Ref. No. SE/2021-22/227

November 3, 2021

BSE Limited
P. J. Towers,
Dalal Street,
Mumbai 400 001.

Kind Attn: – Sr. General Manager
DCS - Listing Department

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1,
Bandra-Kurla Complex, Bandra (East),
Mumbai 400 051.

Kind Attn: Head - Listing

Dear Sirs,

Sub: Disclosure under SEBI (Listing Regulations and Disclosure Requirements) Regulations, 2015

We refer to our intimation dated November 2, 2021, informing the Corporation has voluntarily uploaded the audio recording of the earnings call hosted by it on November 1, 2021 to discuss the financial results for the quarter/half-year ended September 30, 2021, on its website.

In this connection, pursuant to the provisions of SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021 notified by SEBI on May 5, 2021, please find enclosed the transcript of the said earnings call.

The said transcript is also being uploaded on the website of the Corporation.

We request you to take note of the above and arrange to bring this to the notice of all concerned.

Thank you,

Yours faithfully,
For Housing Development Finance Corporation Limited

Ajay Agarwal
Company Secretary

Encl. a/a

"HDFC Limited's Q2 FY'22 Earnings Conference Call"

November 1, 2021

MANAGEMENT: **MR. KEKI M. MISTRY – VICE CHAIRMAN & CHIEF EXECUTIVE OFFICER, HDFC LIMITED**
MS. RENU SUD KARNAD – MANAGING DIRECTOR, HDFC LIMITED
MR. V. SRINIVASA RANGAN – EXECUTIVE DIRECTOR, HDFC LIMITED
MR. CONRAD D'SOUZA – MEMBER, EXECUTIVE MANAGEMENT & CHIEF INVESTOR RELATIONS OFFICER, HDFC LIMITED

Moderator: Ladies and gentlemen, good afternoon and welcome to HDFC Limited's Q2 FY'22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. We have with us HDFC's Vice Chairman and CEO -- Mr. Keki M. Mistry; Managing Director -- Ms. Renu Sud Karnad; Executive Director – Mr. V.S. Rangan; and Member of Executive Management and Chief Investor Relations Officer – Mr. Conrad D'Souza. I would now like to hand the conference over to Mr. Keki M. Mistry. Thank you and over to you, sir.

Keki M. Mistry: Well, thank you very much and good afternoon, everyone.

At the outset, I would like to welcome all of you to HDFC's earnings call for the second quarter of the current financial year.

The Board of Directors at its meeting held earlier today approved the financial results for the half year ended September 30, 2021 which were subjected to a limited review.

Over the next few minutes I will give you a summary of the key highlights of the performance for the half year and the quarter ended September 30, 2021.

As we had mentioned in our earlier call, business during the first quarter was partially disrupted as a result of the second wave - particularly during the latter part of April and in the month of May 21.

There has been a sharp recovery in business from June onwards. This momentum has continued through the second quarter.

The following were the main highlights of the second quarter -

RBI has continued to ensure that there is adequate liquidity in the system and that the liquidity is made available to all segments of the market

Interest rates have been by and large stable.

The inflation trajectory is within the RBI's comfort zone

Business has bounced back from the disruption in April and May 2021

Asset quality has improved during this quarter compared to June 21, particularly in respect of individual loans

Let me start by quickly summarising the progress of our business through the quarter.

Our individual loans approvals for the six months ended September 30, 2021, were higher by 67 percent compared to the corresponding period in the previous year.

During the half year ended September 30, 2021, individual loan disbursements grew by 80 percent over the corresponding period in the previous year.

Individual loan disbursements in the second quarter were 48 percent higher than during the first quarter and 44 percent higher compared to the corresponding period in the previous year.

October 2021 disbursements are the highest ever in a non-quarter end month and this momentum post the second wave has continued.

Growth in home loans was seen in both, the affordable housing segment as well as high income groups.

89 percent of new loan applications were received through the digital channels.

During the second quarter, we sold loans aggregating to Rs. 7,132 crore.

The total loans sold during the six months ended September 21, amounted to Rs. 12,621 crore.

These loans were all assigned to HDFC Bank pursuant to the mortgage sharing agreement with the Bank.

Individual loans sold in the preceding 12 months amounted to Rs 27,199 crores as compared to Rs 14,138 crore in the previous year.

Individual loan growth on an AUM basis was 16 percent. If the loans amounting to Rs 27,199 crores had not been sold, then the growth in the individual loan book would have been 23 percent.

Our individual loan book increased to Rs 3,91,195 crores - a growth of 15 percent over the previous year. In addition to this, the loans securitised by the Corporation and outstanding as on September 30, 2021 amounted to Rs 76,366 crores. HDFC continues to service these loans. Individual loans outstanding on an AUM basis amounted to Rs 4,67,561 crores.

With regard to the non-individual portfolio, we have seen a pick up in the loan book during the second quarter driven largely by the LRD component.

Although we continue to report a de-growth as compared to the previous year, we have seen a healthy growth during the quarter ended September 21. We presently have a good pipeline and we expect to see a positive growth for the year.

As at September 30, 2021 our non-individual loan book amounted to Rs 1,29,603 crore

The overall loan book is now Rs 5,20,798 crores.

The total Assets Under Management (AUM) as at September 30, 2021 amounted to Rs 5,97,339 crores as compared to Rs 5,40,270 crores in the previous year - a growth of 11 percent.

Prepayments on retail loans for the half year, on an annualised basis, was 9.6 percent of the opening loan book

The average size of individual loans for the period ended September 30, 2021 stood at Rs 31.9 lacs

For the second quarter the average loan was Rs 32.7 lacs.

The contribution from the Higher Income Group - defined as customers with an annual family income of Rs 18 lacs or more - has increased during the first six months to 43 percent from 40 percent during FY21

Our thrust on affordable housing loans continued.

During the half year ended September 30, 2021, 30 percent of home loans approved in volume terms and 14 percent in value terms were to customers from the Economically Weaker Section (EWS) or the Low Income Groups (LIG).

The average home loan to customers in the EWS segment amounted to Rs 11.1 lacs and to customers in the LIG segment amounted to Rs 19.4 lacs.

If we break up the loan book outstanding on September 30, 2021 on an AUM basis into different categories then individual loans constituted 78 percent of the total loan book, as compared to 75 percent in the previous year.

Construction finance constitutes 9 percent, of the total loan book, Lease rental discounting loans constitute 8 percent of the total loan book while corporate loans constitute 5 percent.

If you were to look at the incremental loan book growth and split that growth between individuals and non-individuals, then for the quarter ended September 30, 2021, the ratio of growth in individual loans vs non-individual growth is 75:25. The increase in the non-individual loan book during the quarter is almost entirely on account of loans disbursed under the lease rental discounting facility.

For the 6 months ended September 2021, the ratio of incremental growth in the loan book is 96 percent individual loans and 4 percent non-individual loans.

Total loans sourced from distribution channels is 99 percent of which -

HDFC Sales is 53 percent
HDFC Bank is 28 percent
And Third Party DSAs is 18 percent.

(As you are aware, HDFC Sales is a wholly owned subsidiary of HDFC Ltd.)

Thus, 82 percent of HDFC's individual business was sourced directly or through our associates

The Emergency Credit Line Guarantee Scheme (ECLGS) was extended to mitigate the economic distress caused by the second wave of the pandemic.

Under ECLGS 1, 2 and 3, the Corporation has approved an aggregate amount of Rs 2,418 crores of which 72 percent i.e. Rs 1,738 crores has been disbursed by September 2021. Amounts disbursed under this facility are guaranteed by the Government.

The Reserve Bank of India permitted a one-time restructuring of loans under its resolution for COVD-19 related stress.

In this regard, the aggregate amount of loans for which restructuring has been implemented under both OTR 1 and OTR 2 constitute 1.4 percent of the loan book. As informed earlier, loans restructured under OTR 1 constituted 0.9 percent of the loan book.

Out of the loans restructured under OTR 1 and 2, 63 percent are Individual loans and 37 percent are non-individual loans.

Also, out of the total restructured loans, as much as 35 percent is in respect of just one non individual account. We expect over 50 percent of this exposure to be settled shortly.

The overall collection efficiency for individual loans has improved in the second quarter. The collection efficiency for individual loans on a cumulative basis over the last quarter is over 98 percent.

As of September 30 2021, Non-performing individual loans stood at 1.10 percent while non-performing non-individual loans stood at 4.69 percent.

As per regulatory norms, the gross non-performing loans as at September 30, 2021 stood at Rs 10,341 crores. This is equivalent to 2.00 percent of the loan portfolio.

Non-performing Individual loans had increased in June 2021 due to slippages on account of the impact of the second wave of the pandemic. Since then we have seen a pullback by about 27 basis points which reflects a significant recovery from the impact of the second wave. This is also reflected in an improvement in the collection efficiency.

The non-individual asset quality has held reasonably well and we have seen an 18 basis point reduction in NPAs during the quarter.

During the quarter we have seen some resolutions in certain non-individual loans.

As per regulatory norms, based solely on the period of default, the Corporation is required to carry a total provision of Rs 6,605 crores on September 30, 2021.

As against this, the actual provision carried is Rs 13,340 crores.
The excess provision over the regulatory requirement is Rs 6,735 crores i.e. 102 percent higher than the minimum required under the regulations.

Under Ind AS accounting, both asset classification and provisioning have moved from the incurred loss model to the Expected Credit Loss model for providing for future credit losses.

Based on the model, the total EAD of Rs 5,20,358 crores is broken up as under :

Stage 1	91.3 percent
Stage 2	6.2 percent
Stage 3	2.5 percent

During the second quarter we have seen a reduction in the aggregate of Stage 2 and Stage 3 assets from 9.2 percent in June 2021 to 8.7 percent of the EAD as of September 2021.

Stage 3 includes accounts with an EAD of Rs 624 crore which are classified as Stage 3 account on a qualitative assessment under IndAS but are outstanding for less than 90 days and accordingly are not NPAs.

During the quarter, we have charged the Profit and Loss Account with a sum of Rs 452 crores towards provisioning.

The aggregate charge to the Profit and Loss Account for the six months is Rs 1,138 crores

The ECL to EAD Coverage ratio for Stage 2 assets is 15 percent and for Stage 3 is 55 percent.

The provisions carried as a percentage of the EAD amounted to 2.56 percent.

As of September 30, 2021, we carry a COVID-19 provisioning of Rs.1,304 crores (10 percent of the overall provision). We will in the course of this year review whether we need to continue carrying this provision.

Annualised Credit cost for Q2 was lower at 32 basis points compared to 50 basis points during Q1. (For the six-month period, the annualised credit cost amounted to 40 basis points).

We believe that as the situation further normalises we should over the next couple of years be in a position to further reduce the credit costs. This in turn will have a positive impact on the Return on Equity.

We continue to hold all our investments in HDFC Bank, HDFC Life, HDFC Asset Management and all our other subsidiary and associate companies at the original cost of acquisition, which is the price we had paid whilst making those investments. These investments are not accounted for on a fair value basis.

If we were to mark to market the listed investments as at September 30, 2021 the unrealised gains, (which is the difference between the market price as on September 30, 2021 and the carrying cost), would be Rs. 2,75,917 crores.

This unrecognised gain is not part of our net worth nor has it been considered in our capital adequacy calculations.

As a part of the capital raise in August 2020 we raised warrants at an issue price of Rs 180 and an exercise price of Rs 2,165 per share. The exercise period of the warrants is up till August 2023.

As of date no warrants have been converted into equity shares.

Our Tier I capital as of September 30, 2021 is Rs 89,111 crore.

Risk weighted Assets as of that date amounted to Rs 4,11,815 crore

Accordingly, capital adequacy ratio is 22.4 percent of which Tier I capital was 21.6 percent and Tier II capital was 0.8 percent. The capital adequacy is well above the regulatory requirement of what we are required to carry.

At this stage it is important to talk about the Return on Equity.

Under the IndAS accounting requirement, Net Worth includes certain items which do not form part of Tier I capital under the prudential regulations.

These include -

1. IndAs Transition Reserve
2. Deferred Tax Liability on Special Reserve
3. Fair value gains on investments through OCI
4. Investments in Subsidiaries / Associates in excess of 10 percent of NOF
5. Securitisation gains recognised upfront

These items aggregate to Rs 22,707 crores. Hence, Tier I Capital is Rs 89,111 crore as against the Reported Net Worth of Rs 1,11,818 crore.

A more appropriate way of calculating the ROE would therefore be on Regulatory Tier I Capital as against the conventional method of computing it on total Net Worth.

Annualised ROE on Tier I Capital for the half year ended September 21 is 15.5 percent.

As at September 30, 2021 the Corporation's total borrowings amounted to Rs 4,62,737 crores.

Term loans including External Commercial Borrowings and Refinance from the National Housing Bank accounted for 24 percent of borrowings.

Market borrowings i.e. NCDs and Commercial Paper accounted for 41 percent of borrowings.

Deposits were a major source of funding during the year. Deposits as at the quarter end amounted to Rs 1,61,388 crores and constitute 35 percent of borrowings.

61 percent of the deposits were onboarded digitally.

During the quarter the Corporation has drawn two External Commercial Borrowings from International Finance Corporation, Washington and Asian Infrastructure and Investment Bank aggregating to USD 450 million.

The funds raised under these loans will be utilised to promote affordable green housing finance for low-income borrowers and for financing green housing projects. HDFC has hedged the foreign exchange risk on these loans.

Net interest Income (NII) purely on the basis of interest without taking cognisance of the profit on sale of loans during the six months ended September 30, 2021 amounted to Rs. 8,255 crores compared to Rs. 7,039 crores in the corresponding quarter of the previous year - a growth of 17 percent.

The net interest income, calculated in a similar manner, for the quarter ended September 30, 2021 was Rs. 4,109 crores compared to Rs. 3,647 crores in the corresponding quarter of the previous year - growth of 13 percent.

The other way to calculate the net interest income is to also consider the income that is accounted for at the time of selling a loan under Ind AS.

During the quarter, we sold loans aggregating to Rs 7,132 crores and booked an income of Rs 128 crores.

If we were to include this amount of Rs. 128 crores as part of the NII, and also consider similar income in the corresponding quarter of the previous year, then the NII for the quarter would be Rs. 4,236 crores.

Calculated in a similar manner, the NII during the six-month period ended September 30, 2021, would be Rs 8,650 crores.

Net Interest Margin for the half year ended September 30, 2021 stood at 3.6 percent compared to 3.2 percent during the corresponding period of the previous year.

NIM in the previous year was impacted by the negative carry on the liquidity carried by the Corporation.

The spread on loans over the cost of borrowings for the period ended September 30, 2021 was 2.29 percent. The spread on the individual loan book was 1.93 percent and on the non-individual book was 3.37 percent.

The spread on loans during the corresponding period of the previous year was 2.27 percent.

Income earned from Deployment of surplus funds in Cash Management Schemes of Mutual Funds was much lower at Rs 228 crores as compared to Rs 539 crores in the corresponding period of the previous year.

This was due to a sharp drop in short term rates where we earned 3.10 percent on our surplus liquidity as compared to 3.90 percent in the previous year and also on account of lower levels of liquidity.

During the quarter, we received dividend income from HDFC Bank, HDFC Life and HDFC AMC aggregating to Rs 1,171 crores.

During the half year, we earned Rs 1,188 crores by way of dividend income as compared to Rs 621 crores in the corresponding period of the previous year.

There was no profit on sale of investments during the second quarter. During the half year the Corporation has booked profit on sale of investments amounting to Rs 263 crores compared to Rs 1,241 crore during the same period during the previous year.

Under IndAs Accounting Standards, the stock options granted to employees are measured at the fair value of the options on the date of grant.

This fair value is accounted for as employee compensation cost over the vesting period of the options.

Accordingly, Employee Benefit Expenses for the half year includes an amount of Rs 268 crores compared to Rs 47 crores during the same period in the previous year. The charge is on account of stock options which were granted during the second quarter of the previous year.

For the period ending September 30, 2021, the cost income ratio stood at 8.2 percent as compared to 8.5 percent during the corresponding period of the previous year.

For the quarter ended September 30, 2021 the standalone profit before tax was Rs. 4,671 crores (compared to Rs 3,532 during the 2nd quarter of the previous year) a growth of 32 percent.

Tax for the 2nd quarter stood at Rs. 891 crores compared to Rs. 662 crores in the 2nd quarter of the previous year.

The tax rate for the quarter was 19.1 percent compared to 18.7 percent during the corresponding quarter in the previous year.

The standalone profit after tax for the 2nd quarter stood at Rs. 3,780 crores compared to Rs. 2,870 crores in the 2nd quarter of the previous year representing a growth of 32 percent.

For the half year ended September 30, 2021 the standalone profit before tax was Rs. 8,576 crores (compared to Rs 7,139 in the previous year) a growth of 20 percent.

Tax provision during the 6 months ended September stood at Rs. 1,795 crores compared to Rs. 1,217 crores in the previous year.

The tax rate for the 6-month period during the current year was 20.9 percent - compared to 17.0 per cent in the previous year .

The standalone profit after tax for the half year stood at Rs. 6,781 crores compared to Rs. 5,922 crores in the previous year.

Pre Tax return on average assets was 3.0 percent. The post tax return on average assets was 2.4 percent.

The basic and diluted EPS (on a face value of Rs 2 per share) was Rs 37.56 and Rs 37.16 respectively.

The consolidated profit before tax for the half year stood at Rs. 13,075 crores as compared to Rs 10,722 crores in the corresponding period, last year - a growth of 22 percent.

After providing Rs 2,093 crores for tax - (Previous year Rs 1,628 crores) the consolidated profit after tax for the period stood at Rs. 10,982 crores as compared to Rs 9,094 crores - a 21 percent increase over the corresponding period in the previous year.

The profit attributable to the Corporation was Rs. 10,299 crores as compared to Rs. 8,213 crores in the previous year an increase of 25 percent.

As at September 30, 2021 the Corporation had 3,448 employees.

Total assets per employee stood at Rs 167 crores.

Net profit per employee was Rs 3.9 crores.

HDFC's distribution network spans 616 outlets which include 202 offices of HDFC's wholly owned distribution company, HDFC Sales Private Limited. HDFC covers additional locations through its outreach programmes.

We continue to engage deeply with all our stake holders on ESG.

On a voluntary basis the Corporation had prepared the Business Responsibility and Sustainability Report for the year ended March 2021. The report has been hosted on the Corporation's website.

For further information you may engage with our Investor Relations team Anjalee and Conrad.

The above are some of the highlights of the results for the period ended September 30, 2021.

Before I conclude, I would like to wish each one of you good health and a very happy festive season. Please stay safe.

We may now proceed to Q&A. I would request you to kindly introduce yourself and be brief with your questions.

Thank you.

Moderator: Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Mahrukh Adajania from Elara Securities. Please go ahead.

Mahrukh Adajania: My first question is on credit cost. You did mention that going ahead you would see a further decline in credit cost, though they have already declined this quarter. So, are you planning to draw down on existing reserves in the next say six, nine months?

Keki M. Mistry: What I said is that over the next two to three years, we will start seeing credit costs come down. It's not going to be a dramatic reduction - in any particular quarter, that's number one. Number two, obviously, we will keep reviewing the provisioning that we carry specifically the COVID-related provisioning and take a call whether we need to continue with that provisioning or not, at least in the short term, but there is certainly a plan to reverse that at a point in time.

Mahrukh Adajania: But when would you look to reverse – next year or…?

Keki M. Mistry: Mahrukh, difficult to answer that question. There is so much of uncertainty around COVID, whether there will be a third wave, will there not be a third wave, so it all depends on what circumstances are at that point of time. But we are happy to look at it in due course and hopefully over the next as I said a couple of years, we should start seeing credit costs diminishing as we have already seen a decline in this quarter itself.

Mahrukh Adajania: Just in terms of restructuring, so both in individual and non-individual, what are the terms of restructuring of moratorium extension of tenor, what will be the maximum moratorium and maximum extension of tenor in both these groups?

Keki M. Mistry: To my mind, these are strictly as per the regulations.

Conrad D'Souza: For the retail, the terms have been extended from maybe six months to about 18-months that is what we have done. We have also encouraged people to pay part EMIs, it's not completely a full moratorium also. So, this is the mix, Mahrukh, of all various options that we gave which are all under the regulation.

Keki M. Mistry: But Mahrukh, just to repeat, total restructured loans in OTR-1 and OTR-2 taken together amount to 1.4%. And we would have informed you a couple of quarters earlier, that in OTR-1, the restructured loans at that time was 0.9%.

Mahrukh Adajania: My last question is on the growth in the non-individual book. So any guidance there in terms of when it could pick up?

Keki M. Mistry: Well, we have a reasonably healthy pipeline. The reason you saw the non-individual loan book decline particularly in the quarter ended June was because of two, three reasons; one reason was that we had the second wave of COVID in April, May and obviously during the second wave, construction activity had come to a standstill and therefore we could not disburse any loans for construction finance. This was one reason. Second reason was in the course of the last 12-months, we had seen a lot of repayment of loans on account of REITs. So the customers who have taken loans from us, went for a REIT issue. We had two large customers – Brookfield and Mindspace – and the loans which they have taken got repaid through the REIT structure. But the success of the REIT has made it now more attractive for more and more developers to look at constructing commercial property which will initially start of as construction loans and then in due course once the property is ready and leased out, will then move into a lease rental discounting (LRD). So the pipeline looks reasonably good. I can't commit numbers, but as I said in the talk itself that I would expect we should close the financial year with a positive growth as against the minus 5%, negative growth that we have as of September 2021. Also, the negative growth of 5% percent is lower than the negative growth, which was almost if I recall, right, -9% in the first quarter.

And also to remind you, as I mentioned in the call, 96% of the incremental growth in the loan book in the six month period is individuals, 4% is non-individuals, this is for the six month period. But if you were to look at only the second quarter in isolation, then as much as 25% of the growth in the loan book during the quarter was in non-individual loans.

Moderator: The next question is from the line of Bunty Chawla from IDBI Capital. Please go ahead.

Bunty Chawla: If you can share what will be the percentage of individual book which is on the projects that are currently under construction?

Keki M. Mistry: My sense is it would be about 10% or 11%.I don't have a number readily available.

Bunty Chawla: Secondly sir, on the restructuring as you shared that 60% comes from the individual, if you can more share what will be bifurcation between salaried, non-salaried and if any specific states are more impacted by this, if you can share something on that?

Keki M. Mistry: So if we were to look at the split between employed and self-employed on an incremental basis, I don't have the split readily available for OTR cases, we can get it in a short while, but if we look at incremental growth in the loan book approximately 21% is on self-employed and about 79% is employed but specifically on the OTR cases, Conrad will come back with specific numbers. And also there is no particular state, it is broadly spread across the length and breadth of the country but I repeat that the total amount between OTR-1, which happened last year, and OTR-2, is 1.4% and what happened last year which is OTR-1, was itself 0.9%.

Bunty Chawla: This OTR-1 which is 0.9% and it could be mostly more than three to six months old. So how is that portfolio behaving, what would be the collection efficiency in that portfolio sir?

Keki M. Mistry: It's reasonably good. We have not seen any significant deterioration in the asset quality on the restructured loans. And generally, of course there will be exceptions, payments are being made as scheduled.

Moderator: The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: In this quarter, if we see the asset quality on stage wise, we have increased the PCR meaningfully on Stage-III and reduced the same on Stage-II. So, just wanted to confirm this 1.4% restructured loan are part of Stage-II, right?

Keki M. Mistry: They are all part of Stage-II.

Sanket Chheda: So any reason to maybe lower the coverage rather on Stage-II and increase on Stage-III wherein we were already at 48% on Stage-III and historically LGDs have been much lower than that, right?

Keki M. Mistry: Well, the reason for Stage-II reduction is because some of these Stage-II projects which were there have started seeing sales happening and because sales are happening, the stress which was earlier envisaged on the project, some of these projects, obviously not all, has reduced and therefore to that extent the provisioning has also come down. And as far as Stage-III is concerned, there is accrual of income which comes every time. So because there is accrual of income that gets reversed through the provisioning. And that's an IND AS requirement as you may know.

Moderator: The next question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: First is on this 50% of the Shapoorji Pallonji restructured account which forms 35%, settlement that you're expecting that is only the near term settlement from that restructured account, right, longer term the numbers are going to be higher than 50%, right?

Keki M. Mistry: The account that we were talking of : the non-individual account, we expect 50% roughly of the money to be received hopefully in this quarter.

Suresh Ganapathy: The balance will come over a period of time, right, considering the collateral?

Keki M. Mistry: Hopefully, as they settle this 50%, the remaining 50%, we hope will not take too long to settle.

Suresh Ganapathy: The other thing is can you tell us what could be the impact of the new securitization guidelines specifically with respect to the direct assignments that you do with HDFC Bank, anything specific that changes either in terms of capital or any other requirements here?

V.S. Rangan: On the securitization piece, yes, the RBI rules have come in but, broadly on assignment transaction, there is no change in the capital and other parameters. except for the loans which has to be sold, they have said that it has to be on a current basis and they are selling it. So when you are selling it, it should have a zero outstanding as on date. That is the requirement. Earlier it was like any standard asset could be sold, now it is like a zero DPD.

Suresh Ganapathy: So this is no way going to affect either the volumes or anything that you do with HDFC Bank, right?

V.S. Rangan: Not really.

Suresh Ganapathy: Last question is on the Bandhan stake which is less than 10% that you own. What is the future course, do you plan to trim it down, maintain it, is it purely a financial investment at this point in time, any color that would be great?

Keki M. Mistry: We have always said that the investment in Bandhan is a financial investment, it is not a strategic investment. We continue monitoring the investment quarter-after-quarter and in due course the investment committee will take a call on what to do with the investment. But as I said earlier there are certain investments that we've carried in a balance sheet for years and years without sort of trimming or increasing our stake or anything. So it's a call that the investment committee will have to take and which they will take quarter-after-quarter.

Moderator: The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: A couple of things; one, if I heard right, you mentioned that prepayments in individual loans are 9.6%. I don't know whether it was for 2Q or for the entire 1H.

Keki M. Mistry: This 9.6% is on an annualized basis. It's not that prepayments in six months were 9.6% of the loan book, no.

Aditya Jain: But in 1Q this prepayment rate was 8.2%, so the increase seems fairly high or would do you say that 1Q was depressed?

Keki M. Mistry: So the normal level of prepayments we get and this has been a historical trend which analysts who've been covering our stock for the last 25 years. The typical trend is that the total amount of prepayments we receive in a year are between 10% and 12% of the loans outstanding at the beginning of the year. Now, obviously in the first quarter, just as there was impact on disbursements, there was also an impact on prepayments because of the second wave, but now with everything normalizing, prepayments would have gone back to earlier levels. So I must say that even in the second quarter, the level of prepayments we've had have been lower than what the historical average of between 10% and 12%.

Aditya Jain: The gross Stage-III assets in wholesale non-individual, are up quarter-over- quarter 5.8% to 6.2%. Could you just talk about where this is coming from and is it something which you would expect to…?

Keki M. Mistry: We have said this in repeated calls in the past that any loan which we classify as a Stage-II account, we keep looking at that account on a quarterly basis, there are certain benchmarks, certain targets that we set in terms of progress and if those targets are not met we would be looking to downgrade those loans from Stage-II to Stage-III. So this is something we have said historically. So the slight increase that you see in Stage-III loans would be arising out of that fact, that the loans were originally Stage-II loans and because the progress was not as much as we would have expected, we would have downgraded those loans from Stage-II to Stage-III.

Aditya Jain: So they would not necessarily have crossed into 90-days past due but proactively you might have downgraded them?

Keki M. Mistry: Some of them, yes. I mentioned in the call itself that there were some loans which were not 90-days outstanding but have been classified as Stage-III.

Moderator: The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Sir, the question was on collection efficiency. When we allocated on a cumulative basis, it's still at around about 98%-odd. I think that's the number which has been there for March, June. We are not seeing an improvement there actually. So how should we read that? Maybe this is also on the individual loan but it's getting sticky at 98 and our Stage-III assets in individual is 1.3. So maybe does that pose a risk or maybe this is the quarter number and September would be much better?

Keki M. Mistry: Well, I would put it this way that typically even in pre-COVID times, the collection efficiency on a cumulative basis was always around 98%. It would have ranged from 97.5% to 98.2%, 98.3%, 98.5% and not much more than that. What you need to understand is that if the customer has faced some difficulties and is not able to make payment, then with every month the installment that is to be collected from that customer keeps increasing. These are not collections for the month, these are cumulative collections. So if someone had not paid for last month and the month before that, and the month before that for example, then he would continue to appear in the denominator and therefore to that extent the collection efficiency gets lowered. But typically 98.2%, 98.3% collection efficiency ratio generally we would consider it as fairly satisfactory.

Kunal Shah: Second in terms of restructuring, if I look at particularly the proportion of individual, so almost 1.2% of individual loans have got restructured, it's 2% for the non-individual and that's where we get to 1.4 average, but maybe were we anticipating that there will be the request to the extent of 1.2%-odd or that seems to be relatively on the higher side?

Keki M. Mistry: First of all, let me tell you that this 1.2% that you are talking about or whatever the number is, is a cumulative number, it is not that that has happened this quarter or last quarter. This includes the restructuring figure of 1.4% is both in respect of what was done last year as well as what was done in the current year as a result of the second wave of COVID. So some people particularly I would say a little more of the self-employed people would have got impacted during the second wave because their businesses could not open and they had to shut down or temporarily close their businesses and therefore would have sought restructuring. But you must also remember that restructuring is allowed only for accounts which were standard up to a certain point. So it's not the bad loans which get restructured, it is the good loans that get restructured. And when we do restructuring, we look at the future likelihood of the customer coming out of his short-term problems or whatever it is, before we agree to a restructuring.

Conrad D'Souza: While the numbers are not very high, the reason why it may be slightly higher in the OTR-2 compared to OTR-1, although in aggregate, the numbers are not material, one of the reasons is the fact that in the OTR-1 it happened after six months of moratorium. This time around there was no moratorium. So that explains why the number in OTR-2 was expected to be higher.

Kunal Shah: In terms of the disbursement, so we gave the first -half number in terms of the disbursement growth, last time it was 181, now it is 80 but if I have to look at it particularly this quarter what would be the disbursement and if you can share the absolute number as well?

Keki M. Mistry: Whilst Conrad gives you that number, the actual growth in disbursements in individuals in the six month period was 80%, compared to the corresponding period last year. FY22Q2 vs FY21Q2 was 44% and if we compare Q2 versus Q1 it was 48%. Conrad, can you give the exact number of disbursements?

Conrad D'Souza: So Kunal, the disbursements for this quarter for individuals was Rs.38,000 crores as compared to Rs.26,000 crores last year same quarter, which is the 44% growth that Keki is speaking about.

Keki M. Mistry: Also, Kunal, I should say that post quarter, the month of October which just got over yesterday, we had record disbursements, we have never disbursed that much amount in any non-quarter in month. And even if you include quarter end months, this would be the second highest disbursement we ever made in any month including a quarter in month.

Moderator: The next question is from the line of Kaushik Agarwal from Haitong Securities. Please go ahead.

Kaushik Agarwal: So my question is with specific to LRD book of the company, a few questions around that; what would be the profitability profile for that segment, number one? And number two what was the incremental business generated in the LRD book during the quarter? And are we seeing some competitive pressure, can you give some color on the pricing side for the business?

Keki M. Mistry: Let's first talk of the growth in the LRD book. So if you look at the second quarter and if we break the second quarter growth in the loan book between individuals and non-individuals, then the growth in difference is 75-25, meaning 25% of the growth was on non-individual loans. Now when you look at these non-individual loans, the growth has been almost entirely in the LRD segment. Profitability of the LRD segment continues to remain good. Obviously, there is competitive pressure but there has always been competitive pressure because the LRD book is always perceived as a very safe book. The margins that we earn from the LRD book would obviously be lower than the margins that one can earn on the other kinds of non-individual loans like construction finance, but at the same time the asset quality on LRD loans will be significantly superior to almost any other category. So when you talk of profitability, you have to look at profitability net of provisioning requirements, net of capital requirements and all of that and we've consistently told our investors that whilst the spread on non-individual loans is higher than the spread on individual loans, which is also in the call I mentioned the amount, what you must also understand is that non-individual loans require a higher amount of capital because the risk weight on these loans is higher than the risk weight on individual loans. So the capital deployed in giving a non-individual loan is higher. To that extent, the return on equity gets pulled down. And the second point to note is that if you look at non-performing loans also our individual non-performing loan is 1.10% whereas a non-individual, non-performing loan is a lot higher at 4.69%. So if you factor in the higher amount of non-performing loans and therefore consequently the higher amount of provisioning that these loans require, and also take into account the higher amount of capital required, then to my mind the return on equity in both segments is broadly more or less same.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: This is actually pertains to the liability side. If I look at the ratio of bank loans to total borrowings, bank loans are almost now one-fourth of the total borrowings and I believe the peak ratio was somewhere close to one-third or 30% way back in 2008-09. At that point of time I guess there were different set of constraints or different set of considerations, but at this point of time clearly you are increasing your bank loans because it is a more competitive line of funding, but how should we really think of it -- would you want to balance it out at some point of time or will this kind of keep on increasing to 30%, 35%?

Keki M. Mistry: Whilst Rangan can answer that question, let me just give you a broad perspective on our funding. We have been extremely careful through our various ALM meetings that we keep having of ensuring that we manage our funds in a manner in which we minimize the cost of funding for us. And we would always raise money from that source which gives us access to the cheapest form of funding for a certain period of time. So at times we look at five year funding, sometimes we look at three year funding and so on and so forth. So depending on where that fits in, the funding would come from. Now, when you look at the outstanding borrowings as of 30th of September and compare that with the outstanding borrowings of 31st of March, then you would see that of the increase, 36% is the bank loans but deposit is 53%.

V.S. Rangan: Just wanted to add two more points. One is that we have been quite successful in terms of negotiating most of the bank loans to an external benchmark. So that is from interest rate perspective though we are in line with the market. And the second thing is that we have also been able to negotiate fairly longer-term, I mean, even terms as high as 10-years and all that. So that's also another positive point from that perspective.

Nischint Chawathe: Out of roughly Rs.1,11,000 crore, if you could give some color in terms of how much is linked to an external benchmark, how much would be linked to one-year MCLR or….?

V.S. Rangan: Most of them is actually linked to external benchmark as we are talking today because we have been able to renegotiate it but we will probably give it to you : the exact number.

Nischint Chawathe: And this gets reset like immediately the next month, next quarter?

V.S. Rangan: No, these are basically linked to either a 30-day, 90-day T-bill or things like that, so it's not immediate.

Conrad D'Souza: Just to add to what Rangan said, one of the reasons why you have seen a little uptick in the term loans is also because we drew down our ECBs, as Keki mentioned; $450 million, so that's also part of the term loans.

Moderator: The next question is from the line of (Shagun Varma) from Goldman Sachs. Please go ahead.

Rahul: This is Rahul here. Just two questions. One is strong growth in disbursals. Is it possible to get some color if you were to see it in terms of volume growth versus the value growth, value growth of course you have shared, what would happen in terms of number of clients or the volume of loan account?

Keki M. Mistry: So whilst Conrad gives you that number, let me also say that we have seen a pickup also in the high-end market which was relatively quiet for the last three years or so and this is reflected in the fact that our average loan amount has gone up from about Rs.27-odd lakhs last year this time to about Rs.31.9 lakhs during the six months period. And if we were to look at it specifically in the second quarter, the average loan amount is Rs.32.7 lakhs. Conrad, do you have the number increase?

Conrad D'Souza: So the applications approved inflow numbers for the first six months is a 42% growth compared to last year, same period.

Kaushik Agarwal: The other question, Keki, is the new set of guidelines to regulate the NBFCs by RBI, if you were to be classified in upper layer, does it change the business in any way or it is going to be a BAU for us?

Keki M. Mistry: I will leave Rangan to answer that question but personally I don't see changing the business model in any manner other than the fact that if you were to look at LCR, there is a LCR requirement, this is nothing to do with the classification of NBFCs into upper tier or lower tier but there is a requirement to carry a higher level of liquidity once the new LCR guidelines set in.

V.S. Rangan: So basically from our perspective, I think the upper layer doesn't change any of the business model construct. It's more about the governance and other parameters, which largely we are there because being a large listed company.. And of course there are some paragraphs, on which they said they will come out with some new circulars and all that. So we'll have to watch out for that to see exactly whether there is anything sort of likely to have an impact or not.

Keki M. Mistry: Let me answer a question which was asked earlier where someone wanted to know the distribution of one-time restructuring loans into how many were employed and how many were self-employed. So roughly about 35% are employed and 65% have self-employed.

Kaushik Agarwal: A data keeping question. Is it possible to get the loan book breakdown between developer loans, LRD, etc., Conrad, you used to give it traditionally?

Conrad D'Souza: It's part of the analyst sheet but if you can't find it, I'll send it to you, not an issue.

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

Abhishek Murarka: I just wanted to know what is the outlook on the construction finance space. Just some commentary on how you see business picking up in residential, commercial absorption levels and in what timeframe do you see any kind of pickup in activity by developers?

Keki M. Mistry: I will request my colleague, Renu to talk about it, but just very-very briefly if I can start I would say that we saw nearly three years when things had slowed down quite a bit particularly in the construction finance segment largely because of the fact that new projects were not getting launched. But what has happened in the last one year is the robustness in demand people wanting to buy property. That increase has resulted in more and more developers looking to launch newer and newer projects.

Renu S Karnad: One is really seeing a lot of traction in tier-2 cities. If you look at last month's performance, all of Gujarat, Ahmedabad, Surat, Vadodara, Jaipur and of course New Delhi are really the ones who've done very,very well. I think one of the other things we need to understand also that there's a large secondary market, the resale market and numbers are that if you know - you're doing x in the primary market, the resale market is as much as 2x of that. So that is the other one where we are seeing a lot of growth. New projects are being launched. If you visit some of the sites on the weekend, you see lots of people which is a very healthy sign that in the next quarter or so these will then translate into buys and then after that the buys will translate into loan applications. I think the fact that the interest rates are steady has helped in a big way. So my assessment would be that you would see this positive swing that we are seeing upwards continue in the next couple of quarters and with that also some construction finance loans will also help us and you'll see more developers actually announcing new projects, and that's a very real, on the ground situation that I'm telling you about.

Abhishek Murarka: Renu, most of the places you mentioned the tier-2 cities or places where project sizes would be smaller. So do you see a healthy volume contribution coming to your overall construction finance book in let's say two quarters or three quarters down the line as this activity improves?

Renu S Karnad: You are absolutely right, you will see the construction finance maybe a couple of quarters later, but the disbursements of that will take even longer because when we sanction a loan for a construction to a developer, they have to first spend own contribution, they normally come in at least a quarter or two quarters before. And unlike receivable discounting loans or corporate loans, construction finance loans are always disbursed with progressive construction. So the absolute value of disbursement that we see I think will start coming in maybe by the third or fourth quarter from now. So that is very true. Coming back to it, Delhi has done very-very well this month and we also saw that happen last month. I think the interest that is there in the real estate in Mumbai is so strong you will see that growth happening both in the retail and very-very carefully picked up construction finance developers who we have confidence in, in the next two to three quarters.

Abhishek Murarka: Just one more data-keeping question. Can I get the investment number in subsidiaries as of the end of 2Q?

Conrad D'Souza: Just go to the next question. I will come back with the answer.

Moderator: The next question is from the line of Kunal Thanvi from Banyan Tree Advisors. Please go ahead.

Kunal Thanvi: I just wanted to understand on the competitive intensity across the board. We've been hearing from other NBFCs that there've been largely pre-payments happening and banks eating into the share of their loan book; however in case of HDFC we have seen the prepayment phase to be slower. So can you help us understand how things are on the competitive side both from the banks and NBFCs and how we are able to manage the market share, are we seeing market share gains also?

Keki M. Mistry: As an analyst, I'm sure you look at the RBI data which keeps coming out; the data as of Friday shows that housing loans in the banking system increased by 9% during the last 12-months and our balance sheet shows that housing loans in HDFC increased by 16%. So that answers your question on market share. Of course there is competition… in any business there is competition, but you can't grow at this pace if the competition was unreasonable or the cost of funds generally for everyone in the system have come down and consequently you're seeing some degree of reduction a little bit. But you're also seeing that all the players who are there in the market are managing the spreads well, are managing the net interest margins well and are showing growth despite that.

V.S. Rangan: I have the answered on composition of the bank loans. Basically 84% are linked to external benchmark, 10% are fixed rate loans, less than 5% is the old MCLR.

Conrad D'Souza: Abhishek, the investments in group companies is 20,000 crores all put together.

Moderator: The next question is from the line of Hiren Kumar Desai, individual investor. Please go ahead.

Hiren K Desai: The question is in terms of how the housing market is picking up. Do you expect the prices of real estate to go up and therefore better speed of our loan book growth in value?

Keki M. Mistry: Whether prices go up or not is going to obviously vary from place-to-place depending upon demand and supply but generally speaking clearly this is the best time for an individual to buy a house because interest rates are as low as they'll ever get, number one. Number two, the fact is that many developers because some of them had unsold inventory are offering good deals to customers particularly now with this festive season ahead of that. So, I think a combination of all of this has made housing so much more affordable compared to what it used to be. I'll just give you a simple example of between 2017 and 2020. To my mind in the last three years, income levels were typically three to four years, income levels would typically have risen on an average by about 7% to 8% a year. Even if you take a 7% increase in income over four years it is 28% and when you annualize that that will become close to 33%, 34%. Property prices are where they were three or four years ago by and large. Obviously there will be differences from project-to-project, city-to-city and so on and so forth. So income levels are 30%-plus higher, property prices are where they are and therefore the affordability for a customer who's looking to buy a house has never been as good as it is at this point in time.

Renu S Karnad: Interests are the lowest.

Hiren K Desai: I understand all of this. My question was that can we expect to see a higher rate of growth on account of overall property price increase for our HDFC loan volume?

Keki M. Mistry: We have seen a pickup in growth. If you look at the absolute amount of growth in the loan book over the last four or five years, you will see that the growth in the loan book in this quarter was the highest, it's been to my mind for several years in absolute terms.

Moderator: We take the last question from the line of Manjeet Baruah from Solidarity Investment. Please go ahead.

Manjeet Baruah: Sir I just wanted to revisit the comment you made to understand it better. The ROE for different segments if I take individual home loans versus wholesale or construction, gold loans remains the same. Is that the right understanding I got from your comments?

Keki M. Mistry: What I said is that the return on equity after you factor in the higher amount of provisioning requirement because of asset quality related concerns, after you factor in the higher amount of capital, that is required, let's say for a construction finance loan versus an individual loan, so when you start. you need to factor all of this when you're calculating the return on equity. Broadly the return on equity in all segments of the business would be more or less the same. So the pricing is done accordingly.

Manjeet Baruah: A follow-up here was if we look at a blended ROE for HDFC Limited as a company, the band in which we earned the ROE probably a decade back. Is it fair to assume that over the next decade that band will structurally move on because the competition will be much more higher and on the wholesale side obviously as industry consolidate sooner, they'll get better rates, the top players as well as some benefit of different instruments like InvITs, etc.,?

Keki M. Mistry: Let me tell you that our lending rates are as good as anybody else's because our cost of funding is extremely low because we are able to access funding from a variety of sources which many of the smaller players will not be able to get. For example when COVID happened, we saw flight to safety as people started shifting their investments from what they perceived were risky instruments to HDFC deposits. So we've always been a beneficiary of times when there is some degree of uncertainty. Now, as far as the competitive question that you are talking about, we have seen competition in our business now for more than 25 years or more than that and we have consistently managed to grow with stable spreads over that period of 25 years. I see nothing on the cards today which would make me believe that the competitive pressure is in anyway going to be unreasonable or anyone is going to do anything which is not in the best interest of all the players in the market simply because the penetration level of mortgages in India is extremely low. There is scope for everyone to grow. The outstanding housing loans as a percentage of GDP in India is 11%. You compare that with, forget western countries, western countries all in their 60s and 70s and 80s, but if you look at even emerging market countries, most of them will be in the 20% to 30% range, we are only 11%. Also, very important to understand that if you look at the demographics in India, two-thirds of our population is below 35 years of age. And unlike what people do in the western countries, in India the average age of a first-time home buyer is about 38 years or 39 years. So two-thirds of our population today has not even thought of buying the house, but structurally all these people will over the next three, five, seven years and so on and so forth look to buy a house. So to my mind there is going to be a structural increase in the demand for housing and therefore housing finance in India. So I don't see any lender needing to do anything very irrational to gain business.

Manjeet Baruah: I appreciate the fact that HDFC is always a beneficiary in tough times. My question just to push up once more if I could rephrase it, let's say we were earning, I don't know, 17%, 18% core ROE and removing all the gains, etc., decade back, does this core are we kind of overtime come down as the market penetrates more or even that kind of earlier levels remain sustainable, is my question?

Keki M. Mistry: I would say core ROE on any incremental level of business we do today, would be the same as it was three years, five years, seven years ago. The only difference that you would see in the reported return on equity number would be the level of leverage that you're carrying at that point of time. Currently, the leverage level has come down because the debt-equity ratio is lower, now at 4.1X compared to as much as 6 and 6.5X which is where it used to be many years ago. And therefore the reported return on equity looks lower because you are comparing return on equity on a much larger capital base because the capital adequacy today is a lot higher than before. But structurally if you look at incremental lending any new loan that we do, the return on equity. to my mind, will be broadly more or less the same. I would suggest you can sit with Conrad later on to understand the calculations.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.

Keki M. Mistry: My colleagues may want to say something. Just thank everyone for being on the call and wish all of you a very happy festive season ahead and please stay safe, COVID is not yet over in my opinion, we've seen a third wave happening in other countries, we should continue to remain alert.

Renu S Karnad: Yep. Happy diwali and happy all the other festivals that are going to come around and then the new year.

V.S. Rangan: Thank you. Happy diwali to everyone.

Conrad D'Souza: Thank you everyone and some of you who want to get back for any specific query, please connect with us.

Moderator: On behalf of HDFC Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.