



HDFC Bank Limited
Q1 FY25 Earnings Conference Call
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Moderator: Ladies and gentlemen good day and welcome to HDFC Bank Limited Q1 FY25 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 from the management. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Srinivasan Vaidyanathan: Thank you, Neerav. Good evening and a warm welcome to all the participants. We have Sashi Jagdishan, our MD and CEO, with us today. Without much ado, I'll hand it off to him to get the meeting started and then we'll take it from there. Sashi, over to you, please.

Sashidhar Jagdishan: Thank you Srini and good evening to all of you. Yes, sort of engaging with you all after a quarter, I just wanted to recap some of the guidance that we have been giving in the past couple of quarters. One of the things that we have been mentioning is that we would like to desist from providing any guidance of any form as it is providing a distraction from our long-term objective. So we would like to stay focused. This is a period of transition post-merger, but we are to stay focused and ensure stability of some of the key metrics and achieve some of the objectives in the medium to long term.

I know that the most important part of our strategy is deposits. And are we happy with the kind of numbers that have come about? Not really. It has fallen short of our expectations. But frankly, if you see, this is not something new. There is a seasonality in the system and the bank has been tracking this seasonality being a large player in the system. Our net accretion to deposits normally is in the range that is similar to what is there in the system.

But this time around obviously, we were a little bit surprised on the period-end numbers because of some unexpected flows in the current accounts, which was more than what we had anticipated. Of course, I would like to recap to all of you that we did sort of give you a heads-up during the earnings call of the fourth quarter, that we did sort of see a lot more unanticipated transitory flows in the current accounts if you recall, and that is what has gone out.

So, a combination of this larger outflow, because we do have relatively higher share of the market in current account, and so as the balance sheet has been growing, the velocity of inflows and outflows have also been increasing in current accounts, which is the nature of the beast, because for us, a high economic activity in the current accounts is a sign of good -- is how we will achieve larger transactional balances in the current account balances.

But on a period end, you will see this kind of a high velocity. So a combination of outflows in current accounts and a combination of at least Rs.160 billion of an erstwhile HDFC non-retail deposits, which ran down, has given us a very tepid kind of a net attrition on a period-end basis.

Now if you have noticed, you may be surprised that we have started to even disclose in our investor decks, which probably you may have access to, on average deposits as well. You may be wondering why have we done that. And let me be honest as to why we have done it. It's not something to tell you that, okay, this is not so -- the period end is not good, so try and show something which is very good, not really.

I think this is messaging not just for the investor fraternity, but also to my people at large, because we've realized that we want our ground-level teams in our large distribution footprint to focus on basics on the ground level on a day-to-day basis.

Focusing on certain period-end numbers is leading to some unintended performance-related pressures, which we want to avoid. And that is the reason why we want to converge or align our internal and external metrics, so that there is no unintended pressure that builds up in the ecosystem.

If you've seen the numbers and once you digest the average numbers on a quarterly basis, which we have given from quarter 1 of FY '22 to quarter 1 of FY '25, that will give you a reasonable amount of comfort that there is a steady build up, a secular trend, an upward trend in the momentum. Of course, there is some seasonality in some of the quarters, but that's fine. But largely, the secular trend is visible, and that's what we want to focus on.

So much as all of us are used to looking at the period-end numbers, I think looking at a longer trend on the averages seems to suggest that the resiliency of the organization is intact, and it will continue to be so even in the future.

I have mentioned in the annual report recently, which is released to the world at large that we will be growing slower in our advances as against our deposit growth. This is not something new. If you've seen our track record over a long period of time, this is something that has been there.

Probably in the last couple of external forums or the public forums that we have come on, we did sort of affirm that our focus is going to be on profitable growth and not just on growth. And yes, in the bargain, it is in our interest to bring down the loan-deposit ratios much faster than what one would have anticipated. It is in our interest, and I'll explain that to you probably when one of you ask questions.

If you see the track record right from the time we merged on 1st July 2023, there was a starting pro forma financial, the day 1 financial as one calls it, and probably this is also there and visible to each one of you in an investor deck. If you look at some of the key metrics, whether it's the NIMs, whether it is the CASA ratios, whether it is the cost-to-income, whether it's the GNPA, from that starting point to 30th June 2024, it's been rather stable, and range bound. For example, the NIMs have been in the range of 3.4% to 3.5% with an increasing bias. The CASA ratio has been in the range of 36% to 38%. The cost-to-income has been in the range of 40% to 41% with a decreasing bias. The GNPA has been in the range of 1.2% to 1.4%.

And if you exclude the seasonality of agri, in fact, it's been on a declining trend. And the ROAs have been in the region of 1.9% to 2.1%. And as you know, it may be -- this is not a new number

or new metric that we have encountered. We have seen, for a long period of time, this number of 1.9% in the pre-merger levels as well.

So what does it mean? The fact that we have maintained stability means that the inherent resilience in the organization is intact. So it's a period -- despite the kind of changed environment in terms of liquidity, in terms of competitive intensity, in terms of the -- our so-called urge to slow down our loans so that we can get down the CD ratio, the loan deposit ratio faster than what we had anticipated, despite that, I think we are maintaining stability in some of the key metrics. I think that's something that I just wanted to reiterate and want you to sort of appreciate.

I guess, these were some of the things that we wanted to mention as a top-of-the-mind recall. I think we'd be happy to sort of take questions from any one of you. Over to you.

Srinivasan Vaidyanathan: Okay. Thank you, Sashi, for the opening remarks. Neerav, with that, we can open it up for questions. I do want to draw all the participants' attention that if you do need to refer to the deck, it's on the website. You can refer to it if you need to at any time. Neerav, you can please prepare the queue and open it up for questions.

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

Mahrukh Adajania: Sashi, my first question is on LDR. So when you say you wanted to, or possibly LDRs could come down faster than anticipated, all the large private banks -- of course, one is at above 90%, but most of them are on an average of 83% to 87%. So is that kind of an LDR you are hinting at and over what time frame? Because that really sets things very clearly, right, in terms of what loan growth to anticipate.

And also in terms of loan growth, right, now if you see other than CVs, most of retail and most other segments have grown below 2% Q-o-Q. I don't understand the first quarter seasonality. But if you wish to have focus on profitability over growth and growth remains kind of weakish relative to your historical trends, would it be very easy to then regain market share once you think your balance sheet has cost corrected, right? Because you're possibly giving up share. You can do much better on growth, but obviously, we know the constraints on deposits. So that's my question on HDFC Bank. And if you could explain the high provisioning on HDB Financial as well?

Sashidhar Jagdishan: Okay. Thank you, Mahrukh. Number one is we don't have or rather, if at all, you're expecting that, is there a prescription from anybody, including the regulator, whether there is a prescription for a loan deposit ratio, not at all. As I mentioned, it is in our interest to have a glide path.

Two, you're absolutely right, it's -- theoretically, I would love to do this in 1 year. But is it feasible? Is it practical when you have an objective of a profitable growth? Absolutely. You're absolutely right that it's not something that I can do -- where I can just drop it in one go and then be done with this, et cetera. It's not practical.

Now let's go segment by segment. We have a machinery. There is a lot of buoyancy there, whether -- you know this much better that funding or providing financing or loans to customers,

whether it's the retail segment, whether it is the MSME segment, whether it is the corporate segment is actually a feeder for us in terms of the primary banking and hence, liabilities as well. So there is an optimal level that you can work with. You cannot drop the levels.

So therefore, this is a play that we have to manage very gingerly. The reality is there is a tight liquidity environment. There is, as I mentioned to you and if you really look at the averages, the EOP period numbers are not a reflection of what is the underlying resiliency, in fact, of deposits. In reality, the deposit momentum, when you look at it, maybe at some point in time, Srinu will explain that, the gross inflows across the multiple products and deposits have actually been increasing. It's a very healthy trend.

And as I mentioned to you, one of the things that we do not have some control is the velocity of the flows in the current accounts and which is what has created this kind of a little bit of -- it unsettles you, it unsettles us in terms of a number on a particular date. It has never happened before. Of course, there may be some instances where it has happened before-- -- all of you rightfully so are seeing a little bit of a disappointment there.

But when you look at the averages, which I'm sure you will compute, it's rather pretty steady over a longish period of time -- and even on the advances side, what has happened in quarter 1 is not a reflection of what we plan to do. This is a kind of an adjustment that has happened. It's a matter of time that you would see in the next 3 quarters, what we do.

Our relationship, since you spoke about market share, you spoke about relationships, we are very clear. We have one of the best relationships in the corporate side. Even though you are seeing a little bit of a negative growth, it's just -- we have high amounts of already great penetration levels to the best set of corporates in the country. What we are losing is transactional business consciously because it's not meeting our pricing thresholds.

We are all right to do so because we -- maybe this is the best time for us to adjust our mix, which is what you're seeing a bit of a flavour in this particular quarter. We want to continue this kind of a mix change over a longer period of time. Of course, it cannot be forever. There will be -- during this period of adjustment, we may have to do it for some time before it sort of normalizes.

But having said that, I don't have a specific number because then it will sort of bring in a fair amount of pressure on the system. We have an internal benchmark for ourselves as to what we need to do. As I said, neither have we received any regulatory prescription. But at the same time, the thought processes can be, to the best of our ability, try and get this done as quickly as possible and still maintain the objectives of profitable growth.

So all I can say is that it's best that you see what we do in the next 3 or 4 quarters. And yes, when I relate this number that what we are planning, I'm relating into what we were probably thinking of at the time of announcement of the merger. Obviously, things have changed. And we realized that maybe as you alluded to a lot of other-- there has been literature, which has been spelt out in the monetary policy literature on credit deposit ratio. So we are very cognizant of the risks that are there in the system. And instead of being nudged on that, we want to do it ourselves because it makes the most economic sense to bring it as quickly as possible.

Srinivasan Vaidyanathan: Two more things that you alluded to that I can describe is that the activity at the various distribution points, we did add 2.2 million new customer relationships in the quarter. So last quarter was very similar. So from that sense, the pace at which the ground teams are operating is quite strong. So we do get the new account value. It is those existing customers or the transactional balances in the current account where I've seen that outflow.

Now coming to the other aspect that Sashi alluded to in terms of the inflows. We measure inflows monthly to see what are the credits coming into various customers' accounts at individual, aggregate, branch level and so on. When we look at the inflows that come and compare those inflows that are coming to the similar time period last year, the monthly inflows are up over 20%.

So we do see enormous traction happening in the accounts, which means the credit flows that are coming, cash that is coming in, when I say cash, I mean funds that are coming in, is of a good order. It gets deployed in various means. But again, this is across current account, savings account, across all of these and the salaries, so when I say savings that include the salary account that we have, is gaining good traction from inflows that come at aggregate level. And then one other point she had was about the HDB credit cost.

Srinivasan Vaidyanathan: HDB credit costs. Okay. The GNPA ratio remained flat at 1.9%. The Stage 3 has remained flat. The credit costs have been higher because seasonally, again, various reasons you can attribute to various reaching ability during this quarter has been hampered a bit due to -- they are far more distributed into the interlands than we are. The heatwave issues and the electoral preoccupation at various levels, so there is a seasonality that was there. So the early flows have caused the provisions to be higher, but the NPAs remained stable. So the sudden flow into that NPA bucket is limited, but the early -- they have to do more on that. That's where that is.

Moderator: Next question is from the line of Chintan Joshi from Autonomous.

Chintan Joshi: Sir, if I can start off with the deposit market share question, it's -- historically, you've done about 18%, 19%, if I look at the last 5, 6 years. Last year was about 12%, if my numbers are correct. And it's a much more healthier banking system, everybody is well capitalized on the front foot asset quality, risks are low. In this environment, like would you hold yourselves to taking a certain amount of incremental market share over the next 2, 3, 4 years?

Do you think like that? And if you do then, what can we expect in terms of market share? Because when you think about deposit growth, that clearly is a challenge for the system. So -- and of course, therefore, all the other banks -- all the banks will face that constraint. But in terms of market share, I would hope that HDFC can show that historical trend. So that would be one question, and then I have one more.

Srinivasan Vaidyanathan: Chintan, on the market share, if you see that -- yes, you are right that if you look at us over the last 3, 4 years, in 2020 March, we were more closer to 8%, slightly above 8%. In '24, slightly above 11%. So over a period of, say, 3, 4 years, we've got a little more than 300 basis points, out of which 50, 60 basis points came through the effect of the merger. Other than that, call it, 50, 60 basis points a year is what we have added on market share.

I do want to mention that the opportunity space to gather the market share remains. I want to remind that our distribution market share, the distribution share that we have is 6%, right? So we are little -- not exactly 2x, maybe 1.8x our distribution share is what we have from a value market share point of view. We do have about half of our branches which are in more than '10-year vintages', which are having a market share, at least 20%, 30% more than our average and then another half of the branches are lower vintages, that means in the last 5 years-or-so, which have market share far lower than the average -- so with an opportunity space as they mature to come and gain.

Yes, our objective of getting the distribution reach expanded and getting the customer onboarded is to work on getting this market share up. And we are confident that -- that's the direction in which we have previously gone and the speed at which we are going now gives us the confidence that we are in this to get further deeper on the share. And this applies across all of them. From a term deposit to the current account, Sashi did allude to current account, how we got INR540 billion in March quarter, and we did have a rundown / utilization by the customers of INR430 billion in the June quarter.

Despite all of that, we are the largest current account bank, right? We are the largest current account -- Current account constitutes currently, 11% of our total deposit stack. In March, it was about 14%. So yes, it moves around that. Despite that, we are the largest between the current account or the term deposit and so on.

Bhavin Lakhpatwala: And Chintan, just to clarify, right, you mentioned that our incremental market share was around 12%. I think it's a bit higher, and there's a different way to compute it, but 12 doesn't seem to come to our maths anyway.

Chintan Joshi: Understood. I was looking at the flows, but we can talk about that offline. The other question I had was in terms of -- a couple of detailed questions. So what is your current shortfall in the category ex PSLCs? And were there any -- was there any impact on the NII from reclassification of investments?

Bhavin Lakhpatwala: Can you repeat the last bit?

Chintan Joshi: So was there any impact on NII from reclassification of investments and then the shortfall in SMF category ex PSLC?

Srinivasan Vaidyanathan: Yes. The SMF category as of March, which we have published in our report or in various disclosures, the SMF category target is, of course, the obligation is 10%. We were close to 9% in the past year. But as of June, we did not see much. We've tried to close it on as of June. And it's an ongoing number, right? It's a moving number as every quarter it changes. So that's one. Then from a reclassification, when we reclassified, the new accounting on investments got adopted, on a post-tax basis, it was slightly under INR500 crores, INR480 crores or something that has gone to general reserves.

Moderator: Next question is from the line of Suresh Ganapathy from Macquarie Capital.

Suresh Ganapathy: I have two questions. One is on the PSL itself. I mean, if I were to look at the annual report...

Moderator: Suresh, sorry to interrupt you, your voice is breaking. Can you please come in a better reception area?

Suresh Ganapathy: Okay. Sure. So if I'm looking at the last year's RIDF bonds and PSLC that you had bought, it's gone up 25%, right? I mean this is remember when your base is INR16 trillion, and it shoots up to INR24 trillion because of the last year's high base. Now are you confident that you can meet some of these obligations, especially the shortfall in the SMF and still protect your margins because it is getting a bit tougher now going ahead? So that's my first question.

And the second question is on cost itself. Now seeing 3 or 4 quarters into the merger, cost has been broadly very range bound at 40% to 41%. I remember, Sashi, you giving a target, I know this was pre-target – pre, those days when you used to give target that longer term, you want to take it down to 30%. Are you very confident that you are well on that path considering there are so many pulls and pressures now in the system? I'll stop there.

Bhavin Lakhpatwala: Suresh, on the PSCL, see, the way the math works is, the RIDF is for the entire book, including what was the past shortfall. So you cannot compare the book RIDF -- the PSLC is a flow through the P&L. So the way to compute this is not to see whether the book RIDF and the PSLC divided by the balance sheet, to see whether its a growth or not, right? So it's cumulative, needs to be thought through differently, and then we'll chat offline on that one, but it's from a -- direction-wise if you see annual report as well, you'll see that year-on-year, we have become much better in terms of compliance, and that's something which we'll continue to do.

Sashidhar Jagdishan: Mr. Ganapathy, on cost to income, yes, in the medium to long term, that is the glide path that I have, and I'm reasonably sanguine that we will do. But as I said and probably if you recall, there is a period of adjustment that we have to go through, where, unfortunately, there are some long-term borrowings where I'm sure even those kinds of maturities would be there in the annual report. So we have to wait for that flip or the lift that will come in revenues as the bond matures and gets substituted by probably deposits. So we have to wait for that.

But having said that, in a period of this, as you alluded, tough economic environment, maintaining stability of the cost to earnings with a downward bias is itself, I would say, is very commendable for a large organization where we are not going to be compromising on strategic investments like distribution or technology. I'm very clear about it. So what we are trying to do is how do we juice out efficiencies out of digitization, out of better productivity.

So the intensity is now there across the organization, how we can step up that. So as I said, the proof of the pudding is in the eating. You have to be patient, wait for this particular FY '25 for you to see it for yourself as to where we land and then that will give a lot of confidence to you that, yes, we are in the trajectory of having the numbers that we had envisioned in the medium to long term.

Suresh Ganapathy: Okay. And then on this HDFC One App where you can -- not exactly elaborate where you want to really cross-sell and bring everything, every group product under one umbrella, I think, are we far away from that? Are we very much in that direction to get it executed?

Sashidhar Jagdishan: Good question. I think the first step was to ensure that the franchise, especially the home loan franchise starts to get incrementally the primary banking or the savings accounts of the home loan borrowers. And I think this has been probably -- it's in the public domain where incrementally, we are now doing what percentage of our home loan borrowers are -- taking upwards of 85%.

Now as I said, the bundling of other products such as the consumer durable loans, the credit cards, the insurance and all has commenced. That was the first one that we wanted to, but now we have commenced. The journeys from the subsidiary companies, especially the insurance is expected shortly, then probably the seamless, frictionless experience to the frontline people to cross-sell where the one-click experience will probably even enhance it even further.

Whilst we're talking about this, I must also sort of add, whilst we've not put in the public domain, -- and the reason for that is we want to have a sizable amount of success there, and then we will try and put this out, we've had a reasonable amount of success in the stock of home loans, which did not have an HDFC bank account.

I'm not sort of -- I know you will be very eager to know what that number, knowing you very well. But give us some more time, let us see the success at a substantial momentum and then we can sort of publish it. It's not going to be too long before we start to do that. But you will be surprised the kind of efforts that's going down at the ground level ever since the announcement of the merger. Obviously, this is something that even surprised me of their efforts. And when I do that, you will see that. So obviously, this is not something that can happen overnight in terms of the impact -- it gives us a lot of satisfaction as to what's happening.

Now coming to the other aspects of the subsidiary, leveraging on our distribution strength, I think you may have -- since you cover the insurance sector as well, by now, you should tell me that we have seen a fair amount of step-up in the distribution of the subsidiary, especially on AMC, especially on the general insurance, especially on life insurance, where the share of their businesses has also been stepped up reasonably well. It's not that we are favouring one. It's purely -- we continue to patronize open architecture. So it's a lot of hard work that all of them have put in together to sort of enjoy a higher distribution from our franchise.

So I think it's moving in the right direction. If anyone is expecting a magic wand, and it's going to have a dramatic progression overnight, that's not a fair expectation. But there is a positive glide path which is moving upwards, and you probably have these numbers and at some point in time, we may even call out this kind of numbers appropriately.

Moderator: Next question is from the line of Ravi Purohit from SIMPL.

Ravi Purohit: Sir, two questions. One is basically the debt reduction that we've seen in the last 2 quarters, there has been a significant drop in the borrowings, INR75,000 crores in the March quarter and about INR60,000-odd crores in the June quarter.

So this basically is helping us kind of deleverage the book. But can you just help us understand what is the -- I think in the annual report, you've mentioned that about 15% of the HDFC borrowing book is due to kind of mature every year for the next 3 years. So if you could just

kind of -- because last 2 quarters, we've seen this big drop in borrowings. So if you could just kind of help us understand the path where these borrowings are getting repaid?

And second question was on the deposit side. There was a fair bit of amount which HDFC Limited used to have, and a lot of corporates used to have deposits with them. So is it fair to say that a lot of those deposits kind of vanished the minute the merger happened? And therefore, what we are seeing in terms of deposit accretion within the system is actually -- there is a large part which got taken out which were slightly larger size of corporate deposit share. So if you could just kind of give us some sense of where this thing has moved between then and now?

Srinivasan Vaidyanathan: Okay. Ravi, your thought process and assumption is correct that on the eHDFC Limited deposits that came, INR1.5 trillion, certain components of that were corporates or trusts or certain institutions, which have been pricey, and you saw that over the last 3 quarters. In the December quarter, we alluded to, to some extent; in March, we did; and even in this quarter, we gave you even the number in one of those other questions, INR160 billion that went down in the term deposits. They are of the right order, and we prefer a much more retail branch-driven and if these are rate sensitive or if the other participants in the market pay a higher price to take it, that's fine. So that is one on the deposits that you asked. Even if something more needs to go, it will go because we will not be bidding for a higher and higher price to keep larger ticket-size deposits with us.

Secondly, the question you asked on the borrowing, yes, in the quarter, we did take down close to INR60,000-odd crores or INR600 billion of borrowings down. About INR150 billion was commercial papers - which matured, and we had to run it down anyway - banks don't do that. And so when the maturity came, it went out and we had enough to pay that down.

And the second thing is that of the balance borrowings, roughly half and half. Part of them -- of it was maturity, which we paid down and part of it was we had an opportunity space to pay it down, which we did, which is what even in the abridged balance sheet that we have published, you would see that it is -- borrowings are down by close to INR600 billion, that's -- this is most of that.

Ravi Purohit: So can we sustain this run rate? Or would a bulk of that have already been kind of done for the year?

Srinivasan Vaidyanathan: There is some maturity profile for the year, which we have published. For the year, I think the maturity profile is about INR650 billion for the year. That is scheduled maturity, INR600 billion for the year, out of which maybe INR250 billion were maturing that got paid in June quarter.

And we did pay -- on top of that maturity, we did do certain other payments. We exercised certain options to do that, certain other borrowings we did. And -- so more to come in the year. That's part of what we published in the annual report, the profile -- over the next 3, 4 years -- we published the profile of maturity.

Ravi Purohit: Okay. One question for Mr. Jagdishan. Sir, at the time of the merger and subsequent to that in some of our communications, we had mentioned that the merger is likely to be EPS accretive for us on day 1, from day 1, right? Now did that have certain assumptions of -- from either the

regulator allowing us for, let's say, for infrastructure bonds or certain other classifications and those have not materialized? Or is there something else that was, in terms of, assumed and that has not played out? If you could just kind of help us understand a little bit on that, it will kind of help us appreciate what deviations have happened between then and now? Those are all my questions.

Srinivasan Vaidyanathan: Yes. Ravi, yes, at the time of merger, you know the economic conditions, including the liquidity, system liquidity and RBI's stance on the economy and the funds in the country were managed was at one state, and today, it is at a different state, right? So the conditions have changed. That's number one.

And number two, some of forbearances, for example, the forbearance on infrastructure borrowings qualifying to fund the affordable housing or on certain of the deposit category, the non-withdrawable deposits category that we took over, some of those assumptions are different. That's the second aspect.

Third aspect, I do want to draw your attention to the EPS, since you mentioned it. The EPS for the bank, June, pre-merger was 21.4 - last year June. And in this quarter, it was 21.3. So thereabouts, right, it is similar levels. And then if you look at the quarter, it's between that 21.1, 21.6, 21.7 and 21.3 and thereabouts, right, from an EPS point of view.

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

Kunal Shah: So the question is on PSL, again. When we look at it - almost like 53%, but again, that's from last year's balance sheet. But looking at it in terms of the sell-downs also, which have been there in PSL what we have disclosed in the annual report. And the overall CRB growth also being lower, is it giving an indication that we are relatively more comfortable on PSL? And then in that context, how should we look at the overall CRB growth vis-a-vis the overall loan book?

Srinivasan Vaidyanathan: Kunal, on the PSL, two aspects to keep in mind all the time, which is - there is a small and marginal farmer, a weaker section, which could have a dual qualification. If you get a small and margin former, it could have dual -- it will have dual qualification and weaker will be satisfied. So that is one category that is in greater demand. We need that. We need more of that, right? So that is something.

Other than that, you alluded to CRB. That is why I'm talking about it. That particular segment is driven largely by CRB and by non-CRB, which is agri segment, the SLI segment and various other businesses, business lines which have some linkage to agri and allied agri also bring it, but largely CRB. But however, the rest of CRB, when you think about the business banking or think about certain emerging enterprises and commercial vehicles and a lot of other categories which are also enormously PSL-driven book, it qualifies as total PSL, but we are quite comfortable. We are surplus in all of those categories.

So our focus, if you think about PSL for us, which we've always said is that our focus is how do we get as much as possible the small and marginal farmer and with the dual qualification for weaker. That is there. We are reaching out to 225,000 villages to get that reach to be there.

But even if you get in all of those small and marginal farmers, for the ticket sizes that we could offer to them, so that's what our credit will offer -- cannot be offering outsized to the land because the small and marginal farmer is having a small farm. So the credit could be only to suit that farm and not 2x, 3x, 5x that farm requirement. So that's where the constraints come from. So we need to look outside of our organic approach to see if anybody else is having what we can buy. So I hope that helps you. So you don't need to directly link to what CRB is and PSL. It is only a component of the CRB - small and marginal farmer that we are more focused on.

Kunal Shah: I was saying maybe in terms of the PSLC, are we more confident in terms of the achievement? We have been the net sellers of PSLC as well.

Srinivasan Vaidyanathan: We have a good amount of confidence to be there where it is available. It's a question of supply, right? We are there, creating the demand. We are there to buy. We are there to originate. It's a question of availability. That's where we are constrained. And last year, we managed closed enough. This quarter, we managed close enough. But future, I will not be able to talk what's available and -- but we are present. That's all.

Kunal Shah: Yes. And secondly, on the deposit side, as you mentioned, like not really, so Sashi also in the opening comments highlighted. not really happy and it has fallen short of the expectations. Earlier, we alluded in terms of the aggression on the field staff plus the expansion in the branches, that is something which will drive the deposit.

But somehow, it's not coming through. So what could be the initiatives now and would rate be ever be looked upon, okay, because we are not getting the benefit from the other two getting reflected in terms of the incremental deposit share? And similarly, when we look at the borrowings, almost like, say, 60% of the borrowings are coming up for maturity in less than 3 years. And we mentioned like we would weigh some prepayment opportunities as well. So how do we gather that deposit, sort of maybe loan growth could be much lower, yes?

Srinivasan Vaidyanathan: Kunal, the first thing is that rate is not a predominant determinate or a driver for us to have an engagement. You've seen that it can -- compare our rates, we don't get into rate competition. We are priced fairly with our peers. So rate is not something that we want to use to get or gather more deposits. So that's one. So let's get the rates out of the way. That's not something that predominantly influences us.

Having said that, it is about that engagement and service delivery, that is what we endeavour to distinguish, differentiate, get on more customers and that is the reason I alluded to, to talk about the inflows. That means the engagement and the service delivery should create more of our customer funds coming into our accounts, which is what I alluded to in another context of someone's question that when we look at the June quarter, we measure that monthly. The monthly inflow that come are in excess of 20% higher than what it was in a similar time period last year. So we see the traction gaining. It's a question of both the environment and other opportunities and the spend levels that the customers see, that balances it out. Essentially, we are there, and the opportunity is there, it is going to stick more, the probability of fixing and resting with us is far more.

Sashidhar Jagdishan: Kunal, do sort of look at the 12-quarter data that has been -- that is in front of you all and look at the quarterly momentum, that will give you a reasonable amount of confidence as to how the build-up is reasonably resilient. And there's a lot of hard work that the team is doing at the ground level. And that's a real reflection. Our earnings come out of these averages, the daily averages.

So this is -- it's -- unfortunately, historically, we have been reporting period-end numbers. But I also realize that maybe it's not the right way to reflect things where there are lots of volatility. And yes, it may -- as I again reiterate, it's a bit disappointing to see on a period end something very tepid.

But in reality, my teams have done a lot of hard work, and I want to acknowledge through this particular call to -- for them to continue the intensity of engagement and the kind of hard work that they have been putting, of course, so that there is no pressure on them on period-end numbers. They continue to work hard on a daily basis to be able to deliver the organization goals. And I'm sure, I'm very confident that my team is going to surprise all of us, including you all when we publish the full year numbers.

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

Rahul Jain: I have three, four questions. First is on the margins trajectory, right? So the governor recently talked about, again, the transmission of pricing. We are seeing massive fight going on for deposit market share and HDFC Bank has been very, very disciplined on pricing. So at any point in time, you need to relent and start increasing the deposit rates, so how do you see the scenario shape up for you all? And what will be the impact on margins because you're trying very hard to kind of maintain it or keep improving it? So in this scenario, how do you envisage profitability to shape up for you all in the coming quarters?

Srinivasan Vaidyanathan: Yes. Rahul, if you look at the -- there's one public available data is this weighted average term deposit cost. I think gets published by the -- in the regulatory website or something, you can look at it. And when we look at it and you can look at it over the last 12 months by month, you can see which every bank reports, the top of the page is what you will see the PSU bank weighted average term deposit cost going up and the 3 line graphs if you draw on top being the PSU banks, the second being the scheduled commercial banks and below that will be the HDFC bank, right?

So we have tried to remain disciplined on price as much as possible to win over the customer through engagement and service delivery. So we've not gone into this term -- in terms of the rate as such. And we hope to keep that up as we go along. Now how do we get the margin, right? Again, by the way, it is -- we have talked about it, CASA, market permitting. You know that in this quarter, the market did not permit CASA growth. We had only term deposit growth and market -- the CASA ratio through the cycle as it changes will have to move up. And that is what has happened historically and that is our confidence level, that our engagement will keep that CASA to go up.

Bringing new customers, when the customers are coming in, we are getting in with the balance of savings account balances and the cohort, the month on book of the savings account balances of the customers we bring in are behaving quite encouragingly, and we want to bring in more of

the new customers to move that up. So we keep going up on that. And we have to wait it out for the cycle to turn and customer preferences to change for the CASA mix to come favourable to us.

The second as -- and whatever the CASA mix you'll see today is impacted by about 3 percentage points or 4 percentage points due to the merger because when we came into the merger, we got the term deposits only as part of the merger. So that's the impact that has come in in addition to the market dynamics of customer preferences over the last 2 to 3 quarters. It is also the merger impact that is impacted there. I just want to leave it there and go to your next.

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

Manish Shukla: On unsecured personal loan, your growth has been sharply lower than some of the peers. What's your thought process on that segment? And how do you think that changes?

Sashidhar Jagdishan: No, that is a very conscious call. I mean, as I said, we -- our internal early systems probably pick this up rather early and obviously, they have been rather conservative. And that is the reason why we were all right and happy to sort of slow down growth. And we were -- of course, this synchronizes with what the regulator has been sort of highlighting as well. It has been contrarian to what we've seen in industry growth. And we have been contrarian not just now, but even in the past. So I guess at the right time, we will step up the pedal.

Manish Shukla: One data point, what is the share of repo-linked book as of June?

Srinivasan Vaidyanathan: Sorry?

Manish Shukla: Share of repo-linked book for you on the loan side?

Srinivasan Vaidyanathan: Share of...

Manish Shukla: Repo-linked loans.

Srinivasan Vaidyanathan: Market linked is about -- mortgages is about for total 30, 70 or so, 30 fixed and 70 is external. Mortgages will have about 27, non-mortgages is about 40, which is external, EBLR linked.

Moderator: We move on to the next participant. Next question is from the line of M.B. Mahesh from Kotak Securities.

M.B. Mahesh: Just one question on the non-interest income line. This miscellaneous income has gone up quite sharply. So just trying to understand what has driven that. And also on the fee income line, there's a slowdown, but largely the growth has come from third-party products. If you could just kind of give an explanation to that, sir?

Srinivasan Vaidyanathan: See, Mahesh, two things happened here. The third-party products is seasonal. March quarter, highest; first quarter, comes down. Miscellaneous income has got credit recoveries as well as it has got dividends from subsidiaries, that is also seasonal and more or less offsetting, right, as you see there because the third-party seasonality comes on in the first quarter and then you have the dividends coming in, and so they are offsetting. So these are the 2 items there.



- Moderator:** The next question is from the line of Sameer Bhise from JM Financial.
- Sameer Bhise:** Just wanted to ask on the HDFC Limited borrowings that you have mentioned. Is there a case for any repricing in terms of floating versus fixed for what is due for repayment over the next 3 years?
- Srinivasan Vaidyanathan:** No, a good amount of that is fixed. Two, a good amount also we have hedged. We have hedges on some of them. And where there is a floating rate, that's again subject to periodic discussion and negotiations.
- Sameer Bhise:** Okay. But you would say a large amount is fixed in nature?
- Srinivasan Vaidyanathan:** There's a combination of fixed and floating both are there. And if it is fixed, we have some hedges. If it's floating, some are negotiable and some are not. And -- so it's a combination. It's a quarter-to-quarter -- actually month-to-month review in our ALCO to see how to optimize it, what are the opportunity space that opens up. So there's no one aspect that we can think ourselves to say this is what we will do.
- Sashidhar Jagdishan:** In fact, I'm not too sure whether this data is there. But when you look at the modified duration of our assets and liabilities, the very fact that it is more or less in a very narrow band, gaps are much lower, means that what Srini is saying is what we do, and this is not something that we are doing now. We've been doing it for a long period of time to ensure that these are matched in a very narrow band. So that's one of the reasons why we are able to see the margins in a range bound, in a band of whatever that I have specified or had laid out at the beginning of the conversation.
- Srinivasan Vaidyanathan:** So that's true before the merger and true after the merger, the gaps remain very closely and tightly managed.
- Sameer Bhise:** Yes. And just one last thing on staff costs. So while there was a one-off last quarter, there is a bit of a jump even on a sequential basis for this quarter. Anything to read into it?
- Srinivasan Vaidyanathan:** No, other than a quarter-to-quarter impact because some people additions of last quarter could have been part of the quarter, coming into the full quarter, this quarter. Those kinds of changes will be there, and certain compensation changes will happen and will continue to happen as we go along. So there's nothing new other than the ex-gratia amount that was there last quarter and not this quarter. I do not know where you are seeing an increase, but that's different.
- Moderator:** Ladies and gentlemen, we have come to the end of the allotted time. I would now like to hand the conference back to Mr. Vaidyanathan for closing comments.
- Srinivasan Vaidyanathan:** Thank you to all the participants for having joined today. We appreciate your time and thanks for engaging with us. If you do have more questions, comments, suggestions, any other inputs, feel free to engage with us. Our Investor Relations team headed by Bhavin will be available any time or I will make myself available sometime, and we could engage. Thank you. Bye-bye. Have a great weekend.



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