ICICI Bank: Q1-2007 results conference call (July 22, 2006)

Moderator: Good afternoon ladies and gentlemen. I am Shikha, the moderator for this conference. Welcome to the conference call of ICICI Bank Ltd. Mr. Rakesh Jha, General Manager, ICICI Bank Ltd., Mumbai, is your call leader today. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation the question and answer session will be conducted for the participants in the conference. Now, I handover the floor to Mr. Rakesh Jha. Thank you and over to you, Sir.

Mr. Rakesh Jha, ICICI Bank: Good afternoon everyone. First, I would like to apologise that most of you would not have received the press release or the presentation. We have just sent this out about 10 to 15 minutes back. So, you should be receiving that. I will talk about the numbers in more detail than we normally do so that you can get all the numbers on this call, and I am sure that in about 10 to 15 minutes, you should get the press release and the presentation. All these issues happened because we are having the board meeting in Baroda and after that the Annual General Meeting today in the afternoon at 1:30. So, we could not even postpone the call. Thanks for your help.

Starting with the highlights for the quarter. The core operating profit, that is the operating profit excluding treasury income increased by 45% to Rs. 11.44 billion from Rs. 7.88 billion in Q1-2006, resulting in a 17% increase in profit after tax to Rs. 6.20 billion from Rs. 5.30 billion. This was despite a 52% decline in treasury income and a 62% increase in provisions for the quarter compared to previous Q1. Net interest income increased by 52% to Rs. 14.75 billion from Rs. 9.69 billion in Q1 2006. Starting from this quarter, one reclassification that we have done which would impact the numbers that you may have for the earlier period is the commissions paid to DMAs for originating auto loans has been shown separately below the operating expenses and not netted off from the NII. So, that means the NII for the earlier period has been reclassified to that extent. And just to give you the numbers on the auto DMAs so that you can get the numbers in that regard. It was Rs. 1.18 billion in Q1 of last year, Rs. 1.64 billion for this Q1 and Rs. 5.23 billion for the whole of FY '06. Fee income increased by 50% year on year. Again the increase was across businesses with retail continuing to contribute about close to 60% of the total fee income, international contributing about 12% to 13% and balance coming from the corporate side.

In terms of loan growth on a year-on-year basis, there was a 50% growth in total advances from Rs. 980 billion to Rs. 1.47 trillion with the international portfolio increasing 92% from about Rs. 70 billion to about Rs. 133 billion basically leveraging the Indian corporate client base. The retail portfolio increased about 59% from Rs. 620 billion to Rs. 987 billion. Year-on-year growth in deposits was 61% from Rs. 1.13 trillion to Rs. 1.83 trillion. The net NPA ratio on a year-on-year basis has come down from about 2% last June to about 0.8% at June 30, 2006.

In terms of P&L statement, if you look in detail, I talked about net interest income increasing to Rs. 14.75 billion from Rs. 9.69 billion basically reflecting the strong loan growth as you have seen over the last one-year. The net interest margin for the quarter is at about 2.5% and just to remind again that is without reducing the auto DMAs expenses and from the interest income line. The comparable number for the full year 2006 was about 2.7%. So, there has been about a 20 basis point decline in the margin for the bank. That's mainly been because of the higher cost of the funding we have seen since February 2006 and which was fully reflected in the first quarter. As you know, we have increased our lending rates as well, but there is some lag in terms of when the rates get effective because the floating rate home loans get repriced every quarter. The last increase that we did in May and June has been effective from 1st of July. That's a 1% increase on about a Rs. 400 billion portfolio. So, that would add about a billion to our net interest income from the second quarter and it's not reflected in the current quarter. The cost of deposits for the bank, I think we had mentioned earlier, also has increased from 5.2% for Q4 to about close to 5.8% for the current quarter. But in terms of the incremental cost, it has now been quite stable over the last couple of months. Since the increase in March, it came up a bit in April, and May-June has been quite steady and it would be running at about close to 6% to 6.2% while incrementally the lending rates have been increasing. So, we still would stick to our target for the net interest margin for the year to be broadly at the same level as last year even without the securitization gains that were there last year. In the current quarter, we sold down loans of about to Rs. 30 billion and we accounted for that in accordance with the new RBI guidelines: the gains were amortized and the gains were not really significant on those sell down of loans.

Coming to non-interest income, I mentioned to you that the fee income increased 50% from Rs. 6.58 billion to Rs. 9.85 billion. Other non-interest income declined from Rs. 2.49 billion to Rs. 2.05 billion. As you know the other non-interest income basically includes dividends from subsidiaries, lease income and other gains. Operating expenses increased by about 40% Q1-on-Q1. But if you look at it from Q4 '06, the increase has not been substantial. The increase from last Q1 has mainly been because of the increase in the number of employees in this period, commensurate with the close to 50% growth that we have seen in this period in our balance sheet.

Auto DMA expenses have increased from Rs. 1.18 billion in Q1 '06 to Rs. 1.64 billion in the current quarter. Other DMA expenses have increased from Rs. 1.36 billion to Rs. 2.27 billion in the current quarter. Lease depreciation has decreased from Rs. 0.64 billion to Rs. 0.51 billion in this quarter. Taking all this into account, the core operating profit comes to Rs. 11.44 billion for the current quarter, which is a 45% increase over Rs. 7.88 billion in Q1 '06. There has been a decline in treasury income as I mentioned earlier, it is at about Rs. 0.88 billion compared to Rs. 1.83 billion in the last quarter and that is mainly the impact of the market, both in terms of the equity markets which were very choppy during the quarter, as also the increase in the government yields during this current quarter.

The operating profit increased 27% from Rs. 9.71 billion to Rs. 12.31 billion. Provisions, as I mentioned earlier, increased from about Rs. 2.98 billion in Q1 '06 to

Rs. 4.83 billion in Q1 '07. One reason for the increase was the higher premium amortization on government securities, which is Rs. 2.67 billion in Q1 '07 compared to Rs. 1.55 billion in Q1 '06. In terms of provisioning, in line with the new RBI requirement of providing 1% on certain categories of loans, we have made those provisions as required by RBI in terms of reaching 0.55% by June '06 and we will take the balance over the next three quarters. The impact of that was about Rs. 470 million for the current quarter. So, despite 45% increase in core operating profit, we see a 17% increase in profit after tax because of the lower treasury income and the higher provisioning. The tax for the current quarter was Rs. 1.29 billion compared to Rs. 1.43 billion for Q1 '06.

Coming to the balance sheet, the total balance sheet, year-on-year growth has been about 47% and the total balance sheet size is about now Rs. 2.66 trillion at June 30th with advances at about Rs. 1.47 trillion.

In terms of deposit, the total deposits now are about Rs. 1.83 trillion compared to Rs. 1.13 trillion in June 2005.

Coming to the key ratios, as you are aware, we raised significant amount of capital in December '05, the impact of which is now fully reflected in our capital. The return on net worth for the quarter is at about 11.1%. The book value per share is about 256 rupees. I already talked about the net interest margin being at 2.5%. The cost-to-income ratio is at about 40% that is despite the lower treasury gains. The cost-to-average assets are clearly showing signs of economies of the larger scale of business that we are doing, it is at about 1.63% now. Fee income growth continued to be robust reflecting in the fee-to-income ratio being at about 36.5% for the current quarter.

In terms of asset quality, at June 30, 2006 gross NPAs were Rs. 32.67 billion compared to Rs. 29.63 billion of March '06. Net NPAs were Rs. 12.95 billion compared to Rs. 10.75 billion at March '06. The net NPA ratio is 0.8% at June 30th. The net restructure loans are Rs. 54.69 billion at June 30th, marginal increased from the March 31st level.

The total capital adequacy for the bank was 12.46% with tier-one at 8.60% and tier-two at 3.86%. We have also disclosed this time the estimated capital adequacy based on the RBI's draft guidelines which came out sometime last year based on Basel II. Based on that, capital adequacy works out to about 12.8% total capital adequacy with tier-one capital of 9.6%, so there is increase of close to 1% in tier-one capital and that is mainly because of the fact that as per Basel II, the equity investment in subsidiaries is reduced 50% each from tier-one and tier-two, unlike currently required by RBI of 100% reduction from tier-one capital.

In terms of the other impact of Basel II, the benefit we get on our retail portfolio gets offset to a large extent by the imposition of the capital for operational risks based on the basic indicator approach at 15% of gross income. Those are the key numbers and now, we can take your questions.

Moderator: We will now begin the question and answer interactive session for the conference participants connected to Audio Conference Service from Airtel. Participants, who wish to ask questions may please press *1 on their touchtone enabled telephone keypad. On pressing *1 participants will get a chance to present their question on a first-in-line basis. To ask a question please press *1 now. The first question comes from Ms. Mahrukh from UBS, Mumbai. Ms. Mahrukh, you may ask your question now.

Ms. Mahrukh, UBS, Mumbai: Hi, can you give us more colour on NPAs because the gross NPAs have risen 10% quarter-on-quarter, so is that because of corporate loans or retail loans?

Mr. Rakesh Jha: The increase is mainly on our retail loans. That is more in line with strong growth in retail loans that we have seen over the last couple of quarters. The increase is also due to the change in the mix of our retail portfolio in terms of lending to personal loans and credit cards which now accounts for 11% of the retail portfolio compared to 7%-8% a year back. So, there is some increase because of that. But that's reflected in higher yields that we earn on this portfolio. In terms of gross NPAs, we added about Rs. 3.4 billion in this quarter in retail loans compared to about Rs. 2.5 billion last quarter Q4 '06.

Ms. Mahrukh: Okay. Just one more question, basically on the branch licensing, I mean your assets and deposits are growing strongly even without that, but how long would that continue and what's the status now and in case RBI had further delays in sanctioning these licenses, what is the way out?

Mr. Rakesh Jha: Mahrukh, on that, basically, we had significant branch-opening plans even in the fourth quarter of last year and first quarter of this year, much more than that we had actually opened. Despite the much smaller increase in branches the asset growth and deposit growth rather has been in line with what we wanted. So in that sense it has not at all impacted the deposit raising capability and we would expect it to sustain a deposit raising capability going forward as well. Having said that we believe that over a period of time RBI will grant additional licenses to the Bank.

Ms. Mahrukh: Thanks. And would you have the breakdown of your deposit mix?

Mr. Rakesh Jha: In terms of the currents and savings deposits, the Savings was Rs. 242 billion at June 2006 and Current was about Rs. 160 billion.

Ms. Mahrukh: Thanks.

Moderator: Thank you, madam. Next question comes from Mr. Srikant from Brics Securities, Mumbai. Mr. Srikant, you may ask your question now.

Mr. Srikant, Brics Securities, Mumbai: Hi, Rakesh. Three questions. One is your interest on balances with RBI and other banks, it has gone up from Rs. 76 crore to Rs. 245 crore. What explains this strong increase?

Mr. Rakesh Jha: This is due to higher balances.

Mr. Srikant: Yes, because you can see even Q4 '06, you earned only Rs. 104 crore so it's a substantial increase so I was wondering what happened this quarter.

Mr. Rakesh Jha: No, it is basically the higher balances that we have, there was you know one very large IPO during the quarter, to that extent the float money would have been deployed in short term funds.

Mr. Srikant: I mean this line will include the inter-bank call money, the interest you earn on call money, right?

Mr. Rakesh Jha: Yes.

Mr. Srikant: Okay, if RBI stops paying the 3% on CRR, would much would we impacted?

Mr. Rakesh Jha: If RBI stops paying CRR that is roughly about Rs. 0.30 billion a quarter that we earn.

Mr. Srikant: Rs. 0.30 bn every quarter?

Mr. Rakesh Jha: Yes.

Mr. Srikant: Okay. The tax rate in this quarter has been pretty low at 17%. So, till what time we will see these low tax rates, when will it start going up and why are you actually having these law tax rates currently?

Mr. Rakesh Jha: The low tax rate is basically because of the mix of the income that we have. For example, dividend income and capital gains have much lower rates than the marginal tax rate.

Mr. Srikant: Ok. This quarter even the treasury income was pretty less and your income profile is now changing into a more traditional income profile but the tax rate is still lower.

Mr. Rakesh Jha: We still have long term equity gains during the quarter which was offset, as you rightly said by mark to market and other losses in treasury but at the gross level those incomes were still there and we also get other tax benefits on some of other businesses like loans more than five years.

Mr. Srikant: For the entire year should we assume the tax rate to more or less at these levels?

Mr. Rakesh Jha: We would expect the tax rates to be I guess in the range of about 20% to 22% for the year.

Mr. Srikant: 22%.

Mr. Rakesh Jha: 20% to 22%.

Mr. Srikant: Okay, and I did not get the last point you were saying about Basel II, I got the point about investment in subsidiaries but the thing operational risk and your retail loan portfolio, could you just explain that again?

Mr. Rakesh Jha: Yes, in terms of the draft RBI guidelines, which come out last year the risk weightage on the retail portfolio other than mortgage, it is 75%, which is currently at 125% as per current RBI guidelines so we get the benefit on that.

Mr. Srikant: Okay, so assuming that the risk weight will be reduced.

Mr. Rakesh Jha: Yes, we have done it exactly as per the draft RBI guidelines issued last year.

Mr. Srikant: Okay, thanks.

Moderator: Thank you Sir. Next question comes from Ms. Tabassum from Kotak Securities, Mumbai. Ms. Tabassum, you may ask your question now.

Ms. Tabassum from Kotak Securities, Mumbai: Hi, Rakesh. Just need some details; can you give me the break-up of the retail loan book outstanding housing, auto loans, personal loans etc?

Mr. Rakesh Jha: Yes, at June 2006 home loans is about Rs. 495 billion that is about 50%, car loans are about Rs. 192 billion that is about 20%, commercial business about Rs. 116 billion about 11.8%, two wheeler is about Rs. 21 billion, personal loans is about Rs. 70 billion, credit cards are about Rs. 35 billion, loan against shares and other securities is about Rs. 22 billion.

Ms. Tabassum: Ok, that's fine. Just two more clarifications, you mentioned increase in lending rate since July has been 1% because I thought it was like 50 basis point on housing loan.

Mr. Rakesh Jha: No, FRR we increased twice once in May and once in June by 0.5% each so that gets effective with the existing customers only from 1st of July that 1% increase came in from 1st of July on the floating rate of portfolio.

Ms. Tabassum: Okay and one more question on deposits. Basically, your bulk deposit component has that changed or it still remains at 50%-60%?

Mr. Rakesh Jha: It would broadly be in the similar range.

Ms. Tabassum: Okay. Fine. Thank you.

Moderator: Thank you, madam. Next question comes from Mr. Rajeev from DSP Merill Lynch, Mumbai. Mr. Rajeev, you may ask your question now.

Mr. Rajeev, DSP Merill Lynch, Mumbai: Hi Rakesh! I am just following up on Mahrukh's question on NPAs. Just wanted to understand about the restructured loan increase. The new restructured loans, where are those that they are coming from?

Mr. Rakesh Jha: There is a marginal increase in restructured loans of about Rs. one billion.

Mr. Rajeev: Some up-gradation would have probably happened during the quarter or no?

Mr. Rakesh Jha: There is not much up-gradation that has happened and the increase also will be more because some additional funding had happened to some of these companies. So, it's just a normal increase and through the year we might see some upgradations happening. There is no trend in terms of increasing number of restructurings. And on the NPAs, in general in the first quarter, the NPAs do go up. For example, on the corporate side, when there has not been much of addition, the deletions also typically tend to happen towards the second half of the year. On the retail loans, as I mentioned, the increase is to the extent that the mix has changed, for example, if you look at personal loans over the last 15 months, it has close to tripled from the level at which it was. Credit card outstanding has close to doubled. This is something that we are aware of and it is in line with our own thinking and the trends.

Mr. Rajeev: So, on these new product lines, you continue to follow a policy of six months write off?

Mr. Rakesh Jha: Yes, that's one thing, which we didn't cover in the call: our provisioning on retail loans. Till March '06, we were writing off all the retail loans other than home loans in six months and home loans in two years. Then, we had done a reassessment, if you remember, in December of '05 and had written back about Rs. 1.7 billion. And after the increase in general provisions on retail loans over the last 15 months, the effective provisioning works out such that we write off the entire loan in about one year in case of non-home loans and we write off in three years in case of home loans. Including specific provisioning and general provisioning, the total coverage on NPAs works out to about 75% which was broadly where we were earlier as well. So incrementally, we are providing retail non-home loans over a period of one year and home loans over a period of three years.

Mr. Rajeev: Right. Just one another thing, what would be your margins be if you were not to adjust for auto DMA expenses which you have done?

Mr. Rakesh Jha: That will be about 30-basis point lower.

Mr. Rajeev: Quarter-on-quarter?

Mr. Rakesh Jha: Sorry.

Mr. Rajeev: Quarter-on-quarter, so it will be about 2.2%.

Mr. Rakesh Jha: For the quarter, yes.

Moderator: Thank you sir. Next question comes from Ms. Madhuchanda Dey from IL&FS Investment, Mumbai. Ms. Dey, you may ask your question now.

Ms. Madhuchanda Dey, IL&FS Investment, Mumbai: Hi! I have first couple of housekeeping questions. What was the cost of funds for the quarter and the yield on advances?

Mr. Rakesh Jha: The cost of funds was about 6% and yield on advance loan was about 9.3%-9.4%.

Ms. Madhuchanda Dey: What percentage of your book is going to get the repriced because of 100 bps increase in rate and the consequent impact on the yield?

Mr. Rakesh Jha: Yes. Okay, if you look at just that impact, about Rs. 400 billion which will get repriced by about 1%.

Ms. Madhuchanda Dey: Okay, the next question is, since you also have a little lower CASA compared to many of your peer group banks and since the systemic rates likely to go up further, what is your call on margin going forward, although you mentioned that you hope to maintain the margin at the current level but how do you plan to do that?

Mr. Rakesh Jha: Basically, if you would have seen over the last five or six months as the interest rates in the system have increased funding costs for us, so we have increased our lending rates across retail and corporate products. So that's what we will be doing, if we see further increases in rates, which can happen given the current situation and we would expect to pass on rates to our lending side.

Ms. Madhuchanda Dey: One question is, how do plan to get over this problem of lower CASA because this is going to plague you going forward also?

Mr. Rakesh Jha: In terms of CASA, the savings deposit growth has been very strong in the quarter with about Rs. 30 bn increase in a quarter. And current account deposits were flat because of much lower capital market activity during the current quarter. So, from the numbers, you can see we are clearly focusing a lot on increasing our savings deposits which would continue to be there going forward. But obviously we would not be able to increase our CASA to 30%-33% immediately but over a period of time, we hope to increase those levels.

Ms. Madhuchanda Dey: Do you have any targets for the end of '07 and going forward for this CASA share?

Mr. Rakesh Jha: We have targets but we have not disclosed.

Ms. Madhuchanda Dey: Okay, thanks a lot.

Moderator: Thank you madam. Next question comes from Mr. Anil Agarwal from Morgan Stanley, Mumbai. Mr. Agarwal, you may ask your questions now. Sir, I think his line got disconnected. So, shall we take the next question?

Mr. Rakesh Jha: Yes, please.

Moderator: Okay. Next question comes from Ms Mahrukh from UBS, Mumbai. Ms. Mahrukh, you may ask your questions now.

Ms Mahrukh: Hi, again. Just can you break-up on fees, especially contribution from international operations?

Mr. Rakesh Jha: I mentioned that earlier, about 60% came from retail business. About 13% to 14% came from international and balance came from corporate.

Ms Mahrukh: Thanks.

Moderator: Thank you madam.

Moderator: Next question comes from Mr. Kashyap Jhaveri from Sharekhan Limited, Mumbai. Mr. Kashyap, you may ask your questions now.

Mr. Kashyap Jhaveri, Sharekhan Limited, Mumbai: Good morning. I just wanted to recheck on these number as you said Rs. 400 billion of your loan book will get repriced on 1st July onwards?

Mr. Rakesh Jha: Yes.

Mr. Kashyap: And I just wanted some colour on this recent investment, evaluation and classification guidelines that came in on 12th July. If I read it correctly, is it right to say that now even gains on HTM as well as the AFS portfolios can be booked compared to the previous one, previous guidelines?

Mr. Rakesh Jha: Those are draft guidelines and we are still going through those guidelines. What did you mean by can be booked?

Mr. Kashyap: I mean unrealised gain can be even accounted for, does it mean that?

Mr. Rakesh Jha: No, I thought the guidelines said that it has to be taken in shareholder's equity.

Mr. Kashyap: But now there can be… if I can recollect now even discount that is on the HTM portfolio now can be taken through P&L, am I reading it correctly?

Mr. Rakesh Jha: Discount meaning?

Mr. Kashyap: Right now, the Premium is being amortized, if you have brought it at discount, it can be booked as a profit?

Mr. Rakesh Jha: No, I do not think so. The guideline seems to be more towards alignment with US GAAP and whatever is there currently stands and in terms of AFS book, unrealized mark to market can be taken into shareholder's equity.

Mr. Kashyap: Okay. Just on an informative side, what were the CASA last year?

Mr. Rakesh Jha: Sorry.

Mr. Kashyap: CASA deposits last year, same quarter last year.

Mr. Rakesh Jha: In June '05, it was 11.2% for savings and 11.7% was current

Mr. Kashyap: You are saying proportion of?

Mr. Rakesh Jha: Yes, the numbers were Rs. 127 billion and current was Rs. 133 billion.

Mr. Kashyap: Okay, thanks.

Moderator: Next question from Mr. Hiren from SSKI Securities, Mumbai. Mr. Hiren, you may ask your questions now.

Mr. Hiren, SSKI Securities, Mumbai: Hi, Rakesh and Anindya.

Mr. Rakesh Jha: Hi.

Mr. Hiren: I just wanted… once more if you can just give the break-up of retail loans?

Mr. Rakesh Jha: Home loans is about Rs. 495 billion, cars loans is about Rs. 192 billion, commercial vehicle Rs. 115 billion, two-wheelers Rs. 21 billion, personal loan Rs. 70 billion, credit card Rs. 35 billion, loans against shares and other securities about 22 billion.

Mr. Hiren: Okay, and would you have a corresponding break-up for the last year also?

Mr. Rakesh Jha: Yes. It's home loan of Rs. 325 billion in June'05.

Mr. Hiren: Yes.

Mr. Rakesh Jha: Car loans is Rs. 118 billion, commercial vehicle Rs. 73 billion, two-wheelers was Rs. 11.9 billion, personal loans was Rs. 28 billion, credit card was about Rs. 20 billion, loan against shares and other securities was Rs. 18 billion and total retail loans were Rs. 620 billion.

Mr. Hiren: Okay total was Rs. 620 bn. Any feedback on the foreign currency hybrid guidelines which came out yesterday night.

Mr. Rakesh Jha: Yes. Now, it clearly makes it much more practical for all the banks to raise hybrid capital and especially banks, you know who has an external rating and on their existing instruments. So, we would also be looking at raising hybrid capital as and when required.

Mr. Hiren: But does it say that only 50% of the IPDIs can be raised in foreign currency?

Mr. Rakesh Jh: Yes, that's correct.

Mr. Hiren: So effectively 50% of hybrid tier-one can be raised as foreign currency.

Mr. Rakesh Jha: Yes and for tier-two 25% of the total tier-one can be raised.

Mr. Hiren: Okay. how much branches would you have?

Anindya Banerjee: About 625.

Mr. Hiren: So, about 10 branches have been open during the quarter?

Mr. Rakesh Jha: 625, it is currently, would have opened about 10 or 12 branches.

Mr. Hiren: Okay, and how many ATMs?

Mr. Rakesh Jha: 2,275.

Mr. Hiren: Okay, fine. That's all about it for me right now.

Moderator: Thank you, sir. Next question comes from Sunil Kumar from Birla Sun Life Insurance, Mumbai. Mr. Kumar, you may ask your question now.

Mr. Sunil Kumar, Birla Sun Life Insurance, Mumbai: Hi. Just wanted to check, you mentioned your provisioning is Rs. 4.83 billion and Rs. 2.67 billion is amortization and Rs. 470 million general provisioning. Have you transferred anything to the HTM portfolio during the quarter?

Mr. Rakesh Jha: Of government security, HTM will be currently at about 80%.

Mr. Kumar: 80%, okay. What's the plan known of you have mentioned sometime back about franchisees to be setup in rural sector. So, how is the progress been?

Mr. Rakesh Jha: In terms of our rural strategy, we have been progressing in terms of setting up our distribution network.

Mr. Kumar: Okay.

Mr. Rakesh Jha: And that's progressing in line but as I have mentioned it's a much longer-term strategy and in terms of actual numbers, it will reflect over the next two to three years. It will not be a quarterly phenomenon.

Mr. Kumar: Okay, but the whole financial year of '06-'07 how many franchisess you are planning?

Mr. Rakesh Jha: That is in a pilot stage and we would not want to project the number of franchisees.

Mr. Kumar: Okay. Third one was on your NPAs, how much NPA proportion you have experienced in your housing loans, since your housing loan proportion is substantial.

Mr. Rakesh Jha: It continues at the earlier kind of region where the gross NPAs region is about 0.9% or so.

Mr. Kumar: Gross NPAs is 0.9%.

Mr. Rakesh Jha: Yes.

Mr. Kumar: In housing loan? And one more thing, since this quarter you have shown a very good loan growth of around 50%, retail also growing well around 59%, have you seen from any quarter this percentage of growth tapering off or do you see this percentage going down in the next three quarters of this year?

Mr. Rakesh Jha: If you look at the year-on-year growth it is at about 50% and if you look at the trend from March till now, except for rural sector loans which by about Rs. 30 billion to Rs. 35 billion due to seasonality, the retail loans have continued to increase at a healthy pace, the increase has been about Rs. 70 billion rupees even after considering the sell down. So clearly we are seeing growth rates for the current year in line with expectations.

Mr. Kumar: For '06-'07 or '05-'06?

Anindya Banerjee: If you look at the retail loan disbursement for the first quarter, they are about 35% higher than the corresponding quarter of the previous year, so that is the kind of trend that we had articulated and that we would expect.

Mr. Kumar: Okay, thank you.

Moderator: Thank you sir. Next question comes from Mr. Shashin from Tower Capital, Mumbai. Mr. Shashin you may ask our question now.

Mr. Shashin, Tower Capital, Mumbai: Good morning sir. I just want to understand one thing. What will be the capital investment in our subsidiary right now, the total?

Mr. Rakesh Jha: The total equity investment in subsidiaries is currently about Rs. 28 billion.

Mr. Shashin: Equity investment and Sir in near future are we looking towards unlocking value? What would be your strategy in this particular segment Sir?

Mr. Rakesh Jha: Clearly the insurance subsidiaries are growing very strongly. Both the industries are growing at a much higher rate than expectation. So there would be further capital requirement for these two companies and now given the kind of flexibility that we have in terms of raising hybrid capital including tier-one capital and we expect even issuance of preference shares being allowed in the near future. So with that in terms of capital we are quite comfortable and we would continue to support these subsidiaries.

Mr. Shashin: Thank you and sir just I wanted another guidance on the total employees probably towards the end of the year are we seeing FY07?.

Mr. Rakesh Jha: No. We don't have any specific disclosed number on the projected number of employees.

Mr. Shashin: Okay. So the cost of income probably will be at similar levels or are we seeing a rising trend in the same?

Mr. Rakesh Jha: No. Current quarter it is in a slightly higher than the trend that we have seen in earlier quarters of close to 39%, the reason mainly being the fact that the treasury income was lower during the current quarter. I would expect earlier trends to continue.

Mr. Shashin: Okay, thank you.

Moderator: Thank you sir. Next question comes from Ms. Sohini from ASK, Mumbai. Ms. Sohini you may ask your question now.

Ms. Sohini, ASK, Mumbai: To get a break up of your provisions again if you can state how much of your NPL and how much was for mark to market?

Anindya Banerjee: Out of the Rs. 4.83 billion of provisions say 2.67 billion was on the amortization of premium on government securities and the balance was provisions related to loan, out of which the general provision made was Rs. 0.47 billion and the balance would basically be for non-performing loans.

Ms. Sohini: These were does not include any mark-to-market depreciation?

Anindya Banerjee: That happens in the treasury line.

Ms. Sohini: That would be how much if you can say separately?

Anindya Banerjee: That should be about Rs. 500 million rupees.

Ms. Sohini: Okay. Thank you.

Moderator: Thank you madam. Next question comes from Mr. Vishal Goel from Edelweiss Securities, Mumbia. Mr. Goel you may ask our question now.

Mr. Vishal Goel, Edelweiss Securities, Mumbai: Hi. About the treasury income, can you do give me some more texture on the treasury income? What is the breakup of the Rs. 0.88 bn?

Anindya Banerjee: It could primarily be equity gain, Vishal. The equity gains were about close to Rs. 1.5 billion rupees and there were also some income from derivatives and of course we would have adjusted the unrealized and realized loss on the trading book.

Mr. Vishal Goel: That is I think Rs. 500 million, right?

Anindya Banerjee: Correct.

Mr. Vishal Goel: Just one more thing, would you have a number for your effective interest rate, I think which is generally the yield when you buy securities and not the coupon, I think what we accrue is coupon on investment book.

Anindya Banerjee: That can be derived from amortization number disclosed separately.

Mr. Vishal Goel: Okay, okay perfectly fine. Thank you.

Moderator: Thank you, Sir. Next question comes from Mr. Nilang Metha from HSBC Mumbai. Mr. Metha, you may ask your question now.

Mr. Nilang Mehta, HSBC, Mumbai: Hello, sir I have couple of questions. One is on trends on retail NPAs, what you are witnessing and specifically in the light of recent meltdown in capital markets, how have you experienced NPA levels in our loan against shares and those kinds of portfolios? And other things, which I wanted to also know was on securitization what is the amount we have done this quarter compare to the same quarter last year and what is the target for the year which we are looking at?

Anindya Banerjee: On the NPL that we have not seen any significant impact of either the interest rate rises or the market movements on the retail portfolio and the increase has been in line with expectations and to some extent higher because of the change in the portfolio mix. On the securitization, it was about Rs. 30 billion rupees and for the year we would expect to continue to securitize a portion of our loans. The exact number would depend upon the interest rate environment and the market environment that is there during the year.

Mr. Nilang Metha: Last year, what was the total amount, which you have done, Sir on securitization?

Mr. Rakesh Jha: About Rs. 120 billion.

Mr. Nilang Metha: And Sir. Coming back to amortization expense you had Rs. 2.67 billion this quarter. What would be the amount in the last quarter, March Quarter?

Mr. Rakesh Jha: It's about Rs. 2.4 billion.

Mr. Nilang Metha: Rs. 2.4 billion. And how do you see this trend increasing? It's been on the increasing side. Does it go to show that we are buying higher coupon securities?.

Mr. Rakesh Jha: We are still running at the less than two year duration.

Mr. Nilang Metha: Okay, thanks a lot, Sir.

Moderator: Thank you, Sir. Next question comes from Mr. Dinesh from Religare Securities, Mumbai. Mr. Dinesh you may ask your question now.

Mr. Dinesh, Religare Securities, Mumbai: Hi, Rakesh. What is you expectation about increase in your fee-based income for the next quarter?

Mr. Rakesh Jha: There is no specific number that we can disclose, but what we have been seeing in terms of the trends and the growth should continue in quarter going forward.

Mr. Dinesh: Any figure and percentage?

Mr. Rakesh Jha: No, we will not be able to give any specific numbers for the future.

Mr. Dinesh: Okay. Thank you.

Moderator: Thank you, Sir. Next question comes from Mr. Hiren from SSKI securities, Mumbai. Mr. Hiren, you may ask your question now.

Mr. Hiren, SSKI Securities, Mumbai: How much is the interest expense on deposit of the total interest expense? There was also some news item about the real estate and of NCDEX deals. I just wanted to know whether these gains have been booked in this quarter or not?

Anindya Banerjee: The gains have been booked in this quarter. The interest expense of deposit is about Rs. 25 billion rupees.

Mr. Hiren: So, the real estate sale gain is reflected in this result?

Anindya Banerjee: Yes.

Mr. Hiren: And also the NCDEX?

Mr. Rakesh Jha: That's correct.

Mr. Hiren: Okay, the other thing what were the total retail loan disbursement during the quarter?

Anindya Banerjee: About Rs. 159 billion.

Mr. Hiren: Have you seen any quarter-on-quarter slow down in any of the categories?

Anindya Banerjee: No, as I said it is a 35% growth on year-on-year basis, which is what our expectation was so in that sense it is in line.

Mr. Hiren: But you haven't seen any impact in terms of rising interest rate impacting any particular category?

Anindya Banerjee: No.

Mr. Hiren: Thanks.

Moderator: Thank you, Sir. Next question comes from Mr. Manish from Motilal Oswal Mumbai. Mr. Manish you may ask your question now.

Mr. Manish, Motilal Oswal, Mumbai: Hi Rakesh and Anindya. Just wanted to know about your margin, this quarter the margin is at 2.5% adjusting for the DMA expense? And since you have raised lending rate on home loans how much it would add to your margin from the following quarter?

Mr. Rakesh Jha: If you do the calculation roughly about 17 basis points.

Mr. Manish: 17 basis point?.

Mr. Rakesh Jha: Assuming everything else remains constant.

Mr. Manish: All right, and you have said that your objective would be to maintain margin in last year level which is around 2.7%, after adjusting for the DMA expenses?

Mr. Rakesh Jha: Yes.

Mr. Manish: So, probably in the second half you would be earning much more than what you earned in the first half.

Mr. Rakesh Jha: From second quarter and everything else remaining same there should be a 17 basis point increase because of the housing loan increase rate.

Mr. Manish: All right and since we have seen increasing rates in auto, housing and others, has profitability in any of these segments changed, like auto loans rate have gone up substantially over the last six months or so and obviously the auto loan portfolio was the least profitable. Have these things changed now?

Mr. Rakesh Jha: Clearly the unsecured product loans, the personal loans and credit cards are the most profitable because of the higher yields that we get and which are much more than the risks that is there on that portfolio and home and car will be lower than these.

Mr. Manish: Okay. Thanks a lot.

Moderator: Thank you, Sir. Next question comes from Mr. Sudhakar from Span Capital, Mumbai. Mr. Sudhakar you may ask you question now.

Mr. Sudhakar, Span Capital, Mumbai: Hi! Can you just throw some light on your subsidiaries? How they have performed in this quarter? And also there were some news that you are planning to allocate stakes in one of your subsidiaries, 3i Infotech.

Anindya Banerjee: Yeah. 3i Infotech is not a subsidiary of the bank.

Mr. Sudhakar: Okay.

Anindya Banerjee: You know, it is a separately listed company and of course is a significant financial investment for us. So, we would look at the opportunities in the market for us as well as what makes strategic sense for the company in terms of getting a strategic investor.

Mr. Sudhakar: Okay.

Anindya Banerjee: If you look at the other subsidiaries, as you know the principal subsidiaries that we have in India, the two larger ones are in insurance, which is ICICI Prudential and ICICI Lombard. Both of them have done very well this quarter. ICICI Prudential has a market share of about 27% in the private sector and an overall market share of about 11.5% including LIC. The insurance industry, the industry data that we have for April and May shows a very high growth of over 70% compared to the same period of the previous year. That may not be the indicative of the growth for the year, but even if you look at FY06, the growth for the industry was upward of 30% compared to a historical trend of between 15% and 20%. So, certainly that industry is growing quite rapidly and we have a market leadership position. In terms of the new business achieved profit that we report for that company that increased by about 168% on year-on-year basis to Rs. 1.86 billion rupees. So, that company continues to proceed doing very well with the growth rate being higher than what we had expected. On the non-life insurance side also, ICICI Lombard has actually increased its market share from about 30% to about 36% among the private sector players and from the about 8% to about 12.5% on a total market basis, and it has now significantly narrowed the gap with the smallest of the four public sector general insurance companies. It had about 90% topline growth and ROE of about 16% in the quarter. It's also expanding and diversifying its business by increasing the retail proportion of its premium income. The other subsidiary that we have is the asset management company, Prudential ICICI, which during the quarter overtook UTI to become the largest mutual fund in India. So, these continue to show the benefits of both the growth in the market as well as the synergy that we are able to drive with ICICI Bank. So, that is really the three major ones. ICICI Securities was impacted on the fixed income business which was negatively impacted by the market, but overall it made a profit of Rs. 240 million rupees due to gains from equity brokerage and the corporate finance activities such as IPO management. ICICI venture, our private equity subsidiary now manages funds of about Rs. 80 billion, made about Rs. 150 million of profit, and because it's purely a fee busines and the capital invested there is negligible, its ROE was upwards of 200%.

Mr. Sudhakar: Thanks a lot.

Moderator: Thank you sir. Next question comes from Mr. Anurag Jain from Kotak Mutual Fund, Mumbai. Mr. Jain, you may ask your question now.

Mr. Anurag Jain, Kotak Mutual Fund, Mumbai: Hi! My question was regarding mortgages. From the bottom of the cycle, mortgage rates should have gone by 300-350 basis points, EMI would hardly recovering the interest portion and tenures would have crossed the retirement age. Is that a cause of concern for all of us? Do we expect higher NPAs going forward?

Anindya Banerjee: I think the rates would have gone up by 200 to 250 basis points. As you have said, the basic product that we have in floating rate loans in India is a product where the tenure gets extended and not the installment amount. However, we do retain the flexibility to increase the installment amount if the tenure extension is not considered appropriate, and therefore, if we look at the 100 basis points rise effective July 1 that Rakesh mentioned, in the case of some customers based on the age of the customer and the time to retirement and other criteria, we have indeed made some increases in the installment amounts as well

Mr. Anurag Jain: But is that a matter of concern? There is also some talk of 20% to 30% correction in real estate prices. So, is that a matter of concern having seen a smooth growth the past two three years?

Anindya Banerjee: No. I think it has to be seen in the context of the portfolio that we have. And our portfolio is primarily residential mortgages, owner-occupied houses, salaried employees with reasonable LTVs and installment-to-income ratio and an average age of under 40, closer to the mid 30s actually. So, taking all of these factors into account, we are not concerned about the portfolio per se.

Mr. Anurag Jain: Okay. Thanks a lot. That helps.

Moderator: Thank you sir. Next question comes from Mr. Aditya from Prudential ICICI, Mumbai. Mr. Aditya, you may ask your question.

Mr. Aditya, Prudential ICICI, Mumbai: Sir, what is the current duration of the investment portfolio?

Anindya Banerjee: The overall SLR duration would be under two years and the duration of the AFS portfolio would be under one year.

Mr. Aditya: Okay sir.

Moderator: Thank you sir. Next question comes from Mr. Seshadri from Macquarie Securities, Mumbai. Mr. Seshadri, you may ask your question now.

Mr. Seshadri, Macquarie Securities, Mumbai: Hi, Rakesh and Anindya. Just a couple of questions on the insurance, can you quantify the sales for the first quarter. You mentioned the NBAP also if you guys missed that if you could tell me what the NBAP growth was?

Anindya Banerjee: Yes, the NBAP growth for the first quarter was of 168% and the total premium income was Rs. 13 billion of which the first year recurring premium was about Rs. 7.6 billion, single premiums were about a little under Rs. 1 billion, renewal premiums were about Rs. 4 billion, and other charges and other incomes were about Rs. 500 million.

Mr. Seshadri: There was breakup between individual growth and group.

Anindya Banerjee: No, I do not have that.

Mr. Seshadri: Okay, thanks.

Moderator: Next question comes from Mr. Amit from Chola Mandalam, Mumbai. Mr. Amit you may ask your question now.

Mr. Amit, Chola Mandalam, Mumbai: Yes, I just had one question regarding reconfirming the return on average assets, is it 1.60% as you mentioned?

Mr. Rakesh Jha: The cost to average asset is 1.60%.

Mr. Amit: And return on net worth is like 11.1%.

Mr. Rakesh Jha: Yes, that is it.

Mr. Amit: But do we expect any increase in return on that was going ahead or…

Mr. Rakesh Jha: Very clearly, our targeted return on equity is in the range of 17% to 18% but as you are aware we raised a large amount of capital very recently that is the reason that the ROE is currently running at a much lower level. But we would expect that to increase going forward. Plus there were also some impact of about Rs. 28 billion investment that we have in our subsidiaries, some of which are not yet giving returns like ICICI Prudential Life Insurance Company which is making accounting losses. It would tend to breakeven towards 2009 given the very strong growth that we have been seeing in that industry as well as the company. We were expecting the company to break even earlier but the industry itself grew by about 30% in fiscal 2006 compared to the earlier rate of about 18% to 20% and higher the growth the longer it will take to break even.

Mr. Amit: No, but what are likely to be expected by end of third quarter, maybe we will reach somewhere like 15% to 16% ?

Mr. Rakesh Jha: We would expect it to increase. There is no specific numbers that we have given.

Mr. Amit: Thanks.

Moderator: Next question comes from Ms. Sohini from ASK, Mumbai Ms. Sohini you may ask your question now.

Mr. Sanjay Pareekh: Yes. Rakesh this is Sanjay Pareekh. Can you quantify the gain on sale of real estate and NCDEX that you had in first quarter?

Mr. Rakesh Jha: The gain on NCDEX sale is included in our equity gains that Anindya mentioned earlier of about Rs. 1.45 billion.

Mr. Sanjay Pareekh: Okay, but specifically we may not be able to get it.

Mr. Rakesh Jha: We have not disclosed any specific details about that.

Mr. Sanjay Pareekh: Okay, secondly, the steep rise in the interest on balances from Rs. 0.76 billion to Rs. 2.46 billion and you said that some part of it is pertaining to IPO related, does that mean that part may be somewhere at Rs. 0.90 billion or Rs. 1.00 billion would actually not recur in the common quarters.

Mr. Rakesh Jha: There is a corresponding funding cost as well due to which we are maintaining higher balances, so there will be corresponding interest cost as well.

Mr. Sanjay Pareekh: Fair enough, the entire part is largely sustainable?

Mr. Rakesh Jha: It may not show up in that that line item.

Mr. Sanjay Pareekh: But overall it may get compensated?

Mr. Rakesh Jha: Correct.

Mr. Sanjay Pareekh: Okay and I just missed what is the amount you plan to inject in the next two years in insurance joint venture?

Mr. Rakesh Jha: We basically said that there will be incremental capital requirement by both of these companies given their growth plan and we hope to meet that capital from ICICI Bank and anyway we have quite a bit of flexibility in terms of raising hybrid capital and recently RBI yesterday announce that even foreign currency instruments can be issued. So, that should make it relatively easier for banks to raise the hybrid capital.

Mr. Sanjay Pareekh: Okay and one last thing is, I mean, you covered partially on a strategy. Your ROE is 11.1%. Now, considering your capital requirement, say you grow by another 50% then again it will come down and you will again come back to equity market. So the targeted ROE of 17% to 18%, looks difficult to achieve. So, as a strategy do you feel that some part of the growth is not profitable and may be some change in strategy in terms of pricing has to be done for us to get that ROE and may be growth is not as profitable?

Anindya Banerjee: On the question of ROE: at the time of the last capital increase in December which increased our net worth to over Rs. 200 billion, I think the general analyst consensus on ROE for this year was in the region of 15%. We had given a guidance of achieving our targeted levels of ROE, adjusted for the investment in the insurance business that does not earn accounting returns, over a 2 year period from the time we raised the capital. The numbers as they are emerging seem to be in line with those expectations.

Mr. Sanjay Pareekh: Okay. But do you think that the growth is straining profitability and hence causing some problem on the ROE?

Anindya Banerjee: I don't think so. For instance, as Rakesh mentioned over the last year as our funding costs have gone up, so we have increased our rates ahead of the market. So, I think we are focused on profitability but we are also focused on taking a long-term view of the market and of the potential of the market. There may be quarter-to-quarter issues, for instance if we look at the margins in the Q1 which appeared to be lower but if everything remains equal, will get compensated by the hike in the floating rate effective in the second quarter. So, such quarter-to-quarter variations may be there but on the medium term basis we are fully focused on profitable growth.

Mr. Sanjay Pareekh: Okay Thank you very much.

Anindya Banerjee: We can take a couple of more questions, as we need to run into our AGM.

Moderator: Okay. Sir, there are five more questions in the queue. So, shall I take?

Mr. Rakesh Jha: Yes. We can take those five questions.

Moderator: Okay. So, next question comes from Mr. Puneet from Enam Securities, Mumbai. Mr. Puneet you may ask your question now.

Mr. Puneet, Enam Securities, Mumbai: Yes. Hi. Rakesh, I just need to check in the numbers from the overseas book front? How are they looking right now? I believe it was USD 8.1 billion in the last quarter.

Mr. Rakesh Jha: That was total as there has been some increased over the quarter, it is about it is about USD 9.1 billion.

Mr. Puneet: It is on the net basis, right?

Mr. Rakesh Jha: Yes.

Mr. Puneet: Okay and this is largely the incremental, around USD 1 billion, I mean, how it is getting reflected slightly in the subsidiary side or how is it UK book looking right now?

Mr. Rakesh Jha: It's close to about 3 billion.

Mr. Puneet: Almost the entire amount has come probably in that book?

Mr. Rakesh Jha: UK is USD 2.5 billion.

Mr. Puneet: Also, on a broad basis, what's the leveraging looking like in the overseas book?

Mr. Rakesh Jha: Leveraging in what sense?

Mr. Puneet: Your asset to equity that you would have probably putting…

Mr. Rakesh Jha: In the branches if anyway capital is maintained at the bank level itself and even in the subsidiaries or investment in equities reduced from the capital. So, in the sense that bank capital requisite reflects the revenue for the entire.

Mr. Puneet: And any profit numbers for UK subsidiary?

Mr. Rakesh Jha: Yes. The profit for the current quarter was over USD 3 million.

Mr. Puneet: On you rural book, what's the amount looking right now? Total?

Mr. Rakesh Jha: It's come down by Rs. 35 billion compared to March.

Mr. Puneet: Okay, yes because of the seasonal nature and how is the proportion looking right now? How much is your rural retail book and how much is corporate?

Mr. Rakesh Jha: Total advance is more or less the same as March.

Mr. Puneet: Okay the proportion is more or less same.

Mr. Rakesh Jha: Yes.

Mr. Puneet: Okay, thanks a lot.

Moderator: Thank you sir.

Mr. Rakesh Jha: We need to end the call because we are getting late for AGM. You can call Anindya or me separately after the AGM.

Anindya Banerjee: We should be done by about 5 o'clock. We could take calls after that.

Moderator: Ladies and gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to Audio Conference Service from Airtel and have a pleasant evening.