Moderator: Good evening, ladies and gentleman. Thank you for standing by. Welcome to the ICICI Bank conference call. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1. I would now like to turn the conference over to the ICICI Bank management representative. Please go ahead.

Kalpana Morparia: Hi! This is Kalpana Morparia from ICICI Bank. I have my colleagues Rakesh Jha and Anindya Banerjee with me, and in a little while, our CFO, Mr. N.S. Kannan will be joining us as well, as also the head of our accounts. What I plan to do…, Mr. Venkatakrishnan has also just joined us. What I plan to do, is just take you through some of the key highlights of our performance. I believe we have e-mailed the presentation to you. So I truly hope you have received them, and received them in good shape. The key highlights for the first quarter's performance was really the very smart increase in profit after tax at 34%. This was on the back of our 24% increase in net interest income, expanding our net interest margin to 1.7 from 1.4 for all of last year. We had maintained , when we talked to you about our annual performance last year, that every quarter-on-quarter, we will see the increase happen on the net interest margin. The quarter was also characterized by a Rs. 76 crore gain on equity that we held. This is equity from the long-term portfolio of erstwhile ICICI that we inherited at the time of the merger. Very clearly, the ramp up in the steel and the textile sector enabled us to exit from some of these equity exposures that we had acquired. The net interest income growth was also driven very largely by the sustained growth in the retail portfolio, which now constitutes 35% of our customer assets, and this makes us the bank with the largest proportion of consumer assets in their portfolio. Indeed, in several ways, the largest, absolute level of retail book as well, because the only other banking entity which has a number similar to ours is State Bank of India at about Rs. 25,000 crores and we are at about Rs. 22,500 crores. The quarter also saw us move to the internationally accepted norm of 90-day income recognition or NPL recognition. Although the Reserve Bank of India wanted us to move towards this only by the end of this fiscal year, we voluntarily decided to accelerate it, and I believe, we are one of the few banks in the Indian scenario who moved towards this rule in the very first quarter itself. Despite that, we could contain our net NPL ratio at 4.9%. Another key highlight of the quarter's performance is the very smart increase in deposits. Our deposits grew by 12% in the quarter. They now constitute about 57% of overall funding for the bank. We repaid about Rs. 2,300 crores of erstwhile ICICI liabilities during the quarter. The deposit growth of 12% in the quarter has to be viewed in the backdrop of around a little over 3% growth in deposits on a system-wide basis, and we might also bear in mind that in April this year, we did have a slight problem out of some baseless rumors which had originated in Gujarat, and in this quarter, if the deposits grew by 12%, it clearly establishes the very strong retail franchise that we have built. Coming to some detailed P&L numbers, I have already talked to you about the smart increase in the net interest income. The operating income, therefore, grew from Rs. 796 crores in the first quarter of last year to about Rs. 1060 crores. The fee income also grew from Rs. 195 crores to Rs. 236 crores. We believe that we will continue the momentum in growth and fee income, although gradually, every quarter. The operating expenses number despite the very rapid growth in the retail business and despite the very rapid investment in the retail infrastructure in the form of new ATMs and refurbishment of branches, could be contained at about Rs. 463 crores, and when I talk to you about the ratio, you will see this reflected in the cost-to-income ratio as well. We totally took a net provision of Rs. 85 crores. This was on the back of a Rs. 95 crores write back that we had, and all of this when finally translated, into a profit after tax of Rs. 340 crores. In terms of some key ratios, the return on net worth for the quarter was 19.2 against 18.3 for all of last year. The earnings per share at 22 rupees, net interest margin at 1.7 as I explained, the cost of deposits at 6%, and the cost-to-income ratio came down quite significantly from close to 50% last year to about 46.9% in the current year. While cost-to-asset ratio was at 1.7 against the banking average of over 2%. I would also like to mention that the net interest margin numbers or the net interest income numbers that I had referred to earlier, is despite our following much more conservative policies on interest income, by fully charging of the direct marketing agent commission in the top line itself, we are not even amortizing it. We sought an approval from Reserve Bank of India to amortize it. If that happens, it will get reflected in the second quarter. But the first quarter results are after taking the full charge of on the direct marketing agent as also after doing the full amortization of the government bonds that we acquired at premium. Had these two items have been reflected in the way the rest of the banking system does, then the net interest margin would have been higher by about 50 basis points. So we would have probably been at 2.2. The total capital adequacy continued at over 11% with Tier-1 alone being 7%. We are continuing to be in dialogue with the Reserve Bank of India in allowing the deferred tax asset to be included as part of Tier-1 capital, consistent with international global best practices in this regard, and if that were to happen in the course of the year, then the Tier-1 will go up by 60 basis points. The consolidated profit was very similar to the profit declared by the bank, whilst we did have a very handsome contribution by ICICI Securities, our investment banking arm, to some extent that was offset by about a Rs. 26 crores loss that we had in ICICI Prudential, which as we have explained in the past, is purely a function of the accounting treatment for any growing life insurance company. The gross NPLs, there was a marginal increase from Rs. 8,400 crores to Rs. 8,600 crores. Net NPLs, in fact, there was an even smaller increase from Rs.3,150 crores to around Rs. 3,200 crores. We continued our high provision cover on NPLs, in fact, the provision cover marginally increased from 62.6% to 63%, leading to a net NPL ratio of 4.9%. The net restructured assets stood at Rs. 10,000 crores. There is very little difference really in the industry classification that we have reported. Primary one being the total exposure, you will see, has increased from Rs. 84,000 crores to Rs. 93,000 crores, this is purely on account of 100% exposure limits now applied to financial guarantees as well, but you will also see that there has really been no increase in the iron and steel exposure, in fact, that has dropped from 9.6% to 9%, and telecom has gone up primarily on account of certain performance guarantees, and now non-fund being 100%. I also want to take this opportunity of talking to you a little bit on our life insurance company, (or should I take questions?), yes, I would be actually very happy to take questions on ICICI Bank's performance now….

Moderator: Certainly, Madam.

Kalpana Morparia: You know, if you still have patience, I would like to kind of highlight a few things on ICICI Prudential Life Insurance Company and the valuation that we see of that company.

Moderator: Madam, should we start the question-answer session?

Kalpana Morparia: Yes.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your push button phone, and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the # key. We have our first participant, Mr. Jaishankar from Birla Sunlife. Please go ahead, sir.

Jaishankar: Good evening, Madam, this is Jaishankar. I would like to know the other income has grown from 459 to 643 on a comparative basis, could you elaborate on that?

Kalpana Morparia: Yes. May I just give you the break-up of the other income?

Jaishankar: Yes.

Kalpana Morparia: Do you have the presentation with you?

Jaishankar: Yes.

Kalpana Morparia: Okay, then if you just move to the detailed P&L slide, slide 4,

Jaishankar: Hmmmmm,

Kalpana Morparia: The non-interest income, which is shown at 644 crores,

Jaishankar: Okay.

Kalpana Morparia: Is broken up as follows. 236 crores fee income,

Jaishankar: Okay.

Kalpana Morparia: 261 crores treasury income,

Jaishankar: Treasury, yes, correct.

Kalpana Morparia: Of which, 76 crores is gains on sale of equity shares…..

Jaishankar: Yes Madam, you have explained well, yes.

Kalpana Morparia: Yes, and lease income of 112 crores.

Jaishankar: Thank you, Madam.

Moderator: Thank you Mr. Jaishankar for your question. We have our next participant, Mr. Sunil Garg from Fox Pitch. Please go ahead, Sir.

Sunil Garg: Ms. Morparia, Hi! This is Sunil Garg from Fox Pitch. Could you please give us the gross NPL number again, and also why the restructured number has gone up from, I understand a level of about 8,943 crores at the end of March, could you give me color on that?

Kalpana Morparia: Sure. Do you have a copy of the presentation with you?

Sunil Garg: I have not received it as yet.

Kalpana Morparia: I am sorry about that.

Sunil Garg: It is okay.

Kalpana Morparia: Let me tell you that the primary reason for the increase, okay, first let me give you the gross NPL number…

Sunil Garg: Yes.

Kalpana Morparia: It is 8,675 crores….

Sunil Garg: Okay.

Kalpana Morparia: From 8,414 crores as of 31st March.

Sunil Garg: Okay and this is 8,414 is also under the new classification….

Kalpana Morparia: 8,414 crores was under the old classification as on 31st March 2003…

Sunil Garg: Okay.

Kalpana Morparia: where we had a 180-day income recognition rule for our corporate book, whereas, 8, 675 crores is on the basis of the 90-day income recognition rule for all assets.

Sunil Garg: Okay.

Kalpana Morparia: The increase in the restructured assets, the net restructured asset number is 10,400 crores and not 10,800 crores as is wrongly shown in that slide, we are sending you a message correcting it. So you will see about a growth of about 1,500 crores…

Sunil Garg: Right, yes.

Kalpana Morparia: Almost 50% of this was accounted for by one large power company, which has had you know, a fairly bad experience on increase in tariff by the state government, and indeed when the tariffs were improved by the state government, we had to do a financial restructuring. Although the, you know, the net economic impact of that to us as a bank was very low, because we really ended up passing on a whole lot of the lower funding cost benefits that we had, it did amount for a large exposure getting classified as a restructured category. If you were to ignore that, then it would have been much smaller. The other point that we had made when we announced our results last year, that you know, one would see additions to the restructured category happening in the quarters, but one would also see deletions happening. Unfortunately, both of them do not coincide in the same quarter and certain amount of guidance, I guess, really went out to the market when we reported our US GAP numbers, because the restructuring that we had done, happened before we had done audit of our US GAP results.

Sunil Garg: Okay.

Kalpana Morparia: So, once again when people queried at for the 2,000 crores higher number on the US GAP, we had explained that it would include certain cases which will get reflected in the Indian GAP only in the first quarter.

Sunil Garg: Okay. Sorry, one question on the gross NPL figures, you gave me as of March and as of June, could you link this to the balance sheet gross NPL figure of 5,900 crores, because the 8,414 is, I understand,

Kalpana Morparia: I know. Can I just explain to you, this is the common confusion that I think every bank in the system creates, that some of them report gross NPLs as net of write off, and some others report them as gross of write off. So, just to avoid any kind of confusion like this, now we give you the gross NPL number, which is the most headline number that I just now called out to you, thereafter, we set out to the cumulative write off, so that, 5,000 crores number would have been 8,414 crores minus 2,526 crores….

Sunil Garg: Okay.

Kalpana Morparia: And when we have given you cumulative provision number leading to a net NPL number.

Sunil Garg: Sure. And what is the comparable numbers? Sorry, I do not have the balance sheet with me.

Kalpana Morparia: I tell you, the comparable number now will be 8675 minus … 6,120 crores comparable to that 5,000 odd number that you called out just now.

Sunil Garg: Okay. Thank you very much. Just can I ask one very quick question? Add on question on your operating cost?

Kalpana Morparia: Hmmm.

Sunil Garg: You mentioned that you have a 46% cost-income ratio, but your total expenses are about 594 crores and the revenue base is 1060, just trying to reconcile your calculations with mine.

Kalpana Morparia: See, the lease depreciation has to be deducted from that.

Sunil Garg: Okay, okay.

Kalpana Morparia: Again, if I can just give you the operating expense number, that number is 464 crores. 463…

Sunil Garg: Okay. Thank you. I guess, I need to look at the presentation once I get it. Thank you.

Moderator: Thank you, Mr. Garg for your questions. We have our next participant, Mr. Bryan from B&K Securities. Please go ahead, Sir.

Bryan: Good evening Ms. Morparia. I have two questions. The first is with regard to the deposits which you have raised during the quarter. You have added around 5,680+ deposits during the quarter. What proportion of these have been originated abroad in the form of NRE deposits or foreign deposits?

Kalpana Morparia: Less than 15%.

Bryan: Okay. And secondly, could you give us some idea of, you know, how have delinquencies on the retail assets behaved in the recent past?

Kalpana Morparia: Very, very similar to what we would have indicated to you by the end of last year.

Bryan: Okay. So, no material change at all.

Kalpana Morparia: No change at all.

Bryan: Okay. That is it. Thank you very much.

Moderator: Thank you, Mr. Bryan for your question. We have our next participant, Mr. Jatinder from Refco Securities. Please go ahead, sir.

Jatinder: Madam, I have a couple of questions. The first is, I want to know what was the yield on the SLR in the first quarter, the duration as of June? The second being, the investments and the liquid assets as of June 03? And can we have the cost of incremental deposits that have come in the last quarter? And ,also the yield on retail loans that have happened in the last quarter.

Kalpana Morparia: Incremental cost of, let me take your last question first. Incremental cost of deposits is 4.9%, less than 5%. Incremental yields are at minimum…. incremental yields on the retail portfolio are 11.5. Your other question was what is the yield on SLR, that is 6.4, duration is two years, and the total SLR book is about 28%.

Jatinder: Okay. Madam, I just wanted to know about total investments and the cash in hand and the balance with other banks. If I can have those absolute numbers.

Kalpana Morparia: Yes. By any chance, do you have a copy of our presentation?

Jatinder: Unfortunately, it has still not come into the mailbox as yet.

Rakesh Jha: The cash and bank balance is 68 billion.

Jatinder: Okay.

Rajesh Jha: SLR investment is 270 billion.

Jatinder: Okay. 68 and investment would be?

Rakesh Jha: SLR investment is 270….

Jatinder: Yes. And others?

Rakesh Jha: Other investment is 41 billion.

Jatinder: 41. Fine. Thank you.

Moderator: Thank you, Mr. Jatinder for your questions. We have our next participant, Ms. Mahrukh from JP Morgan. Please go ahead, Madam.

Mahrukh: Yes. Hi! I just had a few more questions on restructured loans. There is some restructuring that has happened in this quarter, that is the second quarter. You know, where probably some telecom account and some oil refinery account, would that, I mean, what sort of restructuring would that be? Were you accruing interest on those loans, that was one question, and in terms of restructured loans in the last quarter, there was probably a power account. But excluding that one off, what is the level of restructured loans that you would see by the end of the year?

Kalpana Morparia: By the end of the year, Mahrukh, we continue to maintain that you will see no absolute level of increases from last year which was around the 8,900 number. In fact, we might see that lower than the 8,900. And in terms of, you know, some of the other media speculation on what is happening in the other industries and their restructuring. As a part of the fair value exercise that we had done at the time of the merger, and the general provisioning that we had made last year when we got the extraordinary gains by selling ICICI Bank shares, we had fully factored in the impact of some of this, so we would expect that, as I, you know, answered in response to a previous question, that while quarter-on-quarter one might see increases in restructured category, one will also see deletions flow through in the year. Thus, by the end of the year, we should be at the same, if not lower than, at the beginning of the year.

Mahrukh: Thanks. Also, is it possible to get the absolute figure for NRI deposits in June and March, in June, sorry?

Kalpana Morparia: Well, 15% of the growth.

Mahrukh: 15%. Okay. Fine. Sorry.

Kalpana Morparia: It is 11% of outstanding deposits.

Mahrukh: Okay.

Kalpana Morparia: Same as the banking system.

Mahrukh: Okay. Thanks so much.

Operator: Thank you Ms. Mahrukh for your question. We have our next participant, Mr. Sandeep Dixit from Deutsche Bank. Please go ahead Mr. Dixit.

Sandeep Dixit: Ms. Morparia, my question is on your costs. One of the concerns has been the rising staff cost. Now, quarter-on-quarter the staff cost is flat, almost to the last decimal**.** Is that because of seasonality or is it because that is a trend we should look at, going forward through the year?

Kalpana Morparia: See, what has happened is that in the fourth last quarter of last year, there was Rs. 19 crores additional catch up cost in employees that we had to bear in the fourth quarter, because of under provisioning of performance bonus in the previous quarter and a gratuity catch up that we had to do. So if you just see, if you take off those one-time impacts of the fourth quarter last year….

Sandeep Dixit: Ummm, ummm.

Kalpana Morparia: Then you will see an overall increase of about 15% in the first quarter of this year which is on account of the annual increments that we have made this year.

Sandeep Dixit: Right. The other question is on restructured loans. I think Mahrukh raised this earlier. Just to sort of clarify the policy on restructured loans. There is no interest accrual being done in terms of the, or rather let me ask you, if the interest is being accrued on restructured loans at the current rates?

Kalpana Morparia: See, interest on restructured loans is at the contractual rate. So whatever is the contract entered into at the time of doing the restructuring exercise is what we will accrue.

Sandeep Dixit: Okay.

Kalpana Morparia: Accrue in this context also, Sandeep, means that the guy is actually paying me, because if he did not pay me for 90 days, it would slip into nonperforming.

Sandeep Dixit: Right, right. My last question on restructured, again. Kind of losing track of this, but most of the steel sector loans were restructured in the first quarter, if I am not mistaken, right?

Kalpana Morparia: That is correct.

Sandeep Dixit: So……

Kalpana Morparia: Last quarter of last year.

Sandeep Dixit: Oh, they were restructured in the fourth quarter?

Kalpana Morparia: Yeah.

Sandeep Dixit: Okay. Thanks a lot.

Operator: Thank you Mr. Dixit for your questions. We have our next participant, Ms. Shilpa Krishnan from Prabhudas Liladhar. Please go ahead, Mam.

Shilpa Krishnan: Hello, everybody. I just had two questions. The first one was on this Supreme Court verdict on your ability to sell assets that you have taken possession. For some reason, although the legislation is in your favour, that Supreme Court verdict seems to be illusive. I want to know what is your thinking on that, and what is your assessment on why it is being delayed so long and what is the future. My second question was on _____ I think ICICI Bank has been trying to work a breakthrough on government business and some regulatory approvals as required from RBI etc. which have again not come so far. So what is the status on that?

Kalpana Morparia: Okay. Your first question Ma'am, the Supreme Court matter is listed for expedited hearing next week. However, I would not say that that is hampering my ability to deal with non-performing loans. Even under the current position, the way it stands today, we have had situations where we have sold assets under the new law.

Shilpa Krishnan: Okay.

Kalpana Morparia: The stay applies only to those borrowers who are before the court.

Shilpa Krishnan: Okay.

Kalpana Morparia: What is also does, particular order which has come now….

Shilpa Krishnan: Yes.

Kalpana Morparia: Merely tells us that you cannot sell the assets under this new law.

Shilpa Krishnan: Okay.

Kalpana Morparia: But nothing prevents the other lenders from going ahead with sale of assets under the debt recovery proceedings that they have already initiated.

Shilpa Krishnan: Okay.

Kalpana Morparia: I suppose, you know, we are all hoping for a favourable Supreme Court decision, going forward.

Shilpa Krishnan: Yes.

Kalpana Morparia: I would not say that it is hampering my ability to resolve distressed asset, and with the coming in of the asset reconstruction company in this month itself….

Shilpa Krishnan: Yes.

Kalpana Morparia: By 30th they will be, you know, in business. We should certainly see a faster resolution of that.

Shilpa Krishnan: Okay.

Kalpana Morparia: What is the….

Shilpa Krishnan: It was on fee income.

Kalpana Morparia: The fee income, as you know, we have already increased the income from 195 crores to 230 crores in this quarter. The government approval is in a very advanced stage to do government business and, you know, we hope to get it in the next couple of months.

Shilpa Krishnan: Okay. What is the quantum of the government pie?

Kalpana Morparia: I believe it is about 15% of the overall fee pie.

Shilpa Krishnan: 15% of the overall fee pie.

Kalpana Morparia: Yeah. Okay.

Shilpa Krishnan: Thanks a lot.

Operator: Thank you, Ms. Krishnan for your questions. We have our next participant, Ms. Mahrukh from JP Morgan. Please go ahead Ma'am.

Mahrukh: Hi, again. Just wanted to check on the ARC. Have you decided the amount of assets you would be transferring in the first tranche? Is that some number you would like to disclose?

Kalpana Morparia: Mahrukh, we are in the process of working out all of that with them but either what I transfer to them or what to start with they might be doing in the form of, you know, managing assets for us. That should be in the region of about 2000 crores of gross assets.

Mahrukh: Okay. Thanks.

Operator: Thank you Ms. Mahrukh for your question. We have our next question coming up from Mr. Sunil Garg. Please go ahead Mr. Garg.

Sunil Garg: Hi, Ms. Morparia, if you could give me some indication on the write backs of 95 crores, where are these coming from and what is you expectation going forward on the write backs. Are you seeing some benefit from the foreclosure laws which have been built into these write backs.

Kalpana Morparia: The foreclosure law in terms of settlements that the borrowers are now more willing to do the, you know, the recovery that we are really seeing in some of the sectors which is translating into upgradation of assets and, in the case of equity shares also we released some provision because when we sold out the shares, we could release the provisions that we were holding against it. So I would sum it up by saying the overall improvement in the industrial climate in the country coupled with the regulatory changes that have really now enabled borrowers to come forward to do the settlement, is what is driving it.

Sunil Garg: Thank you.

Operator: Thank you Mr. Garg for your question. We have our next participant, Mr. Sandeep Dixit from Deutsche Bank. Please go ahead Mr. Dixit.

Sandeep Dixit: Hi, this is me again. Wanted to know if you can give me the break up of the interest paid on ICICI's bonds or erstwhile ICICI bonds. Last year, last quarter, if I am not mistaken, it was some 1,271 crores.

Rakesh Jha: 1,026 crores.

Sandeep Dixit: One thousand? I am sorry I didn't hear that.

Rakesh Jain: 1,026.

Sandeep Dixit: One zero two six. Hello?

Rakesh Jain: Yeah, 1,026; one, zero, two, six crores.

Sandeep Dixit: Okay. And what is the interest paid on deposits this quarter?

Rakesh Jain: 727.

Sandeep Dixit: Seven, two, seven.

Rakesh Jain: Yeah.

Sandeep Dixit: Okay. Thank you.

Operator: Thank you Mr. Dixit for your question. For any further question, participants are requested to press * and 1 on the push-button phone. We have our next participant, Mr. Jatinder from Refco. Please go ahead.

Jatinder: I am just again on your ARC, the amount of assets that would be transferred. You said it would be around 25 billion.

Kalpana Morparia: 20 billion.

Jatinder: 20 billion?

Kalpana Morparia: Yeah.

Jatinder: Fine. Would they be transferred in terms of specific value that has been assigned to it, and what would be the extent of provisions that you have on your books on these assets?

Kalpana Morparia: They would be transferred at the fair value determined by an independent valuation company, which in most cases should be **40-45%**.We believe that the provision cover that we have of over 64% on our NPA…

Jatinder: Yeah.

Kalpana Morparia: Is more than sufficient. In fact, we might end up with a write back situation.

Jatinder: Thank you.

Operator: Thank you Mr. Jatinder for your question. We have our next participant, Mr. Sampath from ABN Amro. Please go ahead, sir.

Sampath: Hi Kalpana. Couple of questions. One is, can you tell me the duration of liability, particularly deposits, duration of deposits if you have that number? And how much is high-value deposits out of this?

Kalpana Morparia: Duration of deposit should be closer to one year.

Sampath: Okay and…..

Kalpana Morparia: See, the way we classify these deposits are what are corporate deposits and what are retail deposits.

Sampath: All right.

Kalpana Morparia: The retail deposits are 60% of the overall deposits.

Sampath: All right. Also, can you give me a reconciliation of NPA movement. Basically, how much you have added during the quarter? How much is recovered and how much is upgraded?

Kalpana Morparia: I don’t have that….

Sampath: All right.

Kalpana Morparia: You have the gross and you have the net.

Sampath: Yeah. Thanks. All right, that is right, thanks.

Operator: Thank you Mr. Sampath for your question. We have our next participant, Mr. Sachin Seth from JM Morgan Stanley. Please go ahead sir.

Sachin Seth: Hi Kalpana. I just wanted to check if it is possible to share the coverage number, that is the balance sheet number in terms of both NPL coverage as well as the other fair value coverage that you have.

Kalpana Morparia: I gave you that number.

Rakesh Jain: NPA numbers, we gave you, performing assets we have about 23 billions.

Sachin Seth: 23, okay thanks. And is it also possible to share just the stand-alone plain vanilla savings and current deposit numbers without the quantum optima number?

Kalpana Morparia: 15% of the overall deposits.

Sachin Seth: Okay. Thank you.

Rakesh Jain: See, the exact number, they are, savings is 41.46 billion and current is 47.72 billion.

Sachin Seth: Okay. Thanks.

Operator: Thank you Mr. Seth for your question. We have our next participant, Ms. Tabassum from Kotak. Please go ahead ma'am.

Tabassum: Hi Kalpana, a couple of questions. Where have you included the profit on sale of loans, what would be the amount like, and how much were the loans which you have sold, and how much would be corporate and retail out of that?

Kalpana Morparia: Okay, the profit as per our past trend, because this is now a part of our normal business proposition, will get reflected in the NII.

Tabassum: Yes.

Kalpana Morparia: Profit that we have booked would be roughly about 15% of NII.

Tabassum: Hmmm, hmmm. What was it last year? Last year would be comparable number?

Kalpana Morparia: 12%.

Tabassum: 12.

Kalpana Morparia: And it is a mix of both corporate assets and retail assets with 70:30 split, 70 corporate, 30 retail.

Tabassum: Okay. Just reconfirming, the last year portion you said was 12% of NII.

Kalpana Morparia: Yeah.

Tabassum: Okay. Also Kalpana can you give us some idea about, you know, in your fee income, how much is retail and where is the, you know, what have been the main drivers of the income because year-on-year growth has been pretty good.

Kalpana Morparia: Retail is about 40% of that fee income.

Tabassum: Hmmm, hmmm.

Kalpana Morparia: The drivers of course are the typical trade finance fee where we have seen a ramp up happening, and also loan processing fee in the case of retail.

Tabassum: Okay. Just one last question from me. Can you give me some break up on your retail outstanding loan portfolio in housing, auto, and personal loan segment.

Kalpana Morparia: Sure. Housing is 48%.

Tabassum: Okay.

Kalpana Morparia: You want absolute numbers then Rakesh is ready with it.

Tabassum: No, its…Yeah if you can give either the percentage or the absolute number, that is fine.

Rakesh Jain: It is 112 billion.

Tabassum: 112. Okay.

Rakesh Jain: Auto finance is 51 billion.

Tabassum: Hmmm, hmmm.

Rakesh Jain: Commercial business is 28 billion.

Tabassum: Okay. Balance will be personal loans?

Rakesh Jain: Balance is two-wheelers, personal loans, and credit card.

Tabassum: Okay. Great. Thanks.

Operator: Thank you Ms. Tabassum for your question. We have our next participant, Mr. Pathik Gandotra from SSKI Securities. Please go ahead, sir.

Pathik Gandotra: Hi Kalpana, this is Pathik.

Kalpana Morparia: Hi Pathik.

Pathik Gandotra: I just wanted to know, on the deposits, what are current link deposits, current savings links, you understand, what is current link?

Rakesh Jain: Similar product that we offered on the current accounts.

Pathik Gandotra: Okay. So what are the average…. So do you mean to say that in effect, the cost of that deposit is zero?

Rakesh Jain: It will not be zero.

Kalpana Morparia: 0.2%, 20 basis points.

Pathik Gandotra: Is the cost of that deposit and I mean, has this been started recently because, I mean, or was this always being classified like this for the past four-five quarters?

Rakesh Jha: It was being classified this way.

Pathik Gandotra: Okay. Thanks.

Operator: Thank you Mr. Gandotra for your questions. We have our next participant, Mr. Anand Shanbhag from HSBC Securities. Please go ahead, sir.

Anand Shanbhag: Yeah. Hi. My question is really on the restructured loans. I believe that you expect some of the current stock of restructured loans to get deleted as you go into the future. What I want to know is, what is the trigger at which you would decide that a particular loan does not need to be classified under restructured anymore?

Kalpana Morparia: At the very minimum level, it would have to perform for one year.

Anand Shanbhag: And that performance would be as per the reset terms, I presume.

Kalpana Morparia: Correct. If despite that, we believe that even if it has performed, it is still not really ready enough to, you know, get upgraded. We might continue it as a restructured loan because the consequences of having upgraded a loan and thereafter having to do anything with it are quite drastic, because it immediately then gets downgraded to non-performing loan status.

Anand Shanbhag: Okay. So you would rather keep it in the restructured category if its….

Kalpana Morparia: We would not touch it in any case. You know, if you touch that loan again, it would get classified as a non-performing loan.

Anand Shanbhag: Okay. And have there been any, I mean just to check up, has there been any case at all of a loan that has been restructured over the past couple of years that has subsequently been downgraded into a non-performing category?

Kalpana Morparia: There have been. There definitely have been cases like that.

Anand Shanbhag: Okay.

Kalpana Morparia: But last year, we did see some cases, we thought we would watch how they perform in the current year.

Anand Shanbhag: Hmmm.

Kalpana Morparia: And by the end of this year, we will also be giving you movement there as well.

Anand Shanbhag: Okay fine. The other thing I just wanted to check up was that…..

Kalpana Morparia: If I didn't explain myself properly on that restructured loan category….

Anand Shanbhag: Yeah.

Kalpana Morparia: Under the Reserve Bank of India norms, you need to wait one year before you upgrade the loan to a standard category.

Anand Shanbhag: Okay.

Kalpana Morparia: Okay?

Anand Shanbhag: Yeah.

Kalpana Morparia: And it has to perform in accordance with the restructured terms.

Anand Shanbhag: Hmmm.

Kalpana Morparia: And now that we have moved to a 90-d income recognition rule….

Anand Shanbhag: Hmmm.

Kalpana Morparia: Even a single default would straightaway downgrade it to non-performance stage.

Anand Shanbhag: Okay. But is that in any way different from what would have been the terms under the older 180-day norms?

Kalpana Morparia: No, it wouldn't have been except that you had 180 days.

Anand Shanbhag: Yeah, yeah. Fine. And are these loans, can we presume that all of these are now on monthly interest?

Kalpana Morparia: Not necessarily.

Anand Shanbhag: Okay.

Kalpana Morparia: Corporate loans still continue on a 90-day rule.

Anand Shanbhag: Okay. Fine. Just the other question I wanted to ask was on the operating costs. Very roughly, on a year-on-year basis, the first quarter operating expenses look like a 23% growth. What is your guidance for what kind of growth should one expect on this during the year?

Kalpana Morparia: Don't compare quarter-on-quarter this, because you know the comparison is like retail portfolio in the first quarter of last year was 8,000 crores while retail portfolio now is 23,000 crores. I thought a better comparison for you would have been fourth quarter to the first quarter, of operating costs.

Anand Shanbhag: Yeah. But wouldn't you also have had some costs in the fourth quarter last year which would typically get backended in any year?

Kalpana Morparia: No, you see what happened is, most of the costs that I had last year foreseeing primarily, in addition to the growth in the retail assets, pertain really to the new ATMs that we have added….

Anand Shanbhag: Hmmm.

Kalpana Morparia: You know, and costs associated around some of the retail infrastructure that we have set up.

Anand Shanbhag: Yeah.

Kalpana Morparia: So that, to my mind, would have been a better trend for you to look at rather than compare first quarter of last year's cost with this one.

Anand Shanbhag: Fine. Thanks.

Operator: Thank you Mr. Shanbhag for your questions. We have our next participant, Mr. Sampath from ABN Amro. Please go ahead, sir.

Sampath: Hi, just one other question. Out of the treasury income that you have shown, fee income, how much is from Forex transactions?

Kalpana Morparia: I will ask Rakesh to give you that.

Sampath: All right, okay.

Rakesh Jain: The trading income is about 4 crores.

Sampath: Sorry, come again.

Rakesh Jain: 4 crores.

Sampath: From Forex transactions.

Rakesh Jain: Yeah. The trading income in Forex.

Sampath: All right, what about merchant transactions, basically your exchange commission on Forex.

Rakesh Jain: 20 crores.

Sampath: All right. Thanks.

Operator: Thank you Mr. Sampath for your questions. We have our next participant, Mr. Mr. Aditya Narain from CITIGroup Smith Barney. Please go ahead, sir.

Aditya Narain: Ya, hi. I had a couple of questions. One, in terms of the switch to the 90-day recognition norm, what kind of a difference has it made in terms of absolute numbers? The second question I had was in terms of the restructured assets, again a popular topic. What would be the kind of interest hit or coupon hit, you have taken on the portfolio on the 10,000 odd crores that has been restructured, at an average, i.e.,you know, if the average portfolio was 15% and it is down to 12%, would that, you know, what would that level be in seven or eight years, relative to the 3% that I just mentioned? The third question was in terms of the fixed income gains, they seem to be fairly substantial in this quarter, and typically how much cover would you really have left on the bond portfolio, given that so much gain has actually been taken out this quarter, and finally what would be the extent of sell down of loans, both corporate and retail in the current quarter?

Kalpana Morparia: Ya, maybe, maybe not necessarily in that order, which you gave. As far as the trading gains are concerned, about 190 crores came from income trading, both government bond book and corporate bond book. Now even out of that 190, over 100 crores primarily came from a proprietary trading book, this has got nothing to do with the mandatory requirement of statutory liquidity ratio book, and this was despite about a 30 to 40 basis points, significantly lower drop in government bonds compared to last year. So it was much more the trading book performance that was really the contributor rather than any windfall gains that we may have got because the Reserve Bank of India asked us to hold government bonds as a part of our liability book. We still do, of course, have cushion in our, you know, the SLR book, which is a positive mark to market, but we would see that there would be some amount of capital which will continue to get committed to our proprietary book, and they would be returning some trading gains quarter-on-quarter. And so far as the restructured book is concerned, if you were to look at the ICICI book, kind of as a separate book, compared to the bank book in the form of retail assets. In ICICI the average yield on loans was over 12.5%, between 12.5% to 13%. If you now look at it, I think the average yield on the corporate book is around 11.5%. So roughly, there has been about, you, know, about 1.5% or so drop overall in the yield. Now, this is not necessarily translated into an equivalent drop in the net interest income as well, because we had a gap on liquidity at that time, so therefore we could support these loans by re-pricing the liability. Am I, is that clear Aditya?

Aditya Narain: Ma'am, yes, not fully, just, I am just taking it from a static perspective, if there is 10,000 odd crores that has been restructured, because you know, a lot of us are calculating the liability side, upside by, you know, in itself, rather than as a combination.

Kalpana Morparia: Yes, what I am saying is, if on a static perspective, it would be between 1.5% to 2% drop that this portfolio has suffered.

Aditya Narain: So, wouldn't it be slightly more if the average has fallen by about 1.5%, because this is what, this along with some NPAs would have brought down the entire amount.

Rakesh Jha: See, now it has been, over the last 15 months, all the new disbursements have happened at much lower rate.

Aditya Narain: Okay.

Rakesh Jha: That is also a significant number.

Aditya Narain: So 1.5% to 2% would be a fairer estimate?

Rakesh Jha: Yes.

Aditya Narain: And the last question, what was the absolute size of asset of loan sell downs in the quarter. Hello?

Rakesh Jha: About 15 billion.

Aditya Narain: About 15 billion. Okay, thanks, thank you.

Operator: Thank you Mr. Narain for your questions. We have our next participant, Ms. Mahrukh from JP Morgan. Please go ahead, ma'am.

Mahrukh: Ya, no, I have not withdrawn my question. Sorry, I don't have a question now. It was mainly on the interest hit on restructured. So, I think that is answered. That was Aditya's question as well. Thanks.

Operator: All right. Thank you. We have our next question coming up from Mr. Sachin Seth from JM Morgan Stanley. Mr. Seth, please go ahead with your question.

Sachin Seth: Yes, hi. I just wanted to get an idea of the yield on earning assets and the cost of funds for this first quarter, if it is sharable.

Kalpana Morparia: The yield on interest-earning assets including SLR?

Rakesh Jain: About 9.5%.

Sachin Seth: Right, and the corresponding, I think, fourth quarter was 10.3.

Rakesh Jain: Cost of funds is 7.8.

Sachin Seth: Okay, thanks.

Operator: Thank you Mr. Seth for your questions. We have our next question coming from Mr. Seshadri Sen from Alchemy Shares & Stock Br. Please go ahead Mr. Sen.

Seshadri Sen: Yes, hi. I have two or three questions. One is, can you give me some numbers on the ICICI balance sheet wind down, in terms of how much of ICICI assets and liabilities have you repaid during this quarter?

Kalpana Morparia: Liabilities, 2,300 crores. The shrinkage in the corporate book is 2,500 crores.

Seshadri Sen: Okay and the retail deposit number that you gave us, 60%, do you have a corresponding number for fixed deposits, percentage of fixed deposits, which are retail and percentage which are corporate?

Rakesh Jha: No, all of savings will be retail.

Seshadri Sen: Current would be, some of current would be corporate or most of current would be corporate, right?

Rakesh Jha: Current, current, about 60% will be corporate.

Seshadri Sen: Okay, thanks, I can calculate. And finally on the ARCs, can you just throw some light on the ARC equity structures, and what exactly are the precise plans in terms of the rest of the year?

Kalpana Morparia: See the equity structure there, Seshadri, it doesn't really matter because it is going to function like an asset management company. It has a 10-crore equity but that is more to take care of its, you know, initial operation expenses. When you function like an asset management company, and the assets that are going to get transferred to them…

Seshadri Sen: Okay.

Kalpana Morparia: Will be really pooled by the ARC company and in turn placed out with bank. Initially to start with, it will probably be the very same bank who are selling the assets to them, but we believe that over a period, they will be able to attract investors, particularly foreign investors who deal with distress factors.

Seshadri Sen: At the moment, when it, even when it is sort of "sold" to the ARC, it will still be on your books and still be part of your risk weighted assets. Am I right?

Kalpana Morparia: Yes.

Seshadri Sen: Thank you.

Kalpana Morparia: That is correct. What, what the sale will achieve, and it will indeed be a sale in that context and not just a book entry, is it will mark to market the NPL book, because there will be a third-party valuation of it, and at the end of every year, the investment that we carry in this ARC's paper will also get valued by their statutory auditor.

Seshadri Sen: Okay, okay, thank you.

Operator: Thank you Mr. Sen.

Kalpana Morparia: Unless any one of you have some very burning question, I thought if I can just spend two minutes on the life insurance company and we have put out presentations, which hopefully you will receive, but I, you know, other than the very detailed presentation that we have gotten into, I thought if I could just give you a few key highlights. ICICI Prudential Life Insurance started life with all other life insurance companies, and indeed in the 2½-year period that they have been in business, they have emerged as a clear market leader amongst all private players. In fact, their market share is twice that of the next player, with 39% market share amongst all private sector insurance companies. In fact, in the pension business, they have a 23% market share of the entire business including life insurance company. However, the way the accounting works in India, they will continue to incur losses in most of the growth phase that they have chalked for themselves over the next three to four years, but we thought it was important for us to look at the ways that they are valued, and I understand that for life insurance companies, valuations are expressed as a percentage of their new business achieved profit or NBAP, and we have put out in that presentation the NBAP for the full year and the NBAP for the current quarter. For the current quarter, the NBAP number is about 22 crores. We also understand that the valuations range from 20 to 30 time multiples of NBAP, on the basis of the growth cycle of the life insurance company. Given this, this company would get valued at between 2500 to 3000 crores, even of their last years' NBAP that has been declared, and we own 74% of the company with a total equity investment of about 390 crores. So far as the non-life company is concerned, again, it has emerged as the leader in its chosen field of insurance, which is fire and general insurance. Again, what is very heartening is that in its very second year of operation, that is the first quarter of this year, it has achieved an underwriting profit, not just an overall profit, that it achieved last year itself, but even at the underwriting level, it is a profitable company. I just thought that since these are two significant subsidiaries, which sometimes get buried in the colossal of ICICI Bank, that it would be important to kind of position them separately, and we put out a presentation on both of these companies. Yes, is there is any question?

Operator: Yes, Ma'am.

Kalpana Morparia: I said, if there are any more questions.

Operator: Yes, we have our next participant, Mr. Jatinder from Refco Securities. Please go ahead, sir.

Jatinder: Ma'am, just going ahead with the ARC concept, we are talking of 2 billion, 20 billion transfer from ICICI Bank, probably the same would actually come from SBI and IDBI, and we have these three as the main shareholders in the total ARC, what you said earlier is that, this would be represented by investment that the banks themselves would be subscribing. If I assume that probably in the same ratio you are subscribing to the securities, it would be a zero sum gain in the end, because whatever valuations you do, and if suppose it is around 40-odd percent and your actually able to recover 40-odd percent in the ARC, it would be just like moving your assets down from the loan book to the investment. On the final day, probably five years down the line, when the ARC is closed, it would actually come down to zero.

Kalpana Morparia: The reason why I am saying that this is material, is we are not moving these assets just because we want to shed NPL. We are moving assets there because we believe that when you have aggregated non-performing loans in one single place, there is a greater likelihood of a faster resolution of that NPL. What it also does, is the point that I replied to Seshadri Sen, is to say that it creates an immediate mark to market of my NPL book. My NPL book currently is the gross NPL that I carry minus the provisions that I have already made, but I don't have any external benchmark, and here since ARC is a commercial enterprise, in addition to the three of us, HDFC is a shareholder, so is IDBI Bank, so is HDFC Bank, they are not just going to allow them to buy assets at a value which is not market related. Therefore, they have come up with a structure under which an independent entity will look at valuation. What is the true value, on the basis of the cash flows, on the basis of the exit strategy by collateral sell, and then it is on that basis that the ARC will approach the bank for purchase of the asset. So at the first level, it will do a complete mark to market. Under the current Reserve

Bank norms, if the ARC does not solve the asset within a four-year period, it has to write down the asset to zero. So there is an enormous pressure even on the ARC to get a quick solution to these assets. The last comfort comes to us from the fact that when these assets, even at the end of the year, will once again get re-valued by their statutory auditor. So, yes, you know, one can argue to say instead of my carrying it as a loan, I am carrying it as an investment, but the two are very different things in terms of the independent valuation put to it and the expert body which has aggregated debt across several bankers and is now dealing with it, and the fact that I will also have a further mark to market that I take on every year on an individual determination of value.

Jatinder: So right, that is what happens. Probably if I have a write back in the current year on these investments, these loans that I have transferred, that would actually get, you know, written off over the period of four years when the ARC is to be wound out, and you have investments actually getting mark to market.

Kalpana Morparia: But that, if I take your point, then my NPLs are worth zero. The write back that you are seeing every quarter that I am getting on my NPLs recovery…

Jatinder: Right.

Kalpana Morparia: Will not be there.

Jatinder: Okay.

Kalpana Morparia: That means all the land, building, plant and machinery that's mortgaged to me when I made out the term loan to them, has all become worthless.

Jatinder: It is not worthless.

Kalpana Morparia: No, if it is zero, you know it is worthless.

Jatinder: No, if I have to transfer today where I have an aggregate provision over 60-odd percent and I am transferring, lets assume that the value is at 40-odd percent and over the period the ARC is actually able to recover 40-odd percent, so in the end, after 4 years, I actually have the assets which is going out of my book, I had a 60% provision, I transferred it for 40 and the ARC has been actually able to recover 40, my investments again come back to my normal book.

Kalpana Morparia: What I am saying, see If I had kept it on my book…

Jatinder: Right.

Kalpana Morparia: What is the likelihood of my recovering 40, in what period of time?

Jatinder: Okay.

Kalpana Morparia: Is the question that I have to ask myself.

Jatinder: Okay got it.

Kalpana Morparia: If I believe that the ARC as an expert body which can now buy up the same loan asset from 5-10 banks, and do something very meaningful, very quickly with it, then I would just go ahead and do that.

Jatinder: Fine, thank you.

Operator: Thank you Mr. Jatinder for your questions. We have our next participant, Mr. Seshadri Sen from Alchemy Shares & Stock Br. Please go ahead, sir.

Seshadri Sen: Yes, sorry, I have just a couple of questions on the life insurance business. One is, what was the new business premium in the first quarter of this year and what was it for the whole of last year and secondly, do you see any further equity calls from the life insurance company?

Kalpana Morparia: See, the net premium that the life insurance company had in the first quarter was 97.8 crores compared to 417.6 crores for all of last year.

Seshadri Sen: This is the new business premium or total premium?

Kalpana Morparia: Total premium.

Seshadri Sen: Okay.

Kalpana Morparia: And the new business achieved profits.

Seshadri Sen: Right.

Kalpana Morparia: The NBAP was 22.4 crores for the first quarter compared to 71 crores for all of last year.

Seshadri Sen: Okay, thanks. Do you see any further equity calls from the life insurance company?

Kalpana Morparia: Even there, you know, growth, I guess, in the coming years, they will need equity. However, our life insurance company has got a very good mix of life policies and, you know, the linked policies that they have which are unit linked, is a much more capital efficient product than the par policy. So we, while certainly there will be more equity injection required, I believe given their portfolio mixed, you know, they will try and make the optimal use of the capital that they have.

Seshadri Sen: Thank you.

Operator: Thank you Mr. Sen for your question. We have our next participant, Ms. Mahrukh from JP Morgan. Please go ahead, ma'am.

Mahrukh: Hi, again. It is about NPLs again. See, in the US GAP, NPLs are at 230 billion. Now, one would have thought that the Indian GAP would probably catch up with that figure this year, that is in FY'04, then how would the restructured, I mean, so what would that mean? Would that mean that the US GAP NPLs would come down, or are we still seeing a scenario where the Indian GAP will catch up with the US GAP?, In that case, what would happen to restructured loans or gross NPLs in terms of increase?

Kalpana Morparia: It is a very similar number now. If you look at the total number, we have about 11,000 crores of growth restructured assets. We have roughly about 9,000 crores of growth NPLs, which is 20,000 crores, and we have 2,000 crores of assets where we had stopped accruing income, remember we had reported that last year as well, which are projects under implementation. So you are very, very close to the US Gap number.

Marooqh: Okay. Thanks.

Operator: Thank you Ms. Mahrukh for your questions. We have our next participant, Mr. Srinivasan from Imperial Investment. Please go ahead, sir. Hello, Mr. Srinivasan? I suppose his question might have been answered. We have our next participant, Mr. Sunil Garg. Please go ahead, sir.

Sunil Garg: Ms. Morparia, maybe this question is addressed in your life business presentation, is there any disclosure on embedded value at this stage or is it too soon to look at enforced business?

Rakesh Jha: Currently, you see, it is just, you know, growing phase, so we thought that NBAP gives a much better sense of…

Sunil Garg: No, no, no I appreciate that, but I was just wondering if there was any embedded value disclosure.

Rakesh Jha: Not currently, but going forward, we would look at disclosing the number.

Sunil Garg: Okay, thank you.

Operator: Thank you Mr. Garg for your question. We have our next participant, Mr. Bryan from B&K Securities. Please go ahead, sir.

Bryan: Good evening, once again. This quarter you will have booked a gain of 76 crores on the sale of equities. Could you give us some ideas of the size of your equity portfolio as of 30th June, and also could you give us an idea of the market value of your quoted investment as against this cost?

Kalpana Morparia: 400 crores is the size of the equity book.

Bryan: 400 crores.

Kalpana Morparia: Yes.

Bryan: Okay, an idea of the market value as against this cost?

Rakesh Jain: About 200 crores.

Bryan: 200 crores is the unbooked gain?

Rakesh Jain: Yes.

Bryan: Okay, thank you.

Kalpana Morparia: Okay, thank you so much if there are no other questions, but of course, if anyone of you still have some questions that you have not thought about currently, Rakesh, Anindya, and all of us are available.

Operator: Thank you, ma'am. Ladies and gentlemen, that does conclude your conference for today. We thank you for your participation and for using Tata Indicom Conferencing Services. You may please disconnect your lines now. Thank you.