HDFC

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

www.hdfc.com

Ref. No. SE/2022-23/39

May 4, 2022

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 May 2, 2022, informing that the Corporation has uploaded the audio recording of the earnings call hosted by it on May 2, 2022 to discuss the financial results for the quarter/year ended March 31, 2022, 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

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Corporate Identity Number: L70100MH1977PLC019916

"HDFC Limited Q4 FY22 Earnings Conference Call"

May 02, 2022

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

Moderator: Ladies and gentlemen, good afternoon and welcome to HDFC Limited Q4FY22 Earnings Conference Call.

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 the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

We have with us HDFC's Vice Chairman & CEO - Mr. Keki. M. Mistry, Managing Director - Ms. Renu Sud Karnad, Executive Director - Mr. V.S. Rangan, Member of Executive Management and Chief Investor Relations Officer - Mr. Conrad D'Souza, and General Manager - Ms. Anjalee Tarapore.

I now hand the conference over to Mr. Keki M. Mistry. Thank you. And over to you, sir.

Keki Mistry: Good Afternoon Everyone.

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

The Board of Directors at its meeting held earlier today approved the financial results for the year and the quarter ended March 31, 2022 which were subjected to an audit.

Over the next few minutes I will give you a summary of the key highlights of the performance.

As I had mentioned in our earlier earnings call, business during the first half of the year was partially disrupted as a result of the second wave. We, however, saw a sharp recovery in the second half of the year.

The third wave in January 2022 saw a rise in infections, but with lesser severity and disruption was minimal. Consequently, we have had a strong growth during the quarter ended March 22.

The following were the main highlights of the fourth quarter -

- RBI has continued to ensure that there is adequate liquidity in the system and we generally had stable interest rates during the quarter. In the fourth quarter we have seen a slight uptick in interest rates consequent to which we have increased deposit rates as well as rates on our non-individual loan products.

- The inflation trajectory was within the RBI's comfort zone.

- RBI had on November 12, 2021 issued guidelines on harmonising NPAs across the financial system. On February 15, 2022 RBI clarified that the applicability of the revised NPA norms will be from September 2022. We have, however, continued to report NPAs under the new norms issued on November 12, 2021.

- Liquidity Coverage Ratio (LCR) became applicable from December 1, 2021. This has resulted in higher levels of liquidity carried during the second half of the year.

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

Our individual loans approvals for the year ended March 31, 2022, were higher by 38 percent compared to the corresponding period in the previous year.

For the year ended March 31, 2022, individual loan disbursements grew by 37 percent over the corresponding period in the previous year.

Individual loan disbursements in the 4th quarter were 18 percent higher compared to the corresponding period in the previous year and were sequentially 21 percent higher than during the third quarter. Similarly, individual loan approvals were 24 percent higher than in the corresponding quarter of the previous year.

It is important to note that during the 3rd and the 4th quarters of the previous year we had the reduction in stamp duties in Maharashtra which had resulted in substantial growth during that period.

The month of March 2022 saw the highest monthly individual disbursements ever at Rs 20,944 crore. Housing disbursements constitute 94 percent of individual disbursements in FY22.

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

91 percent of new loan applications were received through digital channels.

During the fourth quarter, we sold individual loans aggregating to Rs 8,367 crore.

The total loans sold during the year ended March 31, 2022 amounted to Rs 28,455 crore.

99 percent of these loans were assigned to HDFC Bank pursuant to the mortgage sharing agreement with the Bank.

Besides individual loans, the Corporation also assigned Rs 1,500 crore of standard non-individual loans during the quarter.

Individual loan growth on an AUM basis was 17 percent. If the loans amounting to Rs 28,455 crores had not been sold during the preceding 12 months, then the growth in the individual loan book would have been 25 percent.

Our individual loan book increased to Rs 4,31,553 crores - a growth of 17 percent over the previous year. In addition to this, the loans securitised by the Corporation and outstanding as on March 31, 2022 amounted to Rs 83,880 crores. HDFC continues to service these loans. Individual loans outstanding on an AUM basis amounted to Rs 5,15,433 crores.

With regard to the non-individual portfolio, we have seen a pick up in the book during the fourth quarter.

We presently have a strong pipeline of construction finance loans as well as in the lease rental discounting segment and as I had mentioned during the last quarters earning call, we have seen a strong Q4 for the non-individual portfolio.

As at March 31, 2022 our non-individual loan book grew by 7 percent on an AUM basis compared to the previous year and by 6 percent sequentially from December 21 to March 22.

The overall loan book is now Rs 5,68,363 crores - a growth of 14 per cent.

The total Assets Under Management (AUM) as at March 31, 2022 amounted to Rs 6,53,902 crores as compared to Rs 5,69,894 crores in the previous year - a growth of 15 percent.

If no loans had been sold during the preceding 12 months, then the growth in the total loan book on an AUM basis would have been 20 percent.

Prepayments on retail loans for the current year, on an annualised basis, amounted to 10.3 percent of the opening loan book

The average size of individual loans for the year ended March 31, 2022 stood at Rs 33 lacs as compared to Rs 29.5 lacs in the previous year.

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 year to 45 percent from 40 percent during FY21.

Our thrust on affordable housing loans continued.

During the year ended March 31, 2022, 29 percent of home loans approved in terms of number of customers and 13 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 11.2 lacs and to customers in the LIG segment amounted to Rs 19.7 lacs.

If we break up the loan book outstanding on March 31, 2022 on an AUM basis into different categories then individual loans constituted 79 percent of the total loan book, as compared to 77 percent in the previous year.

Construction finance constituted 9 percent, of the total loan book, Lease rental discounting loans constituted 7 percent of the total loan book while corporate loans constituted 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 March 31, 2022, the ratio of growth in individual loans vs non-individual growth is 78:22.

For the year ended March 31st, the ratio of incremental growth in the loan book is 88:12.

98 percent of the loans were sourced through distribution channels - however this is largely through HDFC Sales a 100 percent subsidiary of HDFC and HDFC Bank.

HDFC Sales accounted for 52 percent of the loans sourced while HDFC Bank accounted for 28 percent.

Third Party DSAs accounted for 18 percent.

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 2,216 crores of which 79 percent i.e. Rs 1,747 crores has been disbursed by March 2022. Amounts disbursed under this facility are guaranteed by the Central Government.

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

Out of the total restructured loans, just one non individual account accounted for Rs 2,764 crore. I am happy to mention that in the last quarter we have recovered the entire exposure against this account.

As at March 31, 2022 the outstanding loans under OTR 1 and OTR 2 amount to Rs 4,572 crore which is equivalent to 0.80 percent of the loan book - as compared to a peak of 1.4 percent in September 2021.

98 percent of the OTR loans are in the individual loan book.

The overall collection efficiency for individual loans has further improved in the fourth quarter. The average collection efficiency for individual loans on a cumulative basis over the last quarter is over 99 percent.

- RBI had on November 12, 2021 issued guidelines on harmonising NPAs across the financial system. Subsequently RBI has deferred the effective date of the applicability of these guidelines to September 2022.

- The Corporation however has continued to report NPAs for the quarter ended March 31, 2022 in accordance with the revised RBI circular of November 12, 2021.

As of March 31, 2022, calculated under the new norms, Gross Non-performing individual loans stood at 0.99 percent (down from 1.44 percent in December 21) while gross non-performing non-individual loans stood at 4.76 percent (down from 5.04 percent in December 21).

As per the new regulatory norms, the gross non-performing loans as at March 31, 2022 stood at Rs 10,741 crores. This is equivalent to 1.91 percent of the loan portfolio (down from 2.32 percent in December 21).

Based on the earlier method of calculating NPAs, individual NPAs as at 31st March amounted to 0.78 percent (21 basis points lower than under the new method); while total gross NPAs amounted to 1.74 percent (17 basis points lower than under the new method).

As at March 31, 2022, the Corporation carried a provision of Rs 13,506 crores.

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 5,67,927 crores is broken up as under :

Stage 1	93.3 percent
Stage 2	4.4 percent
Stage 3	2.3 percent

We have seen a 2.5 percentage point reduction in the aggregate of Stage 2 and Stage 3 assets from the peak of 9.2 percent in June 2021 to 6.7 percent of the Exposure At Default as of March 2022.

During the quarter, we have charged the Profit and Loss Account with a sum of Rs 401 crores towards provisioning.

The aggregate charge to the Profit and Loss Account for the year is Rs 1,932 crores.

The ECL to EAD Coverage ratio for Stage 2 assets is 20 percent and for Stage 3 is 54 percent.

The provisions carried as a percentage of the EAD amounted to 2.38 percent.

Annualised Credit cost for Q4 was 26 basis points compared to 50 basis points during Q 1, 32 basis points during Q 2 and 27 basis points during Q3. (For the year ended 31st March 22, the total credit cost amounted to 33 basis points down from 56 basis points in the previous year).

As asset quality related issues normalise we should over the next few quarters be in a position to further normalise the credit costs to pre COVID levels. 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 March 31, 2022 the unrealised gains, (which is the difference between the market price as on March 31, 2022 and the carrying cost), would be Rs 2,34,248 crores.

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

Our Tier I capital as of March 31, 2022 is Rs 98,024 crore.

Risk weighted Assets as of that date amounted to Rs 4,41,000 crore.

Accordingly, the capital adequacy ratio is 22.8 percent of which Tier I capital is 22.2 percent and Tier II capital 0.6 percent. The capital adequacy is well above the regulatory requirement.

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 and Associates in excess of 10 percent of NOF

5] Securitisation gains recognised upfront in accordance with IndAS requirement

These items aggregate to Rs 22,227 crores. Hence, Tier I Capital is Rs 98,024 crore as against the Reported Net Worth of Rs 1,20,251 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 year ended March 31, 2022 is 15.0 percent.

As at March 31, 2022 the Corporation's total borrowings amounted to Rs 4,88,681 crores.

Term loans including External Commercial Borrowings and Refinance from the National Housing Bank accounted for 28 percent of borrowings.

Market borrowings i.e. NCDs and Commercial Paper accounted for 40 percent of the borrowings.

Deposits as at the quarter end amounted to Rs 1,60,900 crores and constitute 32 percent of the borrowings.

67 percent of the deposits were on boarded digitally.

Before I get to the Net Interest Income let me outline issues which have had an impact on the NII.

1] In the second half of the current year, RBI has introduced a Liquidity Coverage Ratio (LCR) which needs to be invested in High Quality Liquid Assets (HQLA).

The Corporation therefore has a higher liquidity buffer as compared to the previous year.

2] Secondly, the interest earned on net worth in the current year is lower than the previous year due to lower interest rates.

3] Thirdly, in the current year the proportion of the retail loan book has increased from 77 percent to 79 percent

Net interest Income (NII) purely on the basis of interest without taking cognisance of the profit on sale of loans during the year ended March 31, 2022 amounted to Rs 17,119 crores compared to Rs 14,970 crores in the previous year - a growth of 14.4 percent.

The net interest income, calculated in a similar manner, for the quarter ended March 31, 2022 was Rs 4,601 crores compared to Rs 4,027 crores in the corresponding quarter of the previous year - a growth of 14.3 percent.

The sequential growth in NII during the 4th quarter compared to the 3rd quarter was 7 percent. The sequential growth in the loan book during this period was 5.4 percent.

Net Interest Margin for the year ended March 31, 2022 stood at 3.5 percent - the same as in the previous year.

The spread on loans over the cost of borrowings for the year ended March 31, 2022 was 2.29 percent.

The spread on loans during the previous year was similarly 2.29 percent.

Income earned from Deployment of surplus funds in Cash Management Schemes of Mutual Funds and Government Securities was much lower at Rs 561 crores as compared to Rs 813 crores in the previous year.

This was due to average level invested this year in liquid funds at Rs 11,800 crore as compared to Rs 21,700 crore in the previous year as also lower return on liquid funds during the year.

There was no profit on sale of investments during the fourth quarter. During the year the Corporation has booked profit on sale of investments amounting to only Rs 263 crores compared to Rs 1,398 crore 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 year includes a charge of Rs 390 crores compared to Rs 338 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 year ending March 31, 2022, the cost income ratio stood at 8.1 percent.

For the year ended March 31, 2022 the standalone profit before tax was Rs 17,246 crores (compared to Rs 14,815 in the previous year) a growth of 16.4 percent.

Tax provision during the year ended March amounted to Rs 3,504 crores compared to Rs 2,788 crores in the previous year.

The tax rate for the year was 20.3 percent

The standalone profit after tax for the year stood at Rs 13,742 crores compared to Rs 12,027 crores in the previous year.

For the quarter ended March 31, 2022 the standalone profit before tax was Rs 4,622 crores (compared to Rs 3,924 during the 4th quarter of the previous year) - a growth of 17.8 percent.

The standalone profit after tax for the 4th quarter stood at Rs 3,700 crores compared to Rs 3,180 crores in the 4th quarter of the previous year representing a growth of 16.4 percent.

Pre Tax return on average assets was 2.9 percent. The post tax return on average assets was 2.3 percent.

The basic and diluted EPS (on a face value of Rs 2 per share) was Rs 76.01 and Rs 75.20 respectively.

The consolidated profit before tax for the year stood at Rs 28,252 crores as compared to Rs 24,237 crores last year - a growth of 17 percent.

After providing Rs 4,210 crores for tax - (Previous year Rs 3,749 crores) the consolidated profit after tax for the period stood at Rs 24,042 crores as compared to Rs 20,488 crores - a 17 percent increase over the previous year.

The profit attributable to the Corporation was Rs 22,595 crores as compared to Rs 18,740 crores in the previous year an increase of 21 percent.

The Board of Directors after assessing the capital buffers and liquidity levels have recommended a dividend of Rs 30 per equity share of face value Rs 2 each as compared to Rs 23 per share in the previous year. The dividend payout ratio is 39.6%.

As at March 31, 2022 the Corporation had 3,599 employees. 97 percent of our staff have been vaccinated.

Total assets per employee stood at Rs 173 crores.

Net profit per employee was Rs 3.8 crores.

Let me now spend a few minutes to give you an update on the merger.

As you are aware on April 4, 2022, the Board of Directors of HDFC Limited and HDFC Bank Limited approved a composite scheme of amalgamation of HDFC with HDFC Bank, subject to requisite approvals from various regulatory and statutory authorities, respective shareholders and creditors.

Upon the Scheme becoming effective, the subsidiaries / associates of the Corporation would become subsidiaries / associates of HDFC Bank.

HDFC Bank will then be 100 percent owned by public shareholders and existing shareholders of HDFC will own 41 percent of HDFC Bank.

A question which a lot of people ask is Why now?

We have over the years from time to time evaluated the option of merging HDFC and HDFC Bank. However, in the past we found the cost of a merger to be high and hence did not proceed further. In recent years however there have been a series of regulatory changes which now makes the merger extremely attractive. Some of these changes have been as follows -

1] The requirement to maintain CRR and SLR has been progressively reduced over the years to a current level of 22 percent.

2] Interest rates are lower today, so the negative carry if any, on meeting any regulatory requirements on liquidity is much lower.

3] RBI now permits banks to hold Priority Sector Lending Certificates. These certificates are instruments that enable banks to achieve their priority sector lending targets without actually disbursing loans.

4] HDFC presently has non-convertible bonds of nearly Rs 90,000 crore which have an original maturity of over 7 years Subject to RBI approval, these bonds would qualify as Affordable Housing Bonds and consequently would not carry CRR/SLR or PSL requirement.

5] There has been a harmonization of the regulations governing NBFCs and banks. Consequent to the introduction of the Liquidity Coverage Ratios (LCR) we now carry significantly higher levels of liquidity than before.

The merger will benefit the shareholders of both HDFC and HDFC Bank as follows -

1] The merger will provide the combined entity with a host of synergies

Lower cost of funds will be made available for the mortgage business

The mortgage business has immense potential and hence the merger will help the group enhance its market share consequent to leveraging on the distribution network of HDFC Bank

The Bank will have access to the time - tested mortgage origination and loan servicing processes of HDFC built up over the last 45 years

The combined entity will be in a position to enhance operational efficiencies and offer the mortgage product seamlessly as against the current arrangement between HDFC and HDFC Bank wherein the Bank sources mortgages and acquires a pre-determined percentage of the loans sourced through the assignment route.

As per our estimate, 70 percent of the customers of HDFC and its subsidiaries do not bank with HDFC Bank and hence the merger will provide the ability to cross sell banking products to this large pool of customers.

Presently the Bank does not source housing loans from all their branches but only from certain selected locations within proximity of the HDFC office. Post completion of the merger, progressively more and more of the branches of HDFC Bank will source housing loans.

The merger will enable the delivery of the home loan offering to a large base of over 68 million customers of HDFC Bank in a seamless manner. Today just 8 percent of the Banks customers have a mortgage product and just 2 percent of its customers have a mortgage from HDFC.

Largely under the Bank structure, the features of the mortgage product can be enhanced in terms of product design.

2] Apart from the synergies mentioned above, the value of HDFC will not be depressed by the Holding company discount in so far as it relates to the shares of the Bank. The unrealised gain on HDFC Bank shares as of 31st March amounted to Rs 1,57,118 crores.

HDFC does not get full credit for this and the market typically applies a holding company discount which in many cases is as high as 40 percent. Consequent to the merger, the holding company discount will not be there and this by itself should add over Rs 62,000 crores to the market capitalization of the combined entity.

3] Post the effective date, HDFC's shareholding of 21% in HDFC Bank will be cancelled. This will open up a potential legroom of over 10 percent of further holding for FPIs in HDFC Bank. The cancellation will also be EPS accretive for the combined entity

4] The mortgage product will increase the asset duration of the banks retail book

5] HDFC Bank currently has 11 percent of its assets in mortgages. Post the merger this percentage is expected to increase to over 30 percent with a potential to grow even higher.

6] Infusion of capital in the bank will no longer be a drag on the ROE of the mortgage business

The Bank has requested RBI for phased compliance in terms of time lines for CRR/SLR and priority sector lending requirements. The Bank has also requested RBI to permit the Bank to hold equity in the subsidiaries and associate companies of HDFC Ltd. These requests are under consideration by RBI.

We have dedicated teams working on the integration and we do not see a challenge in meeting the timelines for an effective integration.

HDFC's distribution network spans 675 outlets which include 211 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.

Our disclosures and reports are on our website.

For further information on ESG related queries you may engage with our Investor Relations team Anjalee and Conrad.

During the year, the Corporation's Corporate Social Responsibility activities focused primarily on COVID-19 relief, Healthcare Sanitation, Education and Livelihoods.

Additionally, our support for the specially abled cut across all our focus areas.

CSR activities were conducted either directly or through the H T Parekh Foundation. The total CSR spend during the year was Rs 191 crore.

The above are some of the highlights of the results for the period ended March 31, 2022.

Before I conclude, I would like to wish each one of you good health and all the very best. Please stay safe.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: My question is the strategy ahead of the merger. First to begin with, would you like to grow your non-individual book now, of course, it has shown some traction in the last couple of quarters. But ahead of the merger you still want to focus on this segment because obviously the bank perhaps would like to have a lower proportion. That's question number one.

The other two questions are again related to the issues surrounding it. For example, as per RBI rules, banks cannot borrow from other banks. Term loans are not allowed. And I am seeing 25% of your entire borrowings is term loans. So, what would you do 12 to 18 months down the line because that is not allowed as per RBI?

And the other aspect is your tie-ups with RBL and others again, once it goes to the bank, those tie ups won't be there, now that is another 10% to 15%. I mean, I don't know the direct selling agents and others put together is 18% of your sourcing. So, just wanted to get a clarity on all these three aspects?

Keki Mistry: So, the first one, to answer your question Suresh is that the bank recognizes that to do retail individual housing loans, you also need to do construction finance loans. So, the activity of giving construction finance loans will continue even in the banking structure. This was the question number one.

Question number two, I think you said was on borrowings. So, we have asked RBI to grandfather the existing balance sheet, and grandfather the assets and liabilities. Whenever these liabilities mature at that point of time, this will have to be replaced by other liabilities. That was your second question.

And your third question was tie up with the likes of RBL and banks structure in other regions. Total loan source to all distribution partners other than HDFC Bank and HDFC Sales is 18%. But out of that 18% the amount which is sourced through RBL bank is very small, extremely small. We can give you the exact percentage in a while. But as far as the other agents are concerned, they can continue to distribute housing loan products for the bank. There is no embargo on agents sourcing asset products for banks, so they would continue.

Suresh Ganapathy: One last question is the morale or the motivation of employees prior of the merger. Obviously, there is a lot of uncertainty. So, the next 12 to 18 months, you are confident that the employees will be pretty motivated, because the numbers are pretty good, right so you have really delivered this particular year despite being a very tough year. So, you can expect that to continue in the coming year also.

Keki Mistry: Yes, we certainly expect that to continue in the current year. And here when you talk of integration, what you must understand is that unlike the merger of two banks, where both banks will have similar products, both banks will have credit cards, both banks will have personal loans, both banks will have housing loans and so on so forth. In our case, that is not the case, there is complete uniqueness in this mortgage product.

So, HDFC Bank does not directly do housing loans, as you know, and would like to do housing loans because it adds to the duration of their assets. So, all of HDFC's employees will be fitted into the bank, will have a major role to play in the bank, and the bank wants to drive the mortgage business going forward.

So, to my mind, the morale is high. There will obviously be some amount of, people sometimes feel a little uncomfortable when something like this happens. But to my mind, the morale by and large is very high.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Edelweiss Financial Service. Please go ahead.

Mahrukh Adajania: My first question, really is on sector demand. If you see total bank housing loans, and that does not include HFCs, we have grown by 9% year-on-year when there is so much talk about an uptick in real estate, and so many registrations. Of course, the larger players are growing much higher including yourself but why is the overall banking sector demand only at 9%? And how does this work for future demand? I mean, despite so much rate competition, everyone wants to grow mortgages.

Keki Mistry: Alright, so the answer, Mahrukh is that we have grown our individual loan book, both on an AUM basis as well as on a Net basis by 17%, on a very large base. As you said, housing loans in the banking system have grown at sub 10%. And that clearly answers the question which I have been repeatedly telling investors that whilst there is competition in the market, there is no aggressive competition, no one is trying to make you do unreasonable things or give loans at very low interest rates or anything of that sort. So, there is competition in the market, it is healthy competition.

Now, why the banks are not growing the mortgage book is, I guess a question the banks itself will have to answer. But to my mind, the structural demand for housing in India is extremely strong. We saw a period from 2017 to 2020, when there was a slowdown in demand, in the metro cities but post-COVID that demand has also come back. So, today we are seeing demand from across the country, whether it is in Tier-I cities or Tier-II cities or otherwise and we expect that growth momentum that demand will continue in the period ahead.

You must also realize one thing that structurally, in India, housing as a product will always grow. And it will grow by virtue of the fact that as most of you would know, two-thirds of India's population is below 35 years of age. And the average age of a first time homebuyer is about 37 or 38 years.

So, many of India's population today, so many of India's younger people have not even thought of buying a house. But structurally over the next 1, 3, 5, 7, 10, 15 years, all these younger people will get to an age where they will necessarily have to buy a house. And the ownership of a house gives the individual that much more security. And therefore, to my mind, structurally, the demand will always remain strong.

Mahrukh Adajania: I have a few number related questions. Firstly, what will be the stock of government securities at March end total?

Keki Mistry: It's about Rs. 40,000 crores, approximately.

Mahrukh Adajania: And in terms of your total priority sector or your total loans that could qualify as priority sector for the bank as on March. What would that number be?

Keki Mistry: I don't have the exact number with me right now. We can give you the number a little later. But we were carrying an excess stock of priority sector loans which have not been assigned to anyone, or we have not sold to the bank, when we saw some time ago, it was worth Rs. 20,000 to Rs. 25,000 crores. But this is a number which will keep changing and we will build on that number in due course.

Mahrukh Adajania: But would that be allowed as priority post-merger because of the bonds it won't be allowed, because you have Affordable Bonds right, so it would be lower of the two or how does it work?

Keki Mistry: No, both, it qualifies for both. The Affordable Bonds that you are talking which are seven year bonds, gives you exemption both from CRR/SLR and if the money is used for doing priority sector loans, it also qualifies for exemption from priority sector requirements. Please read that circular.

Mahrukh Adajania: My confusion on the circular was that RBI allowed 250 billion or Rs. 25,000 crore as priority or just the amount of Affordable Bonds as priority?

Keki Mistry: No, the amount raised which has been utilized for doing Affordable Loans, which would be the full amount. Whatever we have borrowed the seven-year plus bonds of Rs. 90,000 crores would entirely had been used in doing Affordable Housing loans, and the Affordable Housing loans would be more than that, would be higher than the Rs. 90,000 crores that we have borrowed.

Mahrukh Adajania: And my last question really is on deposits. I heard the grandfathering reply that you gave. But on deposits, it's a bit more complicated, right because the rates on deposits, which if they are allowed grandfathering, would be higher than the rate that HDFC Bank would be offering to its customers. Will that also be allowed?

Keki Mistry: I mean, there is, the rates are determined by the bank. Whatever rate the customer or a depositor has got money at, that customer will or that depositor will continue getting the same rate from the bank. Subsequently, upon the deposit maturing, if the depositor wants the deposit to be renewed, which in most probability, most people renew the deposit, then it will move to whatever rate the bank wishes to offer at that point of time. But the current rate at which the deposit has been taken, that rate will sustain, will continue.

Moderator: Thank you. The next question is from line of Subhranshu Mishra from Systematics Group. Please go ahead.

Subhranshu Mishra: I have two quick questions, one is that you mentioned about the overlap with the HDFC Bank branches, HDFC Bank presently caters to around 25% to 26% of the AUM as per the PPT. What is the estimate? Where does it go after merger, because you said that a couple of branches don't cater to the HDFC home loans?

Keki Mistry: No, what I said, if it was not clear, was that all HDFC Bank branches do not source housing loans currently. The reason is that we would like the bank to source loans from locations where we have a nearby office, because we would like to be in touch with the customer, meet the customer etc, before the loan is given. Now, once we become a merged entity, then obviously that requirement will not be there, and the bank will be able to source loans from all their 6500 branches over a period of time naturally.

Subhranshu Mishra: So, what is the aspirational number as a percentage of AUM, where do we get to --?

Keki Mistry: Which number is a percentage of AUM?

Subhranshu Mishra: HDFC Bank that's roughly sources around 26% to 27% of the AUM.

Keki Mistry: Yes, so HDFC Bank currently sources 28% of the new business that we have done. And they have a right to buyback up to 70% of these loans. So, the 70% does not appear in a balance sheet anymore, it would go to the bank. The total loans outstanding which have been sold to the bank is about Rs. 83,000 crores if memory serves me right.

Subhranshu Mishra: And this 28% would go to what kind of numbers in the future once this merger happens, that's the question that I am --

Keki Mistry: 28% will go to what number, what time? Well, I mean, I would not be able to put a number on the table at the moment. But obviously that 28% number has a potential to become significantly higher, because today the bank is not sourcing loans from all their 6,500 branches. And as they progressively start doing that, that 28% number can become very significant.

Subhranshu Mishra: So, I want to know about the yield and the incremental income home loans, LAP, LRD and construction finances.

Keki Mistry: You want the break down?

Subhranshu Mishra: No, individual yields on these books, incremental yields.

Keki Mistry: Why don't you get all those details later on from Conrad? If you look at the split up of our loans, I have already given you, Individual loans constitutes 79% of our total loans. Construction finance is 9%, Lease rental discounting loans is 7%, and corporate loans is 5%.

And if you look at incremental growth, to that figure also, I mentioned in the call. If we look at the full year, then 88% of our loans were for individuals and 12% were for non-individuals. If we were to look only at the 4th Quarter, it was 78% individuals and 22% non-individuals. And you may recall that when we were giving our results in the first quarter, we had mentioned that progressively over a period of the year, the proportion of non-individual loans as a proportion of incremental lending will go higher. So, you see in the 4th Quarter it has become 78% and 22%.

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

Adarsh: Question on the NII seemed quite strong in this quarter, the NII growth is like close to 8% to 9%. So, interest rates are kind of headed up on the funding side. So, if you could just explain what helped the momentum on NII?

Keki Mistry: So, NII has continued to remain strong. We saw a slight reduction in NII growth during the 3rd quarter, because of the higher level of liquidity that we were carrying. We were carrying about Rs. 55,000 crores of liquidity at that time. The average level of liquidity during this quarter has been about Rs. 46,000 crores. So, because the level of liquidity has gone lower, the Net Interest Margin has consequently gone higher. Again, this is something which we had guided for when we were giving the December results. So, this is one reason.

And the other reason is when you talk of interest rates going up, at the end of the day we do a transaction where we move from a fixed rate to a floating rate. And given the yield curve, we are able to raise money at a lower cost after swapping it into a floating rate.

Adarsh: And my second question was when you speak about the disbursement by the bank, just wanted to check, all these disbursements are by the bank's branches right, so is the bank very actively using its non-bank channels to be it agency and DSAs now or is that an incremental delta that even that channel of the bank will start sourcing mortgages?

Keki Mistry: I would guess that that channel of the bank will also start with sourcing mortgages. And that will also contribute to the overall growth that you will see in the mortgage business. So, it's not just the branches of the bank, it will also be the other channels who source asset products for the bank.

Adarsh: Because in mortgages that will be a large number, right because it's a secured product, the share of agency versus bank getting business is quite a lot.

Keki Mistry: Yes, that's right. So, that's also will be in contribute to the higher growth in the mortgage business.

Moderator: Thank you very much. Next question is from the line of Shweta Daptardar from Elara Capital PLC. Please go ahead.

Shweta Daptardar: What percentage of HDFC borrowings are linked to external benchmark rates that is repo, buy borrow --?

Keki Mistry: Well, we match your assets and liabilities in a manner in which the liabilities are linked to certain external benchmarks. There are different external benchmarks that are used. This is part of the Treasury operations which are there, and the details you will find in the Annual Report. Rangan, do you want to add anything?

VS Rangan: Yes, I just wanted to say that, I mean, there are various benchmarks, as you rightly said in the case of for example, the bank borrowing, almost 95% of the bank borrowings are actually linked to external benchmark borrowing. And on the debentures and all as you rightly said, we do conversion of those liabilities into floating rates and these are again linked to either the Treasury Bills and those types of benchmarks.

Moderator: Thank you. The next question is from line of Gurpreet Arora from Aviva Life, India. Please go ahead.

Gurpreet Arora: How do we look at the composition of liabilities for the current year? I mean what sort of great paper issuances? What sort of deposited accretions are you looking at? And related question to that is what cost of funds are we looking at for this full year?

VS Rangan: The source of liability, will keep changing depending on you know, what is the best at that point in time. But broadly I think the endeavour would always be as the interest rate curve is currently. So, as we are looking at the current level of interest rates, I think, you basically end up borrowing medium to longer term. And then swapping it back to an appropriate benchmark, so that you can be both on the interest rate as well as on the duration curve, you are on the right part of the balance sheet. So, that would be broadly the thing, but in terms of the actual borrowing of how much exactly you will borrow through a debenture or a bond, deposits, bank loans, this would actually depend upon at that point in time, what is the best source and the quantum and the rates which are available at that point in time.

Moderator: Thank you. The next question is from the line of Subrata from SBI Life Insurance. Please go ahead.

Subrata: This is a follow up of what was discussed in the previous question about the funding mix. So, what I understood was that the funding mix decision would be based on market, and not influenced by the pending merger, is that right?

Keki Mistry: Yes, absolutely, correct.

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

Kunal Thanvi: I had two questions. One was on, we mentioned about the fact that while overall banking credit, if you see the mortgages they have been doing at 8% to 9%. However, when you look at the top private banks, their mortgages would have been growing at a fast rate. And we also have been growing at a fast rate. Now how does one interpret into it? Is it, you know, market share gain on the back of balance transfers or HFCs are going faster than banks? Because it kind of makes a confusion in the mind, because the underlying credit / overall credit is not growing, but the players within the are growing? Can you explain that to us, please?

Keki Mistry: Well, it’s difficult for me to explain it for how, why the bank credit is not growing fast enough. But my sense is that when some of the banks report their mortgage number, they might be including loans which are not strictly housing loans. For example, if you look at the certain reports, I have also seen cases where construction finance loans given for residential purposes are included as part of housing, because at the end of the day, it is supposed to be housing finance. But we don't include that.

So, when RBI, and again, this is my interpretation, when RBI prepares this consolidation, they will actually look at only the housing loan numbers. And that would come to whatever the 9% number which is there in public domain.

Kunal Thanvi: And the second question was on our loan mix prior to merger, I mean you can see there are three large components, one is retail, the individual loans, then there is a construction finance, and there is a corporate book. Construction finance, you have given an explanation that, will continue with the bank coming in. Any trends on the corporate book, which of course, is like 5% to 6% of our book, as of you know --?

Keki Mistry: That would also continue, because the bank also does corporate loans, but, as you mentioned, it's not a very large part, it is just 5% of our total lending, but that would continue because the bank does corporate loans in any case.

Moderator: Thank you. Next question is from line of Abhjit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: So, just a small clarification the report spreads on non-individual loans on a cumulative basis, I think, I see what is right, in front of me. I mean if you put it 3.25% as the spread on your non-individual loans as on nine month and at the end of this year, it's 3.4%. So, is this increase that we have seen in this quarter, predominantly coming from that one non-individual account, where you have completely kind of resolved it and recover?

Keki Mistry: Not entirely, but some bit of it would be because that particular account would have been carrying a lower rate. Because it was to a customer who was AAA, but there will be other reasons also. There has been a pickup in the construction finance portfolio, which would contribute to a higher yield and so on and so forth.

Also, the book itself has really grown a lot in this quarter, compared to the earlier quarters. We had a negative (-1%) growth in the non-individual book till December, and we now have a positive (+7%) growth.

Abhijit Tibrewal: I mean, would it then be fair to say that I mean, the incremental lending that you are doing it should probably be doing 4Q or what we are doing in 1Q now. I mean, are happening at rates, which are maybe significantly better than the rate at which you were doing non-individual disbursements until now?

Keki Mistry: I mean, at the end of the day, interest rates in the economy by and large have been increasing. As interest rates go up naturally, the lending rate will also go higher, but the increases from 3.3 to 3.4 or something it is not some very significant increases, its 10 or 12 basis points or something.

Moderator: Thank you. Next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Just two small questions, last quarter there was some pressure on margin because of higher liquidity that you were running on the balance sheet. So, just wanted to check has that liquidity come down.

Keki Mistry: I mentioned that the total excess liquidity which we were carrying or total liquidity that we were carrying last quarter was 55,000 crores and this quarter the average is 46,000 crores.

Nischint Chawathe: But if I look at the schedules on P&L on the standalone numbers, the other interest and surplus on deployment of liquid instruments, that number has actually grown significantly quarter-on-quarter from around Rs. 736 crores to around Rs. 920 crores.

Keki Mistry: I think we can look at those numbers in detail and maybe Conrad can explain.

Nischint Chawathe: No problem. And just one last data keeping question again was if you could share the individual disbursement numbers, which you have been sharing for last few quarters.

Keki Mistry: Individual disbursements for the quarter or for the --?

Nischint Chawathe: For the quarter because I think you have mentioned the number for March.

Keki Mistry: Yes, we will give it to you in a minute. Also, there was a question earlier on how much RBL bank sources for us and it comes to 10 basis points, 0.10%. So, not material at all. I think this was Suresh Ganapathy's question.

Conrad D'Souza: Nischint, the disbursements for this quarter was Rs. 48,000 crores.

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

Aditya Jain: The Rs. 46,000 crores of average liquidity which was kept in this quarter, would you call this a normal level or is there scope for reducing this further?

Keki Mistry: Well it is still higher than what is required by regulation. It's something which we will evaluate from time to time and take a call. But yes, technically there is scope to bring it down a little further. But we might like to internally decide to carry a higher buffer. That's a call which ALM committee will have to take. But it is higher at the moment than what the regulatory requirement is.

Aditya Jain: And can you comment on the inward balance transfers now versus historical experience if it is possible to get a sense of –

Keki Mistry: So, our total prepayments which have been made, which we receive during this year, was the same as in the previous year in percentage terms. So, it was 10.3% of the opening loan book. And out of the 10.3% typically, you would find that part prepayments, which is people who want to just reduce their liability, they get a bonus at the end of the year or they get some lump sum payment at the end of the year and they sort of reduce their liability that would normally be about half the total prepayments that we received. And the amount of loans we received versus the amount of loans we have sort of given away would broadly be the same.

Aditya Jain: So, inward balance transfers and outward would be roughly equal.

Keki Mistry: Broadly the same, yes.

Aditya Jain: So, effectively are you saying that inward balance transfers are broadly in line with historical levels? The reason I am asking is it relates to the --

Keki Mistry: Yes, broadly in line, also reflecting in the fact that total prepayments have also been similar as a percentage of the book.

Moderator: Thank you. Next question is from Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Just two questions. One is, if I am not wrong, I think HDFC Bank had taken some approval to buy back Rs. 60,000 crore worth of loan in this financial year, fiscal '23. So, would that be applicable now, in the event of merger?

Conrad D'Souza: So, during the current year, I think it's business as usual. So, the same principles will apply as to whatever the source they have the option of buying back 70%.

Keki Mistry: So, Rahul as you know, the arrangement is that the bank sources loans for us, we do the credit appraisal, the legal appraisal, the technical appraisal, we decide whether to lend money to a particular customer or not, if we decide to lend money, we make the disbursement and then the agreement with the bank is that they have a right to buy back up to 70% of these loans. So, you can calculate backwards, we have given you the percentage of loan sourced by the bank, we have given you the total loans done during the year, you can work backwards and see what 70% of that would be.

Rahul Jain: No, I was referring more towards the next 12 months which is fiscal '23. I think they had taken approval from the shareholders under the AGM to buy back Rs. 60,000 crores.

Keki Mistry: Yes, you need approval from shareholders, when you take approval from shareholders, this is now a SEBI requirement, because it's within party transaction you can't calculate an amount, you can't calculate the number so you will always keep a buffer. So, you take shareholder's approval for a higher amount and then whatever you actually do you do, but the actual what gets done will be equivalent to 70% of what they have sources. So, it is business as usual Rahul, nothing changes.

Rahul Jain: The second question is with regards to the liquidity so appreciate you rallied down somewhat in this quarter. But given the SLR/CCR requirement closer to the merger approval or confirmation date let's say you know 12 months - 15 months out will we need to rebuild this liquidity if we need to hold more or we can continue with the regulatory --

Keki Mistry: We do not believe we will need to build up further liquidity, we do not believe so.

Rahul Jain: Okay. So, at the most we can maintain or we can run it down to the extent possible?

Keki Mistry: Yes, accepting that the total amount of liquidity we need to carry I think progressively increases by I think 10% or something like that –

Conrad D'Souza: Yes, so Rahul it's effective December '21 you know as of now our minimum required is 50%, we are around 80% as of March, but by December '22, it will go to 60% and then 75%. So, progressively, the amount of minimum requirement goes up.

Keki Mistry: But we are already carrying more than what the requirement for 2023 would also be. So, in that sense it should not be a problem.

Rahul Jain: So, on this restructuring, pardon my ignorance, but I think in this quarter, the recovery of Rs. 2,700 crores of one account that you talked about; did it have any impact on the interest income also? Did we recover the entire amount in this quarter, because I think we recovered somewhat in the previous quarter?

Keki Mistry: No, the interest would have been accrued from time to time and whatever was due including the interest would have been recovered.

Rahul Jain: So, what would that quantum be in this quarter, just for this quarter?

Keki Mistry: Recovered from them, but there is nothing extra which is recovered, whatever was recoverable up to December would have been accrued up to December. So, what do you see –

VS Rangan: It was a Standard account, so there is no question of reversal of interest accrual.

Rahul Jain: Okay, there was no stopping of the interest accrual when it was restructured.

Keki Mistry: No, it was never an NPA, it was already classified as Stage II account.

Moderator: Thank you. The next question is from line of Mayank from Citadel LLC. Please go ahead.

Mayank: I just had a question on the cost of funds. Now on a calculated basis, in my model, I see a close to 40 bps decline in your cost of bond funding. My model could be wrong because these are on endpoint averages. So, could you just give me a sense on what's been the movement on the bond cost for us at an aggregate? The reason I am asking this question is that since you said that most of our bonds are swapped to short term rates, and short term rates have moved up in the last three to four months, I am just trying to understand -- and what will you see going ahead?

VS Rangan: I will come back on that one.

Conrad D'Souza: So, Mayank just to give you a quick update, for the year if you look at, I am talking of bonds and all other market related borrowings. Last year, FY21, the cost was around 6.5%. This year, it has been about 5.7%. This is the interest debit for the year, based on the portfolio that we carry. So, that's the movement in the in the cost of the market related instruments.

Mayank: And now that short term rates are moving up. And most of our existing bonds are 70% close to that, maybe is, linked to that. Are we likely to start seeing this move up from next year?

Keki Mistry: I don't believe that there would be any change in the borrowing costs, which may not be reflected in terms of a higher yield that we will get. So, you would have seen that this morning, we have increased the retail prime lending rate by 5 basis points.

Conrad D'Souza: And also, Mayank, we have over the last four months on the non-individual portfolio, we have increased it by 30 basis points, including 10 this morning. So, from a spread perspective, we will ensure that we maintain the spreads going forward.

Keki Mistry: There also partly explains the question that somebody else had asked earlier as to why the spread for non-individuals went up from whatever 3.3% to 3.4%

Mayank: So, the 5 bps RPLR change that we have done, should we read this more as a small adjustment or is this now signalling towards home loan rates increasing.

Keki Mistry: No, I would say this is an adjustment, it doesn't signify anything. Whilst short term rates may have gone up a little bit, the 5 basis points that we have done will take care of our requirements in sort of ensuring that the spreads remain stable. Obviously, if rates go up further, then there would be some change, if rates come down further then there would be a change, but at these levels, we are comfortable.

Moderator: Thank you. Next question is from the line of Ravi Naredi, from Naredi Investments. Please go ahead.

Ravi Naredi: With due regards to all of you, what will be your role along with Deepak Parekh and other eminent Board of Directors of HDFC in merged entity?

Keki Mistry: So, as I told you, all employees of HDFC will move to the Bank specifically role of Deepak Parekh and me, that is something which the Board of HDFC Bank has to take a call on, but all employees of HDFC will move into the Bank.

Moderator: Thank you. The next question is from Sarthak Shah, an individual investor. Please go ahead.

Sarthak Shah: So, I being an individual investor just wanted to have a simple calculation as to what would be the ROA of core HDFC business since I was finding it difficult to calculate.

Conrad D'Souza: So, the ROA on a pre-tax basis is 2.9% on a post-tax basis is 2.3%.

Sarthak Shah: So, this is of the core HDFC business right, excluding the investment incomes and all those?

Conrad D'Souza: Sorry, this is on the combined.

Sarthak Shah: So, I am asking the core ROA.

Conrad D'Souza: I mean we can work on that, but I just mentioned the total.

Sarthak Shah: So, I heard that in the introduction. So, can I know the core ROA?

Conrad D'Souza: As of now I would not have that working but we can talk separately.

Keki Mistry: Why don't you speak to our Company Secretary and he will put you in touch with Conrad D'Souza who is our Investor Relations Head.

Moderator: I now hand the conference over to the management for closing comments.

Keki Mistry: So, I would only say that the outlook continues to look very strong. As you would have seen in the 4th Quarter, the growth has been strong, NIIMs have come back, the Net Interest Income is higher than what it was in the 3rd quarter. And most importantly, collection efficiency has further improved during the course of this quarter, to the current level of over 99% during this quarter. So, at the moment, things look good. And my sense is that the merger is also on track. We are going ahead with all the discussions, etc with the regulators. And so far, all the regulators have been extremely supportive and positive. Thank you.

VS Rangan: Bonds net of swaps as at December 21 was 5.70%. and as at March was 5.85%.

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