a year, gaining market share. But I'm not sure, which one you talked about where it is...

M B Mahesh: Srini, in a sense if deposits at a system level, let's say, is about 15% and loan growth starts to accelerate for the system. Is there a number in mind as to where you want your loan growth to grow? Or you're going to keep it a very flexible number out here?

Srinivasan Vaidyanathan: Yes. We are leaving that like so there's no one particular target, Mahesh, as we said, we are not strategizing to execute that one number that we want to hit. That's not what is there.

M B Mahesh: Just one clarification. On the savings account balances, if you look at the number of credits that are happening into the account, has there been a slowdown there? Or this is just transition to term deposits that we are looking at?

Srinivasan Vaidyanathan: We are glad that you asked that question. When you look at the credits that are coming into the accounts, they are robustly growing, growing in 20s, right. So that means -- that's again contributed by new customers, too. So, I'm not talking about a static customer base. I'm talking about adding every quarter, a little more than 2 million customer base coming in, shows that the credits do increase, and we are seeing robust increase in the credits.

But people do spend -- you're seeing that in the card spends anywhere between high teens to low 20s even in our own base, issuing spend or the acquiring spend, we have slightly under 40% share on the acquiring spend, that also, we're seeing quite robust growth where spends are happening. So, it's just that people spend, and money is with the government and not coming back recycled, or it's going through investments, through their alternatives in terms of what they are choosing to do. And time deposit is also one other area where savings is moving to time.

M. B. Mahesh: Perfect. Thank you.

Moderator: Thank you. Next question is from Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Sir, just two questions. So, one is on your Slide 36, your RWA to total assets is down quarter-on-quarter and you have degrown the corporate book and the mortgage book has also grown lower than the overall growth quarter-on-quarter. So, what would explain this lower RWA? And the second is just on the savings account, again, I mean, assuming you get a 50-basis point rate cut, would you expect savings account growth to go up or do you think this is more structured this time?

Srinivasan Vaidyanathan: All right, yes. Let's talk about the RWA density. 69% last quarter went to 67% this quarter, again, Saurabh that's a function of carrying higher liquid assets. If you look at our HQLA on an average basis went up by almost INR40,000 crores in this quarter. So, it's a function of how the HQLA is up and it's there and one other page on the balance sheet, where you see that we have more liquid assets. That's one.

The second aspect you touched upon is if the rate changes by 50 basis points, what happens to -- whether the savings rate goes down. It's too early to speculate on the direction of what it would be.

Srinivasan Vaidyanathan: We'll watch the system in terms of how.

Sashidhar Jagdishan: Yes. We have seen that change in rates is rather inelastic for savings balances build up. So, having said that, we cannot sort of do it in -- on a standalone basis or suo motu, we have to watch how the system plays out, how the banking fraternity plays out because it is something we wouldn't like to sort of jerk that at this point in time. So, we are not committing anything. I think we would like to wait and watch on that particular front, how it plays out in the future.

Saurabh Kumar: Thank you.

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

Abhishek Muraraka: Hi, Sashi, Srini and Bhavin. Good evening. So, two questions. One is a data keeping one. Can you share the loans that are linked to repo, EBLR, MCLR and fixed rate? And I can come back -- circle back for the second question?

Srinivasan Vaidyanathan: The loans that are floating, our external benchmark is, I think, roughly about 69%, 70% or thereabouts which is similar to what last quarter or the previous quarter that we had mentioned. So, it is pretty at that level.

Abhishek Muraraka: Srini this includes MCLR as well or this is -- or external -- entirely external.

Srinivasan Vaidyanathan: MCLR is a tiny piece of that.

Abhishek Muraraka: Okay. And the rest is fixed?

Srinivasan Vaidyanathan: Yes.

Abhishek Muraraka: Okay. Thanks. And the second question is on NIM. So, it seems if I sort of accumulate all the comments by Sashi during the call, it seems that there are positive factors, there are negative factors as well like liquidity buildup, CD ratio run down. All of that is keeping NIM where it is. Going forward, there will be a repo cut at some point and that will sort of drag it down. What can you do to offset that? If you want to keep it here or increase, what are -- what is now in your hands, what levers are there in your hands to offset that?

Sashidhar Jagdishan: See, whilst Bhavin and Srini will sort of supplement what I'm planning to say. All along we have maintained a very matched modified duration of our balance sheet. So, our view is that we should not have too much of an impact in the range at which we have been operating the margins in the near term. Of course, it's not a perfect -- it will not be the change or the delta for rate movements is not going to be in a perfect thing.

So, there will be quarterly variations, but broadly we should not see too much of -- I mean, don't go by 2 and 3 with the decimal points peace. We have been operating in a certain tight range. I think that should be maintained. In the medium term, I think we should be able to manage these margins in this particular range. If we have clarity as to how the sustainability of liquidity in the macro environment, the sustainability hence of our deposit mobilization, the fact that -- hopefully, by then the draft guidelines will also sort of bring in clarity. Then you will -- and we normalize the LCR to levels where we have operated in the past. I think you should see some amount of kicker that we should -- we have always explained in the past.

Abhishek Muraraka: All right.

Moderator: Thank you. Next question is from the line of Prakhar Sharma from Jefferies India. Please go ahead.

Prakhar Sharma: Good evening and congratulations on the results. I just wanted to ask on the credit cost part. Generally, 1Q tends to be a seasonally heavier quarter from the Agri side. So generally, slippages tend to come off in second quarter adjusted for the seasonality and same for credit costs. But if I look at the slippage ratio, it's kind of flat Q-o-Q which I wanted to ask for clarity.

And similarly, if I look at the provision number of about INR2,700 crores and add back the reversal that would have been done of the AIF, it will probably go to INR3,300 crores. So, can you just explain if there is any other moving part in the credit cost line?

Srinivasan Vaidyanathan: Okay. Prakhar, it is -- yes, your observation that the NPA is stable. The question of whether it should be improving, it's a relevant question. Historically, there has been some level of improvement whether it can be -- we can debate whether it is a 3 or 5 basis points, it has to improve. That is the kind of range that we are talking about here.

Also keep in mind the context that we made forays into small and marginal farmer and into deeper geographical segment over the last 1 year to 2 years. So, the seasonality operates differently at different years, particularly when you move into different segments that are organically, yes.

Prakhar Sharma: Understood. Thank you so much.

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

Chintan Joshi: Hi, good evening and thank you for taking my question. Can I come on the balance sheet again? So, if I kind of take a few points, you mentioned that there is limited optionality on repaying the borrowings, you are doing more securitizations which also reduce your loan growth rate. That excess deposit that you have. So, for example, this quarter it was 700 on average deposits versus 300 on average advances, kind of gets parked in liquidity.

How would you optimize this? If you build up too much liquidity, does that give you a little bit of room to grow your loans a little bit for 1 quarter until the optionality on the borrowing plays out. Is that how we should think about kind of sequentially how you would optimize that balance sheet structure?

Srinivasan Vaidyanathan: Chintan, thank you for asking again similar to what I alluded to before. As far as the deposit is concerned, both our distribution reach, addition of the customers, working with the 96 million-plus customers and our 207,000 people are positioned to get as much as we could on the deposits with everything else permitting. So that's something -- there's no calibration there. We want to get as much as we can. Price is not a differentiator. It's about the relationship to get.

Having got that, then it goes to the other side of the balance sheet in terms of how you deploy, what you do. That's where you're asking about how does the liquidity ratio or the LCR shakes up, right? The LCR is an outcome. It's not a driver. These are the drivers in terms of you get as much as possible deposits and the loan calibration that we have done.

Loan calibration, again, I described that we want as much loans as possible that passes through the credit on the mortgages and on the retail side at the price point we want and that the credit filters it passes. Where we have inhibition is only on the larger ticket size, where we are seeing very stubborn pricing, which is very low. That's where it gets calibrated. And other than credit and price, there's no other way that we are calibrating the loan as such. And we are not targeting one number or one range of numbers that we want to get to there.

Chintan Joshi: So, the bottom line is that if you keep growing deposits faster than loans, we don't have any issues with growing liquidity because the pointer is to bulletproof this LDR ratio rather than worrying about the NIMs in the short-term?

Srinivasan Vaidyanathan: No, that is building of liquidity is an outcome that comes and it is a good thing to be having because when there is a growth opportunity, that is what it gets positioned for growth. It's a good thing to have.

Chintan Joshi: And on the -- the second question I have is on asset quality -- the one area that has seen a pretty strong growth over the last few years has been CRB, MSME. We're going through cycles in MFI in consumer credit. I'm wondering, if there is something that might be in the pipeline in that area, if not for you, then more generally for the industry?

Srinivasan Vaidyanathan: We have not seen in our book any kind of a credit that inhibits the growth or inhibits any kind of different approach to how we operate that.

Chintan Joshi: That's good to hear. And it is heartening to see the improvement in the LDR ratio at an accelerated rate. So, thank you for taking my questions.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we will now take the last question from the line of Manish Shukla from Axis Capital. Please go ahead.

Manish Shukla: Srini, just to reconfirm the floating proportion of the book. Corporate loans are about 19%. So, I'm assuming that would be entirely linked to MCLR, right?

Srinivasan Vaidyanathan: You can't look at it like that. There are some corporate loans that could be MCLR, that could be other -- yes, a good amount of that, your assumption is, is there a majority of this EBLR? Yes, it will be.

Manish Shukla: And the question is purely on repo. So purely repo-linked book would be what proportion of your overall loan book, just linked to repo?

Srinivasan Vaidyanathan: No, I don't have that particularly handy, but there are -- EBLR has got repo across mortgages, across some CRB products too and the wholesale corporate products, it's got -- some of them are T-bills and some of them have MCLR. So, across all of that, that's 69%, 70% that we talked about.

Manish Shukla: Okay. And the last question, before merger, HDFC Limited used to carry hedges on the liability side for interest rates. Are you still carrying any of that? Or all those have matured?

Srinivasan Vaidyanathan: Yes, we do carry those hedges. That hedges presupposes there is a borrowing that is attached. So, to the extent that the borrowings have not been paid down, that means they are not rolled down or prepaid, the hedges continue.

Manish Shukla: Would you be able to quantify that proportion?

Srinivasan Vaidyanathan: I think for the annual, we have published -- as of March, we have published in our derivative schedule, you should be able to see it in our annual report for the annual, but not quarterly, yes. We published that annually.

Moderator: Thank you very much. I now hand the conference over to Mr. Vaidyanathan for closing comments.

Srinivasan Vaidyanathan: Thank you all for participating with us today and engaging here. I appreciate your time. Thank you, Sashi. And if any of you have more questions or comments to provide, feel free to connect with our Investor Relations, and they shall be happy to engage. Thank you all. Have a nice weekend. Thanks, Nirav.

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