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Mumbai Oct 22, 2018 (Thomson StreetEvents) -- Edited Transcript of HDFC Bank Ltd earnings conference call or presentation Saturday, October 20, 2018 at 11:30:00am GMT

* Jimmy M. Tata

Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst

Nirmal Bang Securities Pvt. Ltd., Research Division - Senior Research Analyst

* Rahul M. Jain

Ladies and gentlemen, good evening, and welcome to HDFC Bank earnings call on the financial results for the quarter and half year ended 30th September, 2018, presented by Mr. Sashi Jagdishan, Chief Financial Officer. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Jagdishan. Thank you. And over to you, sir.

Good afternoon, friends. Thank you so much for joining us on this Saturday afternoon for the results highlight for the quarter and half year ended September 30, 2018. I also have the Chief Risk Officer, Jimmy Tata, and Bhavin Lakhpatwala in the call. Of course we will be missing Paresh, but I'm sure we'll try and see whether we can make it up as efficiently and diligently as he normally does.

The bank's total income for the quarter ended September 30, 2018 at INR 28,215 crores grew by 21.2% from INR 23,276 crores for the quarter ended September 30, 2017. Net revenues for the quarter amounted to INR 15,779 crores. Net interest income for the quarter was INR 11,763 crores, registering a growth of 20.6%. The net interest margin for the quarter was 4.3%.

Other income for the quarter amounted to INR 4,015 crores. Fees and commission income constituting 82.1% of other income grew by 26.1% to reach INR 3,295 crores.

Some of the breakup of other income. Commission, INR 3,295 crores as against INR 2,614 crores, a growth of 26.1%; FX and derivatives, INR 419.8 crores as against INR 384 crores; profit and loss on investments, a loss of INR 32.8 crores as against the profit of INR 356 crores; recoveries, INR 333 crores as against INR 252 crores in September '17, a growth of 32.2%. Total other income, INR 4,015 crores as against INR 3,605 crores, a growth of 11.4%.

Operating expenses for the quarter were INR 6,299 crores, an increase of 13.7% over the corresponding quarter of the previous year. Cost-to-income ratio for the quarter ended September 30, 2018 was 39.9% as against 41.5% for the corresponding quarter ended September 30, 2017.

Total provisions were INR 1,820 crores for the current quarter as against INR 1,476 crores for the corresponding quarter of the previous year. Profit before tax for the quarter ended September 30, 2018 was 20.8% to INR 7,660 crores. Net profit for the quarter grew by 20.6% to INR 5,006 crores.

Some of the balance sheet items. The bank's balance sheet size as of September 2018 was INR 11,69,898 crores as against INR 9,33,637 crores as of September 30, 2017.

Total deposits as of September 30, 2018 amounted to INR 8,33,364 crores, an increase of 20.9% over September 30, 2017. CASA deposits grew at 18.3%, with saving deposits at INR 2,34,568, growing by 18.7%, and current accounts at INR 1,15,131 crores, growing by 17.7% over the previous year. Time deposits at INR 4,83,665 crores grew by 22.8% over previous year, resulting in CASA deposits comprising 42% of total deposits as on September 30, 2018.

Total advances as of September 30, 2018 amounted to INR 7,50,838 crores. Domestic advances grew by 24.2% over September 30, 2017. This growth was contributed by both segments of the bank's loan portfolio, with domestic loan mix being 55-45 between retail-wholesale. As for regulatory segment classification, i.e., Basel 2, domestic retail loans grew by 23.8% and wholesale loans grew by 24.7%. Overseas advances constituted to 3% of total advances.

Moving on to results for the half year ended September 30, 2018. The bank earned a total income of INR 54,582 crores as against INR 45,461 crores in the corresponding period of the previous year. Net revenues grew to INR 30,410 crores as against INR 26,245 crores. Net profit for the half year ended September 30, 2018 was up 19.4% at INR 9,607 crores over the corresponding half year ended September 30, 2017.

With regards to capital adequacy, total capital adequacy ratio as per Basel 3 guidelines stood at 17.1% as against a regulatory requirement of 11.025%, of which Tier 1 CAR was 15.6%. The bank's capital adequacy ratio has been strengthened by capital issuance during the quarter under review. You would probably recall, the bank has raised capital aggregating to INR 23,590 crores through preferential allotment, QIP and ADR routes.

As of September 30, 2018, the bank's distribution network was at 4,825 banking outlets and 13,018 ATMs across 2,718 cities. 33% of the braches continued to be in semi-urban and rural areas. The number of employees increased to 94,907 as of September 30, 2018.

On the asset quality front, gross NPAs were stable at 1.33% as against 1.33% as of June and 1.26% as on September 30, 2017. The coverage ratio -- the specific loan loss coverage ratio stood at 70%. Net NPAs were 0.4% as on September 30, 2018.

The bank has floating provisions of INR 1,451 crores as on September 30, 2018. Total provisions comprising of specific, general and floating provisions were 117% of the gross nonperforming loans as on September 30, 2018.

I just want to -- a lot of questions would have been asked -- people ask on the liquidity position. The focus on deposits have helped maintenance of the healthy liquidity coverage ratio at 118%, much above the regulatory requirement of 90%, as of September 30, 2018.

Let me pause here and we can -- I'm happy to take some questions from you all.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Mahrukh Adajania from IDFC.

Mahrukh Adajania, IDFC Securities Limited, Research Division - Director [2]

My first question is on deposit inflow. Are you of late, say, in October, seeing a lot of deposit inflows from other banks? Are you seeing good market share acquisition and including deposits? Also if you could share the number of slippages for the quarter and how the agri piece is behaving? And my third question is what will be the impact of this NBFC crunch on your loan growth? Do you see yourself acquiring a lot more loans than earlier because NBFCs' liquidity -- because there's a liquidity crunch at NBFCs? And are you also going to be doing portfolio buyouts from banks other than -- or from institutions other than HDFC?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [3]

Okay, the first part is on the deposit flows. I think we have been seeing reasonable amount of flows not just now, but even since the fourth quarter of last year. The flows continue to be pretty stable. As I just mentioned to you, I think we have a very comfortable liquidity position. So we are not bidding for high cost deposits, which is quite prevalent in the markets today, especially on the wholesale side. So the flows on the retail side continues to be pretty strong and stable. I wouldn't say that it's extraordinary. In the recent past -- probably you're hinting at whether -- because of the mutual fund redemptions whether flows are coming back into the banking system. I think it's too early to...

Mahrukh Adajania, IDFC Securities Limited, Research Division - Director [4]

Actually, from other banks, also from other banks. So people shifting from one bank to another.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [5]

See, very difficult to sort of really track that. But having said that, we -- if you really look at the industry growth of deposits, which was just reported, it's about 8% and we have grown about 21%. So obviously that should sort of reflect that there has been a bit of a market share gain there. But this is something -- not anything significant from whatever we've seen over the last 2, 3 quarters. So our strategy continues to be consistent. We have mentioned this in the past that we would like to be quite liquid even if it means that -- a bit of a drop in margins. But we will continue. We have been saying this for a long time that we will deploy or we will fund our core assets either out of deposits or long-term funds or capital. And so our focus on deposits continue to be one of our key strategy and that is what is driving the deposit growth. So that's point one. Point two is on -- what was the second question, Mahrukh?

Mahrukh Adajania, IDFC Securities Limited, Research Division - Director [6]

Slippages.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [7]

Slippages is about 1.7. Do you want the absolute number? The slippage --

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Mahrukh Adajania, IDFC Securities Limited, Research Division - Director [8]

Yes, please.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [9]

-- ratio is 1.78% annualized. The additions to the gross NPA numbers in absolute numbers is INR 3,235 crores.

Mahrukh Adajania, IDFC Securities Limited, Research Division - Director [10]

And any color on agri? I mean, is this all agri? Is there any corporate slippage?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [11]

Agri is -- as probably -- if you have heard Paresh in the past quarters, we normally have a seasonality there. During the harvest quarters, we do get a bit of a relief. September is one of that. So we -- it's only in June and December that you normally see a spike in agri. I wouldn't say that this is something -- we have seen the -- I wouldn't say that this is good, but the position continues to be under watch. The problems continue to remain the same. We are seeing the same -- the farm loan waiver impact continuing even here, but accepting that, in the quarters of September and March we should sort of see a bit of a decline because of the cash flows. That's on the agri part of it. The other part of it is on the NPAs itself. There has been a bit of a spike in the SME portion, the business banking when you compare on a year-on-year basis.

That's one which is causing a bit of a pain vis-a-vis the year-on-year. The second product which is -- some of the retail products are also seeing some amount of stress, but still well within the -- well within what we have prescribed in the product programs. We don't have anything meaningful in our corporate exposures as we speak today, either on an actual -- whether it's delinquent or whether in the watch list. So we are okay at this juncture.

Mahrukh Adajania, IDFC Securities Limited, Research Division - Director [12]

And acquisition from NBFC if any, as in will the loan growth accelerate because of the NBFC crunch?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [13]

See, it's too early for us to even -- too early for us to comment on that. We are examining. You should also understand that some of the segments that they cater to are slightly different from what we have been catering to. So we will wait and watch. We will be examining this as kind of an opportunity, but we're not going to go without having a fair amount of diligence on that.

Mahrukh Adajania, IDFC Securities Limited, Research Division - Director [14]

And portfolio buyout --

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [15]

Including that.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [16]

-- for the non-HDFC? Okay, okay.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [17]

Including that.

Operator [18]

The next question is from the line of [Anisha Khandelwal] from Edelweiss.

Unidentified Analyst, [19]

Yes, Kunal over here. So firstly, maybe given this entire current scenario, so -- obviously, you have answered most of it, but getting slightly into specific. Any of the business segments wherein we see that the competition intensity would be lower and then -- either be it on the auto loan side or be it in terms of CVs or loan against securities, we see more opportunities coming in for HDFC and how we are preparing for it. And secondly, maybe given this entire liquidity scenario and maybe some kind of an implication it could have on the real estate sector, so how are we looking at our CRE exposure of almost like INR 32,000-INR 35,000-odd crores and maybe how are you evaluating this entire real estate segment as such? And just thirdly, in terms of your stance on lending to NBFCs. So RBI has also relaxed the norm. So now how do we evaluate in terms of our own onward lending to NBFCs?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [20]

So a couple of points. Let me -- what I'll do is I'll split the question into 2. One is commenting on the competition and other part is on the real estate and -- real estate and what was the other one that you mentioned, Kunal?

Unidentified Analyst, [21]

Lending to NBFCs.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [22]

NBFC. That I'll have my colleague Jimmy sort of explain that to you. On the competition front, I think we are reasonably -- we have not seen any irrational competition in the market as such. There are pockets of exuberance I must confess, largely in -- in fact you were saying that is there an opportunity. But not really. In fact auto loans and loan against property and loan against securities, the 3 products that you mentioned, continue to be lesser than what we would like to see. Therefore, if you have seen some of the products, we did see a bit of a drop in our sequential numbers in terms of dispersals. There had been a bit of a drop there because below a certain level we are not -- we do not want to sort of compromise on our margins. As you know, we follow a risk-based pricing mechanism for each of our products. In terms of the other 2 questions and -- real estate exposure and NBFC, lending to NBFCs, let me hand it over to my colleague Jimmy Tata.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [23]

Good evening. This is Jimmy. With respect to real estate exposure, our exposure is not in a significant manner towards construction or developer finance. There is some exposure there and in well rated entities primarily. But a lot of the exposure is our LAP portfolio and also our loans against lease rentals and the discounting of lease rentals. At this point of time, we don't have any particular concern on the real estate exposure.

Unidentified Analyst, [24]

So not specific to HDFC Bank, but overall in the environment. Because of tight liquidity how we are assessing the ground situation over there and the industry-wide implication, if any?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [25]

For real estate?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [26]

Yes.

Unidentified Analyst, [27]

Yes.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [28]

We are cautious about the real estate exposure. We have always been. And our historic policies on this will probably continue. They have served us well. And we do not have a concern at this point in time. As far as the industry is concerned, we don't comment on any other specific layer or exposure.

Unidentified Analyst, [29]

Okay.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [30]

For the NBFCs, once again we have a fair appetite on NBFCs. We have a portfolio which is very well rated. Approximately 85% of our portfolio falls within our internal highest ratings. We have reviewed this as well. We have been concentrating attention on the NBFC setup for quite a while now. So personally, as a bank, we do not really have a concern on any particular name or exposure to that extent. So far as the new RBI guideline comes into question, we are already rather comfortable on the liquidity front and it would not really influence our decision to lend or otherwise in any incremental form. A decision to take exposure on any NBFC would be based on our usual credit parameters and judgment.

Operator [31]

The next question is from the line of Nilanjan Karfa from Jefferies.

Nilanjan Karfa, Jefferies LLC, Research Division - Equity Analyst [32]

Basically 2 questions. First, could you comment on how the overall cost of deposits had moved or overall cost of fund has moved during the quarter? And second is specifically on the business banking segment. I think for the last couple of quarters there's -- the sector has been enchanting. If we look at the bank's loan growth in the last quarter, that is the June quarter, it was slightly lower, then it picked up. But then you are mentioning that that sector is -- the NPLs have come from that sector a bit. So could you just give some more color, how are you looking at that segment on the NPLs? And maybe as just a third one, do you have any exposure in any of the IL&FS or its subsidiaries?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [33]

The cost of funds have been moving up for some time now. And I think when you really look at it over the last -- since the fourth quarter of this year, we have been mobilizing some amount of deposit. But on a sequential basis, the pace at which the cost is moving up has sort of come down. Even in this quarter I think because of the fact that we've been able to raise both long-term finance and capital we've not been bidding for the wholesale -- bulk deposits as well. So it's moving up, but not to the kind of a pace it was moving up in the past quarters. So I guess at some point in time I think we should be stabilizing. We are seeing a larger proportion of retail deposits coming in at the card rates that we have put up in the -- on our website. We've not changed that quite some time now. So on an -- on a daily average basis the cost has moved up, but somewhere the pace at which it's going up will start to plateau over the next couple of quarters. And just to sort of tell you on the other side the reason why we have been seeing -- if you really strip off our ex-capital, the margins are more or less stable, which means that the yields are also moving up in the same -- at the same pace. So we are all right so far and we'll be watching this pretty closely.

Nilanjan Karfa, Jefferies LLC, Research Division - Equity Analyst [34]

Sure, sure, okay. The other questions please? The business banking part?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [35]

Yes. I'll let young Jimmy Tata answer that.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [36]

Growth in business banking has been moderate at around 15% in terms of acquisitions. The growth in the NPLs has pretty much mirrored that figure. That was -- any more detail to that question?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [37]

Yes. On a year-on-year basis, you are seeing a bit of a spike, but on a -- for last 2, 3 quarters, we have been seeing it's pretty stable, Nilanjan. So that's just a base effect. I mean, we had a low base in September of last year. We did see a bit of a spike in December onwards. But I think since then, it's been pretty much flattish. So when someone was comparing on a year-on-year basis, that's where I mentioned that the last part of the NPLs are coming in from there. But otherwise, on a sequential basis, it's more or less under control.

Nilanjan Karfa, Jefferies LLC, Research Division - Equity Analyst [38]

Right. I mean, the color that I really spot is -- are you seeing actual business improvement of your customers? Are they getting more volumes? Or is it mostly price led?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [39]

Well, there is a movement of SME customers from various banks. And business acquisition is not very difficult given the large distribution we have. A large part of the business banking segment sourced from our own branch network and from our internal customers. So we have found a fair, healthy movement of customers based on the services, based on the rates we offer and based on all our product efficiencies.

Nilanjan Karfa, Jefferies LLC, Research Division - Equity Analyst [40]

Right. That's on the sourcing side. But the real performance of your SME or business banking customers, I mean, are they seeing their own profitability in those businesses improve, right? And obviously you must be relying on whatever new GST tax data is available to you. I mean, are you seeing an actual ground improvement as well?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [41]

Yes. Segments of the business banking and SME segments do show an improvement in their performance on the ground. GST data of course corroborates some of this information, but we do not solely depend -- it's not across the board and we don't solely depend on that either.

Nilanjan Karfa, Jefferies LLC, Research Division - Equity Analyst [42]

Okay. And anything on IL&FS at all?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [43]

So Nilanjan, as normal we don't comment on individual exposures one way or the other. You've been listening to us for long enough to know that.

Nilanjan Karfa, Jefferies LLC, Research Division - Equity Analyst [44]

No, but is it 0 or is there something and you don't -- there -- out there?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [45]

We don't disclose -- we don't discuss individual customer exposures one way or the other.

Operator [46]

The next question is from the line of Manish Ostwal from Nirmal Bang Securities.

Manish Ostwal, Nirmal Bang Securities Pvt. Ltd., Research Division - Senior Research Analyst [47]

My first question on the fee income growth, which we have reported 26% during the quarter. So what are the drivers of this fee income? The major growth is coming from retail operations or the corporate also contributing? And what is our outlook on such a high growth in second half and the next couple of years, whether this kind of growth rate we can maintain?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [48]

Number one, the key driver of the fee growth is primarily the payment business, that's the credit cards issuance and the acquiring businesses. We have seen a fairly healthy growth in spend whether it's credit cards, the debit cards or even the acquiring transaction volumes as well. The -- so that is driving -- I mean, the rate of growth is anywhere between 30% and 40% and that's driving a fair amount of growth there. Also what we have seen is with now stabilization of the spread between the acquiring and the interchange, we are seeing better spreads in that particular business, so -- which is also lifting the growth in the net income in the acquiring business, so it's lifting the net income there. The second driver is on the insurance front. I think now, as you know, we have an open architecture. We have tie up with some insurance companies. On the life side, we have 3 insurance companies. All of them are contributing to a bit of a growth. However, offset by a drop in the mutual fund distribution. Retail asset disbursals continue to be reasonably healthy. And the fourth one is on the cash management business (inaudible) is also driving a bit of our growth here. In terms of sustainability in the future, as I mentioned, we normally don't give guidance as to what it is. Some of them are -- could have a base effect. In this quarter, the life, this year probably you will have -- because 2 new companies -- or 9 minus 2, 7 new companies are driving businesses in the year, you probably will have a base effect coming in for the year '19-'20, for, yes, '19-'20. So on a sustainable basis, which we have been maintaining, we are -- the fee growth should be more or less in line with the transaction growth in the -- in our ecosystem, which has been around the 13% to 15%. And that's what we have been seeing if you adjust for all the extraordinary one-offs that has happened over the last couple of years. 13% to 15% is a reasonable amount of growth that one can expect.

Manish Ostwal, Nirmal Bang Securities Pvt. Ltd., Research Division - Senior Research Analyst [49]

Okay. And the second question on net interest margin expansion of 10 basis point quarter-to-quarter versus the whole sector is seeing the pressure in terms of net interest margin. So what are the factors contributing to 10 basis point expansion during the quarter and whether we can sustain these margins or do you see the risk to the current levels?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [50]

See, the core margins continue to be pretty much stable. You will –- you probably will recall that during the quarter we raised this capital. So the spurt in margins on a sequential basis is primarily on account of capital. So ex-capital we're pretty much stable. Yes, the cost of funds has moved up ex-capital, but so has our yield. So if you really look at on an apple-to-apple basis, between June and September quarter we've been more or less stable on the core margins.

Operator [51]

The next question is from the line of Nishant Shah from Macquarie.

Nishant Shah, Macquarie Research - Research Analyst [52]

Just one very quick question on this new tie up with Google. It's been reported in the media some time ago that you've entered into a partnership for digital loans. So any qualitative comment about this business, like what's the target, how big are you seeing this opportunity?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [53]

So we are tying-up with lot more, not just Google, a lot more platform players. It's too early for us to even comment on how this will pan out. But that's one of our key strategies to have a lot of tie-ups using our API platforms. So this is just a start of that. As we go along -- so the objective of having these kind of tie-ups is to increase our distribution coverage and also sort of provide our products and services on platforms of other large platform players. So too early, but we will keep you updated as and when this becomes a significant portion of our distribution.

Operator [54]

The next question is from the line of Hiral Desai from Anived PMS.

Hiral Desai, [55]

I had a couple of questions. One was on the Supreme Court judgment on Aadhar, the fact that private companies cannot use the Aadhar data anymore. So just wanted to understand will it affect the customer on-boarding on the rural or the semi-urban side, because in January what we've understood is there's been significant benefit both in terms of cost as well as time that the industry as in general got out of this? The second part is, post this judgment, for what all purposes can a private financial institution like us use the Aadhar?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [56]

So Anived, you have to sort of – yes, there has been a judgment, but also, as you know, we are governed by the regulator, which is RBI. The Master Directions of RBI continue to be still in vogue. So the – and if you really look at the -- kind of the different part of the judgment whether it's on Section 7 or 8 and 57, if you read that together and also with RBI extant guidelines of Master Directions, then if a customer voluntarily submits the Aadhar with consent, banks can use Aadhar. Nevertheless, having said that, we are in touch with RBI. I believe they will be coming out with more clarifications shortly. So for the time being that's what we have decided. We have taken a fair amount of opinions from counsels. So they've advised us that you can continue to take Aadhar provided the customer voluntarily with consent gives it to you. So that's what we are doing at the moment. Hopefully, we'll receive better clarifications from the regulator shortly.

Hiral Desai, [57]

Currently, we are not using Aadhar or are we continuing to use the Aadhar as well as the biometrics?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [58]

We are using both. If you really look at it -- if you see the guidelines in RBI, the RBI guidelines for Aadhar talks about eKYC use. And while -- we also have other ID proofs, whether it's the 6 ID proofs other than Aadhar. We are -- so we have given the option to the customer to either give any of the other 6 IDs. If he chooses to give Aadhar, we do use eKYC for the time being. So this is the opinion that we have taken and this probably will change once we get more clarity from RBI.

Hiral Desai, [59]

Shashi, the second question that I had was on the risk that the bank has undertaken and I wanted to highlight 2 data points from the FY' 18 [IBL] report. So if I look at the share of exposure, then the risk weight is greater than 100%. That number used to be 23% in FY' 15. That number has moved to about 36% in FY' 18. And the credit RWA to the total exposure ratio has moved from 77% to 83%. And if I tie that up with the fact that GNPAs currently are at a multiyear high, you think there is some stress in the asset quality, just to break up that 18%-20% kind of growth that we've historically seen?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [60]

Frankly, if you really see the way we've been doing business for quite some time, we have not sort of dramatically changed our credit policy or our programs over the years. Surely we are -- even as we go down to the rural and semi-urban geographies, you have programs which are not too different from what we offer in the urban and urban centers as well. Having said that, we also do a lot of experiments. Multiple experiments are in progress and -- whether it's in urban centers, whether it's in the different income brackets or in different geographies. So frankly, while some of the ratios or metrics you've just mentioned may sound a bit alarming, but I can assure you -- and Jimmy is also here -- we have not sort of changed our programs or our policies to get into this kind of a growth trajectory.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [61]

Can I add to that?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [62]

Yes, yes.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [63]

Policies and programs typically do not change with diversification into rural geography. Once we do diversify, we actually experiment and pilot in various places. And in fact filters are placed that would perhaps make that sourcing a little more cautious. Further, we do have the ability to choose well in these areas because they are relatively under banked. All this said and done, we do not see a disturbance in terms of the portfolio quality through penetration into rural areas. That said, one must also add that the similar profile of a customer in an urban and in a rural area does lend itself to a higher delinquency in a rural area, which is something we are conscious of. We try to select, we try to filter and we certainly try to price in the risk, which is also important.

Hiral Desai, [64]

And lastly if you could just share the yield of the agri book, if that's possible?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [65]

We have not put that in the public domain. Sorry about that, yes.

Operator [66]

(Operator Instructions) The next question is from the line of Harshit Toshniwal from Jefferies.

Harshit Toshniwal, Jefferies LLC, Research Division - Equity Analyst [67]

Just a couple of questions. One, can you tell me the upgrades and recoveries for the quarter?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [68]

Sure. I did mention the addition, INR 3,284 crores, upgrades are INR 660 crores, reductions are INR 2,725 crores, write-offs are INR 1,179 crores, recoveries are INR 885 crores.

Harshit Toshniwal, Jefferies LLC, Research Division - Equity Analyst [69]

Okay. And one more question, sir. Can you throw some light on the performance of HDB Financial, basically in the H2 -- H1 of the particular year, broadly how growth and asset quality has panned out?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [70]

So the growth continues to be pretty much healthy. They have grown their half year -- or the AUM growth of almost about 27%. Though there has been a bit of an increase in their borrowing cost. They don't have too much of dependence on commercial paper though. It's just about 3% commercial paper in terms of the funding. The last part of the borrowings come from sub debt, long-term debt and term loans from bank finance. The increase in borrowing cost is just the reset. Normally, they have a 40 reset on the term borrowings from banks, so that has gone up. So I think -- yes, so a large part of the fixed -- yes...

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [71]

Fixed and floating rate balance of the HDB book is very well matched, so we will not find mismatches on that count as well. Further, there is reduced dependence on LAP and SME. And asset based financing, it has been the driver of growth in recent time. So...

Harshit Toshniwal, Jefferies LLC, Research Division - Equity Analyst [72]

Okay. Real estate exposure is also something which is reducing? Or has that been broadly stable?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [73]

In HDB?

Harshit Toshniwal, Jefferies LLC, Research Division - Equity Analyst [74]

Yes, in HDB.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [75]

In HDB the real estate's exposure would primarily be centered around the LAP portfolio, which is a large part of HDB's portfolio. But of course because there are concerns on the product in general and of course due to HDB typically operating in a segment below the bank's operation segment, they have been keeping products, as I said, the asset based products instead and LAP is now a lower contributor. So the -- in that sense, yes, the relative dependence on real estate products is coming down in HDB.

Harshit Toshniwal, Jefferies LLC, Research Division - Equity Analyst [76]

Okay. And...

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [77]

And its gross -- its gross -- sorry?

Harshit Toshniwal, Jefferies LLC, Research Division - Equity Analyst [78]

Yes, sorry.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [79]

And its gross NPA levels continue to be stable. It was about 1.9% in June continuously. It's about 1.98% in September.

Harshit Toshniwal, Jefferies LLC, Research Division - Equity Analyst [80]

As on Q4 it was around 1.4%, if I'm not wrong. It was around 1.44% in FY -- 1.57% in FY' 18. It has moved to 1.98% right now.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [81]

That's right, that's right.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [82]

That's correct.

Harshit Toshniwal, Jefferies LLC, Research Division - Equity Analyst [83]

Okay. And any reason of this increase or it's more a seasonal phenomenon?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [84]

So I think this is in the normal course. I think he is in a particular segment. It's something well within what he had advised and thought.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [85]

This -- as I said, the asset finance business has received a thrust. And as you would know, the monsoon season is a low season for the asset finance business, so that could be one probable cause.

Operator [86]

(Operator Instructions) We have the next question from the line of [Gaurav] from Ambit Capital.

Unidentified Analyst, [87]

What is causing the pressure on the spread? Because NIMs would have benefited from the equity issuance, but the spreads are down 10, 15 basis point YoY. Any specific reason for that, sir?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [88]

See, YoY -- obviously, it is a couple of things. Number one, you have seen a bit of an increase in borrowing cost. But more so, as I've just alluded to some time ago, the company decided to be adequately liquid. So we have been focusing on ensuring that we have enough liquidity in our balance sheet, which is why we are -- and as a part of the ALCO strategy, we decided that we will have more than what was necessary -- more than what was required for to -- in the liquidity coverage ratio. So what that does is you have to -- you deploy in T-bills and government securities where the yields will be -- or the stress will be much lower. So this is a conscious call, which is why we started to see a bit of drop in margins in Q1. So there is an LCR impact, which will be there for some time, at least on a -- for the next 3 quarters. So this is a conscious strategy as long as we prefer more -- the funding to be far more robust, resilient and the liquidity to be adequate so that we don't have stress in terms of deployment going forward.

Unidentified Analyst, [89]

Sure, sure. Also on the NBFCP -- the exposure to NBFC, we've seen tremendous growth in the last 4, 5 years. So if I see the share of NBFCs, that has increased from 3% -- as a percentage of overall exposure from 3% to 8%. Any color on where the growth has come from? Is it consumer financiers, wholesaler lenders? Any color on the quality on NBFCs?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [90]

So the first data point that I would like to sort of correct is that the NBFC exposure as we speak is about 5.12%. That's what is the exposure percentage. Jimmy, you would like to comment on the...

Unidentified Analyst, [91]

Sir, I have included the HFC. So NBFC including the HFC is close to 8%.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [92]

I think we will ask Bhavin to verify this.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [93]

Okay, I'll verify that later, but...

Unidentified Analyst, [94]

Sure.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [95]

We don't think it is at that level. But we can verify the number and the formula with you. However, the answer to your question, yes, NBFCs has been in the market for funds. We have been lending to NBFCs based on our credit parameters. As I mentioned earlier, we are cautious about this lending, not just due to recent events, but since a long period of time. And we've always been cautious. The portfolio that we have, we have been reviewing consistently as well as recently. We don't have particular concerns on the NBFC portfolio. And as I mentioned, approximately 85% or more comes within the highest internal rating grades of HDFC Bank.

Unidentified Analyst, [96]

Right. Any color on the asset mix? Is it wholesale, is it retail, the NBFC?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [97]

The NBFC is wholesale. You mean the participating NBFCs?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [98]

Yes.

Unidentified Analyst, [99]

Yes, yes. Are they into wholesale lending or into consumer lending, the majority of it?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [100]

There is a good part in housing. There is a much smaller part in wholesale. And I would say housing and retail pretty much would be the large proportion.

Unidentified Analyst, [101]

All right, all right.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [102]

Wholesale would be smaller.

Unidentified Analyst, [103]

Wholesale will be small. And lastly, sir, what is the portion of fixed and floating -- in our [portfolio] how much is fixed and how much is floating?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [104]

Sorry, I didn't get you there. Come again?

Unidentified Analyst, [105]

In our portfolio, how much is fixed and how much is floating, mix of fixed and floating loans?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [106]

Okay. So roughly around -- it hovers between 30% and 35% of our book, total loan book is floating in nature.

Unidentified Analyst, [107]

All right. So 60% of it is fixed, 60% to 65%?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [108]

Yes, 60% to 65%, yes. 70% to -- 65% to 70% is fixed.

Unidentified Analyst, [109]

65% to 70% is fixed. Sure, sure, sure. And lastly, sir, on the unsecured book, the credit cards and personal loan, that share has gone up around 17%. Any -- I mean, any target where you want to take this book, because it's still growing faster than our overall loan book?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [110]

We do not typically target where we want to take particular books. We look at opportunities and we try to capitalize on each opportunity within our usual risk parameters. It is correct that cards and [personal] loans have been growing faster than the secured loans. Primary reason for that is that the sale of the assets which cause secured loan themselves has not kept pace as far as the demand for credit itself. So you do see an increase in personal loans and credit cards. Also there is the geographic penetration into the semi-urban and rural in both these products and that reason -- that is the reason for the increase. I would also say that these products do lend themselves to the new methods of underwriting which employ artificial intelligence much better than the asset based product soup. That could also be another engine for growth because it's a new marketing opportunity.

Operator [111]

The next question is from the line of Jai Mundhra from B&K Securities.

Jai Mundhra, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [112]

Sir, I just wanted to understand in our retail book what would be the weighted -- let's say, the tenure of this book, entire -- this 50-odd -- 5 [metros] book? If you were to -- I mean, weighted-wise what would be the contractual tenure?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [113]

Roughly, it will be -- about 18 to 24 months will be weighted average duration.

Jai Mundhra, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [114]

Sure, sir. And second and last question is on CASA, sir. For the last 4 quarters, CASA growth has been lagging overall deposit growth. So I just wanted to understand your views on that?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [115]

So I think this we have explained in the past. As you know, we had a bit of a spurt in CASA when we -- during the demonetization time. If you recall, roughly we mobilized about INR 3,000, INR 4,000 crores during that period of December '16, quarter of December '16. Now that's April sometime and sort of depleted over a long period of time, around October of 2017. So the FY '17-'18 quarters CASA was muted, the growth was muted because of the runoff of that particular demon deposits. If you adjust for that -- I think now the base effect is gone. Therefore, now you're starting to see the growth in CASA. If you see this quarter onwards, I think we've been seeing reasonably healthy growth of 17% to 18% growth in CASA. It may be lagging the total deposit because our top line, that is the assets, is growing pretty faster than that. So we have consciously stepped up our mobilization of granular retail time deposits. And so that is growing well. That is the reason why we are seeing a tad slower growth in CASA than the time deposits. But on a 4 quarter basis -- I've just explained to you why we have seen a bit subdued growth rates in CASA, which now you should start to see in the 18% to -- 15% to 20% growth that we otherwise see in core CASA, back into our growth rates.

Operator [116]

The next question is from the line of Nirmal Bari from Sameeksha Capital.

Nirmal Bari, [117]

My question is on similar lines to one of the earlier participants on the personal loan and credit card business. So how -- do we have a number on that above which personal loans and credit cards cannot be (inaudible)? That is the first thing.

And second thing on our CV, CE portfolio. What I can see in that the number has remained nearly -- the growth has not been much over the past quarter. So is it like we are still seeing extreme pricing pressure over there. And what has been the case in the past 15 days in that portfolio?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [118]

Okay, let me answer this in 2 parts because the last part of your question wasn't too clear. But the first part is -- Jimmy, you want to answer this, wherein -- on the PL...

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [119]

Yes. We have product programs and policies for every single product and that also includes personal loans and cards. We do have loan caps for each and every one of these products at a loan level as well as a portfolio level. We however would not want to disclose what these caps are. They are part of our internal credit parameters. There is also, I should say, however the ability to have an exception monitoring system where escalations can take place for higher levels, it can go even as high as the board. That said, it is very, very unusual for that to happen. But I just thought I would let you know what the process is. The second part of the question was in terms of the portfolio growth in unsecured and in cards, is that right?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [120]

Were you saying that it's slowing down? Is that what you were saying?

Nirmal Bari, [121]

No, my second question was on the CE, CV part, that is the commercial vehicle part. That growth has slowed down substantially of late. So is it like we are seeing pricing pressure over there, because of which we are taking it slow?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [122]

Not really. The growth has slowed down compared to what -- there is still, what I can see, a relatively healthy growth in the CE and CV portfolio. So slowing down from which levels? I wouldn't know which base you are considering. But there has been a reasonable growth in the CV and CE portfolios as well.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [123]

And in fact if you really look at the numbers, I think it has been pretty reasonable. I think commercial vehicle is up by about, 1 second, 22.8% and with a sequential growth of 5%.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [124]

But still is slow.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [125]

So I think -- I'm not too sure where you're getting it where it's not growing?

Nirmal Bari, [126]

Yes, I was looking at the sequential number of 5%. So that number is for the previous quarter it was higher.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [127]

Yes, there could be some amount of seasonality there, but even a 5% sequential growth, which is 20% annualized, is pretty healthy. That's what we believe. So there is nothing that we are seeing unusual about it. If -- yes, pricing is a bit stretched out here. We are not saying that it is -- but at least in the recent part we have seen the yields on commercial vehicles, especially on the fleet side, move up as well.

Operator [128]

The next question is from the line of Krishnan ASV from SBICAP Securities.

Krishnan ASV, [129]

I just wanted to inquire when you have certain sanctions that have already been made and suddenly the underlying environment begins to change, how do you react in terms of incremental disbursements supposing the tranche is now to be paid out either to -- either to a -- I mean, corporate -- housing loan customer or in your case it could be something else. I just want to understand how does the underlying -- change in the underlying environment change your ability to either re-price or ask for some other collateral or covenants when it comes to incremental disbursements?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [130]

All sanctions given by the bank are firstly time bound and that is a relatively narrow time frame. So we do keep in mind impending events when we do give sanctions. They are also caveated to a fair extent in terms of yield, in terms of security and in terms of other covenants as well. Should something untoward happen, we would definitely reconsider. We are a bank who would not like to unnecessarily withdraw a sanction, but if there was something grave, which we know the counterparty would understand as well, whether they would agree to it instantaneously or across the table or not, we would obviously make changes. We have the capacity to is what I can say.

Krishnan ASV, [131]

And is that something that you're having to resort to in this environment?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [132]

Recent past, no. In fact we have kept to our sanctions as far as I can remember. I cannot recall one that has been withdrawn, no.

Operator [133]

The next question is from the line of Manish Ostwal from Nirmal Bang.

Manish Ostwal, Nirmal Bang Securities Pvt. Ltd., Research Division - Senior Research Analyst [134]

My question on the cost-to-income ratio, so last -- so many quarters it is around 40% and -- so can we sustain these levels in terms of cost efficiency or digitals can further improve the current levels?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [135]

So, yes, we have been mentioning that our digital strategy is paying dividends. Obviously -- also the fact that our operating leverage from the rural and semi-urban and other new branches that we opened in the past is also giving us dividends. So this deduction in cost-to-earnings is a cumulative impact. Yes, there is still a lot more processes that are getting digitized. So the complete -- and even the origination on the digital platforms is something that will -- is a key strategy for us. So we normally don't give guidance as to where this will go through, but we are very confident that we will see the jaw continue to be wide between the revenue growth and the cost growth, which means that there should be a gliding path downwards on the cost-to-earnings in the -- at least in the next 2 to 3 years.

Manish Ostwal, Nirmal Bang Securities Pvt. Ltd., Research Division - Senior Research Analyst [136]

I understand that we are not disclosing exposure with respect to IL&FS, but one of our peer bank reported provision -- a specific provision against that. So do we require any additional provision for the stress do you think or that will have an impact on overall credit cost for the year? Or we don't foresee that thing to -- panning out in HDFC Bank?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [137]

You seem to be very persistent. As I said, we would also like to continue to maintain our style. We normally don't comment on any specific customer names. Having said that, I think what I can say is our portfolio continues to be pretty healthy and we don't see anything untoward happening in the near future.

Operator [138]

The next question is from the line of Sohail Halai from Antique Stock Broking.

Sohail Halai, Antique Stockbroking Ltd., Research Division - Research Analyst [139]

Sir, if I actually recollect correctly, so 3 years back we used to say that the 78%, 80% is kind of a LD ratio, a loan-to-deposit ratio, that should be looked as optimum. So what has changed now in terms of basically your funding strategy that the loan-to-deposit ratio is now hovering around 88%, 90%? How do we read into it?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [140]

Yes. Sohail, if you really look at it, we have been -- we have mentioned this in the past that the RBI's [overall] policy is to keep a square liquidity in the system. And if you see in the recent past, they used to have a huge surplus in the banking system, which in the last couple of quarters or even more than that has been pretty much square. There's hardly anything left for -- and you look at the RBI in that sense. So liquidity is something that we saw that early, and right from June of 2017 onwards, our strategy has been to diversify our funding. We have been resorting to long-term refinance from financial institutions. We had been resorting to long-term bonds, including some perpetual debts or infra bonds and some Masala bonds as well. We are also -- and that's one of the reasons we preponed our capital raising as well, which happened in July or -- yes, July-August of this year. So when you look at it, while traditionally credit deposit ratio was one of the key metrics for lot of you -- lot of your people, considering the environment, I think we need to look at it differently. We have always been maintaining that we are -- we fund our core assets out of deposits, out of capital and out of long-term finance. So when you take the long-term borrowings or the cash management growth that is there in other liabilities or the capital, I think your CD ratio or whatever -- the adjusted CD ratio will be approximately about 70-odd percent. So that's the way to look at it. We are pretty much comfortable. And when you supplement that or complement that with the -- on the other side in terms of liquidity with a coverage ratio of 118% as of September, I think we're adequately well capitalized and well funded.

Sohail Halai, Antique Stockbroking Ltd., Research Division - Research Analyst [141]

Okay. And do we use overseas borrowings as well to fund the domestic growth? And if so, like how long the tenure of that would be?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [142]

No, no, our overseas borrowings are normally for our overseas book only. In fact that's pretty much well matched in the overseas book. Having said that, we do have short-term swaps that we do on an overnight basis for short-term liquidity management. But that's a very small, small proportion of our book.

Sohail Halai, Antique Stockbroking Ltd., Research Division - Research Analyst [143]

Okay. And finally, in terms of the OpEx growth. So OpEx growth which has been trending down has started moving up again. So I'm not referring to the cost-to-income, but in terms of cost growth have you seen the bottom and we expect the growth to be around 15%-18% going forward?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [144]

Sohail, the first part is, number one, our top line has been pretty much growing quite healthy around the 18% to 20% for some time now. Ultimately, we are a retail bank, a large part of our book is in retail loans, small ticket loans, whether it's cards, 2 wheelers or the loan -- PL, unlike the large wholesale book. So you need a fair amount of people to -- you will have to -- even though you may have digitized certain processes, but there is a finite capacity to this entire growth. So it is kept functioned. So you continue to add investments in people, in the infrastructure in terms of our systems to maintain this running engine. So these are necessary investments which we will continue to do. If you have sort of read the -- if you have sort of studied cost function, you will have a bit of a spike in terms of whenever we invest. As you've probably seen our numbers, we have added almost about -- our staff number is now 94,000 people, which is about 8,000 vis-a-vis the previous quarter -- or vis-a-vis the corresponding quarter of last year. So we will be adding people. But the pace at which we add people or the pace at which the cost will grow will be much lower than the revenue growth. But there will be times like in the cost -- the step function that you will have points wherein you will have to build capacities. We are -- just to -- let me tell you where all we are trying to add capacities. Number one is we are intensifying our sales process on branch -- in our branch distribution. We probably have mentioned that virtual relationship management program is a very key program, a key strategy for us. We are adding people there. As you know, a large part of our revenues come from managed programs, so we are now doubling our book in that particular space. So you will start to see the benefits accruing over the next 2, 3 years on that front. Our retail asset portfolio has been pretty much growing very steadily, so that's where the addition to people has been. It includes not only on the frontline staff, but also at the backend, including credit and operations as well. So these are the areas where we are adding people and investments, whether it's technology, whether it's human resources. So you will see cost growing, but the pace at which it will grow will be much lower than the revenue growth.

Operator [145]

The next question is from the line of Rahul Jain from Goldman Sachs.

Rahul M. Jain, Goldman Sachs Group Inc., Research Division - Executive Director [146]

Just one question. Given the way things are playing out in the markets, liquidity as well as consumer [confidence] quality, at what stage would you guys relook at your credit program, start tightening the credit schemes and in which segments do you think you guys would need to perhaps tighten the scheme? That's it from my side.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [147]

We look at every credit program continuously online throughout the year. We are tweaking at a district level, at a product level, at a niche level, at a future level, all the time. So I wouldn't say that recent events would make us -- make any changes, nor would we look at any further deterioration in any particular circumstance to make such changes. We are doing it all the time.

Rahul M. Jain, Goldman Sachs Group Inc., Research Division - Executive Director [148]

Thanks. No, my question actually was more to do with given the fact that the liquidity concerns in NBFCs [squeeze] if they were to prolong and if that spills over to the real economy, i.e., for example, real estate, clearly I think some of the other segments might also have been impacted because of a risk in business banking. And I think to Sashi's earlier point, we did see some deterioration in business banking. Now without extrapolating that particular (inaudible)...

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [149]

It's not sequential.

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [150]

Yes, please carry on. Finish your question.

Rahul M. Jain, Goldman Sachs Group Inc., Research Division - Executive Director [151]

Yes. So with that regard, I was just wondering are you particularly looking at any particular milestones or you're fine with the way GDP is growing or the macro is turning out? Or you'll just take a call as the situation evolves going forward?

Jimmy M. Tata, HDFC Bank Limited - Chief Risk Officer [152]

If you are speaking of business banking and wholesale, the call would be much more micro than macro to that extent, because there is an individual assessment, there is also the concept of relationship management for ongoing monitoring of each of these cases. So we had been tightening our early warning systems over a reasonable length of time now and we do continue to assess based on the environment and the perceived environment as far as we can see. So I again would not in a wholesale or business banking environment say we have thresholds where we would apply particular tightening or particular policies. These are individually assessed products and individually assessed cases.

Operator [153]

The next question is from the line of Seshadri Sen from Alchemy Capital.

Seshadri Sen, [154]

This one is on your mutual fund distribution income. Two things. One is the recent change in SEBI guidelines on front-end versus trail. Does that impact the way you charge and would that sort of impact fee income in the second half? And secondly, a more generic question on the -- on new trends of some startups starting to distribute direct business on a transaction fee basis. Do you think that over the longer term that disrupts your model of distributing mutual funds and that could impact your income from that line over the next 2, 3 years?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [155]

Sesh, on -- let me take the second question first. I mean, this -- people going directly to -- on the mutual fund, yes, this has been there for quite some time. But having said that, we are also sort of trying up with a lot of these fintechs and trying to see whether we can route transactions. So this is something that we are suo moto sort of trying to accept that there could be a potential disruption. It may not be now. It may not be in 3 years. Maybe in 5, 7 years later. But we are gearing up for that as well. So if you see, whether the HSL platform or the bank's platforms, and this is something that will be visible as we move on to new mobile banking platform, you will -- the customers will be able to directly sort of get on to the mutual fund platforms even through our site. We are cognizant of that, but are not too sure -- I mean, this particular question we have been hearing this for some time. So as of now that is -- that's not been there. But having said that, when you look at the composition of mutual fund distribution income as a percentage of the total retail fee income, it's still a very small number. We don't have -- it's not a big number. This is something that I'm sure -- we have -- just our distribution reach of other products and the fact that you're seeing strong growth in our core banking product itself, I think we should sort of -- like in the past sort of mitigate this potential disruption that may happen. On the first question, which is on the new guidelines of the mutual fund, especially on the trail front, you're right, I mean, that will have an impact. The trail was kind of a decent proportion of our mutual fund income. So the new policies I guess will have much less of trail as against the past. That's my reading of the new guideline. So some substance of it you may not be -- you may not see it in the near future, but probably over a 3-5 year period you will have a lesser proportion of trail fees as against new acquisition fees.

Seshadri Sen, [156]

And if I could slip in a second question. A couple of years ago you launched a virtual RM --

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Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [157]

Yes.

Seshadri Sen, [158]

-- platform. How successful has that been? Could you sort of discuss it in terms of what kind of tangible results you've seen from that?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [159]

So that's going to be a key part of our future strategy. We did a bit of an experimentation with about 1.5 million customers for fiscal FY '18. So that was -- that gave a very healthy lift in terms of revenues per customer. So that was -- so that's the model that we are now scaling up. We are now going to target about 6 million-odd customers from this program. So the capacities are in place, whether it's technology, whether it would be space, infrastructure, whether the people hiring. That's one of the key segments of people that we have invested in this over the last 12 months, which is why you have -- the staff number has moved about 94,000 people. This is going to be a key part of the strategy. So the results will start to show probably 2 to 3 years from now. The objective is if 3 million customers contribute to almost about 60% of our retail revenues, the 6 million new customers which we are now going to manage on a virtual relationship basis should contribute an equivalent amount of earnings at least 3 years from now.

Seshadri Sen, [160]

Thank you. Thank you, Sashi, and good luck for the future quarter.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [161]

Thank you.

Operator [162]

The next question is from the line of Saikiran Pulavarthi from RW Investment Advisors.

Saikiran Pulavarthi, [163]

Just from the digital strategy, we have seen far more aggression from the Amazons and the Googles of the world and the environment has been changing very rapidly. It's almost like for 3 to 4 years you guys were trying to experiment with this or trying to figure out a way in terms of getting your own share of the wallet. What are your learnings and then what are the challenges and then opportunities you foresee in this? If you can explain on this strategy, it will be helpful.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [164]

I think -- Sai, I think you may need to -- there was a lot of disturbance out here. You may have to repeat your question please.

Saikiran Pulavarthi, [165]

Hello? So I'm just trying to understand the digital strategy. Amazon and then Google and then other tech companies have been far more aggressive in terms of the gains and in trying to figure out -- trying to take their own share of the customer wallet. I believe you also have your own platform to compete with them directly or indirectly in the majority of the cases. It's almost like 3 years to 4 years of journey where you're competing with them and then trying to figure out a way. So how do you foresee this as a competitive [banking] and what are the opportunities and the challenges you are foreseeing in this kind of digital environment?

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [166]

Okay, understood. So a couple of things. Let's sort of put a SWOT analysis as to where the platform players stand and where we stand as a part of the financial services space. One is they have the customers. Two is they have customer experience which is far superior than some of the platforms that we operate in. Two is we have models. We have the financial services models which probably they don't have. Our experience is what we have edge on at this juncture vis-a-vis the others. So the key to our success is -- we do recognize that at some point in time these large players will come into the financial services space and -- which is why with 3 to 4 years of whatever, from 0 to whatever we have come thus far on the digital strategy, we need to have a user experience which is as seamless and as convenient as one would go on a Google or an Apple or Amazon platforms. So this is the first part of our strategy, which is what we had been trying to do in terms of enriching our customer experience on our platform. So we are in the -- our platforms enrichment is work-in-progress. We should be launching our new platform some time during the period of November-December. And then we Phase 2 and Phase 3 launches up to June of next year. Number two is we -- as you know, one of our successes over the last 3, 4 years has been to digitize our processes so that we can offer wow products to our customer on a one click basis. Whilst we've been reasonably successful and we've launched for our existing customers a lot of instant products like the 10 second unsecured personal loans or the 10 second virtual cards or the 10 second auto loans or 10 second 2 wheeler loans or a do your own digital loan against securities, we need -- we are sort of -- as we speak, there are a lot of experiments which we are doing to ensure whether we can do it for the open market customers as well. It means that we are not trying to go down the risk ladder. We are trying to see how leveraging on technology, leveraging on our -- the kind of integrations that we've had with platform players, we are able to offer seamless products even for external customers as well. So that's one thing that we are trying to enrich. I think at the right time, at the appropriate time we will start to measure and probably even disclose to you all. The last but not the least is whilst one can view the platform players as a kind of a threat, I think, as we did mention during the call, we consider them as partners and we have been partnering with most of them using our API layout. So we have been opening up our API so that we can have -- we can integrate with these platform players through our application and processing interface so that we expand our geography, expand our reach, expand origination of our products on their platform, which is what we call banking on the edge. So this is something that we are -- we believe is going to be a key part of our strategy. The key is how quickly can we execute all this in the shortest possible time. And I think we -- as you know, we are an execution story. So let's hope and pray that we execute it well and try and reach the levels that one does on an Amazon or an Apple or a Google from a customer or a financial experience perspective.

Operator [167]

Thank you. Ladies and gentlemen, due to time constraints that would be the last question. I now hand the conference over to Mr. Jagdhishan for closing comments. Thank you. And over to you, sir.

Sashidhar Jagdhishan, HDFC Bank Limited - CFO & Director [168]

Thank you so much for joining us on a Saturday afternoon. We hope to see you back next quarter in January of 2019. Thank you.

Operator [169]

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