“HDFC Bank Limited Q4 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to HDFC Bank Limited Q4 FY2022 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 brief commentary by the management. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srinivasan Vaidyanathan, Chief Financial Officer, HDFC Bank. Thank you, and over to you Sir!

Srinivasan V: Okay. Thank you Rutuja. Good evening and a warm welcome to all the participants. Let us start by the Covid current state without the mention the start. The saga if it permits we can say it is hopefully behind us at least for now. We cannot forget the beats of the people who dedicated their lives in the service of the banks during the year and thousands of others who single-mindedly were in the service of the customers through all this. Same time last year we were in unimaginable crisis, most if not all of the restrictions are behind. Thanks to our team and equally important thanks to you all for being with us through this to get us here.

Let us start with providing the context on the environmental policies during the quarter, which are manifesting signs of speedy recovery. We will jump over these basic details of GST collections, PMI, etc., etc., that shows full term growth. Around the mid part of the recent quarter, geopolitical tensions raised across the world, which have given rise to global uncertainties, this has impacted the global economies profoundly, which is evident from the surge in crude oil, major commodity prices, and then further global supply chain disruptions in recent weeks. CPI inflation is on rising trend due to higher food, crude oil, and LPG prices. The RBI kept its monetary stance unchanged; however, it is expected that this accommodative stance shall be switched to a neutral stance in the next MPC. We also saw the introduction of SDF and the RBI reverting to a pre-pandemic policy corridor of 50 basis points with a lower bound SDF and the upper bound MSF. We are confident that the policy measures are supportive and at this time provide impetus for continuous growth.

Let us go through four key themes at a high level. First thing is about the investment in human capital, branches aided with best-in-class technology. During the quarter we added 7,167 people, for the year we added 21,486 people, which is an all-time high to get the people ahead on the productivity curve as economy accelerates. During the quarter we added 563 branches, for the year we have added 734 branches which is about two branches per day and further about 150 branches are in the pipeline to open within a short period of time. The bank is accelerating the technology and digital transformation agenda. We continue to stay invested in creating seamless customer experience across digital touch points. Significant inroads are being made through initiatives such as customer experience app PayZapp, which is a revamped payment on wallet experience and refreshed offerings

for MSME and wealth management customer base. Our focused digital and enterprise factory approach is enabling the building of our own capabilities to co-create tech IP. Initiatives such as DR resiliency and our hybrid cloud strategy continue to fortify our IT infrastructure and architecture backbone.

Our progress over the past year has resulted in lifting of the restrictions on the new card acquisitions in August 2021 followed by the removal of the embargo on digital 2.0 programs in March 2022. We have taken multiple steps to ensure a robust, scalable and secured technology setup is strengthened even further. We continue to rigorously monitor the progress and are now fully geared up to launch the programs under various digital umbrellas over the next few quarters. In Q4 we received a total of 234 million visits on our website averaging 29 million unique customers per month with a year-on-year growth of around 8%. As per the analysis we had 35% to 75% more visits on our website than our public or private sector peers. Close to 57% of the visits were through mobile device indicating the mobile simplicity of the footfalls.

The second thing is let us talk about the business growth that continues to gain momentum across various products and segments driven through relationship management and enhanced digital offering. Total advances were ₹ 13,68,821 Crores, which grew by 8.6% sequentially and 20.8% over prior year. This is an addition of approximately ₹ 1,08,000 Crores during the quarter and ₹ 2,36,000 Crores since prior year. Commercial and rural banking businesses grew 10% over the prior quarter and 30% over prior year. As you know the segment is a significant contributor of PSL assets. On retail we witnessed a healthy growth and disbursals across products resulting in asset growth of 5% over prior quarters and 15% over prior year. This segment is gaining momentum it could have done even better if the vehicle segment was not impacted due to supply chain issues. Wholesale business too showed a sharp rebound across sectors growing 11.6% over prior quarter and 17.4% over prior year.

Franchise building continues to remain robust with our persistent focus on granular deposits and bringing in new customer relationships thereby further strengthening our position to gain market share. We opened about 2.4 million new liability relationships during the quarter and 8.7 million new liability relationships during the year exhibiting a phenomenal growth of 25% over prior year thus enabling the broadbasing and deepening relationships. Total deposits amounted to ₹ 15,59,000 Crores which is up 16.8% over prior year. This is an addition of approximately ₹ 1,13,000 Crores in the quarter and ₹ 2,24,000 Crores since prior year.

Quarter deposits recorded a strong growth of 22% year-on-year ending the quarter at

₹ 751,000 Crores with a CASA ratio of 48%. Retail constituted over 80% of total deposits, the bank had 16.5 million cards as of March 2022, and during the quarter we have issued 8.2 lakh cards, further we have issued 21.8 lakh cards since lifting of the embargo in the seven months of this financial year. Card spends have grown by 28% over prior year. The bank has 3 million acceptance points as of March with a year-on-year growth of 37%. Acquiring business volumes including UPI and direct pay grew 30% over prior year.

Let us get on to the third one about the market share. Our market share and advances has improved from 10% to 11% during the year. Our incremental share of credit growth in the economy was at 24%. We have demonstrated in the past that our rate of growth is not inhibited by our market share to further illustrate over the past five years despite the market share improving from 7% to 11% we have sustained our advances growth to around an annual 20% rate. In deposit mobilization our market share improved from 8.8% to 9.5% during the year.

On the fourth item relating to the strong balance sheet and set for capitalizing on market opportunities for growth. The balance sheet remains resilient, capital adequacy ratio is at 18.9% with CET1 at 16.7%. Liquidity is consistently strong; the LCR average for the quarter was 112%. GNPA ratio is at 1.17%, we continue to originate loans in conformity with our proven credit models; floating and contingent provisions aggregating to ₹ 11,000 Crores help in derisking the balance sheet and positioning it for growth.

Let us start with net revenues. Net revenues are ₹ 26,510 Crores; net revenues excluding trading income grew by 10.4% over prior year and 3.8% over prior quarter driven by an advances growth of 20.8% and deposits growth of 16.8%. Net interest income for the quarter at ₹ 18,873 Crores which is 71% of net revenues grew by 10.2% over prior years and 2.3% over prior quarter. For the quarter, the core net interest margin was at 4%, based on interest earning assets the NIM was at 4.2%. For the full year core net interest margin was at 4.1% and based on interest earning assets it was at 4.3%. Our asset mix is shifted towards higher rated segments during the COVID period albeit at lower yield. As a result NII growth has been lower, but with a corresponding offset in credit cards which are lower than the historical average. Further looking through another loans our NII to credit RWA credit risk weighted assets has improved over 3 Crores to COVID levels by approximately 20 basis points and is currently around 7% representing our optimized pricing for higher rated segment volumes.

Moving on to details of other income, total other income was at ₹ 7,637 Crores excluding trading income total other income grew by 10.6% over prior year and by 7.6% over prior quarter. Fees and commission income constituting three-fourth of other income was at ₹ 5,630 Crores and grew by 12.1% over prior year and 10.9% over prior quarter. Retail constitutes approximately 94% of fees. Banks retail franchise delivered well on fees and

commission income commensurate with the healthy assets growth registered during the quarter fees on payment products remain subdued due to lower risk related fees, over limit fees, late payment fees, etc., reflective of our cautious approach to card based lending as well as customer preferences. However card sales and interchange have come out robustly in all beside an impact of about 4% on fees. The fixed and derivatives income was at ₹ 892 Crores was higher by 1% compared to prior year of ₹ 879 Crores. Trading was at negative 40 Crores for the quarter, prior year was at ₹ 655 Crores and prior quarter was at ₹ 1,046 Crores which were opportunistic gains from our investment portfolio. Other miscellaneous income of ₹ 1,155 Crores includes recoveries from return of accounts and dividends from subsidiaries.

Moving on to operating expenses for the quarter were at ₹ 10,153 Crores an increase of 10.6% over prior year. During the quarter I mentioned about the 563 branches that were added and for the year 734 branches and 2,043 ATMs taking the total network strength to 6342 branches, 18,130 ATMs and 15,046 business correspondents manage the common service centers. We are further expanding our distribution network through partnership with Airtel Payments Bank, India Post Payments Bank and Manipal Business Solutions we have approximately 60 million, 50 million, 30 million customers under their ambit respectively and can provide access to that. Cost-to-income ratio for the quarter was at 38%. With stepped up investments in technology and retail segment continuing to pick up we anticipate the spend levels to increase driven by volumes, sales and promotional activities and discretionary spends.

Moving on to PPOP the pre-provision operating profit was at ₹ 16,357 Crores excluding trading income PPOP grew by 10.2% year-on-year and 4.2% sequentially. Coming to the asset quality the GNPA ratio was at 1.17% as compared to 1.26% in the prior quarter and 1.32% prior year. It is pertinent to note that of this about 19 basis points are standard. These are included by us in NPA as one of the other facilities of the borrower is NPA. Net NPA ratio was at 0.32 preceding quarter it was at 0.37. The annualized slippage ratio for the current quarter is at approximately 1.3% about ₹ 4,000 Crores as against 1.6% in the prior quarter. During the quarter recoveries and upgrades were ₹ 2,100 Crores for approximately 18 basis points. Write-offs in the quarters were ₹ 1,700 Crores for approximately 16 basis points.

The restructuring under the RBI resolution framework for COVID-19 as of March end stands at 114 basis points of ₹ 15,700 Crores. This is at a borrower level and includes approximately 17 basis points of facilities of the same borrower which are not restructured but included here. Of the total COVID restructured standard book approximately 37% pertains to customers who have chosen to restructure only one of their facility, of the remaining 63% 41% is secured and 59% is unsecured, of the unsecured portion 84% had good CIBIL score or they are non-delinquent at the time of restructuring, this leaves us

within manageable range with maximum potential impact in our GNPA ratio of 10 to 20 basis points in any given quarter as we have mentioned this previously.

Provisions, the core specific loan loss provision for the quarter was at ₹ 1,778 Crores as against ₹ 1,821 Crores during the prior quarter and ₹ 3,153 Crores for the prior year. Total provisions reported were ₹ 3,312 Crores as against ₹ 2,994 Crores during the prior quarter and ₹ 4,694 Crores for the prior year. Total provisions in the current quarter included additional contingent provision of approximately ₹ 1,000 Crores. The specific provision coverage ratio was at 73%, there are no technical write-offs, our head office and branch books are fully integrated. At the end of current quarter contingent provisions towards loans were approximately ₹ 9,700 Crores, the bank's floating provisions remained at 1,450 Crores and general provisions were at ₹ 6,600 Crores. As on March end total provisions comprising specific, floating, contingent and general provisions were 182% of gross non-performing loan. This is in addition to security held as collateral in several of the cases. Looking at through other loans floating and contingent and general provisions were 1.28% of gross advances as of March quarter end.

Now coming to credit cost ratios, the core credit cost ratio that is the specific loan loss ratio is at 52 basis points for the quarter as against 57 basis points for prior quarter and 110 basis points for prior year. Recoveries which are recorded as miscellaneous income amounts to 26 basis points of gross advances for the quarter as against 25-basis points for both prior quarter and prior year. The total annualized credit cost for the quarter was at 96 basis points which includes an impact of contingent provision of approximately 30 basis points, prior year was at 1.64% and prior quarter was at 0.94%. The reported profit before tax at 13045 Crores grew by 20.3% over prior year, net profit for the quarter at 10055 Crores grew by 22.8% over prior year. Net profits for the year ended March 2022 was at ₹ 36,961 Crores up 18.8% over prior year.

Now on to some highlights of HDBFSL this is on an Ind-AS basis. The total advances were ₹ 61,326 Crores of which 76% were secured. Disbursements are picked up in Q4 growing 11% quarter-on-quarter basis and 7% year-on-year basis. For the quarter ended March 31, HDBFSL net revenues were at ₹ 2,141 Crores a growth of 8%. Provisions and contingencies for the quarter were at ₹ 422 Crores including ₹ 223 Crores of management overlay as against ₹ 429 Crores for the quarter ended March 2021 and ₹ 540 Crores including a ₹ 98 Crores of contingent management overlay in the prior quarter in the sequential quarter. Gross Stage 3 stood at 4.99 down from 6.05 from the sequential quarter comparison. This includes an impact of 1.27% on account of new RBI guidelines issued in November 2021. 80% of the stage 3 book is secured carrying provision coverage of 44% as of March 31, 2022 and is fully collateralized. 20% of stage 3 books which is unsecured had provision coverage of 87%, above all HDB remains well capitalized with total capital adequacy ratio at 20.2% and Tier-1 capital adequacy of 15.2%. LCR was at 102%. Profit

after tax for the quarter ended March 2022 was ₹ 427 Crores, earnings per share in the quarter was ₹.5.41 and book value per share was at ₹ 120.69. As of March 2022 HDBFSL had 1,374 branches across 989 cities and towns.

Now onto HSL, HDFC Securities has a wide network presence of 216 branches across 147 cities and towns. There has been a significant increase in its overall client base to over 3.8 million customers as of March end an increase of 40% over prior year. 86% of HSL's revenues come from transaction done by customers on its digital properties. HSL's revenue aggregated to ₹ 510 Crores for Q4 2022 an increase of 16% over corresponding period a year ago. Net profit after tax was at ₹ 236 Crores for the quarter, earnings per share in the quarter was ₹ 148.84 and book value per share was at ₹ 1050.

In summary we remain committed in offering our customers with comprehensive range of products and services while capitalizing on growth opportunities. We have delivered consistent performance for years together and remain pledged towards the culture of excellence. Thus the quarter results reflect advances growth of 21%, deposits growth of 17%, profit after tax increased by 23% delivering a consistent profit growth rate and return on asset of over 2% and ROE of over 17%. Earnings per share in the quarter of ₹ 18.1, book value per share increased in the quarter by ₹18.6 to ₹ 433, the economy is growing, businesses are robust, credit demand is high, savings growth is strong, customers have cash to spend and are spending and we are here to serve. With that my request to operator, please open up the line for questions. Thank you.

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

Mahrukh Adajania: I had two questions, my first question is on margin, in the second quarter or so in the earnings call we had outlined that there could be margin improvements with a lag once retail loans pickup and that could happen over six months, three to four quarters maybe and now in the fourth quarter margins have declined further, so is the margin expansion on track, how do we view margins from here on, that is my first question and also connected to margin if you could just give a rough indication of the commercial banking yield, ex agriculture?

Srinivasan V: I think I mentioned it a few minutes ago when I was presenting our asset mix has shifted, it shifted significantly from unsecured to higher rated segments and it has come all through the pandemic we saw that the retail was going down in the rate of growth and it was picking up in wholesale and in commercial rural. If you go back to pre-pandemic, go back to three years 2019 if you look at it the Basel disclosures that we do I am doing that Basel because we show that assets by type wholesale was 45, retail was close to 55. Now things have reversed now retail is 45 and the whole sale is 55, in fact in this quarter the rate of growth in

wholesale was even more 11% sequential growth in wholesale in this quarter and the retail also grew very well at 5% 5.1%, that is an annualized rate of little more than 20.5 on retail So retail has grown well but except that the wholesale has grown much faster, so that is one from a mixed point of view. What is this mix do, what has happened is that the higher rated segments tend to be low yielding; basically what has happened is we traded off NIM to operating cost and credit cost to deliver sustained profitability that is what has happened in this scenario. You will appreciate that NII or NIM is a function of risk and you got it connected with the credit too and we chose to be risk off all through the pandemic and it is not something that, that is why we told you last time that it could take three, four quarters, six quarters to come back and the retail is coming back, but the wholesale is not relented right we need to get that opportunity to the extent that this opportunity comes at a good quality we are okay with that to the extent that it delivers the profitability that is required which is what is happening both the topline in the form of volumes and the bottomline in terms of the returns that it provides because when that high rated things come as I said it comes with lower cost and lower credit, which is something I want to emphasize on that.

One other thing I want to mention is that if you look at …. I think I mentioned about the credit RWA one other way to look at the margin is are you pricing for your credit, so if you use credit RWA as a denominator it is 7% now and it is 20 basis points more than what it was pre-pandemic, essentially trying to say that we are optimizing on the margin that is one way to look at it and another way to look at it is you look at net credit margin which is net interest margin minus cost of credit represented by specific credit cost, if you do that we are at 3.5% in this quarter which means net interest margin less cost of credit 3.5% and the same time last year if you see it is 3.1% it again tries to show you that it is about pricing for the risk and the same you can think about full year, the one quarter cannot set you a trend and show you something that is consistently there, but I will give you the same thing net credit margin for the full year, full year 2022 3.3% which means including that high credit cost quarter that we had in Q1 include that too net interest margin less specific credit cost is 3.3% the same metric full year last year FY2021 3.1%.

Again tries to tell you that we are pricing well for what we need and so it is about the bottom and if you look at the ROA anytime, this quarter it is little more than 2.1 and if you look at the full year it is 2, last year 2, the year before 2 ROA and if you look at ROE same around 17% or so return, so what is this telling you, margin is one of the metrics and it is an important metric and to the extent that the margin is reflecting the risk that you are taking and it is borne out in the credit ratios and that provides the right kind of a cover for you to give the returns that are required for shareholders. I hope that that answers in terms of what we are trying to give you on that.

Mahrukh Adajania: Sure. Henceforth the focus will continue to be on in minus credit cost is that the right way to look at it because if the macro remains volatile then the risk off could continue longer, correct?

Srinivasan V: The retail growth if you see is at 5% 5.1% growth is what we have had sequentially. On a year-on-year basis if you see retail it is about 15% odd so it is lagging that means the quarter growth is more than the year-on-year growth because it was on a sliding scale, more pay downs were happening than bookings in the past several quarters around the COVID time period and now the sequential is leading right you are seeing that it is beginning to go on an upcurve. So the year-on-year will come and catch up soon and that is one on retail you need that to power and when retail powers I do want to mention to you it does not come free it comes with enormous cost and you can see the full year cost-to-income is at about 37 or so, the quarter cost-to-income is 38, 38.3 to be more precise, it comes with cost and when the retail powers to 6% and 7% and so on you will see that the cost-to-income also goes up and again on the credit and the credit cost I am talking about, that also goes up because retail comes with a higher credit cost compared to wholesale. So at the end of the day it is about getting the returns that you need that is why I tried to focus and I gave you the numbers on the return on asset and return on equity which is what gives the shareholders value or RFPs returns above the cost of capital if you think about what the cost of capital is, either any of these mix whatever happens on the individual lines if your topline growing is a customer franchise growing we have shown you how the retail, wholesale and the commercial is growing 5% on retail, 10% on commercial, 11% on wholesale that is the topline customer franchise growth that you are seeing and what is it translating into the bottomline good return 18%, 20% PBT or PAT with a 2% ROA, 17% ROE so that is what at the topline and the bottomline from the franchise growth point of view it gives you, in between that is the optimization tools that we deploy to get that.

Mahrukh Adajania: Sir any rough rate you can give on yield on commercial banking loan?

Srinivasan V: Yield on commercial banking will be approximately about 8% or so and you asked about what the agri could be, 9%, 10% or so is the agri yield.

Mahrukh Adajania: Now moving on to the next question what is the accounting policy associated with RSUs in terms of upfront cost and amortization?

Srinivasan V: First accounting policy on RSUs first let us take what is RSU so that you will see whether it is any different from ESOPs or not from a cost point of view. RSU you can think about it as similar to ESOPs except that it is at a deep discount that is one thing. The exercise price is 1; however, the way to understand this is the number of RSUs would result in no different impact at the banks chosen to grant ESOPs no different, what does that mean for instance, if the bank was to grant three ESOPs what is the fair value of 500 each it will grant one RSU

that is all that means fair value of 500 you grant three an employee gets 1500. Now when you grant RSU you just grant one RSU and what does it do so that the total compensation is remaining at that 1,500 or so and it avoids the shareholder dilution to some extent it mitigates the shareholder dilution and what is it that we are trying to do with the RSU, one it is intended to be extended to mid and junior management far deeper in the organization for the staff up to ten levels below the Managing Director that is one thing about it and this will be part of the overall compensation structure, whatever is the compensation structure this is part of that overall structure, 75% of the RSUs are intended for personnel in level 6 to 10 below the CEO 75% is intended for them and what is it going to do it is going to lower the attrition significantly, it is going to bring up enormous amount of productivity at those levels, so this is something that we thought about it and we wanted to make a difference to those employees and make them share owners and get them this so that they can participate in these things, so that you have a context of what this will mean. Another thing that you need to think about RSU it is granted, with whatever approval we have sought from shareholders is expected to be granted over the next four years so it is not a one-year grant of them so expected to be done over a four-year period. The second which is what normally we do even ESOPs we take approvals that are expected to be at a four, five year period or something. Then the next thing on the RSU you need to, the resting period is five years so which means four years to grant every year, one year, two year, three or four, five years to vest, so this can go all the way to nine years from now and whatever cost needs to go in the P&L will go over that longer period of time that is one thing. The second thing that you touched upon what is the accounting, the current accounting is like it was for ESOPs which is it does not need to go through P&L other than for material risk takers and Executive Directors and CEOs and so on, but ESOPs we as a bank chose to have that on the P&L for all of them we have that and for RSU's we will decide what we need to do whether it is from a shareholder point of view it mitigates the dilution that is what I want to leave you there compared to ESOP it does not change anything different that means as an example I gave you, an employee got three ESOPs and the equivalent compensation of three ESOPs was 1500 we will get one RSU for the same compensation value of 1500.

Mahrukh Adajania: Got it Sir, thank you so much. Thanks a lot.

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

Rahul Jain: Two or three questions Srini, first of all on the liquidity coverage ratio dropped quite a bit in this quarter seems like you utilize the excess liquidity that you are sitting on how much more scope is there to rationalize this and if I were to tie it in with the deposit mobilization that you also intend to do in light of the merger what would be the strategy out there, so that is the first question from me?

Srinivasan V: Yes, we are continuously optimized on the liquidity available as you know and the context for this quarter if you see we had loans growing, in this quarter loans growing 108000 Crores in one quarter we had that kind of a growth ₹ 1,08,000 Crores and in this quarter the deposits also grew ₹ 1,13,000 Crores so we did consume, the deposit growth from an amount point of view exceeds the loan from how we have deployed, but from an LCR value point of view it will come down because there are certain things that you will have to have the liquidity assumptions, the rundown assumptions and so on and so forth, so we have used that and how much more we can optimize this I do not think we can optimize this any further we have come to 112 probably we run it with a floor of about 110 that is the kind of a floor we think that we will run, at 110 we will get on to doing certain things in terms of mobilizing more and we would love to run it between 110 to 115 optimized, but I do expect I think in some other context we did talk about the branch vintage model and the deposits that it should generate. Think about the branches that we have opened the zero to three year vintage branches call it provides a value of x and those branches migrate to three to five years and five to 10 years give you a value which is 3x and 5x from a branch productivity point of view. The branch productivity that we have as a bank is 250 Crores per branch that is the productivity that we have and that is one of the best in class in the industry and if you look at certain branches that are new vintage branches they are progressing towards that high productivity and I think in some other context somewhere we publish in terms of what the branch productivity model is and how the branches are progressing through that vintage model, so that is one that will bring the deposits more. The deposits gathering is less about the merger combination of whatever we talked about, that is something that we need to work on and think about to fund and that is part of various branches that we are opening anyway, we opened 563 branches in this quarter 700 odd branches and we have said that we want to open order of magnitude with 700 to 1000 branches during the COVID period also last year we opened 353 branches FY2021 so we continue to do this because we believe that the radius around which the customers can be serviced currently at four, five kilometers radius needs to come down to one to two kilometers radius from where the branch in the catchment area can effectively manage the customers relationship better so the part of that we open and it is also about getting the sales force to sit in those branches and do. So essentially, yes deposit gathering is a prime kind of an activity branch opening is that, branch vintage model monitoring and driving through that is another kind of a dimension to look at it; yes we will keep driving that.

Rahul Jain: Just one more question on retail, various segments in retail have shown now continued momentum so fair to assume that all the credit trends will normalize and this can be sustained over the next few quarters, next few years?

Srinivasan V: You mean the retail lending, retail loans?

Rahul Jain: Lending growth, yes, like credit cards, PL, etc., had picked up.

Srinivasan V: Yes, we believe so. Even in this quarter if you look at it the retail grew by about 5% sequentially, now supply chain issues were impacting the vehicle type of businesses that grew lower than the average and the payment business, I alluded it to the car spending growing at about 28% or so, but the payment business grew the car's business on the loan side is about 14% or so and sequentially slightly under 5% so slightly under the average. Now if you look at the total outside of the vehicle segment and the cars the retail currently is powering at about sequential momentum of about 6% or so and we do believe that the vehicle should come back once the supply constraints abate, which is for a good part it is slowly coming back the rate of growth this quarter we had on vehicles was better than the last quarter coming back and same with payments too, last quarter we had a credit card spend of 24% and loan growth of 9%, this quarter's credit card spend is growing at 28% and a loan growth of 14% this is all YOY numbers. So we are seeing the momentum also picking up there, so that is something I want to bring your attention to. Over a longer period of time that is what we should expect that there is enormous opportunity, demand for outstripping supply and credit penetration in the country is low and we are there capturing that.

Rahul Jain: Can I just squeeze in one small question on the fee income as well it picked up this quarter nicely 12% YOY can you just break it down between payments and the other usual fee income that you earn, how the momentum has been there in those segments?

Srinivasan V: The 12% is partly aided by the payments doing a little better also but still payment is not at the business as usual type of growth that we have seen in the past it is not done, but from a mixed point of view if you see what the mix is in the total 12% the payment is 10%, 11% or so now it was a very small single digit last quarter and excluding the payments we are at about 14%, 15% or so on the fees and if you think about the mix that you asked about the retail, the assets and the liabilities on the retail let us call it about say 40% you should look at annual rather than quarter because quarter-to-quarter there will be variation from some point in time you will see some third-party products customer preference and some point in time you will see some festival spend and other things happening so quarter-to-quarter variations but if you look at the mix of various fees over a year kind of a time period retail assets and liabilities about 40% of the total about 20/20 each and if you look at the third party product you can call it close to a quarter of the total fees and third call it about (00.42) under a third call 30% or so and the wholesale is anywhere between 5% and 7% so that is the kind of how the fee stacks up in terms of what are the contributing factors, what are the products that contribute into the fee mix.

Rahul Jain: So payment grew 10% to 11% YoY in this quarter just want to clarify that?

Srinivasan V: That is correct; still, it is lagging from what it should use to.

Rahul Jain: Thank you so much, really appreciates this.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: On the branch vintage slide which you have provided some time back and just recently on the links between the historical deposit productivity and branch vintage in the chart, could it be different now versus the historical experience given that the earliest branches would have been in the larger cities, subsequent ones would have gone into smaller locations aggressively, so the multiplier effects that you are seeing would it be lower and your sense on how much would that be with the historical experience?

Srinivasan V: If I understand your question, historical location of the branches versus the current location of the branches, does it give the same kind of a branch maturity model, branch productivity model that is the question. I assume that is what you are asking. The answer is yes, in the current model this is how we test and this is how we establish what is the best in class and we drive the branches to those best in class and that is part of the current model that we have.

Aditya Jain: I was asking depositor behavior in a rising rate cycle, so existing saving deposits and term deposits would you expect a move of saving deposits to term deposits and what sort of a quantum that would be? Is there a way to look at that and secondly your experience on how often or with what proportion of term deposits investors would do an early break of their term deposit to get into higher rate deposits as rates rise, I do not know if it is easy to answer it, but just behaviorally from your observation if you could give us?

Srinivasan V: Okay a couple of questions you had, one is what will happen to the mix of products between savings and term deposit as the rate starts to go up. See, if you think about our historical mix of CASA ratio currently at 48; 48 is high, last quarter was 46, but if you look at over a longer period of time the CASA ratio anywhere between 40 and 42 that is the kind of rate at which you will see that. We are not shy of that and I will tell you this. The term deposit penetration in our customer base is at just high teens. We would expect the term deposit penetration in our customer base to be in the 80s and 90s because as part of the customer's asset allocation, you would expect every customer would be having some amount in some liquid funds, some in savings, some in term deposit and so on and so forth, so you would expect that the customer would have and our penetration we have a long way to go to get this penetration up so that is one thing and we are not shy of that and that is part of the narrative our RMs have conversations in the relationship management with the customer is to engage to deepen that relationship and if it is term-deposit deepening so be it right and over a longer period if you go back five years ago, three years ago, five years ago 40, 42 that is a kind of range that we have had, in recent times it has gone up, but even now

a rationale customer will go to a term deposit if required; if we want 50 basis points more the customer will go to term deposit and as the rate starts to go up may go and we are okay with that because that is how you price the assets too, you price the assets also as the rates go up, term deposit goes up asset price also will be reprised up.

Aditya Jain: Got it, so there could be some more movement towards term deposit and the second part of my question if you could touch up on that behavior of term depositors would they sort of breaking a current deposit in a higher rate term deposit?

Srinivasan V: It depends on the customer at what rate, it depends customer-to-customer; I am sure there is a breakeven analysis that everybody does in terms of when you break a term deposit and you pay the breakage fee because there is a penalty for pre-payment and when you do and pay the prepayment penalty and you book it into the new rate what is the yield pickup that you get and over what tenure. There is a math to be done and I am sure the customers do, but we do not see that as a rampant issue that is something that bothers and there is always somebody who may have booked it at that very low rate who wants to come and change it.

Aditya Jain: Thank you.

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

Manish Shukla: Could you give us some color about the wholesale growth during the quarter in terms of PSU versus private mix or short-term versus long-term lending, the incremental lending done during the March quarter?

Srinivasan V: It is all of the above. For example, if you see the sectors, telecom sectors are there, there was a loan demand in the quarter, PSUs were there where it is, there are some manufacturing, we saw, picking up, but not a big thing and some NBFCs also came in, so these three, four things that came in to give. From a utilization, see what has happened is, we had a tremendous amount of prepayment happening at the beginning of the financial year corporates were prepaying, the prepayment in this financial year was to the order of about 60,000, 65,000 Crores or so prepayment happened, pay downs happened then this quarter we did not see as much of prepayments or pay downs happening; this quarter was something different, we did not see it. So the two things contributed some new demand I gave you some sectors that there was some credit demand and the other thing is that the prepayment did not happen as it was seen in the prior quarter, so these two contributed to a higher wholesale, and we are pretty okay because we are very interested in a relationship. We do not measure the profitability only on the loans, which again by the way the cost-to-income on the corporate side is in single digit, the cost-to-income is single digit, the expected credit loss is virtually nothing, so that is highly profitable or equally profitable as

any other product that you would imagine and so we are quite comfortable with that and apart from that it provides the kind of entry to deepen our relationship on the retail side through the salary relationships and the products that we do on the retail side with them.

Manish Shukla: In terms of overall wholesale mix, how would the PSU mix today versus let us say a year or two back, share of PSU in overall wholesale?

Srinivasan V: We are not separately called out for PSU, but if you look at the sectoral deployment, I think we published that periodically you will see that somewhere if it is so far not published it will publish later today, I think the sectoral deployment.

Manish Shukla: Last question in terms of your overall loan books, how much is floating rate and within that how much is linked to repo?

Srinivasan V: 46 is fixed, 54 is floating.

Manish Shukla: Repo linked would be?

Srinivasan V: Repo linked is about you have to look at repo along with the T-bill. Repo and T-bill about 38% or so.

Manish Shukla: No, the only reason I am asking repo separately is because the repo is dependent on regulatory action, the T-bill will be market driven, which is why I am more interested in repo separately.

Srinivasan V: Yes, I think it was about 29%, 30% was the repo, about 10% was T-bill.

Manish Shukla: Sure, thank you very much.

Moderator: Thank you. The next question is from the line of Sagar Doshi an Individual Investor. Please go ahead.

Sagar Doshi: My question is regarding the treasury income. As I could see quarter-on-quarter and year-on-year, the treasury segment income has reduced, I understand that it might be due to the bond yield, etc., but could you us give any view on that, that how it would go going ahead?

Srinivasan V: See you are talking about the trading income, right?

Sagar Doshi: Yes.

Srinivasan V: Last year same quarter was about ₹ 655 Crores, last quarter was little more than ₹ 1,000 Crores and this quarter was close to nothing or actually negative 40 Crores so that is what

you are talking about, I guess. As I alluded to several minutes ago, those were more opportunistic gains that we harvested from whatever was possible, the timing and so on whatever we could we harvested, and in this quarter when the rates are rising, we have not harvested and the opportunities to harvest is also less in a rising scenario. So going forward how you should think about it, you should think about it that it is minimalistic, the second thing also you need to think about it is when we have too much of excess liquidity, we do have always excess liquidity when we have too much of that we deploy it in such a way that we do not mind harvesting gains on those excess, so that the drag that can come from securities at a lower kind of a coupon and in top that is in some other form, but we are at an LCR of 112 call it around between 100 to 115 kind of a range, so you should not expect the treasury trading income to sustain at any big levels for the time being.

Sagar Doshi: Okay got it thank you.

Moderator: Thank you. The next question is from the line of Adarsh Parasrampuria from CLSA. Please go ahead.

Adarsh Parasrampuria: I had a couple of questions. One is from a next 12, 18-month perspective how do you prepare the balance sheet for the, we are already ramping up on branches and deposit mobilization; what is the implication both from how the balance sheet liability side would look would you bloat it up a little bit as you get closer to the merger and from your opex perspective because we have ramped up distribution a little more front-ended. Does that cause a drag on PML for the next 12, 18 months till the merger?

Srinivasan V: Couple of good points you are raising but it is very important we address it, so you can think about it. It is not about preparing or merger or anything but what is our normal strategy that is a good thing to keep a note of. We do want to ramp up branches, we do want to bring in new liability relationships, we do want to give the branch productivity from a deposit gathering point of view to be the best in class and as I mentioned to you 250 Crores per branch is the best in class and we are trying to deepen even further from a productivity point of view on that, so we will keep going on that, that is one. Irrespective of what it is we do and that is part of what the branch growth that we have embarked on, right. There were a modest 350 odd branches in FY2021, this year we have taken it to more than 700 and we have a plan to sustain significant amount of branch growth 150 branches are in the pipeline to open anytime soon and so we are going to do that to mobilize the relationship. The reason for the deposit is, we have equally from an asset appetite point of view, if you look at the last five years right, we have grown assets, CAGR call it 20% that is what historically, I cannot give you an outlook of what is the asset growth we are doing, but I can only point you to the past to say if you look at any kind of two blocks or five year period or something, think about 2017 to 2022 or 2016 to 2021 or 2011 to 2016 whatever kind of a time period if you see high teens to 20% that is the kind of rate of growth, at which we have

gone and we have done that irrespective of what the market share at the respective time periods were; the market share is 6%, 7% or 11% whatever it is that is a kind of a rate of growth we had and so the missionary is tuned at that kind of speed and that kind of infrastructure that we have set for growth, so we do need more liabilities to support this. Now, if we will have excess liabilities, it is quite possible that we could have and we had it over the last two, three years and if we will have it in future, it is quite possible, but the last aspect of your question is what is even more important. The excess liability not necessarily translate into kind of inhibiting growth rate or drag on anything, if you get a deposit and put it in a security at the current yield curve, you still have an opportunity to make a 2% ROA as you need to get the right mix of deposits between CASA and term deposits and you need to have them at the right quality granular retail, so you have an opportunity to invest in any kind of security and provide returns equal to the average of what the bank does, so that is how I would urge to think about, again if you think about margin and if you have high deposits, will you have a margin impact, of course, because you have a zero risk-weighted assets if you have excess deposits and put in securities with zero-risk weighted assets you earn for the risk that you take. You do not take any risk, you will earn for that, but still, you optimize for the return on asset, return on equity at the end. So that is how we will urge you to think that if you do get more deposits because we are ramping it up but it is supposed to provide good returns.

Adarsh Parasrampuria: Referred to the point that you mentioned that cost-to-income we are spending that will go up in preparation for some of this, what is the kind of spike you would expect in the near-term?

Srinivasan V: Whether it will go cost-to-income, Adarsh as I told you will go up as we have more retail activity coming, retail lending activity coming, retail liability activity coming in, you will see the cost-to-income go up, but this is we normally as we said we do not give an outlook or a projection of what we will do, but cost-to-income is something that we have consistently said over a period of time, that is while it will go up now. We do think in the medium-term in three, five years time it will come down back to mid thirties and that is purely driven through scale and driven through various digital initiatives that we are running, so while it will go up it will come back down due to the scale operating on that.

Adarsh Parasrampuria: One more thing just a followup on the margin queries that were there earlier; just from the perspective given that you did have a mix change over the last couple of years where retail activity was a little slower through COVID, we did have a material drop in margins from the peak given that things are opening up and everything and given that you will get to a normal mix, normal activity; is it safe to say that margins now stabilized to start going up because in a normal circumstance one would think that the corporate growth now should not like materially keep exceeding retail and SME growth for very long periods of time?

Srinivasan V: As I said I do not want to project the future we do not give an outlook of what the growth can be or how it will be I can tell you what we drive to. Our strategic drive is retail back on the drive that means we are back to the pre-COVID level in terms of the credit policy, opening up the business across product lines other than the supply chain issues that we have had in vehicles other than that the fact is the customer behavior, right. Spends are happening customer behavior will have to catch up, other than that we are in that, so in this quarter we did see higher demand on wholesale and we entertained that because it provides good returns.

Adarsh Parasrampuria: This is it from my side. Thanks for all your answers.

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

Saurabh: My question is on credit card, so one is when do you expect your market share to come back to your earlier 30% levels. It has been seven months since the ban has gone so what is your outlook on that and second is how much is your revolve rate now versus pre-pandemic levels?

Srinivasan V: You are talking about the market share means you are talking about the change in market share. I do want to tell you one thing that as a target we do not have a market share because market share does not mean anything. Particularly spend market share does not do anything from a profitability and return point of view, so that is one thing because if you are looking at it, I would urge you to look at the retail spends versus commercial card spend. If bifurcate and look at retail, commercial. We like retail, we are okay with commercial, but it is a retail why the propensity for the customer to do the other things both from a relationship value as well as from a card product value itself it is much more on retail so that is where we will focus, so chasing market share on the spend is not a target that we have, so I would not be able to tell you how much it will go. It is a function of optimization of the P&L, optimization of the customer relationship and the product that we are able to do with the customer and the second part of your question was in terms of the revolve; we are still at about 70% to 80% of the pre-COVID levels on revolve rate. I mentioned that last quarter to this quarter marginal improvement of 1%-point improvement in revolves so that is also part of what you are seeing in the card balances going from year-on-year growth to 9% to 14% is going in the right direction, but then that has to do that magic of paying interest that starts to go up. It is a question of customer behavior and it follows with a lag when this spend happens and we are seeing this spend happening. The buildup on the ENR must happen you are seeing that the build up on ENR is slowly coming. The third aspect of this because the buildup of ENR happening the customer needs to start to revolve, I can see that it is turning the corner 1% point better, but somewhere to go.

Saurabh: Got it and just one final question when is PayZapp launch?

Srinivasan V: PayZapp launch is probably a quarter away, I would say, we have several plans on that from a close user group to making to selective customers and then getting to broad base maybe a quarter away, I would say.

Saurabh: Thank you.

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

Srinivasan V: Thank you. Thank you all for joining us today, we appreciate your time and we had a good conversation. If anything, more that you have you can connect with Ajit Shetty in Investor Relations; we shall be happy to engage with you. Thank you.

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