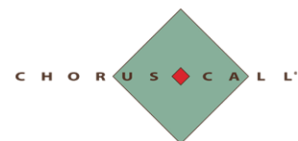
Classification - Public

"HDFC Bank Limited Q2 FY '24 Earnings Conference Call"

October 16, 2023



MANAGEMENT: **MR. SASHIDHAR JAGDISHAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – HDFC BANK LIMITED**

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

Classification - Public

Moderator: Ladies and gentlemen, good evening, and welcome to HDFC Bank Limited Q2 FY '24 Earnings Conference Call on the financial results presented by the management of HDFC Bank. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on a 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. Thank you, Neerav. Good evening, and a warm welcome to all the participants. Our MD and CEO, Mr. Sashi Jagdishan, has joined us today to provide an overview of the business before we get into the quarterly results. Sashi, over to you to get started, please.

Sashidhar Jagdishan: Thank you, Srini. Thank you for allowing me to steal your talk time. I'll keep it as brief as possible. This being the first results post the merger, I thought of sharing my thoughts. It's such a pleasure to connect with you all after a very long time. As you know, we just consummated one of the largest mergers in recent times with seamless integration of people, processes, and systems. And that too, without any external help. This showcases the power of our execution. The day one merged balance sheet was audited by the 31st of August, and the team disclosed this to the world at large around mid-September.

The presentation, which they did to the analysts brought out some of the one-offs on account of the debt-funded liquid assets to meet the liquidity coverage ratio, the LCR, as per banking norms. As you know, sometimes the assumptions and cash flows that an NBFC does is going to be -- is different from that what a bank would do. And so therefore, there was some amount of buildup of liquidity to meet those liquidity coverage ratio norms and also provide an extra cushion to take care of contingencies. As luck would have it, there was an incremental CRR, which was announced, and this cushion came in extremely handy.

Obviously, it came with a cost, which is approximately 25 basis points between the liquidity buildup and the ICRR impact. I think Srini will talk about it more in detail in this call. The presentation also brought about the day one adjustments to equity, which was one of the asks of all you -- of this fraternity to say what will be the day one equity and with all the adjustments that one would do on merger. I think a lot of people probably mistook some of them to be destroying of value of the equity, but it's not. If you look at it deeply, and I'm sure most of you would realize that these are all accounting and timing differences, which means that these benefits will accrue over time from hereon.

A lot has been spoken about the non-retail book of erstwhile HDFC Limited. Surely, there was a bit of an incremental spike in an account, which was standard, but had to be restructured. And as per the norms, when you restructure, even if it's a performing asset, it tags -- it gets tagged as an NPA. Yes, there could be some tail remaining from this book, which could slip into substandard in the future, but the impact to the overall bank's gross NPA will not be significant at all.

In fact, I can categorically say that the bank will not incur any incremental costs or losses on account of this book into our P&L going forward. And this is something, is because of the realizable value of security, the provisions that we have made is going to be adequate enough to cover some of the exposures that we have inherited.

A lot of questions and question marks come about what we are planning to do on the construction finance. It is going to be extremely important. It's going to be an important part of our mortgage business.

We have just absorbed the contours of this book. You will now start to see the construction finance book growing steadily from here on. And that will sort of help in building not only the top line but also some of the margins back. If you have seen the results, which has been released a couple of hours ago, I think it showcases the execution capability, which is what we're known for, which is what we have constantly spoken about as well and even demonstrated.

Let's look at some of the key metrics. Look at the deposit accretion of INR1.1 lakh crores. That translates on an apple-to-apple basis of a sequential growth of 5.3%, which if you analyse it, it's upwards of 20%, 21%. And mind you, this is, almost 83% to 85% of that is retail. One would wonder and one -- probably one of the questions that you may have is what happened in June, which I think we may have explained, but let me articulate it slightly better is that when the liquidity cushion was being built on the other side, that is in HDFC Limited, we decided that we will not roll over some of the large ticket deposits even for a few basis points as well. So we let some of them go and that is masked, these outflows in the large ticket deposits, the non-retail deposits masked the core momentum in the retail ones. So we are very sanguine and very confident that funding is never going to be an issue, and you will see the kind of execution that we are capable of going forward as well.

Look at the loan growth. We have also accreted on an apple-to-apple basis, INR 1.1 lakh crores during this quarter. These are high-quality assets, whether it is corporate, whether it is CRB, the commercial /rural / MSME book or the retail book - extremely high-quality book where we're extremely comfortable from the quality of the book now and into the future. But look at the kind of sequential apple-to-apple growth rate. At 4.9%, it's an annualized growth rate of 19.6%. So when you look at these two metrics, it's very strong, very healthy numbers, which is what we have mentioned several times over that even on such a large scale that we -- the bank will have the energy to continue to grow at a pace that we have done in the past even on such a larger book.

The NIMs. You know, I think the presentation in mid-September called out that there will be, kind of an impact, because of the liquidity cushion and the incremental CRR impact of about 25 basis points. We had said that we will -- the core margins on a total asset basis, on a pure arithmetic should be somewhere between 3.7 to 3.8%. So when you adjust for this 25 basis points, we are at a lower band of the 3.65%. That's all right. I mean, that's something that we -- I'm sure, with time, we will recoup some of the margins as we substitute the high-cost bonds with deposits and the changing mix of our business, loans mix more-and-more towards retail.

Look at the Return On Assets. Despite that, I think the company maintained the Return On Assets around the 2% mark and the ROE at the 16.2% mark. So the top-line growth and the profitability has been intact, and it is something that will only improve going forward. This being the first quarter, we wanted to ensure that the fabric of HDFC Limited's profits on mortgages is maintained, especially in the retail mortgages. We wanted the teams to settle down and we wanted them to slowly but surely start to energize themselves and galvanize the home loan disbursal momentum.

We have mentioned in the early release that they did the highest ever retail mortgage loans of 170,000 in numbers and a INR48,000 crores of disbursals, the highest ever. This demonstrates that this is a start, this is the tip of the iceberg. It's just now a matter of time where we now will start to sweat the franchise, both the distribution and the customer franchise to take this forward. But what is going to be exciting is when we launch our digital journeys for bundling products during this quarter. That will be incremental in terms of icing on the cake.

So the innate strength of the institution to galvanize energy, to execute consistently even on a larger base is what we have demonstrated year after year for 28-plus years. As one can see, in the recent results, the bank is poised to silently deliver the core growth that you have just seen in this quarter, and I'm very confident and sanguine that it will continue to do so quarter-after-quarter even on a larger scale, maintain the profitability in the range of 1.9% to 2.1% as in the past.

So without much ado, I just wanted to tell you that we are extremely excited about this merger, and we will slowly but surely demonstrate to the world that how we will execute the way we have done in the past.

So over to you, Srini. Thank you so much.

Srinivasan Vaidyanathan: Okay. Thank you. Thank you, Sashi, for those opening remarks. Now let's get on to the main highlights. I want to start with the macro context that provided a good healthy tailwind in the quarter, right? We continue to see good domestic demand conditions and push from government through capex. You know well that the GST collections were healthy and manufacturing services PMI are in the expansionary zone, the key logistics indicators were quite healthy and good. RBI kept its rate unchanged at 6.5%. And as we look ahead, we see the environment is good for robust growth. Our estimate of the GDP growth for this year FY '24 is 6.3%, which will demonstrate that it's one of the fasting growing economies of the world.

Now if you look at some of the key factors in the bank's growth journey, on the distribution footprint expansion, our branch network stands at 7,945 outlets as of -- branches as of September 30. Overall, there has been an increase of 1,446 branches over the last 12 months, including 85 branches in the quarter. In addition, we are operating over 400 branches of erstwhile HDFC branches as -- under the bank banner now and are progressively developing other banking product capabilities as we go through the year.

Payment acceptance points are currently at 4.9 million, a year-on-year growth of 43% as adoption of Vyapar app builds momentum there. In the CRB, which runs the SME businesses,

the rural business reach expanded to 1.85 lakh villages, and it's on track to go to the objectives of over 2 lakh villages in the near term. Gold loan processing, that we started vehemently a few quarters ago is now offered in 4,544 branches, an increase of 53% over prior year.

In the customer franchise building, we added 2.7 million new liability relationships during the quarter. Our base -- customer base stands at 91 million, including those added in the merger. This provides the opportunity to further engage and deepen customer relationships. In order to position this for greater engagement with those customers, we've added 16,000 people during the quarter.

On cards, we issued 1.7 million cards in the quarter, taking the total base to 18.8 million. The granularity on the deposit focus continues with total deposits currently at INR21.7 lakh crores, grew by INR1.1 lakh crores in the quarter on a comparable basis, 5.3% sequentially. Term deposits have been the bedrock of this growth given the interest rate scenario and the customer preferences, aggregated to INR13.6 lakh crores, registering a healthy growth of 7.8% sequentially.

Savings account deposits stands at INR5.7 lakh crores, and grew by INR9,000 crores or 2% sequentially. Current account stands at INR2.5 lakh crores and that's INR18,000 crores over prior year. Retail of which current account constitutes 72% and grew by 3% sequentially. So we are focusing more-and-more on the retail current account as we go along because as the corporate or -- the wholesale current account gets managed professionally through various treasuries, the retail current account offers the biggest opportunity there.

Overall, CASA deposits ended the quarter at INR8.2 lakh crores, resulting in a CASA ratio of 37.6%. This is after the impact coming from the merger, which came from HDFC Limited, the term deposits that got added into our base.

On the advances side, the gross advances at INR23.5 lakh crores reflects a sequential momentum of about 4.9%. Retail advances grew 3.1% sequentially. CRB advances grew 9.7% sequentially. The Wholesale segment grew, excluding the non-individual loans of HDFC Limited, grew 5.8% and the non-individual loans of the HDFC Limited is now at INR1.03 lakh crores compared to INR1.09 lakh crores as of the beginning of the quarter.

We continue to pursue the technology and digital kind of a foray. PayZapp 2.0 currently has 3 million registered users and handles a daily volume of 2.5 lakh transactions. SmartHub Vyapar platform handles monthly transactions of INR19,000 crores and provides monthly disbursals of INR650 crores. Xpress Car Loans brings and contributes almost 30% of our car volumes. HDFC Bank won the customer service hub, the AI-driven channel platform serving contact centers nationwide, serving 30 million engagements as interactions with 15 million customers monthly through e-mail, social care, WhatsApp and chat banking and phone banking services. Balance sheet remains resilient. LCR for the quarter was 121%, absorbing the 4-plus percentage points coming from the ICRR. Capital adequacy ratio is at 19.5%, with CET1 at 17.3%.

Let's get to the net revenues for the quarter, which were at INR38,093 crores, grew by 33% over prior year. Net interest income for the quarter at INR27,385 crores, which is 72% of net revenues

Classification - Public

grew by 30% over prior year. The core net interest margin for the quarter was at 3.65% on total assets and 3.85% on interest-earning assets after absorbing the debt funded cost for additional liquidity and merger management, the reported net income -- net interest margin for the quarter was 3.4% on total assets and 3.6% on interest-earning assets.

Getting to the details of other income. Total other income was INR10,708 crores. Fees and commissions constitute two-thirds or 65% of other income, was at INR6,936 crores and grew by 19.5% over prior year. Retail constitutes 92% of fees and commission, demonstrating the granularity of the fees and commission income. FX and derivatives income at INR1,221 crores, was higher by 12.8% compared to the prior year. Net trading and mark-to-market income was INR1,041 crores for the quarter. Prior quarter was INR552 crores and prior year was a negative INR387 crores.

Other miscellaneous income of INR1,510 crores includes recoveries from the written-off accounts and dividends from subsidiaries. On the operating expenses for the quarter, which were at INR15,399 crores represents the cost to income for the quarter at 40.4%. Our pre-provision operating profit was at INR22,694 crores and represents around eight times the total provisions from a coverage point of view.

Coming to the asset quality, the GNPA ratio was at 1.34% as compared to 1.41% on a pro forma as of July 1 that we mentioned and last year as you know, it was 1.23%. Out of the 1.34% as of this quarter end, we have about 22 basis points which are related to restructured accounts, which are restructured accounts in erstwhile non-retail HDFC Limited, which are current and performing but have been classified as NPA according to the extant guidelines.

Net NPA ratio was at 0.35%. The slippage ratio for the current quarter is at 32 basis points, about INR7,800 crores. During the quarter, we had recoveries and upgrades that were INR4,500 crores at 22 basis points. Write-offs in the quarter were INR3,250 crores, approximately 17 basis points. There were no sale of NPA accounts during the quarter.

On the provision side, the total provisions reported were around INR2,900 crores against INR2,850 crores during the prior quarter and INR3,250 crores in the prior year. The core specific loan loss provision was around INR2,500 crores against INR2,700 crores in prior quarter. The provision coverage ratio was at 74%. At the end of current quarter, contingent and floating provisions were approximately INR15,600 crores, general provisions were INR10,100 crores. Total provisions comprising specific, floating, contingent in general were about 156% of gross nonperforming loans. This is in addition to securities held as collateral in several of the cases. Floating, contingent, and general provisions were about 1.09% of gross advances as of September end.

Now coming to credit cost ratios. Total annualized credit cost ratio for the quarter was 49 basis points, prior quarter was 70 basis points and prior year was 87 basis points. Recoveries which are recorded as miscellaneous income, amount to 16 basis points of gross advances for the quarter as against 19 basis points for the prior quarter. The total credit cost ratio, net of recoveries, was at 34 basis points in the current quarter compared to 51 basis points in the prior quarter and 64 basis points in prior year.

Classification - Public

The profit before tax was INR19,790 crores and grew by 39% over prior year. After INR1,000 crores write-back of tax provisions no longer required consequent to favourable appellate orders. Net profit after tax for the quarter was INR15,976 crores, which grew by 50% over prior year.

Now a few sentences on our subsidiaries before we get to the summary. HDBFS is on Ind AS basis, disbursements were at INR14,150 crores, higher by 43% over prior year. Loan book at INR78,000 crores, grew 5.8% sequentially. Customer franchise grew to 13.6 million customers with 6.3% additions during the quarter. Quality of the book continues to see sustained improvement with gross stage three at 2.38% as of September against 4.88% in the prior year. The provision coverage of Stage 3 book stood at 68%. The profit after tax for the quarter was INR601 crores compared to INR471 crores from prior year. The ROA and ROE annualized in the quarter was 3.2% and 19.6%, respectively. The earnings per share in the quarter in HDBFS was INR7.59 and the book value per share in HDBFS is at INR158.

Now getting to a few other subsidiaries, HDFC Life, on an IGAAP basis, the profit after tax for the quarter ended September increased to INR377 crores compared to INR326 crores in the prior year. In the HDFCAMC, again, this one on an Ind AS basis, profit after tax for the quarter amounted to INR438 crores, registering a year-on-year growth of 20%. In HDFC ERGO, this on an IGAAP basis, because they are different standards, profit after tax for the September quarter increased to INR236 crores compared to INR177 crores in the prior year, registering a growth of 33%. Securities / HSL has a network of 2,203 branches and the net profit after tax was INR214 crores as against INR191 crores for same time last year.

I want to take the opportunity to provide a quick update on ESG. We further strengthened the integration of ESG and climate change risk assessment into our credit appraisal process for corporate borrowers. We also have finalized a sustainable finance framework to classify loans and advances as green, social, and sustainable in alignment with International Capital Market Association principles.

Now getting to the summary. Our results reflect the robustness in growth after consummating the merger, 5.3% sequential momentum in deposit growth, 5.7% sequential momentum in retail deposit growth and advances growth at a sequential increase of 4.9%.

Profit after tax for the quarter at INR15,976 crores increased by 50% versus prior year. The consolidated profit after tax for the quarter is at INR16,811 crores, delivering the return on assets in the quarter of about 2% and return on equity of about 16.2%. Earnings per share in the quarter on a stand-alone basis is INR21.1 and at a consolidated bank level, it is INR22.2. The book value per share on a stand-alone bank level is at INR534 and at a consolidated level, it's at INR553. With that, may I request the operator to open up the line for questions, please.

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

Mahrukh Adajania: My first question is on margins. So of course, you've explained that is the ICRR and the excess liquidity on Limited book. But would there be any other adjustments in the NII while moving

from Ind AS to Ind GAAP for HDFC. Like for instance, HDFC's NII in Q2 FY'23 was around 45 billion, 46 billion, right? So, would that be restated significantly under Ind GAAP?

Srinivasan Vaidyanathan: Mahrukh, maybe we will have a session about what the Indian GAAP and Ind AS would be. There are several differences that happen. I'll give you, for example, there's several of them: on the nonperforming loans, in Ind AS, you accrue for interest. In IGAAP, you don't accrue for interest, if the loan is nonperforming. That is an example, actually, right? so there are several differences that happen -- and so -- and the time has elapsed and the profile of the balance sheet, including the interest rate structure of the balance sheet is different now versus what it was at that time. So they are not comparable as such. They are different regulatory regime, different accounting standards, different regulatory regimes and the composition of the balance sheet is different.

Mahrukh Adajania: Correct. But most of the margin decline from pro forma 3.7 to 3.4 is largely excess liquidity and ICRR or...?

Srinivasan Vaidyanathan: See the way you think about it is that the balance sheet is funded with debt, right? There is a level of additional borrowing that has been exercised and that is debt borrowing that has come on. And debt borrowing comes in at a cost that is north of 8% or so. So that's part of how there is a transition post the merger, as part of the merger management, we carried additional, one way to describe this is additional liquidity. But if you think about what is there, where does it reflect? It reflects in the cost of funds. So that's where the cost of funds is higher.

Mahrukh Adajania: Got it. Makes sense. Sir, my next question is on the tax rate. So, given that there were favourable decisions and that's why the tax rate fell, does it normalize to 25% next quarter or...?

Srinivasan Vaidyanathan: Yes, there is this onetime effect if you take it out, whatever is the normal tax rate, if you look at last quarter of the past year, we've been around 25%, 24.9% 25%, thereabouts. That's where we have been. So, there's no difference from that, yes.

Mahrukh Adajania: Okay. And sir, just one last question. Sir, so do you see margins -- how long would it take for margins to come back up to 3.6, 3.65%, like two to three quarters, would the exit margin for FY '24 be at that level? Or would it take longer?

Srinivasan Vaidyanathan: Mahrukh, I think Sashi alluded to say that there are a few things, right? One is the utilization of this to a better mix of loan originations, particularly focused on the retail shift, is something that would bring this to a normal level over a period of time. Then there are other choices to make. But given that these are -- this funding is the longer-term funding that we've chosen, as part of the merger management, we need to get through by building assets which are of a better yield.

Srinivasan Vaidyanathan: Got it. Thanks. Thank you.

Management: Thank you.

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

Kunal Shah: Yes. Thanks for taking the question. Sir firstly, maybe what Sashi highlighted earlier that in terms of the rundown in the wholesale portfolio of erstwhile HDFC, is it more or less done? Or should we see it getting towards...?

Srinivasan Vaidyanathan: Kunal, if I request you to slightly come closer to mic and speak up, I can hear, but not as great.

Kunal Shah: Yes sorry. Now if it's better. So I was just saying whether this rundown in wholesale portfolio, is it largely done? Because earlier we thought that it can come down to INR80,000 crores-INR90,000-odd crores from INR1.3 lakh crores. But in the opening remarks, you said like it should largely be done and now we should see the growth coming through in the construction finance portfolio?

Srinivasan Vaidyanathan: See, that is the kind of a direction. If you think about it, it (eHDFC Ltd wholesale book) has got three components. One component is to do with the construction finance, which from a bank positioning, and strategically, would feed into the retail, we want to grow this portfolio, right? We have the risk assessment framework - we want to grow within the framework that we have.

The second component of the book is the LRD book, Lease Rental Discounting. That book is also a growth-oriented book and will be assessed and grown. The third component is a small component of a corporate loan book that will be assessed as part of the overall exposure to various corporates that we have, and we'll take a decision about, what is the overall exposure.

Yes, the direction, what Sashi alluded to is on the construction finance. And it equally applies to LRD too, but all of this is in the context of overall exposure to corporates that we have.

Kunal Shah: Sure. Got that. And secondly, in terms of other income, was there any one-off maybe pertaining to IGAAP transitioning for HDFC or this is like now the overall fee income trajectory, which we should see, and there is no one-off in this line item now?

Srinivasan Vaidyanathan: So the fee income that you saw, which is INR6,900 crores -- yes, INR6,936 crores, yes, that is a normal level of fees. And if you look at how we have in the past seen, the fee, which is a 65% of the other income is the fees, right? And this fee line has got multiple from asset origination fees to liability product fees to payment transaction type fees to wholesale banking fees to third-party distribution fees.

There are seasonalities - up and down. It happens because there are certain quarters where you see for various considerations, it could be tax considerations, or for origination consideration, it goes up or down. But when you look at it over a period of time, historically, this has been in the mid- to high teens, right? That's where the fee component has moved.

And that's where I will tell you to look at it, is if you look historically, that's the range of which had. This quarter, if it was 19% -odd, again, quarter-to-quarter, there's seasonality. But when you look at a year, two years in the past, it's mid- to high teens.

Moderator: Kunal Shah, sorry to interrupt you. May I request you to join in the queue again.

Kunal Shah: Sure.

Moderator: Thank you. Next question is from the line of Parag Thakkar from Anvil Wealth. Please go ahead.

Parag Thakkar: Yes. So first of all, I would like to congratulate the entire team for bringing up the deposit number to such a good number, about INR1 lakh crores. I think it requires a lot of efforts and you all did it brilliantly, especially in the quarter when it was a merger quarter. And we had this onetime ICRR hit plus this liquidity hit. So overall, I'm very, very happy with the performance.

First of all, I would like to congratulate you all. And second, let me say that 1.92% to 2.1% ROA is possible. The growth rate above 15% or 17%, 18% of the merged entity is also possible, right?

Srinivasan Vaidyanathan: Parag, firstly, thank you for the recognition, and we appreciate. These are the things that keeps us charged and ensures that we drive to the best potential both the market has to offer and the people here are capable of delivering. Thank you for those compliments. Now getting to the question that you asked in terms of the growth rate, see, more than thinking about the forward-looking growth rate, but growth rate is underpinned on two things: one, market rate of growth.

Typically, in the past, we have seen the market rate of growth anywhere from 10% to 12%, depending on the year, you will see rate, the nominal rate of GDP times 1 or 1.1, 10% to 12% is what you will see. And what we have always endeavoured and that is what historically we have delivered is premium on that, right, 5%, 6% thereabouts - the premium on the market rate of growth is what we delivered. That is where the market share gains come from that additional growth rate over the market that we do. And so now take this to, what is the kind of a market share gain? If you see over a period of a three years, five years, if you see, it's about 400 basis points or thereabouts market share gain, either side of the balance sheet. That's a similar type of market share gain.

And when you gain that, currently, if you look at the recent times, the share in the market -- market share gains is faster than what it was five years ago, meaning the larger distribution and the bigger the scale, the opportunity space for gaining more market share is available, and that is what in the recent times that we have done. So that's -- I want to leave the thought process there. This is how we think, and that's how we are capacitized to drive.

Parag Thakkar: Got it. And sir, you have opened around 2,200 branches in the last two years. So when do they start showing productivity, your opex to asset ratio will -- should come down, right, logically because they will become more productive now in terms of gathering deposits as well as advances?

Srinivasan Vaidyanathan: Yes, sir. It will come over time. But as we keep adding more and more new branches, one weighs the other. But if you look at two years ago branches, very important that you touched upon, if you look at what we opened about two years ago and look at that cohort. And when we look at that cohort of branches about how they are performing, right, our model shows that, it should be breakeven in two years' time and about 90%-plus, slightly above 90% of the branches have broken even in about 20-21 months. We have another 10% of the branches to breakeven. And when that does, that's the average of, call it, 22 months to 24 months breakeven. So they are all following a scripted model in terms of how they deliver.

We are confident that, all of them start to pay back sooner. But we continue to add branches, right? That's why when you see a part of the cost is -- when there's a credit opportunity, credit costs as you heard, it's at about 49 basis points. And if you look back, what is the -- how does -- where does it revert to mean, right? At what level does it revert to mean at some point in time?

Call it, 80, 90 basis points or in the pre-mortgage book, we would have said that it is 90, 100 basis points is the mean, where it can revert over a period of time, whenever this normalizes, benign conditions normalize, maybe with the margin, it is more closer to the 80 basis points or something reversion to mean.

But the point to mention to you is that, for every 10 basis points of credit cost opportunity that we take from a timing point of view, right, within the return framework, ROA framework, we take this opportunity on a timing to invest. It's about 1% to 2% of cost to income that gets invested there. And so that is what -- and we are trying to say, as we make those investments, it should start to pay back. So we can now look at those ones which are more than two years old, and those cohorts are performing well. And we're now starting to look at the last 12 months' cohorts, and we will keep tracking them as we go.

Parag Thakkar: Correct. Sir, just one last question because everybody is concerned, now that you have gathered deposits of more than INR1 lakh crores, that concern is gone. But till last quarter, everybody was concerned about how we'll fund. And as Mr. Sashi rightly pointed out in the beginning that, we are not concerned about the funding part now. But going ahead, so for example, we have Credila, we have a stake in HDB Financial Services. Anyway, we have mandated to list right by FY '25.

And that will also unlock some value. And of course, that will provide us some funding also. So just -- can you just throw some light on direction of monetizing the stakes in various entities which we have in order to fund our growth. Because that much pressure will be lesser on the deposit engine, right?

Srinivasan Vaidyanathan: Yes. Your points are well taken, and appropriate timing, those will be considered for either, but of course, at the right kind of value. Yes, your thought process are right and from a timing point of view and from a consideration point of view, it will all depend upon the appropriate valuation.

Moderator: Thank you.

Parag Thakkar: Thanks, sir.

Srinivasan Vaidyanathan: Thank you.

Moderator: Next Question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: Yes. Hi, good evening and thanks for the opportunity. Sir, I have just one simple question. In terms of the non-retail NPA for HDFC Limited, how much of this was unanticipated at the time of the merger? And how much of it is in terms of already anticipated and built for the -- in the swap ratio that we had. Maybe if you can throw some colour on that? Thank you, sir.

Srinivasan Vaidyanathan: Okay. Yes. See if you look at the book and look at this book over a period of six quarters, at least now, it has been on a decline, right, which is -- this book has been assessed from a bank risk assessment perspective. And it has been -- there has been a degrowth that has been happening.

So go back to the June '22 quarter, it was flat. And then from then on, there was a minus 4% or a 5%, then a minus 6% and a minus 7% and so on. And the recent quarter is a minus 6%. So the risk assessment, we want that book. Sashi mentioned it, we want to grow that book.

But before you grow the book, we have to assess in terms of the exposure for kind of facility and so on, so that you are balancing the risk over a period of time. And that's what has happened. And we are at a stage where we feel comfortable with the quality of the book as we see now with the provisions of approximately what we described, we had provision coverage ratio at 74% or the contingent provisions we have at 66 basis points and it's all post-merger, it's not just premerger, encompassed well. And we are looking at a book that is strongly positioned.

Atul Mehra: Right. Got it, sir. Just one clarification on the same point. Did any of -- in terms of the incremental stress come as a surprise to the internal management like to the bank management? Or this was something that you had already anticipated while you had worked out the numbers at the time of the merger?

Srinivasan Vaidyanathan: See, the risk assessment is a dynamic risk assessment. That is why on every quarter basis, you see certain things slips and certain things recover and upgrade. And it is a continuous process. What is true at a point in time is not true at every point in time. It keeps changing.

Atul Mehra: Right. Got it, sir. Thank you and all the best. Thanks.

Srinivasan Vaidyanathan: Thank you.

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

Suresh Ganapathy: Yes, hi. I had Just two questions. One is Sashi said, 83% to 85% of that INR1.1 trillion is retail deposits, right? So it's about INR85,000 crores is what you mobilize out of INR1.1 trillion. Is that right?

Srinivasan Vaidyanathan: That is right, 83% is retail, yes.

Suresh Ganapathy: Yes. So seen it as INR85,000 crores, which is the effective number absolute, what would be the Basel III LCR quarter-on-quarter addition? The reason why I'm asking is last quarter, it was INR66,000 crores. I want a like-for-like quarter-on-quarter addition for the Basel III retail deposits because this number seems to be way different from this INR85,000 crores. Is it possible to share that number?

Srinivasan Vaidyanathan: I don't have it offhand; we'll look at it and share, but Suresh, just to say that the Basel classification is different, right? And there are different factors that apply in that classification.

So there is no one-for-one mapping. The point I'm trying to say is that the retail, which is the branch-managed deposits that we have is not one-for-one retail definition as per Basel.

Suresh Ganapathy: Okay, fine. And last question is on the synergy itself, right? Of course, these are very early days. We have seen pickup -- slight pickup in mortgage growth and also what your subsidiary reported numbers and apparently, the counter share has gone to 70% in your bank branches, HDFC Life. So just wanted to understand on the qualitative aspects, what are the things where you have already started seeing, not in terms of, as I said, quantifiable, but better traction. It could be anything like cross-selling of loans or products? Anything that you can give us would be great?

Srinivasan Vaidyanathan: Suresh, we are focused on a few things. One, they are our subsidiaries, and we work very closely. And the engagement level has gone up significantly before the merger and certainly after the merger. And one is about the sales process itself, right, in terms of -- so customer comes in into a branch and works with an RM or an RM visits a customer for various sales processes.

The sales support has significantly enhanced, in terms of making the product features and the product kind of dynamics much more articulative to the customers. So that is the process. And not only at the -- when you go into one of the metro regions, you will find that it is at a top notch. But the process has to be broad-based across the country, which is bigger very well. That's one, right, in terms of getting that.

The second is also getting the -- closing it out from an immediate turnaround time point of view. That has also been a great deal of a focus to ensure that a customer doesn't need to wait to get the product consummated, you're able to turn around quite fast. That gives enormous confidence to the RMs to pitch a product to a customer.

Because you know that it gets -- the turnaround time is pretty soon, pretty fast, and the product will be in the hands of the customer that we could consummate. So there have been some of these qualitative or kind of a relationship process that is enhanced and it will pay results as we go along.

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

Abhishek: So the first one is, can you just quantify the LCR now on a merged basis. And also how much of the HDFC Limited deposits were retail as per the LCR classification, if you can share that number, it will be useful?

Srinivasan Vaidyanathan: I did give out, the LCR was at an average 121% after absorbing the ICRR for most of the quarter. Your second aspect of the question was to do with the retail component?

Abhishek: Of the HDFC Limited deposits that came in.

Srinivasan Vaidyanathan: I think the retail component was slightly above two third, it's merged into the total organization, there is no particular special tracking that we look at as -- this is HDFC Limited, and this is HDFC Bank kind of thing, it's all part of one.

Abhishek: Got it. And in terms of conversion of HDFC Limited loans from the current PLR to repo-linked, what percentage has been done? And yes, what's the progress on that?

Srinivasan Vaidyanathan: Abhishek, all of that has done -- has been done, right? And it's available for the customers who are in the bank -- bank customer could view it in the system on the screen when you log in, you can see -- but yes, it has been done.

Abhishek: I think we had a December deadline for it, right? So we should be -- like the entire book would be on repo now or by December anyway, it would be on repo, the most of it?

Srinivasan Vaidyanathan: Well, no, it is -- the December deadline is for various customer communication and customer assertion and so on and so forth, which we are working through various alternatives to accomplish.

Moderator: Thank you. The next question is from the line of Rajiv Pathak from GeeCee Holdings. Please go ahead.

Rajiv Pathak: So I think in the opening remarks, you alluded to like a 25-bps hit on the margins because of the ICRR and the excess liquidity. So you would have taken approximately say INR1,900 crores a quarter of this hit. So now this will, from next quarter start getting normalized, right? So next quarter, we should be tracking a median of 3.85% and then maybe inch up to 4% over the next 3, 4 quarters? And on the loan growth, do you think a 4.5%, 5% quarterly run rate is possible going forward?

Srinivasan Vaidyanathan: Yes. Rajiv, we don't give forward-looking guidance in terms of what we will grow, but we can point to past and give the kind of how we have done and how we are capacitized to repeat what we have done. But in terms of the margins that you talked about, we did allude to that there is an impact due to the merger management and thereby, funding certain liquidity requirement to transition and come and it has been debt funded.

And so it's not a short-term debt funded to enter and exit. And so that's -- it will take some time. And even Sashi alluded to that in terms of how we grow it in the form of better mix, higher yielding retail products to grow. And I also mentioned about that and which is how we will approach to get that.

Moderator: Next question is from the line of Saurabh Kumar from JPMorgan. Please go ahead.

Saurabh Kumar: Sir the excess liquidity that you're referring to sir, this will be the difference between LCR and organized...

Moderator: I'm sorry, we again lost your audio.

Saurabh Kumar: Will that be the excess liquidity you will referring to?

Srinivasan Vaidyanathan: Saurabh, we lost you, man. If you come back again, we'll hear you.

Moderator: The next question is from the line of Piran Engineer from CLSA.

Piran Engineer: Sir, firstly, could you quantify your SLR ratios as of quarter end?

Srinivasan Vaidyanathan: No, we don't say what it is, but we can tell you we carry more than what is required. So there is a mandatory SLR of 18%. We carry more than that. That's part of the -- that's not something that we talk about.

Piran Engineer: Okay. Fair enough. And sir, just secondly, on the branch opening. Just wanted to understand, last 2 quarters have been a bit weaker than expected. Why is it that branch opening is always back ended?

Srinivasan Vaidyanathan: Very, very important and good. See, what happens in the branch process. So it's very important -- you asked a very important thing. For opening up a branch, there are a few things that go into it. One is our marketing team. Second is our credit analytics team : scans the geography in the country to determine our presence and certain other banks presence in the vicinity and maps it with the potential, potential not just of deposits, but potential of even advances.

There's a third, marketing looks at what is our market share. That means if you look at our distribution market share -- is about 4.5%, which means our branches are 4.5% of country's branches close to getting to be -- close to 5%, but still 4.5% of countries branches. And our deposit market share is slightly above 10%.

So we have a 2x of deposits to distribution market share. So we look at see where we are more, where we are less and what is the vicinity of the catchment area where we can get the deposit concentration into our bank. So this analysis is done. And then there are two other constituents that enter at this stage.

One is our infrastructure team that tries to scout around to see, is there a property available? Our credit analytics both from a liability and asset analytics have given something. Our marketing is proposing a particular location to go for it, our infrastructure team will come and say whether they can get it or not get it.

Because it’s the availability space, which is the biggest constraint. So I'm able to articulate that it is not about we know where we want to open the branches. It is the right kind of property of the branch space, that is availability, that is a constraint.

Now once that is done, enters our legal to ensure that the landlord who is leasing the property to us has got the title and it's appropriately there so that we keep up our image that it's a property that somebody is appropriately owning and we are able to lease it. So these are several of these that go in.

And when we go through this process and get there, it gets bunched up in the second half than the first half. That's what we have seen over the last 2 years, that we have seen too. As much as we would like it to be even through the year, there are other constraints of availability, and that makes it tough for us to get there.

And this is a machine, as you know, that's right, it's opening not 100, 200, it's a machine that needs to run and so when we are opening 500 branches in a quarter, the preparation, and the legwork for that is a pretty long lead into getting there.

Piran Engineer: Okay. Just lastly, in terms of personal loans last couple of quarters, especially this quarter has been a slowdown. Just wanted to understand how much of it is deliberate versus market-led competition?

Srinivasan Vaidyanathan: Yes. I believe the market is quite good and underpenetrated. We have enormous, I think, the preapproved base, and we published that in the May month also where our pre-approved personal loan base is pretty high. And the demand is quite good. So no question about that. In terms of the growth rate, we have about 15%, 15.5% year-on-year growth rate.

We expect that -- yes, it has been in the -- sometimes it's been in the 20s, sometimes it has been in the high teens. But in the recent times, it has been in that 15%, 16% range. But we are confident that this is a strategic growth area for us. And the more customers we bring in and more they go through the seasoning process and monitoring process, we get the canvas even more opened up for an opportunity on personal loan.

Moderator: Next question is from the line of Manish Shukla from Axis Capital. Please go ahead.

Manish Shukla: Srini, you acquired about INR6.35 lakh crores of liabilities from HDFC Limited. What would be the average cost of those liabilities?

Srinivasan Vaidyanathan: That includes the borrowing you're talking about, right?

Manish Shukla: Yes, borrowings plus deposits, it was INR6.35 lakh crores.

Srinivasan Vaidyanathan: Manish, I will direct you to what we have published. The cost of funds is up by about 80 basis points at an aggregate level. Most of that is driven through the incoming, you'll be able to see that. You'll be able to deduce and work it out. We have published the cost of funds at an aggregate level.

Manish Shukla: Understood. And of these liabilities, roughly, if you can give an approximation of the maturity over either the next 6 months or 12 months, if you, have it? What proportion of these liabilities will mature?

Srinivasan Vaidyanathan: That also, I think HDFC Limited has published as of May or June -- the team can point you to the right place where it is.

Manish Shukla: No, no, we have it as of March, but during June quarter, they added a significant amount of liabilities, which is why I wanted to know as of June. We have it as of March?

Srinivasan Vaidyanathan: They are longer term, Manish.

Moderator: Thank you very much. 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.

Classification - Public

Srinivasan Vaidyanathan: Okay. Thank you, Neerav. We appreciate all the participants dialling in today and spending time with us. We are available through the week or through the next week, whenever you all need any other clarifications we can provide, we'd be happy to. You know the contact of our Investor Relations team, Bhavin Lakhpatwala or others. Please stay in touch and get to us whenever you need to. Thank you. Bye-bye.

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

Classification - Public