HDFC BANK
We understand your world

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July 22, 2023

BSE Limited
Dept of Corporate Services
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400 001
Scrip Code - 500180

The National Stock Exchange of India Limited
The Listing Department
Exchange Plaza
Bandra Kurla Complex,
Mumbai 400 051
Symbol - HDFCBANK

Dear Sir,

Sub: Transcript of Earnings Call for the first quarter ended June 30, 2023

We wish to inform you that pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the earnings call with analysts and investors held on July 17, 2023, with respect to the financial results of the Bank for the first quarter ended June 30, 2023, has been made available on the website of the Bank at the link: https://www.hdfcbank.com/personal/about-us/investor-relations/financial-results.

A copy of the transcript is annexed herewith.

This is for your information and appropriate dissemination.

Thanking you,

Yours truly,

For HDFC Bank Limited

Santosh Haldankar
Digitally signed by Santosh Haldankar
Date: 2023.07.22 13:53:55 +05'30'

Santosh Haldankar
Company Secretary

Encl: a/a

“HDFC Bank Limited

Q1 FY’24 Earnings Conference Call”

July 17, 2023

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

Moderator: Ladies and gentlemen, good evening and welcome to the HDFC Bank Limited Q1 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. There will be an opportunity for you to ask questions after a brief commentary by the management. Should you need assistance during this conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Srinivasan Vaidyanathan, Chief Financial Officer, HDFC Bank. Thank you and over to you, sir.

Srinivasan Vaidyanathan: Okay, thank you, Dorwin. Good evening and a warm welcome to all the participants. I want to briefly start and give a minute update on the merger. Effective July 1, as you all know, HDFC Limited has been merged into the bank. Consequently, all subsidiaries of HDFC Limited have become subsidiaries of the bank. Earlier today, with the support of BSE, NSE, NSDL, CDSL, all HDFC Limited shareholders, as on the record date, have received shares of HDFC Bank. This concludes the 15 months journey for the bank and all the regulators involved, and we would like to take this opportunity to thank them for their continuous engagement and support.

HDFC brand built over 47 years will now be proudly owned by the bank. It is a privilege to add-on and engage with the 6,000 institutional investors and 7 lakh individual shareholders. HDFC Limited has excelled in nurturing trust in their customer engagement over four decades of operation. We'd like to harness this bond with the home loan customers by leveraging our exhaustive distribution reach and comprehensive digital platform to upsell a complete bouquet of the banks and subsidies products across pay, save, invest, borrow, insure and trade, like the savings account, personal account and so on, including the credit card and SIPs.

Seamless integration to aid a sustained and optimal execution is undertaken, involving merging products and processes expertise, creating learning opportunities by focusing on customer engagement and experience, onboarding 4 million customers with over INR6 trillion portfolio, onboarding 4,150 talented professionals bringing in knowledge and culture.

Now let's look at the key macro environment during the quarter before we review the earnings. Stronger than expected GDP growth in the March quarter has boosted sentiment. Various indicators suggest economic activity continued to be strong in the recent June quarter. GST collections have been robust in the first quarter at over INR5 lakh crores, growing by 12% year-on-year. Manufacturing PMI at 57.8 and services segment PMI standing at 58.5, augurs well and shows robustness. Again, the current account deficit narrowing to seven quarter low adds more strength.

Payment systems indicate business activity continues to be robust with 14% growth in RTGS and NEFT transactions and 44% growth in UPI payments. On the consumption side, the passenger vehicle and two-wheeler sales showed robust growth reflecting strong consumer demand. During the quarter, our retail-issued card spends have shown robust growth of 30% year-on-year and 10% sequentially.

The uneven distribution of monsoon has adversely impacted sowing. Excessive rains in North India have inundated fields already sown, while lack of rainfall in East Central and South Western regions has delayed sowing. Overall, we continue to see healthy domestic demand conditions, resilience in services exports and push from government through capex expenditure. These factors are estimated to result in India's year-on-year GDP growth rate of 7.7% in Q1 and greater than 6% in the full year '24, after a stronger than expected GDP growth of 7.2% in FY '23. However, weather-related uncertainty with the rising likelihood of El Nino causes risk to rural recovery and inflation, which remains high.

Let's go to the key themes. On the distribution, while we added 39 branches in the quarter, we added 1,482 branches over the last 12 months, which now stands at 7,860 branches. On the payment acceptance points, we have 4.6 million, year-on-year growth of 37%. That includes 2.8 million merchants accepting through the SmartHub Vyapar Platform. On the CRB side, our SME businesses are present in more than 90% of the district, expanded to 1.7 lakh villages reach and is on track to achieve the objective of over 2 lakh villages.

Gold loan processing is now offered in 4,336 branches, an increase over June '22, a twofold increase over June '22. In the customer franchise building, we added 2.4 million new liability relationships during the quarter with now over 85 million customers it provides a base to engage enabling us to broad base and deepen our relationships. In order to provide for this engagement, we have added 29,000 people over the last 12 months and 8,500 people during the quarter.

On cards, we have issued 1.5 million cards in the quarter the total card stands at 18.4 million. Our website continues to receive enormous traffic. We received on an average 109 million visits per month with over 89 million unique visitors over the quarter at an year-on-year growth of 42%.

Focusing on the granular deposit which continues, deposit amounted to INR19.1 lakh crores an increase of 19.2% over prior year. On the back of a fantastic quarter in March '23, where we added INR1,50,000 crores, we further built on this enhanced base during the June quarter, with an addition to deposits of INR30,000 crores. Retail deposits added in the quarter was rupees INR38,000 crores. Retail, which has been an anchor of our deposit growth constitutes about 83.5% of our total deposits getting more granular compared to 82% in prior year June. Retail deposits grew at the rate of 21.5% year-on-year and 2.4% sequentially.

Wholesale deposits constitute 16.5% and these grew 9% year-on-year but were lower 2.5% sequentially. On a pro-forma merged basis, retail deposits grew by 20.6% year-on-year. This is a pro-forma merging -- on a pro-forma basis, merging the June deposits of HDFC Limited I'm talking about, and the retail constitutes 83% of the total pro-forma.

Now moving to advances, growth of IBPC advances grew 20% year-on-year. Net of IBPC advances at INR16.3 lakh crores grew by 14.7% versus prior year. This is an addition of approximately INR16,000 crores during the quarter and INR2,22,000 crores in the year. Credit to deposit ratio as of June end stood at 84%. Our retail advances growth was robust. Domestic retail advances grew 20% year-on-year and 4% quarter-on-quarter, primarily driven by strong performance in home loans and personal loans.

Commercial and rural banking, which drives our MSME PSL book continues its momentum with an year-on-year growth of 29%. Wholesale segment grew 11% year-on-year, but de-grew 1.2% sequentially. The bank's advances growth of IBPC grew by 20.1% year-on-year. When we include HDFC Limited's individual home book, the pro-forma core loan growth for the merged entity is 18.7% year-on-year.

Technology, we continue to focus on the technology agenda. HDFC Bank One, the customer experience hub, over 12.5 million unique customers have interacted through the platform accounting to over 22 million interactions. On the PayZapp, handled transactions volume above 13 million during the quarter, with more than 1.6 million monthly average logins and 1.5x increase in customer spends. Express car loan volume now contributes 30% of our car loan volume.

We continue to be focused on these investments and expanding both the distribution as well as the digital footprint and thereby driving the relationship management for growth. Balance sheet remains resilient. LCR for the quarter for the bank was at 126%, prior quarter was 116% and prior year was 108%. LCR on a pro-forma basis that is including the estimated HDFC Limited book as of June 30, based on the merged entity was at over 120%. Capital adequacy ratio is at 18.9% and CET1 is at 16.2%.

Net revenues for the quarter were at INR32,829 crores, grew by 26.9% over prior year driven by gross advances growth of 20% and deposit growth of 19%. Net interest income for the quarter at INR23,599 crores, which is 72% of net revenues grew by 21% over prior year. The core net interest margin for the quarter was at 4.1%. On an interest earning asset basis, the core net interest margin was at 4.3%.

Getting to the details of other income, which was at INR9,230 crores, fees and commission that constitutes two-thirds of the other income was at INR6,290 crores and grew by 17% over prior year. Retail constitutes approximately 93% of fees and commission. FX and derivatives at INR1,309 crores was higher by 27%, compared to prior year. And net trading and mark-to-market income were at INR552 crores for the quarter. Prior quarter was a negative INR38 crores. And prior year was also negative slightly above INR1,000 crores. Other miscellaneous income at INR1,079 crores includes the recoveries from written-off accounts and dividends from subsidiaries. Operating expenses for the quarter were at INR14,057 crores, an increase of 33.9% over prior year and an increase of 4.4% over prior quarter. In this context, it is pertinent to note that we added 1,482 branches and 1,732 ATMs since last year. In the medium to long term, distribution reaches the key. This is what will provide funding through better engagement.

Cost to income ratio for the quarter was at 42.8%, reflecting the cost of investments, which from a timing point of view has been chosen during the benign credit environment to capture the market opportunity. This will moderate and revert to below previous levels after the breakeven and payback from the investment starts to flow through. PPOP for the quarter grew by 22%. Our Pre-Provision Operating Profit was at INR18,772 crores.

Coming to asset quality, the GNPA ratio was at 1.17%, compared to 1.12% in prior quarter and 1.28% in prior year. Out of the 1.17%, about 14 basis point are standard. Thus the core GNPA ratio is 1.03%. GNPA ratio excluding NPAs in agricultural segment, because agricultural segment has got the seasonality in June and December, so excluding the agricultural segment, GNPA ratio was at 0.94%. Prior quarter was also at 0.94% and prior year was 1.06%.

Net NPA ratio was at 0.30 and net NPA ratio excluding NPAs in agricultural segment was at 0.23. Again, same as prior quarter, which was also 0.23. The slippage ratio for the current quarter is at 35 basis points or about INR5,800 crores. The slippage ratio for the current quarter excluding agricultural segment was at 26 basis point, about INR4,200 crores.

During the quarter, recoveries and upgrades were INR2,650 crores or approximately, 16 basis points. Write-offs in the quarter were INR2,100 crores or approximately, 14 basis points. There was no sale of any NPA accounts in the quarter. Restructuring under the RBI resolution, COVID framework as of June ends, stands at 27 basis points, about INR4,265 crores. In addition, certain facilities of the same borrower which are not restructured is approximately 5 basis points or INR800 crores.

On the provisions reported were INR2,850 crores, against INR2,700 during the prior quarter and INR3,200 in the prior year. The provision coverage ratio was at 75%. At the end of current quarter, contingent provisions and floating provisions were approximately INR11,150 crores, same as last quarter. General provisions were at INR7,150 crores. Total provisions comprising specific, floating, contingent and general provisions were 171% of the gross non-performing loans. This is in addition to the security held as collateral in several of the cases. Floating. contingent and general provisions were 1.12% of gross advances as of June end.

Now coming to credit cost ratio, the total annualized credit cost for the quarter was at 70 basis points. Prior quarter was 67 basis points and prior year was 91 basis points. Recoveries which are recorded in miscellaneous income amount to 19 basis points of gross advances for the quarter. The total credit cost ratio net of recoveries was at 51 basis points in the current quarter, compared to 68 basis points in prior year and 44 basis points in prior quarter. The profit before tax was at INR15,912 crores, grew by 30% over prior year. Net profit after tax for the quarter at INR11,952 crores, grew by 30% over prior year.

Some highlights on HDB Financial Services. This is on Ind AS basis. The total loan book as of June end, stood at INR73,568 crores, growing 5.1% sequentially and 19% year-on-year. Secured loan comprises 72% of the total loan book. Disbursements for the quarter were higher by 42% over prior year. Customer franchise grew to 12.8 million with 7.3% additions during the quarter and an increase of 29% year-on-year.

Distribution network was augmented by 89 branches in the quarter, taking it to 1,581 branches spread across 1,100 cities and towns. Net interest income for the quarter was INR1,501 crores, an increase of 5% quarter-on-quarter and 13% year-on-year. Provisions and contingencies for the quarter was INR267 crores, against INR398 crores for the quarter ended last year, June.

Quality of the book continued to see sustained improvement. Gross stage 3 as of June end improved to 2.5% against 2.7% as of March '23, and 4.9% as of last year, June. Reflecting sustained healthy collections, production coverage on the stage 3 books stood at 66%. The profit after tax for the quarter ended June increased to INR567 crores, against INR545 crores for the last quarter and INR441 crores for last year, same quarter. ROA and ROE for the last quarter stood respectively at 3.2% and 19.4%. Earnings per share in HDB was at INR7.16 and book value per share in HDB is at INR150.5. HDB remains well capitalized with a total capital adequacy ratio of 19.8% as of June end.

And a few sentences on HDB, on HSL, our securities company that has added nearly 0.6 million clients in the last 12 months, taking the client base to 4.6 million. HSL has a network of 207 branches across 147 cities and towns. Digital offerings continues to enjoy good traction in the market. Around 93% of active clients utilize the services during the digital platforms of the company. HDFC Securities has introduced HDFC SKY, a low-cost broking platform, which is targeted at all kinds of customers, millennials, investors, traders, providing easy, do-it-yourself, seamless execution with a high ease and competitive flat pricing policy.

The total reported revenue for the quarter was at INR497 crores, against INR432 crores in prior year. And the net profit after tax was at INR189 crores, almost flat to prior year. Earnings per share in the quarter in HSL was INR119, and the book value per share at HSL is at INR1,153.

In summary, our results reflect consistency of delivery, diligently executed to result in continued momentum and deposit growth at 19%, and retail deposit growth within that, which is 21%, 21.5%. Gross advances growth of 20% and the net advances growth, net of IBPC of 16%. Profit after tax increased by 30%, delivering return on asset in the quarter over 2% and ROE of about 17.3%. Earnings per share reported in the quarter is at INR21.4 at the standalone bank level and INR22.2 at the consolidated bank level. Book value per share, standalone bank is at INR525.4 and at the consolidated bank level is at INR542.7.

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

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

Suresh Ganapathy: Yes, hi. I have two questions, Srini. One is on credit growth and deposit growth. The other is on merged company profitability. So, let me first touch the deposit growth aspect. So, I know quarterly there can be fluctuations, but your Q-o-Q standalone deposit growth was about

INR30,000 crores, 1.6%. But I'm looking at the system number. Apparently the system seems to have added INR9 trillion of deposits of 5% Q-o-Q. So somehow I feel on an incremental basis for the quarter, you might have lost a lot amount of market share, anything specific which affected this quarter's deposit mobilization?

Srinivasan Vaidyanathan: So Suresh, there is nothing specific as such. Typically Q1 is of all the quarters is a slow quarter. Across various parameters, it's a slow quarter. From branches to, deposits to, loans to, if you go back historically and see, the first quarter contribution is in single digit, typically on an average if you see, there will be sometimes where it is in double digit, but typically single digit is what it contributes. That is one.

And two, I know that if I take you back a quarter or two ago, that it is not about one quarter, you should look at how extraordinarily it got built in March, and then we sustained it. That means we did not lose that over and then we built on top of that because it was not a small feat and at least INR50,000 crores came through in March quarter, more than what one would have envisaged and we kept that and we built on top of that. And particularly the retail, if you see, we built 38,000 in retail. Typically the first quarter, you see the current account going down and savings account to some extent moderates due to spend.

We've seen 30% increase in spends. Our issuing card customers' spending increased 30% and 10% up sequentially on spends, card spends on the retail cars. So some of these factors typically contribute, but then more important is that we're confident that the building blocks that we put in place for such enormous growth remain, and confident of getting that to fruition over the next few quarters.

Suresh Ganapathy: Okay. The other question is on advances. You reported in the 3Q update, March gross number excluding wholesale of HDFC Limited to be growing at 15%. But apparently in the call, this time, you said it's actually grown at 18.5%. That is if I just take the retail HDFC and add the gross advances of the stand-alone entity, the number is 18.5%. What number to go by? Because what is then the 3Q is 15.5%, merge growth excluding home sales.

Srinivasan Vaidyanathan: Yes. See, the gross bank, we put that up on page 23 of the earnings deck that we published earlier today to be helpful on that. The bank's gross of IBPC grew by 20%. And HDFC's individual loans, the mortgage individual loans grew by 14% year-on-year. So combined just the bank loan and the individual loans because that's, these are the categories of loans that are managed for significant opportunities and growth. That's grown at 19%, 18.7%. That's a growth.

The HDFC is non-individual loans, de-grew by 18% year-on-year, 18% de-grew year-on-year, and which we know that there have been management actions driving that de-growth and we will evaluate over the next two quarters in terms of what is the stable level before we start to build. We will get to understand it better before we get that to be building. That is down 18%. So that is why including that it is a 16% growth. All loans on a gross basis in the 16%.

Suresh Ganapathy: Okay, so yes, there's some confusion with the 3Q. Okay, no problem. And finally, are you confident that on a merged basis, when you deliver the September quarter results, you can sustain the current levels of ROA reported? I mean, you exited of course this quarter with 2.1%. Last year also, fully the number was 2.1%. How confident you are based on your initial assessments?

Srinivasan Vaidyanathan: Yes, the level of confidence is pretty high. Typically, I think, Sashi had alluded to in some other context that we're looking at 1.9 to 2.1. That's the range at which we'll oscillate. Quarter-to-quarter, if there is a timing on certain things, particularly if there is anything that we do, we'll be timing, but otherwise, broadly it is the 1.9 to 2.1 that he alluded to before. That is where we are confident of driving to deliver.

Suresh Ganapathy: Okay, thank you so much.

Srinivasan Vaidyanathan: Thank you.

Moderator: Thank you. We have the next question from the line of Mahruk Adajania from Nuvama. Please go ahead.

Mahruk Adajania: Yes, hi. So my first question is on opex. Basically, this happened even in the last year's first quarter. So the opex growth in the first two quarters on a sequential basis is 4% to 5% and then as branch adds pick-up, basically the opex ratio or the opex growth, not the ratio, but the opex growth scales up to 7% Q-o-Q, 8% Q-o-Q and that's last year this happened because the branch adds were significantly high in the second half right 600 branches to 700 branches in each quarter of the second half. So how do you look at the standalone opex going ahead? You know HDFC's business moves at a steady state opex, but your own opex, as you go on adding branches, do you see the 8% sequential growth coming back? I'm not talking more in terms of cost to income, but the Q-o-Q growth, because Yes.

Srinivasan Vaidyanathan: No, that's not. The 8% Q-o-Q is essentially the build-up of the branches that happened there. And so the way, we try to pace it in such a way, if you think about what happened there, we started the quarter and our goal was to start building the distribution. So we created a lot of capability to build branches. And then, as we were confident, because to think about it, what we mentioned, which is we're trying to take the benign credit environment as an opportunity to see how we invest and during this time period, run through the maturity and try to get that when credit normalizes, when the credit reverts to mean, which is the historical mean, call it 90 basis points, 100 basis points, 110 basis points, somewhere around that basis points.

That's the kind of, when credit reverts, before the credit reverts to mean, we need that maturity cycle to come to fruition. So we are waiting for that to see. And as we saw, we started to accelerate and go. And then as time goes by, you'll see that the base comparison starts to lap. And then after that, you see a moderate level. So we have still not seen the lapping of the growth from a base comparison point of view because we started to some extent in the September quarter to a large extent in the December quarter and as we saw the credit bending further down because look at that credit cost last year June quarter was 91 basis points.

This quarter is 60 basis points. So as we saw that coming in, we started to implement that. That's essentially in fact not all of the credit cost is getting reinvested, but we are taking that opportunity and the environment to do that.

Mahruk Adajania: Got it. And my next question is on loan growth and incremental deposit growth. So just in terms of loan growth, we had kind of indicated doubling of the book. Do we see that starting FY ‘24? Because the run rate is a bit softer in the first quarter. So the merge balance sheet has grown 13% after including everything and if you exclude IBPC then it's grown 16%. So do we -- can we see a 17%, 18% growth as we end the year? Would that be a fair estimate?

Srinivasan Vaidyanathan: Yes, Mahruk, yes. See, if you think about any time period, a three-year period or a five-year period typically, which we look at 2.3x, 2.4x it moves up, which indicates about 17%, 18% kind of a growth. And that's over a period of a longer term, five, three, five years' time period. But over a shorter time period, yes, somewhere we have done 15%, 16%, somewhere we have done 18%, 19%, but 17%, 18% is the kind of, our capacities are built and that is how we are gaining traction to be at that level from a consistency of growth point of view.

Quarter-to-quarter it differs, but yes, when you are asking about the full year, that is the kind of level at which. The non-wholesale, the non-retail book in HDFC Limited will receive evaluation. And as we see, and as we deem fit in terms of growth rate, whether it takes a quarter or two before we start to pump-in with that, we will see. But at least, yes, on an overall basis, we're confident that there is enough credit demand. It is for us to see which one we want and what time we start to build in. And at the right price, I want to mention that.

Even during this quarter, there were several opportunities on loans. You look at our wholesale loans, 11% year-on-year or minus 1.61%, close to minus 2% quarter-on-quarter. We were not shy of not participating in certain loans. If the price is not to our liking, we do not need it. But we need the relationship. We keep it because around which we build several other segment relationships. But yes, that is broadly that is where we are operating.

Mahruk Adajania: Okay, got it. And sir, what would be the, would you be able to quantify the CRR and SLR of Limited, HDFC limited at the end of June? Would that be possible?

Srinivasan Vaidyanathan: No, see the, it starts to kick-in, I think in the next fortnight, it would start to kick-in. And we provided you the high level in terms of how we're carrying liquidity to both, to support the growth and support all the results that are required. The bank standalone LCR is 126% on a combined basis, which was 116% last quarter, 126% now, on a combined basis, Pro-forma combined, a little more than 120% after accounting for what is required for CRR and so on. So yes, quite comfortable with the position there to meet the regulatory requirements.

Mahruk Adajania: Okay. Thank you so much.

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

Kunal Shah: Yes, thanks for taking the question. So firstly, on the retail deposit side, so last time it was quite encouraging of INR1 trillion. And we have highlighted that on a quarterly basis, we would want to add that kind of a number. Obviously, Q1 has some kind of a seasonality. But given the capacities which are being built and the investment in franchise which is being done, what is the average kind of a retail deposit accretion which we can see over next six to eight-odd quarters?

Srinivasan Vaidyanathan: See Kunal, what we feel, we don't give one forward looking statement, but at least I want to indicate what we have previously said, which is yes, we have built capacities to be at that kind of a level and that is where, that is when you look at it over a period of time, yes, there has been a quarter where it is lower. Again, there are seasonality, it is low, because there are times in this April to June quarter, where typically it is low because people are away, customers are away, schools are out, many things happen in this quarter. And, but our goal and our drive is to be at that kind of a level that we previously indicated, and this will come back up and where we try to drive that forward.

Kunal Shah: Okay, so INR1 trillion was the indication, so we should drive that back to INR1 trillion-odd level?

Srinivasan Vaidyanathan: Yes, thereabouts, that's what we had indicated that that's the level at which we'd like to operate.

Kunal Shah: Sure, and in terms of credit growth, what you highlighted 17% to 18-odd percent, that is again, maybe not taking into effect IBPC. So is that a fair, or maybe this 13%, which is there post IBPC is what you are indicating to be like 17% to 18-odd percent sustainable one?

Srinivasan Vaidyanathan: See, IBPC is typically a very transient book. And transient means it comes in, it goes out and comes in back in. IBPC is not a full sale. You manage it quarter-to-quarter. There are a few objectives that we achieve from a priority sector obligations point of view, or from a liquidity point of view, there are several considerations that go into doing that. But when we think about the loan, 17%, 18% are historical that we have done, 2.3x, 2.4x, doubling every four years to five years, it is on a total basis.

Kunal Shah: So when do we actually expect this number to moderate? Maybe obviously this will move out, it's a transient one, but what is the kind of number which we can look at in terms of the IBPC because that also breaks at least the overall balance sheet number?

Srinivasan Vaidyanathan: We don't have a target for IBPC, it is opportunistic. And as I told you, the purpose, not only opportunistic from a balance sheet point of view and the market demand, but there was also a good amount of demand in the market. There are certain other institutions, which are wanting to put assets on. And we get a good price, we pass it on. And second thing is that if there are, when we look at the priority sector requirements and our ability to what we need to do, and if it's an opportunity to let that go with somebody else, that is also something. So there is no particular target we have. It completely depends on, it is opportunistic, it depends on what the market is on pricing and priority sector pricing opportunities.

Kunal Shah: Sure. And one last question in terms of any integration cost that would be incurred once there is a merger or there is no integration cost?

Srinivasan Vaidyanathan: No, there will be integration cost in the form of stamp duties and in the form of certain other costs that we will have. But they are, as we said, within reason, nothing substantial, but within reason it will be. We will call that out separately after we complete it.

Kunal Shah: Okay, but that's not a meaningful one, which will…

Srinivasan Vaidyanathan: It's not a big mover of the overall financials.

Kunal Shah: Thanks. Okay, thanks a lot and all the best.

Srinivasan Vaidyanathan: Thank you.

Moderator: Thank you. We have the next question from the line of Saurabh Kumar from JPMorgan. Please go ahead.

Saurabh Kumar: Hi, good evening, Srini. Just two questions. One is on deposit re-pricing. So this quarter, quarter-on-quarter, your interest costs are up quite sharply, 15%. So can you help us understand where you are in terms of your term deposit rates on balance sheet versus incremental?

And the second is -- basically on this, on the HDFC mortgage book. So fair to assume that in six months, this book completely moves out, moves into EBLR? These are two ones, thank you.

Srinivasan Vaidyanathan: So second question I didn't understand. Mortgage book, what is this?

Saurabh Kumar: This will all be repo-linked now. This is all EBLR-linked and HDFC Limited.

Srinivasan Vaidyanathan: Okay, I got the question now. Okay. First, the deposit pricing, yes, if you look at the deposit pricing over a period of time, the SA deposits haven't moved, as you know, not just for us, in the entire market it is what it is. It is the time deposit. Our deposit cost that you're seeing is simply a function of the mix that has happened, which is rightfully we are targeting to get the holistic customer relationship or deeper customer engagement. That is why the time deposit, last year grew 29%. This quarter grew 26.5%-time deposit. So it's a function.

So then the next question is, is growing this time deposit at what rate? It is a market rate. If you look at our deposit pricing, it is more or less at or slightly below some of the competitors' pricing level. So, we are not pricing to gain any deposits. We are trying to price it at or slightly below competitor's level, we want that engagement. So we're not shy of that, that it is a cost, but because it gives better engagement and it gives a little more duration on deposits and we are okay with that. So that's how you think about, it is not a lead pricing to get deposits, that's not what we are after.

If you see any table at any point in time when you refer, across various tenors, that's what you will see that. And of course, we have pitched slightly above state bank for most of the tenors except for some short end where I think state bank could be priced higher for whatever reason.

But other than that, more or less in the private sector side, the top two or three or four banks were more or less there on pricing.

On the mortgages you asked about the EBLR, yes, it will move to repo-based pricing. But when it starts off, it starts off with no difference to the customer. Because at the end of the day, customer is whatever is the benchmark in which you do, even today, yesterday, or last year, the customer had a choice to finance anywhere the customer wants. So the price is to be pitched at a level, which is again like the time deposit that I spoke about, competitively priced, and with some differentiator in terms of engagement and better relationship with the customer that is how we are approaching it. So yes, it will move to EBLR repo-based loans.

Saurabh Kumar: Why I ask this is, basically in future, will HDFC's NIMs will have slightly higher volatility than what it had in past, because now you have a large, potentially, external benchmarking focus. We'll just try to manage things through cycles.

Srinivasan Vaidyanathan: Okay, Yes. See, if you look at how HDFC Limited managers managed, and that is the same book that we are taking over along with the same people and with a similar kind of a risk, philosophy and structure, the margins were moving in a narrow band. It was moving in a narrow band because from a duration point of view, they were fairly hedged on the duration from an interest rate risk.

That is why when the repo rates went up, you did not see an HDFC Limited spread or the NIM jumping out of page. Because the risk management was keeping it in a very narrow band. So in the up cycle or down cycle, it's a narrow change that will happen, but cannot go off. That's part of how the duration is managed. And that will be how it will continue to be managed that way.

Saurabh Kumar: Got it, thank you, Srini.

Srinivasan Vaidyanathan: Thank you.

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

Rahul Jain: Yes. Hi. Good evening, Srini.

Srinivasan Vaidyanathan: Good evening.

Rahul Jain: So just a first question going back to one of your statements that, you're sort of making use of declining credit cost in investing in capacity build-up. So how long can this trend continues? We've seen structural decline in credit cost so far along. Is there any more leg room available out there to bring the credit cost down from here, or how do you see that play out?

Srinivasan Vaidyanathan: Okay, it is a very good question. Thank you. There is no crystal ball when the credit reverts to mean, but there will be reversion to mean. When that reverts to mean, that is part of the risk management art. Our credit will tell us few quarters ahead of time, which is what happened, right? When we started to build those branches somewhere, November, December '21, we were looking at how our risk management was viewing, how the cycle is coming along, and then we started to get onto those branches. So March ‘22, we added a little more than 500 branches. And then from then on, we've been on that cycle of building.

So we will, our risk management will evolve and tell us in terms of how the cycle is going to turn out when. And it is nothing but it's a function of maturity. It's not about the quality of the book. The quality of the book is sound now, it was sound then, and it will be sound in times to come. It's a question of maturity cycle of the product and of the credit and when that reverse, reversion begins, that is when we start. But still, by the time the reversion begins, we are confident that we will lap the base effect comparison cycle.

That is where we want to get this through so that the base effect starts to kick-in, the maturity cycle starts to come in 18 months, 24 months, break even, and it starts to contribute to the topline and then hopefully, the reversion to meet stops. So that's the kind of process that we are going through on that. I hope it helps for you to think through how long it can.

Rahul Jain: Yes, so just to paraphrase, I think you've got sufficient degree of visibility at least for this year that current cost can keep compensating for enhanced investment and capacity build-up. You know, that's a fair understanding, right?

Srinivasan Vaidyanathan: Yes, that's a fair understanding and normally 18 months, 24 months breakeven to pay back. So if you started this in December ‘21, January ‘22, that's where we started, 18 months' time that you see and by the time the base effect is also in.

Rahul Jain: Makes sense, that's very helpful, Srini, thanks. The second is on the segmental growth. So we saw PL quarter-on-quarter growing, I think, had a pretty, slow sequential quarter, whereas home loans have picked-up. Is this because of your calibrated risk stance that PL has to slow down and the secured portfolio has to grow up, or it is just a quarterly phenomenon?

Srinivasan Vaidyanathan: It is simply a quarterly, Rahul, I think in some other place I alluded too. First quarter is typically a very slow quarter. If you look at three, five years' time period at an aggregate level on loans too, little more than mid-single digit to somewhere little, mid to low double digit, that's the kind of first quarter contribution to the full year. So it is normally slow, but we still see a good amount of underlying demand, which is there. And even as we speak, you didn't ask about this, but as we speak now as this quarter has begun and moving on, the mortgages now post-merger, what we get anecdotally from various sources within our bank, and as we see some of the logins, it has to translate into full loan disbursals.

The mortgage logins are 20% on a combined basis, 20% more than what we have seen before. So we have seen good amount of traction build up there. So it's a question of timing when it realizes into the balance sheet, but there is a good demand that is coming through.

Rahul Jain: Yes, actually, I was quite curious about personal loans in particular, because the Y-o-Y growth also for the last few quarters have been under indexing versus the broader systems PL growth. So, I was quite curious, is this more of a conscious strategy that you're not trying to grow this portfolio or gain more share or?

Srinivasan Vaidyanathan: Good, thanks for asking that. People sometimes have asked us, the market grows personal loan at 30% or 35% or whatever high 20s and so on and why we are not growing, we are at 18% or 20% or 22% kind of rate what's going on. See, that's the level at which our risk management looks at how to calibrate and get that growth across. There are opportunities to do 2x that from a growth rate point of view, but I leave that respectfully to our credit to determine at what pace because every growth gets monitored, evaluated, post the disbursals into the Bureau to see learnings are incorporated. There are several processes they follow to calibrate it and go. And I wouldn't second guess them in terms of demanding for higher growth than what they allow.

Rahul Jain: That's helpful. This one last question on the PSL and RIDF. Any incremental color? Did you have to buy any more RIDF this quarter or was it self-sufficient for the full year? Can you just throw some color around that, please?

Srinivasan Vaidyanathan: See, I wish I could tell you how much we will buy, but I want to be careful about the price in the market and not spook up or down. But at the same time, we are conscious of the requirement. We are at an aggregate level more than what is required. We always look for subcategories that we want to build. And over a long period of time, we want to be self-sufficient. That is the reason for our geographical expansion, going into deep villages and so on.

That's over a period of time, that we need to be self-sufficient ourselves. But in the short term, yes, all of those activities, which is buying PSLC, RIDF as a compensatory where we think that the price is not appropriate in the market. IBPC that provides PSL or the securitization which is the pass-through certificates that give qualifying assets. We are in addition to organically building, we are in the market for all of those all the time.

Rahul Jain: Got it. Srini, just one last question if I can squeeze-in on the merger related costs. I mean, is there going to be any one-off that we should expect, any qualitative color that you can give around, as you move to consolidate the numbers between you and HDFC Limited for the second quarter or whatever, during the year? Anything that we should be aware of?

Srinivasan Vaidyanathan: Yes, there will be some merger related cost. I think, in the previous, some time, one or two questions ago, I did hear from Kunal asking the same in terms of the merger cost. There will be, it would be something within range and manageable, the stamp duty cost and certain other costs that requires to effectuate the merger, we will be spending that, we have spent or we will be spending that, but it is all there all within reason and nothing out of the page in a big manner.

Rahul Jain: And apart from cost, there is nothing much that can spring up on account of…

Srinivasan Vaidyanathan: No. Apart from cost, there could be some capital assets that we will put in from an infrastructure point of view, and then over a period of time, it will depreciate certain assets for capacity building, but other than that, some costs will be incurred, but they are within reason and range.

Rahul Jain: Fair enough, very helpful. Thank you so much for answering the questions.

Srinivasan Vaidyanathan: Thank you.

Moderator: Thank you. We have the next question from the line of Abhishek from HSBC. Please go ahead.

Abhishek: Yes, hello. Good evening and thanks for taking my question. So Srini, the first question is on this wholesale book of INR1.1 lakh crores which you are running down, the HDFC non-individual loan book, what part of that book remains to be run down still or now is it at a steady state and you are probably looking to build from here?

Srinivasan Vaidyanathan: Okay, good point. See, it has come down 18% or so over the last 12 months. Part of the management action in terms of how as we entered into the merger, a lot of rationalization and we came down 18%. It will receive, I don't have one number where we will settle and start to grow, but that's part of how our businesses evaluate, look at those relationships because you know that in our wholesale book that we have, which is the INR4-odd lakhs or INR4 trillion, something that we have, our wholesale book, it is simply not a lending-based value proposition, it is a full relationship-based value proposition, which is lending with cash management, with the trade and FX, and with the salary accounts, and with the supply chain distribution accounts.

So it's intricately connected across all the business segments we operate. Again, here, we are evaluating all of those things, and we would like to grow this book at some point in time, but at this moment, it is getting evaluated for what is the kind of a positioning across various segments that we need to do.

Abhishek: So Srini, the reason I'm asking this is this obviously affects your headline growth, right? And there would be part of this which you may have your mark that, this is not the kind of business we want to do. So if we can get a sense of that, then we know X of that how much we can grow?

Srinivasan Vaidyanathan: It's not that we don't want to be in the business, we very much want to be in those businesses. The construction financing is very intricately connected to mortgage lending. We will be there, we will be nurturing and growing that. It's a question of evaluation and it's a question of picking-up the right kind of relationship for a broad-based across various segments diversification, then we need to go. So there is some level of that review that needs to happen.

So there is not a chance that we are thinking of that we will not be in this segment. We will be. It's like it's the auto dealer financing, which we are very, very well embedded in, very similar in the mortgage business. We have to be in the construction business to get that insight into the development. So we are able to finance the mortgage through that process, we will be there. The other book is the LRD book, LRD book we do that and the bank already grows that and we, this will add on to that and we will continue to grow on that.

So the only thing that we would not be doing is land financing types, which we will not be doing or some of the project financing that doesn't meet the regulatory requirements, we will not be. Other than that, very much part of the growth. So I don't want you to take away saying that this is a rundown book, it is not. It is a core part of the book to grow the other retail mortgage loans.

Abhishek: Right, and the part that you do want to do, the land financing and the project financing bid, does that run into let's say, north of INR10,000 crores or it's within that?

Srinivasan Vaidyanathan: See, first you take it and come, but it could be INR5,000 crores, INR10,000 crores, whatever. We are evaluating that in terms of what is it, what part of that we cannot or we shouldn't want to be there.

Abhishek: Got it. The second question, Srini, is on deposits. Now the reason or the point I'm trying to get to is your incremental deposit market share requirement is roughly 25%. And if I look at a longer period acquisition rate, you're going at 20% incremental market share. So there's still a 5% gap. Now, incrementally, would you have to raise rates? Because you've kept your rates at or below competition mostly. But now you have this incremental requirement, right? And it can't just be fulfilled through your investments in branches? So how do you think about your rates on the TD side versus let's say, or going forward, and will that lead to stickier rates on your cost of funds and therefore some more pressure on NIM? How do you think about that?

Srinivasan Vaidyanathan: Okay, Yes. Okay, Yes, no, good things. Two things alluded to. One is the market share. See, we don't drive a business targeting a market share. So I want you to get off that thought process saying that internally we are thinking of what should be the market share and drive that. No, we don't look at that at all. We look at what is our funding requirement and how do we use our building blocks to get that. So I just want you to keep in mind. So there is no particular mindset target of what we need to go there from a market share point of view.

But coming to the second aspect, which is more important, hey, if you need time deposit, what sort of a pricing? We have stated in the past, and that's how not just in the last one year to two years, but for a longer period of time, the bank has demonstrated discipline in pricing. We never lead by pricing to get any volumes, and it is simply based on relationship. And this comes by a few things, right?

We have built a brand over a period of time, we need to reach the customer, we need to be closer to the customer that is the thought process we have and not just in the last one year, two years, over a period of time if you see that's how the branch got built. We had 2,500 branches in 2013, 4,500, 4,700 branches in 2018, then went to 7,000, 7,800 and growing. The branch strategy is not something that we decided recently. We are accelerating to some extent on that, but it is about the distribution of the reach that is required, which is what we are building.

The third, once you have all this, you need to get the customers in. And we have built so far getting in 85 million customers and out of the 4 million customers from HDFC Limited, we have opportunity to operate with more than 2.5 million, 3 million of them to bring liability relationships. This quarter, we added 2.4 million new liability relationships, so you need customers. And then we work on the customers, both the new account value as we bring in customers, we get in certain balances, and then the change in balances of the existing customers, we work through engagement to see how do we deepen that to get more balances.

And one of the ways in which we have recently got a change in balances of the deposit from customers is time deposit. We have seen that our penetration has been low at 14%. We moved that needle to 14.5% right now, but the denominator has also changed. We have more customers now. So while we have grown 29% last year, 26% in the recent quarter, still it has made a difference of only 50 basis points higher from a penetration. We have a long way to go.

And if you look at the pricing, which is where you started this question, how far pricing is influenced by this, you can be any point in time, if you look at the pricing, our deposit, time deposit pricing was some of the peer benchmarks. If you see, they're pretty closely aligned. We don't lead by price. I want to leave the thought there. This is part of the ALCO discussion in terms of how we engage with the customer and how pricing is not the lead consideration for getting any deposits.

Abhishek: Got it. Thanks. And just squeezing-in one quick question on your calculation actually, so the ROA that you show in your PPT, that's 2.1%, is that calculated on quarterly average balances? Because when I calculated it comes to 1.9, so just trying to reconcile that difference?

Srinivasan Vaidyanathan: No, I don't know how you calculate daily averages, but whatever they are, but you cannot get 1.9. You send your numerator and denominator we will tell you where there is an issue.

Abhishek: Okay. I'll take it offline.

Srinivasan Vaidyanathan: Yes, please.

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

Manish Shukla: Good evening and thank you for the opportunity. Firstly, Srini, are you able to still quantify the crystallized liabilities of HDFC Limited at the time of the merger?

Srinivasan Vaidyanathan: Yes, the liabilities that get crystallized about INR6,36,000 crores is what is moved to the bank, that INR6,36,000 includes the deposits, which is on page 23 of the earnings deck that we showed. That includes the deposit, but INR6,36,000 crores is what is moved along with the assets.

Manish Shukla: Sure, that's helpful. Secondly, on the merged basis, the loan to deposit ratio is at about 109%. How and when do you think you can break it down to the 100%? Basically I'm saying that in terms of the incremental funding requirements, how do you think, you bring deposits?

Moderator: Sir, sorry to interrupt, but the line for you is not very clear. I request you to please use the handset while you're speaking.

Srinivasan Vaidyanathan: Okay, I will get to Manish. Manish, I will get to that. See, on the -- you asked about the deposits -- credit to deposit. Yes, instantly because of the merger, it goes up. On an incremental basis, if you see, last year was 72% incremental credit to deposit. This quarter is 50% something incremental deposit. But the way we think about and operate is that on a pre-merger on an average, it was 84%, 84%, 85% credit to deposit.

We are operating at about 80% or so, that is the kind of a thought process from a credit to deposit ratio. So even if we want, instantly it cannot be brought down because there is a maturity profile for the borrowing that we have. So it will take three years, four years for that to come down to a level at which the bank has historically operated. And so we have to wait for the maturity profile to go and get replaced with the deposits.

Manish Shukla: So this gap would essentially be funded via affordable housing bonds or other kind of rates, right?

Srinivasan Vaidyanathan: Because the maturity profile, it will both run down on an incremental basis is what you need to look at. And then it will play out where it comes back in three years, four years down to normal.

Manish Shukla: Got it, understood. Thank you.

Moderator: Thank you. The next question is from the line of Pranav from Bernstein. Please go ahead.

Pranav: Good evening, Srini. Thanks for the session. I will just go back to the IBPC issue, Srini. The question is, if you had, instead of going down the IBPC route, if you had kept the loans on the balance sheet, what would have been the loss in terms of numbers, is it ROA which would have been impacted, or is it your LCR, or is it your PSL management? Or in other words, what did you, or what would you have to sacrifice to report a better headline number?

Srinivasan Vaidyanathan: No, it is like this, when you do IBPC sell, in which case, which is what we have done, you have taken the loans off the balance sheet. And so the baseline for priority sector lending goes down. So you are reducing the obligations on which you need to have the directed lending at some point in time in the future. So that's something very important on that front.

Then the second thing is that from a pricing point of view, if there is some better pricing and there is a demand there, it gives you certain pick-up in the spread on that. So these are a couple of concerns, and then liquidity, of course. You get some cash and you can deploy it. You can, essentially it's leveraged again. You got the money, you can get more loans that you want, and you're able to leverage further. So that's the kind of thought process we deployed to do this.

Pranav: Perfect, thanks, Srinivas, that's very helpful.

Srinivasan Vaidyanathan: Thank you.

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

Srinivasan Vaidyanathan: Okay. Thank you, Dorwin. Thank you, all the participants, for participating. It was good and quite a dialogue that happened. Further questions, and those of you who could not complete questions or haven't had that opportunity to get on the line due to time constraints, we'll be open to having a conversation at some point in time. Please get in touch with our Investor

Relation, Bhavin or anybody else with whom you are previously connected. We'll be happy to have any dialogue. Thank you, bye-bye.

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