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Ref. No. SE/2024-25/155

January 29, 2025

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

National Stock Exchange of India Limited
The Listing Department
Exchange Plaza
Bandra Kurla Complex,
Mumbai 400 051
Scrip code: HDFCBANK

Dear Sirs,

Sub: Transcript of Earnings Call for the quarter and nine-months ended December 31, 2024

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 January 22, 2025 with respect to the financial results of the Bank for the quarter and nine-months ended December 31, 2024, has been made available on the website of the Bank at the below 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
AJAY GIRIDHARILAL AGARWAL
Digitally signed by AJAY GIRIDHARILAL AGARWAL
Date: 2025.01.29 15:35:29 +05'30'

Ajay Agarwal
Company Secretary and Head – Group Oversight
Encl: a/a

"HDFC Bank Limited

Q3 FY'25 Earnings Conference Call"

January 22, 2025

MANAGEMENT: MR. SASHIDHAR JAGDISHAN – CHIEF EXECUTIVE OFFICER – HDFC BANK LIMITED
MR. SRINIVASAN VAIDYANATHAN – CHIEF FINANCIAL OFFICER – HDFC BANK LIMITED
MR. BHAVIN LAKHPATWALA – SENIOR EXECUTIVE VICE PRESIDENT – HDFC BANK LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to HDFC Bank Limited Q3 FY'25 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touch-down 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, Mr. Vaidyanathan.

Srinivasan Vaidyanathan: Okay. Thank you, Neerav. Good evening to all. Thanks for participating and coming in today. I will kick it off. I'll request our CEO, Mr. Sashi Jagdishan, to get started and give some opening remarks, then we will go straight to any questions that you all have. We can go into that. Sashi, over to you, please.

Sashidhar Jagdishan: Thank you, Srini, and thank you all for joining on this call on a Wednesday evening. We just declared our results. And obviously, as you probably know much better than all of us put together, we are in the midst of a very challenging macro environment, with tight liquidity conditions, signs of moderating urban demand, a tepid private capital expenditure programs, volatility and depreciation of the Indian rupee, capital outflows from equity and debt markets due to uncertainty around the new U.S. administration. However, we also see some drivers of growth or some positive signs as well.

We are seeing some amount of rural demand picking up. The government spending is picking up after a slow momentum in the H1, the first half of the year. We see continued strength in services exports and a gradual moderation in inflation.

Coming to the bank, we seem to be progressing well in our journey to normalize our credit deposit ratio with the deposit growth outpacing our loan growth. We have seen robust growth in our average deposits at about 15%, which continued to gain market share. And our AUM advances growth of 8% year-on-year basis.

We have delivered a strong deposit growth despite the challenging macro environment. As probably you would know, on an average basis, I think, we saw a very near neutral liquidity in quarter 3 with a peak negative of around the INR2 trillion to INR2.5 trillion. NIMs have remained reasonably range-bound and stable despite the headwinds from tight liquidity, leading to a tight pricing environment.

We continue to add distribution. I think, over a year-on-year period, on a 12-month period, we've added about over 1,000-odd branches. But we have been able to maintain a very tight leash on the cost. Our cost growth has grown 7% year-on-year, which means that we have gained some amount of productivity gains there. But the most important part, which is something that we've always maintained, is our credit USP.

All our credit parameters, be it the slippages, be it the gross NPA, be it credit costs, ex of some of the cyclical patterns in the agri sector, have been reasonably resilient and stable, and which is something which sort of shows the strength of institution, not just now, but for a long time that we have been in this business.

Going into the future, we are robustly positioned. We have been growing in a very balanced manner in line with what we had committed to ourselves and to the world at large in terms of the glide path on the CD ratio or the kind of growth levels that we are anticipating. As we speak, we have sufficient liquidity. We continue to grow our deposits faster than the system, we have sufficient capital, allowing us to be very comfortable to grow or capture market share in the loans when macro turns favour.

I know all of you would have a lot more questions. So, let me pause out here, and let us take questions from all of you. Thank you.

Srinivasan Vaidyanathan: Thank you, Sashi. So Neerav, we can kindly open it up, and we can go straight to questions, please.

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

Mahrukh Adajania: Congratulations. First of all, can you give as much color as possible on how you met PSL on e-HDFC's book because your opex does not seem to have increased. And then there doesn't seem to be much RIDF for previous shortfalls, either. So just as much color as you could give on PSL. That's the first question. And the second question is that if you could separately call out the TCR excluding agri loans, and if there was any tax refund in other income, other interest income? These are my questions.

Srinivasan Vaidyanathan: Okay. Thank you, Mahrukh. First thing on the priority sector. Our priority sector is last year or as we see now, at the aggregate level, we meet the target, 40-plus percent. The only area last year and as we speak now, we see is that small and marginal farmer and the weaker section. There are dual qualifications between them, but that's normally about a percentage points we always look for opportunities.

And yes, between there are several products that go for getting that. One is organically grow on balance sheet book. That's one. We do IBPC to buy certain book or PTC's investment book, we buy. We also buy PSLC in the market. So, it is not just opex. The cost of PSL is embedded within our overall ROA structure now and in the past, and it can straddle across various lines.

If you originate, you end up with certain credit costs. That's part of how you price it in. If you buy it, you get it in PSLC. If you buy it through investments, you're getting it through investment book, or if you get it through a loan purchase, you get it through loans. So, it can straddle everywhere. But yes, we do look for always, we do need to find that last percentage in the SMF and agri has always been in the past elusive and as we see now, but we vehemently pursuing at the right price to get that. That's part of the first question. We...

Mahrukh Adajania: Sir, just one thing, sorry, one clarification. So, this time around, there was not much PSLC. Is that a fair assumption?

Srinivasan Vaidyanathan: No, there's not much. There's not much. Yes, but the year is still not over. And so, as the year progresses, we'll have to see where it ends.

Okay. The second aspect is the PCR that you touched upon. The overall PCR, you can see, is about 68%. And you know that the slippages were impacted by agri, which is the seasonal agri. Excluding the seasonal agri, the slippages are flat period-to-period. And so, they are, since they are in the early buckets, the PCR, excluding agri, is at 71%, which is same as what it was in the prior quarter. That's the PCR.

The third aspect of it is the tax refunds or whatever. Yes, every quarter, we get something. This quarter is about INR2 billion. Last quarter was about INR0.5 billion or something. And so, every quarter, there is something that comes. And the agri reversals, the interest reversals on agri also go, but that goes to the loans part of the interest on loans. Yes, correct. That is a separate item, yes.

Mahrukh Adajania: But what is the agri reversal?

Srinivasan Vaidyanathan: So that's again for the NPA, relating to NPA. Now you reverse the interest once an account goes to NPA. And typically, the agri interest reversal is about 1-year interest that you reverse.

Mahrukh Adajania: Okay sir, thank you.

Moderator: The next question is from the line of Chintan Joshi from Autonomous. Please go ahead.

Chintan Joshi: I've got one on liquidity and then one on your contingent provisions. So, on liquidity, if I think about the last 2 quarters on average, on average balances, you've added about INR1.2 trillion, INR1.3 trillion of excess deposits over loans, and borrowings are only down about INR250 billion. That excess liquidity that you have on balance sheet, at what yield have you parked that liquidity, if you can share that with us?

And also, what is the weighted average cost of borrowing that is maturing over the next 2 years? Just trying to understand what the funding synergies will look like over the next 12 to 18 months. And then on contingent provisions, the question is, what is the process of releasing that contingent provision? You released INR3 billion. You obviously have a lot on your balance sheet. Will you be using these provisions to buffer the P&L volatility? And do you kind of need to go to RBI to be able to use this? Or you can use those with your own discretion?

Srinivasan Vaidyanathan: Okay. Okay. Thank you. First on the liquidity. If you look at our abridged balance sheet, you'll see that sequential quarter, the investments net of cash and cash equivalent is up by about INR500 billion or INR50,000-odd crores, right? It's up. And it gets invested by treasury through various instruments. And the earnings on that can range anywhere between 6.5%, 7%, and it depends on where it lies.

But to give you a context, you wanted know at what rate we invest. But I'll tell you, the G-Sec, the 10-year G-Sec, sub 7%, right? So, you get an idea of where those investments can go. And there are several instruments that we choose to be there. So, it's period-to-period, it changes and gets calibrated by our treasury. And as much as possible, they will optimize what could be done within the overall liquidity scenario. That's on the liquidity front.

Chintan Joshi: And the borrowing cost?

Srinivasan Vaidyanathan: The second aspect on the...

Chintan Joshi: What's the borrowing...

Srinivasan Vaidyanathan: The borrowing cost is about 7% -- 8% or so is the borrowing cost that we have had, particularly the borrowings that have come from HDFC Limited come with those kinds of costs, right, 7.98% or so. That includes the cost of the hedges and so on, fully loaded cost, it comes to about 8% or so on the borrowing. And yes, we do optimize. It's a good point that we touched and linked it to borrowing.

As part of the treasury management, we do as much as possible link to see what are the opportunities out on the borrowing. There's a maturity profile that you asked for the next 18 months. I think we published some of the maturity profile, which is there. In the annual report, it is there.

But in addition to that, I do want to say, opportunistically, we do look at things that we can do. For example, in this quarter, we did buy, call it, INR44 billion or INR4,400 crores of bonds and extinguished. That's part of the ongoing process, especially it manages and optimizes whatever is possible, and we mix and match and do these things. So, I hope that gives you an idea of continuously and dynamically, it gets managed by our treasury.

Getting to the contingent provision as such. Yes, I mean, there are signs around the contingent provision. There is a process across various portfolio classes that we employ in terms of what we do and how we assess certain things. If they are NPA, they are part of specific, right? If it's not an NPA, it's not in the contingent at all. Contingent is not something that we foresee, but contingent upon certain event, it can happen or not happen. And we assign various probabilities, and we make certain judgment calls.

And there is some process around it, the document process we follow. So certainly, this is not something that is at a discretionary level.

Chintan Joshi: So, you released a little bit of contingent provision this quarter. I was trying to understand what led to that release?

Srinivasan Vaidyanathan: Okay. Good part. Current quarter, there's a large wholesale account, which is performing wholesale account, which means they're not an NPA, performing account, which we had tagged that for contingent provision because our credit risk assessment showed that vulnerability. So, we provided -- and in this quarter, we received money, we collected cash, and so the contingent was not required. We recovered.

Chintan Joshi: Okay. So, we should read that as recoveries rather than -- okay, fine. That answers the question.

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

Kunal Shah: Yes. So, the first question, again, in terms of the overall provisioning coverage, specific provisioning coverage. No doubt you indicated in terms of on agri, it's been flat on a quarter-on-quarter basis. But otherwise, the trajectory has been downward. So maybe, have we reached the optimal level? Or should we see further, maybe, at least, managing the provisioning coverage slightly lower considering the behaviour of the portfolio that we have? So how should we look at that entire trend because last 5 quarters, it's been coming off?

Srinivasan Vaidyanathan: Yes. See, the provision coverage ratio is a mix of various products that go in and go out, right? And as you know that when something enters 90, there is some level of provision we do. And as they progress through the delinquent buckets, it gets covered. And so, it depends on the mix of products that come and go.

So, in this quarter, if you saw the agri product come and go, it's secured. And again, the mix of secured, unsecured is very relevant in the overall situation, right? And so now you had an agri coming in, we'll have certain level of provision. That is why ex-agri, the provision coverage is 71%. And with the way that it is reported, it is 68%. And the vintage of the NPA also matters, right, the newer vintage versus the older vintage and so on.

Kunal Shah: Okay. Got it. So maybe if we assume that maybe the stress level remains, we are able to manage it well, then should it be managed at the current level? Or we will see the further decline out there because of this movement, which happened in the NPL?

Srinivasan Vaidyanathan: See, there is no one particular formula or whatever, right? It depends on the mix of products, secured, unsecured that come in and go out. And so thereby, the provision coverage moves in or out.

Bhavin Lakhpatwala : So Kunal, there's no discretion or judgment from a retail standpoint. It's a product program. It's a mix of the product and the stage of NPA, which will define. It is not necessarily some judgmental call that we take on a quarterly basis.

Kunal Shah: Sure. And overall, if you can share in terms of the 100% provisioning policy for the unsecured portfolio, when does that kick in and the write-off policy? And any stress in any of the segments? Maybe the overall ex of agri slippages were almost flat in the absolute term. But any segments, which is worrying you? We are seeing a few of the players talking about stress evolving in some of the other segments as well. Anything that is worrying you at this point in time?

Srinivasan Vaidyanathan: So okay. So, 2 aspects of it. One, in terms of the write-off unsecured and so on. The product program in the retail area, each product program is different in terms of what it is, but we touched upon the unsecured. Unsecured gets written off at 150, which means if an account is not recoverable at 90, there is a very quick P&L take on that, right? So suddenly, you'll see that we hit to 100% provision and then it gets out, right?

So that's something very important to note that if you're not able to collect within 90, there is a huge acceleration in terms of the provisioning that happens there. So that's in terms of a couple of unsecured that's there. And each secured will have another kind of 150, 180 and so on. But then this is the kind of a process, again, part of the product program, formulae determined.

The second aspect that I touched upon is the quality of the overall book. The quality of the overall book across segments continues to remain stable, which is the retail, the retail unsecured, secured or in the CRB book, the SME book or the SLI book or whatever or the wholesale book for that matter, pretty stable across all of those segments as we see.

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

Suresh Ganapathy: There are 2 questions. One is on the HDB Financials credit costs having gone up quite sharply Q-o-Q from 1.8% to 2.5%. Can you just give us some color what has contributed to this rise, both whether it is secured, unsecured? So just a little bit color on that. And the second thing is on merger synergies itself, right? So, the merger happened on July 1 of last year. If I were to take a snapshot of that point in time, your margins were at 3.4% and cost ratio was 40, 40.5. 18 months down the line, the numbers are still the same. So, nothing has changed with respect to margins or opex.

Now when can we start seeing some of these numbers happening? Because it's 18 months already into the merger. When can we see the margins improve, the cost ratios coming down? Any color on that would be great. Not exactly I'm asking for the immediate guidance, but it's 18 months into the merger, so we thought we should see something on these 2 ratios.

Srinivasan Vaidyanathan: Okay. Thank you, Suresh. I'm going to get started, and then the others can join with whatever. First is the HDB that you touched upon. Yes, HDB did have higher levels of Stage 3 in this quarter. The difference between this quarter and last year was a lot to do with provision, including management overlays due to lowering of the economic forecast and so on. So, the higher levels of provision, Stage 3, in Stage 3.

Stage 2, which is very important, because that's where the flows move in as we go along. Stage 2 improved from September to December by about 5 basis points or so, Stage 2 improved. But Stage 3 at an aggregate level changed by 15 basis points. But however, within that Stage 3, there are 2 categories that we look at and manage. One is loans that at some point in time this quarter, prior quarter or even 2, 3 quarters ago, moved into NPA, but subsequently have pulled below 90 days, but have not managed to pull all the way to 0 days, which means there are no more 90 days, but still NPA, because they have not come back below 0.

So that particular category is higher in this quarter than what it was in September. So that means something slipped and pulled back, but not pulled back enough. So subject to that, the overall

Stage 3, right, is up by about 5 basis points or so in this overall category segmented book, which is for a couple of notches below the bank category segment, 5 basis points is within the reason and the provisions were based on that purpose. So that's on the HDB as such.

The second aspect on the merger and the merger benefits and so on. See, there are several dimensions to the merger. Certain basic metrics like getting the liability accounts opened, we are like 96%, 97% successful for any new to bank incremental mortgages coming in. So that's part of the beginning, and it comes with some INR30,000, INR32,000 balances 1- to 2-month instalment.

So, we are making good traction on that. The second traction is that out of the 4-odd million customers, we need to get the liability accounts open for that balance so that we get into not just a mortgage product relationship, but the overall banking. About 1.9 million of them so far, we have been successful to bring them on the liability relationship.

We have more to do on that one, right? So that's the second. And then we have another about 0.25 million or 250,000 customers or so, where we not only have this, we have other multiple other products like credit card products and a few other products we have started.

Another dimension to the merger is also about the branches, how many branches we have to get through various, not just those 2,500, 3,000 branches, but broader. But if you look at over the last 6 months, 80-plus percent of the branches have been able to do at least one. So, it depends on customer demand, but at least we made a good traction that capability at the branch level to open is there.

Now coming to the other dimension of it, which is get to the margin, the cost to income and so on and so forth. Yes, the margin, we started with 3.4% has been in a stable band over the last several quarters, and the good amount of the tailwind that has come to reduce the borrowing cost, which is what we managed to get a good amount of borrowing down, has been offset by the CASA, right?

Again, it's a customer behaviour. We have a choice to make in terms of whether we want a holistic customer relationship that includes time deposit, which grew at 22.7% in this quarter, right? Or we don't get that time deposit and look for only CASA so that the margin can go up. That's a choice to make. But then I think the business leaders did make the choice to say that we need to keep that customer relationship alive and growing. So, it's not about, so that in the course of time, we will get the CASA coming. So that's another aspect of it.

Sashi, I don't know whether you want to add cost to income...

Sashidhar Jagdishan: Suresh, also, I mean, let's also look back into perspective that the environment at which was prevailing at the time of announcement of the merger or at the time of the merger in July 2023 was completely different from where it has progressed from then on and where we are witnessing at this very moment in time. Obviously, on a static basis, I would have agreed with you, probably we could have done better. But when you look at the dynamic environment that we have been witnessing since the merger, we have seen a kind of a shift in terms of what we need to reorient ourselves.

I mean, at that point in time, we were contemplating of growing our business in a manner similar to what we have been doing for a long period of time in terms of gaining market share even on loans. But then when the macro started to change, when liquidity started to tighten, when the outlook on credit started to change negatively as we recall and you would recall that in February of '24, I mean, as early as February'24, we called out to say that we are changing our tack.

We said that we will grow. We will try and bring down the credit deposit ratio as quickly as possible over a 2- to 3-year timeframe. FY '25 will be lesser than the system. FY '26 will be in line with the system. FY '27 will be faster than the system. So obviously, this means that in FY '25, as you have seen now with an average AUM growth of 7%. This is in line with what we had envisaged. So obviously, some of the parameters that we were talking at the time of what you were expecting or what we were expecting at the time of the merger does not hold good and we have to recalibrate ourselves.

So in the light of that, to maintain stability, which is what Srini was mentioning and being range-bound means that I think the company has been resilient enough instead of going northwards in some of the key metrics and metrics and parameters, we've been able to maintain in a range-bound manner, which itself shows that as things start to get better from a macro environment perspective, from a liquidity perspective, when deposit prices start to come down.

And probably as you have seen, we have all seen that as prices come down, CASA ratios will also move up, you will have a kind of a shift in some of the metrics, which is in line with what you and I would be expecting, etc. I think that perspective needs to be factored in, in terms of why we continue to be stable and not sort of having an upward trajectory on some of the metrics, like margins or downward trajectory on cost to income.

Srinivasan Vaidyanathan: On the cost to income, I want to add that we are at about 40.5% or so between 40%, 41%. It's been stable at that level. Two aspects to it. If you look at the rate of growth of cost, about 7.5% or so rate of growth of cost, right? The country's inflation is between 5% and 6% at an aggregate level and depending on the wage and so on and so forth, it's getting maintained at that level, sub 8%.

One other context to that is that despite we have added 1,052 branches in the last 12 months. So, we've added that and managing the cost in the tight leash. I will continue to make those investments in technology. The technology component of the costs is north of 10% right now. It used to be in single digit to high single digit. Now it's north of 10%. So, continuing to make those investments that are required.

Lastly, I do want to add, it's not just about the cost to income, which is a function of the numerator and the denominator. So, we also talked about the margin impact there. If you look at the cost to assets that were about 1.93% or so, is very tight and is one of the best in-class cost-to-asset basis. I just want to leave it there and hope that gives you some perspective, Suresh.

Suresh Ganapathy: Thank you so much.

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

Pranav: The first question is on your loan yields. I mean if you look at the bank's loan yields today, it's meaningfully lower than peers versus the long-term history, where even if you include the retail mortgages, the loan yields were much higher. Now if you look forward, let's say, over the next 2 to 3 years, do you think the absolute loan yields will converge with peers? Or do you think only the risk-adjusted yields will converge?

Or will the lower risk adjusted yields be the price to pay for scale? So where do you see it progressing next, not next few quarters, but more like a 2- to 3-year outlook?

Srinivasan Vaidyanathan: Okay. Yes. See, there are 2 aspects to it. If you look at the current composition of a risk weight density, which in one of our pages that we have, it's been stable at about 67% or thereabouts. There is great density. That means the assets, RWA to total assets at about 67%, it's been pretty stable if you look at the RWA to funded and non-funded post the conversion factor at 63% or so. And if you benchmark this to some of the peers, you'll see that it's at least 5 to 7 percentage points or thereabouts lower, right?

So that means the risk density on the book appears to be lower. That's one. The second aspect of it is in a strategic sense, when you look at it in a couple of years, where the yield is, yield is a function of the mix. And as the retail, which over the last 12 to 18 months, we have been cautious in terms of the retail. Even before our overall loan book, we started to pare down the rate of growth. The retail rate of growth was even earlier taken down, the rate of growth, by our credit through calibration of credit models. They took down the retail.

So, it's a function of the mix. We continue to make investments in retail people and product and technology. We do expect that the retail mix will go up. And so thereby, the yield on the overall book should trend up. And thereby, you will see that the risk weight density also move up because where retail comes up with the higher risk weight assets.

Pranav: Got it, Srini. So, sir, if let's say, you see a convergence in the risk density, there's no reason why we would be at a lower yield compared to peers?

Srinivasan Vaidyanathan: I didn't get that.

Bhavin Lakhpatwala: The way you think about this is finally a customer segment. And historically, we've been operating in a slightly segment, which is comfortable with us. And hence, you would find that historically as well, our risk-weighted density is lower. So, the convergence, to my mind, would happen if the risk undertaken from all, since you're saying from a market is similar or no.

Pranav: Understood. The second question is just technical one on your trading and MTM income. You just had like 3, 4 quarters, 3 quarters of low gains from securities, etcetera. Is that a one-off? Or is that something that we should expect to continue? How do you see that trend going forward?

Srinivasan Vaidyanathan: So, this quarter was a very modest number in terms of the growth. Yes, where is it?

Bhavin Lakhpatwala: One of the things that has happened is we inherited certain equity investments, and that is also going through the P&L, which is showing up in the line that you're speaking about, the mark-to-market, which is coming.

Srinivasan Vaidyanathan: Yes. In this quarter, particularly, we've had almost INR2.5 billion or so negative mark-to-market on an equity position that we have inherited, that we have taken through the P&L. It's a negative.

Pranav: Understood. So, ex of that, there's nothing that's changed fundamentally?

Srinivasan Vaidyanathan: No, fundamentally…

Moderator: The next question is from the line of Rikin Shah from IIFL.

Rikin Shah: Yes. So, the first question is on the employee headcount. So, after dipping in 2Q, the employee headcount has again gone back to 2,10,000. And we have seen that some of the peers have been trying to stabilize the headcount and letting the natural attrition happen. So how should we think about the employee headcount going ahead? That's question number 1. And question number 2, Sashi did allude to his earlier guidance that this year, we should be growing slower than system next year in line and FY'27 faster.

But in that context, while we are gaining deposit market share at around 16%, there is still inherent macro restrictions. And within that construct, the deposit growth can't be significantly higher. So how confident do we feel about growing in line with the system for next year. Does that guidance still hold?

Srinivasan Vaidyanathan: Okay. I'll start off on the headcount. We have about 210 or so, about 2,500, call it, around 3,000 people added in the quarter. And over a period of last quarter, we did actually come down. So, if you look at a 6-month or a 9-month period or even 12-month period, it is just 2,000 from last December to December. So, we held down. Again, the reason is that we have ramped up some investments in people and maintained at that level. And we are working through various productivity models to enhance the value.

Essentially, that means getting various tools to these people to utilize better for engagement. That doesn't mean to say we will not add going forward. We take it every quarter at a time in terms of -- these are mostly frontline, right? In fact, even across the book, we have 85%, 90% of the book touching the customer headcount, touching the customer in some manner or the other, right? So, depending on the need and the traction, we will add. But again, we are circumspect in terms of getting the right kind of productivity before we can add.

So that's on the employee as such. The second aspect of the growth rate, how do you get to the growth rate in line with the market from where we are. Rikin, one thing to note is that there is not a product that we have exited or a geography that we have exited. We are there in all segments, all products, in all geographies. I'm sitting on liquidity, right, and with, of course, capital tailwind, which is there.

Currently, the rate of growth is consciously calibrated either through credit models, a good amount of the retail I'll put it in that bucket, or calibrated through price models because we do see tightening prices, tightening spreads in the non-retail. In the corporate world, the spreads are tightening, right? So somewhere between these, it has been calibrated.

So, it is -- and the resources to get these loans up at the scale at which we want continue to be in the system, continues to be engaged. So, it's a question of at the right time that we want to dial, as Sashi was alluding to in his opening remarks, as the macro turns and we feel comfortable, the dial can be taken off.

Moderator: The next question is from the line of Nitin Aggarwal from Motilal Oswal.

Nitin Aggarwal: I have 2 questions. One is that you alluded to the difficult macro conditions in your opening remarks, but HDFC Bank definitely continues to navigate well through this environment as overall slippage rate remains better versus peers. So how are you looking at the credit environment in respect to unsecured loans in the commercial banking business? Because these are the 2 segments that we have been still growing. And given the vulnerability that you see, how like confident you are to maintain these slippages, run rate and the credit cost overall?

Srinivasan Vaidyanathan: Okay. Good point, right? One, as we see now, the book is pretty stable, has performed both on the unsecured front or on the commercial side that you talked about, has been pretty stable. And that is part of the credit monitoring model and the collection analytics that go to be in front of the queue to do all of that. I mean, there are various factors that go in. So, all of those factors are at play and have been a top notch in terms of keeping it pretty stable.

And one other important aspect of you looking at being stable is, the ratios are stable despite the slowness of the book, which means the book is not growing at 12%, like the industry grows, the book is growing at half the trade. Even when you slow it down, the ratios and the numbers look pretty stable that essentially vindicates the position of the origination quality as well as the capability in terms of getting the collection accomplished very well.

So, I want to leave that thought. So, as we see now, going forward, we're confident of continuing our strength and displaying our strength on these portfolios.

Nitin Aggarwal: Right. And we really appreciate that. And second question is just a data keeping one on mix of floating and fixed rate loans. Like how much is repo? How much is MCLR, if you can just share that colour?

Srinivasan Vaidyanathan: We have roughly slightly under 70%, which is floating, 30%-odd, which is fixed. And on the floating side, if you see almost, call it, 45% or thereabouts is repo-linked loans. We have some MCLR and some treasury bill linked to loans, but mostly, it's repo.

Moderator: The next question is from the line of Ravi Purohit from SiMPL.

Ravi Purohit: I have 2 questions. One is the NPAs that we got in from the HDFC wholesale book would have been classified as NPAs, they were restructured accounts earlier, and they would have been classified. Now that they would have spent 12 months since then. Will we see a significant reversal of provisions of those that wholesale book in the current provisioning set? And second question is on the wholesale deposits that came in with HDFC Limited book.

So, we reported 16% growth in our total deposits. But ex of, let's say, would we have let go of the wholesale deposits from HDFC Limited or we would have continued. If you could just give some colour ex of that or adjusted for that, what would have been actually deposit growth that we have actually delivered. Those are my 2 questions.

Srinivasan Vaidyanathan: Okay. All right. Let me first talk to you about that provisioning or whatever, right? There are a bunch of contingent provisions that we have done in the past. And to the extent that I just alluded to for another question about when there is a cash recovery, we feel confident and until then, we remain provisioned on certain things. Now then we released the INR30-odd billion that I talked about, INR3 billion that I talked about. The other aspect of it is, this is a good point that you raised.

We do have almost about 15 basis points of our NPA, which are performing, right? They are performing. But historically, in the erstwhile organization, they were restructured. But since they were restructured per the RBI regulation, we have marked them as NPA, 15 basis points. They are performing, but it is part of that NPA, which is there, right? So, I do want to bring your attention to that.

And the last aspect that you talked about is the deposits that we brought in. And so, the 16% rate of growth on deposits is net of all of that. There are certain categories of deposits, high cost, particularly nonretail high-cost type of deposits, which we did not patronize or let go because to us, I think in 2 quarters ago or so, we did talk about the value. There are certain institutional type of deposits.

Example can be a trust, example can be certain other organizations, where the value, the LCR value could be 100% runoff. So, for which we don't need to pay the high rate, which means the bulk deposit rate doesn't need to be paid. So, if it is a bulk in nature, they have gone. So, whether excluding that, whether it will be more than 16 years, it will be more than 16. How much? Maybe 2%, 3% better. But again, it's all part of the business and part of this overall mix.

Moderator: The next question is from the line of Param Subramanian from Nomura.

Param Subramanian: Firstly, going back to priority sector. So last year, we had a shortfall in both SMF and weaker sections and the one-third requirement from HDFC Limited book. So, both of those PSL compliance will be completed by fourth quarter? Is that the way to look at it? And what proportion would roughly be RIDF within that? Yes.

Srinivasan Vaidyanathan: See, it is the requirements have kicked in. And you know that the requirements are 1/3, 1/3, 1/3 over a 3-year period. So, there's a glide path into that. And so whatever, when we have to meet not just for the year end, even for December, for that matter, there is some proportion that kicks in. And that's part of what I alluded to, to say at an aggregate level, we are comfortable for the first 9 months, there is a percentage point or so that we do need to close on SMF and the weaker section.

That's part of the plan in terms of how we operate for the next 3 months to close available depending on what is available and at the right price. And of course, the first goal is to organically grow as much as we can. And we don't, alternative instruments are used.

Param Subramanian: Okay. Got it, Srini. So, a percentage point shortfall in both SMF and weaker sections. That's probably where we are currently on the merged book?

Srinivasan Vaidyanathan: That is correct, yes.

Param Subramanian: Okay. That's helpful. Secondly, on PCR. How are we looking at PCR, say, relative to our peer group? Because if you look at it at 68%, we are lower than most of the big private banks even compared to where RBI pegged the system level at 77%. So how are we looking at this going head?

Srinivasan Vaidyanathan: Okay. First is the 68% to 71% without the agri. That's number one. Number two, the PCR is not something that is benchmark able at the aggregate institution level. We'll have to look at the composition of what the NPA is. If an institution has got a larger composition of the wholesale book, particularly the legacy wholesale book in NPA, and if it is fully provided for, the PCR is higher. And if it is a retail book, it enters as it described to you, particularly the unsecured book as it enters into the 90, there's a level of provision.

As it enters into 120, you provide for it. And at 150, you write them off. So, it depends on each institution's policies of what is the provisioning at the entry stage and at the mid-stage and at the end stage, and what is the segment classification in the NPA. Many factors play into this. So, it's not a straightforward number across the institutions you can see and make a call what that is.

Moderator: The next question is from the line of Saurabh from JPMorgan.

Saurabh: Sir, just 1 question. On your costs, should we expect a broadly similar cost growth for next year because I mean you're largely done with your branch expansion, employees are not growing too much. So, should we expect the cost lever to be pressed even going ahead?

Srinivasan Vaidyanathan: So, Saurabh, to answer, right, normally, we don't give guidance or outlook. I don't want to give you an indication, but I do want to tell you the intention on how we operate now. The mindset is to be operating in a controlled manner. Controlled means what I mean is that drive productivity as much as possible, make those investments in people, branches and technology where it is required and where we are able to see opportunity space.

So, there is no one predetermined path, but the underlying kind of directives that, I mean, Sashi is sitting here, what is given is that be circumspect and much more stringent in terms of how we allocate cost, how we give for spending. So, we're trying to keep it as tight as we can.

Sashidhar Jagdishan: Yes. That's right. And in fact, it doesn't mean that we will not be investing. We will be investing in distribution, in people, in technology. But there will be overall, we would want to ensure that we get productivity gains out of this. So, we all believe that our business growth is going to be in line with the system growth next year.

Our endeavour and which is what we are trying to have a goal for ourselves is to ensure that we are far more efficient in terms of how we spend and what we spend and try and have efficiencies arising out of the cost.

Moderator: The next question is from the line of Abhishek Murarka from HSBC.

Abhishek Murarka: My question is on this emerging corporate group. On last 4 to 5 quarters, the loan book has been very, very stable, not growing much. Is it that you still see risk there? Is it a function of profitability? Or why or when do we see some growth coming out of that book? So, if you can share some qualitative commentary on that, that would be useful.

Srinivasan Vaidyanathan: Okay. Lovely. Abhishek, as the name suggests these are emerging corporates. That means they are growing and getting to be larger corporate size. Like the way we have seen spreads tighten in the larger corporate space. Here also, we see the spreads tightening, right? And that is something that we've been pretty cautious. The quality of the book is exceedingly good, right? Like the way the corporate book, you'll see that we have seen that we reported that too quiet very good.

However, we are circumspect in terms of offering the right price. That's what is determined. We do want that relationship with those customers, which means there are certain level of wallet share that we want. We'll continue to keep those level of wallet share. And at any price, we don't need to keep increasing the wallet share.

So that's how we have looked at it, of course, there is no one answer that we can do at every quarter time period, but we continuously evaluate and this is how we are approaching, right price, keep the wallet share and manage through the relationship because we do want the SME relationship and the individual relationships coming from these corporates.

Abhishek Murarka: Okay. So, it's more a function of pricing rather than slippage or asset quality or risk?

Srinivasan Vaidyanathan: That's absolutely correct, yes. Because all of those corporates are quite strong for us and across the industry, we see this quite strong.

Sashidhar Jagdishan: Just to reiterate, Abhishek, Srini did allude to it. The asset quality across retail, unsecured, commercial and corporate has been very stable, including your emerging corporates. So, we have been seeing this for quite some time, and the stability continues even as we speak.

Abhishek Murarka: Sure, Sashi. I really appreciate that. And actually, a pretty commendable job there. Just one data keeping question. For the CRB book, what would be the blended yield?

Srinivasan Vaidyanathan: We've not published that separately, but I don't know whether in our 20-F annual filings that we do know. So, we don't particularly break up. We have retail wholesale segment rather than 3 segments, yes.

Abhishek Murarka: Yes. So, would it be higher, lower than blended book yield? Just the qualitative indication, that will also help.

Srinivasan Vaidyanathan: We haven't published that, Abhishek. That is all. At some point in time, we'll consider...

We'll consider doing that, yes.

Moderator: The next question is from the line of Prakhar Sharma from Jefferies India.

Prakhar Sharma: Congratulations on managing good results in a tough environment. I had just a few questions on the agri part and request you to probably even if you want to give a monosyllable answer, that will work. So, first part is, in this quarter, what sort of interest income reversal could have been there? So, has there been a few basis points impact on margins because of the seasonality?

Srinivasan Vaidyanathan: There will be, and it could be INR1 billion to INR1.5 billion or so. But that's part of the business as usual, every other quarter, we get it, and it moves up and down, yes.

Prakhar Sharma: Got it. And you have in this quarter versus, I think, even the first quarter, there is a reasonable increase in the agri slippages. So, is this also a seasonal pattern that 3Q agri slippages tend be higher than the 1Q slippages? Or is there a deterioration in the environment? And is it linked to micro finance?

Srinivasan Vaidyanathan: It is slightly higher. Normally, December is slightly higher than the June. But it is within normal, but nothing connected with micro finance or anything. Our micro finance is a separate book, and that book micro finance book is less than 1% of our total book. And we have 5% of our workforce. There's more good social and a very stable book, well performing, lend to women in the rural area, handheld by our relationship managers to get them to produce various articles. So, we are quite proud of the book and performance of the book.

Prakhar Sharma: Awesome. And why do you keep a lower coverage on the agri loans? Because I thought this is unsecured or a difficult market. Is it secured in that sense?

Srinivasan Vaidyanathan: Yes, it will be. It will be. And the entry level, you know that the agri provision will be lower than the 70% or so. The first bucket...

Prakhar Sharma: The LGD is also lower. Is that what you're trying to say, the LGD on this book is lower than the rest of the book?

Srinivasan Vaidyanathan: So, the loss given default will be, over the lifetime, yes, it will be. If you go through an ECL model, it will be far lower.

Prakhar Sharma: Got it. Got it. And last part is the agri slippages, as you report and the agri loans that you report, are they like-to-like or they are different cuts?

Srinivasan Vaidyanathan: They are like-to-like.

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

Rahul Jain: I just had 2, 3 questions. So, first is, you've got this business banking portfolio, which is INR3.5-odd trillion. Is it possible to get some more colour on this book? What proportion would be to the individuals? What provision would be unsecured or secured in this portfolio?

Bhavin Lakhpatwala: Sorry, Rahul, in business banking, you're saying?

Rahul Jain: Yes.

Bhavin Lakhpatwala: So, the business banking book will be largely secured, correct?

Srinivasan Vaidyanathan: It is secured.

Sashidhar Jagdishan: And the self-employed will be in unsecured in the PL, the retail part of it...

Bhavin Lakhpatwala: The smaller book...

Sashidhar Jagdishan: Yes, which is very stable.

Rahul Jain: And that's used for the business purposes?

Sashidhar Jagdishan: That is correct.

Rahul Jain: Self-employed. Okay. How much will that be, Sashi? Have you given that number out?

Sashidhar Jagdishan: Part of the overall portfolio, there's no change that we have seen there.

Rahul Jain: Which one?

Sashidhar Jagdishan: The individual business.

Rahul Jain: Fair enough. Okay. Got it. The second was around on CASA. I appreciate the feedback or the response that you gave, Srini, about the choice of relationship that the business leaders are deciding. But at the same time, this is adding up to the cost of funds. So, if you are losing the proportion there, are we able to pass on to the borrowers in the same magnitude, that is, are we able to protect our spreads for the change of mix that is happening at the deposit level?

Because I know it is specific to HDFC Bank. It's a system-wide phenomenon. But this ratio has been continuously under pressure, may not or may take time to bottom out until such time, whatever incremental lending are we doing, are we able to pass on that incremental cost to those borrowers on a like-to-like basis?

Srinivasan Vaidyanathan: Okay. Rahul, the short answer is, yes, you can't pass it on because if it's a retail customer, it tends to get into adverse selection, and the nonretail customer is extremely sensitive and actually the spreads are tightening. It's moving on the other direction. You see the bond spreads in this quarter. The bond spreads have come off AAA or AA, or whatever category NBFC corporates. If you see anywhere between 10 to 25 basis points, the spreads have tightened in the market in this quarter, in the recent time period.

So, the possibility of pass on, we wish, but that is not. Other than getting any adverse selection, we are very cautious. And you don't pass our credit even as the frontline goes down to different customer segments. So that's in terms of the lending as such...

Rahul Jain: How do we protect the margins on a go-forward basis? How would the margins trend? Of course, I understand the repricing of the HDFC limited borrowing will be taking place. But just keeping that aside, what is the drift of spreads or the margins envisage in a declining CASA environment from these levels?

Sashidhar Jagdishan: So, Rahul, good question. We have seen it over 30 years how the composition of our deposit mix changes with different interest rate cycles. So, in a high interest rate cycle, obviously, the CASA ratio is down. And as we expect in a couple of years, the economy trying to move northwards. We should see rates coming off. We should see the CASA volumes moving up, people or the TD volumes coming down, TD rates cooling off, and there's a huge correlation to that and the CASA volumes in the system itself.

So, we should start to gain share, better incremental share because ultimately, some of us in the banking system have a customer segment, which is primarily the middle and upper middle income segment, including all in this call. I mean, all the fraternity in this call of 875 participants in the call, including in the room, that we are all sitting, all of us depict very similar consumer behaviour in terms of trying to either move our funds to better yielding alternative assets or lock it into higher TDs with the expectation that TD rates will cool off.

So therefore, at least if that's a segment we have been very consistently focusing, the accentuation or the deceleration of CASA ratio will be slightly sharper for us, and that is exactly what we're seeing. As Srini mentioned, it doesn't mean that we sort of say no to our customer segment saying that, sorry, we don't want to take deposits because it's not helping our CASA ratio. That's not how we do.

We offer all our products. And as it happens, it seems to be more or less we match ourselves with some of the large peer group banks. And so, we do operate, we are happy to take it even though there may be a slight deterioration of this. But these are very cyclical, and this in the medium to long term will normalize.

And as I said, you will see a kind of an uplift the moment you see the rate cycle changing. And of course, it doesn't happen very coincidentally. There will be a little bit of a lag effect. But definitely, there will be better CASA ratios coming off in the next couple of years as well. And that should see bounce back into the margin uptake that all of us, including yourself, have been looking for.

Srinivasan Vaidyanathan: In the meantime, we do add customers 1.9 million liability relationship to get that new account value, 96.7 million customer relationships. We'll continue to focus on that to bring the new account.

Rahul Jain: Very helpful. Just one more question. When you look at the employee headcount that went up in this quarter sequentially branches on a Y-o-Y basis, as we said, 1,000, credit card market, share seems to be inching higher. So, it seems the bank is getting ready to tap into the growth opportunities. LDR is down to 98.

So, at what stage, Sashi, Srini, would you start to accelerate the pedal, you'll see that, okay, fine LDR is now well within the range that you wanted it to. But sequentially, the growth can start now coming through at what stage can we start the bank to get into the growth path more on a sequential basis, quarter-on-quarter basis from these levels?

Sashidhar Jagdishan: I think whatever we had committed, in fact, if I remember, it was in the call with you, which we sort of shared it with the world at large, and that is the kind of commitment that we continue to maintain. We are on track, as I have mentioned in the opening message that whatever we are seeing is in light of the call that we have taken at that point in time. So, you will see this. In FY'26, you would see a step-up. In FY'27, you will see a further step-up. I mean I do not know which quarter.

Obviously, we have the ammunition ready in terms of capital, in terms of liquidity through a high LCR, and we continue to outpace deposit growth as we speak. So, I don't think that should be a constraint as if there is an opportunity for the economy to change positively and the outlook getting better and the interest rates coming off, I think we should sort of see a bit of a step-up there.

Moderator: Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to Mr. Vaidyanathan for closing comments.

Srinivasan Vaidyanathan: Thank you, Neerav. Thank you, all the participants, for coming in today. You can get in touch with us for any other clarifications, questions or matters that you want to cover. Our Investor Relations team, led by Bhavin, will be available and where we can, today or tomorrow or any time, and we'll continue to keep engaged. Thank you. Bye-bye.

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 lines. Thank you.