



“HDFC Bank Limited
Q1 FY '26 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day and welcome to HDFC Bank Limited Q1 FY26 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 brief commentary by the management. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Srinivasan Vaidyanathan, Chief Financial Officer, HDFC Bank. Thank you and over to Mr. Vaidyanathan.

Srinivasan Vaidyanathan: Thank you, thank you Neerav. Good evening and welcome to all the participants today. We have Sashi Jagdishan our CEO and MD with us this evening. We'll hand it off to him for opening remarks, then we'll get back to you. Sashi, over to you for opening remarks please.

Sashidhar Jagdishan: Thank you Srini and thank you all in the call to join us on a Saturday evening. Let me just start off with a little bit of what we see on the macro. You all know this much better but let me summarize. The global situation remains pretty volatile with a weakening growth outlook amid tariff-related and geopolitical uncertainties. Within this context, India remains a relatively better place, supported by a stable macro environment. For this fiscal, we expect GDP growth to sustain, supported by pickup in improved performance of domestic factors.

Normal monsoons, income tax cuts, which you saw in the last budget, benign food inflation, as you have been recently seeing the prints on inflation, augur very well for domestic demand, especially during the festive season. Concerted policy impetus, which we have been seeing right from January, February of this year until recently, supports sustainable growth.

Coming to our performance. Let me just recap as to how we traversed this over the last 12-18 months. Last year, we have grown our average deposits at a healthy pace of 16% year-on-year and continued to gain market share as we have done in the past. However, we slowed down our average advances or AUM assets under management growth to about 7% last year in alignment with our strategic objectives to bring down the CD / credit deposit ratio from 110% at the time of merger to about 95% as we speak today. This rate of growth on the assets under management has improved to 8% in the quarter just ended, which is the June quarter, FY26. Our growth engines are well geared to grow and as we move forward, we expect our loan growth to continue to improve from here and remain confident of growing our advances at the system growth rate at FY26 and higher than the system in FY27.

The growth enablers, apart from balance sheet growth, remain customer centricity, technology and our people. Some of these aspects, I think, during the course of this quarter and probably the next half of the year, I think we shall be talking more about it as we unveil some of the initiatives that are underway in the bank.

As mentioned in the previous earnings call, both the CFO and Bhavin did mention, and you can recall some of the transcripts of the last earnings call, policy rate changes impact the loans tied to external benchmarks, while deposit side takes longer to factor it in. As they probably would have mentioned, a large part of our asset side of the balance sheet is floating in nature. It's somewhere

around the 70%, and whilst the liability side is more or less fixed in nature. So this would be a headwind in terms of when the rate cycle is on a downward trend. This impact is dependent on the pace and depth of the rate cut. You're seeing that in the results just announced. Whilst we may see quarterly fluctuations in margins due to this lead lag impact, we expect to stabilize it over a period of time.

Our asset quality, one of our main USPs, remains healthy, positioning us well for growth in both assets and deposits as liquidity and demand improves. During the quarter, we carried out the HDB Financial Services listing process, wherein the bank also diluted some stake, and which eventually culminated in the stocks being listed on 2nd of July. We thank all the investors who participated in the said IPO.

Earlier today, the Board also announced an interim dividend of INR 5 per share, and they also recommended to shareholders the first ever bonus share issue in the ratio of 1:1.

Srini and team will probably give you more details as questions come about from all of you all. So until then, I would like to express my gratitude to all our employees for their hard work and performance in a very challenging environment. As we move from, you know, we managed the slowing down of the engine last year, now to get back into its momentum as we have laid out as a strategic objective, it requires a lot of courage. I think they have done extremely well, and we are proud of them.

And gratitude to our shareholders who have supported us in all our times, and to the Board for their leadership support and their strategic guidance. So thank you all on the call for your support as well. Srini, over to you.

Srinivasan Vaidyanathan: Thank you, Sashi. We go straight to Q&A; we can open it up and proceed. Neerav, please open and get into the queue, please.

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

Mahrukh Adajania: Hi, good evening. So I had a couple of questions. Firstly, on your margins. So just wanted to recap on your method of repricing on EBLR. So following a rate cut, in how many months does the book, the full EBLR book reprice? Or at least the repo book?

And just wanted to make sure that the repo, the EBLR linkage is around 65%-67%. So that's my first question. And my second question is on growth. Obviously, there's hope that it will recover, but it's only slowing in the interim. So what will trigger growth from current levels right? Because in the first quarter, even HDFC banks, growth was subdued and so was everyone else's. So what will trigger growth? Because it's been falling over the last two quarters for the sector.

Srinivasan Vaidyanathan: Okay. Thank you. Thank you, Mahrukh. Good evening. Let's talk about the margin. And you asked about the EBLR and the pricing in and so on. The February price change on EBLR and the April change, yes, both of that for the most part will be fully in.

The June change of 50 basis points will not be fully in. In fact, substantially will not be in because it takes one month to three months, right? At least one to three months for pricing in. Some are monthly resets, some are quarterly resets and so on. So we'll have to wait and get there. So two of those are done and the third one which happened in June, we'll have to wait for that for balance of the path to play out. So that's one of the margins from an EBLR yield impact point of view. That's why you see the change in the yield on assets is about 20 basis points or so. 30, but you had 7/8, the last quarter had one timer, so 22 basis points or so is the change in the quarter. And so it has to come through from this. That's one of the margins.

Second on the growth you touched upon, I'm sure Sashi will jump in to talk about it. I think he already talked about it in the preamble in terms of both the monetary policy support in terms of the rate reduction that puts more money in the hands of certain consumers with certain products and also the yield going down. And also the fiscal policy which also provided relief in terms of some tax benefits. And the overall, the market inflation, both food inflation and the total inflation below that 4% target is 3.7% and some are even below. The food inflation is extremely low or nothing. All of that augurs well for consumption demand to pick up faster, both in the urban segment as well as in the rural segment. And with the onset of the festival season, we do expect that there will be a greater fillip in that area. Our approach is not only one segment. While we typically tend to mirror the GDP spectrum, which is consumption being 60%, so retail predominant in that. We are present across all of these segments. And we would endeavour for a balanced growth across all with a tilt towards the consumer. Sashi, from an overall view.

Sashidhar Jagdishan:

So we are seeing some amount of healthy demand from the rural side. I think the segment which we are catering to is already factoring in better monsoon. And so we are seeing some amount of positive inquiries coming in at our ground level there. So there is an opportunity at that front in terms of potential growth.

In the recent past, in the urban consumption, obviously, the premium side whilst is growing, there has been a little bit of a fatigue. But we expect the festival season, which will start shortly, I mean, whether it is the Onam or the Ganesh Chaturthi, etcetera, a fair amount of festivals will start to kick in in the country from August onwards or even earlier. I think that mood will have a reasonable amount of impetus, and that could be a good trigger as well.

As I mentioned, you know, the fact that interest rates have come down, the fact that people would have now started to see savings arising out of the fiscal largesse that was given in the last budget, I think all that will play in with the convergence of the sentiments and the moods which normally the Indian festivities normally bring about.

On the MSME side, I think the sectors that we normally cater to, as I said, despite the kind of uncertainties on the tariff front, I think we have seen a fair amount of up-fronting of exports to sort of take advantage of this potential tariff rates. And so, we do see a reasonable amount of buoyancy in some of the good customers in the MSME segment as well, which should continue even as we get into the second quarter or the second half of the year.

As regards corporates, I think they have been enjoying in the last couple of months reasonably benign interest rates, and obviously the system, since being flush with liquidity, the rates being

offered to these AA and above corporates are pretty attractive. So obviously, we maybe, you know, to some of the good corporates which we are comfortable with, we shall be participating in some of them for their working capital demand as well.

We are not seeing anything great on the capital, private capex side as yet, but we shall surely participate in, as Srinidhi did mention, across all our segments, whether it is rural, whether it is retail, whether it is MSME and whether it is corporate as well.

As regards mortgages, that too has seen intense competition from the public sector enterprises. But having said that, I think some amount of participation considering the brand and considering the fact that we are also trying to see how to optimise our cost of processing on that, I think we should be able to pick up some of the volumes during this test period as well.

So, we have a clear-cut, ground-up strategy in terms of how we will achieve our momentum from now on. As Srinidhi did mention, we are coming from a very low growth for the reasons that I just mentioned, that we had a compulsion to bring down our credit deposit ratio rather quickly, which we did reasonably well last year. But now from that low, we have already seen the momentum, although small, in the first quarter. I think it's playing out well and we should see this sequentially moving up over the next three quarters from now. Thank you.

Moderator: Next question is from Rikish Shah from IIFL Capital. Please go ahead.

Rikish Shah: Just had a couple of questions. The first one, notice that the CRB loan classification has been regrouped. So how are the portfolios now allocated to different business heads? Has there been any rejig there as well? That's the first question.

The second one is on the asset quality. Just wanted to clarify what is the NPA recognition policy for any one-time settlements offered to the standard customers. And thirdly, on the credit cost, while it's still very, very benign, it has moved up from 29 to 41 basis points on net credit cost basis. Where do you expect this to settle in the interim?

Srinivasan Vaidyanathan: Okay. Yes. A few things. One, on the rejig of the portfolio, you'll see it on Page 11. You'll see that there is a small and mid-market which is there as a separate category, and the emerging corporates is part of corporate. That's one. Second, there is one other reporting that is there, which product-wise advances, which is part of the separate release, which is also a financial metrics release that is done. That also has got similar breakup for the three time periods, which is last year, last quarter, and this quarter.

But that's where it has moved. And there are some agriculture book and some SLI book, which are part of retail, which are core retail, which has moved to the retail part. That grouping you will see in that product-wise advances list that we have provided. You'll see that what has moved from the previous.

Rikish Shah: Sure. But has the business allocation to different heads also been rejigged along with this? If you could highlight that.

Bhavin Lakhpatwala: Rikin, the respective product heads, like for example, the SLI head is continuing to be the same SLI head. He is reporting into the retail franchise, which is being headed by Arvind. So, the respective business heads have remained the same. They've been reporting into a different hierarchy who report into Sashi differently. That's the only change that has happened. No ground-level staff has changed in this.

Rikin Shah: Got it.

Srinivasan Vaidyanathan: What was the second one?

Rikin Shah: NPA recognition?

Srinivasan Vaidyanathan: How you do a settlement? If you do a settlement, one-time settlement, it's now part of the NPA.

Bhavin Lakhpatwala & others: We follow the norms. It's an NPA. There are RBI regulations around those which we will be following. In most cases, there will be some exceptions to it, but in most cases, any change of such, will necessarily have a classification downgrade. Whether that turns into an NPA will depend on each case-by-case. But largely, any change in that, one-time settlement would lead to an NPA recognition.

Rikin Shah: Got it. Lastly, on the credit cost. It moved up slightly. How does that behave in the next 12 to 24 months?

Srinivasan Vaidyanathan: Credit costs, normally, in the June and December quarters are slightly elevated, because of the agri -- largely driven through the agricultural portfolio. Based on the crop season, it moves up between June and December. I won't venture to give you one particular number. But we have been trying to tell that over the last few quarters that the credit cost continues to be benign. And there will be some point in time, it will revert to mean. And what is that mean is a moot point, and how long it takes is also a moot point, but as of now, it continues to be benign and healthy.

Moderator: Next question is from the line of Pranav from Bernstein.

Pranav: Two questions. One on the CASA deposit. The bank hasn't really gained CASA market share or maybe even lost some share in the last four to six quarters after a stellar three-year period from 2022 to 2023. So, what's really changed? And of course, more importantly, what will reverse the trend?

The second question is on your lending franchise. Can you share what percent of your 100 million customers would be loan customers? And I ask this in the context of HDB, right, which claims almost 20 million customer franchise and has growth ambition. And was wondering if there's a chance of a future conflict where both entities target the same customer.

Sashidhar Jagdishan: Pranav, let me answer this and then Srini can sort of complement what I'm trying to tell. So, number one is - let's face it, when we merged with HDFC Limited in July '23, there was a day zero adjustment of about 3.5%/4% from where we were. So, 41 to 38 is or 37.5, 38 is where we settled down on that. If you look at what we needed to do right from the day zero of the merger, we had a massive effort to reduce the credit deposit ratio.

It was a combination of trying to slow down the engine on the loan side and also try and step up the deposits to not only cater to some of the incremental reserve requirements that was necessitated because we took in more liabilities from the erstwhile HDFC Limited balance sheet, but also provide that business as usual incremental reserve requirements as well where we needed to keep that amount of extra deposit momentum.

And mind you, we had a kind of an environment which is rather challenging where the liquidity was very tight from the time we merged with HDFC Limited. When you have this scenario, you need to give clear directions in terms of what their priorities are. When you have branches and when you need to give clear directions, the directions that was given was you need to get deposits so that we can ultimately ensure that the primary objective of bringing down the CD ratio comes down.

So we did not provide any nuances to say that we also want good CASA, etcetera, because it's not something that you can ask anyone to say get CASA. CASA is a resultant of multiple ground-level strategies in terms of how you engage with customers, how you fulfil the financial needs of a customer, how do you upsell multiple products, and when you upsell, there is a lot of historical evidence and empirical evidence to say that with more and more products that you upsell, you will get your CASA balances.

So we are very clear that the priority is to get deposits and that is what the signal was given which is reflected in the fact that we got in deposits, we got in a good amount of market share, we got in at the prices the market is paying amongst the large peer group entities, and I think they have done extremely well.

And where we are at this juncture, I think going forward with the liquidity environment being rather benign, the fact is that now we have some amount of breather on the credit deposit ratio and the liquidity in the system and in the bank, we probably will have and this year in FY26, our direction to the frontline team is to now start to upsell more and more products, fulfil the needs of what a customer wants, step up engagement, use great customer experience which we will talk about now or even in the coming quarters in terms of how we are going to be creating a great delight, which will eventually lead to getting back some of the mojo on the low-cost deposit franchise as well. So this is part one and you will start to see this. Of course, for a large balance sheet, this will take a little bit of time, but I think we will cover it up and you will see the needle moving slowly but surely on this particular front. The second part of this question was on the?

Srinivasan Vaidyanathan: Lending and the HDB, lending customers and the HDB.

Sashidhar Jagdishan: HDB, we have maintained this. I think the segment that they cater to is about a notch or two below that of HDFC Bank. For the kind of rates that they offer in the market for products, there is definitely you know, why would a customer from HDFC Bank who has a much lesser rack rates would even go to an HDB for their incremental requirements.

Obviously, it has to be a notch below and that is not a segment that we are catering to at this juncture. I think we have enough to penetrate our own existing customer base and also the kind of segment that we are comfortable with from a product program basis. So even if one were to do a

kind of a de-duplication between the customer sets, the overlaps would be extremely minimal, etcetera . So as we speak and Srini, if you want to add something, the segmentation will continue to be distinct between the bank and HDB for a long period of time. There is zero or very minimal overlap at this juncture that will continue to stay for a long period of time.

Srinivasan Vaidyanathan: One other aspect of what you had asked also, Pranav, if I venture to say, in our customer base, cards is the maximum penetration from a customer base. I almost call it 15% to 20% card. We have 24 million cards. It is one of the highest penetration with that. So every other product, we call it anywhere between 5% to 10% to 12% kind of. So it is a long runway in terms of penetrating into our own customer base for various cross-sell opportunities.

Pranav: Thanks. Very clear on the HDB one. Just a quick follow-up on the CASA one. I was more wondering if any your recent actions, I mean, it seems to have coincided with you slowing down corporate credit, for example, right. So I was just wondering if there is something even more immediate or a side effect of what you have done, apart from all the other stuff that you talked about in terms of customer experience, except driving the long-term CASA.

Sashidhar Jagdishan: No, I don't think, Pranav, if I have understood you right, are you saying that the slowdown in CASA is an impact of the slowdown in the corporate segment?

Pranav: Yes, I was referring to that.

Sashidhar Jagdishan: Not really. You see, the thing is, corporate contributes to just a very smaller segment or proportion of our CASA. Yes, it is volatile. It has significant gyrations in the fourth quarter of every fiscal, and hence the outflows happen in the subsequent quarter. But is it something that has a significant impact because of that? I don't think so. Frankly, our CASA emanates out of the kind of engagement that we do to the retail segment. And that, maybe let me add a slightly other nuance as well.

The segment that we cater to on the retail side is the middle and upper middle income segment. This is something that we have always maintained over a long period of time. And this is -- I can see about 687 people on this call, and I have about a few people in this room. If I were to take this as a microcosm of how a retail of a middle and upper middle income segment will behave, all of us would like to maximize our returns or optimize our returns.

So this segment is -- the propensity of all of us to move and manage our funds is going to be far higher than what you would do to probably in the mid to lower segments. And that will also have a nuance, have a slight amount of impact in the near term for some of the institutions like us. But that's not something that -- but I still am very optimistic that the medium to long term, if we get our customer experience and our upsell strategies well at the ground level, I think we should be in a position to get back some of the gains that we lost on the low-cost deposits.

Pranav: Thank you very much. Thank you.

Moderator: Thank you. Next question is from the line of Kunal Shah from Citigroup. Please go ahead. Kunal Shah, may I request you to unmute your line and go ahead with your question, please?

- Kunal Shah:** Yes. Hi. Thanks for taking the question. So in annual report also you have indicated that you have been taking singles in FY '25 and now positioned to go for boundaries. So any particular segments, the priorities which have been set out apart from what you have indicated in general, the strategy which has been there, any key segments which you are looking at? And this quarter when we look at the number of employees, they have gone up by almost 4,000. So is it like we have ramped up employee addition or it is to do with the lower attrition rate in the first quarter? Otherwise, in the last full year we have added hardly like 1,000 odd employees and this quarter itself we have added 4,000. So is it like front-loading, lower attrition, what is leading to that, yes? .
- Sashidhar Jagdishan:** No. See, on the employee front, while I think Srini and the team will give you greater colour. But I think these are the impact of the branches that we opened in the fourth quarter of last year. So that is coming about now. At least a larger portion of that incremental hiring is from there. The balance, some portion will be in technology teams as well.
- Srinivasan Vaidyanathan:** A lot of the people, we have added in the sales force. That is part of the approach, both asset sales force as well as the branch sales force have added. And getting those branches fully manned.
- Sashidhar Jagdishan:** Yes. That is, as I said, that is the thing. I mean, see, the thing is I am not sort of here to say that I want to lay off anybody. We are very clear about it because we are blessed to be in a sector and in a country where the demand outstrips supply and we have a long runway. Frankly, even with, since you mentioned about the fact that what I have spoken about in the annual report, apart from the singles and hitting into the boundaries, I have also mentioned that there are some exciting tech initiatives which is underway, which I may sort of spell it out not now. I just gave a teaser in the annual report, but at the opportune time, which is just a few months away, we will sort of unveil as to what we are talking about. It will have ramifications in the capacity, but that is not our primary objective. Our primary objective is customer experience, and we are quite excited about how that is going to do about it.
- But even then, even at that point in time, what we foresee, what I foresee is that we will have employees, we will grow our resources, but it will be more and more in the front end, more probably in technology, and less and less in the backend operations or backend enabling functions, whether it is operations, credit, other enabling functions of the bank.
- So, the way I see it is that we will have, going into the future, more and more people at the customer facing and maybe revenue generating, and that is the vision that we have. So, adding a 4,000 in a quarter is just tactical in terms of, as Srini just mentioned, because we have had opening, I don't know how many branches we opened in the fourth quarter, and we are just manning it now completely. These are all low-end employees, which is necessary from a branch operations and sales perspective. And what was the second question?
- Srinivasan Vaidyanathan:** I think you answered the segment of growth, if any specific segment.
- Sashidhar Jagdishan:** That I have just mentioned a few questions ago, Kunal. I mentioned about the fact that where we see pockets of opportunities in terms of some of the rural segments, some of the MSME segments, even corporate, even though the rates are going to be very fine, but we still have, now that we have liquidity, I think we will sort of unlock some of it. And even retail, even urban consumption, I

believe that with the festive season coming up, we should see the premium segments also and unsecured segments moving up as well. Mortgages, pricing has been, as like the corporate side, the pricing has been rather fine, but we still believe that we can compete there, and there are some pockets of opportunities that we are sizing up as we speak.

Srinivasan Vaidyanathan: Even in this quarter, we did see approximately 1,000 people migration from back office to front office to augment more part of the process of the migration.

Sashidhar Jagdishan: Very good.

Kunal Shah: Okay, got it. And lastly, with respect to margins, so maybe what would be the average duration of the deposits, maybe in ALM, maybe because of the CASA classification doesn't make it very clear, but if we look at maybe the average duration of deposits, the way wholesale deposits proportion is also inching up now, it's closer to almost 18%-odd. When do we see NIMS, of say, Q4 level getting reached? Would it be by end of this fiscal or would it take time after the repricing is over and we see the benefit on deposits also flowing through, plus maybe the borrowings also getting repaid over a period?

Srinivasan Vaidyanathan: I'll start on the deposits. See, we have a significant portion of deposits, which are call it 12 to 18 months, call it mid-15, 18 months, thereabouts. So, that's the kind of where you have it in the front and you have it in the back, but then the most of it is centered around that kind of a time period. So, that's very important.

So, for the entire cost of funds to play out, it takes a few quarters. That means on renewal, on rolls, that's where it plays out there. That's one. From an overall margin, you asked whether by end of the year, yes. We will have to -- it will take a few quarters. It depends on the how fast and how much the rate changes, so that we will have to wait and see and there is always that June was and something that one did not expect that there will be a 50 basis point change in June. And so, these kind of things play out.

So, I will urge you not to look at quarter to quarter at all, because that is not how we can manage, because one, there are certain things on the asset side that will automatically reprice. And on the managed side, which is the deposits that we manage, there will be a lag effect both from a managing the pricing in of the policy change and the rolls that happen, there is a time frame to it.

So, yes, as we exit the year, there should be more stability if there is no more rate change, but then we will have to go through that process as time goes by as to what is going to happen in the forthcoming policy meeting, one or two meetings, what happens.

Kunal Shah: Okay. Got it. Yes, thanks.

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

Rahul Jain: Yes, thank you and good evening, everyone. This first question is on the loan growth. So, can you get some qualitative color on how would have been the growth in disbursements of the new loans that you would have underwritten in this quarter and how is the pace picking up there?

And, of course, there is always a time lag between the disbursal growth and the loan growth. So, if you were to just start looking out at the next few quarters, how would that start looking out? Can you just share some color on that?

Srinivasan Vaidyanathan: Yes. See, the disbursal growth in mortgages, if you see, is consciously down. The reason being that when there are certain institutions, particularly on the public sector side, which have a rate of anywhere 7.1, 7.3 or thereabouts, we are not competing, right, at those kind of rates. And we are more looking at rates which are 50, 80 basis points more than that, to provide better service and get a holistic relationship of the ability to have multiple products. And we are okay to be slower there because that is what we want, the full relationship, not a product as such getting pushed at this kind of size.

And as it relates to non-mortgages, the disbursals have been quite strong, and we are seeing that 9% odd growth in the retail assets year-on-year. And there are some seasonality, Agri season and so on and so forth plays out, but overall those have been reasonably good there within our growth. At 9.6% rate of growth, there is far higher room to go up to our own standards of where we are used to growing on those books.

Rahul Jain: Thanks Srini. And so it's fair to assume that by the time we get into the second and third quarter, the stock of loans should also start closing the gap with disbursal growth. And the disbursal growth has been stronger in non-mortgages. Shouldn't it also reflect in stronger fee income? But this quarter we didn't see fee income being that strong for some reason?

Srinivasan Vaidyanathan: See, fee income this quarter has been subdued due to the third-party distribution fees. That's where it is lower. Typically, June quarter is lower than March quarter. But then even March, June versus June, the third-party distribution fees have been subdued.

And again we believe it is timing through the year that this quarter industry-wide we did not see much of that third-party distribution fees coming through or distribution sales coming through there by the fees. But the overall outlook for the full year in terms of the distribution remains quite optimistic and quite strong.

Rahul Jain: So disbursal growth and loan growth in second and third quarter should start getting similar. Is that a fair assumption in non-mortgage retail?

Srinivasan Vaidyanathan: No, I don't want to give one particular outlook, but then certainly it depends. I think Sashi alluded to say that as the onset of the festival demand, we do expect a good amount of uptick there. And we are positioning ourselves to take advantage of that coming through in the next few quarters.

Rahul Jain: All right. Just one last question and more a directional question on cost-to-income except actually still I think the math, there's 42% of thereabouts. Of course, it has improved versus last year, despite the balance sheet reorg. But what's the sense we should get? Where would this number start to head towards in the next couple of quarters? Do we have visibility that goes down to below 40? Because we are adding employees, we are adding branches, etcetera and growth, of course, is a challenge. So should there be a scope for it to improve and bring it down to below 40? I'm putting a number there. I know you don't comment on the number, but still just get some direction or that

management would want to prioritize growth, so therefore cost-to-income is not an immediate priority?

Srinivasan Vaidyanathan: Cost-to-income is always a priority, even at the rate of growth that we aspire to do. We are at a normalized rate of 39.6 or something. But having said that, I would say that quarter-to-quarter certainly is not something that we look at to manage because there will be times then where there will be spend required to be supported.

That is, let it be the card spend or let it be some of the festival spend and programs and marketing that needs to be supported. So we'll not be shy of that where we need to do. We should look at an annual where we do, but certainly, yes, we envisage to take it down and keep improving on that.

Rahul Jain: Thank you, Srin.

Moderator: Thank you. Next question is from Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: Hi, good evening and thanks for taking my question. Sashi, you said that there's a bit of a breather in CD ratio in the system and liquidity in response to one of the questions earlier. I just wanted to check from a CD ratio perspective now where would the comfort zone lie? Earlier, I believe it was somewhere between 85 and 90. But now in the new scheme of things, better liquidity, system looking at growth revival, would you be comfortable with a relatively higher CD ratio?

Srinivasan Vaidyanathan: See, I'm going to take that, Abhishek, from a CD ratio. We are at 95, 96. Last quarter was 96. We are at 95 thereabout in CD ratio. While quarter-to-quarter, again, even for this year, it can be different. But in the medium term, we would envisage to get the CD ratio to be at that level we were prior to the merger, which was about 87, 88.

So that is why between 85 and 90 is the range that in the medium term we aspire to be there. And that naturally comes in when you have the deposit growth superior to the loan growth and you keep moving on that will come. And that is how that FY26 grow in line with the system and FY27 grow faster on the loans versus the system gets you in the medium term to around those kind of levels in the course of time.

Abhishek Murarka: Yes, Srin, the thought was that actually with now a little bit of leeway, if you target something a little higher than 87, 90, then you can actually grow a little faster as well and use all the deposits that are coming in because at a headline level, you're getting great deposit market share incrementally. So that's what I was thinking. Is that an opportunity now?

Sashidhar Jagdishan: Yes, theoretically, I agree with you, Abhishek. But as I said, it will have a certain amount of gradient. That's the thought process. I think we are aligned to that kind of a thought process. But obviously, we need to also see appropriate demand at appropriate pricing and appropriate risk premium as well. So it's something that we have to manage all these aspects as we move along.

But I think we are all geared up to ensure that we don't miss our opportunities. And, yes, if we need to have a direction downwards, but not necessarily be tied down to a particular CD ratio number, we are going to be happy to do so. But I guess that clarity will come about as we move to the second half of the year because as you know, whether in any year and more so in this particular

fiscal, I think a large part of your growth will come in from the second half and probably more veering towards the fourth quarter of this year. So at that point in time, I think there will be enough clarity for all of us. But in the meantime, we are ensuring that the engine is gearing up towards a trajectory which is what we had stated up. And whether it is disbursements, whether it is across multiple segments, whether it is re-examining the market opportunities or the competitive intensity and trying to see how we can, now that we have liquidity how to sort of bat on the front foot, I think we will be doing that and that will be very visible to the world at large.

Abhishek Murarka: Sure, that sounds good, Sashi. And the second question is on this contingent provision of INR1,700 crores. This was a little over and above whatever you use the windfall gain for. So is this specific to some account or is this some policy that drives you to make, or that drove you to make this additional provision? What was the reason to make the additional INR1,700 crores provision?

Srinivasan Vaidyanathan: Abhishek, we should look at what is contingent provision. As the name suggests, it is contingent on occurrence or non-occurrence of certain events right. And this does not represent any uniquely observed changes in the portfolio. These provisions run through models on various pools of assets under certain probability scenarios, stressing various factors. It is intended to provide resiliency and essentially strong reserving position now and for the future. We were at 51 basis points prior to this. Now the contingent provision is about 57 basis points of the loans portfolio. So it is done at kind of various levels, pools of assets, runs through various probability models and then that's the reserving that we do.

Abhishek Murarka: Perfect. And finally, can you give some colour on asset quality and outlook on asset quality in PL, CC and Secured Retail? Just sort of an update compared to last quarter. Now what do you see?

Sashidhar Jagdishan: While Srini may probably give some numbers, if at all he does, but I can tell you that that continues to be our greatest, what shall I say, our USP. I reiterate that ex agri, because agri is more cyclical in nature, which you see a little bit of a blip in the first quarter and the third quarter. It continues to be extremely benign, whether it's gross NPA levels or even in terms of the credit cost.

I mean, if you look at the credit cost ex agri also, it's sequentially, it's been pretty much stable. So we are extremely happy and even the outlook, as Srini just mentioned, is pretty much benign. And so even the so-called counter-cyclical buffer or the contingent provisions has no correlation to any pain points that we are likely to have. Virtually there's none. It is just building resilience into the future. And that's been a philosophy that we have been patronizing for a long period of time. And I think this is something that we are proud of.

Srinivasan Vaidyanathan: On the particular number, if you look at the NPA on the retail segment excluding agri, it's at about 82 basis points. Last year, same time, it was 82 basis points. So it's been pretty steady at that level. So over a year, 82 basis points. That's the GNPA on this retail segment which contains cards, PL, and all of those other products other than agri.

Abhishek Murarka: Right. So essentially you're saying there's no real stress and it's stable. The asset quality there is stable.

Srinivasan Vaidyanathan: Exactly, yes.



Abhishek Murarka: Yes, perfect. Thank you so much. Thanks and all the best.

Srinivasan Vaidyanathan: Thank you.

Moderator: Thank you. Next question is from line of Chintan from Autonomous. Please go ahead.

Chintan: Can I ask you a couple of detailed questions from your 20F? The first one is last quarter, you had said that you have about 500 billion of expensive worthwhile limited debt that will mature in 2026. In your 20F, your long-term debt maturity for 2026 is about 1.5 trillion. I wanted to understand what that other 20 is like in terms of cost or duration and what the opportunity is there in that trillion, so excluding the e-limited debt. So that's the first one. And within that also, how do hedges play a role in helping you offset the NIM pressures?

The second question I have is on PSL. If I look at the achievement rates, it has come down year on year probably because of the one-third base being added from HDFC Limited. If I think about another third coming next year, there is some kind of rolling shortfall building up in certain areas. How should investors think about this? Would RBI make a call on this at some point and then it is what it is? Or can we prudently put something in our expectations on NIMs on that call? How should we think about it? Thank you.

Bhavin Lakhpatwala: Chintan, that 20F is a consolidation of all the subsidiaries. If you look at any numbers there and try and look at that from a standalone, it is not going to really make sense. I would encourage that you don't try to find data points from a bank perspective in there. It is not going to be able to match it and it is a completely different accounting standard as well. We will pick it up offline to see how we get there on that.

Srinivasan Vaidyanathan: All the subsidiaries are added in that.

Chintan: Can you cover on non-e-limited borrowings? Any opportunities there to do any liability management exercises or something that can help you reduce your cost of funds there?

Bhavin Lakhpatwala: If you see the borrowings that we do give a breakup, we constantly have something which comes up for maturity, which we have done. Last year, we did have some opportunity to prepay or try and advance some maturities, which we have taken through. We will keep looking for this as and when they are available. We will do that, but given the rates where they are in the market, these opportunities may not necessarily be as much in this current year, is the way we think about it.

Sashidhar Jagdishan: Little two bits on this one, Chintan. Even if there are opportunities, you have to take a fair value hit if at all there are any early redemptions of some of these long-term debt as well. That is something that you need to factor in. But if I were an investor, why would I even want to do that if I am holding a very attractive coupon on the other side? That is a reality, and that is what some of the investors have been saying - I am happy holding it to maturity. Sometimes, whilst on paper, I would love to do that, but in practice and in reality, there are very few takers on such early redemptions as well.

Srinivasan Vaidyanathan: On the PSL, you touched upon the PSL. Yes, right, PSL is an active management book in terms of how we have. At the aggregate level, the target is 40%, and if we have more than 40%, we try

to see how to get it to 40%. There is always a buy and sell on the PSLC that happens for actively managing, and again, with market availability. Not that every year, right, it provides an opportunity, but yes, I think, you are referring to the annual report of the PSL status of the FY25 status. Yes, there were sales also which exceeded the buy in the year, because we were excess at the aggregate level.

Sashidhar Jagdishan: Even as we speak, I think, we are reasonably Comfortable at an overall private sector portfolio despite adding one-third or the portion of the erstwhile HDFC limited balance sheet.

Srinivasan Vaidyanathan: The the only thing we always look for to get is the small and marginal farmer and the micro segment, which is much more dearer. Even availability is limited in the market, but we are not aware of any regulation change that provides or leaves any opportunity space that we do not know. But, yes, those two segments are there all the time, and even the last year that you referred to, we were about the percentage point or so looking for cover.

Sashidhar Jagdishan: Right.

Chintan: Yes. Okay. And can I slip in one more? Will 2Q be the trough of NIMS for the bank, given that a lot of the asset repricing will come through by 2Q?

Bhavin Lakhpatwala: It will depend on if there is another rate cut coming or not during the year.

Chintan: Yes. Assuming no more rate cuts. Assuming no more rate cuts.

Bhavin Lakhpatwala: Then you should expect that to happen subject to repricing on the liability side, which should come through. So, logically, yes, but there are a lot of other people on the call. We do not want to give guidance of any form or manner because there have been a lot of moving parts in there.

Chintan: Sure.

Srinivasan Vaidyanathan: The deposit costs are managed deposit costs, and the deposit costs do not reflect yet fully pricing in of the policy rate change. And you know that the deposit pricing, particularly I am talking about the time deposit, savings also it is the same, but for a good amount, the time deposit pricing is more or less maintains parity across various peer players in the system. So it is not just about one moving, you will have to see whether the cohorts are moving.

Sashidhar Jagdishan: Having said that, I sort of mentioned in the past, liabilities are more fixed in nature. So even incrementally, if our incremental liabilities come in at a lesser price than the stock, it takes a long time for the stock to run off. I mean the modified duration will be about a year or 1.3 years. So you have to wait for that, and that is the reason why you will, and rightfully that is what even you have alluded to, you will have a little bit of a trough, all things remaining same, assuming no incremental changes, a little bit of a trough in the coming months before it starts to pick up and stabilize to where the liability benefits also catch up with the transmission that has already happened on the asset side.

Srinivasan Vaidyanathan: I would urge to look at these things only annually, not quarterly.

Sashidhar Jagdishan: Absolutely. Which is what you have been mentioning, even in your last earnings call.

- Moderator:** Next question is from the line of Piran Engineer from CLSA India.
- Piran Engineer:** Yes. Hi, team. Congrats on the strong results. Most of my questions are answered, just a couple of follow-ups. Firstly, Srin, when you mentioned that credit costs will normalize, it's a matter of when and not if, I'm just thinking which segments will result in this normalization, because corporate isn't likely to worsen, secured retail is fine, and unsecured will only get better. So why should we assume that credit costs will rise in the future?
- Srinivasan Vaidyanathan:** Look, again, it's a question of the overall credit cost in the industry or at the bank remains pretty low. When I say reversion to mean, it is simply a statistical model. That is why I do not know when -- I do not know how much, right? But if you ask our credit experts, like our Chief Credit Officer, which I think he alluded to a couple of quarters ago in one of those investor calls, that yes, across all the segments, it has been pretty good and benign. It started maybe a year ago in the lower segment, like the microfinance, I'm talking about the industry, it started around that. And then it did not find its way into the other segments, like, retail segment, SME segment, wholesale segment, and so on. So again, that is a question of when right. It's not something that just moved from one on a quarterly basis or a two-quarter basis, it didn't start to move across. So it depends on when it does. But across all segments, there will be some kind of a reversion to mean.
- Piran Engineer:** But there's nothing on the horizon, at least in the foreseeable future that we see?
- Srinivasan Vaidyanathan:** No. No..
- Piran Engineer:** Okay. Okay. That's good. And just secondly, in terms of fixed rate lending products, like car loans, personal loans, etcetera, how much have we and our competitors cut incremental disbursement interest rates by?
- Bhavin Lakhpatwala:** It'll be difficult to gauge that, right? Because there's a large segment there and different players play in a different rate. So, it's very difficult to gauge what if everybody has got and not. First quarter is any which was a bit slower. If anything, you will find some of this competition playing out as the festive season picks up in the next quarter.
- Piran Engineer:** Okay. Okay. Fair enough. That's it from my end. Thank you and wish you all the best.
- Moderator:** Thank you very much. Participants, we have come to an end of time allotted for the call. I would now like to hand the conference over to Mr. Vaidyanathan for closing comments.
- Srinivasan Vaidyanathan:** Okay. Thank you all for participating today. If you have any more questions, queries, comments or whatever you need to talk, please reach out to our Investor Relations team which you are anyway used to reaching out if required. We'd be happy to engage and talk. Thank you. Bye-bye.
- Sashidhar Jagdishan:** Thank you all. Thank you very much. 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 your lines. Thank you.