**HDFC Bank**

**FY 2009-2010 Earnings Conference Call**

**April 24, 2010**

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**Operator:**

Thank you for standing by, welcome to HDFC Bank's analyst call, we will have opening remarks by Mr. Paresh Sukthankar; Executive Director, HDFC Bank, followed by a question and answer session. Please be advised that this call is being recorded. I would like to hand the call over to Mr. Sukthankar, over to you sir.

**Mr. Paresh Sukthankar:**

Thank you. Good afternoon to all of you and thanks for joining this call on a Saturday afternoon. I believe most of you would have had a chance to look at the financials and the press release. I will spend a few minutes highlighting some of the key items therein, after which I'd like to throw the floor open to questions.

In terms of the bottom line, our net profit grew by 32.6% for the quarter and 31.3% for the full year. This is on a stand alone basis for the Bank. On a consolidated basis (and that primarily includes the HDFC securities number) we crossed the Rs. 3,000 crores mark with the consolidated net profit for the year growing by 33.6% to close at Rs. 3,003 crores.

In terms of its major constituents, net revenue growth for the quarter was 9.7%, this does look a little muted, which is essentially on account of bond gains. As you would recall, in the last quarter of the previous year we had strong bond gains, these are absent this quarter. If you adjust for bond gains and then compare the core revenues, you will see a growth of 21.3%. As far as the composition of the growth in net revenue, net interest income was up 27%, NIMs were up slightly, with the core NIM for the quarter at 4.4%.

Fees and commissions were up 5.7% sequentially and about 7% percent year on year. The 7% growth year on year, again is a function of the larger base in the last quarter of last year. The sequential growth of 5.7% shows you that the commission growth otherwise has been fairly good.

Foreign exchange revenues were up almost 18%, while bond gains as I mentioned earlier were negative for the quarter. We had losses on account of sale and revaluation of investments; these were about Rs. 47 crores for this quarter. The comparable figure for the corresponding quarter last year was a gain of Rs. 244 crores.

Operating expenses continued to remain under check and grew 11.8% on an annual basis, this led to a cost to income ratio of just under 48%. Provisions have clearly come down, largely linked to the improvement in asset quality. I will touch upon those numbers later.

As a result of the above, the profit before tax was up 37%. The effective tax rate was a little higher because of a reduction in tax rates for the coming years. This requires the deferred tax asset to be restated at the lower tax rate, which in turn affects the tax expense for the current year and quarter. As a result the profit after tax is up 32.6%.

In terms of the balance sheet, loan growth was 27% and deposit growth was about 17%. While we have consciously not grown our fixed deposits too much the CASA deposits grew extremely well. Savings accounts deposit growth was almost 43% while the current account deposits grew by almost 31%. As a combination of the faster growth in CASA deposits and the relatively slower growth in fixed deposits, the core CASA ratio was almost 50% as against roughly 45% a year back.

The Board has recommended a dividend of 12 rupees per share as against ten rupees last year, or 120% of the face value of the Bank's shares this year as against 100% last year. Capital adequacy remains healthy at 17.4% of which the Tier I component was at 13.3%.

Asset quality has clearly shown an improvement, the gross NPAs which were roughly 2% as of March 2009, have come down to 1.43% as on March 2010. Net NPAs have halved from 0.6% to 0.3%, the total restructured assets remain at 0.3% while the standard restructured assets are at 0.2%. These factors indicate an overall improvement in asset quality, reflected in the reduction of provisions made by the Bank. Though provisions have declined, the coverage ratio of specific provisions has improved. As at the end of the quarter ended December 31, 2009, we were at about 72% coverage on our NPLs, while at the end of March 2010 the ratio has improved to 74.8%. This coverage is only on account of specific provisions and does not include any write offs, technical or otherwise.

These were the highlights of the financials for the year ended March 31, 2010, I'd like to now throw this open for questions.

**Operator:**

Certainly sir, at this time, if you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press hash or the pound key. First in line, we have Mr. Suresh Ganpathy from Macquarie.

**Mr. Suresh Ganpathy:**

Good afternoon Paresh, a good set of numbers, I wanted a clarification on the fee income. You said that there were some one offs in the fourth quarter of last year, which made the comparable base higher due to which the growth in fee income looks relatively subdued. Can you clarify what was the amount of those one offs and what would the growth in fee income have been adjusting for them.

**Mr. Paresh Sukthankar:**

Well, there were some one offs relating to the income on the sale of insurance that we received last year, these were primarily on account of the addition of the erstwhile Centurion bank of Punjab branches. Since we added the 400 odd Centurion branches to our network, we had to rejig the entire sales and operations processes for these branches and accordingly train the employees on the new processes. We had been compensated for these expenses, the pay offs for which were in the last quarter of last year.

**Mr. Suresh Ganpathy:**

Who paid you. Aviva had a tie up with CBop right, what is the structure now?

**Mr. Paresh Sukthankar:**

This was on account of the movement to the new platform of HDFC Standard Life which was being used in the HDFC Bank branches. The expenses related to the transfer were borne by HDFC Standard life.

**Mr. Suresh Ganpathy:**

Okay, fine. My other question is on credit charges, the last time I had met you, you had said that you hold some excess general provisions, due to which credit cost could remain low. Can you clarify whether there is any further likely improvement in the credit costs on account of the excess general provisions that you hold?

**Mr. Paresh Sukthankar:**

I'd like to put that in perspective for the larger group. As you know the total provision charge is a function of the incremental specific provisions for NPLs and the general provisions that we make due to asset growth. A little less than a year back, the RBI had reduced the general provisioning requirements for specific asset classes, these were subsequently increased again for some assets such as real estate and so on about a month back. What that meant was that if we had a certain loan book at that time, let us say Rs. one lakh crores and if for certain loans the general provisioning requirement was brought down from say 1% or 1.5% to 40 basis points, then the general provision requirements for that level of loan book suddenly came down. We continued to maintain the general provisions which had already been created, these were not written back. What that meant was that as we continued to grow the loan book, let us say from Rs. one lakh crores to Rs. one lakh ten thousand or one lakh twenty thousand crores, the requirement of general provisions at that higher level of loans would still be lower than what we already held at the as per the new requirements, which is why for the last few quarters, we have not had to make incremental general provisions. The incremental provisions you see at least for the last few quarters, are essentially for the NPLs. We still hold a slightly higher level of general provisions than what are required at the current levels that the RBI has specified. Depending on the pace of loan growth at least for a couple of quarters, we may not be required to add to the general provisioning, subject to any changes that the RBI specifies in the provisions for general provisions. If you look at specific provisioning or the NPA slippages and therefore the need for specific provisions, clearly in the last couple of quarters these too seems to have leveled off.

**Mr. Suresh Ganpathy:**

So, is this the normalized level of provisioning or can it even go down further in the next two quarters, nevertheless if you adjust for general provisions is this a stable level ?

**Mr. Paresh Sukthankar:**

Well, this will depend on the way the product mix moves, but let me put it this way, with a somewhat similar product mix and with both specific and general provisions, we used to have a total provisioning level of somewhere in the 1.4% to 1.7% range, that 1.4% to 1.7% went up all the way to about 2.1% to 2.2% as we were absorbing the Centurion book and as the economy slowed down. We are now somewhat back to the pre-merger and pre-slowdown levels, given that the product mix has not changed too drastically, I think it is a reasonable level to be at, I am not saying that it will be a restricted to this level, but it will remain range bound.

**Mr. Suresh Ganpathy:**

One final housekeeping question. Can you share with us the loan mix this particular quarter?

**Mr. Paresh Sukthankar:**

It is about 55% retail and 45% wholesale. Let me also give you the major portions of the retail loan book, the total retail loan book was about Rs. 72,270 crores, the major items of which (rounded off to the closest Rs. 100 crores) were as follows - auto loans were about Rs. 19,600 crores, commercial vehicles and construction equipment were about Rs. 9,400 crores, business banking was about Rs. 13,900 crores, home loans were about Rs 8,700 crores, two wheelers was Rs. 1,800 crores, personal loans were Rs. 8,800 crores, loans against shares were about Rs. 900 crores and credit cards were about Rs. 3,800 crores. The balance Rs. 5,000 odd crores were classified as others.

**Mr. Suresh Ganpathy:**

Okay, thanks so much Paresh.

**Operator:**

Thank you Mr. Suresh. Next question comes from Ms. Mahrukh from Nomura.

**Ms. Mahrukh:**

Hi, Paresh. Congratulations. I observed that your balances in banks and money at call has gone up a lot, is this largely on account of the repo ?

**Mr. Paresh Sukthankar**

Mahrukh, last quarter we received some one off funds from some financial institutions, etc. These are very short term funds that have come in, and have been placed in short term market lendings and reverse repo.

**Ms. Mahrukh:**

Okay, that was towards the quarter end, right. So, it did not impact the NIMs of the quarter or any such thing?

**Mr. Paresh Sukthankar:**

No, they did not

**Ms. Mahrukh:**

Okay. The other thing I wanted to check, do you have a guidance on NIMs especially in the first quarter given the re-pricing of savings deposits.

**Mr. Paresh Sukthankar:**

Well, I cannot give you a guidance on NIMs, I do not think we have ever done that. I can however tell you two things, one is traditionally our NIMs have been in the range of 3.9% to 4.2% or thereabouts. In the last two quarters we have pushed up our core NIMs, which were at about 4.3% and 4.4% in the last two quarters. There will be an obvious impact of the savings deposits re-pricing because of the way the interest is going to be calculated on these going forward. This will have an impact of somewhere between 18 to 20 basis points on the NIMs. Other than that, I think margins should remain roughly stable, and if they remain roughly stable in the band that I mentioned, we should be doing okay.

**Ms. Mahrukh:**

Right. And how do you see loan growth panning out ?

**Mr. Paresh Sukthankar:**

I believe that the 20% growth estimate that I think even the RBI has sort of indicated, seems reasonable for the system. If the industry grows at roughly 20% on the back of a 8% to 8.25% GDP growth, which of course would depend on what the actual environment turns out to be, we would typically target loan growth that is a little ahead of the system. How much ahead and exactly how we grow will of course be something that we will figure out along the way.

**Ms. Mahrukh:**

Would you have the size of your MTM book and its duration?

**Mr. Paresh Sukthankar:**

Well, I can give you a general indication of what the bond book is right now, the total government securities are about Rs. 51,000 crores of which about Rs. 41,500 crores is in HTM, about Rs. 5,500 crores is in AFS and the balance Rs. 4,000 crores is in HFT. The modified duration for the HTM is just under three years, that for the AFS book would be about 1.2 years while the HFT book would have a modified duration of about half a year.

**Ms. Mahrukh:**

Okay. In terms of the loan growth during the last quarter, was it consistent throughout the quarter or were there any year-end aberrations?

**Mr. Paresh Sukthankar:**

Well, there weren't any major aberrations one way or the other. In the retail lending business you always have some spike at every month end, to that extent loan growth is slightly skewed towards the end of every month. Apart from these variations as far as other loan growth is concerned, it has been reasonably uniform, there is no major skew in the beginning or the end of the quarter.

**Ms. Mahrukh:**

Thank you.

**Operator:**

Thank you madam. Next in line, we have Mr. Brian Hunsacker from KBW.

**Mr. Brian Hunsacker:**

Most of my questions have been answered. One additional question from me, could you talk about the recent rate hike of a few days ago, has that impacted your deposit and loan pricing. Have you tried to adjust on the back of the RBI news?

**Mr. Paresh Sukthankar:**

Frankly, there hasn't been any immediate impact of the quarter percentage increase. The reality is that since the system is still adequate in terms of liquidity, at the margin for somebody like us, these increase have not translated into anything meaningful for us. The quarter percent further increase in CRR does take an odd basis point or two in terms of an increase in cost, but at this point in time there hasn't been any immediate transmission of the change in policy rates or CRR. We do believe however, that over the next couple of months, as we perhaps see some more policy rate increases by the RBI as well as the draining out of the liquidity in the system, either due to the government's borrowing program or because of loan growth, we may witness some upwards bias to interest rates.

**Mr. Brian Hansacker:**

Okay, thank you.

**Operator:**

Thank you sir. Next question comes from Mr. Amit from Religare Asset Management.

**Mr. Amit:**

In terms of your operating expenses, there is a significant jump quarter on quarter. Is there any specific provision or is it all due to some large number of ATMs which were opened during this quarter?

**Mr. Paresh Sukthankar:**

Two reasons, one of course is the full impact of the branches opened during the previous quarter even though we have not added branches in this quarter. Second, there would be to some extent increases which come through towards the end of the year due to staff related payments. Other than that I do not think there is anything which is major in terms of one offs which is skewing the numbers.

**Mr. Amit:**

Sir, what is the plan for opening new branches or ATMs in the coming year.

**Mr. Paresh Sukthankar:**

Well, this would be a function of the number of licenses that we get, but given that we have more than doubled our network in the last two years, (we have gone from about 760 branches in March of 2008 to 1,725 in March 2010) chances are we would probably look to add about 150 or thereabouts in terms of branches this year. We will figure out the exact number along the way, but the number may be a little lesser than what we added last year.

**Mr. Amit:**

And ATMs?

**Mr. Paresh Sukthankar:**

The addition in ATMs may be a little more than that, may be twice that number.

**Mr. Amit:**

Okay, thanks.

**Operator:**

Thank you Mr. Amit. Next question comes from Mr. Dipankar Chowdhry from Deutsche Bank.

**Mr. Dipankar Chowdhry:**

Good afternoon Paresh. Two questions, firstly in view of the lack of clarity on what kind of write offs would qualify for provision coverage, does your write off policy change in any way. I do appreciate that your specific coverage even without write offs was more than 70%, but would the policy change in anyway?

**Mr. Paresh Sukthankar:**

No, our write off policy and this is primarily for the retail piece, is based purely on a certain number of days past due. Once a loan becomes NPA the provision coverage for various retails loans and their write offs is really a function of passage of time. We believe that this reflects the genuine collectability of the asset and the need to write it off at a particular point. This may be 180 days, 360 days or sometimes in between, depending on the nature of the product. The policy is not something which we are looking to change. As far as corporate loans are concerned, the write offs are a function of an evaluation on a loan by loan basis. This again is not going to change. So, at this point in time, we have no plans to change the write off policy merely because what qualifies or may or may not be acceptable from a coverage ratio point of view for regulatory requirements.

**Mr. Dipankar Chowdhry:**

Okay. While I do understand the fourth quarter base effect on the fee income, do you find a slackening in your distribution fees in general and what could that mean for this year's total fee income?

**Mr. Paresh Sukthankar:**

Well, I would say that there has been a marginal slacking, merely because of the change in regulations. I think we have seen a healthy increase in volumes which would help us offset some of that, but clearly given the fact that the commission rates have dropped, there would be some impact on the third party commission income. I guess it would take a few quarters for the higher volumes to ultimately help us offset these. The good part is that because there is an increase in our distribution and therefore a larger customer base, we are well equipped to try and continue to increase and expand that business and therefore hopefully make up with higher volumes what we have lost out in terms of lower commission rates.

**Mr. Dipankar Chowdhry:**

One last one question. Your strategy on margins in general. The savings bank interest reconstitution impact is well known and can be computed mathematically. Is there any way in which you could offset this increase especially since the environment is not conducive right now for that?

**Mr. Paresh Sukthankar:**

Well, I thought we had already offset these future increases when I said that our core NIMs had gone from 4.2% to 4.4%. There were two ways of doing this, either we could have kept NIMs at 4.2%, taken a hit of 20 basis points, which would have taken them down to 4% and then come back to 4.2% after passing the increase in costs. I think we have been a little more proactive, we have been fortunate to have been able to build in a buffer for those margins and once the impact comes in we would still remain in the traditional band. I think we have already done what you are saying, this however has been done in anticipation rather than us having to be reactive.

**Mr. Dipankar Chowdhry:**

Okay, right. Thanks very much.

**Operator:**

Thank you sir.  Next question comes from Ms. Swetha Mani from Centrum Broking.

**Ms. Swetha Mani:**

Most of my questions have been answered. Just one thing, your view on the loan yields. How do you see them over the next few quarters?

**Mr. Paresh Sukthankar:**

Well, I think in the immediate future, that is in the next month or two, loan yields will remain roughly stable. Ideally they should have gone up slightly, but as I mentioned earlier due to system liquidity levels I think they will remain stable. As we get into the second quarter and thereafter, I think there will be some increase in loan yields. I also believe that we will have slight increases in deposits costs, so I do not expect any change in margins. I do expect loan yields by the end of the year to have gone up by somewhere between 50 to 100 basis points at least.

**Ms. Swetha Mani:**

Okay. Thank you sir.

**Operator:**

Thank you madam. Next question comes from Mr. Krishnan from Ambit Capital Private Limited.

**Mr. Krishnan:**

Hi Paresh, I wanted the data point in terms of the incremental recoveries that you have seen during the quarter as well as the slippages in the quarter. Secondly, on the net NPA front, there has been a very sharp dip in the net NPAs between December and March. Could you explain that a little bit?

**Mr. Paresh Sukthankar:**

Well, we have seen a drop in incremental formations of NPAs on the retail side while recoveries have remained more or less stable. While there really is no swing in recoveries as far as retail is concerned, we did have roughly Rs. 50 crores as far as recoveries on the corporate side during the quarter which may be considered a one off. This pulls down the provisioning charge for the same level of coverage as far as the corporate piece is concerned. On the corporate side as well, the incremental NPL formation has come off. The gross NPAs as of March are marginally lower in absolute amounts as compared to what they were in December by about a hundred odd crores.

**Mr. Krishnan:**

Okay. And in terms of the dip that we see in the net NPAs, which has been far sharper.

**Mr. Paresh Sukthankar:**

The total coverage ratio has gone up due to the increase in provisioning, while the recovery provisions have remained more or less constant. The total coverage ratio which was around 72% and the end of the last quarter has gone up by another 3%. Also since the loan book is growing, the denominator increases which impacts the NPA percentages.

**Mr. Krishnan:**

That is it, thanks.

**Operator:**

Thank you sir. Next we have Mr. Kaushik from K.B. Capital Market.

**Mr. Kaushik:**

Sir, with regards to new branches, this year you have opened around 300 branches and next year you said you plan to open somewhere between 150 to 200 branches. Could you talk a little bit about the productivity of branches, when do new branches attain productivity levels on par with those of an existing branch? Secondly question, during the last quarter, I understand you had spent a lot of money on advertisements which we saw all over the media. As this kind of expense will not be repeated this quarter could the Bank gain some percentage points with regards to the cost income ratio?

**Mr. Paresh Sukthankar:**

Okay. Let me answer the second question first. You are right, we did have a more active advertising campaign, which to some extent increased marketing expenses during the last quarter. Obviously all these were expensed out in that quarter. For expenses on the whole, the fact is that as compared to where we were in the previous 9 to 12 months, we do see slightly higher inflation levels whether in terms of wages or rentals and so on. Can we maintain a reasonable cost to income ratio, the answer is yes. Do we really see a reduction because certain specific expenses whether on marketing or otherwise may be little lower? - firstly, we may very well have some campaigns this year as well, so it cannot be assumed that there will be specific reductions in costs. There may be some quarterly variations, but as far as marketing expenses are concerned, I think we will continue to have adequate marketing whether through advertisements or otherwise.

In terms of the productivity of branches, I'd like to answer this in two parts; one of course is that new branches typically take about 15 to 18 months to break even, after which they continue to grow, in fact we have seen some of our 10-year-old branches still grow business volumes. So, it is not that branches after a while tend to hit a stagnation level.

As far as productivity improvements are concerned, there is some natural improvement in productivity of new branches, additionally over the last two years, we had specifically focused on improving the productivity of the branches that we acquired through the merger. Our progress on this is pretty much evident from the fact that our cost to income ratio that had gone up to about 55.7% immediately after the merger from about 49.5% in March 2008, has come down. These improvements in productivity were done by holding our expenses flat or reducing some of them, and more importantly by driving through revenues on the same cost base essentially getting some operating leverage. As a result, we have seen the cost to income ratio improve to about 48%. We have also seen improvements in productivity whether it is on acquiring new customers or penetrating existing customers. I am sure we will continue to try and do more, but some of those incremental gains will probably now get offset by the higher inflationary pressures.

**Mr. Kaushik:**

Okay. You said that last year your focus was more on the accretion of CASA deposits. Are you giving more focus on acquisition of fixed deposits now so that your balance sheet size increases?

**Mr. Paresh Sukthankar:**

Well, last year we could afford to do that because we were sitting on a large increase in fixed deposits in the previous year. This really goes back to the third quarter of the previous financial year, in the October-November-December period of 2008 due to the environment and the high interest rates on fixed deposits, we had witnessed a huge growth in fixed deposits. So, in the following three-four quarters right up to the third quarter of 2009, we were sitting on excess fixed deposits. We were allowing some of them to run off while repricing the others, and were certainly not interested in accelerating fixed deposit growth. Thus we could afford to focus only on CASA growth. Also, from a liquidity perspective, we got the roughly Rs. 4,000 crores of capital. I think while we still remain very comfortable from a liquidity perspective, as we look towards growing our loan book this year, we would need to grow our deposits roughly in line with loans and therefore we will look to grow our fixed deposits at a pace which is aligned to what we want to grow our loan book.

**Mr. Kaushik:**

Okay, thank you.

**Operator:**

Thank you sir. Next we have Ms. Madhu Chanda from Kotak.

**Ms. Madhu Chanda:**

Hi, the system is showing strong traction in terms of loan growth on the infrastructure side something which you have not looked at in the past. Is there any thought on that area?

**Mr. Paresh Sukthankar:**

Well, the fact that we have not looked at this in the past would have been true may be two or three years back. In the last couple of years we have been looking at it in smaller measures and the last year or so we have done a few such loans.

**Ms. Madhu Chanda:**

How much would these be, just for my clarification .

**Mr. Paresh Sukthankar:**

These would still be in single digits as a proportion of our total corporate loan book, but their share in the total loan book has been growing.

**Ms. Madhu Chanda:**

Sir, what is the size of the outstanding book, for my understanding.

**Mr. Paresh Sukthankar:**

The total infrastructure lending would be a couple of percent of our total loan book. This was almost negligible a while back. While, I am not suggesting that our loan mix is going to suddenly change with large amounts of project finance or infrastructure lending, we do have a complete product range now with a little more focus at the longer end as the balance sheet has grown relative to where we were a while back. While we still remain very strong in the working capital, transactional banking, cash management, medium term loan space, we would over a period of time have a slightly higher proportion of long-term lending including some project finance and some infrastructure as part of our corporate loan book.

**Ms. Madhu Chanda:**

Any targets that you have set for yourself?

**Mr. Paresh Sukthankar:**

We have not put any target in the public domain.

**Ms. Madhu Chanda:**

Okay, thank you.

**Operator:**

Thank you madam. Next we have Mr. Nilesh Parekh from Edelweiss.

**Mr. Nilesh Parekh:**

Hi Paresh, hi Sashi. I wanted to get some clarity on the NPL movements during the course of the year and the quarterly progression on the same.

**Mr. Paresh Sukthankar:**

The gross NPA opening balance in the year was about Rs. 1,950 crores, (rounded off). The additions during the year were about Rs. 2,600 crores while the reductions during the year were Rs. 2,700 crores, while the write offs were Rs. 2,200 of these. the closing balance therefore was about Rs. 1,800 crores as against about Rs. 2,000 crores in March of 2009.

**Mr. Nilesh Parekh:**

Some sense on the quarterly progression,

**Mr. Paresh Sukthankar:**

On the retail side we do this on a product portfolio basis, while I do not have specific numbers to give you, I can say that during the last two quarters the new NPL formations have been gradually coming off. Though the rates of recovery and write offs continue because those are a function of the NPL formation rates going back a few quarters, as I mentioned earlier that whatever became NPA then would now cross the 360 days or 270 days (whatever is the threshold for the write off). So, the write off percentage, without any acceleration or change in the write off policy might continue at levels which were there earlier.

**Mr. Nilesh Parekh:**

So, if we were to look at the loan loss provisioning say two quarters henceforth, could you actually see them coming off from the 1.5% level to say around 1.3% and then probably adding 20 to 30 bps on account of general provisioning.

**Mr. Paresh Sukthankar:**

Tough to say, because the fact is over that same period, you will also have recoveries, the larger part of which would be immediately following the higher NPL formation. I would say that given our current asset mix, it would be tough to predict whether there will be a 10 to 15 basis points swing one way or the other. This would also depend on how the portfolios actually ultimately perform.

**Mr. Nilesh Parekh:**

What is the origination that the Bank did for HDFC limited during the quarter and how much of this was retained on the Bank's books?

**Mr. Paresh Sukthankar:**

We originated almost Rs. 1,700 to 1,800 crores in this quarter. For the full year the addition to our home loan portfolio on account of transfers from HDFC limited was about Rs. 4,000 crores of which approximately Rs. 1,000 crores or thereabouts was the impact in the last quarter.

**Mr. Nilesh Parekh:**

Great. Thanks a lot.

**Operator:**

Thank you sir. Next we have Ms. Smita Hari from Spark capital.

**Ms. Smita Hari:**

Good afternoon. I had a couple of questions. First, how do you look at your loan book mix going forward? Would you like to retain it at a 55:45 split between retail and corporate or would you be looking at 50:50?

**Mr. Paresh Sukthankar:**

In the recent past since the corporate loan book has been growing at a faster pace than the retail book, there has been a slight increase in the proportion of the corporate book. Frankly, we are not targeting any particular mix and are okay with retail remaining somewhere in the 50 to 55% range. We believe we are well positioned in both wholesale as well as retail. The pricing environment and the demand for specific or individual products within retail, will determine how fast we grow on the retail side. I do see for the next year, corporate loan growth marginally outpacing retail. So there may be a slight increase in the proportion of corporate loans though not a material change in mix.

**Ms. Smita Hari:**

Okay. What would be the proportion of retail deposits in the total deposits?

**Mr. Paresh Sukthankar:**

It is approximately 60% to 70%

**Operator:**

Thank you madam. Next we have Mr. Ganeshram from Spark Capital.

**Mr. Ganesh Ram:**

Hi, can you tell me what proportion of your advances are externally rated?

**Mr. Sashi Jagdishan:**

Ganesh, I do not have the number with me but I will send it to you.

**Mr. Ganesh Ram**

Okay, thanks Sashi. What were the total risk weighted assets as of 31st March 2010.

**Mr. Paresh Sukthankar:**

The total risk weighted assets as per Basel II on March 2010 were Rs. 154,983 crores.

**Mr. Ganesh Ram**

Thanks

**Operator:**

Next we have Mr. Manish from Kotak Securities

**Mr. Manish:**

Hi Paresh. Generally in the fourth quarter, your loan book does not tend to grow much, because you sell down or securitize some of your loans. Has that happened this time?

**Mr. Paresh Sukthankar:**

No, we did not sell too many of our loans during this quarter. We might have done some amount of refinance, but not much. So, there were no major adjustments to the loan book this quarter.

**Mr. Manish:**

And any particular reason for this or was it due to the fact that generally the market was not conducive for such transactions?

**Mr. Paresh Sukthankar:**

I think we were comfortable with the levels of loan growth that we had achieved. Usually what happens is that if the loan growth is significantly higher than what we had wanted, we shave off some of those increases, we did not need to do that this quarter.

**Mr. Manish:**

Okay, thanks.

**Operator:**

Thank you sir. Next we have Mr. Manish from Darashaw and Company.

**Mr. Manish:**

For the fourth quarter what is the cost of deposits?

**Mr. Paresh Sukthankar**

Cost of total deposits for the year is about 4.7%, this is blended cost of deposits, cost of fixed deposits is higher at about 7.4%

**Mr. Manish:**

And for this quarter?

**Mr. Paresh Sukthankar:**

We do not give quarterly numbers on deposit costs. We do this on a full year basis.

**Mr. Manish:**

Okay, Can I have the AFS book.

**Mr. Paresh Sukthankar:**

The AFS book, was about Rs. 5,500 crores, the HFT book was about Rs. 4,000 crores, this is the government securities book, the balance about Rs. 41,500 was the HTM book. Total government securities were about Rs. 51,000 crores.

**Mr. Manish:**

Okay, sir. Thank you.

**Operator:**

Thank you sir. Next we have Ms. Tabassum Inamdar from Goldman Sachs.

**Ms. Tabassum Inamdar:**

Hi guys. Just one question, what was the number of employees in March and how do you see that going forward given that you are not adding a significant number of branches?

**Mr. Paresh Sukthankar:**

Total employee strength was about 52,000. You are right, since we are not adding too many branches, we do not envisage a huge increase, however the growth in the no. of employees is also dependant on the kind of volume growth that we see in some of the retail asset products and not just a function of a growth in branches. As we penetrate deeper into the tier II and tier III cities, there will be some additions that we will put through. I do not have number in terms of employees that we would tend to add, but we do see some addition to that 52,000 number that we have right now.

**Ms. Tabassum Inamdar:**

Thank you.

**Operator:**

Thank you. Next we have Mr. Abhijit Mazumdar from Prabhudas Liladhar.

**Mr. Abhijit Mazumdar:**

Yes, hi Paresh, hi Sashi, and the team there. Congrats on the good set of numbers. I understand your investment book has declined a bit quarter on quarter, what is the current SLR holding?

**Mr. Paresh Sukthankar:**

As I mentioned earlier, the total SLR book was Rs. 51,000 crores. As we have grown our loan book, some of our surpluses which were in liquid funds would have come off sequentially.

**Mr. Abhijit Mazumdar:**

In percentage terms, what was your SLR holding?

**Mr. Paresh Sukthankar:**

On an average between 28%-30% or thereabouts.

**Mr. Abhijit Mazumdar:**

Okay. And can I get the number of employees as on Q3 if you have that off hand?

**Mr. Paresh Sukthankar:**

It was about 51,000.

**Mr. Abhijit Mazumdar:**

Thanks a lot.

**Operator:**

Thank you sir. Next we have Mr. Alpesh Mehta from Motilal Oswal

**Mr. Alpesh Mehta:**

Hi, Paresh. Very good set of numbers. One question, what is the breakup of your interest expenses in terms of deposits and the borrowings?

**Mr. Paresh Sukthankar:**

For the year, interest on deposits is Rs. 6,997 crores, Rs. 746 crores on borrowings, and that on others which include the Tier II debt about Rs. 43 crores.

**Mr. Alpesh Mehta:**

Can I have the gross trading profits and the gross mark to market rates? I guess you report on the net basis?

**Mr. Paresh Sukthankar:**

In the other income, the profit on sale of investments for the full year was Rs. 348 crores, and Rs. 3 crores is the loss on revaluation of investments.

**Mr. Alpesh Mehta:**

Okay. just to reconfirm, 70% of our deposits are from retail segment, right?

**Mr. Paresh Sukthankar:**

Yes, somewhere between 60% and 70%.

**Mr. Alpesh Mehta:**

Okay, thanks a lot.

**Operator:**

Thank you sir. Next we have Mr. Jatinder Agarwal from RBS.

**Mr. Jatinder Agarwal:**

On the corporate loan book, what was the quantum of extremely short term i.e three to six month tenor loans? Since the base rate guidelines have now been significantly diluted, what is your assessment as to their impact?

**Mr. Paresh Sukthankar:**

Loans with tenors up to one year, make up about 55% of our wholesale term loan book, I would say a fair portion of these are in between 90 and 180 days. To answer your second question, I do not really expect the base rate to impact lending rates particularly since banks now have a flexibility to select a certain deposit rate which goes into the base rate calculation. Chances are that each bank will arrive at a base rate which is roughly in line with what is the minimum rate that they want to lend at. I think what will happen is that banks will watch the lending rates between now and the end of June, and will probably try and arrive at a base rate which includes a particular fixed deposit rate or an incremental or average which is what they want to lend at. I really do not think that in terms of the actual implementation of base rate there is likely to be any major shift or disruption. Thereafter of course once it is set in terms of a methodology, that would have to be done on a consistent and transparent basis.

**Mr. Jatinder Agarwal:**

Sir, any preliminary calculation at your end in terms of what could be the base rate?

**Mr. Paresh Sukthankar:**

No and frankly it does not make any sense to try and work out something at this point of time, since the rates are going to change in the next two months. You would want a base rate which is reflective of your cost structure and the market rates at that point of time.

**Mr. Jatinder Agarwal:**

Okay, thank you sir. That is it.

**Operator:**

Thank you sir. Next we have Mr. Kashyap Javeri from Emkay Global.

**Mr. Kashyap Javeri:**

Hi Paresh, hi Sashi. A couple of questions, one on the risk weighted assets. These have grown at pace slower than what our assets have grown. Would that be largely because some of our money is lying in balance in banks and call money. Would that be right assumption?

**Mr. Paresh Sukthankar:**

Yes, part of it would be that and part of it would be due to the type of assets that contributed to the asset growth. Some part of growth has come in for example home loans and stuff like that, add to this the fact that some part of our corporate loan book growth could be attributed to rated-assets. In these cases the risk weights would have all been less than 100%. A combination of incremental growth coming from asset categories where the risk weight is less than 100%, and some since part of our assets are lying in t-bills or cash and cash equivalents.

**Mr. Kashyap Javeri:**

Right. My second question is on NPAs. On your slippage rate, you mentioned roughly about Rs. 2,600 crores was the addition during the year. That works out to somewhere about a 2% slippage rate, this is still higher than what we had prior to the acquisition of CBOP which was about 1.5 to 1.7%. Can you throw some light on how that could move in future since the recovery rate has improved substantially and by that I mean the reductions as a percentage of the opening NPAs plus additions during the year.

**Mr. Paresh Sukthankar:**

I would say that both these numbers on a full year basis might have increased vis-à-vis the previous year. Clearly within this year if you look at on a sequential basis, there is a first half and second half change in direction. You are right that because of the impact of the Centurion book and since the economy was still slowing down in the latter half of last year. Certainly the first half of this year witnessed higher NPA formation. Both those pieces have come off. I think we will have to wait for a few more months to figure out that things have completely stabilized or looking up. I would believe that as the new formation tends to come off with some lag, the recoveries would also tend to come off. So, given the product mix has not changed too much, at least in terms of percentages we would come back to levels which are somewhat similar to where we were prior to the merger. Again, this is not guidance, it is just the construct of the risk reward equation. We have not changed the profile of the loan book and the mix remains roughly the same. There was a blip because of the slowing down in the economy and because of the addition of eCBOP book. Both those impacts have largely tended to come off in the last six months and therefore you should tend to see a normalization going forward.

**Mr. Kashyap Javeri:**

I missed out a couple of numbers earlier. Can I get the size of the total retail loan book and loan against the securities?

**Mr. Paresh Sukthankar:**

Sure. The total retail loan book was Rs. 72,000 crores and loans against securities was about Rs. 900 crores.

**Mr. Kashyap Javeri:**

That is it from my side. Thank you.

**Operator:**

Thank you sir.

**Operator:**

Next we have Mr. Hiren Dasani from Goldman Sachs.

**Mr. Hiren:**

Just one data point. Is the entire provisioning expense constituted only by specific loan loss provisions or is there anything else apart from that?

**Mr. Paresh Sukthankar:**

Approximately Rs. 160 crores of the total provision contingencies are not specific loan loss provisions, and would be classified as other provisions.

**Mr. Hiren:**

Thanks, that is it.

**Operator:**

Thank you sir. Next we have Mr. P.S. Subramanyam from SBI Capital Securities.

**Mr. P.S. Subramanyam:**

Good afternoon sir. I wanted to get some sense on the competitive scenario in terms of loans. Are there certain segments that you would still like to stay away from given that yields are pretty low, have you seen predatory pricing in some of the segments and that you are trying to stay away from?

**Mr. Paresh Sukthankar:**

I do not think there is any segment where the pricing is so irrational or predatory that we have stayed away from it. As a combination of our credit outlook and pricing, there may be some products where we may want to be a little more cautious or grow at a slightly slower rate as compared to others. However I do not think we find the pricing completely unattractive in any single product on an overall basis.

**Mr. P.S. Subramanyam:**

Sure sir. My next question is on the regulatory aspect, there is a risk that capital requirements might be a bit higher than what they have been historically. From a return on capital perspective, how do you plan to price in this environment, are you trying to target a higher ROA and how do you plan to do that. Do you plan to manage costs or . . . ?

**Mr. Paresh Sukthankar:**

For a long time we had an average ROA of about 1.3% post tax. We have taken that up slightly in the last financial year. Ultimately, I agree with you that there is a possibility for some small increases in capital requirements just given the way the world is going. Although, I think there is a strong case that since Indian banks did not go down the path of the rest of the banking industry globally, perhaps that requirement may not be as much. I agree with you however that there may be some increases for liquidity and other risks.

If there are specific issues which are leading to higher capital requirements, we will structure our balance sheet or manage our portfolio to optimize the capital that is locked in vis-à-vis the returns that were are getting from those segments. From a P&L point of view, I think we have healthy margins that have been stable. We have seen some improvements in the cost to income ratio last year and from a provisioning point of view I think we are doing okay. I cannot think of a specific element that is going to contribute but we will have to tighten across various parameters if we have to improve the ROA in the event that we see higher capital requirements coming in.

**Mr. P.S. Subramanyam:**

Sure, sir. You were just talking about some segments where you would want to grow slower than the industry. Could you be more specific in terms of what these products or segments could be? Are they primarily from the wholesale or retail banking space?

**Mr. Paresh Sukthankar:**

This tends to be little more in specific segments of products rather than for entire product lines. Let us say for the sake of argument, even if we looked at a product like auto loans where the growth is very healthy and which we are aiming to grow at a very healthy pace. There could be a particular segment within a particular category of cars or a category of customers or a particular geography where for various competitive or other reasons, the pricing is not as attractive, and therefore we might want to go a little slower on them and want to grow in something else. On the other hand if you look at some of the unsecured products like personal loans to the salaried class, where we have had a good experience in terms of credit and returns, we may be willing to grow a little faster than the system while other products or other segments which have not done as well, we may want to be a little slower than the system. We manage a portfolio and a business based on market pricing on the one hand and our own experience in terms of credit on the other.

**Mr. P.S. Subramanyam:**

Okay, sure. Thanks a lot, sir.

**Operator:**

Thank you sir. Next we have Mr. Rohit Shimpi from SBI Mutual Fund.

**Mr. Rohit Shimpi:**

Yes, good afternoon. I have a question on HDFC securities. I see the profit has jumped up this year. Is this due to a change in strategy, increased advertising or increasing franchisees?

**Mr. Paresh Sukthankar:**

We have grown the branches of HDFC securities, and have a network now of over 100 branches. In addition to the franchise growing, the customer acquisitions have also increased. The business lines of the company which until recently consisted largely of brokerage, have now increased to include distribution of both insurance and mutual funds. I think between a wider product range, larger distribution, and larger customer base as a function of both these, the company has grown well this year.

**Mr. Rohit Shimpi:**

Okay. When I look at your segmental numbers, in order to arrive at the segment wise PBT numbers, how do you arrive at the cost of funds e.g. for retail banking is the cost of funds the treasury rate less the cost of deposits or something like that?

**Mr. Paresh Sukthankar:**

There is a transfer price. So, if the retail piece has more deposits than their own loans, on a transfer price which is linked to the industry rate or the market rate, those funds get transferred to the corporate division which is the net borrower.

**Mr. Rohit Shimpi:**

Okay. One last thing, how does the Rs. 440 crores of provisions this quarter break up?

**Mr. Paresh Sukthankar:**

Of the Rs. 440 crores, about 275 crores is related to specific loan loss provisions and the rest is others.

**Mr. Rohit Shimpi:**

Okay, thanks a lot.

**Operator:**

Thank you sir. Next we have Mr. Ajitesh Nair from UBS Securities India.

**Mr. Ajitesh Nair:**

Thank you. Good afternoon sir. Congratulations on the quarter. I just wanted to confirm you mentioned the cost of term deposits at about 7.4%, is it?

**Mr. Paresh Sukthankar:**

That is right. Cost of term deposits was 7.4% for the full year.

**Mr. Ajitesh Nair:**

So would not you agree sir, that going forward there could actually be a downward bias on the cost of deposits, given that if current fixed deposits are priced at least 50 to 75 bps lower than your average?

**Mr. Paresh Sukthankar:**

Well there could be some reduction at least in the first half of the next year depending on how much interest rates move up from here. Today the deposits of tenor less than one year are lower than our current cost of term deposits while those for deposits of tenors beyond one year are somewhere in the seven quarter range depending on whether they are three years or higher. So some downward bias may be possible. Keep in mind, since we have matched funding for our assets, there may also be some repricing on the assets side.

As I mentioned earlier, the CASA mix had gone to almost 50% partly due to the fact that we were not growing fixed deposits at the same pace as the CASA. As we add new fixed deposits, that ratio might come off a little.

**Mr. Ajitesh Nair:**

Okay. Secondly what does the Rs. 160 crores of other provisioning pertain to?

**Mr. Sashi Jagdishan:**

Ajitesh, this largely pertains to some Value-Added Tax provisions, other tax provisions, floating provisions and some legal and other contingencies that we have provided for.

**Mr. Ajitesh Nair:**

Does this typically happen once in a year?

**Mr. Sashi Jagdishan:**

Yes, we normally assess the status of tax assessments and judgments around this period, typically at the end of third or fourth quarter of the financial year.

**Mr. Ajitesh Nair:**

Okay. Thank you so much, sir.

**Operator:**

Thank you sir. Next we have Mr. Fernandes from Anand Rathi.

**Mr. Fernandes:**

Hi, can you give us your provisions and contingencies for the whole of FY10, if you could provide that breakup?

**Mr. Paresh Sukthankar:**

Total provision contingencies for the year are Rs. 3,481 crores which Rs. 1,341 crores pertain to income tax, Rs. 1,939 for NPAs, other provisional contingencies make up the balance, Rs. 201 crores.

**Mr. Fernandes:**

Okay. Thank you very much.

**Operator:**

Thank you sir. Next we have Ms. Chandana from Avendus Capital.

**Ms. Chandana:**

Hi, Paresh, just one question. We have seen a sharp increase in savings deposits growth during the past three quarters. what kind of growth do you think is sustainable as we re-enter the phase when term deposits begin to rise. Also coupled with the fact that on an incremental basis we will not be adding as many branches as we have done in the past.

**Mr. Paresh Sukthankar:**

Well, I think there are two parts to the distribution network, that are important in terms of new customer acquisitions. One of course is the addition in the network itself, however given the fact that we are today at over 1,700 branches adding a 100 branches or so in a particular year will only increase the network by single digit percentage points. More important is the new customer acquisitions from existing branches, this becomes more and more material given the size of the branch network that we have. We still remain in a fairly strong customer acquisition mode, this would continue even as we continue to add to our distribution network.

As far as saving accounts deposits are concerned, unless deposit rates go up sharply, there will be a continued build up of balances. You tend to have a cannibalization of savings accounts to fixed deposits only if interest rates go up pretty sharply, because customers find that it is more attractive to move money from a 3.5% savings accounts to whatever the fixed deposits rates are. At this point in time we remain comfortable that we should be able to grow savings accounts. It is tough to say what rate of growth will be sustainable, but clearly CASA has always remained a focus area of ours. Evident from the fact, as I mentioned earlier our CASA ratio has remained in the 45% to 50% range for quite sometime now.

**Ms. Chandana:**

Right, thank you.

**Operator:**

Thank you madam. Next we have Mr. Sachin Sheth from HSBC Securities.

**Mr. Sachin Sheth:**

Hi, Paresh, Sashi, congrats. You mentioned the impact of the new savings rate calculations to be about 18 to 20 bps on margins. I would have thought that would have been the impact on the cost of savings deposits rather than on margins. Is it not a little high for margin impact?

**Mr. Paresh Sukthankar:**

On the savings accounts deposits, the impact would be almost 60 to 70 basis points.

**Mr. Sachin Sheth:**

Great, thanks.

**Operator:**

Thank you sir. Next we have Mr. Nilesh from Edelweiss.

**Mr. Nilesh:**

One additional clarification, you mentioned that the fourth quarter loan loss provision was Rs. 275 crores?

**Mr. Paresh Sukthankar:**

Yes, that is right.

**Mr. Nilesh:**

This effectively translates into approximately one percentage loan loss charge to loan book, right?

**Mr. Paresh Sukthankar:**

Yes, but as I mentioned earlier, there was a one off corporate recovery, which has muted the provisioning charge.

**Mr. Nilesh:**

Okay. So, it is not normalized.

**Mr. Paresh Sukthankar:**

No, I wish we could have chunky recoveries, but we do not have so many NPAs in the recovery pipeline.

**Mr. Nilesh:**

Okay, great. Thanks.

**Operator:**

Thank you sir. Next we have Ms. Jyothi Khatri from Systematic Shares.

**Ms. Jyothi Khatri:**

Hello Paresh. My question pertains to the margins, in FY11, the interest rates are going to rise and you said that you expect that the margins should remain in the range of 4% to 4.2%. Do you think that there could be some upward bias on the margins when considering the fact that asset pricing has more impact on the margins than the deposit pricing? Is that a fair assumption to make?

**Mr. Paresh Sukthankar:**

Well, it is a fair assumption to make but the reality of the market place may not necessarily work that way. If you look at our balance sheet structure, the interest rate sensitive assets essentially the loans and the investments would get repriced over a period of time, while on the deposit side, the CASA does not get repriced because it is either at a fixed rate for savings accounts or it is free for current accounts. With an upward bias in interest rates there tends to be a chance of expansion in margins. However, that happens assuming that you have an equivalent parallel increase in deposit and lending rates. Given competition and other extraneous factors that may not necessarily happen. Depending on what the competitive environment is in different products, lending rates sometimes do not necessarily move exactly in line with deposit rates. While there may be some positive and negative pulls and pushes on the NIM, other than what is very visible in terms of the impact of the savings account change in calculation methodology, I do not see any particular impact which can push margins one way or the other. Which is why I said that they will remain in a roughly stable range.

**Ms. Jyothi Khatri:**

Thank you.

**Operator:**

Thank you madam. Next we have Ms. Sneha from Subhkam Capital. You can go ahead.

**Ms. Sneha:**

Hello, sir can you throw some light on your credit card business?

**Mr. Paresh Sukthankar:**

We have done reasonably well in the cards business. We have about 4.4 to 4.5 million cards now. We are also in the point of sale terminal business where we have about 90,000 POS terminals. The cards business has been a tricky business for most players in the industry in the last couple of years. Fortunately, for us the business has done reasonably well. It is a profitable business for us which we continue to grow. A large number of the new cards tend to be issued to our own internal customers, over the years we have found that this strategy has helped us both from a operating cost and a credit cost perspective. We continue to grow the business with this strategy, over the last year this business has not grown as fast as some of our other retail lending businesses, like auto loans or home loans to name a couple, however we are probably one of the few banks that grew the cards business last year.

**Ms. Sneha:**

Okay. Thank you sir.

**Operator:**

Sir, we do not have any further questions.

**Mr. Paresh Sukthankar:**

We would once again like to thank everyone for joining this call. A Saturday afternoon at 5 is not usually the time that you would necessarily spend doing this. Thank you so much all of you. Bye.