"HDFC Bank Limited Earnings Call"

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Moderator: Ladies and gentlemen, good evening, and welcome to HDFC Bank Limited's Q4 FY '24 Earnings Conference Call on the Financial Results presented by the Management of HDFC Bank. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after a brief commentary by the Management. Should you need assistance during this conference call, please signal an operator by pressing star 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: Thank you very much. Good evening, and a warm welcome to all the participants. You would see some earnings presentation deck posted. Kindly download them as appropriate or you could refer it online and use that. We have Sashi Jagdishan, our CEO and MD, with us today. We will have opening remarks. And soon after that, we'll get to the Q&A and take you on from there in terms of any other clarifications or questions that you have.

With that, welcome, Sashi, and please take it over.

Sashidhar Jagdishan: Thank you, Srini, and thank you all for joining this call. Yes, it's quite a while since I joined an Earnings Call. So I may be a bit rusty, but do pardon me for that. Ever since the famous, or some of you may call it infamous, Q3 Earnings Call Results, we have received a lot of feedback from several of you.

With all humility, we have incorporated most of the feedback, so we are grateful for that. Thank you for that. I may have mentioned in the past, maybe in the last investor conference that I came on, it's important to reiterate that this is a completely new organization. The merger with a nonbank financial entity, the eHDFC Limited and the bank has landed a certain set of day one financials, and so there is a new starting point across all metrics. This is a new organization.

So it will be -- we have to, not only you but even us, we have to desist from having any comparisons vis-a-vis the stand-alone financials of either the bank or even the erstwhile HDFC Limited. We are now 9 months into the merger. The core metrics have remained stable since the time we merged with HDFC Limited. What does this demonstrate? This demonstrates that the underlying resiliency and the energy of the stand-alone franchise of the bank is very stable. And this is what something that all of us have witnessed over the last 30 years.

So this should be a bit of a positive for all of us, whether inside or externally, that the resiliency of institution continues despite a very adverse macro condition. What's the focus that we are now focusing internally? The key focus over the medium to long term, the medium as I define it between 2 and 3 years, is to focus on improving our profitability metrics defined as the ROAs and the earnings per share. To achieve that, what is key is to ensure the most important focus is the sustainability of our deposits franchise, especially the retail deposits franchise.

And that's going to be achieved not because of any shortcuts that we can take. Yes, there is a price environment. There's a market intensity. There's a competitive environment that is there. That's a reality. But how do we ensure that we are on par with some of the key players in the market and we don't try and overprice ourselves or don't bid for some of these deposits, that is the strength of the franchise. We have done that and probably as we go along, and that will be reflected in some of the financial metrics of the organization. The key to this sustainable momentum is our enhanced customer engagements and elevated service-first culture.

We are not saying that after 30 years, obviously, there's a reason why we have reached this kind of excellence in this deposit mobilization franchise, but we have realized that if you have to be even better, the only way is to elevate the customer service-first culture and we have a lot of measurement and monitoring mechanism in place internally for that. So the intensity of the same is going to be heightened and that's what we're driving and that's somewhere reflected even in this tighter environment that we have seen. We will continue to invest in distribution, in people and technology.

In fact, our operating leverage will be harnessed over a period of time to using enhanced tech and digital infrastructure. It's not something new, but we have always emphasized not just now, but for a long period of time that we are not a quantity player, whether for liabilities or whether for assets as well. Our focus is on quality, which is a balance between risk and margins. In several cases and several points of time, we have demonstrated that whenever there are any adverse or early indicators on the risk side, we tend to grow slow or if there is heightened competition or irrational competition, both on the liabilities and assets side, we are happy to give up that kind of a share.

So we're happy to grow slow. These kinds of gyrations will be there, not just now but even in the future. And so these are the kind of adjustments that we tend to do. But we have seen in the past that hardball price-based strategy is not a sustainable strategy. This will also pass. And I guess, over a period of time, people who continue to stay and not vacate the place will survive and will thrive as well.

I know a lot of you are very eager to get some guidance and outlook on some of the metrics, and I don't blame you all for that. And it is something that probably is necessary for your model building. But unfortunately, we have realized that it's not just now but even in the past, that providing a guidance is something kind of a distraction towards our long-term objectives. We would like to stay focused. So we shall -- I know you will try and ask for a lot of outlooks and guidances in various ways, during the course of this call, I'm sure.

But we will be steadfast in trying to ensure that we don't give them. I know you will scream saying that we are continuing to carry on truisms and not giving any tangible outlook, but I can assure you that we will have an anchor in terms of the profitability metrics, which is the medium-to long-term view, which I can say is, which is already there in the deck, which is pretty healthy but with a bias of -- on an increasing trajectory.

The quarter 4 results are a manifestation of the hard work of the entire workforce of HDFC Bank and ably led by the leadership team. It's a great opportunity for me to thank each one of my staff, which -- all my ground force for rallying around despite the challenging macro environment. If you've seen the deck, I would like to just summarize that we continue to gain market share in deposits, despite and not -- and I think it will be visible that we have kept the cost of deposits rather range bound.

Our asset growth has adjusted to recoup the liquidity buffer. So if you've seen for the full year, the incremental credit deposit ratio or loan deposit ratio is more or less similar to what we have always done. In fact, the advances mix is more or less towards better yielding segments like retail and CRB.

We did have one-off gains during the quarter, but we have nullified the impact with an equivalent one-off provision. Our asset quality continues to be very pristine. All our portfolios across segments, including early indicators, continue to be benign. We have, as a part of prudent risk management, created a countercyclical provision, which is a provision in good times. And this is something that we have done in the past, and this is one of our philosophies right through.

There is a certain rationale for creating these provisions, which we will sort of call out when you -- during the Q&A. We believe that such provisions really enhances the resilience of the balance sheet. I think even after adjusting all these one-offs and nullifying the same, the core return on assets is in the range that we've operated in the past, and that should be a great indicator for the future as well.

So I think we will pause, I'll pause, and the three of us are here to take more questions from anyone of you. Thank you.

Srinivasan Vaidyanathan: Thank you, Sashi. Let's open up the line for questions and so that we can take it as it comes along.

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

Mahrukh Adajania: Thanks Sashi for the opening remarks. My first question, I know you said you will not give guidance, but if you see our deposit mobilization, it has been very strong. It came out in the business update. And the interest expenses for the 2 quarters are not very different from each other.

So do we see a bulk of the expenses of this quarter -- or fourth quarter's mobilization coming into the first quarter? And also in terms of LDR, I mean I think you possibly laid out in the beginning about retail deposit mobilization being a key focus. But still, in terms of LDR, would you want to reach 100 or below in an accelerated fashion?

Sashidhar Jagdishan: Mahrukh, good to hear from you. Let me try and answer the latter question first. As I mentioned, the focus is primarily going to be trying to see how we can focus on the core retail deposit franchise. And obviously, when we talk about the core retail, it's largely the small granular deposit set, it is the key there. But for us, the way we define retailers, what are the kind of segments which are there around the branch catchments and which is there and also what is already there in the portfolio.

When we talk about the retail momentum, obviously, we have a certain market, which you have alluded. We try to ensure that we -- the price point at which we offer is on par with some of the larger banks that offer similar rates, and we are not an outlier. Just because we need to have this as an imperative, doesn't mean that we will go out to pay anything that comes about. As I mentioned as a part of the opening remarks, we are not in that price game at all. And one of the reasons that you're seeing a little bit of stability in the cost of funds between 2 quarters is a resultant of maintaining parity and equivalence in terms of the rates that we offer across our segments.

As regards the loan deposit ratio, yes, our priority is to raise as much as possible. But obviously, it has to be subject to the liquidity environment and the competitive environment. As and when it becomes benign, obviously, we can raise more. But if it is going to be intense, then we will have only a certain proportion to raise. While the quarter 4 mobilization is extremely healthy, I must sort of upfront tell you that there are some transitory involuntary flows that will also come in, which is obviously more than what we had anticipated. But even adjusting for that, the retail ones are rather healthy, which is there in the deck. So will I be able to maintain this kind of momentum, etcetera?

As you know, you take a long-term average of over 6 years or so, there is a certain proportion of total deposits, which come in Q1, which is probably the lowest as a proportion. Q2 and Q3 are more similar in terms of proportion and the largest part of the proportion in a year comes in the fourth quarter, and which is what we have. And this is not something anything different from what we see in the banking system.

This is a very similar pattern that is there, plus or minus some kind of a change. So the LDR is a function of what we mobilize. And obviously, if you have to commit the loans, it has to be out of our core franchise, the core mobilization and not transitory mobilization. You probably know this much better.

We also have -- or we would be having bond maturities erstwhile HDFC Limited, which will mature every year. And there is a maturity pattern, which is there for next year. So the first priority is to keep reserves and the balance is to repay some of the bond maturities. And if you -- and the balance and the residue is where we will deploy in our core assets.

So willy-nilly, all things remaining same, your LDR or incremental LDR will be a tad lower for a couple of years than what we have seen in the past because we have this obligation of repaying some of the bond maturities. So is that going to be hampered? I feel not because as long as we maintain discipline on ensuring that we don't go below price point on the yield on certain products across customer segments, as long as we don't go above a certain threshold on the pricing of liabilities, I think we'll be able to maintain stability in our margins and at the same time, we may have other levers, which will come our way to offset some of the lower LDRs going forward. So this is a broad outlook. I'm not going to fall into the trap of giving any number outlook, but this is -- you can guess by now, that this is the general thought process that we have.

Mahrukh Adajania: Thank you very much. That was very helpful. Thank you.

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

Pranav Gundlapalle: Thank you for the presentation. I have two questions. First is regarding the earlier comments on the pricing discipline, Sashi, I think, how does the bank gain comfort that it's irrational competition and not a new normal in terms of competitive intensity? Especially given that for most part of the last decade, we had a large part of the sector almost missing in action, right? So that is one.

And second question is on the PSL. How is the bank positioned on the PSL front? And should we expect any sort of an impact, big impact when the requirements on the erstwhile HDFC portfolio picks in later this year? Thank you.

Sashidhar Jagdishan: So thank you, Pranav. The fact is that I cannot sort of predict how the competition is going to behave. All I can tell you is we have sufficient history, which suggests that the price-based competition or price-based strategy is not a sustainable strategy, and it's only a short-term strategy at the most. We have seen it in the mid of 2000s on a certain asset product.

We see -- we have seen it in multiple products over the years, and we have a rich experience to that effect. Frankly, as I said over the last months, we have been witness to this. We have actually experienced rather intensely, the competitive environment, which also borders on some amount of, what should I say, heightened rate wars on the liability side because liquidity was tight and probably there were a lot of other compulsions for other competitive players, which forced them to sort of price their deposits higher.

But I mean since the most infamous quarter three, where all of you have probably done a lot of research, frankly, Q3 was actually a classical quarter where we chose or elected not to do so. Now can I predict this that this will not happen? Absolutely not.

But I can tell you one thing that none of the organizations will have the ability to continue this kind of heightened irrational pricing for a long period of time. It is important for us to be focused, continue to get the granular momentum, principally out of our product and service offerings, which is the reason why one of the strategic objectives that we have laid out as an organization is to elevate the customer service culture.

Let me explain it in very simple terms what we mean by that. Frankly, as you -- probably all of you know that I have now travelled rather well over the last 18 months across the length and breadth of the country. We have a fantastic team at the ground level. We are very proud of them. I'm very proud of the leadership team at the ground level. I think there is a kind of a congruence in terms of the strategic goals of focusing on granular deposits, focusing on service-first culture.

Now to a customer, the customers' needs are very limited. He would either have a financial need in the form of an account, opening a savings account or a checking account or he may need an insurance, he may probably need to deploy his surpluses in mutual funds or in equity instruments or any other alternative instruments or even have a need for a loan, it could be any kinds of loan. The fact that the bank has now with mortgages, the entire suite of product offering, all that is needed is how do we respond in a manner that depicts a lot of respect to the customer.

The speed of response is what we are looking at. It may be very, in your words, Pranav, very “truistic”, in terms of very generic and this is not something measurable. I can assure you that we have a reasonable amount of measurement. We have tasked our supervisory architecture, which is 10% of the total workforce to -- in their KRAs to be measuring and monitoring all that comes in from a customer and try and see how we turn it around in the shortest possible time.

We have the objectives of the supervisory architectures to ensure that the helpdesk front line shake the entire organization to be able to wow the customer. And that's the only sustainable way of ensuring that we get our primary banking from our customers, our higher wallet share.

The very fact that we are incrementally gaining more share than what we have on stock basis. I mean if you look at the incremental deposit market share, over a period of time, we have gained more than what we have as a stock, which means that this particular so-called strategy is working.

We just want to elevate and enhance this. And despite the kind of intense competition, which continues to be existing or which was there both in quarter three, in quarter four as well. We have gained reasonable market share means that strategy is going to work and if we just pull up our socks -- we have a long way to go -- we are not saying we’re there, we are perfect, but that's the opportunity. And as we execute this to the T, I'm telling you this is going to be one of our greatest achievements over the next medium to long term. So that's part one.

Part two is on the priority sector. It's not going be easy. Let's face it. We have, if you really look at our pricing sector obligations and our achievement, I'm not too sure that is where in the public domain, but probably…

Srinivasan Vaidyanathan: It will be published or it will soon be published, because these are -- annually published.

Sashidhar Jagdishan: Okay, so Pranav, this will be published. You will see that we have organically, maybe that may not be visible to you. But I can tell you that we have organically achieved our overall priority sector and most of the sub-targets as well. There are two particular sub-targets, which are small and marginal farmers and weaker section, which are joined to the hip. These are the two ones, which are not so easy to achieve.

And - but having said that the spread at which we have now distributed over the last three, four years in terms of geography, in terms of focus, by the commercial rural bank team, by the rural banking team and the sustainable livelihood initiative team, we believe that this typical trajectory will be going up, but I don't want to sort of give you any false hopes to anybody both internally and externally.

This is one area that we have to ride on in inorganic ways of meeting these two sub-targets. And we are pretty much ceased and aware of the impact of when the third of the HDFC book starts to kick in from October onwards. And it will have an impact, but is it something that we are going to -- is it already embedded in our plan? Absolutely so.

So when we talk about core profitability metrics, it has subsumed the drag arising out of this. So I'm not sort of going to be apologetic that we may not be meeting some of the sub-targets rising on this enhanced addition of the home loan stock in the priority sector reckoning, but we have factored that in our plans.

Srinivasan Vaidyanathan: And important to add a couple of things. In order to position ourself, at least in the medium-term to come, we expanded to 225,000 villages now where we operate. Now we embarked on working around those villages to go and mine more customers into that. So that the basic foundation has been set in terms of 225,000 villages. We believe we reached that point of where we want to be to do that. That's one.

Second is, in the recent times, a couple of years ago, we were call it 117,000 small and marginal farmers. 117,000, that's the number. Due to various mining and various activities, today, we stand at a little more than 3.5 million small and marginal farmers. So that's at a -- we've accelerated the pace at which we are getting this, so it's not something in a quarter or in a year, we could get to where we want to get.

We are inorganically meeting certain things that we need, but we'd love to meet it organically, that fundamental -- the building blocks for that are laid and that's why we are progressing on those.

Sashidhar Jagdishan: But let me sort of make it rather practical and pretty much this - however, whatever we do, the ticket sizes of small and marginal farmers and weaker sections are going to be small. So even if -- and there is a finite capacity and population of this in the universe where we can have a share, even if we were to nibble away more share, that number times the ticket size that we can do will still not meet the regulatory thresholds that are asked for. So I'm being realistic that we have to as much as possible try and comply that through inorganic means.

Srinivasan Vaidyanathan: At an aggregate level the overall PSL for March '24, is published or to be published, we are a little more than 52% achieved at the -- against the target of 40%. And at the same time, last year, if you see March '23, we were about 45% achievement. Now we have enhanced that be closer to a little more than 52% achievement.

Sashidhar Jagdishan: Thank you.

Pranav Gundlapalle: Thanks a lot.

Sashidhar Jagdishan: Thank you, Pranav.

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

Kunal Shah: Yes. Firstly, with respect to the borrowings, there was a rundown. But maybe if you can help both with respect to the borrowings as well as the deposits in terms of the average, so would we have got the benefit of this entire borrowings rundown through the fiscal or this was also more towards the end of the quarter? And similarly, if you can highlight the average LCR, that could also help maybe period-end this 115-odd percent, yes?

Sashidhar Jagdishan: See whilst, I will have Srini and Bhavin to get in with the actual numbers, but what I remember is, see, there are two types of borrowings. There are these normal treasury borrowings, which is in the -- which are market borrowings in the shorter end of curve, which is for day-to-day liquidity management, short-term management, which sort of moves up and down depending on the short-term flows, the transitory flow that we would be getting into the bank. So the period-end number, which probably is what you're looking at, which is slightly larger of almost about 700 or 750.

Srinivasan Vaidyanathan: 750, out of which INR29,000 crores is either commercial paper or term borrowings that came from HDFC Limited and the rundown. The rest are treasury activities because towards the end, there is a treasury activity. You can see that there is also cash, huge cash that we were carrying at quarter end. And so treasury manages that size of the balance sheet. But 29,000, on an average about 15,000 is what changed on that line.

Sashidhar Jagdishan: So Kunal, what if you are looking at, this is not the high cost borrowings of erstwhile HDFC Limited, which ran off. In fact, the CPs were a part of that stock, but the cost of the CPs, as you know, is rather smaller as compared to some of the long-term bonds. And since the bank cannot sort of have CPs on its books and this is something that is a part of forbearance, therefore, we have let it go. So this is the high-cost borrowing maturities, which is what probably you're looking at, will start to happen from FY '25 onwards.

Kunal Shah: Sure. And second, in terms of lending grades and incremental spreads, so have we increased the lending rates across the product segments and just trying to make sure that our incremental spreads are very near to what are the reported one. And as you highlighted in terms of the levers to offset the LDR contraction, would lending rate be one of them? And have we taken some action in the last two, three months on that front?

Sashidhar Jagdishan: No, you're right. I mean, see the -- we realized that if we have to ration the funding mobilization into -- and deploy a part of it, build liquidity buffers and then the residue is what we need to do, the best way is to increase the threshold yields across customer segments and that's what we have done. But let me also bring in a little bit of reality check out here. Is it something that I can continue to do every quarter? May not be, because there is a market which is there, which is real, and there is -- beyond some point in time, we may not even get some of the loans. So I think we have done whatever we had to do until now. Maybe there is some small probabilities of increasing rates is there across segments, but nothing significant.

But you're right, I think as of now, we are at respectable levels. And if we see the -- if you don't see any incremental cost of funds moving up, then we should sort of have stability in the yields as we have at the moment. But if there are changes in the interest rate environment, in the interest rate competitive environment, on the funding side, we may have to re-examine the incremental yields on loans across customer segments as well. And some part of it, which we have -- you have seen, say, in the corporate segment, which is showing a degrowth and some other products as well, is a function where we have elected not to participate because the yields have -- in the market have been much lower than our threshold levels as well.

So if I'm not too sure whether I've answered what you are looking out for. Yes, yields have been one of the levers to bring down the LDR and we will use it as long as -- and we probably will use it even in future if the situation demands.

Kunal Shah: Sure. And if I can squeeze in one last question on this ex-gratia provisioning of INR50,000-odd crores, what is that related to? Is it...

Sashidhar Jagdishan: Yes, yes, I will. I will. I'm happy that you've asked this question. I think we have -- as you know the institution has consummated one of the most complex and largest mergers with erstwhile HDFC Limited. It was – there was a lot of hard work that happened both to the run up to the merger and also at that point in time and subsequent to that on a much larger balance sheet, I think -- and overlaid by a very complex and a very adverse liquidity situation in the system, I think the teams have rallied to adjust to this new norm, the new entity, as I was just mentioning in the opening remark and also they work hard. They have worked hard after being battered from all fronts -- at the ground level. I think this is just to ensure that -- and as you know even, in the last couple of years, we've had a heightened attrition as well.

It is our endeavour to ensure that the large part of our ground workforce, which is 90% of the total manpower is motivated, and this is a way of trying to say thank you to them. And this is not recurring. This is going to be a onetime ex-gratia that we have provided for. And why not, we had a one-off gain. And I thought this is a way to motivate the young workforce and on a onetime basis. So that's the objective.

Kunal Shah: Okay. Thanks and all the best.

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

Chintan Joshi: Thank you. Can I ask a big picture question and then a follow-up on this lending rate point that we just discussed? HDFC has had a fantastic track record over the last two decades of growing faster than most of the other private sector banks, increasing market share like no one else in the system. You are at pretty good levels, 11% plus on deposits... you have a fantastic track record over the last two decades and the market shares have built up as a result. From here, if you think about the next decade, do you still think HDFC is a bank that can outgrow the private sector? Or is it now more about playing on scale and getting the scale benefits rather than trying to grow faster than the rest of the sector? That was the first one, and I have a follow-up on the lending rates.

Sashidhar Jagdishan: See, yes, as I mentioned in the opening remark, Chintan, we have a great distribution. We have our complete bouquet of products and services. So we have the energy to offer and gain this kind of -- and we have been acquiring customers with the spread and also with the hunger. And that's one of the reasons why we have been, as long as competition is rational, as long as the price points are reasonable, I think we are happy to participate and that's the period that will reflect the gain of market share.

Now since you're talking -- asking for a long-term perspective, as I mentioned even in the previous question, we strongly believe that competition, and you go by the past track record also apart from pockets of exuberance, which probably will not last too long. And assuming the competitive intensity continues to be the same, as long as the pricing is rational, I think we have all the elements to ensure that we continue to gain market share or nibble market share. Now you used the word private sector banks. I'm not talking about just private sector, I'm talking about nibble away share from the banking system at large because there are many players out there.

There are some who probably may be offering similar kinds of products and services, some may not be. So obviously, wherever there is a gap in product and service offering, is where our strength comes in. But I can assure you that the focus that we have been getting in, in terms of more, which is a lot more hard work than shortcuts that one would normally take in terms of, as I mentioned in the previous question, the speed of reaction, speed of response.

Ensuring that we have a priority in terms of service-first culture, all that is necessarily going to benefit in the medium to long term because this is what the customer wants, and this is exactly what we want to do. We want to move away or we want to ensure that this is the core focus and not sort of a push-based mechanism at all. So in the 10 years, I think, if you see, currently, I'm not too -- I don't have the numbers, but I think our market share on deposits would be somewhere between 10% and 11%.

Okay, maybe slightly around that. Okay, slightly about 11%. So we may -- you may think that we are a large bank. At 10%, we are very small, actually. So the largest bank in the country is having a market share of almost about 20% plus. So the gap is very large. There's a huge amount of opportunity. And so, as long as we stay focused, keep our heads down and just focus on our long-term strategic objectives of just customers in mind, frankly, we don't see any reason why we should not continue the way we have done in the past in terms of gaining incremental market share.

As I said, all this is -- there will be short-term period, as we have seen in first quarter, as we have seen in the fourth quarter where there would be some amount of irrational pricing. In such periods of time, we may not grow, we may elect or choose to grow slow. And these are things that you will have to factor in and not sort of question as to what happened.

So -- but in the medium to long term on a longer trajectory, absolutely, this is going to be our core focus and everything else revolves around this core strategy. So if that is going to be the focus, then I -- here, this outlook, I'm happy to even sort of provide that over the next 10-year period. Will we continue to gain share? Absolutely.

Chintan Joshi: And that leads nicely into the second one, which is, on the competitive dynamic, every bank that we've listened to in the last two, three quarters has been complaining about deposit competition about cost of funds, irrational pricing. And HDFC took the step of trying, increasing the threshold lending rates. When that happened, what kind of reaction did you see from your competitors? Did you see them following you to a degree in raising the lending rates? Or you just kind of outright lost some of the lending opportunities? What was the competitive outcome of that?

Sashidhar Jagdishan: So Chintan, good question. The reality is that in the shorter period, there would be multiple objectives of each of the banks, which would determine whether they follow or not follow. So as we have seen practically, there were banks, which were happy to follow us and there were banks which did not follow us.

Now obviously, these compulsions are there and these compulsions would play out to know whether this is going to be sustainable or not only in the medium to long term. So since you asked the question specifically as to what were the reactions, I'm telling you there were equal amount of people who sort of followed us in terms of raising some of the rates because I guess they were all waiting for the leader to take the initiative and there were others who did not do so as well, which is reflected in some of the segments degrowing.

Chintan Joshi: If the short-term gyration kind of plays out, if you're consistently using this higher threshold lending prices, that might be encouraging the system to kind of follow suit or is that being too optimistic?

Sashidhar Jagdishan: Yes, absolutely, Chintan.

Chintan Joshi: Okay.

Sashidhar Jagdishan: Completely agree. This is what I believe if -- should be there. And I think time will tell us. Time will play out -- we'll have to wait and watch how this plays out.

Srinivasan Vaidyanathan: I would add one thing. If you look at even the AA or the AAA names if you see, the bond spreads in the market, the movement of bond spreads, even this quarter it's been up and if you look at it over a period of six months or nine months, the bond spreads did go up. But the loan spreads are lagging, right, and we do see some of the competition pricing far lower than the cost of deposits itself. So that's in terms of how we have. We've been rational to be following this, but you can compare the bond spreads and see how they are going up and not the loan spreads.

Chintan Joshi: Thank you.

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

Rahul Jain: Thank you. Good evening Sashi. Good evening Srini. Sorry for bad throat. Just wanted to put across some thoughts and would be painting some scenarios if I may. What I've heard you, Sashi, so far speak it appears to me is that we are -- we seem to be in a balance sheet fixing mode and we would sort of use all the possible levers to bring the LDR down?

And in that context, what you talked about margins versus LDR in response to previous questions. So I want to check with you, we saw 4 basis point of margin expansion with quarter basis in your presentation.

And that also corresponded into the LDR drop. If we see scope for further margin expansion, do we get to a scenario where the LDR drops could be even more meaningful as we move forward, of course, subject to wherever there is a scope given that there are contractual obligations in place. So that's question number one.

Sashidhar Jagdishan: Okay, let me answer the question number one. See, as I said, -- I'm not sort of keeping a certain anchor on a margin and working out a strategy. This is -- that is never -- as I probably said it in the opening remarks we just want to have one anchor because a margin and Rahul, you probably know this much better is a function of the demand from each of the customer segment. It's a function of the pricing behavior in each of the segments and the competition at that point in time. Three, it's a function of the business mix. And so I don't want to have that as an anchor at all. But having said that we are very clear that we're not going to chase growth for the sake of growth.

In the past, there have been some periods of customer engagement and customer commitments, but now that we have absolute control on the ship post the merger, we are very clear that we'll deploy basis what we mobilize. So the -- I believe and as I mentioned a few minutes ago that from here on I believe the margin, even if it's stable is something that will be delighted because we want to ensure that the cost of incremental deposits continues to be range bound and then whatever thresholds we have laid out a -- little bit of tweaking.

We will ensure that the margins either remain stable. And the business mix is what will then determine the margin movement also because if I continue to have more / higher proportion of retail and CRB, all things remaining same it will have a positive impact on the margin. So that's not something that we are focusing.

We want to -- as I said we want to anchor our thought process in terms of seeing stability of metrices with a positive bias moving slowly and surely over the next 2 years to 3 years. So I'm not sort of giving any outlook on that, but I'm very clear that I want to maintain stability. We are not going down the risk ladder to oust as well and neither are we going to go down the price ladder anymore.

So if we have to sort of drop off some volumes, so be it, okay. Profitability is extremely important. It has to make economic sense otherwise no, all things remaining same. The fact that now we have a perfect control or we have the control on our assets and liability movements, the margin accretion should be a function of how we substitute our bonds that come up for maturity over a period of time with deposits.

And that is where you will start to see that kind of momentum. But you have to be patient because these are things that will happen only on defined time lines. It's not something that I can call. So it has to be a gradual path. In the meantime, if the organization grows, builds stability on its metrics including the core ROA and earnings at over a 2-year to 3-year period, has a positive trajectory.

I think, that's a big positive for us because, when in the medium-to-long term, when you have subsequently and finally exhausted the high-cost bonds. trust me we would have not just liquidity, we will have the ability to unleash growth with profitability coming back to the pre-merger levels as well on a core basis.

Srinivasan Vaidyanathan: CASA mix is also one of the important elements in this and that's not what we can drive. It's a customer propensity and customer preference in terms of what the mix of between CASA and the TD they need, and we are balanced in offering.

Sashidhar Jagdishan: In a high interest rate scenario, Rahul, normally, you probably go back in time, the CASA ratios have been a little tepid. And this is exactly what we have been seeing because incrementally we are seeing in the system as well, people are spending, people are moving monies into other alternative instruments.

So effectively, the household savings themselves have also started to come down. So these are structural changes that are happening. But having said that, these are things that is there at a system level. We can't be cribbing. I think we have enough opportunity to incrementally gain share even on CASA and that's our endeavour. And that's something that you have to look at it on a longer-term basis.

Rahul Jain: Thanks. Very helpful. The other question was on the cost of deposits and deposit mobilization given that the system is still pretty much operating in a tight liquidity environment, the rates are still pretty much elevated. You talked about pressure on household savings, the alternatives, is it the interest rate sensitive, alternatives are also very high. We have a kind of -- it seems that the cost of deposits has stabilized for us. It was down, as per presentation marginally in this quarter.

So does it mean that we will not be seeing an increase now, we've kind of stabilized on that? And if market -- if the competition is bidding up for deposits, we might choose to let go off like the way we did it in the third quarter. And therefore, the cost of deposit is something that you have control over or how would you react to it?

Sashidhar Jagdishan: Great question. If there is irrational competition absolutely and we will not be apologetic. As I said, while most of you did not like what we did in quarter 3, the reality was there was sort of heightened war on deposits and which we elected not to chase. But having said that, if you've seen over the last 12 months I think there has been stability in the rates that we offer across tenors on our retail deposits whether it's the granular retail deposits or some higher ticket sizes as well.

We have not changed and it's pretty much reflected in the stability in the cost of deposits. But if there are changes because you never know the, life is very uncertain. What's happening in the Middle East is also extremely uncertain. How that sort of impacts global rate scenarios and hence has a ripple effect on India, is something that we have to watch.

And if there is continued hawkish stance on the monetary policy and we continue to see rates elevated at the system level and probably that also leads to a little bit of tightening on the liquidity. These are aspects that we really would not have a handle on. And if all the other large competitive banks were to raise rates, we cannot be an outlier.

We have to maybe match to that, but it doesn't mean that beyond that, I mean, where we will not chase is beyond the card rates. If at all even we chase then, of course, we will have to chase even the threshold yields on our loans as well.

But beyond the card rates, even if we were to change the rate, would we be chasing bid base deposits? Absolutely no. There is a certain proportion we will patronize because our customer segment is across multiple segments. It ranges from individuals to corporates and there is a certain proportion that we have always patronized.

I think largely about 84% to 85% is retail and non-retail is about 15% to 16%. As long as we maintain this balance, I think we are all right. But do we go to extra mile to go for volatile bid based transitory flows? Not really.

Rahul Jain: Very helpful Sashi. Just one last question I would like to squeeze in with regards to the provisioning that we have done in this quarter to absorb and to offset the gain through Credila stake sale. News reports also talked about you are looking to be maybe in a sell stake in HDB Financial Services.

So just wanted to understand the choice of provisions that you've made here, floating provision, which is generally very hard to dip into without RBI approval. So next year again the core credit cost doesn't come down, it remains in that band, so shareholders don't get to benefit from these stake sales even now or in the future.

And when the merger happened there was an impact on the book value because of these investments. So what's the thinking that the management team is having here? Why floating and why not contingent provisions that can be used in the future?

Sashidhar Jagdishan: Very happy that you asked this because that's exactly what we wanted to convey. Floating provision is actually a counter cyclical provision which is made in good times. It does not reflect anything that's adverse in the portfolio or in our early indicators at all. We have a pristine asset quality.

Our early indicators across segments are even better and that is pretty much what we had anticipated. So unlike in a contingent provision which is precautionary in nature against certain standard exposures that may possible because of certain potential contingent events could slip into the delinquent buckets in stress scenarios, that is the reason why we provide contingent. But here we don't have any - - what shall I say -- any reason to do that is contingent. We've put in a floating. We are very much cognizant of the fact that we have to take prior approval of RBI, which reflects the fact that the resiliency of our balance sheet and our credit portfolio, which means that if the organization has taken the courage to put it in floating, it all means that things are pretty good and that is what we want to convey.

Rahul Jain: Can this be used in an event of ECL implementation?

Sashidhar Jagdishan: No. See, the point is, I think the bank's pricing and the bank's financials are such that it prices for the expected credit loss. The contingent is something that is very specific on certain events or certain potential events that may happen or may not happen, so that's contingent event.

Floating is something that you will dip in when there are some adverse unanticipated events in the future. You don't do it because you're anticipating anything, but you do it because you want to bring in resiliency and you are actually trying to say that in good times, why do you want to be there is of course a lot of debate in literature whether / why don't you take it straight to profits.

I'm sure a lot of people on the call who probably would be thinking it’s better to I would have loved this going into the book straight. In fact, you should sort of probably come up -- and I'm telling you that you can consider this as a deemed book, a deemed attrition to book.

But having said that, I believe that this is not something that we will invoke for a long time to come. This is something -- an investment for the future. It is only getting the balance sheet stronger so that you are protected any unanticipated movement say, 5 years, 10 years, 15 years, 20 years from now and we are not going to be apologetic of doing so.

But is it something that we'll be doing every time we have a one-off? Sorry, that's not what I'm trying to say. This is something that we have taken a call now and we will evaluate periodically as and when any further instances happen in the future.

Srinivasan Vaidyanathan: And for now this qualifies for Tier 2 capital within regulatory limits, and so it is part of the Tier 2 capital and total capital as a floating provision.

Sashidhar Jagdishan: And it sort of now is about 0.5% of the total loan book as we speak?

Srinivasan Vaidyanathan: Yes, the floating position is about 50 basis points. The contingent provision is about 59 basis points combined about 109 basis points within reasonable limits of...

Rahul Jain: Thank you so much. Very helpful. Thanks for being patient and responding to my question, Good job to you and your team and good luck for the future.

Sashidhar Jagdishan: Thank you, Rahul. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, the last question is from the line of Santanu Chakrabarti from BNP Paribas.

Santanu Chakrabarti: Thank you for the opportunity. First off, congratulations on a strong show, especially on the retail deposit front. I have 2 questions. And parts of this discussion have been reported before. But I just wanted to clarify your thinking on the incremental loan growth dynamic, just want to put to get any uncertainties about this?

Sashidhar Jagdishan: Absolutely. Let me do this. I mean, you're talking about the…

Santanu Chakrabarti: Just a moment, I'm saying that if, for example, corporate loans rising was a little better this quarter, it was 15 basis points better on the 5% that you've let go. Would it have changed your appetite? Or if your credit strategy tethered really to LDR? I just want to get clarity on this. At the margin, is pricing the primary driver of whether you do that extra 3%, 4%? Or is LDR the primary consideration? I have another question about the CRB business, but if you continue with this, then we can move on.

Bhavin Lakhpatwala: Santanu, for each of the segment, we have a risk-based pricing model. And if within the risk-based pricing model, if any business comes in, that is how the allocation of capital and liquidity happens. And so it's very theoretical to say, if corporate was at 15 basis points higher, it will depend again on which corporate customer, which segment, which -- whether it's an existing or a new customer and a variety of things, which is taken into consideration before an allocation of liquidity or capital happens. So it's not an LD or CD ratio driven to say we're going to reduce here or reduce there. Obviously, if I have a lower liquidity, then where I'm going to get a higher risk reward is how the allocation will happen. But it is not purely pricing or margin, as you have mentioned.

Santanu Chakrabarti: Right. So that's exactly what I wanted to get clarified because it's getting kind of interpreted, I guess, among some quarters that it's primarily LDR-driven, right. So just wanted to get clarity on deposits part.

My second question relates to the CRB business. Now obviously, it seems to be going pretty well in terms of growth. And of course, again, it's key to your PSL compliance and, of course, down the line margin defense and expansion hopefully. So what I really appreciate is, if you could provide some texture on strategic products. I mean, what's happening maybe some geographical sense, maybe some product sense, so that we can get a little more granular sense of where the growth is coming from? And what are you hopeful about, what are you watching out for?

Sashidhar Jagdishan: So on the geographic sense, we need to get back to you because I don't have off hand or the team probably, at this juncture, in this call, may not have the details of geography, but we can probably sort of mail that to you separately or put it up in the domain later. But if you really look at the focus in CRB, we're very clear that considering the fact that this is one of the significant feeders for our priority sector requirements. The growth has come in from the priority sector segments such as the micro enterprises, such as the small and marginal farmers and also in terms of the -- or the agri -- other agri customer segments and the weaker section, which is a sustainable livelihood initiative segments as well.

Business Banking-- there are other medium enterprises and large ticket smaller enterprises, which have seen tepid growth, which is in line with what we have been focusing. I mean we need to ensure, as I said, we stepped up our threshold levels, the wheels, last quarter, and we are happy to sort of see growth coming in only from the segments that I mentioned, if we have to even pay down some of the larger ticket sizes, even in the CRB segment, so be it. So the geography spread, we will come back to you later, but this is a broad composition of segments which has seen healthy growth during this particular quarter.

Srinivasan Vaidyanathan: I'll add so that you can put that to rest. We did expand our small and medium enterprise business to 715 districts across the country. We also mentioned about the 225,000 villages for certain agriculture and allied product distribution. And so what we saw is that the overall asset growth is a reflection of the efforts of each business group to accelerate new customer acquisition, particularly in the deeper geography, where the competition is less.

And we can get at the right price point that we like and at the quality that we like as opposed to only playing around with the metro and urban area, where the competition could be high from the price point of view. We would like the quality, but the price could be detrimental to what we like. And so this balanced approach of expanding to various geographies is what has played out in terms of getting this origination.

Sashidhar Jagdishan: And mind you, just to add or conclude to what Srini has just mentioned, we are very clear, our underwriting policies are very consistent. So even getting into deeper geography is at our -- within our policy parameters. We don't go down to the risk ladder just because we are in deeper geographies as well.

Santanu Chakrabarti: Perfect. If I might crave your indulgence with a small follow-up. So obviously, you've held back on your branch expansion a little bit, does that impact the plans for CRB in any way in the next 2, 3 years -- longer time line.

Sashidhar Jagdishan: My dear friend, I know all of you are taunting me because I may have in my exuberance given my vision and you all have taken that guidance saying that I would like to achieve. I do not know somewhere, some number, I may have stated in the past or some other at the time of the merger, announcing the merger. While that is the vision, it doesn't mean that people are implementing, there is a certain practical reality.

It's not -- as I mentioned, we are not going to cringe on branch expansion just because it's going to increase my cost or increase my cost to earnings because these are strategic imperatives and we are not going to cringe on some of these strategic expenditures, whether it's distribution, whether it's technology, whether it's appropriate levels of people as well.

But having said that, the quantum of branches that we can open depends on multiple factors. One of them being the bandwidth in terms of what we can set up in terms of finding the right place, the right location, having the commensurate -- meeting regulatory requirements in terms of what we can add, in terms of the unbanked rural centers and also the opportunities in terms of finding the right manpower and a lot of other aspects and factors as well. So there are times where we have had the energy to do much more, which we demonstrated, say, maybe, I think, last year.

Srinivasan Vaidyanathan: Last year, 1,481.

Sashidhar Jagdishan: 1,481. This year, it's somewhere close...

Srinivasan Vaidyanathan: 917.

Sashidhar Jagdishan: Closer to 1,000. We did prior to that about somewhere about 700. So it varies, but I think the pace of branch expansion is -- has gone up maybe in the recent past as against what we did. Yes, I mean I realized that whilst the endeavour is to increase and step up the distribution because ultimately, it doesn't mean that the mobilization is just a function of branches, it is important. But look at the productivity. Our productivity has been going up as well, which means that whatever we have been opening, we are not compromising on letting the productivity down. So the branch adjusted for the HDFC Limited acquisition of deposits, if you look at the -- maybe the deck, I think the deck may have it or if not, I'll tell you, last year was about 260 -- 2.6 billion.

Srinivasan Vaidyanathan: INR260 crores.

Sashidhar Jagdishan: INR260-odd crores per branch. Now it is about INR270 crores per branch adjusted for the merger, the deposits that came in from HDFC Limited as well. So which means that our branch strategy is actually working because India is a large country. We still believe the potential is there to expand. There is -- look at it, the large part of India, which is about 60% to 70% of India is in the semi-urban and rural geographies.

Whilst the per capita is still low, but it is growing and it will grow fast. So we want to put up investments now. These are all investments for the future. This is not something that's going to contribute significantly to our deposit mobilization now. But it will in 5 years, in 10 years and 15 years, these are going to be significant drivers of deposit mobilization. So we are not cringing on that.

We would love to add more, but obviously, there's a finite capacity in terms of the various factors that I just mentioned. So yes, there are several things that are possible. We would love to do more, but it's not something, don't box me, don't count or rather, as I said, I've restated with all humility that no more guidance. And forget my guidance that I had given, but we will continue to invest in the distribution architecture. Thank you.

Srinivasan Vaidyanathan: We also supplemented -- we have Smart Banking lobbies, 148 of them, which don't count as branches. But we did add 75 Smart Banking lobbies in this year. So those are different formats of distribution expansion and reach.

Santanu Chakrabarti: Sir, I can't speak for others, but I'm very happy to hear that personally. Because I think the momentum you guys have got in CRB clearly, for that to go forward and longer term, if you -- what you're saying indeed comes through in terms of liability mobilization, then it's investment into the future. So I mean, I'm very happy that your short-term profit considerations don't dry down.

Sashidhar Jagdishan: No, thank you for that. Let me then -- probably, I think we have gone beyond our normal time, but let me just sum it up. Look, don't dismiss this franchise. We are going through a period of transition. It's like the coastal road, which is very close to our place, when people were -- when it was getting built, we were all sort of having a lot of problems with it or we were trying to navigate our traffic around it. But now when it's up and running, people are so delighted.

That's the kind of -- we will have our day when the proportion of borrowings comes down. And when that will be there, we will have enough momentum in terms of funding, which we can then unleash in terms of growth as well. So -- but it doesn't mean even during this period, as I said and I maintain that, we will maintain stability on our profitability metrics more so in the ROAs and the EPS, etcetera, on a core basis, and we will try and ensure that we have a positive bias in the trajectory over the next 2 to 3 years.

We're rather confident. And I think the entire bank is extremely charged and galvanized. I know a lot of people probably are wanting to even ask some questions on the senior exits. So I can tell you that not just now, but go over the last 20 years, we have seen stalwarts who have come in and gone, but the organization has continued to roll forward, move forward with a lot of energy and more gusto, which means that what they've created is a very institutionalized organization with a lot of depth in management, many levels below me.

So we are not person dependent. We are process-driven and process-dependent and that's the beauty about this organization. It's an auto engine, and this will chug along in any kind of an environment with the kind of business philosophy that we've always maintained.

Srinivasan Vaidyanathan: Thank you, Sashi, with that. And I appreciate you all joining us today. If you have any more questions or any other inputs you need, feel free to reach out to us, our Investor Relations team, Bhavin or Aseem are available. And so will I be available at some point in time whenever you need. With that, we can sign off for today. Good evening, and have a great weekend. Bye-bye.

Sashidhar Jagdishan: Thank you all. Thank you.

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