ICICI Bank

Analysts/Investors Conference Call

July 30, 2005

Moderator

Good evening ladies and gentlemen. I am Ganesh, the moderator for this conference. Welcome to the ICICI Bank Conference Call. For the duration of the presentation all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Ms. Kalpana Morparia, Deputy Managing Director of ICICI Bank. Thank you and over to you madam.

Kalpana

Good afternoon to all of you, and sorry to do this on a Saturday afternoon. I have got with me my entire team. N. S. Kannan is also here. Some of you may have seen a press release saying that Kannan is actually moving on as an Executive Director of ICICI Prudential Life Insurance. Vishakha Mulye, who some of you may have met earlier has taken over as CFO effective August 1st. I have Rakesh, Venkatakrishnan and the rest of my team here. What I propose to do here is just a few highlights of our Q1 performance and then we will be open to questions. You will see that there has been a 23% increase in profit after tax to Rs. 5.30 billion. The overall PBT growth in fact was 32% at Rs. 6.73 billion. The growth has largely been driven by a 35% increase in net interest income to Rs. 8.51 billion rupees and a 57% increase in fee income to Rs. 6.58 billion. The break-up of the fee income is about 62% contributed by our retail business, 30% by our corporate business, and 8% by our international business.

In terms of balance sheet growth, we see a 44% year on year growth in total assets. The growth is primarily driven by the retail portfolio, that is home loans, automobile financing, and other consumer credit products, which has seen a 70% year on year growth with retail loans now constituting 63% of our overall loan book. Since March 2005 we have emerged has a largest provider of consumer credit on a portfolio basis across all banks and entities in India. A significant part of our growth has also been reflected in the deposit side with almost a 70% deposit growth year on year compared to a system deposit growth of 15%. We are now upwards of 26%, market share in incremental deposits. The other feature really of the performance in the Q1 is reduction in the net NPL ratio to 1.96%, retail NPLs are just about 0.54% as a proportion of total retail assets.

I thought with these key highlights we would be happy to take questions.

Moderator

Thank you very much madam. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. The participants are requested to use handsets while asking a question. To ask a question please press *1 now. We have our first question from Mr. Rajiv from DSP Merrill Lynch.

Rajiv

Hi Kalpana, it is Rajiv.

Kalpana

Hi Rajiv.

Rajiv

I just wanted to know if you could just give some more clarity on what is happening to margins, sorry I have not been able to access your presentation?

Kalpana

Margin is at 2.4%.

Rajiv

Okay. Also do you see any, in terms of pricing, some improvement on the pricing across the retail assets, and loan deals, how are they doing let us say relative to six months ago?

Kalpana

As you know, we have announced the hike in interest rates on the mortgage portfolio, that was effective July 1, so that will get reflected more in the second quarter.

Rajiv

Okay. Just one last thing, on the international ventures, if you could throw some color on how much is the business now on that front?

Kalpana

In terms of the fee-based contribution, you know, the numbers that we report really captures only the branches, not the two subsidiaries that we have. In terms of fee-based contribution, this contributed about 8% in that total fees that we reported. On the loans side, total loans contributed by the branches would be under 5%.

Rajiv

Right, thanks a lot.

Moderator

Thank you very much sir. We have our next question from Mr. Sandeep Dixit from Deutsche Bank.

Sandeep Dixit

Hi, Kalpana. Can you hear me?

Kalpana

I can Sandeep, how are you?

Sandeep Dixit

I am good, thank you madam. Madam, just on your yields and your cost, what is the asset yield and the funding cost for the current quarter?

Rakesh

Sandeep the yield is 8.3%, cost is 5.9%

Sandeep Dixit

Cost is 5.9%.

Rakesh

Yeah, total cost of funding.

Kalpana

You know, we have the old ICICI liabilities.

Sandeep Dixit

Which is true, but has the cost of deposits declined significantly because last quarter it was 4.6%, is it any significantly different this quarter, cost of deposits itself?

Rakesh

4.7% for the last quarter, and there is no decline in the cost of deposits. As you know the deposit cost have actually gone up in March, so average cost of deposit for the quarter is about 5%.

Sandeep Dixit.

That is the 40 basis points Q-O-Q rise?

Kalpana

30 basis points.

Sandeep Dixit.

Okay.

Rakesh

We increased the rates on the home loan portfolio by 0.5% on the entire floating rate portfolio of about Rs. 25,000 cr which will be effective from July 1, and in terms of the other retail portfolio the yields have increased on car loans and commercial business by about 0.5% some time in June, that is not reflected in the first quarter.

Sandeep Dixit.

Just on this car loan side, sorry to extend my question, but on car loans, would that be applicable only on the incremental loans, right, because your existing book would continue at fixed rates.

Kalpana

Yeah, whereas, but on the home loan it will apply to entire floating rate book.

Sandeep Dixit

The entire outstanding, floating rate. Thanks a lot.

Moderator

Thank you very much Sir. We have our next questions from Mr. Anand Shanbag from HSBC.

Anand Shanbag

Hi. Just continuing on this question regarding the yields, I just wanted to understand if this increase in yield which is effective from July is that the first ever in the past 12 months at least or was there is any increase in the yield say about 6 months or 9 months ago as well?

Kalpana

December, there was an increase.

Anand Shanbag

So, on a point to point basis if we were to look at it from say June 2004 to June 2005, what kind of an increase would you say approximately would have been there on the floating rate home loans?

Kalpana

About 75 bps.

Anand Shanbag

75? Okay. Just a related question, have you noticed any change in the proportion of fixed and floating rate loans on a quarterly basis compared with what it was say the quarter June 2004?

Rakesh

Actually, it increased in the third and fourth quarters last year when proportion of fixed was close to about 25 to 30% but it has come down since, and in this quarter it is closer to about 16%.

Anand Shanbag

So 16% is for the June 2005 quarter.

Rakesh

And June 2004 was about 14%, in the interim it had increased to close to 25%

Anand Shanbag

So this is the proportion of the fixed rate loans.

Rakesh

Being disbursed.

Anand Shanbhag

Yeah, thanks.

Moderator

Thank you very much Sir. We have our next question from Mr. Sandeep Chopra from First Global.

Sandeep Chopra

There is a provision for Rs. 1.55 crores on account of about amortization of premium on government securities, which is on account of any securities transferred from AFS to HTM category or for the new securities purchased and the provision on that?

Kalpana

This is on securities in the HTM portfolio.

Sandeep Chopra

So, what is proportion of the investment with respect of different categories like AFS and HTM at the end of this quarter?

Rakesh

HTM will be close to 85%.

Sandeep Chopra

It is close to 85% in HTM category?

Rakesh

Yeah, we had shifted in the third quarter last year.

Sandeep Chopra

I wanted to know the proportion in the Q1-06 on a roughly basis.

Rakesh

85% of government securities will be in HTM category.

Moderator

Thank you very much sir. We have our next question from Ms. Sohini from ASK Raymond James.

Sohini

Hi, Kalpana, what I wanted to understand is that 70% year on year growth in deposits, what do you attribute this to? And if you can give us the breakup of your deposits between the demand deposits and term deposits, and what would be the proportion of bulk deposits to total term deposits?

Kalpana

In terms of the overall growth you know about the strategy of using alternate channels like ATM, internet and call center has helped us grow our deposit franchise. On your second question as to the proportion of CASA, and you know we have this savings and savings-linked, where the behavior of the deposits that gets swept into the fixed deposit, actually mimics the demand deposit is roughly about 35%.

Sohini

What would be the bulk deposit?

Kalpana

Wholesale corporate deposits to retail deposits is 55:45.

Sohini

Okay. What would be the outlook for the deposits growth for the full year that you expect?

Kalpana

It will be commensurate with the overall growth that we are seeing on our credit book, in fact, it will be slightly more than that because we are re-pricing our own liability.

Sohini

Yeah, because what we have seen in this quarter is a huge growth in the deposits and money which is lying in the SLR, the huge increase in the SLR Securities also?

Kalpana

SLR Securities is purely a function of the minimum 25%, but you will have seen that our credit book grew also by 40%.

Sohini

Okay Kalpana. Thank you.

Moderator

Thank you very much madam. We have our next question from Mr. Rajiv from DSP Merrill Lynch.

Rajiv

Hi Kalpana, just wanted some details. One, can I have an idea of the gross NPLs and restructured loans?

Kalpana

Restructured loan is Rs. 6,200 crores. We have had no addition of restructured loans in this quarter. The gross NPL is 4.9% and our net NPL number is 1.96%.

Rajiv

Right. And securitization income is about roughly 15%?

Kalpana

17% of NII .

Rajiv

Okay, thanks

Moderator

Thank you very much Sir. We have our next question from Mr. Sandeep Dixit from Deutsche Bank.

Sandeep Dixit

Just one clarification on your earlier response. Corporate deposits you said are 45% of total deposits, does that include current accounts or is this purely bulk term deposits?

Rakesh

Including current accounts.

Sandeep Dixit

So, if you strip current accounts how much should be corporate, rather bulk deposits. Rather let me frame it in this way, I just want to know what is the price sensitive bulk deposits that you would taken let us say in March.

Rakesh

What we are giving is the total corporate deposits; if you strip out the savings and current, it will be about slightly more than 50% of the time deposit.

Sandeep Dixit

Okay, thanks. Just a few numbers Rakesh, the gross NPLs of Rs. 52 billion includes write offs right. How is the much write offs?

Rakesh

Rs. 16.7 billion

Sandeep Dixit

Rs. 16.7 billion. And couple of other numbers, interest on deposits, interest on borrowings, and how much is the ICICI borrowings comprise out of the interest on borrowings?

Rakesh

Interest on deposits is Rs. 1270 crores and interest on total borrowings (I do not have the split between inter-bank and other borrowings) was Rs. 877 crores.

Sandeep Dixit

Rs. 877 crores, okay. Is it safe to say that the cost of ICICI borrowings would be pretty much the same as what it was in the fourth quarter because there does not seem to have been a sharper or significant, I mean, there has been a 3 percentage point decline, but in absolutely terms it has not declined significantly quarter on quarter.

Rakesh

Cost of ICICI borrowings is approximately 10.5%.

Sandeep Dixit

Thanks a lot.

Moderator

Thank you very much Sir. We have our next question from Mr. Anand Shanbag from HSBC.

Anand Shanbag

Thanks, just wanted to know on your treasury income out of the Rs. 183 crores, how much would have come form the equities portfolio?

Kalpana

About Rs. 93 crores has come from equity gains.

Anand Shanbag

Thanks. And other one which I just wanted to confirm, you said that on the mortgage portfolio over the past 12 months the net increase in yield on floating rate loans has been about 0.75%, and is it right to assume that on the car loans as well the net increase over a 12 months period would be the same?

Kalpana

No, car loans you will only have to look at incremental loans.

Anand Shanbhag

Right, but just as a benchmark of how much rates are moving up, have they also moved up by a same extent on the disbursals, you know, over that period?

Rakesh

Actually the rates had actually gone down till October or so, and then it had increased.

Anand Shanbag

Okay. So, on a point to point basis, it is less of an increase as compared with the home loans?

Rakesh

Yeah.

Anand Shanbag

Okay, thanks

Moderator

Thank you very much Sir. We have our next question from Ms. Tabassum from Kotak Securities

Tabassum

Hi, Kalpana. Just wanted the break up of retail loans?

Kalpana

52% is mortgage. Did you want absolute numbers or …

Tabassum

No, that is fine. Auto?

Kalpana

Auto is 19%.

Tabassum

Credit cards and personal loans

Rakesh

Cards is about 3%.

Tabassum

Credit card is 3%.

Rakesh

Right. Personal loans is about 4.5%.

Tabassum

Okay. Just one more clarification, in your investment amortization of 1.5 billion, this is basically expected to recover every quarter now, right, the same amount or similar amount?

Rakesh

It will actually to an extent depend on the securities as and when they mature or you know what new securities we buy, but it will continue to come in every quarter?

Tabassum

Right, and how much loan did you sell this quarter?

Rakesh

About Rs. 25 billion.

Tabassum

25 billion, all retail or…

Rakesh

Virtually all retail, yes.

Tabassum

Okay. So, it is mainly housing or auto..?

Rakesh

It was a mix.

Tabassum

Okay, thanks

Moderator

Thanks very much Madam. We have our next question from Ms. Mahrukh from UBS.

Mahrukh

Hi, everyone. Couple of questions, firstly what is the provision for NPLs during the quarter and could you give us some details on how retail NPLs have behaved. And my next question is, what was the income booked on securitization this quarter?

Kalpana

The retail NPL continues to be very good story Mahrukh. It is 1.4% gross NPLs and net NPLs is 0.54% that is 54 basis points.

Mahrukh

Thanks.

Kalpana

What was the other question?

Rakesh

Of the total provisioning about Rs. 300 crores, about Rs. 150 crores was the amortization and balance Rs. 150 crores was for NPL.

Mahrukh

Okay.

Kalpana

And your other question was…

Mahrukh

Total income received from securitization?

Kalpana

Securitization? It is about 17% of the NII.

Mahrukh

Right, okay thanks

Moderator

Thank you very much madam. Participants who wish to ask questions may please press *1 now. We have our next question from Mr. Aditya Narain from Citigroup. We have a question from Mr. Aditya Narain from Citigroup.

Aditya Narain

Hi, Kalpana, Aditya here. My question is on sales of NPAs to the asset reconstruction company, anything done this year, and how are the sales that were done last year, how have they behaved? The other thing was on, just following up on the retail NPA question, what was the kind of loss ratio that you took on the entire retail book, and if we could get it product wise for last year. And the third one was really on the other income that is under lease and other income that has jumped dramatically, any one offs there or any change in the way income is accruing there.

Kalpana

Let me take your last question first. The other income includes any income that we have received from our subsidiaries companies, i.e., dividend income or even any gains that we would have received from a fund managed by our subsidiaries, so that is the only reason that was higher.

Rakesh

Last year in the first quarter, some of our subsidiaries (I-Sec, ICICI Lombard and ICICI Ventures) had not paid dividends (all three of them paid negligible amount last year first quarter) and they have paid dividends in the current quarter.

Kalpana

Your other question on sale of assets to asset reconstruction companies, we had very few asset sales this time; we just had two small asset sales to asset reconstruction company. In terms of performance on assets that has already been sold, in fact they redeemed in the quarter securities receipts in respect of one asset that we have sold to them at a premium, and they are having pretty good success, almost 50-60% of the assets that have been sold to them are in various stages of restructuring or negotiation. In fact very recently they had acquired a portfolio of very small credit from a bank, and when they ran their first ever auction, they got a 60% increase on their portfolio value. We are quite encouraged by what they are doing.

Rakesh

On the credit losses on the retail portfolio we continue to run at numbers close to 50 basis point to 70 basis point, for the last year in terms of product wise, home loans was about 20 basis point, car loans were about 50 basis point, credit cards was about 6-7%, two wheelers is about 2%.

Aditya Narain

Thanks

Moderator

Thank you very much Sir. Participants who wish to ask questions may please press *1 now. We have a follow up question from Mr. Sandeep Dixit from Deutsche Bank.

Sandeep Dixit

Hi, just to clarify the provisioning policy. You had a general provisioning policy on retail loans. First of all, has that changed, and can you just refresh by memory what exactly are the general provisioning policy on retail loans?

Rakesh

We continue to make specific provisions in addition to RBI guidance, and we write off all the non-home loans within 180 days, and the mortgage loans in two years. On the general provision we maintain a quarter percent on the standard assets, which is included in our tier-2 capital. Balance whatever is the excess provision compared to RBI, it is kept as a floating provision against retail loans, that is netted off from the retail net NPL.

Sandeep Dixit

Right, but there is no upfront provision booked as such when you book let us say home loan or a retail loan. There is no general provision in addition to that 0.25% from standard assets, right.

Rakesh

Yeah, right.

Sandeep Dixit

Okay, thanks a lot.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1 now.

Kalpana

Well thank you so much if you have no other questions.

Rakesh and team are available if you have any other specific questions. Thank you.

Moderator

Thank you madam. Ladies and gentlemen, thank you for choosing WebEx conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.
