ICICI Bank Conference Call
2 November 2003

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

Kalpana Morparia: Thank you madam. Very good evening to all of you. This is Kalpana Morparia from ICICI Bank. I have my colleagues here, Rakesh Jha, Mr. Venkatakrishnan and Anindya Banerjee. What I am going to do is, I hope most of you would have gotten our presentation, for the benefit of those who may not have access to the presentation, I will try and read out some of the highlights of the Q2 performance, and I will probably take 7 to 10 minutes doing so and then I will be open for questions.

The key highlights of the Q2 performance has been a 41% increase in profit after tax to Rs. 4 billion from Rs. 2.85 billion in the second quarter of last year. There has been a significant improvement in net interest margin to 1.7% for the first half of this year, compared to 1.4% for fiscal 2003. Another significant highlight has been equity capital gains of Rs. 2.4 billion in the first half of this year. This was primarily driven by the exits that we could make from some of the equities that we have gotten as part of the restructuring package. This has really contributed by the legacy portfolio of ICICI and the run-up that we saw in some of the commodity stocks; we took full advantage of that. Another key highlight is really the growth in the retail portfolio, which has grown almost 110% half-year-on-half-year. That means H1 2003 to H1 2004, we have seen an increase from Rs.120 billion to Rs. 252 billion, and retail loans today constitute 47% of our loan book. We believe this is the highest proportion of retail assets amongst the banking sector.

The deposit growth has also been quite handsome at 18% in the half year. Deposits now constitute roughly about 60% of our funding base and this deposit growth of 18% translates into a 10% market share of incremental deposits in the system; this is with the about 500 branches that ICICI Bank has. The player who is higher than us is really State Bank Of India with a 14% market share in incremental deposits with a total branch size of 9,000. We had, you know, given some kind of guidance that one would see absolute levels of reduction in restructured loans, as also non-performing loans by the end of this fiscal year, and indeed this has been demonstrated by a 25% reduction in restructured loans that we achieved in this quarter, this is a 25% reduction from the peak of Rs.104 billion as of June 30, 2003. This is on account of the satisfactory performance of the restructuring packages that we put through for some of the exposures.

I am going to just give a few highlights on a detailed P&L. The principal drivers of the profit growth that I outlined earlier has really been a very handsome increase in net interest income, which has grown from Rs. 6.4 billion for the first half of last year to Rs. 8.66 billion for the first of this year. Fee income, where I know some of the analysts had expressed disappointment at the increase that we had done, but compared to a Rs. 4 billion contribution of fee income last year, for the half year, we have got almost a Rs. 5 billion contribution this year, so we are making steady but good progress in this area. Of course, the key contributor was also treasury income, which is up from Rs. 2.5 billion to Rs. 7.2 billion, but a good proportion of the Rs. 7.2 billion came from the equity capital gains that I described earlier.

Operating expenses have been pretty much in check. If you look at the sequential growth, quarter 1 to quarter 2, Rs. 4.63 billion has just grown to Rs. 4.96 billion; this also included something like Rs. 70 million of expense that we had on account of the voluntary retirement scheme that we had done earlier in the last quarter. The first half of last year was characterized by an extraordinary gain that we got when we sold the cross holding that ICICI had in ICICI Bank. If we were to ignore that item and straight away look at the profit after tax, then the increase has really been from Rs.5.4 billion to Rs.7.4 billion. I just now try to highlight some of the key ratios, quarter 2 we had a return on asset of 1.45%, we had a return on net worth of 21.7%, we had an earnings per share of Rs. 26.20. The overall cost to deposits for the bank dropped quite dramatically to 5.6%, and the blended cost of funds for the bank dropped to 7.3%, although, there has been an even sharper drop in the incremental cost of deposit, which is now just about 4.3%. The profit numbers that I described to you, coupled with the containment in the operating cost, meant that we had a very sharp reduction in the cost-to-income ratio, down from close to 47% at the end of the fourth quarter of this year to 39.6%, and the book value per share as at the end of the half-year was Rs.125.

I will just add one word on the assets quality before I really throw it open to questions. The restructured loans as I have said, have come down quite drastically, and for the first time in 7 quarters, we have seen a reversal of the trend even in absolute level of net non-performing loans, where we saw net non-performing loans come down from Rs. 32 billion to Rs. 31.3 billion, and leading us to net NPA ratio of 4.8% with coverage of 64%. The capital adequacy for the bank continues to be, in fact, marginally higher than last year, because you might see that there has been a shrinkage in the loan book. So, we have a total capital adequacy of 11.15% of which tier 1 alone is over 7%. This is despite the fact that we have not yet received the clarification from Reserve Bank of India on the treatment of deferred tax assets. We continue to be very optimistic about getting a favorable decision from Reserve Bank on this, in which event we will add another 55 bps to our tier 1 capital putting it well about 7.6%. One last item that I would like to mention is the fact that we had securitized a fair amount of our loans. We did something like Rs. 52 billion in the 1st half of this year of which Rs. 20 billion was retail assets alone. We believe this is probably one of the highest retail sell-downs that have been achieved in the Indian system. We recently saw a report by IFR Asia, which said some of the structuring that we have done is indeed quite sophisticated even in the context of the structures one has seen in the international market and the securitization will continue to be a very key part of ICICI strategy where we will leverage on our origination capabilities, our processing and operations capabilities to continue to generate assets but not necessarily hold the assets to maturity on our book, but continue to create a market through the securitization route. That is all I had to say. I will be very happy to take questions.

Q&A

Operator: Thank you madam. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press “*1” on your pushbutton 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. Ladies and gentleman, for any questions, you are requested to press “*1” on your pushbutton phone. We have our first participant Ms. Mahrukh from JP Morgan. Ms. Mahrukh, please go ahead with your questions.

Mahrukh: Yeah, hi Kalpana. Just wanted to have the movement of your gross NPLs.

Kalpana Morparia: Sure.

Mahrukh: And also in terms of your provisions, I have not been able to check the whole presentation, but what is the fresh provision made and what are the write-backs?

Kalpana Morparia: There has been a very marginal increase in the gross NPL, which is up from Rs. 86.75 to Rs. 87.65, but as I explained net NPLs in fact have gone down from Rs. 32 billion to Rs. 31.3 billion. In terms of provisions, we took an overall provision in the 2nd quarter of Rs. 3 billion; this is after a write-back of Rs. 1 billion. So the gross provisions that we made were Rs. 4 billion.

Mahrukh: Okay. And on your restructured loans, could you indicate what sectors they belong to and what was the broad timeframe when they were, you know, classified as restructured, I mean, how much time has elapsed, if any such indication?

Kalpana Morparia: Mahrukh from the time it is mandated by the Reserve Band of India. Reserve Bank says that if an asset performs satisfactorily for a period of 1 year, then you can upgrade it.

Mahrukh: Right. So all these have performed for one year.

Kalpana Morparia: Exactly. And the sectors have been primarily steel, textiles, man-made fibers. We have given you a very detail breakdown of the industrial sector of the non-performing loans.

Mahrukh: Okay.

Moderator: Thank you madam for your questions. We have our next participant Ms. Priyanka Badlani from B&K Securities. Ms. Badlani.

Priyanka Badlani: Good evening, Kalpana. Congratulations on your wonderful results.

Kalpana Morparia: Thank you madam.

Priyanka Badlani: I wish to ask you just one question. I wanted to know what is the contribution of your trading profits to your operating income this quarter vis-à-vis your last quarter?

Kalpana Morparia: We will come back to you in a moment.

Priyanka Badlani: Alright. Thank you.

Kalpana Morparia: You can go in for the next question.

Moderator: Certainly madam. Thank you Ms. Badlani. We have our next participant Mr. Sandeep Dixit from Deustche Bank. Mr. Dixit, please go ahead.

Sandeep Dixit: Thanks. Hi Kalpana. On the capital adequacy, what would be comfortable level of tier 1? Is 7% a comfort level or would you look to raise it?

Kalpana Morparia: Even 6.5% is an extreme comfort level.

Sandeep Dixit: Yeah, I mean, it is well above the regulatory minimum, but, I mean, if you look at most of the large banks internationally, given your international aspirations, are you comfortable with 7 to 7.5?

Kalpana Morparia: See, Sandeep, the way we look at it is this deferred tax net not getting included is purely an issue just now of RBI clarification. Because you see the comfort with the capital level varies, what the management feels comfortable, the way the rating agencies view us, and what it is that the regulators feel about it. So, purely as an economic matter, I factor in the deferred tax asset as tier one.

Sandeep Dixit: Sure.

Kalpana Morparia: So, with that, I am, you know, significantly inching towards the 8% tier one, and we believe that we can deliver maximum shareholder return with what I call an optimum utilization of capital, because, you know, we have had examples of people who just did not know what to do with their capital and ended up returning it back to the shareholders. So, you know, we are certainly not in that situation, in fact, far from it, and given the growth opportunities that we have, which is primarily in the retail sector, half of which is really residential mortgages which carry just 50% risk weightage, and coupled with the securitization that I described to you earlier, we feel quite comfortable on the capital and we will much rather deliver as I said superior value to the shareholders.

Sandeep Dixit: Okay. I had just couple of other question if I can, one is in restructured loans, I couldn't get the gross number.

Kalpana Morparia: Yeah, I will give you the, do you want the gross restructured assets movement?

Sandeep Dixit: Yes, how it has moved, either over the quarter or over the first half.

Kalpana Morparia: The gross restructured assets as on June 30, 2003 was Rs. 108.4 billion, which is now down to Rs. 81.1 billion.

Sandeep Dixit: Because of upgradations as you mentioned, right? Hasn't it moved…

Kalpana Morparia: Upgradations and some amount of repayments also.

Sandeep Dixit: Right. Okay. Thank you.

Moderator: Thank you Mr. Dixit. We have our next participant Ms. Tabassum from Kotak Securities. Please go ahead with your questions madam.

Tabassum: Hi Kalpana, Tabassum here. Couple of questions. First of all, on the loans, which you have sold in this quarter, what kind of profits have you got in the second quarter this year compared to last year?

Kalpana Morparia: I think in terms of proportion contribution in the NII it would be quite similar to what we had last term. Rakesh wants to answer that.

Rakesh: We have done about 17% of NII.

Ms Tabassum: Okay.

Rakesh: We had given you the number in the earlier call that for last year it was about 12% and was stable throughout the quarters.

Tabassum: Okay My second question is regarding the loans again, which you have sold. Do you have sort of any buy-back arrangement and how much of that Rs. 52 billion which you have sold, there would be any such arrangements, and seconding these loans, you know, do you book all the sort of profits or do you keep some sort of a buffer just in case of a hire, prepayments or for NPLs.

Kalpana Morparia: See the way the structuring works, Tabassum, is we get the portfolio rated by the rating agency.

Tabassum: Yeah.

Kalpana Morparia: Now as a part of that rating process in a few cases they might tell us to put us a cash collateral or they might wanted over-collateralization, so that you really then end up with a subordinated note. And all of that is fully factored in. Now a bulk of these loans that we sell down are really without recourse to us and in these all of the retail loans that we have sold down have no recourse whatsoever to us.

Tabassum: Okay.

Kalpana Morparia: A very, very small proportion that we have done of corporate sell down, has a recourse to us, but there when we calculate the profits we have gotten, it's only up to the date of the put option to us.

Tabassum: Right. Okay. My last question is on can you give me some break-up on your retail loan portfolio?

Kalpana Morparia: Sure. The Rs. 25,200 crore is broken down.

Rakesh Jha: Housing is Rs. 122 billion, auto finance is Rs. 57 billion, commercial business is Rs. 33 billion. and two wheelers about Rs. 8 billion. Others, you know personal loans, consumer loans, credit cards near about Rs. 7 to 8 billion.

Tabassum: Okay. Just one last question Kalpana. I mean, on the retail segment, you are seeing lot of aggression across the banking and finance sector. Are you getting a little worried on, you know, that the quality of portfolios will start suffering across the industry and therefore, may be, you need to pull back a little or go slow on your credit disbursements in the retail segment?

Kalpana Morparia: Tabassum, given the size of our portfolio, we do a constant analysis of our own portfolio; look at lag data on delinquency, and we find that we are extremely comfortable on that, but probably the fact that we have a tight credit screening process and, you know, the data, particularly, if you look at the passenger car financing, this has seen 2 credit cycles now because an average maturity of 18 months, we have really seen 2 cycles that we have gotten through and the NPLs in this portfolio is way below 1%.

Tabassum: Okay. Thank you. That is it.

Moderator**:** Thank you Ms. Tabassum. We have our next participant Mr. Rajeev Varma of DSP Merril Lynch. Mr. Varma, please go ahead.

Rajeev Varma: Hi Kalpana. Rajeev. Just want to understand, how would the relapse rate be now of the NPLs. Would it be like less than 10%?

Kalpana Morparia: I will ask Rakesh to just confirm that.

Rakesh Jha: It will be less than 10%.

Kalpana Morparia: It will be less than 10% Rajeev.

Rajeev Varma: Right. Okay, and sorry, just completely different. Just want to have an idea on your alternate delivery channels. Would you have an idea of much is, you know, your customer does your usage, how much is happening through the ATM's and how much through the branches and all?

Kalpana Morparia: Yes sure. The ATM is over 55%, a branch is about under 28%, and call centers about 12 to 15%, and the balance is Internet.

Rajeev Varma: Right. Okay. Thanks

Kalpana Morparia: I have an answer Ms. Badlani for your question. If we ignore the equity capital gain, then the proportion of treasury gains in the last half-year was 17% and this half-year it is 22%. Sorry Q1 and Q2 not half year, Q1 of this year versus Q2 of this year.

Moderator: Thank you Madam. Thank you Mr. Varma. We have the next participant Mr. Aditya Narayan from Citigroup. Mr. Narayan please go ahead.

Aditya Narayan: Hi, Kalpana, Aditya here**.** I really had two questions on the asset quality front. One was, in terms of the total impaired loan that you have shown, how would the current level compare on US GAAP basis compare with the Rs. 24,000 crore odd, you had shown on this 31st of March. That was one question and the other is really you know the last time around you had indicated that there would be some kind of a reversal on the asset quality front. Now that has happened but is there a likelihood that you know, this is only a part of it but the rest of the year will see some level of deterioration. So the net level will probably not be as low as the current level, if you could give us some indication from that?

Kalpana Morparia: If you remember I had said that, we will certainly see an absolute level of reduction by the end of this year. So the fact that we could get an absolute level of reduction in both category, at the end of the half-year itself I think we have done better than what we believed at the beginning of the year. On the basis of the current outlook I certainly see that the second half in fact will be even better than the first half, in terms of the absolute level of reduction. So, in fact the reverse of what you said will happen. We will see a further drop in both the restructured category as well as the non performing loan category.

Aditya Narayan: The US GAAP level of impaired loans.

Kalpana Morparia: As far as the US GAAP is concerned, you know, we really need to compare the numbers of last year and if you really look at the numbers as on June 30th because we will see the US GAAP numbers only by the end of this year. Then the two are not all that different because if you factored in you know close to Rs. 9,000 cores of gross NPL**,** they had about Rs. 10,000 crores odd of restructured assets at the end of the first quarter. So that is Rs. 19,000 crores and a little over Rs. 2,000 crores of non-accrual loan. That roughly adds up or it is pretty close to the US GAAP number. So that indeed, you know, on aggregate basis was indeed the peak of the problem loans as it were and one is seeing as I said reduction in absolute levels in this category.

Aditya Narayan: Just tell me, I am sorry Madam, how much would be the non-accrual loan at this point in time.

Kalpana Morparia: At the Rs. 2,000 crore number.

Aditya Narayan: Okay. Thanks.

Moderator: Thank you Mr. Narayan. Ladies and gentlemen, for any further questions you are requested to press "*&1" on your pushbutton phone now. We have our next participant Mr. Sheshadri Sen from Alchemy Shares & Stock Broking. Mr. Sen, please go ahead with your questions.

Sheshadri Sen: Thank you. Hi every body. I have a question on your deposit profile. In terms of two basic numbers that I wanted, in terms of how much is your overall bulk deposits and retail deposits. What is that split now? If you could share some light on how much is your deposits is coming from your foreign branches that you have been that you and you have been fairly aggressive in your overseas branches. So, what is the percentage of overseas deposits in your portfolio?

Rakesh Jha: Yes, the retail deposits are about 60% of the total deposit from September 30th and the NRI deposits contribute to be about 10% of the total deposits.

Sheshadri Sen: Okay thanks.

Moderator: Thank you Mr. Sen. We have our next participant Mr. Sandeep Dixit from Deustche Bank. Mr. Dixit.

Sandeep Dixit: Thank you. Hi, just wanted to know what is the total interest paid on erstwhile ICICI borrowings?

Kalpana Morparia: 10% is the average cost; in terms of absolute numbers Rakesh will be giving.

Rakesh Jha: The quarter is Rs. 9.3 billion and half year is Rs. 19.57 billion.

Sandeep Dixit: Okay, clearly you have seen interest margin improve because of this. How long do you think this will continue?

Kalpana Morparia: It will continue for the next six quarters.

Sandeep Dixit: Six quarters?

Kalpana Morparia: Yes

Sandeep Dixit: Thank you.

Moderator: Thank you Mr. Dixit. We have our next participant Mr. Jatinder Agarwal from REFCO. Mr. Agarwal.

Jatinder Agarwal: Madam, Couple of questions. One is, the same thing of incremental ICICI erstwhile liabilities how much are still pending to the re priced over the, say, next six quarters?

Kalpana Morparia: Rs. 32,000 crores are still remaining.

Jatinder Agarwal: Okay.

Kalpana Morparia: It will come down to Rs. 25,000 crores by the end of this fiscal.

Jatinder Agarwal: Right and Madam on the incremental landing rates, if I include everything, including my SLR and my CRR norms, what would be the rate at which landing is happening?

Kalpana Morparia: You mean what is the yield?

Jatinder Agarwal: Yeah, on your total incremental Rs.100 of deposit that are coming into the system.

Kalpana Morparia: I do not have the incremental yield number. I have the, we have the average yield on the portfolio.

Jatinder Agarwal: Otherwise just on the advances?

Kalpana Morparia: On the advances the yield is 11%. Half yearly the yield is 11%.

Jatinder Agarwal: Fine, thank you.

Moderator: Thank you Mr. Agarwal. We have our next participant Mr. Pathik Gandotra of SSKI Securities. Mr. Gandotra please go ahead.

Pathik Gandotra: Hi Kalpana, congrats on a great result**.**

Kalpana Morparia: Thank you.

Pathik Gandotra: Just wanted to know, the outstandings, savings and current deposits. You know, excluding the savings linked also but absolute savings and current, can I have those numbers?

Kalpana Morparia: One second Rakesh is just giving.

Pathik Gandotra: Yeah.

Rakesh Jha: September, the savings is Rs. 53.6 billion.

Pathik Gandotra: Yeah.

Rakesh Jha: The current is Rs. 53.1 billion.

Pathik Gandotra: And you know I, you know I do not know whether I missed it but you mentioned that the amount of absolute reduction in the restructured assets that has happened in the first half, you know, it will be better in the second half in terms of absolute reduction?

Kalpana Morparia: [We will see a further drop in both the restructured category as well as the non performing loan category.]

Pathik Gandotra: Okay. Thanks.

Moderator: Thank you Mr. Gandotra. We have our next participant Mr. Sandeep Dixit of Deustche Bank. Mr. Dixit.

Sandeep Dixit: Yeah. Sorry, it is me again. I just wanted to get the interest yield and interest cost for this quarter and the previous one.

Kalpana Morparia: What interest cost and interest yield in both Q1 and Q2

Rakesh Jha: Q2 cost of 7.3%. Yield for Q1 was 9.5% and Q2 is 9.1%.

Sandeep Dixit: 9.1. Okay. Okay thanks a lot.

Moderator: Thank you Mr. Dixit. Participants who wish to ask questions are requested to press “*&1” now. We have our next participant Mr. Vasan of Imperial Investments. Mr. Vasan please go ahead.

Vasan: Yeah hi. When you say that, the absolute level will come down of the restructured loans you would obviously be anticipating some loans to complete the one-year period.

Kalpana Morparia: Yes.

Vasan: So can you put some number to it?

Kalpana Morparia: No, I would not like to put a number to it, but given the performance that we are seeing on the books today, given what we reckoned could be cases requiring additional restructuring. So, you know, some addition, some deletion but on a net-net basis we believe there will be a reduction.

Vasan: Okay. Okay Thanks.

Moderator: Thank you Mr. Vasan. Our next participant is Mr. Sampath of ABN Amro. Please go ahead with your questions Mr. Sampath.

Sampath: Hi everybody. Can you give a breakup of the provisions and contents in this number for the second quarter? Between loan loss, investments and others.

Kalpana Morparia: Yeah.

Rakesh Jha: So, basically the write-back was about Rs. 1 billion.

Sampath: No the Rs. 218 crores, can you give a break-up?

Rakesh Jha: For the quarter it is Rs. 218 crores, of which write-back is Rs. 100 crores, so the gross provision will be Rs. 318 crores.

Sampath: Right. What is the break-up between loans, investments, and others, can you give me that?

Rakesh Jha: I don't have readily.

Sampath: Okay. All right.

Moderator: We have a next question from Mr. Melwyn of Bajaj Auto. Mr. Melwyn?

Mr. Melwyn: Yeah. Good evening ma'am. Madam you mentioned the cost of the incremental deposit cost of 4.6, but what is the lending retail rate, retail as the largest growing portfolio?

Kalpana Morparia: I have mentioned the incremental cost of deposits at 4.3.

Melwyn: Right.

Kalpana Morparia: The average cost of deposits is 5.6.

Melwyn: Yes.

Kalpana Morparia: The retail book on an average, the yield will be over 10%.

Melwyn: Over 10%. And, this VRS amount you mentioned, how many people were covered under that?

Kalpana Morparia: 1,500 people.

Melwyn: Which costed Rs. 7 crores?

Kalpana Morparia: Which cost us in all something like Rs. 190 crores. But Reserve Bank of India as has been the case for all other banks who have done VRS, allows an amortization over a 60 month’s period. So, for the two months in this quarter, that cost was 7 crores.

Melwyn: Okay madam. And, what is the current employee strength of ICICI?

Kalpana Morparia: 11,500.

Melwyn: Thank you very much and wish you the best.

Kalpana Morparia: Thank you.

Moderator: Thank you Mr. Melwyn. We have our next participant, Mr. Sachin Sheth of JM Morgan Stanley. Mr. Seth?

Sachin Sheth: Hi Kalpana thanks. Actually my question was answered on the provisioning break-up, so as and when you get that break-up, if you can please inform us. Thanks.

Moderator: Thank you Mr. Sheth. Our next participant is Mr. Rajat Rajgharia of Motilal Oswal Securities. Mr. Rajgharia, please go ahead with your question.

Rajat Rajgharia: Yeah. I have four questions; two on numbers and two general. First, what is your yield on SLR portfolio?

Rakesh Jha: 6.3%.

Rajat Rajgharia: 6.3%. Okay and what will be the average maturity as of now?

Rakesh Jha: Duration was about 2.3.

Rajat Rajgharia: This is your entire investment portfolio or just SLR portfolio?

Rakesh Jha: SLR portfolio.

Rajat Rajgharia: Just SLR portfolio. Okay, and probably for the last 6 quarters we have seen lot of re-pricing happening in the balance sheet. When can we actually see some expansion happening on your loan side, probably what two quarters away or four quarters away?

Kalpana Morparia: Loans have not been constantly growing.

Kalpana Morparia: Where retail which was, you know, roughly about 20% of the loan book is now upto 44 in percent of the loan book...

Rajat Rajgharia: Right.

Kalpana Morparia: So, are you asking me a question on whether I will continue my retail growth?

Rajat Rajgharia: No I am asking that right now you are mainly moving the component of retail in your overall loan book. While your overall loan book is more or less remaining quite flattish over the last few quarters.

Kalpana Morparia: But that is a very conscious strategy.

Rajat Rajgharia: I agree, but the only thing I am asking is how long you think you will pursue this strategy and probably you will focus on growing the loan book. I mean how many quarters away you think?

Kalpana Morparia: What I am saying is as a conscious strategy we believe that we should continue to sell down rather than hold loans to maturity.

Rajat Rajgharia: Okay.

Kalpana Morparia: 10-15% loan growth is what we think you would see on certain basis.

Rajat Rajgharia: Okay.

Kalpana Morparia: We will continue to use securitization as a route to manage the overall book.

Rajat Rajgharia: Okay, I mean we are still some time away.

Kalpana Morparia: Even the very high level of reserve requirements that banks in India are subjected to from a purely economic prospective other than the capital logic. It is much better sense for us to churn our own portfolio rather than blindly just grow the loan book through liability.

Rajat Rajgharia: Right and another question is about this ATM sharing agreement which you have with SBI.

Kalpana Morparia: Right.

Rajat Rajgharia: Right I mean, how does this agreement work. I mean, you have only with SBI or even with HDFC bank is involved in this?

Kalpana Morparia: We have with State Bank Of India, Federal Bank and with Andhra Bank.

Rajat Rajgharia: Okay. I mean, can you just explain like what made you enter into?

Kalpana Morparia: First is that their customers can access our ATMs.

Rajat Rajgharia: Right.

Kalpana Morparia: Similarly, our customers can access their ATMs.

Rajat Rajgharia: Yes.

Kalpana Morparia: We are in the process of working out all of the operational details, although agreements have been signed between these banks.

Rajat Rajgharia: Okay.

Kalpana Morparia: And we have agreed upon a, you know, the per transaction cost for this, which is about Rs. 17 for a cash transaction.

Rajat Rajgharia: Right.

Kalpana Morparia: And I think, a fair, much, much lower amount for any other balance query.

Rajat Rajgharia: Okay.

Kalpana Morparia: Rs.8 will be received for any other query. Now, it works both ways as I said because that is either the amount from the SBI for customers or is the amount that I am going to pay on account of my customers.

Rajat Rajgharia: Yeah. The main strategy for ICICI Bank to enter this agreement is what, either to allow its customers to share other ATMs or to earn a fee on its own ATMs?

Kalpana Morparia: In some ways this is both, because see I believe that we are the only bank which has close to 300 transactions per ATM on an average basis per day. So at that kind of a level, you know, all of my ATMs are fully utilized.

Rajat Rajgharia: Right.

Kalpana Morparia: So, rather than keep on incurring cost of, you know, setting up standalone ATMs in several other parts of the country including increasing concentration in the cities where we are present.

Rajat Rajgharia: Right.

Kalpana Morparia: If we could instead choose the network of the other banks, you know, which really give much better accessibility to our customers.

Rajat Rajgharia: Right.

Kalpana Morparia: On the other hand, to the extent that we have the second largest network of ATMs in the country.

Kalpana Morparia: And therefore we would also earn fees. But so, you know, both reasons, although I would actually put the first reason as the primary reason.

Rajat Rajgharia: Okay. And, this Rs. 460 crores which you had trading gains in the P&L in the current quarter, Rs. 164 is around equity gains, so Rs. 300 you have as in bond gains, right?

Kalpana Morparia: Right.

Rajat Rajgharia: This bond gains Rs. 300 crores is earned on you trading book?

Kalpana Morparia: It includes the SLR book as also the trading book.

Rajat Rajgharia: Excellent and going forward, I mean, assuming we take a view that probably we might not have the same amount of rally in the bond market, you think this is going to put pressure on your P&L model?

Kalpana Morparia: No, we believe that the given the combination of increase in the net interest income quarter-on-quarter, the write-backs that we are getting from the ICICI legacy book, the equity gains that we are getting primarily again from the legacy book conversion, and half the proprietary gains that we will make, we believe we will not see any pressure on the P&L.

Rajat Rajgharia: Can you give us some sense how much of equity gains you will be having in your books as of now?

Kalpana Morparia: That is a number I think that no banks really discloses on.

Rajat Rajgharia: Okay. Thanks a lot.

Moderator: Thank you Mr. Rajgharia. We have our next question from Mr. Anmol Shanbag of Birla Sunlife Securities. Mr. Shanbag, please go ahead with your question.

Anmol Shanbag: Yes. Good evening Kalpana. Congrats on the good set of numbers. I just have 1 question. I would like to know the bank strategy regarding its exposure to the Dabhol project and whether you have any plans to do provisioning for the same.

Kalpana Morparia: In fact we probably were the first bank in the system to recognize the problem in this exposure and we stopped accruing income, I think, to mind now five quarters before the current quarter. So we, for all practical purposes, from an economic impact prospective, had stopped accruing income on these loans and had started making provision for all practical purposes as though it was a non performing loan.

Anmol Shanbag: Okay.

Kalpana Morparia: We did not really get into technical definition of whether a project and the implementation can be categorized as non performing or not. But really took the full knock on the chin and made provisions on the principal amount as also stopped accruing income.

Anmol Shanbag: Okay. Thank you.

Operator: Thank you Mr. Shanbag. We have our next participant, Ms. Mahrukh of JP Morgan. Please go ahead with your questions madam.

Mahrukh: Yeah, hi Kalpana. Just one question, could we discuss some specifics on fee income as and of the government business has been opened to private banks. Which are the areas we would be looking at and what is the kind of upside we would be looking at.

Kalpana Morparia: See the customs and excise is one area where, you know, we should be making inroads. The other is the whole lot of other revenue collections at the state level and of course whatever is the payment mechanism that we can participate in. As you know, the approval came to us just about a month ago.

Mahrukh: Right. Okay. Thanks.

Operator: Thank you Ms. Mahrukh for your question. We have our next participant Mr. Jatinder Agarwal of REFCO. Mr. Agarwal, please proceed with your questions.

Jatinder Agarwal: Madam, in the gross and restructured loans, it was Rs. 108.42 billion it has come down to Rs. 81.16 billion. Is there any incremental restructuring that has happened after which there would be a negative impact and the restructured loans have come down?

Kalpana Morparia: That is what I said, there could be additions, there would be deletions.

Jatinder Agarwal: Okay.

Kalpana Morparia: But on a net basis, that numbers come down from Rs. 104 billion odd to Rs. 81 billion odd.

Jatinder Agarwal: Yeah. Right. Thank you.

Operator: Thank you Mr. Agarwal. Ladies and gentlemen, for any further questions, you are requested to press “*&1” on your pushbutton phone. We have our next participant, Mr. Sachin Sheth of JM Morgan Stanley. Mr. Sheth, please go ahead.

Sachin Sheth: Hi Kalpana. I just wanted to check on the coverage ratio. What is the comfort level, I think, right now it is about 46% as for September.

Kalpana Morparia: I do not know why you say that Sachin, because I do not think you can club the restructured assets along with non performing loan. As has been demonstrated by us in this quarter, you have to take the cumulative write-off which are in and I repeat my coverage on non performing loans is 64.3% despite the fact that all these are full backed by tangible collateral in the form of land building, plant and machinery, and I have a Rs. 2,000 crore provision on the corporate standard assets.

Sachin Sheth: Okay. And on the restructured side, you are comfortable with whatever is been provided currently?

Kalpana Morparia: In fact, as we have said several times in the past, that we are seeing performance on the restructured portfolio, and this quarter you see the demonstration of that by looking at the reduction from Rs. 108 odd billion of restructured assets to Rs. 81 billion.

Sachin Sheth: Okay. Thank you.

Moderator: Thank you Mr. Sheth. For any further question you are requested to press "*&1" now. Ladies and gentlemen, for any further questions you are requested to press "*1" on your pushbutton phone.

Kalpana Morparia: One second Rakesh has some answer.

Rakesh Jha: Depreciation on investments in quarter 2 is Rs.740 million that will include the provisioning on credit substitutes and depreciation on investments.

Kalpana Morparia: Okay. Thank so much if there are no further questions. We really appreciate your being on the call and I am sure if there are still some questions unanswered Rakesh, Anindya, and all will be most happy to take them. Thanks a lot Madam.

Moderator: Thank you Madam. Ladies and gentlemen, this does conclude your conference for today. We are thankful for your participation and using TATA Indicom Conferencing Services. You may please disconnect your lines now. Thank you.