

# HDFC Bank

**Operator:** Ladies and gentlemen, good day, and welcome to HDFC Bank Ltd. Q2 FY27 earnings conference call on the financial results presented by the management of HDFC Bank. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the 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, Mr. Vaidyanathan.

**Srinivasan Vaidyanathan – CFO:** Thank you, Nirav. Good evening, and a warm welcome to all the participants. Today, we have with us Sashi, Anup, and Kaizad. Without much ado, we will get the meeting started with Sashi's opening remarks first. Please go ahead, Sashi.

**Sashi:** Thank you, Srini, and thank you, everyone. Let me start with the economic environment. GDP growth in Q1 FY27 has been better than anticipated, and high-frequency performance indicators, including industrial production, strong e-way bills, cargo activity, and credit growth, reflect sustained momentum. Retail consumption growth has also been robust, with passenger vehicles and two-wheeler sales all growing by upwards of 30%. Consumer durables also grew by about 11% year-on-year. This augurs very well for the economy, especially with the festive season underway.

The broader policy environment has been supportive of economic activity. Alongside this, measures in the form of credit guarantee support to MSMEs have also been effective. The RBI's proactive response through measures like the special FCNR(B) swap window generated record inflows of about \$133 billion and helped stabilize the currency.

With that background, let us take a quick look at how the business has been shaping up. We continue to strengthen our liabilities franchise, and it has been delivering with great vigor. Deposits increased 18.8% year-on-year on a reported basis, including a 4 percentage point lift from the special FCNR(B) window. As you will see in our published deck, CASA grew by about 10.8% on an overall basis, and within this, retail CASA growth was about 11.2% year-on-year compared to 9% a year ago, reflecting improving momentum. We added about 1.7 million liability relationships in the second quarter, which is 25% higher than Q1 and 33% higher than the fourth quarter of last year.

Building on these newly acquired relationships and deepening our existing relationships will enable the liabilities engine to step up further in the coming days, even as we keep adding newer relationships at a rapid pace. The asset side of the balance sheet also continued to get stronger. Total AUM grew 15.3% year-on-year, including a 1.9% impact of FCNR(B) leverage, with SME and retail assets leading the charge. The pace of retail disbursements is accelerating and crossed 90,000 crores during Q2 FY27, compared to 76,000 crores in Q1 of this year. Growth has been balanced across all lines, whether personal loans, the wheels business, gold, agriculture, and other MSME businesses as well.

This is also reflected in the rising growth trend in the EOP loan book, especially for retail assets excluding agriculture. September 2026 annual growth was about 11.2%, compared to 9.1% as of June 2026 and 7.4% as of March 2026. New credit card issuances at 1.4 million have grown by nearly 19% quarter-on-quarter, indicating the expansion of the growth runway.

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In the MSME and mid-market business, growth momentum is also improving rapidly. September 2026 EOP loan growth was 23.5% year-on-year, compared to the 17–18% year-on-year growth levels seen in the last few quarters. Of course, this quarter we had the ECLGS 5.0 scheme, which also created significant opportunities that we successfully leveraged. Our ECLGS disbursements of 41,000 crores were the highest across all banks, and as of August 2026, the scheme had actively achieved its targeted levels.

What is driving this momentum? Since May 2026, the entire retail and MSME business and channel supervisory architecture across the country has been focusing on daily operating rigor across the frontline, credit and operations, and service verticals. All of them are working from one view across products and channels to ensure same-day, same-time resolution and delivery of products and services, queries, and complaints as well.

The focus has been on digital adoption and straight-through processing, which is moving up significantly. Turnaround times on product deliveries have come down anywhere between 10% and 15% in a short span of time, while service delivery TATs have come down by 30% during the quarter. This means that the frontline can reach more customers within the same working hours.

This is reflected in customer visits per resource per day going up significantly compared to the prior quarter, almost by about 50%.

This will have an impact on growth, and that is reflected in the early signs we have seen in the momentum. For example, savings accounts per branch per day have gone up by 19% in the last few months, between Q2 and Q1. Core incremental deposits per branch per day are up 2.3 times from Q1.

Sometimes, of course, extraordinary one-off outflows may mask this underlying momentum, but at some point, this will start to reflect as we move forward. Daily disbursement run rates for key retail and MSME products are up by 10% to 20% versus the prior quarter.

Our asset quality remains pristine, with GNPA at 1.11%, 13 basis points lower year-on-year. Credit costs remain low at 44 basis points, with risk-weighted total assets at 69%.

Our industry-leading asset quality metrics reflect the top-quartile credit quality choices we have consistently made.

The bank's well-balanced performance translated into ROA of 1.8%, which has been the range in which we have operated for a very long time, and quarterly PAT of 19.5 billion, representing growth of approximately 12.5–12.7% if trading gains are excluded.

We have a solid platform to reap the—sorry.

On technology, I would like to spend some time. HDFC Bank has always incorporated cutting-edge technologies into its operations, and we are now bringing AI into the heart of how the bank operates. In the quarter gone by, we introduced applications, apps, and features in various areas that will help enhance customer experience and protection.

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In the area of digital safety for customers, we introduced X-Security. Being very mindful of the fact that many citizens in the country are being subjected to digital fraud, I think this is going to be a game changer in terms of the technology we can offer to customers. We also introduced a unified protection stack and tools like Kavach and SecureLock.

We launched several apps to increase customer convenience, including product journeys, AI conversational banking, and an AI collections bot that helps customers stay repayment-ready. We also strengthened our real-time fraud prevention capabilities.

As my long innings at HDFC Bank comes to an end, I would like to say that it has been an absolute privilege to lead this organization, which brings together some of the most brilliant minds and more than 200,000 extremely committed and focused professionals. It has cutting-edge technology, a solid brand that binds 100 million customers, and the collective zeal to consistently deliver top-class results for all our stakeholders.

While leaving this organization is an emotional moment for me personally, I take comfort from the fact that I am leaving behind a solid platform that has demonstrated strength and resilience to navigate regulatory embargoes, an unprecedented COVID event, a large and complex merger during a period when the economic outlook warranted monetary tightening, and other governance matters of the recent past that have been settled completely.

I am leaving behind a platform where we have invested over the past few years in re-architecting and reinforcing our technology from the core to the AI layer, ready to be harnessed in our products and service delivery; a distribution strength that will deliver as the branch network matures; and optimism stemming from the fact that net interest margins, which in recent times have borne the brunt of faster repricing of assets and a lag in the cost of funds during a down-rate cycle, are also positioned for a reversal as we enter the upward rate cycle.

This will be further enhanced as the proportion of retail and MSME assets outweighs the proportion of corporate and home loans over a period of time.

I am sure that the bank will keep scaling greater heights, which would be a matter of immense pride for all of us. I will also leave behind an able team spread across various levels of the organization throughout the country, led by a new and able leader, and I warmly welcome Anup to the institution at this juncture.

Thank you for all the support over all these years, and I wish you and your families a very happy Dussehra and festive season. I am sure you will continue to provide the same kind of support and affection that all of you have shown us over these 30 years to the new leadership team, and take it to its rightful glory over a period of time. Thank you so much.

**Management:** Thank you, Sashi, for that very passionate and comprehensive account of the recent period and the decades that you have served the bank. Thank you very much for all of that. Now we have Anup with us today. We are delighted to have you here with us, sir. Welcome, and over to you for a few sentences that you would like to share.

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**Anup – MD & CEO:** Thank you, Sashi. Good day to you all. I am really grateful to the board for the trust placed in me as MD and CEO. As we look forward to working with the board, the chairman, the leadership team, and colleagues across the bank and the group, we will build on the group's very strong foundation.

It is indeed a privilege and a responsibility that I hold with deep respect. The group's rich legacy, market leadership, and reputation within India's financial ecosystem are exceptional.

I thank Sashi for his impactful 30-year leadership, for successfully navigating the post-pandemic phase, completing the landmark HDFC Limited merger, scaling our branch network, and strengthening the core technology capabilities.

The clear long-term goal is to deliver sustainable, long-term value for shareholders, employees, and clients. In the near term, I will engage with regulators, customers, shareholders, and other stakeholders to gather insights that will be a key input to our organizational priorities.

As macroeconomic dynamics evolve and AI technology and digital infrastructure accelerate, we will focus on capturing these opportunities with prudence and discipline.

I will soon present a perspective on growth, margins, quality, and productivity built on disciplined capital deployment and a strong execution culture, grounded in governance, excellence, and trust. I look forward to all your support. Over to you, sir.

**Management:** Thank you, Anup, and welcome again. We look forward, as an organization, to partnering with you and delivering all that you drive. Thank you.

With that, can you please open the session for questions and answers?

**Operator:** Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use the handset while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

I request all participants to kindly limit themselves to two questions per participant and rejoin for a follow-up.

The first question is from the line of Mahrukh Adajania from {? Nuvama ?} Capital Partners. Please go ahead.

**Mahrukh Adajania – Nuvama Capital Partners:** Good evening. Thank you, Sashi, for all the guidance and interactions. Thanks a lot, and congratulations, Anup.

I had a few questions on the results. Firstly, Sashi, you outlined the various efforts and progress you have made on retail deposits, savings, and core deposits. When do you see the proportion of retail deposits increasing, since it has declined somewhat over the last few quarters? When do you see that proportion increasing? That is my first question.

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My second question is that you have a sizeable agriculture book. There have been droughts. Do you see any impact on your small business loans or on your agriculture-related loans from that?

My third question is for Anup. I know it is early days, but does he see any strategy changes at HDFC Bank?

**Sashi:** Let me answer the first part of it, Mahrukh. As I mentioned, the kind of rigor that the institution is undertaking in terms of building better customer interactions and engagement and trying to step up new account acquisitions is important. The fact of the matter is that a lot of our distribution, which has doubled over the last 5 years, will start to mature as we move into the next 5 years.

The fact of the matter is that we are trying to enable a lot of product and service delivery journeys that can help create a one-click experience, including the bundling of products depending on the needs of the customer. All of this, from a foundation and structural perspective, is going to have a massive impact as we move forward.

As I also mentioned, sometimes you do have some extraordinary outflows. As you said, in retail, by which we mean at the branch-banking level, there could be, within the catchment, some small MSME customers, government deposits, or some of these inherited deposits, such as what we had in the past, including some leveraged FCNR(B) deposits, old FCNR(B) leveraged deposits, or some of the deposits that we inherited from the erstwhile HDFC Limited.

This quarter, we did have an outflow of some of these large deposits across multiple segments, which I have just mentioned. That is actually masking the underlying trend. In reality, you will see the momentum emerging strongly at some point when some of these extraordinary outflows become smaller.

I think in the presentations that the team has displayed, you will see that deposit productivity of the branches, that is, deposits per branch, continues to be very healthy and probably best-in-class in the banking system.

I am sure Anup, in the next few weeks or a couple of months, will unveil his strategy. One of the questions is how we create less pressure on the system to minimize the intake or inflow of corporate liabilities. These are some of the things that will be part and parcel of his thought process as he unveils it to the world at large, including yourselves, in probably about a month's time or so.

Fundamentally, the institution is extremely strong, the distribution is very strong, and the rigor is very strong and moving in the right direction. The underlying core momentum is very encouraging, and that should reflect in very strong momentum as we move forward.

Because our balance sheet is extremely large and we have good demand across segments, whether corporate, MSME, or retail, the need to pick up some of these non-retail liabilities is a given. I think as we restructure and have alternate strategies on the balance sheet, including some amount of non-deposit strategies, we will probably have a larger and larger proportion of retail deposits, and it will have a downstream impact on multiple metrics as well.

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**Anup – MD & CEO:** Thank you, Sashi. As I said, Mahrukh, in the near term, I will engage with regulators, customers, shareholders, and all other stakeholders to gather insights, and that will be the key input to our organizational priorities. I think the pieces are very strong, and we are aware of the general strategic imperatives that are required, as Sashi explained. I will come back to all of you soon on those.

**Sashi:** On the agriculture piece, I would like Kaizad to step in.

**Kaizad:** On the agriculture piece, I think we are all aware that we have had a shortfall in the monsoon, which has also not been very uniform, given the peninsula as well as Northern India. Having said that, actual sowing for the kharif season has more or less remained constant, with a marginal decrease of about 1.5% or 2%. Therefore, it has not had that kind of impact where sowing is concerned. Consequently, as of September, compared to June, our gross NPA in agriculture has remained largely constant. We have not seen any signs of concern or deterioration. It has held steady, and we will observe the situation as it unfolds.

**Kaizad:** If we now look through that, one would believe that the crop output should therefore have a variance of about 3% to 5%, give or take. As of now, as of September, compared to June, our gross NPA in agriculture has remained largely constant. We have not seen any signs of concern or deterioration. It has held steady, and we will observe the situation as it unfolds.

As I said, what is encouraging is that sowing has largely been about 108 or 109 million hectares, which is only marginally lower than the previous year.

**Mahrukh Adajania – Nuvama Capital Partners:** The book growth has also moderated. At this time, it is still not in double digits; it is single-digit growth considering all of these factors.

**Kaizad:** That is right.

**Mahrukh Adajania – Nuvama Capital Partners:** That is what I mentioned.

**Management:** Thank you, Mahrukh. Neeraj?

**Mahrukh Adajania – Nuvama Capital Partners:** Thank you.

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

**Kunal Shah – Citi:** Thanks for taking the question, and congratulations, Anup. Thanks, Sashi, for all the interactions over the years.

Firstly, with respect to margins, margins are down to 3.4 32. When we look at it, the corporate book growth is not as substantial sequentially as we see with the other banks. However, the impact on NII's for us has been almost similar in terms of the quantum compared to banks that have been growing faster on the corporate side. What is ideally leading to this?

The related question is on the interest expense side. This time, there has been a sequential uptick in absolute terms, and it appeared that the cost of funds had gone up quite significantly sequentially, at least when we calculate the average of the period-end figures. What is actually driving the cost of funds further upward?

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**Management:** I can take that. On the interest expense side, you will see that the cost of funds is flat quarter-on-quarter. It was about 4.4% last quarter and is 4.4% this quarter. Sequentially, it has remained flat. Ideally, we would have expected it to be better; by better, I mean lower. It did not decline because of the mix of the FCNR deposits that came in.

If you look at the deposit growth that we have had, of 1.57 trillion, almost 1.3 trillion is the growth in time deposits. That outweighs the impact from an overall cost-mix point of view and offsets the repricing of any back book that was coming through. That is why the cost of funds is flat.

One other aspect of the cost of funds is also some relief from the AT1 bonds that were called in August on the callable date. That was a relief, but the relief was also offset through other items because we did have borrowing for leverage. Therefore, that borrowing offset the relief. That is why, at an aggregate level, the cost of funds remained flat.

That means you are looking at the numerator of interest expense relative to the denominator. You are perhaps looking only at the numerator of interest expense. However, when you look at both, it is 4.4%, which is on one of the published pages.

The second aspect you asked about is the mix of the corporate bank. Sequentially, the corporate bank grew 2.8% in this quarter. Year-on-year, it is about 16.4%, which you can see on one of the pages, page 10 or thereabouts.

**Kunal Shah – Citi:** Yes.

**Management:** If you are asking how that mix will evolve over a period of time, I think both Sashi and Kaizad have mentioned it. Kaizad, would you like to take that?

**Kaizad:** If you look at the slide in the investor deck, you will see how we have brought back the entire retail space. I talked about it in April and again in July while responding to questions about where we see growth coming from and what the focus area will be.

If you look at that chart, it clearly shows that year-on-year, from 7.9% or 8% a year ago, we have grown back to 12%. We have also grown business banking significantly, which consists largely of MSME. If I take only the business banking component, it has grown very strongly at 28%.

This has been supported by the fact that, as Sashi mentioned, we had the benefit of ECLGS, under which the bank obtained a leadership position and had significant coverage. That aided the substantial growth to 28% year-on-year.

You will see that retail has come back over the last year, and certainly over the last three quarters. You will see business banking continuing to grow. We see the momentum there, and we are seeing it in the economy. The mid-market and MSME segments are certainly doing well.

Coming to the corporate side, we have a significant presence across corporate banking and a good footprint. It is not that we will not grow corporate banking. I think we have grown it at about 16.5–17%. Other players have grown by a couple of percentage points more, but we continue to approach it with a good mix of working capital, term, and project finance. This gives us a good build in the portfolio, while we remain cognizant of the returns on the portfolio.

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I hope I have explained, along with that chart, how we have evolved and what we had said. I think this is a journey that will continue, in which we will participate both in the investment part of the economic cycle and on the consumption side.

**Kunal Shah – Citi:** Thanks. I understand. Perhaps the question was specifically that I appreciate the traction in retail and SME, and even within the corporate business we are cognizant of the overall mix. The only question was why our margin decline is still similar to that of other players and why we are not outperforming even on a low base compared to the other players. The decline in margin for us is almost similar. That is the only question.

**Kaizad:** You will see a change because there is a large amount of the back book that comes into play in retail. Typically, given that most retail products have a tenor of up to 4 years, approximately 20% to 30% of the book runs off every year. Therefore, you are seeing the back-book effect play itself out.

Going forward, over the next two quarters, you will see that change coming through as we also grow volumes in retail and MSME.

**Operator:** Thank you. Kunal, I request you to come back for a follow-up. I request all participants to please limit themselves to two questions and rejoin for a follow-up question.

The next question is from the line of Rikin Shah from IIFL Capital. Please go ahead.

**Rikin Shah – IIFL Capital:** Good evening, and thank you. I had a couple of questions.

First, I wanted to understand how you are deploying the FCNR funds. How much of them will be used to retire wholesale borrowings, and at what incremental yields are you able to lend or invest in the money markets until you find loan deployment opportunities? That is the first question.

**Management:** Rikin, perhaps I should take that. The FCNR deposits can be considered deployed because we do need to deploy them as soon as possible. That is why you get the benefit of ANBC in the following cycle for comparison for PSL purposes.

It is not just about obtaining an FCNR deposit. The FCNR deposit needs to be deployed to obtain that PSL benefit. This has largely happened because money is fungible, as you know. You do not need to mark, identify, or tag one source to one use. However, at an aggregate level, we had deposit growth of 157,000 crores and loan growth of 158,000 crores in this quarter. Therefore, you can take it that sources and uses were largely matched within the quarter.

**Rikin Shah – IIFL Capital:** Understood, Srin. The second question is on margins. Directionally, I understand where the trend can go, but specifically in the next quarter, with the full-quarter FCNR impact on your cost of funds, how do you think margins will move? The cost of funds has started to move up, so directionally, what happens to margins in the next quarter? The repo increase that has happened may pass through to your P&L only from Q4 onwards.

As an extension of that, could you share the split of your loan book in terms of repo, MCLR, and fixed-rate loans?

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**Management:** I will start, and Sashi, you can join in. The floating-rate book is approximately 70% of the total book. Therefore, the 25 basis point change that happened in October should largely be factored in by December. It will not be factored in for the full quarter; it should be factored in for part of the quarter.

There is a tailwind coming from the rate change, which will be positive. The full-quarter impact of FCNR will be a headwind that will offset this. However, I do not want to call it a headwind; that is part of how the businesses are structured to operate. There will be some funding that will come in, and the choices that we make will result in some offset through that process.

Net of that, we still think that the impact on margins can be neutral to positive as we move forward. I do not want to say what will happen in the next quarter, the following quarter, and so on, but from a trajectory point of view, I think margins are at the bottom and should—would you like to add something?

**Management:** No, that is perfect. I think you have answered it. The trajectory will be upward from the next quarter onwards.

**Operator:** Thank you. The next question is from the line of Parag Thakkar from Fort Capital. Please go ahead.

**Parag Thakkar – Fort Capital:** Am I audible?

**Operator:** Yes, sir. Please go ahead.

**Parag Thakkar – Fort Capital:** First of all, I would like to congratulate Sashi and Kaizad as well, and extend a great welcome to Anup Bagchi. I am a core, committed well-wisher of the bank, and I wish you all the best.

My basic question is regarding the rate cycle itself. For almost all banks, I think Q2 should be the bottom for margins. That is what you alluded to, correct? Q2 margins are a bottom for us as well, as they are for all banks, because the repo rate hike cycle has already started.

**Management:** Yes. By all accounts, Parag, that is what we were alluding to. The rate cycle has already started in October, and that is a good tailwind from repricing 70% of the loans that are floating. A large part of that is linked to repo, and some of it is linked to other methods, but mostly it is repo.

It has already started, and by December it should be reflected. I do not want to tell you exactly by how much or how it will move, but directionally, yes.

**Parag Thakkar – Fort Capital:** It should start improving from Q3 itself, correct? That is what everyone wants to know because all our peer banks are also indicating that.

**Management:** I do not know if you are asking for one number. That is not something that—

**Parag Thakkar – Fort Capital:** No, not a number. I am asking whether it should increase from Q3 onwards compared to Q2.

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**Management:** These are the items that are in play on the positive side. The headwinds will include the full-quarter impact of whatever has come through in Q2.

**Parag Thakkar – Fort Capital:** Kaizad also highlighted that we have already started seeing growth in business banking, gold loans, personal loans, and other areas where the yield on advances is slightly higher, while corporate growth versus peers was somewhat deliberately calibrated in this quarter.

Can we think of this as the trajectory for increasing our margins going forward? That is what others have also done and demonstrated without compromising asset quality. For example, I saw yesterday that in its PNB results, the bank reduced lower-yielding advances by 68,000 crores in one quarter and allocated them to areas with higher yields. That is how it was able to improve its quarter-on-quarter margins by 8 basis points. Can a similar trajectory apply to HDFC Bank going forward?

**Kaizad:** You have to look at it in a more comprehensive manner. This is not a situation where, on a quarter-on-quarter basis, you keep shifting the goalposts. There are relationships that you, as a bank, have to value and nurture. For 10 basis points more in a portfolio or thereabouts—

**Management:** You do not walk away. Having said that, yes, there is a clear move, as already demonstrated. I referred to it a little earlier while responding to a question. You will see us having certainly come back with more vigor in our retail assets and MSME space, and some of those products within retail assets sometimes give you the same return as some of your products in wholesale banking.

Therefore, it is not appropriate to generalize the issue with one brush. There are certain products in consumer banking that give you a higher yield, and we will take a calibrated approach to gaining a somewhat larger market share in those products while maintaining our presence across each of the business segments in which we operate.

**Management:** Thank you, Kaizad. I do want to mention one other point, perhaps for you to note. It is included in the detailed disclosures in our 20-F. There you will see the return on assets by broad segment. Whether it is the wholesale segment or the retail segment, the return on assets is very similar and comparable.

The reason is that there will be certain products with high margins and some products with low margins, and this is offset through cost dynamics that move in the opposite direction to the margin. Similarly, credit-cost dynamics also operate in the opposite direction to the margin, so that at the end of the day, the return on assets is comparable.

As Kaizad said, to the extent that this is about relationship building from a return perspective, both ROA and ROE, it would be appropriate to have the right mix.

**Operator:** Thank you. The next question is from the line of Param Engineer from {? CLSA Securities ?}. Please go ahead.

**Param Engineer – {? CLSA Securities ?}:** Thank you for taking my question. I would also like to thank Mr. Jagdishan and Mr. Bharucha for leading the bank since COVID, and congratulate Mr. Baxi and Puneet.

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**Operator:** Param, sorry to interrupt. Your voice is not clear. Can you speak through the handset, please?

**Param Engineer – {? CLSA Securities ?}:** Is it better now?

**Operator:** Yes, thank you.

**Param Engineer – {? CLSA Securities ?}:** My first question is on MCLR. In the last rate cycle, HDFC Bank increased its MCLR much more than ICICI and Axis. I wanted to understand the reasons behind that, and whether we could expect the same in a rate hike cycle.

**Management:** There are several nuances relating to MCLR. It operates on certain rate dynamics that exist on the last day of the prior period, which are not necessarily representative of a month, a quarter, or anything else. Those nuances exist. You operate with that day's data when you look forward and make the calculation.

The second point is that MCLR also has a cost component. Our cost-to-assets ratio is about 1.74 or 1.73, thereabouts, which is low. Similarly, credit cost also plays into the dynamics of determining MCLR.

Having given you this background on what MCLR is, the proportion of our book priced to MCLR is a minuscule single-digit percentage.

**Param Engineer – {? CLSA Securities ?}:** Understood. You are saying that you factor in credit cost, or the outlook on credit cost, as well. Am I audible?

**Management:** Yes, go ahead.

**Param Engineer – {? CLSA Securities ?}:** My second question is on asset quality. We have seen slippages remain at about the same level on a year-on-year basis for the last 4 or 5 quarters. I wanted to understand whether this is a function of our loan mix changing toward corporate loans, or whether it is more a function of seeing better slippage outcomes within each cohort.

**Management:** We are seeing better—

**Management:** Yes, please go ahead.

**Management:** We are seeing better performance across most of those portfolios in terms of slippages. That is why, if you look at page 19 that we produce, we do not show only ratios; we also provide numbers. We show the absolute value of slippages there.

If you look at the percentages, the denominator of a low-risk or highly rated book could affect the comparison, but you are looking at the absolute number shown on page 19. It is a combination across all of those books that contributes to the slippages. In fact, the credit environment has also been benign for a long time and continues to be benign.

**Param Engineer – {? CLSA Securities ?}:** Thank you very much.

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

**Chintan – Autonomous:** Thank you for taking my question. First, congratulations to Sashi, Sriniv, and Kaizad on their long and successful careers at HDFC, and I am sure the next chapter will be equally fascinating for you. Congratulations to Anup on the new role.

My question is, as Anup comes into the role, what would be your guidance to him, with the benefit of hindsight, regarding one, two, or three mistakes that may have occurred over the last 3 to 5 years? I would not call them mistakes per se, because hindsight is a cruel reviewer. However, with hindsight, what could have been done differently, and what would you recommend that Anup do differently? I would love to be a fly on the wall of that conversation.

My second question is on pricing policy. When we started the last cycle in mid-2022, during the big credit boom, the industry, and perhaps you as well, probably assumed that the CASA ratio would recover for the industry, but it has not recovered. Therefore, all the calculations you make in terms of anticipating ROEs for future business have probably been out of line for the entire industry.

You have many times highlighted that pricing has been irrational in the market. Do you think that, at the current spreads the industry is earning, the industry is able to generate an ROE above the cost of equity? Or does the industry need to think about repricing its cost of funds into its customer spreads? Thank you very much.

**Management:** Who would like to start? Yes.

**Management:** Chintan, thank you for that. I will start, and I think the others will join in. Your question is whether the opportunity to reduce the cost of funds through a better CASA mix is capped at this stage because of customer behavior and the market situation. I do not believe so.

I am not going to talk about the industry as a whole; I am going to talk about our bank. For our bank, considering the distribution we have created and the statistical models we use to assess how it progresses through the maturity model, we do think there is room to acquire more customers, obtain more balances, and increase market share in at least half of the 765 districts in which we operate.

In more than 54% of those districts, a significant opportunity exists because we are 2 to 3 percentage points below our average market share in those markets. Those are nascent branches.

When you consider whether household deposits exist in those markets, that is what you look for. We have a market-share opportunity, but are household deposits available? Yes, household deposits are available in those markets for us to acquire.

If you look at the companies or banks currently present there, they are some legacy banks that have been ceding market share over time. We are confident of continuing to persuade those customers to move to us.

I want to leave you with the thought that this is not a saturated opportunity. The statistical model shows that there is still space. Thank you.

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**Management:** If you really look at it, it may not yet be in the public domain, but when we split deposits into retail and non-retail and look at the retail CASA ratio, it is a very healthy number. It is in the late 40s, and that has been an average that has remained fairly stable over a long period of time.

The issue is that the balance sheet is so large. Over the last 3 years, we have had to substitute the borrowing maturities of the erstwhile HDFC Limited, which are nearing 2.6 lakh crore. This required the institution to take more time to complete that substitution.

Apart from that, as all of us have seen and as you have also mentioned, incremental accretion to low-cost current and savings accounts in the system is becoming smaller and smaller because of a structural shift in household savings behavior.

When you put all of this together, structurally, I think this will be an issue in the system over a period of time. Having said that, Anup and his team will unveil this in the near future. There may be certain structural adjustments that one may have to make, not just on a one-time basis but perhaps continuously, on the balance sheet side.

This will ensure that we continue to have fractionalized core retail deposits, and they will find alternate ways of keeping funding requirements to the bare minimum in a manner that is far more affordable and does not stretch the system. This will reduce the need to take on high-cost liabilities, and hence the CASA ratio may be protected in the future.

These are all blue-sky thoughts since you asked what one would need to do. Having said that, why conjecture on this? Anup is here. He will probably speak to all of you, including both sell-side and buy-side analysts, in about a month's time. As I said, I am sure you will hear from him directly, but please give him some time. Thank you.

**Operator:** Thank you. The next question is from Nitin Agarwal from Motilal Oswal. Please go ahead.

**Nitin Agarwal – Motilal Oswal:** Good evening, and thank you for the opportunity. I would like to personally thank Sashi, Kaizad, and Srini for their valuable leadership and all the insightful interactions over the years. I also congratulate Anup and convey my best wishes for the journey ahead.

My first question is on manpower requirements. If I look at HDFC Bank over the last 3 years, our employee base has remained the same, which is partly how the trend has been for all private banks to some extent.

How do you view the trend over the next 2–3 years? Will operating leverage and gains from digitization continue to drive a similar trend, or do you see changes occurring in the employee hiring run rate over the coming years?

**Management:** Nitin, you are taking a risk by asking me this question, and I hope I do not put Anup in a difficult position. Having said that, my view is that technology investments are on the cusp of being harnessed much more than they have been so far. I think we are coming out of the investment phase. That is the first point.

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This is reflected in the fact that a fair amount of our product and service journeys are becoming much more straight-through. This means that turnaround times for the delivery of products and services have been coming down, and capacities are increasing.

The way I see it is that as adoption increases and the overlay of AI on these applications becomes much more mature, the need for enabler functions—whether business-enabler functions, operations, credit verticals, and perhaps in the future corporate-enabler functions—will not require the same level of capacity in their verticals in the future.

Having said that, we still represent only about 11% to 12% of the market, which means that the runway for growth is massive. We have said this in the past, and I continue to believe—and I am sure Anup will also consider these aspects—that there will be a change in the mix of our employee composition.

We will have more and more people in frontline, customer-facing roles and fewer and fewer people in the back end.

**Sashi:** There may also be some people who move into technology because technology investment is going to be extremely intense and large going forward. As we see that transition continue, and there is still some time for it to play out, I believe the institution will try to maintain the staff count and move more and more people to the frontline.

However, there will be an inflection point. The fact of the matter is that when the opportunity becomes very large, the institution will start hiring incrementally even at the frontline, and perhaps at some point even at the back end.

I think India is going to be blessed, and so will the institution, by whoever adopts digitization and AI in a very significant manner. I would say that the trajectory will be that the staff count will remain flat and will probably start to increase over a period of 3 or 4 years.

Anup is also on the same page. I will now ask him to respond, as an investor would ask someone like you.

**Nitin Agarwal – Motilal Oswal:** Thank you, Sashi. That answers the question, but—

**Anup:** Nitin, do not lose sight of the fact that if you look at our resource headcount additions, we are talking about the last 1 or 2 years, during which they have been modest. Therefore, any growth we have had over a 1-year period, which is 15%, or over a 2-year period, when you look at it, is probably still in double digits. That is productivity realization.

When you look at a longer period, say a 5- or 6-year period, we have added headcount at a 10% compound annual growth rate. We have added 10%. We have had volumes growing at 18%, 19%, or above, which means that we realized productivity that was in the single digits when viewed over a long period.

In the recent period, productivity realization has been in double digits. There is more room to realize productivity. That is what you are saying. There are tools that we have discussed that will help, but even without those tools, productivity is still available to be realized.

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**Nitin Agarwal – Motilal Oswal:** Understood. My other question is on liabilities. I believe liability accretion has become extremely important because even this quarter, if you look at it, the LCR ratio and the CD ratio have not moved in the right direction, despite this being a quarter in which banks benefited from HDFC Limited deposits.

Can we really rely on the branch productivity metrics that we have historically seen over the long term in a changing market environment? There are banks that are not investing in as many branches but are competing on rates and generating healthy liability accretion.

What initiatives and levers can we use to accelerate liability growth over the coming years? This question is open to both you, Sashi, and Anup.

**Sashi:** Do not draw conclusions from a single quarter, Nitin. The fact of the matter is that, as I mentioned, while the underlying momentum is very encouraging, you unfortunately had some large one-off outflows that were partly planned and partly unplanned and were not within our control.

This necessitated the institution resorting to some non-retail deposits, which have lower LCR coverage, and that is why you are not seeing a corresponding improvement in the LCR ratios.

The institution is seized of the matter, and I am sure that over the next couple of quarters, you will see a strategic thought process regarding what one would like to do in terms of not only ensuring that core liability momentum continues strongly, but also making the balance-sheet adjustments required to ensure that LCR coverage remains very healthy.

While you are looking at the LCR, there is another liquidity metric that may not be visible to all of you. The institution's liquidity is extremely comfortable—probably more than comfortable.

I want to leave the broader audience with the thought that a low LCR does not mean low liquidity. Liquidity is extremely comfortable.

Having said that, we hear you, and in the near future you will see a thought process from Anup and the team regarding what they are planning to do to improve core liability momentum and the LCR path as well.

**Operator:** Thank you. The next question is from Anand Bhavnani from Nomura. Please go ahead.

**Anand Bhavnani – Nomura:** Thank you for the opportunity. I have a question on LCR again. At this level, we are at 110% {? approximately ?}. Will this become a constraint on incremental loan growth going forward unless deposit mobilization remains relatively weak?

Further, after the HDFC Limited transaction, we have still seen HDFC Bank remain quite active in the CD market. Why is this the case? Given my understanding, Certificates of Deposit are LCR-positive because their runoff is 100% only in the month in which they mature. Could you shed some light on that?

My second question is on the draft insurance norms. Have you done any analysis of what the impact could be on our bancassurance income?

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My third question is on PSL. We have seen that our shortfall on the SMF side has widened. What are we doing to address that?

**Anup:** First, on the LCR question, we would like to operate between 110% and 120%, as we have told you over the last few years, probably somewhere in the middle, at 115%. We are at around 110%. That is part of how, from time to time, one uses the available space for growth, since the regulatory standard is 100%.

We do want to operate between 110% and 115%. We need to maintain that kind of level in order to continue growing. Your thought process and assumption that we need to use this as an important floor, somewhere around that level, to be able to grow is correct.

The next question you asked is about CD issuance. That is part of the market opportunities that exist. Sashi alluded to certain outflows that we managed by replacing one large ticket with another large ticket.

If you look at our total deposits, branch-driven deposits constitute about 84% of the total. This is shown on one of the pages we have published. Within that, whatever churn has occurred has occurred. Again, we will be opportunistic in taking whatever is available at a suitable price.

The third question related to PSL and the draft insurance policy. As you know, it is still in draft form and comments are being invited until sometime in November. Once the policy is finalized, we will know where it stands.

One point is that the reduction in commission rates is indeed quite significant. There are three other things that we need to assess once we know where the commission rates settle.

The first is what kind of improvement in persistency it will provide, which could have a positive effect. The second is the objective of better commission rates and, therefore, a lower cost of insurance. It is not about the commission; it is about ensuring that the end consumer has a lower cost of insurance. That could mean higher participation levels, which could mean more volume.

The third point is the cost structure itself. If some commission structures change, we will have to address that through our cost structure as well. We need to assess what programs we can combine to bring efficiency on our side as well as on the manufacturer's side.

We need to work on that because there are also expense-of-management targets. For us, when the commission changes, we will examine our cost structure, particularly certain variable-related costs.

Therefore, we certainly have these areas to work on. However, in its current form, if you look only at the commission change, the impact is expected to be quite high.

**Anand Bhavnani – Nomura:** And on the PSL question?

**Anup:** On PSL, our aggregate achievement is about 50%, so at the aggregate level we are quite comfortable. The area where we always have to work hard is the last two miles relating to small and marginal farmers and weaker sections, where there is a dual qualification.

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To the extent that small and marginal farmers are available, we are there to take that business. We can either originate it organically in our book or buy it in the market. It is very scarce and not readily available, and the cost is high. That is true.

We are in the market to buy it, and we are short by a few percentage points. We are trying to address it in whatever way we can, to the extent it is available. If your organization has anything that it can broker for sale, we would be happy to buy it.

**Operator:** Thank you very much. Ladies and gentlemen, we will take that as the last question.

**Management:** Thank you, operator. Sashi, over to you for the final remarks.

**Sashi:** As we were on the call, the market would have received another notification to the exchanges that our dear colleague Kaizad has requested early retirement by the end of December.

I would like to place on record Kaizad's wonderful contribution to the institution. He has been a founding member and one of the key architects of the institution's USP, which is its credit architecture. He subsequently moved on to a number of business areas and is now handling the entire asset side of the balance sheet.

It is going to be a big loss to the institution. However, he has made this decision with the right intentions and out of his love for the institution. We will all miss him, and my best wishes go to him and his family for such a wonderful stint at the institution.

Thank you, Kaizad, and all the very best.

**Management {? Kaizad ?}:** Thank you, Sashi.

**Operator:** Thank you very much—

**Anup:** With that, we will sign off. If you have any other questions, comments, or inputs, please reach out to our investor relations team. We will be happy to join and participate with you in further discussions. Thank you. Bye-bye.

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

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Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.