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HDFCBANK.NSE - Q2 2016 HDFC Bank Ltd Earnings Call

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Vishal Goyal *UBS Securities - Analyst*

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PRESENTATION

Operator

Ladies and gentlemen, good evening, and welcome to HDFC Bank Conference Call for the results of Q2 FY16 presented by Mr. Paresh Sukthankar, Deputy Managing Director, and Mr. Sashi Jagdishan, Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after 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 Sukthankar - *HDFC Bank Limited - Deputy MD*

I'll just take a couple of minutes to walk you through some of the key financial numbers and then we'll throw open the call for questions.

So, net revenue growth for this quarter was 22.2%, which took us to INR9,232.7 crores. If you look at the composition of net revenues, 72% of net revenues comes from net interest income, which grew by 21.2%. This growth in NII came on the back of 29% average asset growth and a NIM of 4.2%, which was down from 4.3% in the June quarter. Other income, which accounted for 28% of net revenues, grew by 24.7%. As you are aware, there are three or four components to the other income. Fees and commissions tends to be the largest component, accounts for about INR1,869 crores of the INR2,500 crores-odd of other income. And fees and commissions grew by 21.6% for this quarter year-on-year. The other components were FX, bond gains, and recoveries which also did fairly well for the quarter.

Operating expense growth was at 19.8%; that was just shy of the revenue growth, which we just spoke about earlier, and as a result the cost to income ratio was at 45.4% as against 46.3% in the corresponding quarter of last year.

Provisions for the quarter were at INR681 crores. These included specific provisions for NPAs, they included general provisions and some floating provisions that we had made during the quarter. So if you break up the provisions; of this INR681 crores, INR484 crores were specific provisions for the quarter. The corresponding number for the previous year was INR384 crores. General provisions, which is the standard assets, were INR133 crores and the corresponding number last year was INR51.9 crores. Clearly there is a -- there is an increase of almost INR81 crores in general provisions, reflecting the strong growth in the loan book. And we made a floating provision of INR50 crores in this quarter. In the corresponding quarter of last year, we had utilized INR30 crores. So the swing there is another INR80 crores. After providing for tax, the net profit growth was INR20.5 crores, and the net profit was INR2,869.5 crores.

On the balance sheet front, total deposits were a little over INR5,00,000 crores at INR5,06,909 crores. Total deposit growth was just under 30%, 29.7%. Current account deposits grew by 20.8%, savings accounts -- savings account deposits grew by 18.7% and fixed deposit growth was 37.6%. The CASA -- therefore CASA proportion was at just under 40%.

Advances also had a strong growth of 27.9%. That took the total advances to INR4,18,000 crores. The mix between retail and wholesale was 52%-48%, with the retail being 52% and 48% being the wholesale book. In this quarter, we have seen fairly healthy growth from both retail and wholesale. The retail growth was about 29%, the wholesale loan growth was about 23.5%. But clearly both contributed to the overall 27.9% loan growth that we saw.

On a half-year basis, again, net profit for the half-year was up 20.6% to INR5,565 crores. Capital adequacy, of course, under the Basel III guidelines was at 15.5%, of which Tier 1 ratio was 12.8% and that 12.8% is as against 11.8% in September of last year.

On the network side, we've continued to expand the branch network. We've touched a total of 4,227 branches. These are across 2,501 cities and towns. We've added about 627 branches over the last 12 months, of which 126 branches were added in this last quarter. The mix between semi-urban, rural and urban is now 55%-45%. So 55% of our branches are now in semi-urban and rural areas across those 2,501 cities.

We have seen in the last year, including the last quarter, a continued increase in our staffing strength, reflecting the expansion that we've continued to do both from a geography and across various businesses, including some of the newer initiatives that we have been -- which we've been launching and which we've been growing. So the total staff strength, which was 75,300 odd last year, in September, has touched 83,400 in September of this year.

Final word on asset quality, again remained fairly stable. Gross NPAs were at 0.9%. It's roughly flat at -- against the 1% that we had last year. Net non-performing assets were at 0.2%, restructured loans, again remained flat at 0.1%. So overall asset quality has remained fairly stable.

So those are some of the key numbers. We'll be happy to now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mahroof Harijaniya, IDFC.

Mahroof Harijaniya - *IDFC - Analyst*

Hi, congratulations.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Thanks Mahroof.

Mahroof Harijaniya - *IDFC - Analyst*

Just had a few questions, firstly on the non-retail growth, what's really driving that; which segments? And even on the retail growth, the CD growth continues to grow every quarter. So is that sustainable now, how do you view it?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

On the wholesale side, we've seen growth in the corporate and in the ECG book, in fact the ECG book which is Emerging Corporates Book, a little stronger than the corporate side, essentially coming from higher -- exposure in higher lending to a lot of our existing customers and some increased or additions to a customer list, primarily because of the geographical expansion, but much of it has come from existing customers in terms of higher borrowings.

On the retail side, the CD business, we've now seen in this last quarter further strengthening of the momentum that we had seen in the June quarter as well. So if you remember from March, we had seen the stabilization in December, March and then we saw some pickup in June and that has accelerated further in this quarter. It is essentially from the medium and heavy commercial vehicle segment, most of it is the medium and large transport operators. Again, most of these are customers that have been with us, and I think our having held on to the right customer segments as the industry comes back in terms of demand, seems to be paying off.

Whether that part is sustainable, well it certainly seems to have maintained some momentum, although some spurt is also related to -- at least according to some of the dealers and some of the customers is relating to some regulatory change which they -- which gave a bit of a spurt in demand for pre-September, was relating to some requirement for anti-lock braking systems and stuff like that, but essentially it remains replacement demand and some spurt because of some potential regulatory changes which has to kick in from October, but we've certainly been able to gain some market share in that business.

Mahroof Harijaniya - *IDFC - Analyst*

And just in terms of your deposit growth, despite your deposit rate cuts, the growth continues to remain very strong. So how do you view this, I mean are you planning to have more rate cuts?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Actually, Mahroof, the incremental growth over June has actually normalized. So if you look at the -- if you look at term deposits year-on-year, clearly that growth rate is still at 37%, 38%, but really most of that came to in the June quarter. So if you look at the sequential growth between

June and September that's now about 4.5%, and if I remember, the sequential growth in June over March was 16%. So that is where you really saw the spurt. At 4.5% sequential growth, we are really looking at a much more normalized fixed deposit growth going forward, but of course the spurt which has come in is obviously there in the base.

I guess everybody in the market, after the June quarter, had moderated their fixed deposit growth rate -- fixed deposit interest rates, so have we. So I don't think there's anything much more that we need to do right now, although the spurt which has come in will remain in the base I guess for some time.

Mahroof Harijaniya - *IDFC - Analyst*

Just one last question, your FCNR deposits under RBI special window, they are maturing next year, right, not this year?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

That's right, it's in October of 2016.

Operator

Nilesh Parikh, Edelweiss.

Nilesh Parikh - *Edelweiss Securities - Analyst*

Hi. Congratulations. The question is on fee income, so the third quarter running we've seen a strong growth in the fee income. Any one-offs and if you could just give some color on the sustainability of the growth rates [on this].

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

I can't say that these are one-off. We have certainly seen some swings which have taken place in the last two, three quarters, something pops up in a particular quarter goes down again. For instance in this quarter we have seen a bit of a resurgence back in the third-party distribution fees, including some growth in Life Insurance. If you remember in the last quarter that had seen a bit of a dip, so there is a bounce back in that, but otherwise, if I look at the overall growth rates other than that, we've seen a pretty strong growth in both the retail ex-third-party and in wholesale.

The retail increase in fees this time around has been driven by some credit card interchange income, again on the back of higher spends, some growth in fees on some of the retail loan products and some transactional fees. On the other hand, on the wholesale side, again, we've seen with some of the business banking and ECG, wholesale fees coming in, so again, no large chunky one-offs. So there certainly has been slightly stronger momentum in the last couple of quarters and it seems to be slightly different products in each quarter kicking in. So to say whether these are sustainable, well can't say that the same segment or the same product is showing a continued growth rate. But seems to be between a half a dozen products, different products chugging along.

Nilesh Parikh - *Edelweiss Securities - Analyst*

Just on the third-party, what is the percentage in terms of the overall share, what is the share of third-party in the retail fees, if you can just give some color on that.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Third-party now in retail fees would be somewhere between maybe 10% to 12%, 13%.

Nilesh Parikh - *Edelweiss Securities - Analyst*

Okay.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Of course, when you look at the overall growth rate, including in retail, I mean I spoke about what had done well. As you know, even when some of these businesses were doing well, we typically add the overall growth rate, which was pulled down by something which was negative or which was an impact of some regulatory change or some other change which impacted pricing for a particular product or two. So I think the last couple of quarters, not having a further new negative, I guess can also be -- seem to be a contributor to overall growth rates.

Nilesh Parikh - *Edelweiss Securities - Analyst*

The other one is on the expansion, right. So we've been adding branches, plus the headcount. Just wanted to understand in terms of with the entire digital initiatives that we've been focusing on, so can we expect say maybe few quarters down the line, the pace of both from a network expansion and from the headcount perspective, you could see some moderation?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

You could, and I'm not sort of necessarily -- right now we don't have a definitive timeline or a level at which we believe we need to relook at the branch expansion. I've said this earlier as well that we don't see these two strategies of branch expansion and the heightened focus and success of the digitalization initiatives as being in conflict with each other. I think when we look at our strategy of continue to grow across both wholesale and retail and in particular, when you look at expanding our presence in the retail side, the branch channel remains an important channel for new customer acquisition, especially when you're looking at also adding new locations. So clearly, roughly half of the new branches or just maybe little under half tend to be new locations that we are adding on, which in any case just expands our footprint.

Even when we add branches in existing locations, I think it's important to realize that most customers don't commence the relationship with the Bank if there is more physical branch location anywhere close by. So they like to have a branch within some catchment area. Once we've acquired the customer, obviously the ball is in our court to get the customer to fully appreciate and understand the benefits of various digital and other alternative banking channels. And then to migrate transactions from the physical to, or from the branch to all the other channels. And of course, for existing customers, just ensuring that you would sort of demonstrate to them the benefits of dealing across the other channels and the heightened customer experience, the shorter turnaround times, the offers that are made to them, the fact that they can not just apply, but get approvals and get the transaction fulfilled on the digital platforms, all of that will naturally draw transactions to those channels.

So when you look at it over a period of time, what you're seeing is a fair expectation that some of the increased staffing or some of the resources that we today have to commit in processing some of these transactions, will be much lesser, because you'll have these straight-through processed on the digital platforms. And to that extent over a period of time, we would see some improvements in, or we should see some improvements in the cost-to-income ratio as you have a higher and higher proportion of origination going through those channels. But right now we believe there [isn't] enough of an opportunity for us to do both. And therefore we will continue at this point of time to add branches and to increase the total bouquet of products and the features that we add on the digital side.

Operator

Anish Tawakley, Barclays.

Anish Tawakley - *Barclays - Analyst*

Paresh, I was sort of going through the disclosures on the retail asset growth. Now two segments that have grown very fast are housing loans and Kisan Gold Cards. Both these are priority sector segments right?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Yes and no, in the sense that they are primarily or largely PSL segments. But I must mention that on the home loan side, in the last few months, we have been taking home loans back on our books, which are both PSL and non-PSL. So you will recall that the arrangement that we've had with HDFC is when we originate the loans and they are processed and booked by HDFC, we have the option of taking up to 70%, right. And for a long time we would only take the PSL loans on our books. But right now, when we look at the -- our appetite for putting on loans and the fact that at the margin, if I compare the home loan opportunity with perhaps let's say some commercial paper or other asset opportunities that we are availing, then the home loan, even which is non-PSL, looks an attractive opportunity for us to take on our books. So some of that growth is non-PSL home loans as well.

Anish Tawakley - *Barclays - Analyst*

But overall is there some -- the regulations on PSL have changed in the sense you have to achieve the targets now on a quarterly basis. So is that driving some of the year-on-year comparative growth, because earlier you didn't have to achieve it quarterly, right?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

I mean, we sort of as a bank, because we typically are not very dependent on buying out PSL assets, because that's something which then you can try and do largely towards the end of the year and stuff like that. Our home loan internally generated PSL assets, we've always had a strategy of doing this on an ongoing basis throughout the year, because there is no other way that when you're generating your own PSL assets, there may be some seasonality in terms of when, say, the crop loans or the KGC grows or does not grow. But there is no particular focus on front ending PSL growth merely because of the quarterly piece. In any case I think the quarterly piece kicks in from next year. So I think -- so this is just our -- do we have a focus on growing our PSL book because our overall book is growing and we need to achieve the proportions, the answer is yes. Within that, is there any front-ending, the answer is no.

Anish Tawakley - *Barclays - Analyst*

Because I mean KGC growing at 50%, if I am reading it right, is pretty high.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

We are still below the absolute percentage that we needed. And so there is always going to be a bit of a catch up, which we need to do there.

Anish Tawakley - *Barclays - Analyst*

And in the wholesale segment, just going back to Mahroof's question earlier. So going forward would the idea be to keep growth at this rate or would you like to drop both deposit growth and then the wholesale segment growth, I mean on an incremental basis is it positive to raise term deposits and do wholesale lending?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

No. So I think -- let me put this way. There's no doubt that the marginal deposit, which is a fixed deposit, and the marginal asset, whether it's a short-term loan asset or for the sake of argument, let's say, a commercial paper investment, is not necessarily going to give us the NIM or the return that we're looking at. To the extent that these marginal assets and marginal deposits are both relatively shorter-term there's always an opportunity for us to sweat that along the way, that's what we would like to do. At this point of time, we have that comfortable liquidity situation and if we have appetite for certain loans or investments, we obviously would take those on and that's what we've done. We do have the flexibility to be able to sweat that a little if we along the way find other asset opportunities or want to sort of ensure that we don't have as large a growth as to create pressures for us in terms of meeting PS and other guidelines.

Also there is a bit of spurt that could have come in for a couple of weeks in this quarter, which may not necessarily stay on, because if you remember, there were a couple of weeks in the last quarter when -- after we had recalibrated our base rate and most of the banks are yet to do that, maybe some short-term corporate assets would have come our way because of the lower rate. That's something which of course is no longer a situation right now, because one; there are other banks, who also have similar base rates. In fact, there are some banks who are lower. So if there was some one-offs which came in at that point of time those in any case would run off in future. So are we looking at consciously targeting a particular growth rate or a particular level where -- which we have touched for a particular quarter, the answer is no. We will just continue to look at this opportunistically and we then market adapt that.

Anish Tawakley - *Barclays - Analyst*

So I understand the spread is lower, but it's still positive is what you're saying?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Absolutely.

Anish Tawakley - *Barclays - Analyst*

Incrementally, I mean, it doesn't hurt to be doing this business?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Yes, but it may or may not meet our thresholds, so it doesn't hurt to do it for a while. I mean we won't be doing something at a marginal negative carry.

Anish Tawakley - *Barclays - Analyst*

And could you just tell us what the RWA number was for this quarter?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Total risk weighted assets for the quarter were INR4,91,000.

Operator

Vishal Goyal, UBS Securities.

Vishal Goyal - *UBS Securities - Analyst*

One is, what's the outstanding floating provision for us now?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

INR1,638 crores.

Vishal Goyal - *UBS Securities - Analyst*

And sir, one question on the LAP portfolio and especially, what's happening there. So we obviously are seeing like the huge competition, both on spread side and also on underwriting. For us I think -- I believe that is part of your business banking book and which is growing obviously well. So what are the trends you are seeing and basically how are you still remaining in competition without diluting the standards?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Our business banking, the line which you see in the retail fees is a combination of both LAP, and what we call business banking working capital and some rental discounting in certain products. So it's not only LAP, but certainly LAP is one of the two or three products that is there in that segment. Again, if you look at the growth rate, it's a healthy growth rate in the low 20s, but slower than perhaps some of the other products within the retail book.

We have not diluted or changed our credit parameters to maintain or to increase our growth rates on the LAP book. We have always had an approach to this portfolio, based on lending primarily on cash flow and then of course with the comfort of the underlying collateral. So at the margin, if we find that the market is overheating to the extent that we are not comfortable with either the rates or the asset quality, we're not looking to change either one of those to achieve a certain growth rate. And we have actually so far seen fairly stable asset quality as far as our LAP book is concerned.

Vishal Goyal - *UBS Securities - Analyst*

Okay, because I think we are hearing 90% to 100% LTVs in the segment.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

No, we are not even -- I mean I don't want to put numbers to this, but there is no question of anything even remotely close to that.

Vishal Goyal - *UBS Securities - Analyst*

And I think one question which I think has already been touched upon, but just wanted some more sense, is this term deposit -- what happens to this, like -- because you are cutting rates, and but the growth rate still remain high, which is obviously pulling down overall margin?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Vishal, the thing is that whatever fixed deposits had come in and as I mentioned little earlier a large chunk of those came in, in perhaps June in the anticipation that fixed deposit rates will come down, so obviously customers, including some corporate customers would have locked into some fixed deposits. Some of those might have been six months, one year kind of deposits. Till those run off those are there, so you can't wish those away. All that happened is since then, in fact in the June quarter itself, and certainly in the September quarter, deposit rates have been dropped further and clearly based on the current rates, the incremental growth seems to have come down to levels, which is now fine. If you look at the 4.5%, 5% sequential growth, you're looking at an annualized growth of somewhere in the roughly 20% level, which is far more -- a level that we're comfortable with. So there's nothing that we would be able to do in terms of what deposits are there, except that as they run off or they will get repriced at whatever the new deposit rates. In the mean time, the good news of course is that the CASA deposits have also been growing at a fairly healthy pace. That's not going to change the proportion, but at least incrementally you see a stable proportion on CASA. Some of those earlier deposits, which came in the last quarter will run off over the next two or three quarters.

Operator

Manish Karwa, Deutsche Bank.

Manish Karwa - *Deutsche Bank - Analyst*

Hi, Paresh, congratulations.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Thanks Manish.

Manish Karwa - *Deutsche Bank - Analyst*

Paresh, just over the last few quarters it seems that we are seeing some pressure on margins. Maybe this is due to a mix change on the asset side, but inherently do you see some spread contraction happening in the products, especially retail product, given existing competition which is there?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

I would say that is there heightened competition on the retail side, the answer is yes, but the reality is that these are fixed rate -- lot of these are fixed rate assets and we are in a declining interest rate scenario and deposit rates are also coming down, so there could be a little bit of a lead and lag if you look at the retail piece in isolation. But I think the largest contributors to the -- roughly let's say 20 basis points reduction over the last maybe six or seven or eight months, has been more to do with the fact that you did see this spurt in fixed deposit growth, which did distort the CASA. I mean normally we pace our overall deposit growth too, and the fixed deposit growth for a certain level of CASA which is being distorted because of the higher fixed deposit growth. And then the fact that on the asset yield side, we do have some marginal assets which are giving us lower returns, but which we believe are still acceptable from a risk-reward perspective. Notably, if you look at the growth that we've seen in our CP book, it's INR2,000 crores. We've seen the increase in our home loan book, which again is lower margin, but also has a lower cost. So some of the reduction in NIM, if it has come from the change in asset mix, that by itself is not something which would be a lasting concern, because that mix can at least be changed marginally and that some of the lower yielding assets are also coming with lower operating costs and potentially lower credit costs.

So when you look at it from a bottom line risk reward perspective, it's still going to be acceptable for us. And more importantly, I mean we remain in the range of 4.1% to 4.3%, 4.4%, which has been our long-term NIM range. There will always be some movements within that range and some trade-offs between margin at a particular point of time, pending some re-pricing that happens in the liability side. And also some trade-off between margin and growth as long as it's within a range.

Manish Karwa - *Deutsche Bank - Analyst*

But say, look, going forward say in the next one year, assuming rates come down by another [50 basis points, 100 basis points] and given the fact that FCNR benefit also wears off by then, isn't it likely that margins could actually come off below the 4.1% range as well? It seems like given the fact that in a lower rate environment we probably may lose a little bit of margins.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

When you look at the absolute return that you can get on your assets, because the asset re-pricing and because CASA does not re-price, there would be some downward pressure because of that. But there are other pieces which are also kicking in, including the fact that if you look at the overall retail momentum across a wider range of products, it has been fairly strong. The fact that the lagged re-pricing on the fixed deposits will also give back some margin. So I think right now, it would be premature to believe whether we would go down below the 4.1% or not. I think at this point of time, we believe that the 10 year range that we've had still remains realistic. If we believe along the way that we have visibility, which takes the -- which trends the NIM in a particular direction, we'll probably review that.

Manish Karwa - *Deutsche Bank - Analyst*

And any thoughts on the savings account rate of 4% or is it too early to think about changing or tweaking that?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

No at this point of time, we remain comfortable with the 4% savings account rate. I think we've been through a cycle where this has been fairly stable. At this point of time, we certainly don't have any plans on reviewing that.

Operator

Pankaj Agarwal, Ambit Capital.

Pankaj Agarwal - *Ambit Capital - Analyst*

If I look at your growth trends in car loans and two wheeler loans, they are completely different from growth rates in this underlying assets. So like two wheelers are de-growing and car loans are hardly growing in single digits. But if I look at your growth it's quite high. So can you throw some more light on whether we are gaining market share or --

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Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

No you are absolutely right, we are gaining market share in both these businesses. And I think we certainly over the last year or so, consolidated our market leadership in the auto loan business in particular. We do see actually, while total numbers are in single digits, but if you look at the newer models, which have pulled a lot of the demand, some increase in prices and so on, there is certainly some heightened momentum that we have seen in the auto loan demand. Between new cars and used car financing, we are a market leader in both these. We have, of course, gained share, partly because of our focus which continues on the internal customers and partly because of the fact that we've built our distribution, we have increased our presence in many more locations and the fact that I think we're recognized as a player who's been in this market for a far more sustained period of time and not sort of moved in and out of that market.

On the two wheeler side, again, we've certainly increased our share. We had lost, or at least had got a lower share, about 12 and 18 months back. Within the location that we are comfortable and within the segments that we are comfortable, we've been increasing our share. To the extent that apart from all the traditional channels, we're also getting some increased origination through our digital channels that is only adding to some of the momentum that we have.

Pankaj Agarwal - *Ambit Capital - Analyst*

So out of this market share gain, how much you would attribute to your new distribution, I mean, opening new branches and how much is coming from existing, some rough estimates on that?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

See when we look at the branches and the expansion, we're not talking about only actual loans being originated from those branches. The fact that we have a presence in those markets means that in those locations, even if they are not necessarily branch customers, we tend to be able to build some market share. Can't say how much of it is only because of distribution in terms of new branch locations, because our distribution expansion has also independently been on the asset side. So in some cases, we would have blanket covered a particular state, for instance, even though we may not necessarily have branches in every town or city in that location. Distribution is something which is important. But again, the spurt in growth is which we have -- the growth momentum in the last few months -- last couple of months is little more of an urban phenomenon than semi-urban and rural. So it can't be only distribution in terms of new locations, it certainly is increased share in existing locations as well.

Pankaj Agarwal - *Ambit Capital - Analyst*

And in car loans, are you seeing any pricing pressure of late from [PSU], because since lot of [PSU] are coming out with very aggressive campaigns on car loans, so you are seeing any pressure there?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

I would sort of be reluctant to accept the word pressure, because, is it a competitive environment, is pricing fairly -- price-based competition fairly intense, the answer is yes. But do we always match the pricing in the market, if there are some segments or there are some lending, which we find is not worth a while, we don't, whether it is on pricing or payouts. We remain competitive and it is a competitive market, more so in times like these where there will be festive season offers and stuff like that, but it's still a good business for us to be doing at the rates which are being offered right now in the marketplace.

Operator

Anand Laddha, HDFC Mutual Fund.

Anand Laddha - *HDFC Mutual Fund - Analyst*

Sir, couple of question from my side. Sir, I had seen your branch expansion, you have been opening branches. On a YoY basis, we are opening 600 branches, but if I see the ATM numbers they had not been expanding. So is it some change in thought process or if you can share some light, is the ATM in the metros and Tier 1 are seeing maximum rate or now there is no need to have incremental more ATMs?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

No, I think it's a good point you picked up. We continue to add ATMs in certain locations, but we also simultaneously have been rationalizing and reviewing the existing ATMs across multiple parameters, because if you remember in the last two, three, four years, we have added substantially in terms of ATMs and it's on a periodic basis, we find that it's appropriate for us to review. So we look at things like the vintage of deployment, the number of transactions, therefore, the effective cost of the transactions, the feedback that we get from some of the front-end branches, opportunities for relocating, there are various factors that we look at, whether a particular ATM that we've deployed makes sense for us to continue or to relocate or to pull back.

So, as a part of this exercise, we have been rationalizing a few hundred ATMs here and there, before we either redeploy them or in some cases, just pull those out completely.

I think at the level of ATMs that we have, which is just under 12,000, about 11,686, let's say 11,700 ATMs, we certainly have a large ATM base out there in the market. Customers, of course, have the flexibility of using other bank ATMs up to a certain number of transactions, so that facility in any case remains. To the extent that people, customers are comfortable and increasingly are willing to use plastic as a means of payment, using their debit cards, not just as ATM cards to withdraw money and then make cash payments, but actually using those for payments, and our other digital channels, including of course apps like Chillr, and PayZapp, which is our wallet, I think we've sort of looked at these across multiple parameters, including of course more importantly the ATMs and the operating parameters for them. And therefore, this is a combination of all of that. We may still on a net basis add some ATMs along the way, but certainly in the last couple of quarters -- in the last quarter in particular, we've rationalized a few.

Anand Laddha - *HDFC Mutual Fund - Analyst*

Is it fair for you to give some color in terms of the ATM hit on the metro versus semi-urban and rural?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

I really wouldn't have that level of detail on the individual ATM sort of ranges. Of course, the shear usage and the number of transactions that you'd see in an urban location would be naturally significantly higher, but I don't have those detailed numbers with me right now.

Anand Laddha - *HDFC Mutual Fund - Analyst*

Also, if I have look at your retail fee income, if you can give some color in terms of what proportion of income comes from the card business?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

We have not been spitting out individual components of it, but let me tell you, amongst the top three or four sources, three or four contributors to retail fees, we have essentially the third-party distribution of mutual funds and life insurance, and of course, general insurance, credit cards, retail assets and then transactional fees. Each of these three or four are -- which are the three or four top contributors would be more or less equally important for us, But, yeah, the third-party would be the largest and others would be below thereafter. We haven't sort of given a percentage breakup for each of these in a detailed manner in the public domain.

Anand Laddha - *HDFC Mutual Fund - Analyst*

And sir, lastly we continue to see a strong traction on the Kisan gold loan. Is this a pure agriculture loan or does it also include some part of smaller corporate loan related to a food processing industry or the agri-processing industry?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Most of this is essentially the retail agri loan and not corporate.

Anand Laddha - *HDFC Mutual Fund - Analyst*

And all of that will quantify under direct agri?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Absolutely, all of it will be direct agri.

Operator

[Prashali Jadhav], Protege Investments.

Prashali Jadhav - *Protege Investments - Analyst*

Can you throw some light on the new initiatives you had taken and response you are getting from that?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

On the digital side you are talking about?

Prashali Jadhav - *Protege Investments - Analyst*

Digital side, and you had loan initiatives that design your own loans.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

So the basic logic behind most of these initiatives is to provide the customer a superior experience and greater flexibility of operating what he or she wants to on the digital platform. So the product you referred to in terms of designing your own loan, let's say for loans against securities, where a customer has a DEMAT account with the bank, he and she can pull which securities he would like to pledge and then essentially put together a facility, within the parameters of the product. When it comes to, let's say, a 10 second loan, which we have given to some of our pre-approved customers, the customer can actually, when he get's an offer on net banking, accept the offer, authenticate himself through a two factor authentication that we provide and therefore actually draw down that loan.

In some other cases, whether it's an auto loan or some other products, again the customer can get to through our app, choose what -- the product that the customer may be interested in, get a loan approved, get an e-Voucher so that the customer can actually go to the dealership and then take delivery against an assured loan to be drawn down from the Bank. So there are various initiatives that have been there on the lending side and that's one set of them.

The other is on the payment side where, whether it's enabling P2P payments, whether it is making -- enabling payments from P2 Merchant there are -- and of course a whole host of retail payment initiatives that we have already always been in, because we have been a market leader on the card side as well. So I think there is a second set of initiatives which are linked to the retail payment system.

And finally, there are a whole host of digital and other initiatives, which are on the wholesale side, where some of our Internet banking, net banking solutions, for instance called ENet for the wholesale customers which were largely being offered to our corporate and emerging corporate customers, are now also being offered to our business banking customers, to other customer segments and which have also been expanded in terms of the product range that we offer on those, including products like trade on net and so on. So it's a combination of various transactional banking, lending and convenience products across customer segments for both wholesale and retail, and when I say wholesale it is both SME and large corporate. The response so far has been extremely good. Of course these are still early days. So it will go up in proportion, it's still small, but we are pretty happy with the initial response.

Operator

Nitin Kumar, Prabhudas Lilladher.

Nitin Kumar - *Prabhudas Lilladher - Analyst*

So was the loan growth a little back ended in the quarter, because the strong loan growth was not like reflective in the NII during the quarter, and I think is it the margin pressure that is playing out?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

So we would certainly have seen some spurt on the corporate loan growth, which came in towards the end of the quarter, and which might have been, as I said earlier, reflective of a little bit of a spurt, which was one-off and which perhaps won't sort of last too long if it was really linked to [de-cycle or] base rate. But when you look at the largest part of the loan growth, which has come from retail, that of course has been -- momentum which has been there for the last few months and not necessarily in a particular month and certainly not towards the end of the last month.

Nitin Kumar - *Prabhudas Lilladher - Analyst*

And like you have mentioned that most of the growth on the corporate side has come in from the lending to the existing borrowers. But still are you seeing some pickup in the refinancing activity in the corporate space, because like with us having cut base rate so aggressively, the rate differential over other banks has increased substantially?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

There has been some refinancing activity, though I don't think the base rate by itself is a huge draw there; because most of the refinancing would be for term loans or project loans, which are where the projects have been completed, where the lending is not necessarily at base rate. So if it's above base rate, then in any case there are enough players who will compete in that. So the refinancing activity there, gaining momentum has more to do with the general trend of rates coming down in the market, from where these were two, three, four years back when these loans would have been contracted. The lower base rate would have -- if at all, given a spike or given a bit of a spurt to lending at the shorter end, at the best corporates at the shorter end where the lending at base rate would be relevant.

Operator

MB Mahesh, Kotak Securities.

MB Mahesh - *Kotak Securities - Analyst*

Just a couple of questions. One is just to understand this new employee side, Do you think with the entry of these 20 odd banks, there is a marked increase in the risk of attrition out there at your bank specifically? And correspondingly, would there be any requirements to change the way it's structured at the bank overall? We have seen certain exits in the last few months specifically. So just wanted to understand your feedback on that. Second question is on your loan side. With the entry of these players like (inaudible) we seem to be going more towards an online platform to search. How much do you think are these players becoming key players for you to originate customers in the first place, and whether the cost of intermediation would increase over a period of time with these players being there? And the third and final question is that you have initiated in the card side a fairly aggressive 15% cash back in many of the card related products. How does the accounting happen in these transactions?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

The first one on the employee front, will we be a potential target or would our employees be sought by various players, new and existing ones, I think that's a reality, which has always been there. I don't think just the new players have the scale or the appetite to be able to take a meaningful or to make any sort of a meaningful impact in terms of attrition levels for a bank of our size. But a combination of new banks, existing banks, other players on an ongoing basis, people would certainly look to try and hire employees from the bank, because I think that is as much an indication of the regard that the bank and its employees command in the marketplace. We have seen that whenever in the past we have lost people and those have, again, at middle and senior levels never been large in number. We have very easily been able to fill in those shoes from existing people that we have. So I think we have a very strong bench strength and sometimes a few people moving on just creates opportunities for others. So I don't think -- while we would certainly look to retain our good talent, I don't think that by itself causes a huge difference in either attrition or potentially therefore the wage bill.

We of course continue to recruit in any case, so we have a pipeline of people who come in, in case there's attrition, which is heightened at junior levels. If you look at the wage increase [specifically], it's been a combination of the new employees that we've added on and of course the high-single digit wage inflation that we've seen this year so far.

On the second point which you made in terms of --

MB Mahesh - *Kotak Securities - Analyst*

The loan origination side and using -- there is a fair bit of change in the way we seem to be kind of using the online platforms to search for the best deals in the market.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

So we will use all platforms, our own, third-party, physical, online, because the reality of course is that you will actually have the ability to pull in customers across multiple channels. We actually still believe that a large part of our origination is not really dependent on a third-party channel, whether it's a third-party online channel or a third-party physical channel, let's say like dealerships or DSS. But if that is the way the market is going for a segment of the market, we just have to be realistic about ensuring that some of those come through, so that's something which we are happy to do.

We still keep a good close tab on our cost of origination. So, we are very conscious of the -- of the fact that various channels will have different costs and we are willing to sort of run with that. In any case, remember, if we are a market leader in most of these products, our rate apart, we would be an attractive lender to most potential borrowers. So I think that's something which we are happy to live with.

As far as the last question on the card thing, these are individual negotiated deals. So, in some cases, there would be portion that we would -- that would be part of our marketing spends, in some cases these are funded by the merchants, so it's difficult to generalize across the board, but whatever is on marketing spend comes through as our marketing expense.

Sashi Jagdishan - *HDFC Bank Limited - CFO*

Yes, it goes through the P&L during that very month. And the credits normally appear at the end of the month in the cards statement, the cash backs.

Operator

[Chetan Sheikh], Individual Investor.

Chetan Sheikh

I just wanted to like to have your views on the disruptive technology which is happening in the finance space and the banking space. How do you feel it will impact our business model, mainly through the margins and the cost? And basically the number of digital transactions through digital wallets have actually crossed debit card and credit card numbers, peer to peer lending also has been increasing in a galloping space. Do you think the cost of transaction through the branch level versus the ATM level, versus the Internet level and versus the mobile banking level, how does it impact the cost and what do you feel -- the business model can basically change over the period of next [few] to longer-term period as far as this things happening?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

So I think there's no doubt that newer technologies will change the way that banks are doing, and more importantly, how banking is done from the customer's point of view as well. In many ways, if you look at the last 20 years and you look at how transactions have moved from physical branch channel to ATMs, to net banking and mobile banking, at that point of time, one would have thought of these as disruptive and I think the technologies which are now being adopted will equally be, to that extent, disruptive. But disruptive for those players who are not willing to embrace that change. Our view is that if somebody is going to be disruptive of the businesses that we are doing, it would be us. I mean we are happy to, in some ways, disrupt some part of our businesses, because inevitably the customers will be looking for greater convenience on shifting to transactions on the mobile, doing more transactions electronically and as long as we are at the forefront of this change, we believe that there will always be opportunities for us to get more customers in, increase our share of the customer's wallet and to reduce costs. But if there are some systemic changes, which actually reduce the cost of doing certain transactions, then that is inevitably something which changes the P&L potential for some of these products for the market and we have to be part of that.

At this point of time, in fact, we will look at the entire suite of digital and disruptive technologies as an opportunity. We have also -- if you look at the wallet, if you look at the transactions which are going through many of the other channels, we're certainly one of the leaders there, so I think we'll be happy to look at this as an opportunity.

Chetan Sheikh

But this type of thing, it's like mainly winner takes it all basically. So, the new avenues which are opening up, it's good that we're embracing change and we are trying to move ahead in this space, but if we are lagging behind then it may definitely impact us in a big way. What do you think the impact on our business model as far as spreads and the cost are concerned, do you feel?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

I think it's too premature to figure out, because most players who are today trying to get different types of transactions adopted by customers; one, most of them don't really have a large customer base which -- where you have a good idea of the profit potential of those customers. So, I think from a cost perspective, it's easier to try and gauge where the cost savings potentially could come through, because of the nature of processing a transaction. I mean everybody knows the cost of a transaction in a branch vis-a-vis an ATM, vis-a-vis on net banking and vis-a-vis one of the mobile apps, but when you look at the revenue potential for some of these, ultimately the banks have revenues linked to the deposit relationships, other than just the transactional flows which most of these technologies are trying to target.

So I think it will be tough for me to, in this sort of a call, to try and address what it does to the business model or the P&L. All I can say is that, you know, we understand that this is something which we need to closely watch. We're not trying to be complacent or ignore what could well be the elephant in the room.

Chetan Sheikh

Yes, because see we are seeing the banking acting as a middle agent, like we are seeing in developed countries like peer to peer lending and especially in our country also it has been increasing. Companies like Lending Club, over there in the US have a market cap of $8.5 billion and we see that this concept is also catching up over here, although credit scores and credit profiles are not yet geared up to meet those sorts of things. So do you think this type of things can actually catch up with our country?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

I'm sure they can pick up, but I think many of these players, when you're referring to the market cap, I would love to see also what the P&L of these players are. So ultimately we're looking at -- when you said what it does to the business model of banks and the impact on the P&L, all I'm saying is that are these opportunities or are these potential growth areas for different types of players, the answer is yes. What it does to distort the P&L of banks, that part is a little more difficult to predict at this point of time.

Chetan Sheikh

So you think that we are gearing up for all this type of opportunities, which -- or we'll be taking up as challenges over here?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

We would certainly be trying to do that.

Operator

Nishit Rathi, CWC Advisors.

Nishit Rathi - *CWC Advisors - Analyst*

It's great to hear that HDFC Bank wants to disrupt its own model, but sir, would love to get your point, how should we track your digital journey, what's the best way to track it, if you could through some data points and maybe some goals and objectives that you said, something like how many downloads in terms of PayZapp, Chillr, what are the number of vendors you have out there and maybe some kind of data points out there would be very, very helpful?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Well, I'm sure some of these parameters, at some point of time, I mean as of now lot of these are not in the public domain. So I think it'll be difficult for you to track. But I think ultimately, we're not in the game of only downloads or eyeballs and all of those things, right. I think we -- ultimately what you should be judging us by is that in the products that we are delivering through the digital channels, are we seeing heightened origination over a period of time that should reflect in -- because let's say you are looking at our personal loan or credit card or some business that we are also delivering through the digital channel, you would be indifferent whether we see higher growth from the physical or digital channels, but reality is if you believe the market is moving towards digital and if you are still increasing our momentum in terms of origination, chances are we are doing okay on the new channels as well.

Similarly, when from a cost perspective, I think we do believe there are -- if we were to increase our share of digital over a period of time, we should be able to improve our cost structures. So if nothing else, if there was no operating parameters at a detailed level available, you should still be able to see this ultimately in our delivery of revenue growth, and improvements in the cost-to-income ratio. But some of these parameters, if along the way we believe they have reached a threshold where we are willing to sort of put in the public domain, we will do that across the board. Right now, these are initial initiatives and we haven't put any of these in the public domain.

Operator

Nilanjan Karfa, Jefferies.

Nilanjan Karfa - *Jefferies - Analyst*

Hi Paresh, quick position the on home loan, this is a very intriguing the way we have grown the home loan segment last three quarters. Could you just elaborate qualitatively, how much is -- how much of it is driven by -- obviously, profitability from the capital angle is one, which is the lower risk way, but from the competitive angle, because home loans are long-term loans and you get quite a lot of -- you we can build a lot of float over a long period of time and given how government-owned banks, assuming that they come back into the segment and that probably creates a long big competitive angle for you.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

So I think there are two parts to this. One is as a product, have we been happy to drive sales of home loan sales in our customer base, absolutely. I mean it's a product that is a high involvement product for our customers. So to the extent that our customers have a need for home loans, we're happy to -- we've always been happy to get those loans out. The real change in the momentum, which you are seeing, which you're talking about in the last two, three quarters is the home loans -- the level of home loans that has come on to our books. And there it's something which I referred to in one of the -- in response to one of the earlier questions, is our taking a higher proportion of our origination back on our books. So if you look at the last few years, we were taking roughly between 40% to 50% of the home loan origination on our books and that was primarily those home loans which qualified for private sector.

Of late, we've been -- in the last couple of quarters, we've actually been taking almost everything that we are eligible to take on our books, which is roughly 70% of what we have originated. So there would have been some pickup in origination, but also the fact that we are now taking a higher proportion of what we were originating, back on our books. Apart from the risk weights, which of course have changed very recently, so I think that could not have yet reflected in terms of heightened appetite on our books. The fact that we -- certainly when we compare the home loan to some of the other marginal assets in the corporate side, especially when you look at market instruments like CPs, we find that it's a worthwhile asset to take on our books. You also have the advantage of being able to fund those, apart from regular deposits, through the bonds, which you can use to fund the affordable housing portfolio. So there are reasons why we've decided to take on a higher proportion of the home loans on our books and that is what's resulting in roughly 51% year-on-year growth in the -- oh sorry -- not 51%, 45% growth in the loan book in our portfolio.

Nilanjan Karfa - *Jefferies - Analyst*

Quickly a second question. If I remember last quarter there was a movement in the savings account because of some government balances, if I am not mistaken. Could you elaborate how are those portions of the savings account moving?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

I don't think -- maybe -- I don't remember specifically any meaningful impact of that. So I don't have any comment of that.

Nilanjan Karfa - *Jefferies - Analyst*

Okay. No, because Q1, I think the incremental period end to period end, the growth was hardly like INR20 crores, INR25 crores on savings balances. Cannot be that small right, unless there were some one-off?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

You're talking about -- I didn't get you. You are talking about --

Nilanjan Karfa - *Jefferies - Analyst*

Savings account.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Savings account's growth from -- sequentially?

Nilanjan Karfa - *Jefferies - Analyst*

Yes.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

No. You are talking about March to June or you're talking about --

Nilanjan Karfa - *Jefferies - Analyst*

Yes, March to June.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

March to June. Okay. I don't have any color on any particular segment of savings accounts right now. But right now, if you look at the June to September, apart from the year-on-year growth being 17%, 18%, this June to September growth rate has been about 5% sequentially. So whether there was an impact of a particular segment in June, certainly in the June to September quarter it seems to have normalized, because the sequential growth has been about 5.3%.

Operator

[Sanket Chheda], SBICAP Securities.

Sanket Chheda - *SBICAP Securities - Analyst*

Just wanted to know what percentage of your loan book is on floating?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

It's approximately 30%.

Sanket Chheda - *SBICAP Securities - Analyst*

And sir, you told that in retail fees third-party forms the highest proportion, right?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Well it's one of the top three, four products which are roughly equal and that varies from quarter-to-quarter, but it is one of the three, four important products.

Sanket Chheda - *SBICAP Securities - Analyst*

And the earlier question you said that it forms 10% to 15% of the retail fees --

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Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Yes, because there are 9 or 10 products which contribute to our fees in the retail side. So the top three or four are all in the -- roughly in the same range.

Operator

Shaila Banthia, Credit Suisse.

Shaila Banthia - *Credit Suisse - Analyst*

My question is regarding the new RBI proposal on base rate calculation. So could you -- you just said that 30% of your loans are floating rate. So can you just throw some color on the way you're calculating your cost of funds presently and what's your take -- or how do you see the new rules impacting your NIM?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Well, this is of course still in a draft phase, so we don't know what the final structure will be. But there are broadly two or three elements. I mean one is that the RBI would want it to move to a marginal deposit rate in the calculation. That is something which we are already doing. Then of course there are specific details relating to that in terms of the last deposit and those kinds of issues, which are not exactly what we are doing right now. But conceptually we're on a -- right now we are on a marginal deposit cost structure. You can't sort of look at any one of these changes in isolation. So I think depending on what the final guidelines would be, we would all have to obviously tweak our models to achieve that. But right now I think because we are one of the -- probably one of the few banks who are in the marginal deposit thing, I think our sensitivity to deposit rate changes translating to base rate changes is that much higher. Then of course the fact that we have a relatively shorter duration loan book means that there is a fairly well matched deposit and loan profile, which is what -- there can always be a lead and lag of a few months, but thereafter helps us mean revert within a range in terms of NIMs.

Operator

[Jhanvi Goradia], Motilal Oswal Securities.

Jhanvi Goradia - *Motilal Oswal Securities - Analyst*

My question is on NPAs. In absolute terms the NPAs have risen by only 14-odd-percent, but the provisioning has gone up significantly. What is the reason for the same?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

So if you look at the provisions, as I mentioned in the opening remarks, there are obviously two or three elements to that provisioning. So if you look at the larger increase that has come from the general provisions which have gone up by about INR80 odd crores from about INR50 odd crores to INR130 odd crores, which is reflective of the pace at which our loan book has increased. Because these are general provision for standard assets. You then have an increase in provisions which has been caused by the floating provisions of INR50 crores that we have made, which are not linked to any asset quality issues. It's just on account cyclical basis based on a floating provision policy that the bank has. We've made INR50 crores of provisions. In the September 2014 quarter which is the corresponding quarter of the last year, we had not made any provisions. In fact we had utilized INR30 crores of provisions.

So then when you look at the specific provisions, there the increase is not that much, because clearly the actual NPAs have not increased too much and therefore the only difference would have been that we've maintained a certain coverage ratio on specific provisions and to the extent that last year some part of the specific provisions could have been met by floating, by utilization of floating that could have been the reduction.

So overall, the increase in provisions has more to do with the increase in general provisions for standard assets and floating provisions.

Operator

Sanjay Barik, Reliance Mutual Fund.

Sanjay Barik - *Reliance Mutual Fund - Analyst*

Great set of results. Just on this movement of loan book to CP and CD in short-term market, what percentage of our book would be today in that short-tem CP, CD market.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

So, of course, the loan book increase is independent right. I mean obviously we've not included the -- any of the other specimens in that. If you look at our investments, our overall investments have gone up by -- from about a INR115,000 to about a INR170,000 crores. And about 30% of that increase -- or 30%, 40% of that increase would be short-term debt instruments, including commercial paper and so on. We'd also had some investments which have gone up on the SLR side and some maybe small amounts of mutual fund investments. But if you look at the short-term corporate debt type instruments, it would probably be maybe around a third of the increase.

Sanjay Barik - *Reliance Mutual Fund - Analyst*

So I mean had this not happened, our loan growth could have been -- can we say could have been around 3%, 4% more? Just a hypothetical thing of -- just a --

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Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Let me put this way. If we look at it a system level, it's easier to say that if there had not been this couple of lakh crore or whatever the increase in commercial paper is for this system, some part of that or a large part of that would have come back to the banking system. I mean you look at the individual bank like us, if we had not invested in that commercial paper, to believe that that same customer would have taken a loan from us is unrealistic, right. Because the customer want to borrow through CP, he would still go and do that from whichever player, including maybe the mutual funds, who would fund that. So I think all we are saying is if our customers have a need for funding, to the extent that they would look to access the markets, they will do that. The choice is then ours, whether we would want to invest some part or take some part of that on our books, or just let that pass.

Operator

Rakesh Kumar, Elara Capital.

Rakesh Kumar - *Elara Capital - Analyst*

So just like -- I had a similar query on the impact of the RBI or the base rate guideline, so like what is the anticipation we have roughly that in what format is going to come?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

I mean, you have these sort of draft guidelines there, I'm sure that was the intention. I mean the fact that different banks would have given their suggestions and so on, what final shape the guidelines take is impossible for us to try and predict and speculate on that. The only point I can make is that of the various elements there are some elements that we are already -- which are already part of our algorithm, and some of which are not. So there will be some change which would be driven by the final guidelines, but at least the change is not as large as it would have been if it was a move from average deposit cost to marginal deposit. I think that element we already have, but there will be still some tweaking which will be required based on what it finally come to. I have no clue what the final shape of those guidelines will be.

Rakesh Kumar - *Elara Capital - Analyst*

So, is there like one thing that -- on the Board approved ROE thing, so can you elaborate on that? We don't have enough clarity on that front, like how would -- that could differ from a bank-to-bank and they cannot -- would it be based on a historical number for the bank per se, -- or if the Bank is approving higher number of ROE, so would that mean that they can still hold the base rate on the higher level, even in the case the funding cost on the marginal level is coming down?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

You must remember that some these elements will not -- I don't think any regulator would want to go down to the level of prescribing individual components in terms of how they should be assumed or factored in. But what is important is that the bank, once it has adopted any one of these numbers or assumptions into its model, you can't change it from time-to-time. So whatever the unallocated cost or the ROEs, or the registry rates and so on, whatever are the components which come in, once those are factored in, the regulations don't allow you to change the model from time-to-time. I think it's allowed once in three years or five years or whatever it is and therefore that is something which is in short. But will there be variations in these from bank-to-bank, I am sure there will be.

Operator

[Hiral Desai, Honeywell] Portfolio Management.

Hiral Desai

I had a question on the personal loan book, where the growth momentum seems to be extremely strong. So just wanted to understand what is driving that. And this is a phenomenon that we've seen in across private banks and a lot of NBFCs. So I just wanted to get your sense on that.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

So for starters, personal loans had been for us a product that we've done for the last 15 years. So I'm mentioning that because some of the other banks and NBFCs have probably been relatively later entrants into this market. So we have a business that (technical difficulty). The fact that there has been a bit of a spurt in that is also linked to the fact that this is one of the products where we had -- one of the first ones where we launched our digital loan offering. We certainly have seen some incremental growth coming from that segment. That's not the only reason for this spurt. I mean, even without this, if you look at the last two or three quarters, this is a product which has seen a year-on-year growth somewhere in the 20s. Goes back to our large customer base of saving account customers, goes back to the fact that we have a large number of salary account customers. So this is a product offering that is attractive, but certainly been made a little more attractive through the digital offering.

Hiral Desai

We don't do any self employed personal loans, right?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

We do self employed and business segments as well, but the largest segment is the salary.

Hiral Desai

Overall, the unsecured piece, the asset quality remains fairly stable, because we've seen very strong growth rates both in the personal loan and the credit card portfolio.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

That is true. Of course, the expected losses that you price in and you factor in for unsecured are typically higher and which is why the yields are higher on unsecured. But through this cycle I think it is fair to say that, not just for us, but it is for most players, the unsecured portfolios have remained fairly stable and in some cases, certainly for us, and I think the fact that we have a higher proportion of these loans given to our internal customers has certainly helped that. But in many of those unsecured products they've seen more stable asset quality in this cycle than perhaps even the secure products.

Hiral Desai

Lastly, just a bookkeeping question. Out of the wholesale loans, what proportion is the emerging corporate group?

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

I don't have that breakup with me, but the largest component would be corporate. Emerging corporates would be the second largest, but we really haven't segmented that yet.

Operator

Ladies and gentlemen, that was our last question. I now hand the floor back to Mr. Sukthankar for closing comments.

Paresh Sukthankar - *HDFC Bank Limited - Deputy MD*

Well, thank you so much, everyone. I thought it's going to be an hour, but it's been almost an hour and a half, but thanks for your patience and I do hope we've been able to answer all your queries. Once again thanks for being on this call. Bye, and all the best for the festive season.

Operator

Thank you, members of the management. 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.
