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PRESENTATION

Operator

Good evening. Thank you for standing by. And welcome to the HDFC Bank results for quarter ended June 30, 2012 conference call, presented by Mr. Paresh Sukthankar, the Executive Director.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session. (Operator Instructions. Please be advised this conference is being recorded today.

I would like to hand the conference over to Mr. Paresh Sukthankar. Over to you, sir.

Paresh Sukthankar *- HDFC Bank Ltd - Executive Director*

Thank you. Hi, everyone. First of all apologies that we are having this call a little later than what we would normally have had, but we have our AGM as well today, so since in fact the meeting is just about finishing [also] we had to start this call a little later.

So let me start off with just taking you through some of the highlights of the first-quarter results. I am sure most of you have probably had a glimpse of a numbers, but let me walk you through some of them and then we'll move into the Q&A.

The net revenue growth was for this quarter, which is of course, net revenue as being defined as net interest income and the other income. That grew from INR5,000 -- sorry from INR3,968 to INR5,013 crores. And that was on the back of a 22% growth in net interest income and other income growth, which was at 36%.

The net interest income was driven by an asset growth of about 21.5%, and a NIM which was at 4.3% which is marginally higher than the 4.2% that we had seen in the previous and corresponding quarter. Of course, the base rate that we had was dropped on March 31, so that would shave off some part of what we had gained in this quarter. But nonetheless, for the quarter ended June the base -- the NIM was at 4.3%.

The other income, which constitutes fee income, FX income and bond gains, there again the major driver was the fees and commissions growth, which was at about 23.9%. The other two components were also up at a reasonably healthy rate. The FX revenues were INR315 crores as against INR230 crores for the previous year. And the bond gains were about INR67 crores as against a mark to market loss last year in the corresponding quarter of last year of INR41 crores.

The operating expenses were up 25.7%. If you look at the cost to income ratio as is basis it has moved from 48.8% to 48.5%. However, if you knock off the bond gains and bond losses, then the core cost to income ratio moved from 48.3% last year, in the corresponding quarter of last year to 49.2% in the June 2012 quarter.

After the provisions and contingencies of INR487 crores, which was as against INR443 crores for the previous year, we had a net profit growth as you're aware of 30.6% for this quarter.

Very quickly on the balance sheet numbers, the total balance sheet size was up 25.9%. Net advances were up 21.5%. The mix of retail to wholesale is now at 52 to 48. And the -- which of course is on a sequential basis you've clearly seen the pick-up in the pace of growth in corporate as well vis-a-vis the previous quarter.

The total deposit growth was 22%. And within that total deposit growth savings accounts grew by 18.4%. Fixed deposit growth was particularly strong at 29%. A major portion of that, I mean in terms of the lift in fixed deposit growth, also came from stronger growth on the NR side where we added almost INR8,000 crores if you look on a year-on-year basis. As a result of the higher 29% fixed deposit growth, the CASA was at about 46% as of end of June.

Capital adequacy as of the quarter end was at 15.5%, total, and 10.9% on Tier 1. This does not include the first quarter profits, because as you are aware you can include those profits in capital only after -- only based on audited numbers. So at this point of time the rate, the capital adequacy ratios do not include the first quarter profits. If they had been included, which as I mentioned earlier can be done only after an audit, but if you had been included then the CAR would have been higher by about 0.5%.

On the network side the current branch network is at 2,564 branches, which is as against 211 -- 2,111 branches in June of 2011. We have similarly added on the ATM side as well where we have moved from just under 6,000 ATMs last year to 9,700 ATMs as of June of 2012.

Referring on the asset quality piece, asset quality again remains fairly stable. Gross NPAs are at 1% which is where they've been in the previous quarter as well. They are a couple of basis points lower, but from a -- on a first decimal basis it's still 1.0%.

And the net NPAs remain at 0.2%. The restructured loans are at 0.3%. And our total coverage ratio, purely based on specific provisions actually, that is excluding any write-offs and excluding any general or floating provisions, just the specific provision coverage ratio is at 81% as of June.

So those are some of the key numbers. And I'll be happy to take your questions now. Can you throw the call open for questions please?

QUESTIONS AND ANSWERS

Operator

Okay, sir. (Operator Instructions). The first question comes from (inaudible). You may go ahead please.

Unidentified Participant

Yes, hi, congratulations once again. Just wanted a couple of thing. Firstly, why is the yield on investment, why does it appear to be so high? Maybe some investments ran off end of the quarter or something like that?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

The -- no, the investment yield actually has moved up slightly but not quite so much. So there really isn't a (inaudible) the actual, if you're looking at end period sort of numbers it's probably distorting the -- between the fourth quarter of last year and the first quarter of this year the yield on investment actually has not moved virtually at all, 10, 15 basis points difference, but not really.

Unidentified Participant

Okay, and --

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

So it must be just a question of you're looking at the end period advances when you're looking at the yields.

Unidentified Participant

Okay, perfect, and a breakup of provisions into specific general and floating for the quarter.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

So after the total credit provisions which are there of INR475 crores, so of the total provisions of INR487, the credit-related provisions are INR475. And those -- of that INR475 roughly INR60 crores in the general provision and roughly INR240 crores in the floating provision.

Unidentified Participant

Okay. And floating provision of course will be used only for contingencies, which are pre-defined?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, I think the regulations on floating provisions are pretty clear that you can make provisions as per the Board approved policy, which is what we have done. And any use of floating provisions is permitted only with prior RBI approval. I mean you need a Board approval and thereafter an RBI approval.

There is of course as you know a discussion paper which has been released by RBI on dynamic provisioning. And as and when that gets translated into final guidelines the discussion paper seems to suggest that both general and floating provisions would ultimately be part of what they were looking at defining as dynamic provisioning. But all of this is still work in process I guess. So at this point of time the floating provisions can be used only with prior RBI approval.

Unidentified Participant

Okay. And just one last question whatever [little accretion] that we've seen to NPLs in the quarter that would be just one account or scattered?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, we haven't seen any particular sort of spurt in NPL formation, so -- but the increases that we have seen will be typically -- well, part of our regular retail portfolio and maybe a couple of accounts on the corporate side. But we don't have any biggies that would have distorted formation. In fact, if you look at the total gross formation on a year-on-year basis it's not very different; on a sequential basis in fact it's marginally lower in terms of gross formation of NPLs.

Unidentified Participant

Okay. Would you have -- would you give the slippage number?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

We don't sort of give the take up on a quarter basis.

Unidentified Participant

Thanks, Paresh, thanks.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

You're welcome.

Operator

Thank you Ma'am. The next question comes from Mr. [Manish] you may go ahead please.

Unidentified Participant

Hello?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, hi, Manish.

Unidentified Participant

Good evening, sir. My question on the trading gains, actually the trading gains this quarter we saw a strong rebound. So is it quarter [GSC] trading gains?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

These are GSC trading gains, in fact these are where we had mark to market write-downs. Given the deals eased off, this is really a recouping of negative mark to markets which have been there on the GCS portfolio.

Unidentified Participant

And secondly, last few quarters we have seen that the bank has swing -- very strong growth in the ForEx income, so how do you see that income high growth sustainability of that line item? And secondly is there any one-off during this quarter included in the ForEx income?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

No, we don't have any meaningful one-off in the quarter as far as fixed incomes are concerned. Yes, there has been, I would say in the last three or four quarters, we've probably had a -- two or three quarters out of four slightly stronger than normal. Which I guess primarily reflects the fact that because there has been volatility in the dollar/rupee you had much higher levels of customers hedging their exposures. So this is not a huge spurt in any particular segment.

But as far as sustainability of it is concerned I think -- as far as our -- to the extent that a lot of this is customer based a lot depends on what flows continue to come in from the customer side. But there really isn't any one-off in this quarter as such.

Unidentified Participant

So is it right way to look at -- stability of ForEx market would result in the normalization of your ForEx income?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

See our -- the FX revenues are a function on the customer side of the volumes and the split. The volumes are a function of periods when customers tend to cover more which is when they see trend in movements and they are seeing volatility.

If there is a trend in the currency in one direction, then you obviously have only the importers or only the exporters then to cover. So clearly in a period when there is two-way movement and the market is seen to be uncertain you tend to have more customers looking to hedge their exposures. And to that extent the volumes or the total level of the business tends to be higher, which is what sort of flows through.

Unidentified Participant

And in terms of your loan book but especially retail loan book growth, we have seen very strong growth in the CV book. There is -- whatever indicator we've got in the CV industry there is a slowdown, so whether this is larger due to market share gaining thing or still you are seeing a very strong traction in that book.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, it's -- I guess it's primarily market share gains. Again we have significantly increased our geography in the last year, year and half in the CV market in particular in the LCV space. So, yes, there is some continued traction. Although I guess it's moderated from perhaps the weak rates that we ourselves have seen in a couple of quarters earlier. But we continue to see reasonable traction on the LCV front in particular.

Unidentified Participant

And this home loan book we saw the contraction of 4.6% quarter on quarter so could you explain why? What is the reason for the contraction of such kind?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, in this particular quarter we haven't done any buy out yet.

Unidentified Participant

Okay.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

So if --

Unidentified Participant

So it is scheduled repayments?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, one, scheduled repayments would have happened and obviously typically once a quarter or twice or two out in every month and a half to six months, we've obviously continued the origination. But as the portfolio seasons then we take it back. So there may be quarterly variations but at the end of it we would still expect to see reasonable growth on the home loan side as well.

Unidentified Participant

And within the retail book or the other two segments that is generally perceived to be risky segments, one is the personal loan the second is credit card have been growing very healthy pace last few quarters, so -- and generally these segments are perceived to be this case. So what is your comment on -- going forward of growth on that -- those things (multiple speakers).

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes. I think in fact if you look at both these pieces they have been growing at roughly these rates for the last few quarters.

Unidentified Participant

Right.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Between the two that is between cards and personal loans put together we are about 20% of the retail book, which is not very different from what it has been maybe the difference of about 1% in the composition of these two -- in the total retail loan book.

Our own experience in terms of asset quality, delinquencies losses in both these products still remains very, very stable. So we continue to grow these products in segments that we are comfortable.

Unidentified Participant

And lastly I want two data points only, what is the risk-weighted asset number at June? And then secondly, what is the mix of your wholesale deposit and total term deposit.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

So the total risk-weighted assets as of June is INR259,000 odd crores.

Unidentified Participant

Okay, and what is your wholesale mix in total deposit?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Wholesale mix.

Unidentified Participant

Term deposit.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

I don't have it off the cuff, but it typically tends to be about 25% to 30% of the fixed deposit. I mean that's -- I don't have the exact data.

Unidentified Participant

Okay, thank you so much and all the best for next quarter.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Thank you.

Operator

Thank you sir. The next question comes from Mr. Rakesh Kumar. You may go ahead please.

Rakesh Kumar - *Dolat Capital - Analyst*

Thanks for the opportunity. Just I have one question, looking at the -- the pressure on the CASA especially on the current deposit. If this trend continues going forward as well would you revise your advances growth number going forward?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

I think, and I've said this before, the CASA is important from the point of view that it clearly gives us a certain amount of funding at a lower cost. But it's not an end in itself. The CASA is important to the extent that it contributes to a certain net interest margin.

The important thing is that when you look at the CASA piece, as you rightly said the only piece which has not grown as fast has been the current accounts, and which is a trend that we have seen in the last almost year, year and half now, partly driven by the growth in the -- in terms of the overall level of economic activity whether it's between SMEs and other -- and the level of activity in the capital markets, which most of which have been somewhat sluggish.

But the savings account growth has remained strong. So the important thing is that even at a CASA which is lower at 46% it's not that the CASA deposits have not grown it's just that the fixed deposit growth at 29% has outpaced the total deposit growth by a significant amount.

And as I said of that, one of the reasons for that spot in fixed deposits has been that after the NRI results, the NRI interest rates got deregulated, the NRI fixed deposits has certainly seen a spurt. So, if we had not seen that unusual spurt in the NRI deposits and if you knock off the growth in NRI then the fixed deposit growth would have also been around 22%, in which case the CASA would have been at about 47% something, closer between 47% and 48%.

The fact is that even with whatever change has been there in terms of the proportional CASA, our NIM for this quarter has actually been marginally better, but certainly has remained in that 3.9% to 4.3% range, clearly hitting the top end of that range at 4.3% for this quarter.

So I don't think there is any need for us if your suggestion was that do we need to moderate our loan growth, I don't think so. Our total deposit growth at 22% for this quarter is evenly matched with our total loan growth of 21.5%. So they have both grown at identical rates. And with this deposit mix as it has happened in this quarter we still maintain very healthy NIMs at 4.3%.

I mentioned earlier in the introductory piece that our base rate reflecting the reductions that we saw earlier in the year in the CRR and the small policy rate that you have seen, the calculation for base rate changed by -- came down by 20 basis points on the review that we did at the end of the first quarter. So as of June 30, we dropped our base rate from 10% to 9.8%. And that will shave off maybe around 4 to 5 basis points of the NIM. But even after adjusting for that we should still be -- adjusting for that as far as this quarter is concerned we would be at 4.25% or something like that. So I don't see any change in the NIM range purely as a result of the change in deposit mix.

Rakesh Kumar - *Dolat Capital - Analyst*

All right. Just related to that, actually we were growing our fixed retail book in the anticipation that ratio would come down. But now that thing is not looking there on the horizon and we are still continuing the fixed retail book growth at the very high pace, maybe in an effort to maintain the margin. So, is there any change in that anticipation or you are still holding that the feeling that rates will be cut moving forward?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

No, I think I don't have to really look ahead. The point was vis-a-vis the March quarter rates are lower in this quarter. Again, whether the rack rates for retail have changed or not the fact is CD rates have come down, bank deposit rates have come down. And therefore I think our tactical move not to grow fixed deposits in the last quarter of last year I think has already been sort of proved right.

As far as retail fixed deposit momentum is concerned we are happy to continue to have that momentum. Do we see interest rates on fixed deposits coming down? Perhaps there is a shade of a chance now that the liquidity in the system seems to have improved quite considerably. If you look at the repo borrowings of the banking system from anywhere upwards of INR70,000, INR80,000 crores we have come to the INR40,000, INR50,000 crores range.

So at least we have come to a liquidity scenario where other things also moving in that direction, banks may feel comfortable dropping deposit rates. Is that happening in a hurry? Probably not, but is our expectation that at some stage in the next few months is there a possibility that fixed deposit rates start coming down? I would think so.

Rakesh Kumar - *Dolat Capital - Analyst*

Thank you.

Operator

Thank you, sir. The next question comes from Mr. Saikiran. You may go ahead please.

Saikiran Pulavarthi - *Espirito Santo - Analyst*

Yes, I just quickly want to understand what's your guidance for the fee income growth and then what is contributing for a relatively higher fee income growth in the last couple of quarters.

And the second question is like after a lot of quarters the distribution additions were minimal during this current quarter. So if you can just throw some guidance on how you would try and explain the branch expansion. Thanks.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Sure. As far as fee income growth is concerned we have seen typically over the last five or six quarters we have seen a range which has been much wider, which has been at the lower end, at maybe 16%, 15%, 16% and the higher end at 22%, 23%. So there has been a wider range than what we have seen in the last year, which had been much more in the mid to high teen range.

In the March quarter we have seen some one-offs relating to [bond] sales and so on which had propped up some our fee income. Now we do see one or two other small one-offs but not in a particular line alone. So we have seen some pickup in the -- on the fee side on a more generalized basis.

But the fact is that the new regulations which we now have been plagued with some hits the other on a perpetual basis. I think some of the hits that we have seen earlier relating to the mutual fund and insurance pieces now are a little more there in the base, although there is some more to go on the insurance base right now.

But the one that has hurt right now, now is the change in the acquiring commissions for debit cards. So that will probably impact fees as we go into the next few quarters.

So I -- we don't have a policy on giving guidance on any number including the fee income. But if I look at what had a been a range of maybe 16% to 18% that we saw for a few quarters, the reason why we moved out of that range on the upper side were in a couple of cases one-offs. And a couple of cases the fact that what had been dragging the growth rates which was the change in regulations on insurance commissions. And earlier than that on the mutual fund commissions. Now that is to some extent, the mutual fund piece is entirely baked into the base, and the insurance piece out of -- I think maybe as a quarter yet to go, but otherwise it's largely baked into the base as well.

Just as we would have sort of got all that into the base we have the new hit which is on the acquiring commission and debit cards. We haven't yet got a complete fix on the impact. But clearly that might shave off a couple of percent in terms of growth rates on fees.

So that's really the factors -- those are the factors which are impacting fee growth. But it still remains very, very well diversified. Almost between 80% and 90% of our fees are retail. And so they still are across a range of products and doing fairly well on a fairly diversified basis.

Saikiran Pulavarthi - *Espirito Santo - Analyst*

Regarding the distribution franchise?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, sorry. On the distribution franchise, as you know, last year we sort of added 550 branches on a full year basis. And out of them almost somewhere between 250 and 300 of them were added not just in the last quarter but a lot of them in March itself. So having added almost 300 branches, or between 250 and 300 branches in just the month of March. In this particular quarter we have added much less just about 20, 30 branches.

But on a full-year basis we still expect to add somewhere between 250 and 300 branches probably on a full-year basis. Again that might tend to get bunched in a couple of quarters, but there really isn't a change in the total number of branches that we plan to add at this point of time.

Saikiran Pulavarthi - *Espirito Santo - Analyst*

Okay. And one just quick question on the gold loan book, have seen a significant growth in the last one year. What factors do you attribute for this growth? Is it something to do with the NBFC regulations also the market share shift from the NBFC to the banks?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

No, I don't think it's got to do with any one segment or what's impacting on any other class of competitors in the market. I think it's primarily driven by the fact that having launched this product almost three/four years back, after the first year or two we had sorted out what model works for us, and we scaled it up towards significantly higher number of branches.

So it's -- a lot of it has got to do with just the distribution that we have put behind this product in -- as we have expanded our branch network. And again I think it's a very low base for us, so it's showing up as slightly more attractive in terms of growth rates.

It is, as you know, still a very, very small component of our book. I mean it's like, if I'm not mistaken, about 3% of our retail loan book. So while the percentage might look high, and of course it will continue to grow, at this point of time it really doesn't move the needle as much as the percentage increases might suggest.

Saikiran Pulavarthi - *Espirito Santo - Analyst*

Fair enough. And lastly the other segment also has contributed significant or rather move up substantially. Can you just explain what products does this other segment constitute?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

These are literally six products there from -- everything from [holding] against the deposits to it's on gold cards too. So there are like six or seven products each of which are very small but which have been growing. There is no one particular product which is a large component.

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As and when any of those other products becomes material enough we spin it off like we did for gold loans when it came to a couple of percent. Each one of these if it's less than 1% or thereabouts is not worth splitting out on a single basis.

Saikiran Pulavarthi - *Espirito Santo - Analyst*

Okay, thanks. Thanks a lot. That's it from my side.

Operator

Thank you sir. The next question comes from Mr. [Golan Shah]. You may go ahead please.

Golan Shah - *- Analyst*

Yes, hi, Paresh, (inaudible) here. On the growth -- on the corporate side of the business we have seen a significant scale up this quarter, so this is something similar that we have seen last year. If you can just throw some color in terms of the underlying tone in terms of the [situation] of these loans, would we actually run them down over a period of time or they are sticky in nature.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, this is something which we had indicated that the basis momentum for our corporate lending still remained healthy. But in the last -- quarter of last year and maybe towards the end of the third quarter of last year we had moderated some of the corporate loan growth to offset the high cost of fixed deposits which we did not want to contract or renew large amounts of corporate deposits. So we ran down some of the higher cost fixed deposits, at that stage or did not take deposits at those rates and instead found it worthwhile not growing or actually moderating growth on the corporate side.

Having done that, as we got into this quarter we have been happy to put some of those loans back, most of it has always been and still remains working capital in short term.

At this point of time the idea is to continue to grow that corporate book, so clearly sequentially we have seen some very strong growth. On a year-on-year basis the retail piece still outpaces or outperforms the wholesale loan growth.

But there has been clearly a sequential pickup which is why I think as of March we were 54% retail and 46% wholesale and now we are 52% retail and 48% wholesale. So there has been a sequential pickup on the corporate side. Most of it is short and medium term.

Golan Shah - *- Analyst*

Right, and now having dropped the base rate to 9.8%, probably the lowest (inaudible) today, I think this should clearly help us generate more of these assets as we go along in terms --?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

I don't think at the margin that's a huge thing because I don't think there are too many banks which -- who have even base rates of 10%. So even at 10% we were reasonably confident we might have had a couple of banks if at all who were lower. So I don't think the -- I don't think there is a huge amount of lending which is happening at the base rate which is going to make a huge difference to the growth rate on the corporate side.

We have always remained competitive from an interest rate perspective. And especially where we are lending at the shorter end of the -- in terms of duration, clearly these are reflective of what the short term market rates are on commercial paper, on -- and that is again reflective of the short term liquidity positions in the market.

Golan Shah - - *Analyst*

Sure.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

So I think, yes, the basic calculation is a given, so once a quarter we are required to review that and depending on what components of deposits and the return on reserves and whatever other components are there in your -- in each bank's formula you have to reset the base rate, which is what we did.

Golan Shah - - *Analyst*

Sure. Just a question on that, the underlying profile of the borrowers would be still in the AAA to AA kind of range largely?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, I think it will be a similar profile of corporate customer that we have always had in our wholesale book.

Golan Shah - - *Analyst*

Sure.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

So it's not paper declared sort of rating scale or it's no different from what we've been doing.

Golan Shah - - *Analyst*

No, just basically just wanted to understand if you kind of link it to the risk, the capital adequacy, the Tier 1 has come off by about 70 bps. Now obviously you have not added the Q1 profits, but outside of that because of the -- some amount of dilution through ESOPs have you see about INR2b getting added to the net worth.

Now if we try to work on you risk weight, your RWAs are probably going up by about INR188b, which is similar to the advances. Now typically these corporate would be in the range of 20% to 50% risk weightings, so clearly I am just trying to see if we're trying to scale up our non-funded book during the quarter through to (multiple speakers) drop.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

No, fair question, I think the profile or the rating scales of the corporate loans would not have changed much. But the risk assets have also gone up from the point of view of operations risk.

So where -- if you -- as you are aware you take the three-year average revenues in the (inaudible) piece and therefore just moving from -- dropping the previous year and going into the next year, because that works on our full year comparative basis that itself affects the risk-weighted assets by almost -- somewhere between INR2,000 and INR3,000 crores.

So which itself will -- and that of course does not change now for the next three quarters as you know, because the average for the three previous years will remain the same.

So this particular quarter's slip in -- or decline in the CAR is reflective of the change in ops risk and the increase in assets without any increase in the capital.

Golan Shah - - *Analyst*

Sure. Just one final question, on the [op side] the -- for a couple of quarters we have seen the cost ratios move up. And obviously we have been expanding our infrastructure on branches. So when do you think this will kind of stabilize? At what level does it stabilize before we -- probably because now -- in terms of now again for this year you've been talking about similar branch -- more or less similar branch additions. So when does this stabilize? Or does it actually go up from -- before it kind of stabilizes?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

No, I -- our best estimate at this point of time would be -- or our intent is clearly that we don't want it to increase further from here. So if I look over a couple of years the intent is to target an improvement in the cost to income ratio even if we were to maintain a reasonably healthy rate of addition to our branches.

So first of all, if we were to add somewhere between 250 and 300 branches this year, it may be marginally lesser than the 500 odd that we added last year. But even if we were to add those many I don't see any -- one we don't see any deterioration in cost to income ratio on a full year basis as compared to last year.

Would we ideally want to try and push through some improvements? The answer is yes. We, over a three, four year period we would like to reduce the cost to income ratio by a couple of percent in baby steps. But we don't have a specific number in mind, nor do we have a guidance on that in terms of a specific target that we want to hit. It's just that we do believe that relative to some of the other financial parameters and that we achieve, we haven't been as good on the cost to income ratio and we believe there is room for improvement.

We understand that some of those numbers are distorted by the significant increase in investments that we have made in the last 18 months or maybe -- and probably will continue for the next 12 to 18 months at least.

Golan Shah - - *Analyst*

Okay.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

But that's going to be a cost deterioration. Even now this quarter what I've shown in the press release is the core, which is why it looks like a deterioration which in our minds it will be. But if you were to just look at it on a regular revenue basis, and therefore I could have very easily positioned it as an improvement from 48.5% to 48 -- or 48.8% to 48.3% or something, but I am just stripping out the impact of the bond gains to give a more realistic picture.

Golan Shah - - *Analyst*

No, even with that data point but even outside of that the absolute pace of increase, percentage 26% increase and the growth in operating expenses is still a high number right?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, but a lot of the stuff which has already been done as I said in the last couple of quarters. You will continue to have that impact on a continuing basis.

Golan Shah - - *Analyst*

Sure.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Because, as I said, if we've added a few hundred branches in, let's say the March month, then the full year impact is that, that will come through.

Golan Shah - - *Analyst*

Sure.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

So it's not that the -- it's what we do incrementally that is alone going to cause a year-on-year growth in expenses.

Golan Shah - - *Analyst*

Sure, sure.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

So you will continue to see that growth. But equally the investments that we have made in terms of branches that we have opened or other businesses that we have grown, which have -- where the costs have come in. As those start generating, or generating higher levels of revenue than what they would have been when they kicked off, that would help either improve the cost to income ratio or create room where any further expenses that we incur still don't cause a further deterioration in the cost to income ratio.

Golan Shah - - *Analyst*

Okay. And just one last -- the employee strength as of June end?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

It's about 66,000. That hasn't --.

Golan Shah - - *Analyst*

Hasn't changed, okay.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Hasn't changed, I mean by 500 (multiple speakers) 500 or 700 so it hasn't changed.

Golan Shah - - *Analyst*

Sure, okay. All the best. Thank you.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Thanks.

Operator

Thank you sir. The next question comes from Mr. [Rajeev Gandhi]. You may go ahead please.

Rajeev Gandhi - - *Analyst*

Hi, Paresh, this is Rajeev.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Hi, Rajeev.

Rajeev Gandhi - - *Analyst*

Hi. I got of your questions -- my questions have been answered, so I guess I just wanted to understand sort of on this -- how many months of the year does it take for the branch to break even? And I guess is it fair to assume -- just want to understand how many branches would still be that -- more to breakeven.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

See I -- it's a range honestly depending on which of them are semi-urban and little more urban and so on, but I would say on average it would be somewhere between say two to three years, say 20 months to three years.

Rajeev Gandhi - - *Analyst*

(Inaudible) you put off a lot of these in the (inaudible) if I remember rightly (inaudible) in the last couple of years right, so it's a fair assumption that you still have a lot -- or more of those at breakeven.

THOMSON REUTERS

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Oh yes, I think it would be very likely that anything that we opened in the last -- everything that we opened the last financial year and perhaps a reasonable portion of the previous year as well would still not have achieved breakeven in a sense that they may be on a run rate basis doing okay some of them, but they would not have completely broken even on an overall basis.

So, as I said, roughly it takes two to three years is a range of timing that most branches would take to reach that level of business which would cover costs.

Rajeev Gandhi - - *Analyst*

Okay. And then one other question, I know your asset quality is obviously holding up extremely -- in fact doing much better in [my sense] you've probably seen a much sharper fall in slippages.

What do you see in the system? We are still hearing about stress there in the SME space. I just wanted to get your feel towards what you are seeing in the system out there. Do think things are getting worse in the last say a few months?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, I tend to land up repeating myself, because I have been saying this for the last few quarters. I do admit that the environment is challenging and volatile. I know there are different banks which have spoken about vulnerabilities in different areas and we are extremely watchful about all of those. I think on the retail side, which clearly is a little more than half of our portfolio, right now the asset quality both in terms of NPLs and delinquencies still don't show, for us, any cause for concern or any particular trend towards deterioration.

To the extent that some of these are way below what the expected losses are, we do expect some normalization, and I have been saying this for some time. And I still believe that the normalization of credit costs on the retail side, which is what we price in for everything from a car loan, to a commercial vehicle loan, to a personal loan, to a card, that will happen over some period of time. But is that a very perceptible and discernible trend right now? No, but clearly we are off the lowest losses that we have seen in some of the retail products, but there's no trend towards a sharp increase in any one of them.

As far as the corporate side, including both from the SME to the mid to large corporate spectrum, I think by and large there will be some slippages here and there, but again no whole -- a sudden movement of a particular industry or a particular trend in that sense. So I would say that, one, I think in both retail and wholesale we are probably off the lowest delinquency or the lowest slippages that we have seen. And therefore in that sense we are watchful for any early warnings that we might see in certain products towards the normalization. But the actual numbers right now are still below what the expected losses for each of these portfolios are.

Rajeev Gandhi - - *Analyst*

All right, thanks a lot. That's great, thanks.

Unidentified Participant

Paresh, hi, [Vakesh] here. Just one other question I had. Would you be able to throw some light on your average CASA for the quarter?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Average CASA was a little more than -- it is the same, in fact. It's almost the same as what it was at the end of the quarter, which is around 46&.

Unidentified Participant

And what would that number be as on first quarter of last year? Your CASA was obviously, on a period-end basis, higher, but it would be again similar to what was reported, at 48.4% or something?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, the average for the --

Unidentified Participant

Q1 of last year.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

(multiple speakers) quarter of last year was, in fact, marginally higher than the quarter-end figure for that quarter.

Unidentified Participant

Okay.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

That is about a 2.5% -- or a little more than between 2% and 3% decline in the -- 2.5% decline in the average CASA between the two quarters.

Unidentified Participant

Okay. And one final quick question. How many branches of yours are actually doing gold loan business on a full-fledged basis?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

About 600 or so. See, I don't know, when you say full fledged or not. We offer them in roughly 600 branches, I guess.

Unidentified Participant

So like a quarter of your network more or less?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes.

Unidentified Participant

Okay, great. Thanks a lot.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

You're welcome.

Unidentified Participant

Thanks.

Operator

Thank you, sir. The next question comes from Mr. [Abishek Kotari]. You may go ahead, please.

Abishek Kotari - - *Analyst*

Sir, you mentioned that you had a couple of retail numbers coming into the NPL this quarter. Any specific segment?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

On the retail side it wasn't a couple of [NIMs]. It was across products.

Abishek Kotari - - *Analyst*

Yes, but any particular segment as such?

Unidentified Company Representative

I think we've seen in each of the -- well, let me see. And this is one or two basis point differences, so it's three or four products, so it's not in one product.

Abishek Kotari - - *Analyst*

Okay.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

We've had, in fact, a 1 or 2 basis points improvement in one or two products and a 2, 3 basis point decline in some other products. So it's not a sudden drop in only one or two products. It's a little distributed across a few products. Sir, when I said a few NIMs slipping I was referring to the wholesale side --

Abishek Kotari - - *Analyst*

Yes.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

-- they've had a few NIMs. On the retail side it's very widespread across the range of products.

Abishek Kotari - - *Analyst*

So currently the portfolios are performing strong? There's no signs of worry from that?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, I don't know. I worry even when things are fairly good, because there's no point worrying when they've already slipped. On a more serious note, I think we are extremely watchful and cautious. I mentioned earlier this environment is not one which you can for granted.

Abishek Kotari - - *Analyst*

Okay.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

What I'm saying is that the movement that we are seeing -- and we've got six or seven products. We have a few products where we have seen a couple of basis points increase in delinquencies and, therefore, I would say that those we are watchful for any early warning surfacing. Because I guess a few basis points increase would still keep the losses less than the expected losses.

And there are one or two products where, for whatever reason, there is a -- but when you're talking about a 2, 3, 4 basis points change in losses for these products it's not enough to cause any serious concern or to indicate a trend.

Abishek Kotari - - *Analyst*

Okay.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

But I think that the expectation of increase is not caused by necessarily what only we are seeing right now. It's just the conviction that a certain loss which is priced in over a period of time does show up in any retail loan product.

Abishek Kotari - - *Analyst*

Okay. So right now there's no cause of concern from your view?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

I would think not in terms of any -- I don't know what you mean by a cause of concern, but, no --

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Abishek Kotari - - *Analyst*

No, the early signs of chances of NPLs coming in, or slipping into NPLs from unsecured portfolio or other (multiple speakers).

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

No, I don't think our unsecured portfolio has shown any trends which are divergent with what one would expect for unsecured products and which we've priced into our business as well.

Abishek Kotari - - *Analyst*

Okay. Thank you, sir. That's it.

Operator

Thank you, sir. The next question comes from Mr. Manish Karwa. You may go ahead, please.

Manish Karwa - *Deutsche Bank Research - Analyst*

Yes, hi, Paresh. I just want to check on base rates. When you change, what exactly changes on your loan book front, because largely your retail may not change? And even on the wholesale front, largely since you're on the working capital side, I would understand most of the loans would be fixed in nature. Is that the right assessment?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes. So I think the -- you're right, that's a fair assessment. On an overall basis when you look [at it] there are one or two products in retail which are base-rate linked, some parts of our business banking, some parts of our loans against shares and so on. And similarly in the corporate side you may have the cash credit facilities in some products, but not a short-term loan or a bill discounting and so on which is linked to the base rate.

On an overall basis somewhere between 20% to 25% of the total loan book would be -- will be base-rate linked, which is why I would imagine that the 20 basis points reduction in the base rate would have, whatever, a 4 basis points to 5 basis points impact.

Manish Karwa - *Deutsche Bank Research - Analyst*

So 20% to 25% of the loan book would change on the day one of the base rate change?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, because it's base-rate linked.

Manish Karwa - *Deutsche Bank Research - Analyst*

Okay. And second thing, on current accounts, while obviously in the industry there seems to be some pressure, while you also highlighted the average, would it be fair to assume the average current accounts have remained similar, or that has come off a little bit?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Average in terms of value?

THOMSON REUTERS

Manish Karwa - *Deutsche Bank Research - Analyst*

Yes, in terms of average value for the quarter versus the previous two, three quarters.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, actually, for this quarter on an average basis we have gone up marginally. If you look at March over March, right, partly because there was a distortion as of March of '11, you notice that we had actually a couple of percent lower in March of 2012 vis-a-vis March '11. But when you look over -- actual June over June we have seen a, whatever, 7-odd percent growth in current accounts, which is also reflective of what the average balances are. So they're not a huge distortion which is between average and end of period in this quarter or across any line.

But if you look at the system itself current accounts in the system have not -- across the board have been very sluggish, so it is, I guess, just reflecting the level of money in the system and, as I said, the capital markets activity, because these two tend to contribute to current account floats in the system itself and then we get our share of that. I think there has been some sluggishness there.

Manish Karwa - *Deutsche Bank Research - Analyst*

Right. And what is the total floating provisions now with us?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, the --

Manish Karwa - *Deutsche Bank Research - Analyst*

This is like the last about INR1,800 odd crores?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, the March figure was about 14 odd, so it will be a couple of hundred more than that.

Manish Karwa - *Deutsche Bank Research - Analyst*

Okay. And is there any thoughts on at what level do we want to reach. We're already close to a percent of the loan book now, so would it just continue to rise, or you think 1%, 1.5% is fine, or --?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, we have an internal Board approved policy on that, but -- which really hinges on the basic concept of counter-cyclical provisioning. Because, as I mentioned earlier, on the retail portfolio in particular we price in a certain expected loss. And to the extent that actual losses are significantly lower than the expected losses, we believe those are times that you are reflecting the higher yield which should be compensating for any risk we made counter-cyclical or floating provisions.

Now in terms of where we might stop or where we might believe there's adequate, we'll also be waiting for the RBI guidelines on dynamic provisioning. You might have seen the discussion paper which had some numbers and so on, so I don't think we're at anywhere close to those levels in any case. So I think this is (inaudible). I don't a number in mind, or we don't have a cap at this point of time in mind. But I think it's consistent with our interpretation of how the discussion paper read and the fact that we currently are seeing on a counter-cyclical basis -- on a cyclical basis we are seeing actual losses less than what we believe is the expected loss, given the mix of our portfolio.

Manish Karwa - *Deutsche Bank Research - Analyst*

Okay. And all of the floating provision is used for capital, right? Nothing is used for grossing up the NPLs?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Nothing on the NPLs.

Manish Karwa - *Deutsche Bank Research - Analyst*

Yes, nothing on the NPLs. Okay.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, like you said, if our net NPLs are 0.2, if we used it would really different to (multiple speakers).

Manish Karwa - *Deutsche Bank Research - Analyst*

Great, thank you.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Right. We had -- I know there are lots of you on the call and we had indicated that we'd do this phone call from 7 to 7.30 thirty. It's a little more than that. But maybe if there are questions, we could take an odd last question or so. But I'm not sure how many more questions there are.

Operator

Excuse me, sir.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes.

Operator

There are more than 10 questions. So shall we take the next question?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, let's take the question. I'm not sure whether we'll be able to accommodate all of them, but maybe we can do a couple.

Operator

All right, sir. The next question comes from Mr. Nilanjan Karfa. You may go ahead, please.

Nilanjan Karfa - *BRICS Securities Ltd. - Analyst*

Hi, thanks for letting me slip in. Very quickly, if I look at the cost of deposits, of course, we are looking at the end-of-period balances, the cost of fund has actually shot up. Now, you might tell that this is because of [NR] deposits. Can you just throw some light in terms of how the average costs would have been through the -- versus the last quarter?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, on a sequential basis, first of all, we -- while we typically on a quarterly basis share NIMs, we don't split out the yield and deposit movements. But whether it's NT or otherwise, the fact that we had a 29% increase in fixed deposits -- and I mentioned earlier, of course, a lot of that is also NR. That would have resulted in easily a -- almost a 30-odd basis points increase in deposit costs on a sequential basis, --

Nilanjan Karfa - *BRICS Securities Ltd. - Analyst*

I see.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

-- partly offset by the lower CRR and partly offset by what was happening to yields, which is why the NIM went up marginally.

Nilanjan Karfa - *BRICS Securities Ltd. - Analyst*

Sure. And, related to that, is the 20 basis point re-occurred just because the base rate [card] essentially reflects just the change in the CRR, or are you seeing some maturities on the deposits which is giving that benefit to you?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

No, see, our -- the formula for the base rate has certain deposit rates across specific tenors. It has the grossing up for CRR and SLR and certain other components which really haven't changed. So this is primarily driven by the -- and there's a small [weightage] also for the policy rates, for the repo rate.

Now -- so the changes that we have seen essentially, the primary mover is the reduction in CRR. There's a little bit on the yields on the SLR piece and some of it is -- again very, very marginal was on the repo piece. There really hasn't been much of a movement in the -- or almost any new movement in the deposit rates for those tenors which are part of the calculation to have moved -- to have contributed to the move in base rate.

Nilanjan Karfa - *BRICS Securities Ltd. - Analyst*

Okay, understood. And --

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

So this might again vary from bank to bank, right? Each bank has its own formula, so somebody might have --

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Nilanjan Karfa - *BRICS Securities Ltd. - Analyst*

Sure.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

-- might not have all these components. Somebody might have some other components, so it really depends on -- this is what really (multiple speakers).

Nilanjan Karfa - *BRICS Securities Ltd. - Analyst*

Right. And just a small question. Now, I know that you are incrementally now doing a little higher on the corporate side and, if I understand, you stopped because of higher rates. The term deposits were quite higher six months back. Any part of the thought has gone in terms of have you seen the risk also [specific], or the risk has remained at the same level even in the working capital that we do?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

No, I don't think -- obviously we are still trying to focus on customers whom we are comfortable with, so I don't think that a change or an easing in the risk environment has -- had enabled us to move faster this quarter. It's been more -- we had the same appetite for those customers in the previous quarters as well, so it's more to do with our movement.

If you don't mind I'm going to just have a couple of single questions, because if we take a lot of the follow-up questions, I apologize, but we are running short of time. I'd like to give somebody else a chance, if you don't mind.

Nilanjan Karfa - *BRICS Securities Ltd. - Analyst*

Sure.

Operator

Thank you, sir. The next question comes from [Miss Vidya Batra]. You may go ahead, please.

Debaha Mehtra - *- Analyst*

Yes, I see my -- this is [Debaha Mehtra]. My question is on Tier 1 capital, if you can give me a break up of what's your core Tier 1. And also once we move to Basel III what will be core Tier 1 that HDFC Bank could be targeting, given the minimum requirements? What kind of cushions would you like to hold? And if you look at the leveraging and other issues what kind of core Tier 1 if it all HDFC Bank would be requiring.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, I'll try and answer some part of that. Our Tier 1 right now is pretty much core equity. 98 point something percent, almost 99% of our Tier 1 is tangible core equity. We have pretty negligible proportions of perpetual debt.

As far as the target levels, we haven't -- we do have a [idea] but we haven't yet put that in the public domain. We have always had some cushion over what the regulatory minimums have been. But at this point of time, given that we have been at very comfortable levels, at about 10% to 11% in terms of Tier 1, we -- and this is without having included the first-quarter profit. So if we are in double digits comfortably on core Tier 1 we believe we are adequately capitalized, but we haven't got a number that we are committing we would stick to.

Debaha Mehtra - - *Analyst*

Thank you. Can I ask another question, or --?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

If you don't mind I'll just take a few more, because I think there are seven or eight. Maybe some other time.

Debaha Mehtra - - *Analyst*

Maybe I'll write through mail.

Unidentified Company Representative

Yes, (inaudible) email.

Operator

Thank you, ma'am. Due to time constraints I would like to hand the floor back to Mr. Paresh --

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Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

I tell you what, we'll take two or three single questions so at least we try and cover in case --

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Unidentified Company Representative

(Inaudible).

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, quickly, if we can try and do that. Sorry, I don't want somebody to lose out.

Operator

All right. The next question comes from Mr. [Herrin Dessany]. You may go ahead, please.

Herrin Dessany - - *Analyst*

Yes, thank you. Just one question on the yield on advances. If I look at -- I know you don't disclose it yourself, but if I do an analysis of quarterly averages on the quarterly average balances it seems to have gone up from March quarter, which seems to be surprising, considering there are [private] sector effects on the Q1 -- advances that you would have booked in Q4. And also the growth is largely [due in many] corporates, so if you can just --

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Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

There is a marginal increase on a quarter-on-quarter basis. I think our PSLPs would have grown in the March, but we had grown it through most of the year, so I don't think there was a huge spurt of PSL only in the last quarter. But your calculation is right that -- very marginal, maybe around 10-ish basis points or so. But there is a -- it is also reflective of the components of each of the retail pieces and the fact that perhaps in this quarter we hadn't taken any home loans in that growth in retail as well. But there is a marginal increase in the loan yield.

Herrin Dessany - - *Analyst*

So corporate loans per se are not -- have not been margin dilutive?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, to the extent that the --

Herrin Dessany - - *Analyst*

Yield (multiple speakers).

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, on the yield it has not -- it's not been enough to offset by itself the -- what has changed on the deposits side but, yes, it has not been margin dilutive on a net basis.

Herrin Dessany - - *Analyst*

Thank you.

Operator

Thank you, sir. The next question comes from Mr. [Subra Manyem]. You may go ahead, please.

Subra Manyem - - *Analyst*

Yes, my question got answered. Thanks, Paresh.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

How much?

Operator

Thank you, sir. The next question comes from Mr. [Pratik Haldelwal]. You may go ahead, please.

Pratik Haldelwal - - *Analyst*

Hello? Hello?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, go ahead.

Pratik Haldelwal - - *Analyst*

Yes, sir, basically my question pertains to the CV segment. So basically if I look for the CV segment I think the volume growth for the -- in the Q1 has been down by around 18% odd level. And considering the fact that [the MCV] contributes nearly 50% of the total CV segment, and you being a considerable market leader in the CV lending, how do you see the growth panning out for you?

And, plus, also if you can comment on the fact that freight rates are coming down and more play -- more pain is there for the small fleet operators. So in the context of the entire industry how do you see the growth happening for you in this fiscal?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, I think, as I said, other than what is coming through on the back of the increased distribution in the last 12 months -- and there's been a huge increase in -- when you talk of the number of locations that we were not covering which we are covering and so on. Other than that, obviously, we would have to reflect what is the underlying sales of these vehicles. So the market share gains, beyond what is possible on the back of larger distribution, is not going to happen, because it's not that we are going into customer segments or into customers that others would not go into.

So I think the two advantages that we've had is that to the extent that some players yielded share because they had pockets of lending to specific geographical areas or specific customer segments which had seen pain, we did not have those concentrations. So to that extent we were not allowing some of the existing book to get out or not, so we did not have that disadvantage, if you might.

And even in our case the -- therefore, the medium and heavy segments of that would see a flat or maybe even a marginal de-growth in terms of our own loan book, especially because we'll have run offs of what we put on in the last couple of years. And maybe the growth in terms of disbursements for that segment may not be much. But that has been more than offset by the growth that we have seen on the LCV side and in the geographies that we were not there.

Pratik Haldelwal - - *Analyst*

Okay. And would it be fair for you to comment on what's the share of [MCV] in the total auto loans? I'm not asking for the Q1 numbers, but broadly the full-year numbers.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

I'm sorry, I don't have that data point off the cuff.

Pratik Haldelwal - - *Analyst*

Okay, thanks.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Thanks. Can we have the next --?

Pratik Haldelwal - - *Analyst*

Yes, thanks.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Thank you.

Operator

Thank you, madam. The next question comes from Mr. [Partha Roy]. You may go ahead, please.

Partha Roy - - *Analyst*

Yes, I just wanted to know that going forward what would be the strategy of the Bank in terms of the business mix or retail and corporate, given that corporate would be a little margin dilutive, as we've just discussed, and it seems to be growing in the last two quarters? What are your thoughts on that?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, we are pretty agnostic about the relative growth rates between the two. The retail piece is much more driven by what's happening in the marketplace in terms of underlying demand, the competitive environment in terms of pricing, in terms of what we see as credit -- the credit environment. So it's not -- we don't typically jerk around too much in terms of the rates of growth that we're trying to achieve on the retail side, subject to sticking to the customer segments and the customer profile and the risk level that we are comfortable with.

So if there is an uptick or a moderation in growth rates in some of the underlying sales, whether it's cars, or commercial vehicles, or two-wheelers, or tractors, or whatever else, then those products tend to see a moderation or a pickup in growth rates.

The other retail products, like business banking or home loans and so on, or personal loans or credit cards, those -- there again it's more a question of how many branches we are offering those products in, what is the level of penetration in our existing customer base that we have achieved for those products. So those are the drivers of growth for those segments.

So at this point of time we still see reasonably healthy continued growth on the retail side, though it varies from product to product. So you have seen that even for this quarter that there are some products which have seen slightly stronger growth and some which have seen much more muted growth even in this quarter.

But on the corporate side, because a lot of the lending that we do is short and medium term, we can sometimes accelerate and sometimes decelerate on a more conscious basis. So even if there is X amount of customer demand, or our corporate customers are willing to borrow at certain levels, we may or may not be willing to grow at the same growth rates or willing to lend at certain interest rates, which therefore might create some quarterly changes in the growth rates. You may have a couple of quarters where we are growing corporate a little faster and then a couple of quarters where we may moderate.

So I think the predictability on a quarterly basis on the corporate side is a little lesser, though, on an annualized basis we have ensured that both corporate and retail the mix does not change too drastically.

Partha Roy - - *Analyst*

Okay, thank you.

Operator

Thank you, sir. The next question comes from Mr. [Rohit Shimpy]. You may go ahead, please.

Rohit Shimpy - - *Analyst*

Yes, hi, the question has been answered. Thanks.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Thank you.

Operator

Thank you, sir. The next question comes from Miss. [Nam Pippycan]. You may go ahead, please.

Nam Pippycan - - *Analyst*

Good evening, sir. Just wanted to know some -- HDFC Bank has been building up the investment book very -- pretty strong last couple of quarters on a sequential basis and [seen a] very sharp drop in the investment book. Is this to offset the sluggish deposit growth and capitalize on rising advances?

And I wanted to know what is percentage of SLR book in the total investment book.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, so I don't think we had to do anything to offset sluggish deposit growth because, as you know, in fact, the deposit growth in this quarter had been 22% year on year as against 13 point something for the system, and as against even 21-odd percent loan growth for ourselves.

But separately, relative to what we were holding in March, we had some extra -- we had some surplus SLR which has been liquidated. But at this point of time again, do we hold surplus SLR? Yes, I think we would have a couple of percent. I don't have the exact figure. But we will always have some liquidity cushion that we maintain in terms of surplus. But would the surplus SLR be a little lesser than what it was in March? The answer is yes.

Nam Pippycan - - *Analyst*

Okay. Okay, sir, thanks a lot.

Operator

Thank you, madam. The next question comes from Mr. Sachin Sheth. You may go ahead, please.

Sachin Sheth - *HSBC Global Research - Analyst*

Yes, hi, my questions have been answered. Thank you.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Thanks, Sachin.

Operator

Thank you, sir. The next question comes from Miss [Anita Tucker]. You may go ahead, please.

Anita Tucker - - *Analyst*

Sir, hello?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, go ahead.

Anita Tucker - - *Analyst*

Sir, I just want to know what your policy is as far as restructured assets is concerned. Do you maintain an asset as restructured for the entire duration of the asset, or after some amount of satisfactory performance you remove it from your restructured assets classification?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Well, we -- at this point of time, of course, we haven't had too many [NIMs] in restructured assets, so we haven't had too much of to and fro. And in some cases the assets which are restructured we've -- are also there in the NPLs. So when you look at our total restructured assets the standard restructured assets that we hold have been at about half of the total restructured loans. So if we have restructured assets of about 0.3, 0.4, we had roughly half of that. As well as reflecting them as restructured we have not yet had any change from reflecting something which was restructured as non-restructured. We haven't reclassified that necessarily.

Anita Tucker - - *Analyst*

Okay. Okay, thank you.

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Operator

Thank you, madam. The next question comes from [Miss Unil Kulady]. You may go ahead, please.

Unil Kulady - - *Analyst*

Yes, hi, Paresh.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, hi.

Unil Kulady - - *Analyst*

Yes, hi. I've one question on (inaudible). If you look at the movement of provisions for NPLs which is given for FY '12 and FY '11, as for that movement -- as for that table the (inaudible) created were INR1,190 crores for FY'12 vis-a-vis the P&L number of INR652 crores.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes.

Unil Kulady - - *Analyst*

I just wanted to check if you can help me to reconcile this number.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes. There have been recoveries from written-off accounts which get credited back into the provision -- into the P&L.

Unil Kulady - - *Analyst*

Okay. Because -- okay, the recoveries from written-off accounts. Okay, so -- and that number would be around INR500 crores or so for --

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Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes, that -- one sec. Well, it may not be entirely, but it's pretty much the -- very substantially the component of that would be recoveries from written-off accounts.

Unil Kulady - - *Analyst*

Okay. And that's a similar reason for FY '11 as well? That is right?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

That's right.

Unil Kulady - - *Analyst*

Okay, Paresh, thanks a lot.

Operator

Thank you, sir. The next question comes from Mr. [N. B. Mahesh]. You may go ahead, please.

N. B. Mahesh - - *Analyst*

Just one question. In the exchange income you report as derivative losses and gains, so can we have the amount for the current quarter?

And also what has been the income from mutual funds that you reported in the investment income?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

I don't think we spin that out on a quarterly basis. One second.

Yes, I think these are some of the numbers that we give on a -- in the notes on a full-year basis in the annual report. I don't think we have these numbers put out in the public domain on a quarterly basis and, frankly, I don't even have them with me right now.

N. B. Mahesh - - *Analyst*

But this has not caused the reason for a big change in your growth in the exchange income?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

No, no, it hasn't.

N. B. Mahesh - - *Analyst*

Okay, thanks.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

You're welcome.

Operator

Thank you, sir. The next question comes from Mr. Manish. You may go ahead, please.

Mr. Manish - - *Analyst*

Hello?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Yes.

Mr. Manish - - *Analyst*

Yes, what is the loan restructuring during the quarter?

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Loan restructure during the quarter?

Mr. Manish - - *Analyst*

Yes.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Do we have any? No, I don't think we've had any increase in restructured loans this time.

Unidentified Company Representative

Same; flattish.

Mr. Manish - - *Analyst*

Okay. Okay, thanks.

Operator

Thank you, sir. There are no further questions, sir.

Paresh Sukthankar - *HDFC Bank Ltd - Executive Director*

Great. Thank you so much, everyone, for having been on the call and, once again, sorry that we had to extend it beyond what we had earlier planned. I hope we have been able to answer all your questions. Thanks once again. Bye.

Operator

That does conclude the conference for today. Thank you for participating on the (inaudible) conference stage. You may all disconnect now.