"HDFC Bank Limited
Q4 FY '25 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to HDFC Bank Limited Q4 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: Okay. Thank you. Good evening, and welcome to all. We have with us Sashi Jagdishan, MD, and CEO. We'll request him to give some opening remarks before we can jump in. Sashi, over to you for any remarks that you have.

Sashidhar Jagdishan: Thank you Srini and thank you all for joining in on a Saturday evening. You probably would have seen the press release and the investor presentation that the team would have put it up. So let me give you a very brief context as to how we have done on a broad basis before Srini takes over some of the finer points. Within the global context, we believe India is well placed. RBI has recently commenced cutting rates.

The moderation in food inflation and headline inflation also augurs well. We've already seen 2 rate cuts and the change in stance from neutral to accommodative is a welcome relief to all of us. RBI intends to increase durable liquidity, which is followed by concrete actions, which, along with rate cuts, will help supporting the GDP growth. For FY '26, we expect the GDP to be supported by a pickup in rural spending, discretionary consumer demand and investment activity.

Of course, the goods exports may be impacted until the global trade and tariff situation becomes far more clearer. We acknowledge that the global macroeconomic outlook has become more uncertain due to the recent trade tariff-related measures and the volatility surrounding them. This may potentially impact global inflation leading to lower growth across economies.

Corporates have adopted a wait-and-watch stance, and we are waiting for more clarity. We remain watchful. Coming to the bank. As you recall, we spelled it out in Q4 of last year and to be more precise, I think, somewhere around February.

We continue to be on the journey that we spelled out. Our credit deposit ratio has been brought down from the highs at the time of merger, which was at about 110% to around 96% as of March 2025. Our deposits have grown faster than the system and so has it grown faster than our loans as well.

Next year, in line with what we had committed, the adjustment in CD ratio will not be so steep, supporting the loan growth for the bank, but it will be on a downward path. Cost remains under a tight leash, and we expect this to continue. Asset quality one of our USPs, remains pristine.

As liquidity and growth improve, we are well placed to grow in both assets and deposits. We have been doing a lot of work on technology over the last few years and we should start reaping the benefits of the same gradually during the course of the year. This is a space to watch out for, and we shall unveil at the appropriate time.

I would like to express my gratitude to all our employees for their hard work and performance and to our shareholders and all of you who are on this call for being very patient with us during this period of adjustment. Thank you so much.

Srini, over to you.

Srinivasan Vaidyanathan: Okay. Thank you, Sashi, for those remarks. With that, we can open it up, and we'll use the time for questions. Please go ahead whoever is on the queue, please.

Moderator: Thank you very much sir. We'll take a first question from the line of Chintan Joshi from Autonomous. Please go ahead.

Chintan Joshi: Hi, good evening. Can I start with NIM? Some expansion coming through this quarter, if you could explain what the drivers of that expansion was? And also how we can think about NIMs progressing over the next year? On one hand, you've got the rate cuts, but on the other hand, your funding synergies are gradually coming through. Do you think if you see 100 bps rate cycle, NIMs can be higher than where we are today?

That's on NIMs. And then the second question I have is more on the corporate sector. If I look at cash and investments on corporate sector balance sheet over the last 3, 4 years and how they park it in the banking system that's kind of gone up significantly. But these deposits are short term in nature, we don't have the LCR benefit like we have with the household sector, how does the bank take on these deposits? How do they use it?

I assume they can't really be used for term lending. It would be helpful to understand in this period where we've got geopolitical uncertainty, there will be even more corporate deposits, how does the banking system or yourselves use that?

Srinivasan Vaidyanathan: Okay. Two things. One is at the macro level. First, I'll take the NIM first. You saw the NIM for us over the last 12 months if you see, operated in a very narrow band, 3.4 to 3.5. Last year, March quarter was 3.44; now on a core basis, 3.46; last quarter was 3.43 and so on, so it's in a very narrow band plus/minus 5 basis points here and there, that's where the NIM has operated. And if you look at the components of the NIM, one is the cost of funds, which is in one of our pages where we published that, which is I think is on Page number 15, I think it is in our deck.

The cost of funds is also very stable at about 4.9. And there are two things going on in the cost of funds to be stable there. One is the borrowing mix has come down during this time period, whatever is on the page there, you see that the borrowing mix in the first of the time period, December '23 was 21% and then from then on last March, it was 18% and now it is 14% borrowing mix. So that's one of the tailwind that contributed as a positive item to the cost of funds.

Then there is a headwind in the cost of funds we have seen is the customer preference towards time deposit. If you see the rate of growth even in the recent time period, time deposit rate of growth, INR2 trillion in a full year time period. In the quarter, this quarter, recent quarter, about INR0.8 trillion time deposit rate of growth, 20%-or-so, right? So we have seen that.

So the CASA ratio mix has not been favorable. It's an adverse variance there, right? But between all of these, the cost of funds, we kept it stable by selecting retail deposits and not pricing up on the nonretail deposits, and we'll come to the second aspect of what you asked.

So the nonretail we've been circumspect, even I think it's going back to almost December '23, that time period itself, we saw that the pricing on the nonretail deposit was unacceptably high and competitive without consideration for the liquidity lendable value of those deposits. So we remain circumspect and didn't price, but try to manage it in a way that it's in a very narrow band there.

Now come to the yield on assets, the other component of the NIM before we get to the conclusion of what you'd asked. So if you look at the yield on assets, they've also been pretty stable between 8.3%, 8.4% that's the level at which we operated and that's how we manage that.

Now yield on assets if you see here, the retail will give more yield than the nonretail because then you'll have to pay through credit cost in some manner now or at some point in time. But we have had a balanced growth there to manage this yield in a very stable band there.

And again selection, we have seen over the last 12 months, 18 months, the corporate loans of the larger ticket corporate loans and the larger ticket SME loans, have been very competitive, particularly coming from certain public sector institutions where the growth is an objective and not necessarily margin or returns, we have seen that pricing is very, very low on those.

I mean the loan spreads have been very low compared to the bond spreads. That means when the bond spreads moves up or down, the loan spreads is not moving, it's actually coming down, which is what we are seeing. Now we try to manage it through appropriate selection, both -- quality is, of course, the first criteria for selection. Quality passes, it has to pass the rate and if it doesn't passes, we were happy to let go and not necessarily bulk up the balance sheet because we said we can reposition the balance sheet and grow the loans at any time. So that's how we manage that.

Now coming to what's happened in the recent time period; 3, 4 basis points always moves at any time for various reasons. So there's no one particular one we can say. Of course, there is a cash reserve ratio that changed sometime in December. So there was some positive impact last quarter and the balance of the positive impact in this quarter, call it, a couple of basis points.

And then a few basis points moves up and down. There is no kind of a finesse. And similarly, when the NPA changes, lower agriculture in the March quarter that also is a good kind of a margin benefit you get to some extent, but they're all within a narrow band.

Now where does it go? I don't want to provide an outlook where this goes. But all I want to tell you is that I described to you this long to tell you how we think about margin and how we manage, which is policy rates change, so the loans that are linked to policy rates like the repo rate gets changed right away, so which is a headwind.

And the faster the policy rate changes, it starts to factor in faster. The deposit side or the funding side rates take time to factor it in. So I would urge not to look at quarter-to-quarter because it's not something that could be managed at all because the policy can change tomorrow and then the deposit rates can change over time.

So you have to look at it at least a year or longer than a year to see how stable and how we are managing that margin level, which is what on the page that you are seeing shows that Page 15 at that kind of a level stability how it gets managed. That's the first part. The second part is you talked about the cash and investment and the corporate sector balance sheet, how it gets deployed.

Again, the first part I tried to answer that certain categories of deposits have lower lendable value and the market doesn't price appropriately for that lendable value because that's how it should be. Typically, those kind of segmented deposits should be lower than a retail because the retail is the highest lendable value you can get. But these type of deposits are priced far higher than the retail deposits. So thereby only for large relationships, and where we could get certain other product mix aligned well, we patronize and participate.

And there are certain other institutions like affiliated institutions to large corporates that we patronize and hold it. That's because we want to keep the wallet share on our lending. We are the largest working capital bank in the country, so we want to keep that wallet share growing in a reasonable manner. So we participate to some extent on these. Otherwise, we don't bid for these kind of deposits.

Moderator: Thank you. We'll take the next question from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Good evening and congratulations. I had two questions. The first one is on deposit growth. So large banks have cut deposit rates in the most popular buckets by 30 to 45 bps, which is of course transmission, but are you comfortable that the liquidity position has changed enough to support a healthy deposit growth for the system and yourself? Because tight liquidity was really a big issue for the last 1.5 years, except in the last 2 to 3 months. So that's my first question.

And my second question is on your priority progress. Of course, your CRB has been growing faster than your other loans. But if at all there are any shortfalls, how would that be managed? Would that have any ROA impact, so just a focused discussion on how priority will be managed?

Srinivasan Vaidyanathan: Okay. First is if I get on the rates and deposits as such, right? One is that it's not -- the deposit rate change, if you noticed, while we may have had gone first or second or whatever it is, across the industry, you're seeing -- at least the large top 3, 5 players you are seeing responded to the policy rate change. So that's something that was part of the transmission process.

The loan transmission for good amount happens automatically because of the linked to policy rates. And on the deposit side, one has to manage it and announce it after deliberation. So you have seen that happen. So there is no change as such from a competitive positioning or whatever.

All that differentiates with that ability to reach, that means have the distribution reach, bring in new customers, have better engagement through the RMs, that's been what we have done in the past, that's how we have grown, if you see the past year, rate of deposit growth about 15.8%-or-so, that's INR3.4 trillion in the year. So we continue to be optimistic and continue to have that approach of energy to get that market share gaining, right?

So the rate is not a differentiator in the past, and we don't think rate is a differentiator to win something because that would be very transitional and a short-term approach to getting that. So that's one on deposits, right? We continue to be playing on an even field there, and we're confident of how we are positioned for that. Second aspect of what you asked is the priority sector lending.

While the priority sector details get published in the annual report, but nevertheless, at an aggregate level, as we have said in the past, we do meet that 40% that is required. We're slightly above that level in terms of the aggregate priority sector lending. There are two sub-segments, which is the small and marginal farmer segment and a weaker section that always calls for something that inorganically, that means how do we go and buy it in the market either through certificates, IBPC, PTCs or any other manner or through on-lending program.

There are several instruments that we use and we keep on. And if none of those economics work well, there is always the last resort is the RIDF. That's not our first -- if you don't get any of these done, then there is RIDF, right? If you look at the cost dynamics of any of these things, they all work almost very similar dynamics to the overall P&L. You rightfully so touched up on returns. What does it mean to returns? Whether you have one or the other instrument, the impact on the return is very similar, there's no difference. And that is what historically also we have done.

Even if you look at the year that has gone by, we were about 1%-or-so short on these kind of segments. And even now, we continue to look for and search for how to close in that last 1% across SMF for the weaker and we will endeavor to do and close as much as we can. If not, the alternatives are already there, yes.

Mahrukh Adajania: Okay, perfect. Thank you.

Moderator: Thank you. We'll take our next question from the line of Anand Swaminathan from Bank of America. Please go ahead.

Anand Swaminathan: I have a couple of questions. Sashi, first question is on CRB. There has been a lot of media noise around senior management and some changes. It would be great if you could give us some confidence around what's happening and give us some clarity around that?

That's number one. And number two, on ROAs. We have successfully defended the 1.8% ROA we've been guiding for the last several quarters. Srini, as we go into the rate cut cycle and growth slightly improving in the FY '26, do we have enough levers to defend this 1.8% level or we should expect a brief kind of decline and then come back above 1.8% when growth eventually recovers?

Srinivasan Vaidyanathan: Okay. I'm going to get it started first in terms of what it is, right? See, if you see, we had a reorganization. And Rahul Shukla who heads the commercial and rural banking had taken personal time off and is on sabbatical, right? So he's taken some time off or whatever, family reasons and so on. And the reorganization is expected to accomplish a few things, right?

One is, if you see what is going on particularly in the rural segment, take -- example, I'll give you the -- how we are thinking about to drive certain synergy and capture the growth opportunity and bring some productivity, right?

So that's both from a customer point of view, better engagement; and from people point of view, better productivity and what does it do to get that. One is, simple thing, if you take about agriculture, that's now part of the retail management team who handled the two-wheeler and auto business and so on, that's the same kind of a leadership that handles agriculture. So once we reach the farmer, you know that as part of the prior growth approach, we expanded our geographical reach to 2.25 lakh -- 225,000 villages.

Now the next phase of this growth is having a presence there, we need to go capture the volumes, that is reach out in the vicinity of those villages the right kind of farmer to bring in. So right now, we envisage not to just do an agriculture loan because that particular town, that farmer, that family and the neighbors do need a 2-wheeler, do need a car, auto loan and so on and so forth.

So under the same team that we are trying to get these kind of multiple products made available to them. And also, if you look at where this particular thing is positioned, it's also positioned alongside the gold loan business. You know that in the country, a lot of farmers have gold and use gold for financing appropriately and perhaps rightfully so to fund the requirements of the farm.

And so now these synergies are expected. And what does it do? It enables us to have a frequent connect with that farmer and that community in the rural segment through these kind of products which we are having. So it enhances our periodicity at which we will touch that customer. And so since we are delivering multiple products to the same customer, we do anticipate this is supposed to give better people productivity.

So I gave you one example, and that's how if you look at anything, all of those things that we have done is expected to provide the significant lift in productivity across all of these product and geography and customer segments that we are operating. So that's one, I hope, that gives you the context of the CRB, what goes on...

Sashidhar Jagdishan: Srini, I would like to add to whatever you have said. Rahul was one of our very good business managers. And obviously, he did express, as Srini mentioned, his desire to go on a sabbatical because he had some personal matters to attend to with his family and the academics of his children.

But having said that, he built a very strong team. And as you probably heard Srini, we have reorganized the entire asset side of the balance sheet under an even more abler individual. As you know, Kaizad now handles the entire asset side of the balance sheet and the investment banking business. And all the heads who have been with us, we have, as we have mentioned several times in the past, we have a very good depth in management and they now all of them have now handle larger businesses and report to the Deputy Managing Director.

I'm quite excited about this reorganization, and I'm sure that we will harness the most optimal way to find growth and as Srini mentioned, synergies between various asset groups so that we can optimize even our resources at the grassroots levels, so that there is not too much of an overlap. So this is going to be a very exciting period for us, and you will start to see a lot more efficiencies and even greater hunger than what we have seen from the CRB and the entire asset side of the balance sheet.

Obviously, optimizing yields, optimizing the need to maintain priority sector requirements and other aspects as well. So this is a year to watch out for in terms of the kind of benefits that will accrue from this so-called massive reorganization that we have undertaken during the year. Yes, Srini, over to you.

Srinivasan Vaidyanathan: Yes. Thank you for that additional color. Very good. Now getting to your second aspect of ROA. See, if you see our ROA has operated around that 1.9 level, right, plus/minus a few basis points. Ever since we accomplished the merger July 1, 2023, it's been approximately around that level, right? We're consistently delivering there.

When you had asked about what does it do in a different rate scenario, if whatever happens? I talked about the margin in a couple of questions before in terms of how we think about the margin to be within a stable range, right? So ROA similarly can move around 5, 10 basis points.

Our long-term average of ROA, if you see, somewhere, I think we have published that also. Over a 10-year, 15-year period, if you see, anywhere between a merger or pre-merger or post-merger, any which way if you look at it, 1.9 to 2.1.

And for many instances, the frequency of two is the highest. And sometimes we'd had 1.9 and sometimes we'd 2.1. So that is the optimal level, right, at which it operates. If the ROA tends for better cost of credit or better margin that comes through and for cost efficiency and so on, to some extent, there is always a reinvestment opportunity because at the end of the day, our market share on deposits is 11.

Our market share on distribution, which is branches is 6% and our market share on loans is 14%. So we still have enormous room and a need to make investments, pace those investments appropriately to keep growing for the long term. So that's in that narrow band that we operate. So there is no one particular -- can we have a 10 basis points change in a year possible? Absolutely possible. But can it be far higher than that? Not likely, right? Because we have operated in a stable band up or down.

Moderator: Thank you.

Anand Swaminathan: Thank you Srini. That is very useful. Just a quick follow-up…

Moderator: I request you to join back the queue for follow-up question, please, as we have other participants waiting for their turn. Thank you. We'll take our next question from the line of Rikin Shah from IIFL. Please go ahead.

Rikin Shah: Thank you for the opportunity. Two quick questions. First one for the repo-link loans. Do they get repriced immediately as soon as the repo rate changes? Or is there usually a lag of a few months from the change of repo rate? And secondly, an extension to this, does the number of days impact your reported margins? That's the first question. And the second one is, was there any reversal on AIF provisions in this quarter? Those are my two questions.

Srinivasan Vaidyanathan: Okay. So in terms of the timing of the repo rate change and so thereby the transmission or flow-through, by product, it is different. If you think about mortgages, which is 30% of the book-or-so, it can happen in the immediate cycle, rate changes and in the following month cycle, it can happen. So it can be anywhere within a month, it can happen. If you look at corporate loan or something, it can happen immediately.

So it depends on product to product and the contractual arrangements, which are there in terms of the repricing frequency. But no -- it will not be a kind of an annual or something like that. It can be a month, it can be a quarter, but not something that it takes a year to get that transmitted. And your second aspect of number of days, yes, it can be a couple of basis points, it happens all the time. And yes, that's possible.

Rikin Shah: Got it. And the reversal of AIF provision, please?

Srinivasan Vaidyanathan: AIF, there's nothing significant in this quarter in terms of the contingency. If you remember the AIF provision that we had last financial year, not the one that ended, was about INR1,200 crores-or-so. Then after the RBI clarification in the beginning of the recent financial year, it was taken down. And then depending on the volumes that move up and down, it moves, but there's nothing significant as such on that, yes.

Rikin Shah: Okay. The context of this question, Srini, was that in Note number 15 to your results, it says that AIF-related provision stock is around INR288 crores right now. The last quarter, it read around INR350 crores. So I just wanted to clarify, was there any reversal or just some of the AIF investments matured and hence, you were not required to carry them?

Srinivasan Vaidyanathan: So yes, it was not required, but then it didn't survive to the P&L to the bottom because there are so many ins and outs that happens in the provision. So the way of contingent provision didn't happen because at the end, there was some net addition of INR60 crores for various other reasons. So it didn't survive to the P&L to the bottom line, yes.

Rikin Shah: Understood. Thank you very much.

Moderator: Thank you. We'll take our next question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Yes. Thanks for taking the question. A couple of questions. So firstly, again, sorry to harp again on margins. But the way you have been indicating the balance sheet construct is such that we should be able to operate margins within a narrow band, does that really change with the relatively higher repo rate cut? Or do we have additional levers to still manage margins relatively better compared to that of peers?

Srinivasan Vaidyanathan: Yes. That's a good question, Kunal. Thanks for asking that. One is that when the policy rate changes in a steady manner over a longer period of time, you know that the adjustment that is required from a cost of funds catches up to neutralize -- to keep the margin safe. But if in quick succession the policy rate changes, then the matching of the cost of funds takes longer time. So that means you cannot look at whether it is in a narrow band in a quarter-to-quarter period. But when you look at a year, you will be able to see that it is in a very narrow band.

Kunal Shah: Sure. So on CASA, we have been indicating that in the falling interest rate cycle, generally, we would tend to improve the CASA, but the rate action both on the savings as well as FD seems to be almost similar or savings is relatively higher, then would it be fair to assume that maybe the overall structurally declining SA that phase can very much continue?

And maybe a follow-up on the LDR. When you indicated that now LDR we will not see a steep decline, are we changing a stance that we need to get it to the premerger level at an accelerated pace and maybe even if it holds relatively higher at 90, 92, we would be comfortable then over the next 18, 24 months?

Srinivasan Vaidyanathan: Okay. First is the CASA. I do want to go back to describing that, right? The empirical study, both industry as well as for us, which is published CASA ratio and the policy rates if you see over a 15-year period through the up and down rate cycle, the CASA has moved in the opposite direction, which is when the rate goes up, CASA ratio goes down; and the rate starts to come down, there is some lag. It's not instantaneous. A few quarters lag, the CASA starts to go up.

So you'll see that if you map us over a 15-year period and the industry, you'll see that it moves up and down. So we do -- if the empirical is repeated, there is no reason to believe that it would not be the same or we're not seeing something different as such, we should get the CASA back, but not in a hurry, right? Because there have been 2 rate cuts that have happened. We need to wait and see how this stabilizes, what the global macro effects, what it plays in the country, both from an inflation cost and purchasing power of people.

We need to see how all of those plays out, which you have seen in the last 12, 18 months that middle to the lower segment did not have adequate disposable income to be put in savings because they were using it for their day-to-day needs. So that's why you saw CASA had one more nuance to it that it came down, right? People had less to save. They were spending on certain things and money was moving from household to non-household and so on and so forth. So that's in terms of the CASA as such.

Kunal Shah: And LDR?

Srinivasan Vaidyanathan: LDR, I'll take a shot at it to see. See, what we had described, Kunal, last quarter or even about a year ago is that the LDR will come down to the premerger level, 85 to 90; more precisely, it was 87-and-change the quarter before the merger, 85 to 90 is what we have operated, that will come into that range in FY '27.

So that is why we saw that the loan growth in this year that went by, FY '25, will be lower than the prior year for the industry and we took that opportunity, both industry loan growth going down and pricing being not to our liking, we accelerated to say, let's take this opportunity to slow down even further. So we grew at 7.7%, the assets under management in this recent time period.

We have also indicated that in FY '26, we are subject to appropriate pricing, quality is always given, appropriate pricing that we will be growing at the market rate of growth. If you see the recent quarter that went by, March quarter '25, our sequential momentum growth was about 3.3%, which call it approximately annualized 12% or 13% thereabout.

So I'm not giving you an outlook of what you should expect, I'm just describing what happened in the recent time period and that's the kind of velocity at which it was growing. So we do expect that FY '27 is when it will come below that 90 mark. So at this moment, there is no other approach that we are having. And we continue to power on getting the right kind of deposits at the right price to keep that leadership position and gaining market share on deposits.

Moderator: We'll take our next question from the line of Abhishek M. from HSBC.

Abhishek M.: So a couple of very quick clarifications and then one question. The first is when you say repo cut gets passed on right away, does it happen exactly right away or does it happen on a particular day in a month or a particular day in a quarter? When does the transmission actually happen?

Srinivasan Vaidyanathan: It can happen -- if your repricing date is set for 15th, it is 15th. If Bhavin's reset date is set for 25th, it is 25th. If my reset date is 5th, it is 5th. And it depends product to product. And that means the mortgage product is different. Wholesale product is different. SME product is different. So it is different product. There's no one that is what it's broadly. Will a good amount reprice in a month? Yes. Will most of it reprice in 3 months? Absolutely.

Abhishek M.: Right. So the cumulative impact will probably be seen in Q1 may not have been seen in Q4 yet, that's the understanding, right?

Srinivasan Vaidyanathan: That is correct.

Abhishek M.: Right. And then just in terms of the...

Bhavin Lakhpatwala: Abhishek, also the fact that quarter 4 -- Abhishek, the first repo rate cut happened in February itself. So even the full quarter impact of that you have not seen, you will see that only in the April to June quarter. So you'll see the full 50 basis points impact happening in this quarter, what you've not seen perhaps in the fourth quarter.

Abhishek M.: Perfect. Yes. That's what I wanted to clarify. And therefore, in terms of the NIM trajectory, right, 1Q would anyway not have any benefit from the TD cuts that you are taking now? So there should be a bigger impact in 1Q and then through the year, you would see some benefit of the rate cut, etcetera, that you're taking, that should build up...

Srinivasan Vaidyanathan: That is correct, but I do not want to talk about it quarter-to-quarter at all. You should look at a year because we do not know what will come next week or next month, so we will handle it as a management appropriately to market needs and customer needs.

Abhishek M.: Yes, fair enough. And therefore, in terms of this 2% ROA target, let's say, is this like now a 2-year or a 3-year kind of target? Because it will take time for cost of funds to catch up and for policy rates to maybe stabilize at some level. So does this become like a '27 or '28 kind of target for you?

Srinivasan Vaidyanathan: I don't want to give you an outlook. And by the way, I do not know where you picked up a target of a 2% ROA. We've not specified that. All we specified even in this call earlier was that when you look at the frequency of the 2% over the last 10 years or 15 years, the 2% has been the maximum frequency at which we have hit on an annual basis. That's what I mentioned.

Abhishek M.: Yes. Okay. Fair enough. So let me modify the question. Basically, do you have any other levers in your P&L, maybe fees or maybe opex where you could see some improvement from here?

Srinivasan Vaidyanathan: We have told you about the opex, right, in terms of how we have made investments, if you think about the branch investments, and so the time for getting some realization benefits as well as the productivity benefits are on the anvil on that. If you look at a 5-year period, 250 branches to 350 branches to 750 to 1,400-something to 900 to 700 something now. So in terms of the branches, this is the last 5, 6 years, if you see that we have built, right? Even the recent time period, 700 branches, if you see, is almost 2x what we were doing 5 years ago in terms of the branch.

So we have accelerated and made those investments. And now we are pressing on that to get better productivity, and thereby, the efficiency to come in. Again, the trajectory of that is not quarter-to-quarter, not linear, but the trajectory of that is for the cost to income to improve. And again, one other aspect I do want to tell not just look at cost to income, please look at cost to assets too, where we are the best-in-class in terms of cost to assets at about 1.9-and-change.

Abhishek M.: Yes, exactly. So that is why I was wondering if it can improve even further from here because you're already very efficient when you compare to your peers?

Srinivasan Vaidyanathan: We are efficient, and we continue to press on new technologies and press on greater productivity, yes, indeed.

Abhishek M: Got it. Okay. Thank you so much and all the best.

Moderator: Thank you. We'll take our next question from the line of Harsh Modi from JP Morgan. Please go ahead.

Harsh Modi: Yes, hi. Thanks for allowing to ask questions. First is on CASA market share. Could you provide some details over, let's say, next 18 months to 24 months, how do you see your both CA and SA market share evolve and is there any particular number that we could think about in terms of CASA ratio, let's say, over 18 months to 24 months?

Srinivasan Vaidyanathan: In a different form, it's the same question of an outlook or a target that want us to specify. The opportunity exists. Our total market share is 11. The time deposit or CASA market share is give and take around that level. So which means we are evenly positioned, take time deposit could be 11.5 and CASA could be 10.5 and so somewhere in that level. That's where we are in terms of the market share.

The opportunity exists across both of this. I do want one other very important factor to tell and which we have been mentioning over the last 3 years, 4 years. The penetration of time deposit in our customer base is low. So we do see opportunity space for getting better customer relationship through those time deposits. So we cannot leave it on the table to say just because it is time deposit, we don't want.

We want that customer relationship because that's based on customer needs. So I cannot tell you that we drive to one ratio and our goal is to have this ratio and so on. Our goal is to have the predominant share, wallet share of the customer whatever comes. And so thereby, that is how it is operated. And that is how the market share, if you see 11%, either any of these CASA or time deposits hovers around that kind of level.

Harsh Modi: Right. Okay, I understand that, Srini. If I could rephrase the question, especially for savings account market share. Incremental savings account market share over next 18 months to 24 months given your investments in branches that you just explained and technology and best-in-class distribution network, do you expect to gain meaningful market share on savings account in next 18 to 24 month or would you probably just be maintaining your market share over the next 18 to 24 months, how do we think about that?

Srinivasan Vaidyanathan: Our ambition and our historical experience has always been to gain market share. That is how we are positioned. How much we gain depends on market conditions at any point in time and the disposable income in the hands of the customers, depending on how the inflation plays out, how the wage growth plays out and so on and so forth and market returns as well as is another aspect of it, yes, which we have seen in the last 12 months when the market returns were high, we have seen some investment into the markets.

Harsh Modi: All right. Thank you.

Moderator: Thank you. We'll take our next question from the line of Param Subramanian from Investec. Please go ahead.

Param Subramanian: Hi, good evening. Thanks for taking my question. Just a few data-keeping questions. Firstly, what is the maturity of the term deposits on book? I don't mean on sourcing, on book. And similarly how much of your borrowings mature over the course of next year?

Bhavin Lakhpatwala: No, you'll get some of these things you'll get once the annual report is out. We don't have that, some of these things handy because it belongs to multiple buckets that goes through. So on the time deposit, we can't really have a number to give out to say this is a maturity that you're looking for. And sorry the second question.

Param Subramanian: Yes, broad number would also do, Bhavin?

Bhavin Lakhpatwala: No, it's not something which we can just, I mean, difficult to put a number out that way. And sorry, can you repeat the second question again, please?

Param Subramanian: On borrowings over the next 12 months.

Srinivasan Vaidyanathan: See, two things on borrowings. There is a maturity profile, which also last time we published, I think it's 0.5 trillion or thereabouts of the legacy bond borrowings will mature. And we will have opportunity space to have some new borrowings, which is infrastructure borrowings, which could be much more cost effective. So it depends on the market rates and there's no one particular strategy. We do the breakeven between certain category of deposits and infrastructure borrowings.

And in many instances, we see the infra borrowings could be better. So again, I don't know what the market rate will be when we go to the market, but both of these are -- we will have some borrowings, infra borrowings at a cost-effective way and there will be a certain level of maturity that will happen which is, again 0.5 trillion or thereabouts, that will happen. And keep in mind that the borrowing mix to the total liabilities now stands at about 14%.

Premerger, it was in single digit call it 8% or thereabouts 9%. So ideally, somewhere in the long term, it will transition towards that level. A combination of both balance sheet growth as well as some maturity and replaced modestly with cost-effective borrowings.

Param Subramanian: Thanks Srini. Just one additional part. How much of your borrowing is, say, floating rate hedged as we go into this rate cycle, just a relevant question there. And secondly, last quarter, you had given a number on the PSL shortfall in SMF and weaker section being about 1%, where are we there broadly?

Srinivasan Vaidyanathan: About that percent-or-so is where it is. We endeavor to close it, but that is always -- we chase volumes at different categories, as I told you on that. Then your first part of the question...

Bhavin Lakhpatwala: Is borrowing that hedge? It continues to be around 60%, 65% of the borrowings, which will be hedged, which is again from the HDFC Limited book, which is what we've always had that.

Param Subramanian: And which is the relevant floating benchmark once you look at...

Moderator: Mr. Param, I request you to join back the queue, please for follow-up questions. Thank you. We'll take our next question from the line of Deekshant from DB Wealth. Please go ahead.

Deekshant: Thank you, sir for taking the question. Sir, on the larger macro cycle, let's say, for the last two decades or 15 years-or-so, where do you think we are on our credit growth to NPA cycle? Are we at a stage where we are seeing the credit growth going up and with that in order to get that credit growth, we will also see the NPAs going up or are we in a space where we see that there will be a range-bound period of an NPA, we won't be crossing a certain level and the credit growth would be good?

Srinivasan Vaidyanathan: I guess you are talking about the industry level. You've seen us through various cycles, we've been pretty steady. Our NPAs have been quite steady other than the year or two of COVID. Even those time periods, maybe 20 basis points, it went up, but otherwise we've been operating in a very narrow band on nonperforming loans and so on. I guess your question is more philosophical in terms of what's happening in the industry and where that is heading.

If you listen to our Chief Credit Officer, he has done various analysis to say that the credit cycle bottomed out maybe even three quarters ago, four quarters ago and which you have seen at the industry level, the nonperforming loans going up and the credit cost beginning to go up. The offset has always been some of the legacy loans 5 years, 10 years, whatever legacy loans some recoveries and repayments have happened against those.

So you don't necessarily see the full effect of that through the P&L at the industry level. You don't see that. So whether the credit NPAs and credit costs will normalize over the next 1 year, 3 years, it should, but that should be at a lower level than what historically we have seen is the assessment of our credit officers.

Sashidhar Jagdishan: So just to add to what Srini is saying. Our segmentation of customers, whether it's corporate, whether it's SME, whether it is retail is very clear. We have tested these segments over a long period of time and we probably have a reasonable fix on the expected loss, credit losses in that. And the opportunity to nibble away more share in these kind of customer segments is huge.

As I said, it is up to us the pace at which we want to grow, but it doesn't mean that the proportion of our losses is going to go up just because we are growing fast because we're going to be limiting ourselves only to the segment that we are comfortable to operate.

So Srini did allude to it. If you take a 25-year history of our expect actual credit loss experience adjusted for some of the event risk and also mergers, you will find that we have been virtually on a flat basis or on a straight-line basis across the X axis of the curve.

So growth does not mean our losses or loss ratios will go up. I think it should be more or less in a range bound because of the target segment that we would still like to -- because there is opportunity, there's a runway, and we would want to stick to this opportunity and not go down the risk ladders.

Deekshant: Sir, there is no question that we are the best-in-class when it comes to like loan performances and even the way that we issue the loans. Just to like narrow this question a little bit more: There seems to be an early sign of some sort of SME growth that can come in. Sir, also alluded to that some of the things have bottomed out right now.

Considering that SME growth does come in and even the retail loans do start coming in better, namely the home loans, do we think that the incremental growth of market share that we are focusing on will that come at the cost which would be lower on the lower end of our range of our NPA cycle or would that be at a higher end of the range of NPA cycle?

Srinivasan Vaidyanathan: So getting directly to that question in terms of whether we would go down the credit ladder to pick up the volumes? The short answer is no. Credit policies will not be changed to pick up volumes. They have been stable and they're consistent. And the market opportunity presents very well to capture.

In addition to the credit, one other important dimension that determines whether we pick up that loan or not is also the rate at which we can do. And the third dimension that is required is we just not want to be a lending institution to anybody. We want it to be a relationship bank, including SME.

We want that proprietor or partners, their family, even if there are 5 employees or 3 employees or 50 employees, their employee account, the primary banking need to be with us. So we are not going to do lending just as a product of lending. It is for the total banking relationship we want from that particular transaction that we go into.

Deekshant: Okay. Sir, just one last follow-up here…

Moderator: Deekshant, I request you to join back the queue please as we have other participants waiting.

Deekshant: No problem. Thank you so much.

Moderator: Thank you. We'll take our next question from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Congrats on the very strong numbers. Firstly, I know it's early days, but have we started cutting lending rates on fixed-rate products…

Moderator: I'm sorry, Piran, your voice is breaking.

Piran Engineer: Is it audible now operator?

Moderator: Yes, please go ahead. Yes.

Piran Engineer: So congrats on the quarter. My first question is, has the industry or have we started cutting lending rates on fixed rate products like vehicle loans or personal loans after the 50 bps repo rate cut?

Srinivasan Vaidyanathan: See, no, I don't know, but we are not -- we are seeing intense competition. We've not seen anything different now than what we saw 6 months ago from a price competitiveness point of view, let it be mortgage product or auto product and so on. So that's one from an industry point of view. I will not be able to talk about their risk-based pricing model.

But for us, we have a band of risk-based pricing product. For a given risk profile what is the kind of a price band that we can operate and that has been consistent and we'll operate in the same manner there.

Piran Engineer: Okay. So it's fair to say we've not cut lending rates like in auto loans, etc.?

Srinivasan Vaidyanathan: No, we've not cut, but we do have a risk-based pricing model for us given a risk profile of a customer. So my profile may be different from my colleague's profile, and so it depends on what it is, so we get different rates.

Piran Engineer: Okay. Fair. And sir, just secondly, on your unsecured book of roughly INR2 lakh crores, what percentage would be unsecured business loans? And can you also just talk a bit about this business, the customer profile? Are these repeat loans to existing customers? Or do you also acquire fresh new-to-bank customers through this product?

And are there -- like when we have the retail asset quality cycle -- by we, I mean the industry, are there some signs of stress in unsecured business loans? Just an overview of this would be useful.

Srinivasan Vaidyanathan: Okay, yes. One you see that we published personal loans, which is almost about close to INR2 trillion or-so, right, as of the quarter end INR2 trillion or so. See call it, about 75%, 80% of them are salaried customers, mostly salaried with us or if it is taken from the market still salaried. The rest could be the open market loans, which are non-salaried customers.

Non-salaried customers could be self-employed, which is some professionals or they're doing certain other activities and so on and so forth, which they may use this for other purposes. Then the third aspect of it is the performance of what this is. No, we've not experienced stress, touch wood, and we see that it's quite strong and very good and operates across several such segments, which is from individuals to proprietors to partners to various.

And we operate this in a few segments. We operate this in the retail personal loan segment, we also operate this in the CRB segment and the emerging enterprises, which is business and it can operate for a small merchant to a medium merchant to a larger entity. So across all of these, we can operate there.

Piran Engineer: Okay, this is useful. Thank you sir and wish you all the best.

Srinivasan Vaidyanathan: Thank you.

Moderator: Thank you. Ladies and gentlemen, we have come to an end of the time allotted for the call. I would now like to hand the conference over to Mr. Vaidyanathan for closing comments. Over to you, sir.

Srinivasan Vaidyanathan: Okay. Thank you all for participating in the call with us today. Appreciate your time. And it's late, have a great evening, great weekend. And if you do have anything more, feel free to connect with us. Bhavin and the Investor Relations team and us will be available for anything else over the next few days, whenever you need. Thank you. Have a great day.

Sashidhar Jagdishan: Thank you all. Thank you.

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