HDFC BANK
We understand your world

CIN: L65920MH1994PLC080618
Email: shareholder.grievances@hdfcbank.com
Website: www.hdfcbank.com

HDFC Bank Limited,
Zenith House,
Opp. Race Course Gate no. 5 & 6,
Keshavrao Khadye Marg,
Mahalaxmi, Mumbai- 400034
Tel.: 022 - 3976 0000 / 07 / 12

April 18, 2023

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
Symbol - HDFCBANK

Dear Sir / Madam,

Sub: Transcript of Earnings Call for the year ended March 31, 2023

We wish to inform you that pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the earnings call with analysts and investors held on April 15, 2023, with respect to the financial results of the Bank for the year ended March 31, 2023, has been made available on the website of the Bank at the link:

https://www.hdfcbank.com/personal/about-us/investor-relations/financial-results

A copy of the transcript is annexed herewith.

This is for your information and appropriate dissemination.

Yours truly,

For HDFC Bank Limited

Santosh Haldankar
Digitally signed by Santosh Haldankar
Date: 2023.04.18 17:34:00 +05'30'

Santosh Haldankar
Company Secretary

Encl: a/a

"HDFC Bank Limited
Q4 FY '23 Earnings Conference Call"
April 15, 2023

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

Moderator: Ladies and gentlemen, good evening and welcome to HDFC Bank Limited Q4 FY '23 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 a brief commentary by the management. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Srinivasan Vaidyanathan: Okay, thank you Tanvi. Good evening and a warm welcome to all the participants. Let's look at the key macro indicators observed during the quarter before we get to the details on the earnings. Various indicators suggest economic activity was holding up well in Q4. GST collections continue to be robust. March '23 recorded 13% growth year-on-year. Full year '23 GST collections recorded a growth of 21%. Manufacturing PMI at 56.4 has remained in the expansionary zone since July '21. Services activity is holding up well. Services PMI at 57.8 continues to remain strong.

Healthy trend in government capital spending also bodes well. Q4 '23 year-on-year growth of 18% and full year government capital spending growth of 22.8% bodes well. Payment system indicates business activity continues to be robust with 15% growth in RTGS, NEFT transactions value and a 51% growth in UPI payments. On the consumption side consumers are moving towards higher value products driven by changes in technology and regulations.

We have seen customer preferences towards SUV, MPV type of segment and higher capacity two-wheelers. Two-wheeler and passenger vehicles witnessed continued improvement. During the quarter, our retail card issuing spends also showed robust growth of 31% year-on-year. Rabi crops sowing is progressing well with approximately 3.3% improvement to last year's level. IMD is forecasting normal monsoon this year which also bodes well for the semi-urban and rural activity.

Global financial market volatility could weigh in on domestic growth. Going forward, there are risks stemming from possibility of global slowdown, continued geopolitical tensions and any further deepening of foreign banking prices. We estimate India's GDP growth at 6.8% in financial year '23 and expected to be over 6% in financial year '24. Let's go through certain key themes. On the distribution expansion, we added 638 branches during the quarter taking the total branch addition in financial year '23 to 1,479. The total branch network of the bank stands at 7,821.

On the payment acceptance points, the bank has 3.9 million year-on-year growth of 30% as adoption of Vyapar app builds momentum. We witnessed upwards of 75,000 new additions per month during this year. Wealth management is offered in over 923 locations through hub and spoke model. We have expanded by 232 locations in the quarter. In CRB, our SME businesses are present in more than 90% of the districts. Rural business expanded to 1.65 lakh villages and is on track to reach the objective of over 2 lakh villages. Gold loan processing is now offered in 4,182 branches, a threefold increase over March '22. In the customer franchise building, we acquired 2.6 million new customer liability relationships during the quarter and 10.6 million relationships in the year. With over 83 million customers, we will continue to engage in thereby enabling us to broad base and deepen our relationships. In order to position us for this customer engagement, we have added 31,600 people over the year and 6,300 during the quarter. On cards, we have issued 1.4 million cards during the quarter.

The total cards space is now 18 million. On the website, our registered traffic during the quarter received an average of 132 million visits per month with over 106 million unique visitors over the quarter and year-on-year growth of around 74%. Our focus on granular deposits continues with total deposits amounting to INR18.8 lakh crores, an increase of 20.8% over prior year and 8.7% over prior quarter. During the quarter, we added deposits of INR150,000 crores. Retail constitutes about 83% of total deposits and has been the anchor of our deposit growth. Retail deposits grew 23% year-on-year and 7% sequentially.

During the quarter, we added retail deposits of INR107,000 crores. Wholesale deposits constitute 17% of total deposits. As of March '23, these grew 10% year-on-year and 15% sequentially. Term deposit registered a robust growth of 30% year-on-year ending the quarter at INR10.5 lakh crores. Savings deposits recorded a growth of 10% year-on-year and 5% sequentially ending at INR5.6 lakh crores. Current account deposits grew 14% year-on-year ending at INR2.7 lakh crores. Overall CASA deposits grew 11% year-on-year ending at INR8.4 lakh crores resulting in a CASA ratio of 44%. Retail CASA deposits grew by 13% year-on-year.

On the advances side, advances at INR16.1 lakh crores, grew by 16.9% over prior year and 6% sequentially.

This is an addition of approximately INR94,000 crores during the quarter and INR224,000 crores in the year. Growth of IBPC advances grew by 21% year-on-year and 6% quarter-on-quarter. Incremental credit to deposit ratio was at 62% for the quarter. CD ratio as of March end stood at 85%. Our retail advances growth was robust. Domestic retail advances grew 20.8% year-on-year and 5% sequentially primarily driven by strong performance in personal loans and home loans.

In the CRB, which drives our MSME and PSL book continued its momentum with the year-on-year growth of 29.8% and quarter-on-quarter growth of 9.7%. Wholesale segment grew 12.6% year-on-year and sequentially 4.5% primarily driven by demand from NBFCs, telecom, PSUs and retail sectors. On the technology update, launches PayZapp 2.0, which was rebuilt from ground up is available to public at large. SmartHub Vyapar continued to add new features to our one-stop merchant solution app. The app has garnered tremendous growth with three-fold increase in active users and more than three-fold in merchant transactions value. As of March end, over 1.5 million small businesses are on this SmartHub platform.

Express Car Loans is an end-to-end digital lending journey platform facilitating instant and hassle-free car loan disbursals to existing as well as new-to-bank customers has been witnessing tremendous response from customers. Express Car Loan volume now contributes 20% of our new car loan volume.

We are focused on investments in expanding our distribution network combined with our focused digital offering and relationship management which continues to fuel growth. Balance sheet remains resilient. LCR for the quarter was at 116%. Capital adequacy ratio is at 19.3% with CET1 ratio at 16.4%.

Let's start with revenues. Net revenues for the quarter were at INR32,000 crores grew by 21% over prior year driven by gross advance growth of 21% and deposit growth of 20.8%. And net revenues for the year ended March 31, 2023 were at INR1,18,000 crores, grew by 16.3% over prior year. Net interest income for the quarter at INR23,352 crores, which is 73% of net revenues grew by 23.7% over prior year. The core net interest margin for the quarter was at 4.1% versus prior year of 4%. Prior quarter was also at 4.1%. Full year core net interest margin was at 4.1%. On interest earning asset basis, the core net interest margin for the quarter was at 4.3% again at similar levels to prior quarter. Full year core net interest margin based on interest earning assets was at 4.3%.

Getting to the details of other income, total other income at INR8,731 crores was up 14.3% versus prior year. Fees and commission income constituting about three-fourths of the other income was at INR6,628 crores and grew by 17.7% over prior year and 9.5% over prior quarter. Retail constitutes approximately 94% of the fees. FX and derivatives income at slightly above INR1,000 crores was higher by 25.6% compared to prior year of INR804 crores. Net trading and mark-to-market income were at negative INR38 crores for the quarter. Prior quarter was a gain of INR261 crores and prior year was a gain of INR48 crores.

Other miscellaneous income of INR1,130 crores includes recoveries from written-off accounts and dividends from subsidiaries. Excluding net trading and mark-to-market income, total other income at INR8,769 crores grew by 15.5% over prior year. Operating expenses for the quarter were at INR13,462 crores and increased 32.6% over the prior year. Operating expenses for the year ended March '23 were at INR47,652 crores, an increase of 27% over the prior year. In this context, it is pertinent to note that we added 1,479 branches and 1,597 ATM since last year.

Cost to income ratio for the quarter was at 42% and for the full financial year was at 40.4%.

Moving on to PPOP, for the quarter grew by 13.8% and our pre-provision operating profit was at INR18,621 crores. Pre-provision operating profit for the quarter is 6.93x of total provisions in the quarter. Coming to the asset quality, the GNPA ratio was at 1.12% as compared to 1.23% in the prior quarter and 1.17% prior year. Out of the 1.12%, about 14 basis points are standard, thus the core GNPA ratio is at 0.98. However, these are included by us as one of the other facilities of the borrower is an NPA. Net NPA ratio was at 0.27%, prior quarter was at 0.33% and prior year was at 0.32%.

The slippage ratio for the current quarter is at 28 basis points or about INR4,900 crores. During the quarter, recoveries and upgrade were INR3,300 crores or approximately 22 basis points. Write-offs in the quarter were INR2,400 crores or approximately 17 basis points. No sale of

NPA accounts during the quarter. The restructuring under the RBI resolution framework for COVID-19 as of March end stands at 31 basis points or INR5,000 crores. In addition, certain facilities of the same borrower which are not restructured is approximately 6 basis points, INR970 crores, thus totals to 37 basis points. The COVID restructuring in the prior quarter was at 50 basis points.

On the provisions reported were around INR2,700 crores as against INR2,800 crores during the prior quarter and INR3,300 crores in the prior year. The total provisions of the current quarter included a build-in contingent provision of approximately INR300 crores. The provision coverage ratio was at 76%. At the end of current quarter, contingent provisions and floating provisions were approximately INR11,150 crores, contingent provisions at INR9,700 crores and floating provisions at INR1,450 crores. General provisions were at INR7,000 crores.

Total provisions comprising specific floating contingent and general were about 176% of the gross non-performing loans. This is in addition to the security held as collateral in several of the cases. Floating contingent and general provisions were 1.12% of gross advances as of March quarter.

Now coming to credit cost ratios, the total annualized credit cost ratio for the quarter was at 0.67%. Prior quarter was at 0.74% and prior year was at 0.96%. The total credit cost for the full year was at 0.74%. Recoveries which are recorded as miscellaneous income amount to 23 basis points of gross advances for the quarter against 21 basis points prior quarter and 26 basis points per prior year.

The total credit cost ratio net of recoveries was at 44 basis points in the current quarter as compared to 52 basis points in the prior quarter and 70 basis points prior year. The total credit cost ratio net of recoveries for the full year was at 53 basis points.

The profit before tax was at INR15,936 crores, grew by 22% over the prior year. Net profit after tax for the quarter at INR12,047 crores, grew by 19.8% over the prior year. Net profit for the year ended March '23 was INR44,109 crores, up 19.3% over the prior year.

Now some highlights on HDBFS, this is on Ind AS basis. HDBFS has continued to augment its distribution network and opened 71 branches in the quarter taking it to 1,492 branches spread across 1,054 cities and towns. Customer franchise grew to 11.9 million customers adding 2.8 million over last year.

The momentum and disbursements continued across all three business segments during the quarter registering in a healthy growth of 53% year-on-year and 20% sequentially. The total loan book as of March end stood at INR70,000 crores registering 14% year-on-year and 7.6% sequentially. Net interest income for the quarter ended March 23 was at INR1,424 crores, a growth of 6.6% quarter-on-quarter.

Provisions and contingencies for the quarter were at INR268 crores against INR313 crores for the prior quarter and INR422 crores for the quarter ended March 22. Credit costs for the quarter were at 1.6% as against 2.78% for last year March quarter and 1.95% for the December 22 quarter. Stage three as of March end continues to improve and stood at 2.73% against 3.73% as of December end. Provision coverage ratio on stage three book increased to 65%.

The provision coverage ratio on secured and unsecured book stood at 62% and 96% respectively. Profit after tax for the quarter ended March '23 was INR545 crores, a growth of 27.7% year-on-year. Profit after tax for the year ended full year ended March 23 was at INR1,959 crores compared to INR1,011 crores in the previous year, a growth of 93%. Annualized ROA and ROE for the quarter ended March 23 stood at 3.25% and 19.5% respectively.

For the full year ended March '23, ROA and ROE stood at 3.07% and 18.7% respectively. Earnings per share for the quarter was 6.89 and book value per share was at 144.5 in the subsidiary HDBFS. HDBFS remains well capitalized with the total capital adequacy ratio at 20.05% and continues to step up disbursements leveraging a strong distribution spread across 1,492 branches. Now a few on HSL. HSL has a network of 209 branches spread across 147 cities and towns.

HSL increases customer base to 4.5 million as of March end. HSL's digital offering continued to enjoy good traction in the market and during the quarter around 94% of active clients utilize the services offered through company's digital platforms. For the quarter March 23, HSL's total revenue were at INR486 crores against INR510 crores for last year same quarter. Profit after tax was at INR194 crores against INR236 crores for the same quarter last year. Net profit for the year ended March 23 was at INR777 crores against INR984 crores for last year. Earnings per share in the quarter was INR121.95 and book value per share was at 1,131. In summary, our results reflect robustness across various parameters driven diligently and passionately by our people resulting in continued momentum in deposit growth of 21% and within that the retail deposit growth which grew at 23%. Gross advances growth of 21% and net advances growth of 17%.

Operating profit grew by 13.8%. Profit after tax increased by 19.8% for the quarter and 19.3% for the year. Profit after tax on a consolidated basis increased by 20.6% for the quarter and 20.9% for the full year. Delivering the return on asset in the quarter of about 2.2% and return on equity of about 18%. Earnings per share reported in the quarter is at INR21.6 at the standalone bank level and INR22.6 at the consolidated bank level. Book value per share on a standalone bank is at INR502 and at a consolidated bank it is at INR519. The bank's board has recommended a dividend of INR19 per equity share subject to shareholders approval. Now with that may I request the operator to open up the line for questions please.

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

Mahrukh Adajania: Yes, hi. Srini, my first question is on deposit growth. Two to three quarters ago you had laid down a good roadmap on your quarterly deposit mobilization and you overachieved that in the fourth quarter. So how do we view deposit mobilization in the next three to four quarters? If you could give us some similar roadmap. That's my first question?

Srinivasan Vaidyanathan: Okay, let me finish that and then you come back again. Deposit, if you see the quarter had a growth of INR1,50,000 crores but the more important thing is to look at the retail growth, INR1,07,000 crores is the retail growth and it had a very good mix of time deposits and savings account and current account within that retail mix. So that is what you determine as a core growth. The rest can be transient, up and down can happen, but it is in track, it's in line with what we had been planning for and what we had been driving to for the quarter.

So I just wanted to make it clear that it's not about the INR1,50,000 for you to keep in your mind but it is more that INR1,07,000 retail which is the core part of what the growth is. And if you, from there if you take it to say how one should think about it, yes, that's part of the execution and the teams are geared up to continue to execute the strategy of getting one, the new customer on board at 2.6 million in this quarter, little more than 10.5 million in this year. So that's part of the growth model is to bring in the new customers.

The new branches are for the future. I don't want to talk that the new branches are bringing in today's deposit but that's for the future to have that sustainability of that growth over a period of time. So it is about new customers, it is about working with the existing customers with the greater engagement which you see that the time deposit growth of about 30%, again that is coming through the engagement, that's where that is getting delivered to. I would say that we are on track to keep building upon this.

Mahrukh Adajania: Okay. And just in terms of, was there any interest on tax refund during the quarter?

Srinivasan Vaidyanathan: No, nothing of any significance.

Mahrukh Adajania: Okay. Thanks a lot. I'll come back. Thanks.

Srinivasan Vaidyanathan: No, if you have anything, you go ahead now.

Mahrukh Adajania: Yes. So my other question was just on CV. So if you look at your commercial transportation, the growth obviously in this quarter has been very strong. It's almost 11% on a sequential basis and it has been very strong even in the last few quarters, probably stronger than industry levels as well. So what drives it and how do you think about it going ahead?

Srinivasan Vaidyanathan: It is an important segment for us. One, the entire commercial and rural banking that includes the CTG is an important element of how we drive this. And this is more, we operate in the segment which is slightly above where our subsidiary operates. And it is an important focus both from a LCV or ULCV and across various size segment that is also important to us. We are also focused on making a holistic product offering, which is not just a lending for financing these vehicles.

It is also about getting working capital financing for them. So we are making certain new initiatives there to get the holistic relationship so that the logistics ecosystem, as we call it, which you have heard from Rahul Shukla over the past one or two quarters, that is getting initiated to execute. It is an important and it is a big growth segment for us and it is a priority sector.

Mahrukh Adajania: Okay, thanks a lot. Thanks.

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

Kunal Shah: Yes, hi Srini. So firstly, the question on operating cost, so that is the significant rise in this quarter, both on a year-on-year basis and on a full-time quarter. So any one option, the employee cost, like say the ESOP or RSU is what you highlighted in the last quarter as well. And what should be the trend which we should look at it, maybe for say FY24 in terms of possible income as well as cost to assets?

Srinivasan Vaidyanathan: Yes, Kunal, thanks for that and expenses. Yes, just to touch upon you, you touched upon the ESOPs and RSUs. Yes, that will continue. And you know that in the prior quarter, it was not a full quarter impact of the ESOPs and RSUs because that went out later in October or November. So apart and then now you had a full quarter impact of that, but it is not a one-time, that is an ongoing, that is one. To the branches, we opened 600 odd branches last quarter towards the end that comes in. And then even this quarter, we have opened up a little more than 600 branches.

So that is also an ongoing impact that comes in.

And the way you think about the cost is, which we have in the past said, as you build a retail or you build a retail deposit franchise and you start to get back into the higher proportion of the retail asset franchise, there will be upfront cost that comes in, which is what you are seeing. The cost to income for the full year at 40.4 are currently 42. If you go back in line that is in 19, for example, it was close to 40, the cost to income was 40. And we had mentioned that our cost to income will go past 40, 41 and the quarter can touch 42, we will operate at that level.

And if you operate at that level, there is an opportunity why, what presents to us this opportunity is from the benign credit environment. So if you look at the credit, 10 basis points of a better credit, when that opportunity is taken and invested in expenses that is about one and a half percent to cost to income. That is about one and a half percent. And so if you think about it, we do see that the credit cost benign conditions now and in some time to come. And so our goal is to get this maturity, both on the branches and the productivity curve up for the people that we have added 31,000 people over the year and 6,600 people in the quarter to get them up the curve and be productive.

And as things normalize, the revenues starts to come in. That is the ramp up on the volumes that we are trying to do to get that in, so that it pays through the revenue and the credit as the maturity, the new cohorts come in and get to be, the new cohorts get to a mature state. Credit cost normalizes to pre-COVID levels, not to the COVID levels, to pre-COVID levels. So you get to a stable return on asset. You continue to operate in that 1.9 to 2.1 type of a range on return on asset. But it took this opportunity on the credit to invest in the expenses. So that is how you think about that.

Kunal Shah: Sure. And this ESOP expenses, so what would be the quantum for the full quarter?

Srinivasan Vaidyanathan: The full quarter, the ESOP and RSE is close to INR400,000, no, INR400 crores or INR300 crores, close to INR300 crores.

Kunal Shah: Okay. And secondly, with respect to the deposit growth, so was it more skewed towards the last fortnight significant part of it, or have we seen the impact of it in terms of the, maybe the overall cost of deposits? So obviously it will not play out in this 4Q, but over a period with this kind of a deposit traction, what would be maybe overall the margin trajectory? Maybe because we have not seen any improvement over the past three quarters. So should it sustain or we see some professional margins going forward?

Srinivasan Vaidyanathan: Okay. Yes. Two aspects to it. One of the deposits as such. Yes. See, to the extent that there are some wholesale deposits, they will be chunky and they will come and go depending on how the wholesale business deals with their balance sheet. So that is part of one that happens, but the core retail is something that is what I alluded to in the prior question, that is what we drive to. The rest tries to come and fill in and go. The next aspect of it that you asked about how to think about margin. Our margin operates in a very narrow band. And it is narrow band because the modified duration of the book, call it about 1.2 years, 1.3 years thereabout.

And within a reasonable lead and lag effect, which can have 10-20 basis points at any time or 10-15 basis points any time it can move up or down. But right now, you are seeing some lead effect. The cost of funds will come. Already in this quarter, the cost of funds has moved up. I think we put up a chart to show sequentially both the yield movement as well as the cost of funds movement.

Moderator: This is the operator here, please hold while we reconnect the management line. It seems to be disconnected. We have the management line reconnected, so you may proceed now.

Srinivasan Vaidyanathan: Yes, okay. Sorry Kunal, I do not know where I dropped off, but I was talking about the margin as such. Yes, there is a lead effect that happens when the asset pricing starts to move in front and the cost of funds on the deposit starts to lag. There is some lag on that one, but still our margin, as we said, operates in the range of 3.94 to 4.3, 4.4. Given the mix still of the wholesale mix, which is still pretty high in the book at 53, 54% wholesale mix. We are at the lower end of the range. But whether 5-10 basis points, any quarter can move up or down, it can happen. 5-10 basis points is nothing. It can change, and it's essentially the effect of the lead of the lag that can happen there.

Kunal Shah: Sure. So, this 13 bps is a kind of an expansion in the deposit cost. I think that should accelerate in 1Q in terms of the increase of the incremental data, which can be there?

Srinivasan Vaidyanathan: Yes. If you ask me whether all of the deposit increase has already fully come in, I would say no, not yet. It will come. Not because we are changing any rates in isolation. No. It is simply a function of as the book starts to reprice, the lag effect, it comes in. But still, from a margin, similarly, we price the loans too. Some fixed rate loans go out and we bring in new fixed rate loans at new rates.

And so, it's a continuous effect. 5, 10 basis points always possible. But we have been very stable in that range of 4, 4.1 for some time.

Kunal Shah: Okay. Yes. Thank you, and all the best.

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

Rahul: Yes. Hi, Srini, this is Rahul here. Can you hear me?

Srinivasan Vaidyanathan: Yes, Rahul. Yes.

Rahul: Yes. Hi. Good evening. And thanks for the commentary and good numbers. Just had two, three questions. Going back to the previous question on margins. So, just thinking through about the repricing of the floating book and the new fixed book that you have onboarded within the last six, nine months in the time the rate cycle started. So, when do we see the full benefit of that play out? So, floating book would be getting repriced pretty much as we speak. But the new fixed rate book that you onboarded, when does that start to show up in the yield number? And when is that inflection point now that the RBI has paused the rates? So, how much more repricing benefit we can get is essentially my question.

Srinivasan Vaidyanathan: Yes. No, you can get more. The fixed rate book, call it two, three years it runs. The fixed rate book runs two, three years and that's called 44% of the book, 45% of the book round number, that is the fixed rate. And it has started and it will continue for some time. But at the same time, the cost of funds will also come in and catch up. So, if you look at our margin as such, what is the rate play in the margin is minimal, rate play in the margin. That's why we talked about the modified duration 1.2, 1.3 years that keeps that in a very narrow band and only some lead lag effect comes in. What is more from a margin point of view is the structural change in the composition of the book, where the wholesale book, which was 45, 46 before COVID went all the way to 55.

And now it is like 53%, 54%. And as that starts to wear off and come down in the retail, which is accelerating right now, all the investments that we are doing, retail that is accelerating, as that starts to come, you will see the structural thing can come up. And when that comes up, the credit cost also comes to normalize. If you go back, when the margin is 4.3, the credit cost is 100, 110 basis points. So, what you get on the margin, you pay to some extent on the credit cost. But that is why if you look at the return on asset that remains at that stable level of 2, 2.1.

Rahul: Understood. So, okay, fair enough. The second question was actually on the cost to income. So, given that next year, credit growth will be slower than what we had last year, but we will still be making the investments that we have talked about. So, do we have another year before it peaks out or 42 is where you would call it out as a peak cost to income?

Srinivasan Vaidyanathan: No, I would not say that we have peaked out. But over a period of a year, if you say, maybe that is the level we would like to run. But quarter-to-quarter can go up and down a bit. That's why even in this quarter, I have been saying that if you look at only one quarter, up, down, possible. Depends on What's out there, what we have done, both from a volume booking point of view, or any of the marketing activity point of view, or the card spend activity point of view, whatever we do, that can keep going up or down. But largely as the lapping, we started the branch in March '22. Right now, one has gone by and then the second year has gone by.

So, if you look at 15 months, in 15 months, we have added 2,000 odd branches we have added. So, another four quarters to five quarters, things should lap itself from a comparison point of view, it should lap. Then after that, it would be almost 18 months to 24 months for the revenues to start coming in to support that cost. And as I told on the other question, the credit cohort starts to mature, and you see some credit costs also coming to normalize.

Rahul: That's helpful. Just two more small questions. This credit card on book balances, the growth has been appears to be quite tepid. What could be the reason behind it? I understand revolves may not be improving, but can you just throw some more light, the EMI book growth within the card space or the revolves, how are they behaving?

Srinivasan Vaidyanathan: Yes, see, it is also normally, I think, from a quarter point of view, the fourth quarter is normally lower coming off a big festival type of a spend in the December quarter, the pay downs happen. That's one. Number two, yes, you already alluded to the revolvers or the revolving balances, we don't see it going up yet, not yet, we don't see that up. Three, we also measure the funding that the card customers provide. And the card customers provide funding, which is more than five times the card balances, the card ANR that we carry. So enormous liquidity, enormous funding, deposit funding is kept by those customers with us. So naturally pay downs are happening. The spend I told you, spend is quite robust, 30 odd percent growth in spend.

Rahul: Yes, but the profitability may be substantially lower than what you earned in the past, because the interest yielding balances have structurally come down. So I am just thinking from that standpoint?

Srinivasan Vaidyanathan: Two things on profit, I don't want to leave that question or leave that comment open on profitability. See, the profitability, again, one has to look at it over a cycle on profitability. And two, certainly not quarter-on-quarter on profitability. Number two, always there are levers that get operated on. That means what is it that you earn and what is it that you can spend, that is something that we always constantly look at to match. And what are those levers? You've seen some of those levers on the spend side, where the revenue is somewhat lower because of lower revolver or other things, then you spend appropriately on the other side, on the expense side.

But there are still, at this time, when the spend is going up, we do want to encourage and we do think that the revolver will come. And while it does not yet come, we are putting those investments out there in various programs, card programs.

Rahul: The last question, I just want some comments from you. RBI allowed this pay later or pre-approved credit line on UPI. We understand you already have that product on your website. We saw that. Can you just throw some light as to what is the incremental thing that RBI has done? And since you've already been running this product, how many customers you have and do you see this as being a large product proposition that can be in the future?

Srinivasan Vaidyanathan: See, the product always was there. I think now that EMI type is something that is also coming in. It's too early to say whether this particular UPI channel is going to be a big driver into that. But we already have various other channels, our brand channels, our VRM channels, and our direct marketing channels that trigger this quite a lot for us. And so, we will have to see whether what the UPI channel does. But then keep in mind, the UPI channels, the ticket sizes are small. I think as an industry, the ticket sizes are in like three digit rupees. We have it at least 10 times more than the industry average on a ticket size, but still at that size, we can't see it. We'll have to wait and see how that works.

Rahul: Thank you, Srini. Thank you for being so generous and patient in answering my questions. Thank you so much.

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

Saurabh Kumar: Hi. Good evening, Srini. Sir, just two questions. One is on this other asset, the growth rate in the other asset is very high. So, will this be due to the RIDF shortfalls? And the second is, now that we're coming closer to the merger, so HDFC Bank standalone CD, incremental CD is obviously pretty good. But on a pro forma basis, it's still near that maybe near that 100, 800 and so on. So, from a growth perspective, will you look at like LCR? And will there be like a target under which you can get the LDR below 100%?

Srinivasan Vaidyanathan: Yes. A couple of things. You asked about other assets. Other assets has got, I think, INR135,000 crores to INR1,45,000 crores or something movement in a quarter, slightly INR10,000 crores or something. There'll be part RIDF and part various other things that go through it. And similarly, I would urge you to look at other liabilities too, which also has moved from INR85,000 crores to INR95,000 crores, I think. That also has moved up by about INR10,000 crores. So, there are several things that go into that.

But over a period of a year, if that's what you're thinking about, yes, there is a component of RIDF, which is part of that, which has moved up. Call it INR40,000 crores of RIDF, which is there. And that's part of what we have laid out our strategy is to, we always optimize between various components of what is available in the market on PSL.

And this is one of the things that is available. And we tap into that too. The second aspect that you asked about the CD ratio, I guess, right, on a pro forma, how do you think about the way you think about the CD ratio is that day one, whatever happens is inevitable. So, when you add A plus B, it shakes out to whatever the CD ratio comes out to. But from then on, how you look at it is, what is the incremental CD ratio. And to the extent that the incremental CD ratio operates in a range, which is below the bank's current range, that's where we go and catch up and bring it to the current level where we are. So, that's how we are thinking about it. Day one is inevitable, but over a period of time, as the maturity profile of the book in HDFC Limited, their borrowing matures.

We replace it with deposits, we get to a better place, over a period of, call it three to five years.

Saurabh Kumar: Very clear, Srini. Would you have the pro forma LCR or will that come after HDFC reports?

Srinivasan Vaidyanathan: Not yet. We'll have it in due course of time as we progress more towards the effective date.

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

Adarsh Parasrampuria: Hi, Srini and team. Thanks for the question. The question is, again, on opex, we've delved into the branch and distribution expansion. But somehow, if you just track the overhead per branch or the employee cost per employee that is also going up, right?

You are adjusting for the distribution increase. So, just wanted to have a handle on that because usually I would think that as you add the incremental branch, the cost lesser, the fixed overhead that you are adding is cheaper than the average cost. So, just wanted to understand that why the cost increases are materially about the distribution expansion that you are saying?

Srinivasan Vaidyanathan: One is, it is important that we are making investments in branches as well as people, right? The 31,000 people or the 6,600 sequentially, that also adds to the cost. It is there. And the productivity of all of these comes in, then you see that in the revenue and then that evens out, right? You have to wait. But if you look at the branch productivity itself, look at the deposit per branch, it is up. INR250,000 crores, INR260,000 crores per branch, that productivity is also up.

So, it is not just about whether the cost per branch is up or some, it will be up because if the inflation in the country is operating at the rate of 6% to 8% or the pay increases are happening at that kind of level, the cost will go up. But it is a question of getting that productivity driven up to pay for it through the volumes and revenues.

Adarsh Parasrampuria: Got it. Okay. And we just continue now. I think the pressure of inflation and depreciation is a little lower. So, would you expect that pressure to be lower because then you probably have an opex growth which more mirrors the distribution and the employee expansion rather than being a higher number than that?

Srinivasan Vaidyanathan: It is too early whether the, what effect on the inflation comes through to the expense, it is too early on that one. But again, I will tell you to look at from a cost-to-income point of view that it moves in that range of 42 something. And then as we progress over four quarters, six quarters, it starts to keep coming down.

And I think among various things while we do not talk forward looking in any of those aspects, but from a cost point of view, we have said that over a period of time, you should get back to the mid-30s as the productivity starts to come in.

Adarsh Parasrampuria: Got it. And Srini, my last question is on the PSL part. We did have some shortfalls, the RIDF went up. If you can, obviously there was a question on other assets as well. So, if you can follow the RIDF where it was, where it ended and given how you have achieved PSL now, would you expect that the increase in RIDF will moderate, will stop, if you could just indicate directionally where we are headed and what was the status of PSL compliances at the year?

Srinivasan Vaidyanathan: Okay. Adarsh, if you think about whether where will RIDF go or something, see, this is the dynamic equation that one solves. Because that is how you optimize it. The goal number one, is to go organically build. And distribution reach that we are going after, I alluded to our CRB business in more than 90% of the districts and at 1.65 lakh villages wanting to go to more than

2 lakh villages. They are all in the direction of how we organically grow. That is the number one from a prioritization point of view. Do it yourself. It gives you better return. You manage that on a sustainable basis.

Then everything else is a filler depending on what is available and you optimize that through whatever is the least cost. And all of them are in play from PSLC to RIDF to IBPC to all of them are in play in terms of how we manage that.

Adarsh Parasrampuria: Any factual data around how your PSL is set up and what your RIDF book was last year and now? Only the factual number?

Srinivasan Vaidyanathan: I just checked with the team, I think it will eventually get published in course of time. You will get access to it and the team will publish that. It is coming.

Adarsh Parasrampuria: Perfect. This is helpful. Thank you.

Srinivasan Vaidyanathan: Thank you.

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

Manish Shukla: Good evening and thank you for the opportunity. So for FY '24, would you broadly expect similar branch and employee additions as FY'23?

Srinivasan Vaidyanathan: FY'24 branch addition. At this moment, we expect to continue the speed at which, not necessarily every quarter evenly, but the speed at which we have done over the last 15 months to 18 months, we will continue. We do this, we take stock of this every quarter to see one, availability and the market potential, identification of the market where we need the potential. That is one exercise that we do. And the second exercise we do is that look back to see the performance of what we have already done and how that is progressing on the curve.

But yes, as of now, the approach is to continue with that, but subject to evaluation every quarter in terms of that, the trajectory that we are continuing is indeed the trajectory that is yielding those results that we have planned for.

Manish Shukla: Sure. Recently, you had cut some of your short-term MCLR rates. Could you explain what is the trigger for that?

Srinivasan Vaidyanathan: See, the methodology, how you apply Tenor Premia is something that we modified or we got that to a place. And it is in the front-end and we do not have much volumes in that end. And that is part of what, this is not something that captures big volume from an overall sense point of view. One other thing is that MCLR loans, the floating rate MCLR loans, is 6% of our total book and very little into the front-end bucket there.

Manish Shukla: Sir, you said 6%?

Srinivasan Vaidyanathan: 6% is the floating rate MCLR book, but in the front end where you alluded to, very little is there.

Manish Shukla: I understood. Just going back to the deposits part, as you rightly mentioned, the newer branches would probably have not contributed as much. So, just trying to understand what is driving these numbers because you are obviously not paying the highest rate in the market. Everybody is chasing deposits and yet your numbers are meaningfully ahead of all your peers in terms of absolute deposit mobilization. So, just trying to understand what is it that you have done differently this year, which is driving this kind of growth for you.

Srinivasan Vaidyanathan: Okay. See, there are a few things. I can talk two, three things I will mention, several things, but I guess we will continue and we have mentioned this in the past, so you will recollect. One is you need to leverage the branch network and the brand to bring in new customers.

Let me give you that in 2018, we got in 3 million customers in liability relationships. In '19, 4 million. In '20, 6 million. In '21, 7 million. In '22, 8.5 million. In '23, 10.5 million. So, you need to bring in new customers and that is what we have done to ramp up. So, when you bring in new customers, like the way the branch maturity is connected similar to the branch maturity, the customer maturity also takes about 24 months.

So, if we need to harvest the potential of the customer to be the primary banking and get the balances, I cannot bring the customer today and get the balances today. When I bring the customer today, we get some balances today. It is about getting the potential of the customer we got in two years ago, three years ago to do the work now. Our RMs engagement to get that now. So, that is one. Customer is important and I gave you an idea of the ramp up on the customers that we have done and we continue to do that to keep that pipeline open and running. That is one on the customers.

Two, from an execution mindset and our RMs focus, we did that sometime March, April last year in '22, where we said we want to amend our scorecard to ensure having element of a time deposit cost with a 14%, 14% penetration in our base for time deposit. We said it is a low penetration, we have enormous room to go for it and we do not need to pay for it.

In fact, if anything, we are slightly, we are at or slightly below certain other players. And if you look at the time deposit growth in the recent quarter, I think it gave about 30% or so growth in the time deposit, the growth that we have had.

And let me tell you another way to even think about it and that is how the frontline is driving it. It is about, call it from 7,000 odd branches and call it maybe 50 deposits, such deposits a month at a ticket size 4 lakhs-5 lakhs type of granular time deposit. 50 such deposits, 7000 odd branches, INR4 lakhs-INR5 lakhs you get per customer. Then that is a drive and then you got all the RMs that we are having and the sales people we are having in the branches to go get that engagement.

So, it is better engagement, it is the granular across all branches unleashing this to say this is an important element to increase the penetration. Our penetration has, we have grown 30% but still it is about up by 50 basis points. We have a long way to go to increase that penetration. We will be relentless in getting that full relationship of the customer through this. I gave you one or two examples of what we are trying to drive here.

Manish Shukla: Okay, understood, very clear. Now last question, what are the milestones and timelines with respect to the merger now?

Srinivasan Vaidyanathan: With respect to the merger, if you see 28th or so we had the NCLT order that we got. We made the application to SEBI as it relates to the change in promoter and giving notices to mutual fund holders. So, we have gone to SEBI to get their permission. We have also gone to IRDA from a change of promoter on the insurance side. So, we are awaiting what they need to come back and give us the nod to go. That is one.

And then once all of this is there, then we circle back with RBI to take it to the final stages. We think from a timing point of view, it is June, July, possibly July is where we think the time frame as we speak given where we are on various things.

Manish Shukla: Alright, okay. Thank you for answering the question.

Moderator: Thank you. The question after this will be the last question, due to paucity of time. The next question is from the line of M B Mahesh from Kotak Securities. Please go ahead.

M B Mahesh: Okay, good afternoon. Just two questions on my side. One is in your expectations looking at the current deposit rate, how does the cost of funds move in your balance sheet over the next few quarters?

Srinivasan Vaidyanathan: Okay, so with the current deposit mix, the cost of funds will start to inch up as the 30% growth that we have had in time deposit in the recent quarter starts to fully come in. So, the cost of funds will go up only because of the mix of deposits, not because of the rates. And similarly, the yield on assets also needs to go up. That is part of how we are pricing to say that we need to realize. So, again within the narrow band, yield lag effect happens.

Right-hand basis point can change in any time, in any quarter. But again, we operate in that narrow band. As I told you, the modified duration is quite matched on point two or so on both sides.

M B Mahesh: Okay. Yes, in terms of the questioners, we look at about 20 odd basis points increase sequentially and also in the previous quarter. That is quite a good performance. So, that is why we are just trying to understand as to whether this 20 moves closer to 30, 40 or is it a number closer to the current range?

Srinivasan Vaidyanathan: I do not want to venture into giving a forward looking to say what sort of a volume and mix will come as we go into the April to June quarter. But again, it operates within that range, narrow range or margin 4.1 plus minus 5-10 basis points. That is where it operates.

M B Mahesh: So, second question, Srini, if I look at the fee-income line, the growth in retail asset driven fees as well as when you look at the cost line, the DSA related fees, both of them seems to have slowed down or has grown very slowly. Is it any indication of the situation on the ground or you think that the volume still is quite impressive when you look at the retail businesses?

Srinivasan Vaidyanathan: No, it is not something indication on the ground. We do see a good amount of demand. I think a little bit too in terms of the customer preferences in terms of higher value chain type of products. That is what we see. The example I gave you was the SUV and PV type, right, or higher horsepower two-wheeler type. Those are all for that matter a 5G phones rather than a normal phone.

So, these are some of those things that are happening in the market where people are, and also the producers, the manufacturers are also looking at high value, high margin type of a products. So, it is not some, we see good amount of demand that is there. So, it is for us that it has to pass through our credit filters and then we are there to take it.

M B Mahesh: So, in your sense that there is no slowdown in demand at least at this point of time?

Srinivasan Vaidyanathan: Nothing material from that sense that it is about the customer segment. That is all. And I can tell you even our subsidiary customer segment, which is a couple of markets below the bank segment has also shown enormous attraction in terms of the disbursals and volume growth there.

M B Mahesh: One final clarification, there was a recent RBI guideline on expenses that one can charge on the various fee-income lines. How comfortable are you with respect to that guideline? Because it is still a white paper. Just trying to understand your perspective about this?

Srinivasan Vaidyanathan: On the penal charges. Yes. I think within reason we operate, some minor things can happen, but then again the penal charges are in the direction of where we would like to operate and where some minor things we need to throw up we will do, but it is within our realm of how we are operating.

M B Mahesh: Perfect. Thanks a lot sir.

Moderator: Thank you.

Srinivasan Vaidyanathan: Thank you.

Moderator: Thank you, ladies and gentlemen. I now hand the conference over to Mr. Srinivasan Vaidyanathan for any closing comments.

Srinivasan Vaidyanathan: Okay. Thank you. Thank you all for joining us today. We continue to be available over the next several days and if anything else that you would like to know more, we would be happy to engage and talk. Thank you. Have a great evening. Bye-bye.

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