Company Name: HDFC Bank
Company Ticker: HDFCB IN
Date: 2018-04-21
Event Description: Q4 2018 Earnings Call

Market Cap: 5.02TRI
Current PX: 1935.75
YTD Change($): +63.35
YTD Change(%): +3.383

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 85.265
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 882939.500

Q4 2018 Earnings Call

Company Participants

- Paresh Dattatraya Sukthankar
- Sashidhar Jagdhishan

Other Participants

- Mahrukh Adajania
- Manish L. Ostwal
- Kunal Shah
- Suresh Ganapathy
- Sameer Bhise
- Ravikant Bhat
- Ravi Naredi
- Nilanjan Karfa
- Krishnan A. S. Venkata
- Megha Hariramani
- CA Gautam C Jain
- Saikiran Pulavarthi
- Rakesh Kumar

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good evening, and welcome to HDFC Bank Earnings Call on the Financial Result for the Quarter and Year Ended March 31, 2018 presented by Mr. Paresh Sukthankar. Deputy Managing Director; and Mr. Sashi Jagdhishan, Chief Financial Officer.

As a reminder, all participant lines will be in a listen-only mode and there will be an opportunity for you to ask questions after a brief commentary by the management. [Operator Instructions] Please note that this conference is being recorded.

I now hand the conference over to Mr. Sukthankar. Thank you and over to you, sir.

Paresh Dattatraya Sukthankar

Thank you. Good evening, everyone. And, first of all, apologies for having to start a little later, by the time we got the results in a machine-readable format uploaded and so on took a few minutes. But we had indicated that we might start at 5:15. So, without much ado, let me read out some of the key financial data parameters and then we'll be happy to take questions thereafter.

So, as you are aware, the board of directors approved the Bank's quarterly and full-year results at the meeting held today. The [indiscernible] (00:01:29) accounts, of course, have been audited. For the quarter ended March 31, the Bank's total income was INR 25,549.7 crores. This was up from INR 21,560.7 crores for the quarter ended March 2017. Net revenues increased by 19.1% to INR 14,886.3 crores. Net interest income was up at INR 10,657 crores, which grew by 17.7% or the INR 9,055 crores for the quarter ended March 2017.

Average asset grew towards 16.9%. The core net interest margin for the quarter was 4.3%. Other income was 28% of net revenues. So, net interest income was 72%. So, other income at 28.4% of net revenues grew by 22.7% over the – and touched INR 4,228 crores for this quarter or INR 3,446 crores for the corresponding quarter of the previous year.

There are four major elements in the other income. Commissions, which is the largest piece, accounted for INR 3,329 crores out of the total INR 4,228 crores. So, fees & commissions grew by 32%. FX & derivative revenues were INR 416 crores, grew by 16.7%, but profit and loss on sale of investments or bond gains and losses, there was a loss of INR 22 crores as against a gain of INR 180 crores in the corresponding quarter of last year.

And recoveries and miscellaneous income was at INR 504 crores as against INR 386 crores for the corresponding quarter of last year. So, once again, the total other income grew by 22.7% to INR 4,228.6 crores.

Moving on to the expenses, operating expenses for the quarter were INR 6,050.6 crores and these increased by 15.9% over the corresponding quarter of the previous year. The core cost-to-income ratio, therefore, was at 40.6% as against 42.4% for the corresponding quarter of the previous year of March 2017.

Total provisions were INR 1,541 crores as against INR 1,261.8 crores for the corresponding quarter of last year. If you look at the break-up of those provisions, INR 1,132 crores were specific loan loss provisions and general provisions were at INR 153 crores and other provisions, including continued provisions, were at INR 255 crores. After providing for taxation, the Bank earned a net profit for the quarter of INR 4,799.3 crores, which was an increase of 20.3% over the corresponding quarter of the previous year.

For the full year, for the year ended March 31, 2018, the total income earned was INR 95,461 crores. Net revenues were INR 55,315 crores, up 21.7%. The core NIM for the full year was 4.3%. The core cost-to-income ratio for the full year was 41.7% and the full-year net profit was INR 17,486 crores, up 20.2% over the year ended March 2017.

Total balance sheet size touched INR 1,063,000 crores. This is up from INR 863,000 crores in March 2017. Total deposits were INR 788,000 crores, up 22.5%. Savings account deposits at INR 223,000 crores were up 15.6%. Time deposits were at INR 445,000 crores. They were up 33%. So CASA ratio was at 43.5% as of March 31, 2018.

Advances at INR 658,000 crores increased by 18.7% over the previous year. The both wholesale and retail have grown and the mix now is about 57% retail and 43% wholesale. On the Basel II classification basis, the retail loan growth was 27% and the wholesale loan growth was 9.4%.

On the Capital Adequacy, Bank's total CAR ratio as per Basel III guidelines was at 14.8%. This compares with 14.6% as of March 2017 and as against the regulatory requirement of 10.875%, which includes the Capital Conservation Buffer of 1.875%. So 9% is the basic CAR requirement plus the CCB of 1.875%. That makes it 10.875% as a requirement and we are at 14.8% as against that. The Tier 1 Capital Adequacy Ratio was at 13.2% that's as against 12.8% in March last year. The CET1, Common Equity Tier 1 capital ratio was at 12.2%.

The board of directors recommended a dividend of INR 13 per equity share of INR 2 as against INR 11 per equity share of INR 2 for the previous year. This, of course, would be subject to approval by the shareholders at the next AGM.

On the network side, we closed the year with 4,787 banking outlets. These were across 2,691 cities. We also have 12,635 ATMs and 53% of the total banking outlets are in semi-urban and rural areas. The total employee strength went up from 84,325 employees in March 2017 to 88,253 employees as of March 2018.

On the asset quality front, gross NPAs were at 1.3% as on March 31, 2018. This is as against 1.29% in December 2017 and 1.05% as of March 2017. Net non-performing loans were at 0.4%. As of March 31, the Bank was holding floating provisions of INR 1,451 crores.

A word or two on our subsidiaries, as you know we have two subsidiaries, HDFC Securities Limited, which is amongst the leading retail broking firms in India and the Bank holds a 97.7% stake in HSL. For the year ended March 2018, HSL's total income grew by 42% to INR 788 crores. Net profit for the year was INR 344 crores, which was a growth of 59.5% over the INR 215.9 crores in the previous year.

On HDB, which is a non-deposit taking NBFC, which offers a wide range of loan and asset finance products to individuals, emerging businesses and micro enterprises, again, the Bank holds 95.9% in HDB Financial Services. As of March 2018, HDB's balance sheet size was INR 44,754 crores. The total loan book grew by 34.9% to INR 43,573 crores.

Their net interest income grew by 36.9%. The net profit for the year was INR 951.7 crores, which registered a growth of 39.1% over March 2017. Gross NPAs for HDB were at 1.6%. Net NPAs were at 1%. And the total CAR was at 17.9% and Tier 1 CAR was at 13.2%.

Finally, the consolidated net profit for the year ended March 31, 2018 was INR 18,510 crores, up 21.4% over March 2017. Consolidated advances grew by 19.6%. It touched INR 7 lakh crores as of March 2018.

I think I've pretty much walked you through almost all the financial data a little more in detail since maybe some of you might not have received the – or might have received the call – received the press release only as the call was starting. So, I took that additional time to read results, but we'll be happy to take questions now.

Q&A

Operator

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] The first question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

<Q - Mahrukh Adajania>: Hi, Paresh.

<A - Paresh Dattatraya Sukthankar>: Hi, Mahrukh.

<Q - Mahrukh Adajania>: Just wanted to – could you share the number of slippages for the fourth quarter?

<A - Paresh Dattatraya Sukthankar>: Sure. Yeah. It's [ph] 1.30% (00:12:55).

<Q - Mahrukh Adajania>: Oh.

<A - Paresh Dattatraya Sukthankar>: You want the absolute number or just the percentage?

<Q - Mahrukh Adajania>: Absolute number.

<A - Paresh Dattatraya Sukthankar>: Okay. It's INR 2,790 crores.

<Q - Mahrukh Adajania>: Thank you. And my second question is that with so many banks now being under PCA plus the PNB scam, the group opportunity in corporate loans is even getting bigger. So, would you like to grow your corporate loan book at a faster pace or how do you view this opportunity? Anyways, there has been a traction in your corporate loan growth, but from hereon.

<A - Paresh Dattatraya Sukthankar>: So, I think the...

<A - Sashidhar Jagdhishan>: There's a base effect.

<A - Paresh Dattatraya Sukthankar>: Yeah. The corporate loan growth has been fairly healthy. If it looks a little muted for March over March, it's because March 2017, actually, that quarter, we had seen a very sharp spike in corporate loan growth. But to your point, are there opportunities to gain market share in corporate and that is actually, I would say, a wholesale which includes corporate, the middle market, and SME? The answer is yes, that's been something we've been doing and we remain focused on it.

I don't think – and I wouldn't say that only, tactically, issues which are currently being faced are the only reason. I think we are focused on gaining share based on what we've been offering in terms of product range, turnaround times, the technology and digital backing of our production. So, yes, I think we'll remain focused on growing our wholesale book within our risk appetite.

<Q - Mahrukh Adajania>: [indiscernible] (00:14:47) core asset quality now stabilizing or there's still an issue with waivers and stuff like that?

<A - Paresh Dattatraya Sukthankar>: Yeah. I don't think we can say that the agri piece is completely settled yet, typically because these dues come up every alternate quarter because of the crop loan cycle. And, yes, there are other issues which impact asset quality beyond just the farmers' cash flows, whether it is issues like what we mentioned in terms of potential waiver promises or anything of that sort. So, I think this is a portfolio which still – these sort of remained focused on growing, but in a cautious manner.

<Q - Mahrukh Adajania>: Thanks a lot. Thanks.

Operator

Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

<Q - Manish L. Ostwal>: Yes, sir. Thank you for the opportunity. My question on the balance sheet growth in this quarter, there were some mismatch in terms of our total deposit growth and loan book growth on quarter-to-quarter basis. Secondly, term deposit also grew 13%, whereas our loan book growth only 4.3%. So, can you throw some light why there's a mismatch in that kind of growth rate?

<A - Paresh Dattatraya Sukthankar>: Yeah. Actually, if you look at the previous couple of quarters, loan growth had sort of sped a little ahead off deposit growth and we have seen that deposit growth had been...

<A - Sashidhar Jagdhishan>: Lagging.

<A - Paresh Dattatraya Sukthankar>: ...was lagging loan growth in both the September and December quarters. So, we did want to step on the accelerator a little in terms of getting more deposits flow in, which is what we have done. I mean, if you now look at not just the sequential growth in a particular quarter, but if you look at the total deposit and the loan growth, you'll find that we are very comfortably funded, but our loan-to-deposit ratios are still in a range which is sustainable.

So, from our perspective, we still continue to look at pacing both our loan and deposit growth on an annualized basis at somewhat similar growth rates. And, of course, we try and maintain a healthy mix of those deposits as we get them. So, you're actually right, but in this last quarter, there was a bit of a catch-up in fixed deposit growth which had been lagging in the previous couple of quarters.

<Q - Manish L. Ostwal>: Second, sir, employee expenses growth has been quite muted over the last few quarters and why [indiscernible] (00:17:29) such a slow pace or digital banking making reduction of roles or jobs, how do you see employee cost trend over next two years?

<A - Paresh Dattatraya Sukthankar>: So, I would say not just from an employee cost trend point of view, but from an overall OpEx perspective, the move towards increased digitization was in terms of proportion of transactions, which are moving to digital channels as well as our sales, credit and operations processes, especially on the retail lending side. Clearly, both of those are helping improve our productivity and cost efficiencies. And as a result, therefore, you had seen in the last four or five years, in baby steps the cost-to-income ratio has continued to increase – improve. It's coming down.

Having said that, because the Bank has been growing very substantially and we continue to increase our presence in some of the semi-urban and rural areas and there are some other segments and initiatives that we keep driving, the focus – number of employees, of course, has grown this year. It was again a little muted last year, but in fact it had come down last year from the previous year and now it's back again at a slightly higher level than where it was in March 2017.

So, if at all we've got an increase in staffing, it's because of purely increased growth requirements even after the scale that we have achieved, even after the improved productivity and efficiency that come from digital and other process reengineering.

<Q - Manish L. Ostwal>: And this year – this particular year, sir, when I compare the fee income growth over the last couple of years, this year, the growth is very, very strong, 30% on a full-year basis. So, on a full-year basis is there any large one-off in the total fee income? Secondly, how do you see the sustainability of this growth rate?

<A - Paresh Dattatraya Sukthankar>: So, you're right that this year – I mean from a couple of years of roughly mid-teen growth, this year, we've seen most fee lines grow somewhere in the mid-20s or sometimes even higher. And the three areas where we did see a pickup in fee growth in the last year has been third-party products, both mutual funds and insurance.

Our retail asset fees, as the retail loan book, continued to grow and credit cards, of course, again, because of continued growth in terms of both card issuances and spends.

<A - Sashidhar Jagdhishan>: Especially, after demonetization, we have seen a large shift to credit card spends, both debit and credit card spends. So, that has also helped us to have a higher income growth from the transactional side of credit cards.

<A - Paresh Dattatraya Sukthankar>: Of course, within the other income, given the increase in bond yields in this quarter, there is a small negative on the bond yield side, but the fees & commissions and FX revenues have done increasingly well.

Your question is there any large one-off? No, there may be some small one-offs here and there, but there was no large one-off which distorted it too much. And, therefore, there were a couple of percent growth which could have been accounted for by some one-offs here and there. It could still have been a fairly healthy growth for this year, somewhere in the mid-20s or thereabouts.

<Q - Manish L. Ostwal>: And very quickly, two comments on – one is capital raise update and the second listing of any subsidiary in near term. Thanks a lot.

<A - Paresh Dattatraya Sukthankar>: Well, on the capital raise, after the shareholder approvals, we are awaiting the government approvals. So, that's the next step. And till that time, there would be no further visibility or road map that we can lay down. So, at this point of time, we are still awaiting the approvals. And at this point of time, there is no immediate plan as far as any other – as far as the subsidiaries are concerned in terms of capital raising.

<Q - Manish L. Ostwal>: Thank you so much, sir, for answering my question. Thank you.

<A - Paresh Dattatraya Sukthankar>: Most welcome.

Operator

Thank you. The next question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

<Q - Kunal Shah>: Yeah. Again touching upon the deposit base, so now, what would be the proportion of the retail and the wholesale? And if we look at this 13% sequential growth, whether it's a more of a wholesale deposit, short-term deposit or it's still the retail one which has led to this entire growth?

<A - Paresh Dattatraya Sukthankar>: So, in this last quarter, we have seen a good pickup in retail deposit growth as well. And of course, wholesale, I'll tell you the mix of our fixed deposits. The fact that in this quarter deposit rate moved up a little, certainly has had the sentiment for fixed deposit. I think two things happened. Perhaps the increase in bond yields perhaps meant that some of the savers who were investing in bond funds or debt funds might have figured that or might have preferred moving to bank deposits. So, you will see fixed deposits gaining interest again with retail sellers. And that was further sort of given a nudge by the increasing fixed deposit rates. So, as of March or this is the...

<A - Sashidhar Jagdhishan>: In March, March. No, this is the total position as of March.

<A - Paresh Dattatraya Sukthankar>: As of March, the total retail component of our fixed deposits is 73%.

<Q - Kunal Shah>: And how much would that be in Q3, December?

<A - Paresh Dattatraya Sukthankar>: About 77%.

<Q - Kunal Shah>: Okay. So, from 77%, it is off to 73%.

<A - Paresh Dattatraya Sukthankar>: Yeah.

<Q - Kunal Shah>: So, how do we see – so a larger part of this piece would also have come in towards the end of – second of the quarter. And overall, when we look at even on the advances side, so obviously the CD ratio has contracted to round about 83-odd-percent. So how should we look upon this in terms of the overall margin for Q1 and going forward? So would there be like the lag impact which we could see through because of the deposits as well as maybe moving towards the better-rated profile on the asset side?

<A - Paresh Dattatraya Sukthankar>: So to be honest, I wouldn't say that the deposits growth in this quarter was largely rear-ended. There could have – it has been still pretty healthy deposit growth through every single month in the quarter in fact. But on NIMs, whether it's a result of what's happening on the deposit cost and loan yields or the mix of loans or generally the market environment. I think we sort of stay with the fact why we don't have a specific guidance on the number, traditionally, we've remained in this range of about 4.1% to 4.3% or something like that.

And I think all of these potential impacts will probably keep us in that range. So within that range, we can see a movement in both directions from quarter to quarter, depending on how the environment is and the liquidity position in the environment is. But I don't see us being outside that 4.1% to 4.3%, or perhaps a 4% to 4.4% range at least in the near future.

<Q - Kunal Shah>: Okay. And in terms of the advances, so obviously the advances growth, particularly on the corporate side, given the opportunity which is there, that has still been, say, lower. So how are we looking at it in terms of maybe PSU banks not being active, what would be our strategy out there? Are we looking at the businesses and, in fact, that should have led to the better growth in this quarter and in coming quarters as well, or maybe we are holding on to as of now because of the increased competition which would be there? So how are we playing this entire space as of now?

<A - Paresh Dattatraya Sukthankar>: So clearly, on the retail side, we are a market leader. A lot of these products are doing well. We continue to grow that building on our brand, our distribution, our product range, our technology, digital, the customer experience.

And to be fair, on the retail side, since there aren't – I mean, there aren't too many other banks who've been of significant size, the market share gains probably are a little lesser on retail side. Our growth is more linked to the underlying market. So the underlying demand for those products still being fairly healthy.

On the wholesale side, as I mentioned earlier as well, between the large corporate, the emerging corporates and, what we call, business banking, there is a good momentum. It still remains a credit environment that one needs to sort of be careful about. But within our credit appetite, there are opportunities and we are tapping into those. This is across each of the three segments that I mentioned.

Given that loan yields has been somewhat muted given the competitive levels, the competition levels and the fact that good credits are getting rates which, at least for a while, were not in line with the kind of growth that had happened on the deposit rate side, we've been growing, but we will grow that within our appetite and at the right rates.

So we do see in this year as well both wholesale and retail growing in not very different growth rates and we believe we are equally well-positioned in both these. Some of that growth is obviously coming depending on what the competitive environment is.

<**A - Sashidhar Jagdhishan**>: Also, Paresh did allude to at the beginning of the conversation that in fact March 2017 – in the quarter of March 2017, we did see a bit of a spike in our loan accumulation. We added as a Bank INR 60,000 crores. So if you adjust for some of the base effects there, I think the growth is pretty healthy, even on the wholesale side.

<**Q - Kunal Shah**>: Okay. And lastly, in terms of slippages, any impact of RBI's revised framework on our overall slippage number of INR 2,800 crores?

<**A - Paresh Dattatraya Sukthankar**>: No. Not during this quarter.

<**Q - Kunal Shah**>: Okay. Yeah. Thank you.

<**A - Paresh Dattatraya Sukthankar**>: Thank you.

Operator

Thank you. The next question is from the line of Suresh Ganapathy from Macquarie Capital Securities. Please go ahead.

<**Q - Suresh Ganapathy**>: Yeah. Hi. Most of my questions have been answered. Just I wanted to know what is the logic behind you requiring a government approval for capital raising? I mean, as long as you do incremental capital raising also in 74/26 percentage format, why should you require a government approval?

<**A - Paresh Dattatraya Sukthankar**>: So raising – yeah, this is the total capital raising that we have got crosses INR 5,000 crores. I mean, total foreign capital raising crosses INR 5,000 crores. We do need approval. In fact, what used to be the – while the FIPB doesn't exist anymore, there is an equivalent approval from the...

<**A - Sashidhar Jagdhishan**>: [indiscernible] (00:29:21)

<**A - Paresh Dattatraya Sukthankar**>: ...from the [indiscernible] (00:29:21) and then CCEA approval...

<**A - Sashidhar Jagdhishan**>: And the Cabinet Committee of Economic Affairs.

<**A - Paresh Dattatraya Sukthankar**>: So there are legal approvals which are required for us to raise.

<**Q - Suresh Ganapathy**>: So for anyone who raises more than INR 5,000 crores foreign capital.

<**A - Sashidhar Jagdhishan**>: Yes.

<**A - Paresh Dattatraya Sukthankar**>: I guess, that's -

<**A - Sashidhar Jagdhishan**>: For a while, there was no limit. The limit has been put in, I think, about six months ago.

<**Q - Suresh Ganapathy**>: Okay. Fine. That's clear. Thank you so much.

<**A - Paresh Dattatraya Sukthankar**>: You're welcome.

Operator

Thank you. The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

<**Q - Sameer Bhise**>: Yeah. Hi. Thanks for the opportunity. Can you talk about competitive intensity in some of our retail products, maybe [indiscernible] (00:30:04) or, for that matter, even the unsecured products?

<A - Paresh Dattatraya Sukthankar>: So clearly, competitive intensity in most retail products has increased because, I guess, many banks who traditionally were not so active on retail perhaps on the rebound from the wholesale business for them not growing as fast or maybe because they just are now looking to grow their retail books more than they had in the past. There are a few more players and both players who've been around have been looking to increase their shares. So it's been competitive both from a rate perspective, from a payout perspective.

Obviously, to the extent that we are well positioned, given the fact that we've probably been one of the few players who's been consistently in this space has a market leadership and has constantly been evolving in terms of our offering the turnaround times that we deliver on our digital platforms and so on, we've been able to maintain and, in an odd case, even increase our market share.

But from a pricing perspective, it still remains fairly competitive. And if there are smaller pockets where we find that the rates have become [ph] odd (00:31:24), the risk-reward or the rates themselves or the payouts are not – don't sort of seem to make sense for us, we've decided that the marginal business is not something which we would look to tap into, but those are small pieces. The larger part, I think we still see a strong opportunity to grow across the entire range of retail loan products.

We remind you these numbers are muted to the extent that in the last couple of quarters, we've not taken too much of our home loan origination. In fact, we have taken none of our home loan origination in the last two quarters, because we were seeking some clarifications and so on, on some issues.

<A - Sashidhar Jagdhishan>: On the GST.

<A - Paresh Dattatraya Sukthankar>: On the GST and some other issues. But once that is resolved, we'll start taking what we have originated back. So, our origination engine still remains strong and ticking away. But the actual retail asset growth on the books is muted to the extent of a couple of quarters of retail loans that we have originated but we haven't bought back.

<Q - Sameer Bhise>: Okay. And just quickly, any strategic update on the HDB Financial Services, from what products the growth has come from or where it is heading from our medium-term perspective?

<A - Paresh Dattatraya Sukthankar>: Well, the logic of HDB has been very clear that they are in many of the products that we do. However, they access a customer segment that the Bank does not access, right? So, they are clearly more in the segments, which as an NBFC, they are comfortable accessing. So, they're coming at a slightly different rate and risk segment. Their growth has come actually from a range of products. They have grown the commercial vehicle and construction equipment business. They've grown business loans. They've grown LAF. So, it's really a wide product range across three or four retail products. Many of these are products that we would do at a different price point.

And from a medium-term perspective, we still believe that there is a large opportunity for them to continue to grow. They, today, do have a fairly healthy distribution themselves.

<A - Sashidhar Jagdhishan>: 1,000 different...

<A - Paresh Dattatraya Sukthankar>: About 1,160 outlet, so 1,165 to be precise. So, there is, we believe, a good run rate for them to continue to grow.

<Q - Sameer Bhise>: Thanks a lot, that was helpful. Thank you.

Operator

Thank you. The next question is from the line of Ravikant Bhat from Emkay Global. Please go ahead.

<Q - Ravikant Bhat>: Yeah. Hi. Thanks for the opportunity. Just require one quick clarification. The mention of [ph] INR 500 billion (00:34:40) of capital or to a mix of perpetual or AT1 bonds or infrastructure bonds., if I recall correctly, even last year, you had this item on the agenda for the AGM. So, I believe this is an enabling resolution?

<A - Paresh Dattatraya Sukthankar>: That is absolutely correct. That's absolutely correct, they have a requirement for us to take shareholder approvals, which typically I think are valid for a year, right?

<A - Sashidhar Jagdhishan>: Yes, these are valid...

<A - Paresh Dattatraya Sukthankar>: So, which is why we need to – within that, the actual amounts that we raised tend to be smaller, but these are enabling shareholder approvals. We take what we believe will be more than enough for us to be raising there. Last year, of course, we did ultimately within that limit that we got approved, raised some AT1 bonds and in Tier 2 and infra bonds and so on. Clearly, this [ph] 50,000 (00:35:28) is the shareholder approval that we are seeking.

<Q - Ravikant Bhat>: Sure. Thanks. If you could just shed some more light on what you're thinking is and since we have mentioned infrastructure bonds, so what's the Bank's thinking over there? What kind of growth you would want to have if at all we start and collect it?

<A - Paresh Dattatraya Sukthankar>: So, the infra bonds – I mean I just called infra bond, as you know, we had only senior bonds that banks are allowed to raise and you can raise them to the extent of our infra portfolio and our affordable housing portfolio. So, actually, a larger portion of the portfolio which becomes eligible for us to raise these bonds again tends to be our affordable housing portfolio, which is part of what we originate and then we buy back from HDFC.

But separately, as far as the infra opportunity is concerned in specific segments and for customers that we've been dealing with, we have seen a growth there. Again, it's not a large portion of our portfolio, but selectively we do have the appetite to grow and we'll be tapping into those opportunities even in the last few quarters.

<Q - Ravikant Bhat>: So, that answers my questions. Thanks a lot.

<A - Paresh Dattatraya Sukthankar>: Thank you.

Operator

Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

<Q - Ravi Naredi>: Hello?

Operator

Ravi, your line [indiscernible] (00:36:55).

<Q - Ravi Naredi>: Yes, sir. So much cash withdrawing from banks now and there are a long queue, are you getting good deposits?

<A - Paresh Dattatraya Sukthankar>: Well, frankly, the deposit growth has more to do with – and has little to do with cash demand or cash withdrawal. If anything, the queue that one sees are really a function of perhaps the increased demand for cash. But I don't think the cash queues and ATM queues have really – have any relationship or direct relationship with the deposit growth at all.

You go back to the demonetization day, that was a different issue. As you know, people had to deposit cash in, all their currency which was demonetized and that led to a spike in deposit growth. But this is just normal currency, which has been sort of withdrawn for what was used by customers.

<Q - Ravi Naredi>: So, now, there is a news from banks – the new regulation the Finance Minister has imposed [indiscernible] (00:38:06) persons are fearing and they are withdrawing deposits. And...

<A - Paresh Dattatraya Sukthankar>: I don't think – that's something which has been speculated upon long back. I think in the distant past, none of that is – we haven't sort of caught any of that as a feedback.

<Q - Ravi Naredi>: And one more thing there, now the cash is more in compared to pre-demon level. So, can you tell what is the [indiscernible] (00:38:30) about cash crunch and excess cash requirement and anything can you tell something to what is going on?

<A - Paresh Dattatraya Sukthankar>: Honestly, at a system level, it's tough for us to try and conjecture that. All I can say is that in our own experience, the digital transactions from the pre-demonetization time to now had gone up very sharply.

<Q - Ravi Naredi>: Yeah. But that is the thing, but cash requirement is now too much that we can't think when – what is going on? That's the important point. That's why I'm asking you, because you are good banker and you can tell what is going on. That's why I'm asking you.

<A - Paresh Dattatraya Sukthankar>: I think – no, I'm sure there are – if we have five of us, we'll have seven opinions on that. But to be honest, everybody is groping in the dark about where – or the total cash level, which is a fact that the numbers seem to indicate that the total currency in circulation seems to be back to at or above where it was pre. But then, I mean, it has been a couple of years, I mean the total economy and therefore the amounts would have also gone up. But honestly, I think I have no specific knowledge or data, which I can...

<Q - Ravi Naredi>: Okay. Thank you.

<A - Paresh Dattatraya Sukthankar>: That's okay.

Operator

Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

<Q - Nilanjan Karfa>: Hi, Paresh. Good evening. A couple of data points, first of all, I think we did add there some floating provisions this quarter, is that correct?

<A - Paresh Dattatraya Sukthankar>: No.

<Q - Nilanjan Karfa>: I think INR 1,326 odd crores, right, last quarter, December quarter?

<A - Paresh Dattatraya Sukthankar>: So [indiscernible] (00:40:08).

<A - Sashidhar Jagdhishan>: So, there – if you recall, there are whatever we created in the first quarter comes back on a particular account, that provision has come back to floating provision. Also, payback, there was another government account where we were asked to provide tariff provision.

<Q - Nilanjan Karfa>: Correct.

<A - Sashidhar Jagdhishan>: That has also come back – one portion of that has come back this quarter in floating provisions.

<A - Paresh Dattatraya Sukthankar>: So, it's really a reversal of where the floating had been utilized in the past various quarters.

<Q - Nilanjan Karfa>: Right.

<A - Paresh Dattatraya Sukthankar>: Those have been reversed. They have been put back into floating.

<Q - Nilanjan Karfa>: Okay. And any policy that you have in place right now, so how much high this number could be?

<A - Paresh Dattatraya Sukthankar>: So, I think there is a board-approved policy, but it's more to do with our assessment of various portfolios and where we see something specific in terms of the outlook for our portfolio and the environment. But there is no numerical sort of policy that we are – or number that we are trying to guide to or that we think we should target in terms of basis points for floating.

Again, I think, remember, as we move to IndAS, all of these provisions will sort of all tend to converge into what the requirements will be under that. So, I think this whole theme of specific, general and floating and so on is really a current GAAP issue, which will get morphed into slightly different types of provisions, if you might, under IndAS.

<A - Sashidhar Jagdhishan>: Absolutely.

<Q - Nilanjan Karfa>: Sure. And can I have the movement of gross NPL between addition, cash recovery, write-offs, et cetera?

<A - Paresh Dattatraya Sukthankar>: Sure. So, the...

<A - Sashidhar Jagdhishan>: For the quarter.

<A - Paresh Dattatraya Sukthankar>: The additions during the quarter were INR 2,790 crores. The reductions were INR 2,417 crores, which – you know the breakups of those, right?

<A - Sashidhar Jagdhishan>: Yes.

<A - Paresh Dattatraya Sukthankar>: So, which amounted to INR 807 crores of upgradations, INR 723 crore of write-offs and INR 888 crores of recoveries.

<Q - Nilanjan Karfa>: Right. Okay. And are we carrying any security receipts? I think last quarter, last year, I think it was some INR 220-odd crores. What could be that number this time?

<A - Paresh Dattatraya Sukthankar>: They might have – I think they're very marginally run off, but they're roughly in the same range.

<Q - Nilanjan Karfa>: Right. And are we carrying any 5:25 accounts, because I think we also had a similar number last year?

<A - Paresh Dattatraya Sukthankar>: So, I don't think there is any increments 5:25 which are now remaining.

<A - Sashidhar Jagdhishan>: No.

<A - Paresh Dattatraya Sukthankar>: No.

<Q - Nilanjan Karfa>: Okay. And then last, qualitative questions on – specifically on SME and further drill-down into exporters, have we witnessed any improvement in those categories in terms of their underlying turnover, volumes, et cetera?

<A - Paresh Dattatraya Sukthankar>: In some segments of SME, we've seen a bit of a bounce-back after the initial impact which they went through post the transitional phase of GST. They've obviously found their bearings and there, we have seen some of them bouncing back.

On the exporters, firstly, we really haven't found any – no, we haven't experienced anything which is meaningful in terms of a trend. And I'm sure there are pockets of exporters who were doing better and some weren't doing as well or as badly as they were. But from our point of view, SME is an area that we've been growing across what we call business banking and even what we call emerging enterprises, which is even smaller than the business banking segment.

And this is a segment which has, of course, a risk associated with that, but we do find overall that our existing customers are seeing some growth and there are opportunities to add new customers in this segment as well.

<Q - Nilanjan Karfa>: Okay. And, fundamentally speaking, are you going into areas which you, in the past, did not lend to, for example, could be electrical segment or something like that, because of better availability of data, has that really been happening?

<A - Paresh Dattatraya Sukthankar>: No. So I think that will take a little more time. So I think you're talking about the unorganized players coming into the organized sector a little more or better availability of transactional and other data. I mean, do we have policies or product programs, which can leverage those sort of ready, the answer is yes. But has that started moving the needle in terms of new origination, which is solely or largely based on that? Not yet.

<Q - Nilanjan Karfa>: Okay.

<A - Paresh Dattatraya Sukthankar>: We are still hopeful that that will help and we certainly have worked on how we need to rely on those numbers to add to the richness of the data that we might have.

<Q - Nilanjan Karfa>: Sure. That's great, Paresh. Thank you so much.

<A - Paresh Dattatraya Sukthankar>: Thank you.

Operator

Thank you. [Operator Instructions] Thank you. The next question is from the line of Krishnan A. S. V. from SBICAP Securities. Please go ahead.

<Q - Krishnan A. S. Venkata>: Yeah. Hi. Two [ph] tough (00:45:58) questions from my side. Number one, the SME 1 plus 2 portfolio which could become eligible for resolution plan. We have a wholesale portfolio. How has that been behaving, say, over the last 12 months? Have you seen significant improvement in that book?

<A - Paresh Dattatraya Sukthankar>: Actually, it's been fairly stable. Of course, though these numbers are not in the public domain, so I'm not going to comment on specifics. But while we've had a little bit of fluctuation from quarter to quarter, if I look at it over the last three, four quarters, it's been fairly stable actually.

<Q - Krishnan A. S. Venkata>: Perfect. Got it. Number two, in the HDB Financial Services, the NBFC obviously, it caters to a certain customer class that HDFC Bank doesn't look at, have you seen significant migration of customers from HDB towards HDFC Bank? Does that happen fairly frequently?

<A - Paresh Dattatraya Sukthankar>: No. Clearly, to take as an example, if there is a customer who is willing to pay, say, 10% or 11% for a particular loan, that customer is – and for the same product, if let's say the Bank is charging 9%, reality is that the Bank customer is not going to pay the HDB rate and the HDB customer is unlikely to meet the credit screens, which would qualify him for a 9% loan. So there really isn't – these are fairly distinct customer segments. So if at all you can say that some of the products are common or being offered by both the Bank and HDB, but clearly, they play a larger role in segments which might not have been able to access bank finance.

And this is, I guess, the largest [indiscernible] (00:47:55), if you look at it even on a – and not just for HDB and us, but banks and NBFCs have coexisted and the market clearly is large enough where each of these financial services players is catering to a particular segment in various products. So we also see this as a not a sort of a movement of customers from one to the other or anything. Each of us have a specific customer segment and there is more than enough opportunity for us to grow in those segments.

<Q - Krishnan A. S. Venkata>: Fair enough. Thank you.

<A - Paresh Dattatraya Sukthankar>: Thanks.

Operator

Thank you. The next question is from the line of Megha Hariramani from Pi Square Management. Please go ahead.

<Q - Megha Hariramani>: Thank you for the opportunity. My question is more on the macro picture. How do you see the credit growth in India going forward for, say, next two to three years? And also acknowledging the fact that the small finance banks or the NBFC are now rapidly growing and taking up some piece of the pie in the credit system, how do we see the competition growing and the overall credit growth for the private banking space?

<A - Paresh Dattatraya Sukthankar>: So I guess there are two parts to this. One is the overall system growth between private, public – no, all the banks in the system. And we've seen that the system loan growth tends to be a little ahead of the nominal GDP growth.

And we do see about a whatever 50 basis points, 70 basis points whatever growth in real GDP and with slightly a higher inflation levels expected if we look at the numbers, then nominal GDP growth is likely to be still ahead of where it was in the last year. And therefore, as against a high-single digit loan growth at a system level, we do believe there's a likelihood of a bank system loan growth picking up a little whether it comes to 11%, 12%, or something in that range.

Bank loan growth is also going to be a function of the liquidity in the system overall. Last year, we did see some cannibalization of bank credit through the markets whether it was commercial paper or bonds, because there was an overhang of excess liquidity in the system. I'm not sure whether you'll see the same level of cannibalization this year, because, incrementally, I think the flow of money into some of these segments is lesser than what it was last year. And in fact, bank deposit growth is more likely to pick up.

Now, within that overall loan growth for the banking industry, I still believe that there are specific segments and perhaps banks in each of the segments that will gain market share. So I think overall, private sector banks will continue to grow faster than the overall system growth and that is despite what might happen in terms of NBFCs or any other segment that is growing.

As far as we are concerned, we remain sort of positioned to grow a little faster, a few percentage points faster than the industry. And we believe that we would – because we have a diversified book across wholesale and retail, we would continue to gain market share on an overall basis in both deposits and advances.

And finally, as far as other newer segments, including small banks and NBFCs and so on, the market is large enough. The level of under penetration in various loan products is fairly high. So, there is a good opportunity for more – any player who has their strategy worked out and can execute, I think the opportunity exists for them to grow.

<Q - Megha Hariramani>: Okay. That was a fair explanation. Thank you. That's it from my side.

<A - Paresh Dattatraya Sukthankar>: You're welcome.

Operator

Thank you. The next question is from the line of Gautam Jain from GCJ Investment. Please go ahead.

<Q - CA Gautam C Jain>: Hello, sir.

<A - Paresh Dattatraya Sukthankar>: Hi.

<Q - CA Gautam C Jain>: Sir, I was looking at your break of the provision, you made other provision of INR 255 crore. What does that stand for?

<A - Paresh Dattatraya Sukthankar>: So, that includes a couple of pieces, but the larger piece of that is a contingent provision that we have made. This is in relation to a part of the agri portfolio during the uncertainties that are associated with that. So, that's a component of the other provisions.

<Q - CA Gautam C Jain>: That is – again, form part of the floating provision?

<A - Paresh Dattatraya Sukthankar>: No, floating provisions are different. So, this is against a specific identified...

<A - Sashidhar Jagdhishan>: Portfolio.

<A - Paresh Dattatraya Sukthankar>: ...portfolio. Not on a customer-by-customer basis, but on a specific segment of the portfolio. Those are continued provisions for that.

<Q - CA Gautam C Jain>: Okay. Secondly, I was looking at your balance sheet and during this quarter, you raised around INR 89,000 crores of deposit and same money has been put into cash and balance sheet [ph] RBI (00:53:24). So, can you just make us understand the transaction? I mean...

<A - Sashidhar Jagdhishan>: No. Actually, a large portion of that – because there was a spurt in transaction money flows in the last one week of March and since there were lot of holidays during that period of time, it was put in a reverse repo. So, you had about 60-odd thousand crores rupees of reverse repo that has been put up, which would be used in the early part of April.

<Q - CA Gautam C Jain>: Okay. So, it was temporary deposits.

<A - Sashidhar Jagdhishan>: Yeah.

<Q - CA Gautam C Jain>: Okay. And, sir, do you have any other subsidy company than this HDFC Securities and the HDFC Financial Services (sic) [HDB Financial Services]?

<A - Paresh Dattatraya Sukthankar>: No.

<Q - CA Gautam C Jain>: Okay. And for your qualitative comments on the fee income going forward and OpEx growth.

<A - Paresh Dattatraya Sukthankar>: We've really – I mean, since there are two, three components to this, as we have said, we don't have any specific guidance on that, but it's a diversified set of fees. And on the bond yields in any case, depending on what happens to bond yields, that will play itself up. But I don't have any specific guidance on that.

<Q - CA Gautam C Jain>: On the OpEx side?

<A - Paresh Dattatraya Sukthankar>: On the OpEx side, while we see a good improvement, we still believe there are some opportunities for us to continue to improve on the cost-to-income ratio in baby steps towards the next few years, but I think a major portion of the improvement is what we have already delivered on the last few years.

<Q - CA Gautam C Jain>: Okay. Thanks a lot and all the best.

<A - Paresh Dattatraya Sukthankar>: Thank you.

Operator

Thank you. The next question is from the line of Saikiran P. from RW Advisors. Please go ahead.

<Q - Saikiran Pulavarthi>: Hi. Thank you for taking up the question. Just one specifically, can you just comment on the overall systems liquidity, considering that a cash crunch which was widely reported in the media and also the deposit rates being raised off-late by various banks, even some of the large banks including you? Thanks a lot.

<A - Paresh Dattatraya Sukthankar>: Yes. I think the overall liquidity position is a little tighter than what it was for most of last year. The cash needs, of course, has got less to do with the liquidity in the cash. Currency is a different issue. But, overall, liquidity, if you look at where the banking system is...

<A - Sashidhar Jagdhishan>: In the credit...

<A - Paresh Dattatraya Sukthankar>: ...in terms of the credit deposit ratio and incremental – and, for instance, what is going into LAF and so on. Clearly, there is a slight tightening of the liquidity, which has resulted in these slightly higher deposit rates. And, in fact, we've also seen those slightly higher deposit rates seeping through into MCLRs in some cases. But I would think that since the signal has been removed from a [ph] combative (00:56:25) to a neutral stance, I think that was only to be expected. So, it's not unexpected, but it has played through.

<Q - Saikiran Pulavarthi>: Thanks. Useful. Thank you very much.

<A - Paresh Dattatraya Sukthankar>: Thank you. I think we've started at 5:15 and we have finished an hour and maybe I can take one last question.

Operator

Sure. Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

<Q - Rakesh Kumar>: Thank you. Just like you know looking at the performance on the deposit front under the commendable performance that we have done, so total net deposit increases in this quarter is equal to what we have done in the last five quarters. And assuming that if we maintain the LDR going forward, do we anticipate that margin will up move from this level?

<A - Paresh Dattatraya Sukthankar>: No, I think from a deposit and loan growth going forward, we are looking to base our loan growth to a deposit growth, so that we don't sort of – if you remember, in the first half of the year, we had raised AT1 and some other bonds. So, we were sitting on non-deposit liquidity which was being outlaid. Clearly, we then had to sort of grow our deposit growth to keep pace with or to catch up with what had been a faster loan growth in the previous couple of quarters. So, there can be some leads and lags from quarter-to-quarter, but as a principle, we have always believed in matching our loan and deposit growth.

As far as the impact on margins are concerned, really that's more to do with what our mix of deposit growth is. If we can maintain our CASA ratio somewhere around the 40% level and if our loan mix does not change too much, then the new range, which I mentioned of between 4.1% and 4.3% as a broad historical range also remains fairly relevant for the future. So, I don't think the deposit growth will necessarily or will directly impact NIM and that range still holds.

<Q - Rakesh Kumar>: Just last question on the cash recovery front for this quarter, INR 504 crore, this number looking slightly higher, looking at sufficient previous [indiscernible] (00:58:49). So, where has it come from?

<A - Sashidhar Jagdhishan>: This also includes dividend income that we receive every fourth quarter, the interim dividend from the subsidiaries. So, it is recoveries and other miscellaneous income. So, miscellaneous income includes the dividend that we have received both from HDB and HSL.

<Q - Rakesh Kumar>: Okay. So, that dividend number would be higher this quarter?

<A - Sashidhar Jagdhishan>: It will be. I think in the previous quarter...

<A - Paresh Dattatraya Sukthankar>: I think it's about INR 40 crores.

<A - Sashidhar Jagdhishan>: Yeah. We received roughly about INR 160 crores. I think it's about INR 40 crores higher than last year.

<Q - Rakesh Kumar>: Okay. Thanks a lot, sir, and all the best.

<A - Sashidhar Jagdhishan>: Thank you.

<A - Paresh Dattatraya Sukthankar>: Yeah.

<Q - Rakesh Kumar>: Thank you.

<A - Sashidhar Jagdhishan>: Thank you.

<A - Paresh Dattatraya Sukthankar>: Yeah.

Operator

Ladies and gentlemen, due to time constraint, that was our last question. I now hand the conference over to Mr. Sukthankar for closing comments. Thank you and over to you, sir.

Paresh Dattatraya Sukthankar

Thank you. Thank you, first of all, for joining this call on a Saturday late evening. Of course, Saturday is our working days, for commercial banks [indiscernible] (01:00:23) second and fourth. So, for us, it's a normal day, but thank you for taking the time to be on this call.

If I were to look at this quarter, as you've seen, there has been fairly healthy growth across various balance sheet and P&L parameters. Margins have been stable. Asset quality has been fairly healthy. So, it's really across various parameters being a fairly stable and healthy quarter. And I think we do remain well positioned as we enter this financial year.

Thank you once again and we'll end the call as well.

Operator

Thank you very much. Ladies and gentlemen, on behalf of HDFC Bank Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.