Conference call on Q1-2008 results

Moderator

Good evening ladies and gentlemen. I am Gaurav, 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 now like to hand over to Ms. Vishakha Mulye. Thank you and over to you Ma'am.

Vishakha Mulye

Good evening everybody. Let me first introduce everybody from our side. I have Rakesh Jha with me who many of you know. I also have Rupesh Kumar and Pankaj Jain, who is representing our insurance companies.

Just to start quickly with the presentation, and then we can come to the question and answer. If you look at the highlights of our profits for this quarter, our profit after tax has increased by 25% to Rs. 7.75 billion from Rs. 6.20 billion last year. The momentum on the fee income continues. It has grown by around 35%. In absolute number, it is now approximately Rs. 15.00 billion. The net interest income has grown by approximately 16% year-on-year, which is at a lower pace, the main reason being two fold. One, of course, is the negative impact of the Cash Reserve Ratio (CRR) requirement, that the CRR has increased from 6% to 6.5% and RBI has stopped paying interest on CRR. Secondly, there is a lag effect in terms of increase in the cost of funding. Our cost has grown from 7.0% in March quarter to 7.8%, whereas yield on interest earning assets has grown from 9.5% to 10%. As you know our liabilities are more short term in nature, and with interest rates having softened from the March level, naturally these will get re-priced, the impact of that would be shown in the NIM. There is a 58% increase in the operating profits to Rs. 15.24 billion.

Coming to the balance sheet, the balance sheet has grown by 35% to Rs. 3.56 trillion. Within that the advances have grown by 35% to Rs. 1.98 trillion. The retail advances growth year-on-year within this is 29% and international portfolio again has grown smartly by almost 143% year-on-year. Again, I would like to point out here as we had articulated at the time of our equity issue and at the time of our last quarter results, we are seeing a slowdown on the retail business. If you look at the market expectation on the retail side, the retail credit in the past few years has grown in the region of around 35% to 40%. Because of the high interest rate scenario and the high property prices, we expect retail growth going forward to be more in the form of 20% to 25%. Coming to the deposits side, the deposit growth is around 26% year-on-year and within that our savings deposits have grown by 33%.

Coming to the details of the profit and loss statement, as I said that NII has grown by 16% and the fee income has grown by 35%. Within fee income, 55% of our fee income is contributed by retail businesses. Approximately 42% of our fee-based income is contributed by international and corporate businesses, and the balance, which is 3%, has come from the other businesses. The lease & other income has grown by around 60%. This is mainly the income from our subsidiaries, including income from ICICI Venture as income distribution from venture capital units, which is pursuant to the divestment of underlying shares by ICICI Venture. As a result of that, our core operating income has gone up by 27%. Operating expenses have grown by 37% and within the operating expenses the growth is mainly in the salaries and that is mainly because the full impact of the recruitment in the last quarter has come in this quarter, as well as the annual increment which is done in the month of April and gets reflected in the first quarter. Rent and the taxes have gone up because of the branches that we have set up, pursuant to the 111 branch licenses we got last year. DMA expenses have decreased as compared to previous period. As a result of that the core operating profit has grown by 29%.

Treasury income has grown year-on-year by more than 100%, but is in line with Q4-2007. In Q1-2007, because of the equity market melt down in the month of May, the treasury income was exceptionally lower. This quarter, we have also done certain divestments of our private equity investments, which has got reflected in the treasury income. After taking into consideration the premium amortization, our operating profit has gone up by 58%.

On provisions, year-on-year numbers will not be strictly comparable as portfolio composition has changed rapidly. In Q4-2007, our total provisioning was around Rs. 8.50 billion. If we remove the impact of a one-time charge off of about Rs. 3.10 billion that we had taken, the Q1 provisioning is higher but is in line with the trend.

Profit before tax has increased by 30% and the profit after tax has gone by 25%. Profit before tax has gone up by 30% while profit after tax has increased by 25% because of the increase in the tax rate, which is a function of the composition of income.

Coming to balance sheet, as on June 30, 2007, around 65% of our advances are retail. Approximately, 26% of our advances are corporate and international. Within that 16% is international, 10% is domestic corporate, 7% is rural, and the balance is SME and others.

On the liability side, the deposits have grown by around 26%. The increase in our capital is not reflected in our balance sheet as on 30th of June as the allotment of the shares happened on July 5th. However, we received certain application money in the domestic offering which was about Rs. 140.00 billion as on June 30, 2007. Total capital adequacy as on June 30 2007 is around 11%. As I said, it does not reflect our capital which we have raised in this quarter. If one were to take that into consideration, it will be about 17.25%.

Return on average networth is about 13%, but if you take into consideration income from the banking subsidiaries and exclude investment in the insurance, which is not giving any accounting returns, our return on equity is around 16%. Our weighted average EPS has gone up from Rs. 27 to Rs. 34. I would like to highlight that the net interest margin (NIM) in Q1-2008 is around 2.3% as compared to 2.5% in Q1-2007. If one removes the impact of the interest on the CRR that we had received in last year in Q1-2007 and considering the higher CRR requirement in Q1-2008, the NIM is more or less flat. If you compare with the NIM for Q4-2007 NIM, it has come down from 2.7% to 2.3% mainly because of increase in CRR and absence of interest on CRR and increase in cost of funds being higher than the increase in the yield. Going forward, when re-pricing of the deposits takes place, it would be reflected positively in the NIM.

Cost-to-income ratio is around 44% for Q1-2008, this is mainly a Q1 phenomenon, because if you see last year, in Q1-2007 our cost-to-income ratio was 44%, but for the entire year it was 40%. So, as the buildup of income happens, cost-to-income ratio should come in the region of what we had last year. Cost to average asset is about 1.7%, fee-to-income ratio is at 42%, which is one of the best in the industry.

Coming to the asset quality and provisioning, our net NPL ratio has increased from 1% to 1.3% in June 30th 2007. This is mainly on account of two things. First, a slowdown in loan growth, where our loan portfolio was flat as compared to March 31, 2007 and secondly our strategy to increase the non-collateralized portfolio as seen in the trend in the past few quarters.

We will be very happy to take any questions.

Moderator

Thank you very much Ma'am. 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. Participants are requested to use only handsets while asking a question. To ask a question, participants may please press *1 now. First in line, is Ms. Mahrukh from UBS.

Mahrukh

Hi! I have a few questions on the Q1 numbers. I will ask them one by one. What was the CRR interest in rupees million in the first quarter last year, 1Q-07.

Rakesh Jha

About Rs. 0.30 billion.

Mahrukh

Rs. 0.30 billion, okay thanks. And break up of loan provisions into general and specific.

Rakesh Jha

The general provision is about Rs. 0.22 billion and there are some other provisions on account of certain bond issuances that we had done and other provisions, that is about Rs. 0.30 billion, and the balance is the provisioning on NPL.

Mahrukh

And the breakdown of retail loans?

Rakesh Jha

At June 30, 2007, home loans were about Rs. 655 billion, car loans was about Rs. 190 billion, commercial business was about Rs. 170 billion, two-wheelers was about Rs. 26 billion, and personal loans were about Rs. 112 billion, and credit cards was about Rs. 61 billion, others are small like dealer funding and loan against shares.

Mahrukh

And retail disbursements are how much in the quarter?

Rakesh Jha

Retail disbursements are about close to Rs. 135 billion.

Mahrukh

Okay. And of that housing was how much?

Rakesh Jha

It was about Rs. 45 billion.

Mahrukh

On current deposits?

Rakesh Jha

It was about Rs. 200 billion.

Mahrukh

What is the incremental cost of funds in Q1-2008 and what would it be currently?

Rakesh Jha

Currently, if you look at a one year retail deposit we are raising at about 9.5%, that is the rate that is prevalent in terms of the retail deposit market, and given the current conditions we are not really raising any deposits from the corporate side. So, that is more or less the incremental cost currently. In March and April, the rates were substantially higher than that on the corporate side.

Mahrukh

And what would be the total profit of all the banking subsidiaries put together?

Rakesh Jha

It is about Rs. 0.80 billion in Q1-2008.

Mahrukh

And combined ratio for general insurance, would you have that figure?

Rakesh Jha

We have not disclosed for the first quarter. In any case, the first quarter will be a very low combined ratio due the fact that a lot of corporate businesses gets booked in the first quarter.

Mahrukh

Any plans on cut in lending rates?

Rakesh Jha

In terms of the corporate deposit rate we are seeing some softening in the market. But on the retail deposit side rates are holding at 9.5% as most of the banks are raising money at that rate. Basically the market is waiting for signals from RBI in terms of you movement in rates.

Mahrukh

And what would be the dividend from subsidiaries in this quarter?

Rakesh Jha

It would be a part of the other income that we have disclosed in our P&L, that basically includes lease income and dividends from subsidiaries.

Mahrukh

Okay, and number of employees?

Rakesh Jha

It is about 36,000 employees including the employess of Sangli Bank.

Moderator

Thank you very much Ma'am. Next in line, we have Mr. Ajit from Pioneer.

Ajit

Good afternoon. I wanted to know how many branches are you planning to add during the rest of three quarters?

Vishakha Mulye

We normally need permission from the Reserve Bank of India. We have to make an application to the Reserve Bank of India which they consider. We have made an application and we are awaiting the response.

Ajit

How many branches have you applied for?

Rakesh Jha

That is not disclosed separately.

Ajit

Okay. Another question is what is the fresh additions to NPLs during this quarter?

Rakesh Jha

We have disclosed that in our presentation. The gross NPLs at March was about Rs. 48.50 billion which is now about Rs. 60.00 billion.

Ajit

There will be some right off of NPAs and recovery of NPAs also during the quarter, which I mean I just wanted to know the fresh additions, the total number.

Rakesh Jha

It would roughly be the same. There is not much of write off.

Moderator

Thank you very much sir. Next, we have Mr. Dipankar from Deutsche Bank.

Dipankar

Hi. I just have one question. Are you not concerned that such a high-growth area of collateralized retail also happens to be high NPA/credit losses, I do appreciate the fact that the yields take care of that, but that currently is not reflected in your margins. So, what are your thoughts on that? And an allied question is that, since you now have approximately a year of experience or high growth of uncollateralized retail, what has been the experience on the credit losses and charge off front?

Vishakha Mulye

When we do our no-ncollateralized lending, losses are higher but this is compensated in the yields. Margin is a combination of various factors. So, you cannot only say that it is because of the non-collateralized. The second is non-collateralized at the moment, from a risk perspective, is not a large portfolio. It is around 14% to 15% of our retail portfolio, that means it is 14% to 15% of 65%. So, it is like almost 10% of our total portfolio, and from a risk reward perspective, we believe that we would be able to take that risk. The second is, the non-collateralized lending that we do, a part of this lending is sold to our existing customers, and therefore the experience of ours vis-à-vis anybody else in the market would be much better because you have a credit history of these customers with you. The second question of yours was about our experience in the last one year. I would say that the delinquency levels are in line with our expectation when we made these laons.

Moderator

Thank you very much sir. Next, we have Mr. Rajiv Varma from DSP Merrill Lynch.

Rajiv Varma

Hi Vishakha, hi Rakesh. Just a couple of things. One is on your fee side, how much of it has come from the international business?

Vishakha Mulye

On the fee, international is around 8%, but you will have to look at the international and corporate together because domestic corporates are the ones to whom we are lending in the international market. So corporate and international together is around 42%, but the remittances and private banking fees are around 8% of that.

Rajiv Varma

Okay, I guess a separate question on your NPAs is that that, I just want to get a sense of what is your sense in terms of the normalization of the NPA cycle, do you see it like a few more quarters away or in terms of the non-collateralized retail loan portfolio?

Rakesh Jha

Rajiv, during the current quarter on the non-collateralized portfolio, there has been some increase on the NPAs. It has largely been driven by the small ticket personal loans, which was basically started about 18 months ago; and it is increasing as a proportion of the total non-collateralized loans. Otherwise, if you adjust for the fact that we sold down close to about Rs. 38 billion of personal loans during the quarter, the trend was in line with whatever we have seen. But, on your specific question in terms of where it will stabilize, given the fact that on the personal loans and small ticket personal loans, we have basically seen the growth happening over the last 2 or 3 years, it will still be a few quarters away in terms of stabilizing. On the collateralized loans, given the kind of the growth that we have seen over the last couple of years and the current trends that we are seeing, we think that at the current levels it would more or less be stable in terms of the delinquencies on the portfolio. Obviously in terms of percentage it will still be a function of how much the loans actually grow by and how much the loans we actually sell down.

Rajiv Varma

Just another thing; have you booked the NSE stake sale?

Rakesh Jha

We had talked about that in the fourth quarter. We had booked the NSE stake sale of Rs. 5.5 billion that got booked in the fourth quarter. In the current quarter, we have booked total treasury gains close to about Rs. 2 billion, details of specific transactions are not disclosed separately.

Rajiv Varma

There is a divestment, right, from the Venture, which has come in for you?

Rakesh Jha

Yes, that is the part of the other income.

Rakesh Jha

The other income has increased from about Rs. 2.00 billion in Q1 last year to about Rs. 3.20 billion in the current quarter.

Moderator

Thank you very much sir. Next, we have Mr. Manish from Motilal Oswal.

Manish

Hi, Vishakha ; hi, Rakesh. I just want to know what is the actual impact of the Sangli Bank merger on various balance sheet items?

Vishakha Mulye

Total balance sheet size of Sangli Bank is less than 0.5% of our total balance sheet. So, it does not have an impact, except for whatever the merger adjustments that we would have done.

Manish

Our networth actually has just grown by Rs. 3.00 billion, while our profits are at Rs. 7.75 billion.

Rakesh Jha

The Sangli Bank merger has been accounted for as per the purchase method. If you had looked at the profit of the Sangli Bank it was a loss of about Rs. 0.30 billion in fiscal 2006. For fiscal year 2007, taking the losses of fiscal 2007 and doing a fair value of the loan book, the total goodwill was about Rs. 3.44 billion, which has been adjusted through the share premium account. The main losses that were incurred by Sangli Bank in the last fiscal year was basically on account of aligning of AS15 provisions for the employees for the pension liabilities, the gratuity liabilities, and also the leave encashment, which we have fully aligned with the revised AS15. The total portfolio itself was about Rs. 2.00 billion with gross NPLs of about Rs. 1.00 billion, that also reflects in the NPL addition for the current quarter, and the net NPLs were about Rs. 0.15 billion, which again reflects in the current quarter number.

Manish

Okay. If I just look at your purchase price was the kind of shares that you paid them which is roughly around Rs. 3.00 billion, plus the Rs. 4.00 billion of net worth that you had actually lost.

Rakesh Jha

It is about Rs. 3.40 billion of goodwill that we have recorded. Obviously, in course of time we also expect to recover from the non-performing loans of Sangli Bank as also some other recovery from the Sangli Bank portfolio. We would also get some tax breaks on some of these losses that have been booked.

Manish

And second thing, for your NBAP number this quarter, this has been lower than the first quarter of last year.

Pankaj Jain

On the NBAP margin if you look at the number which was after re-setting the long-term assumption, was 20.1% for the full year last year. Essentially, the product portfolio which has sold in the first quarter last year was the product portfolio prior to the ULIP guidelines coming into force on first of July. After the first quarter, deterioration in margin was due to the re-filing of these products and realigning our assumption to the guidelines set out by the regulator. Partially it was also due to the overall annual resetting of a long-term non-economic assumption. So, I would suggest one to look at what the entire year's margin was, which was 20.1%, and the first quarter margin being 19.7%, so it was well in line with what the last year's annual number that was declared.

Manish

And what would be your first year premium in 1Q of this fiscal?

Pankaj Jain

The first year premium was about Rs. 8.70 bn of new business.

Moderator

Thank you very much sir. Next, we have Mr. Rajgopal from Fox-Pitt Kelton.

Rajgopal

Certain housekeeping questions; one is, regarding the NPLs, could you give us an idea on what are your gross NPLs in the housing loan portfolio and the non-collateralized portfolio as well?

Rakesh Jha

In the presentation we have given the retail NPLs, gross is Rs. 38.67 billion.

Rajgopal

Could you break it down into segmental bits?

Rakesh Jha

We do not disclose that on a quarterly basis in terms of the breakdown into individual products.

Rajgopal

How much is it on a collateralized product basis?

Rakesh Jha

It is as disclosed in the presentation. The gross NPLs on the non-collateralized is about Rs. 21.00 billion.

Rajgopal

Non-collateralized is about Rs. 21.00 billion, is it?

Rakesh Jha

Yes, and on the collateralized product is about Rs. 17.79 billion. I also talked about the non-collateralized movement between March and June basically on count of the small ticket personal loans and in terms of percentage because of a sell-down of about Rs. 38.00 billion of loans during the quarter. On the collateralized part in terms of the gross NPL numbers that we have seen from March to June, there has been some increase which is there again in terms of percentages on the car portfolio, on the commercial vehicle portfolio, which is basically in because of the slower growth that we have been seeing in this business. In terms of the percentage, the number appears higher than what the earlier trends would have been, but in terms of delinquencies, on a static basis, we are not seeing any significant increase on the numbers earlier and we would expect the current numbers as I mentioned earlier to continue in the future. On the mortgage side, there would be some increase because of the fact that we had increased EMIs for about 50% of our customers over the last 3 or 4 months. In terms of the administrative issue of increasing the EMI for the customers by actually; for example, collecting the PDCs from the customer, there could be some delays on payment in account of that. So, while on the overall portfolio, we are not seeing any large deterioration given the comfortable level of the installment to income ratios that we have for the customer and the increase in income levels for the customers in the last 2 or 3 years. But there would be some impact of just due to the fact that it is a portfolio with about close to a million customers, of which about 80% are floating rate customers for a large number of whom we have to collect the post-dated checks again vis-à-vis the revised installments. So, that is a process which we think can result in some delays on the collection. So, on the home loan side we have seen a marginal increase from the March level to the June level.

Rajgopal

You said collateralized gross NPLs would be around Rs. 18.00 billion and non-collateralized would be Rs. 21.00 billion, but this does not add up to Rs. 60.00 billion.

Rakesh Jha

Rs. 60.00 bn is at the bank level.

Rajgopal

Okay. So the balance is let us say corporate and other NPLs.

Rakesh Jha

Yes. The retail NPLs are Rs. 38.67 billion.

Rajgopal

Okay. Retail is Rs. 38.67 billion. Another question that I have is regarding the status of the placement of shares in the holding company. I read a statement by Ms. Mulye saying that as of now there is no further development there. But, let us presume that given that this does not go through, what is the future strategy that you are contemplating. Are you thinking about domestic float, and also in case if you are not thinking about that, when is the realistic plan as far as lifting the holding company is concerned?

Vishakha Mulye

As I said, there is no development at the moment, but there are various options that one has. One is that we have raised capital, so we would definitely ensure that these companies are not starved of capital. Second is, what is pending with FIPB is an investment by the foreign investors. So, clearly as you rightly said, there is an option of looking at the domestic investors. So, at an appropriate time when we get a little more clarity on these issues, we will come back and articulate our next step. But at the moment we are hopeful of hearing something from FIPB.

Rajgopal

As far as listing is concerned, what I am aware of is that you need a 3-year profitability track record for the holding company, right?

Vishakha Mulye

That is not right.

Rajgopal

Could I just have an idea on what is the criteria and how you propose to go about meeting that?

Vishakha Mulye

It can be a new company.

Rajgopal

The other two questions that I have is, any further plans of value unlocking in any other non-banking ventures during the year?

Vishakha Mulye

As we have articulated we have certain investments and we look at many of them in terms of unlocking the value wherever we think that they are not strategic. Yes, going forward, at an opportune time if we get a right valuation, we would look at unlocking some of these stocks.

Rajgopal

And last but not the least, one question on the life insurance business. Now, you have reported total NBAP of around Rs. 1.65 billion. That as a percentage of the previous year NBAP works out to something like less than 20%. Is it expected to catch up in the balance period which is largely a seasonal thing or are you actually seeing some slowdown as far as new business premiums is concerned?

Pankaj Jain

If you look at the last year margins, we had a margin of 20.1%, which . . . .

Rajgopal

I am not disputing the margin sir. I am talking about the growth.

Vishakha Mulye

Normally in the first quarter, the way this business works is that the business is only 12% to 13% is in the first quarter, and as we go in the March the business really picks up. This is the normal pattern and therefore we believe that by year-end this time we should come back to the same level.

Rajgopal

And the last thing is, when do you realistically expect the life insurance business to break even?

Pankaj Jain

That would be very difficult to, because we need to assume the growth rates and give the recent very high growth rates, it is very difficult to give an assumption on that. So, we have not given any guidance in terms of when we would expect the company to breakeven, it will be a function of the growth that the company sees.

Rajgopal

Okay. Just another question that I have, this is more to do with the softer aspect as far as employees are concerned. Now, I believe that there have been some semblance of attrition within your subsidiary companies. Is that some sort of a stress within the group per se because you have had the head of investment banking at ICICI Securities moving out, the head of the mutual fund business moving out, what is actually happening there?

Vishakha Mulye

It is just a normal attrition. As you know that we have reorganized our entire investment banking business. The entire investment banking is now moved to the bank. The erstwhile I-Sec was broken that into two businesses; one is the primary dealer business, which is now a direct subsidiary of ICICI Bank, and therefore the residual ICICI Securities is basically the broking and distribution company now to which ICICI Web Trade has also been merged into. So that company is basically a broking and distribution company which has a physical broking, online broking, and which would also have a distribution business. The entire investment banking would be henceforth done by the Bank itself. That is in line with the changes that are happening in the market. Having said that, of course the attrition is a part of any business and it is true not only for the I-Sec but I think it is true for everybody in the industry. So, we do not see that anything abnormal, we are extremely positive about the industry and we believe we are poised to capitalize on the opportunities in that field.

Moderator

Thank you very much sir. Next, we have Mr. Ravikant Bhatt from IDBI capital.

Ravikant Bhatt

Good evening everybody. I just have a couple of questions; one is relating to your international balance sheet. I suppose ICICI Bank does a lot of loan syndication. So, I just wanted to know how do you book the revenues and fees arising out of such a syndication deal, is it done upfront or is it something which is amortized over the tenure of the loan?

Vishakha Mulye

When we sanction the loan, the relationship manager who goes to our committees, has to upfront say what is the amount that he proposes to hold on the balance sheet, and these are accrued only to the portion which is held on the balance sheet and not which is proposed to be syndicated.

Ravikant Bhatt

These fees that you book would be a part of the 8% which you mentioned previously?

Vishakha Mulye

8% is the remittances fees. This is part of that balance 34%.

Ravikant Bhatt

Okay. And how much do you typically hold on the balance sheet?

Vishakha Mulye

It ranges from the client to client. It is very difficult to say because it also is a function of how much of the risk of that particular client we are holding on our balance sheet, what is the perception about the risk, and how do we look at that particular deal. So, it would be difficult for me to put a number, but typically at least in a best deal we would go up to 50%-60%. We already have an exposure; then it could be as low as even 15-20%.

Ravikant Bhatt

Ma'am, would you be having the figure for the present quarter, I mean how much from the balance 34%, how much would be on account of this kind of deal?

Rakesh Jha

Of the 34% corporate fee, roughly half of it, will be relating to corporate and investment banking fee which will include this kind of fee but it will not entirely be syndication, it will also include M&A, project appraisal, project financing and syndication.

Ravikant Bhatt

And one more housekeeping question, I wanted the figures relating to the first and second quarter of 2007. Do you have bifurcation of provisions, I mean in terms of standard and specific. I want it for Q1 and Q2 of 2007.

Rakesh Jha

In Q1 last year the general provision was Rs. 0.47 billion, Q2 was Rs. 1.87 billion, and Q3 was Rs. 1.40 billion and Q4 was Rs. 4.57 billion.

Ravikant Bhatt

This was for general, okay. And what would be the provisions for standard?

Rakesh Jha

The total provision number was in Q1 was Rs. 2.16 billion, Rs. 4.56 billion in Q2, Rs. 6.67 billion in Q3, and Rs. 8.11 billion in Q4.

Moderator

Thank you very much sir. Next in line we have Mr. Prashant from ICICI Prudential.

Prashant

Vishakha, I just wanted to know two things. What is the average yield on the non-collateralized retail portion?

Rakesh Jha

Basically there are three products; one is the credit card where the effective yield is about 23 -24%; second is personal loans, where it is in the region of 18%-19% and on the short term personal loans it will be about 38%-40%.

Prashant

So, it would still make sense net of yield I mean what I see is around 10% is our average slippages on this portfolio.

Rakesh Jha

Yes, as we have earlier mentioned that if you look at for example credit card, the credit losses have been running at about 8% or so, personal loans in the region of 3.5% to 4%, and the small ticket personal loans, while it is lower currently it will be in the region of about 15% or so. Even with that kind of provisioning given the kind of yields that are there, on a risk adjustment basis you get still a profitable portfolio. As Vishakha mentioned earlier, unfortunately because of the increase in the funding cost over the last few quarters, the higher yield is actually is not reflected in the bank's overall margins.

Prashant

Is there any bad slippage experienced in the home loan portfolio also?

Rakesh Jha

As I mentioned in the current quarter there was some increase on the home loan portfolio in terms of NPAs. It continues to be at a relatively much lower number. In terms of gross NPAs it is still below 1.2%.

Prashant

Okay, and one last question is, a more general question. With excess liquidity in the system and with ICICI Bank also having good amount of liquidity and other banks also coming to the market with issues, and of course the credit side slowing down, do you see that competition for credit may intensify again?

Rakesh Jha

I think the competition has clearly been there through the last several years. In the last 18 months or so as the rates have increased banks have been quite rationale in terms of increasing their pricing. In the recent times, some banks have indeed reduced their rates and we have not followed the suite as the overall funding costs have not really declined. And if you look at our numbers especially on the retail disbursement side, we would continue to lend only at rates that would make sense from our point of view. If you look at most of the private sector banks, there is not a significant amount of undercutting of the pricing that is happening right now, but I guess as the rates decline in any case one would expect some of the business segments within retail to see higher volumes. For example, in terms of car loans if you see the penetration in terms of number of cars that have been financed has come off in the last 18 months. As the rates go down from the current level that would again see an increase. On the mortgage side, a large part of the reason for slowdown in addition to the higher interest rates has been the increase in the property prices. So, if property prices remain stable or go down a bit as is the situation, the market will pick up, so we will have to see how it actually evolves.

Prashant

Which part of our portfolio do you think would contribute to the maximum growth?

Rakesh Jha

Given that the international book is growing from a much smaller base, in terms of percentage growth it would clearly be highest. On the retail side, the incremental disbursement which had been growing at about 35% plus, has shown signs of slower growth. So, the retail loan growth there would more likely be in the region of about 20% or so in the medium term. And for the rural portfolio, again we are expecting the growth to be quite strong, but in terms of the growth rate, highest would be in the international business.

Moderator

Thank you very much sir. Next in line, we have Mr. Anand Vasudevan from Franklin.

Anand Vasudevan

Hi. I have a couple of questions. First of all, what effect did the sell down of retail loans have on your NIMs for the quarter? What would it have been without the sell down?

Rakesh Jha

Because the income on the sell down is now amortized over the life of the securities issued, as such on the loans that we sold down during the quarter there is not any material impact in terms of the margin for the bank.

Anand Vasudevan

Okay. The second question is for Pankaj. I heard you mention that you had made some non-economic assumption changes in your NBAP calculation for FY07. Can you just tell us what these assumption changes were?

Pankaj Jain

On the non-economic assumption changes while I cannot disclose the absolute numbers or the item, but what we did was we looked at the long-term growth trajectory that had emerged over the last two years, particularly the last year. So, when we revisited some of our assumptions on that front, we thought from a principle of conservatism to reset some of those assumptions.

Anand Vasudevan

What I would like to understand is did you make any changes in your expense assumptions or in your persistency assumptions?

Pankaj Jain

Largely, assumptions were reviewed on the expense side. In a high growth scenario they may take a little longer and that was what was considered in the resetting of assumptions.

Pankaj Jain

I now understand where you are coming from, review was not on the persistency or the mortality morbidity assumption.

Moderator

Thank you very much sir. Next in line, we have Mr. Kashyap from Emkay Shares.

Kashyap

Hi. My question is on NPL side first. Can you throw some light on what are the incremental slippages on retail portfolio? Could they be about 7% on year-on-year basis?

Rakesh Jha

In this quarter, as we said it increased from about Rs. 31.00 billion to Rs. 38.67 billion, which is about Rs. 7.70 billion increase.

Kashyap

What was the figure in the same quarter last year in retail?

Rakesh Jha

In June 2006, it was about Rs. 17.60 billion.

Kashyap

I also have a question on this residual portfolio. If I were to exclude retail, gross NPLs from the last quarter have also gone up. What has been the reason for such a huge jump in non-retail portfolio also?

Rakesh Jha

As you would have seen on the retail portfolio the increase was close to about Rs. 7.70 billion, and I explained earlier that about Rs. 1.00 billion of . . .

Kashyap

No, no, I am saying non-retail portfolio.

Rakesh Jha

On the balance about Rs. 1.00 billion, as I said earlier is due to the addition of Sangli Bank NPLs and there was some increase on the rural NPLs during the quarter in some of the rural retail product lines.

Kashyap

But there has been no one time any impact on this, any restructuring of the assets or something like that?

Rakesh Jha

Not really.

Moderator

Thank you very much sir. Next we have Ms. Tabassum from Kotak.

Tabassum

Hi just two small questions. Pankaj the Rs. 8.70 billion you gave us for the premium, is that adjusted for single premium?

Pankaj Jain

No, it is the new business premium it will be Rs. 8.79 billion plus Rs. 1.30 billion of single premium.

Tabassum

Okay, and just one clarification for Rakesh, the current account deposit you gave is Rs. 200 billion, that does not include any of these ICICI Bank retail subscription right?

Rakesh Jha

No.

Tabassum

Okay, and just one last question, net interest margin excluding the impact of the new equity issuance, should one expect this to be the bottom or do you expect the cost pressures to continue for a while on the overall margin numbers?

Rakesh Jha

On the deposit side, a lot of deposits that we raised in March and may be in the first few weeks of April were at a much higher rate and a lot of them will actually mature in Q3 and in Q4, so the repricing benefit for the bank will come only then. As you are aware you know given that we have a much higher proportion of corporate deposits when the rates go up we get impacted much more on the cost of deposits compared to other banks. Most of the deposits raised in Q4 were slightly longer term deposits which will mature more towards the end of the year.

Tabassum

How much would be retail term deposit now in terms of proportion?

Rakesh Jha

On the overall basis the retail deposits are about 47%.

Tabassum

That is including your savings as well?

Rakesh Jha

Yes.

Moderator

Thank you very much Ma'am. Ms. Vishakha, just for your information we still have 12 more participants in question queue.

Next in line we have Ms. Mahalakshmi from DNA.

Mahalakshmi

Yeah, hi just wanted to know what does the NIM stand at?

Rakesh Jha

2.3%.

Mahalakshmi

2.3% and how much is your CASA?

Vishakha Mulye

22.4%.

Mahalakshmi

Okay, and what are you doing to attract more of this more CASA?

Vishakha Mulye

CASA is a function of the branch network, as you know that before the Sangli Bank merger we had approximately 750 branches. After the merger we have 950 branches and we have made an application with the Reserve Bank of India, so we are hopeful to get some branches. And of course we are trying to leverage the other point of contact that we have and the existing branches.

Mahalakshmi

Okay and how much was your CASA in Q1-2006?

Vishakha Mulye

It was more or less in the similar range. If you look at in terms of savings deposits, our saving deposits have grown by 33%.

Mahalakshmi

Okay, and how much was the CASA in your Q4 2007?

Vishakha Mulye

Around 22%.

Mahalakshmi

What is your target for the credit growth and the deposit growth this year?

Vishakha Mulye

We do not want to make a forward-looking statement.

Moderator

Thank you very much Ma'am. Next in line we have Mr. Sudhakar from Span Capital.

Sudhakar

Thanks, all my questions have been answered. Thank you.

Moderator

Thank you very much sir. Next is Ms. Agarwal from HSBC Securities.

Agarwal

Yeah, hi actually I just wanted to know one data point, what is your specific provision for NPL for this quarter?

Rakesh Jha

About Rs. 5.00 billion.

Moderator

Thank you very much Ma'am. Next we have Mr. Srikant from Brics Securities.

Srikant

Hi, my question is on the insurance front, if you look at the new premium growth and if I go by IRDA figures for the first 2 months, it means that in June if non-single premium there is y-o-y decline as well as a month-on-month decline, are we seeing some sort of a trend change in insurance growth?

Pankaj Jain

Not really, what was the trend change was actually in the first quarter of the last year.

Srikant

I mean even if you do not look at specific numbers, are you seeing some sort of a decline happening other than the base effect because of the change in regulations last year?

Pankaj Jain

On the growth front we have mentioned earlier that we would expect the private sector players to grow at in the region of 50% or so. Our expectation would continue to be in the same region. Last year as you are aware in the first quarter our insurance premium grew by about 180%.

Pankaj Jain

And if you look at for example a 2 year CAGR you know we are still growing at about 77% to 78%, and typically if you leave out last year which was an aberration for all companies, first quarter has been about you know 12% to 13% or 14% at best of the full year performance of any insurance company. We are not seeing any change in underlying trends in terms of the new business that we are getting or our own expansion plans. Basically it is the impact of last year's high base which is kicking in, as last year June was the month when the maximum amount of business happened.

Srikant

Okay, fair enough, okay thanks.

Moderator

Thank you very much sir. Next we have Mr. Vishal Goyal from Edelweiss Securities.

Vishal Goyal

Hi Vishakha, just about your wholesale deposits, what percentage of your wholesale deposit should come for re-pricing during the current quarter, Q2, where now short term money is now 300 bps down from last quarter, so I think you should see a good re-pricing for the wholesale money now?

Vishakha Mulye

That is true.

Rakesh Jha

But as I said a large part of the deposits that we are actually we have taken in the fourth quarter especially towards the end of fourth quarter would actually come for maturity towards the end of the year, and a lot of deposits that would mature for example in the coming quarter would also be deposits that were raised last year at around the same time when the rates prevailing was were more or less the same or even a bit lower. Typically the wholesale deposits are about 6 months to 1 year, and similarly the March deposits are of December to March kind of maturity.

Vishal Goyal

Okay and just one last question, on your private equity business if you can just give me some color on your investment portfolio side plus also ICICI Bank's portion of investment in the fee or this is a performance base fee which has come to you?

Rakesh Jha

It is actually not the performance based fee which will come in the future years you know from the India Advantage Fund, where the performance has been good, but obviously the fees will kick in as the actual realizations happen, this is more from our own investments in the funds of ICICI Venture that we had made earlier.

Vishal Goyal

Sure, so if you can just give me the size of the fund and your investments as of now?

Rakesh Jha

Our total investment in venture funds you know in aggregate would be about Rs. 20. billion, that is the total investment in venture fund.

Vishal Goyal

Okay, and what would be the size of your venture funds under management, which is the investments portfolio size?

Rakesh Jha

That is about $2 billion, actually with the rupee, now it is about $2.5 billion.

Vishal Goyal

Yeah, thank you.

Moderator

Thank you very much sir. Next we have Mr. Hiren Dasani from Goldman Sachs.

Hiren

Hi Rakesh, this is Hiren here. Just to recap, you said about disbursements of about Rs. 135 billion on retail including Rs. 45 billion of housing?

Rakesh Jha

Yes.

Hiren

So we are actually seeing a sharp decline in the housing whereas the other player HDFC is talking about 20 to 25% YOY growth, I was just wondering where the discrepancy is coming from?

Rakesh Jha

It could be due to the rates because clearly from our point of view we do not lend at rates lower than what would make money for us, and we also have to look at HDFC's split between the retail and the corporate disbursements, because for us it is virtually all of it is retail disbursements. If you go by broadly a trend that you are seeing in the market in terms of housing purchases which are happening, the kind of slow down that we have seen is more or less in line with the market actually.

Hiren

Are you seeing slow down more pronounced in the metros or is that prevalent across the country?

Rakesh

It is actually across the country. This is mainly due to the impact of the much higher property prices.

Hiren

Sure, on the loan portfolio side, apart from the housing which gets re-priced immediately, how much of the portfolio would have been already re-priced with the higher rates apart from the housing, the other part of the portfolio I am saying?

Rakesh Jha

Most of it would have already been re-priced.

Hiren

Okay, what I am trying to understand is that incrementally can we expect the yield on loans to move up because of the re-pricing of the existing portfolio?

Rakesh Jha

It would actually be more due to the new business happening at higher rates.

Hiren

Yeah that is what I meant, okay, and on the overall RoA side, I mean if you look at the bank we are doing it about 1% or so, over the longer term where do you see it kind of settling down, I mean could you throw some light on that?

Rakesh Jha

We have not given any specific guidance on the ROA number as such, we have talked about an overall RoE target for the bank including the banking subsidiaries and adjusting for the investments that we have made in the insurance business where we do not get any accounting profits right now. We are targeting a number in high teens as we leverage the new capital fully.

Hiren

Just one question on the NBAP margin, which is about 20% now, do we expect it to stabilize at these levels or we expect some more pressure on that?

Rakesh Jha

I think there could be marginal pressure on the margin, but we do not expect any significant pressure on the margins on the current levels.

Hiren

Okay, and lastly on the general insurance side we saw a significant increase in the profits this quarter, any particular reasons for that?

Rakesh Jha

A part of it would have been because of higher investment incomes for the company. In terms of the business, the gross premiums grew by about 8 to 9% in line with the industry and there was the impact of the de-tariffing which was felt in terms of the corporate portion of the business which got renewed during the quarter. There was a lot of business which we actually did not write given that prices were lower than what our risks would justify.

Hiren

And lastly on out of the total interest expense what would be the interest expense on the deposits?

Rakesh Jha

On the deposit for the quarter Q1 was about Rs. 44 billion.

Hiren

Thanks a lot. That is all from my side.

Moderator

Thank you very much sir. Next we have Mr. Sheshadri from MacQuarie.

Sheshadri

Hi, Vishakha, hi Rakesh, I had some questions on your international business. One, could you give some color on the kind of assets that there are, is there any retail, is it still largely India specific asset? And secondly, our understanding is that the international business has lower net interest margins, now as the share of international balance sheet grows in your overall pie will that be a dampener to the NIM improvement that would otherwise have come through from readjustment of the local balance sheet?

Vishakha Mulye

Just to answer your first question Sheshadri, yes the assets are predominantly Indian corporates, that is our strategy and we will continue to pursue that strategy. At the moment, the international credits whether on the corporate or retail side is minimal. On your observation about the international business margins the way we look at it is that on a total profit on the client rather than looking at it only on the NIM basis, because as you know there the NIM would be lower but you make substantial profit in terms of the fee based income. Yes, as the proportion grows it will have some impact on the net interest margin at the company level, but you know anyway it is not such a big portion of our balance sheet and we do not expect it to be the dominant portion of our balance sheet, which at the moment it is around 16%, we expect it to grow to around 20 to 22% in the medium term.

Sheshadri

Yeah and one final question is local corporate balance sheet which you have been staying away for the last 3 to 4 years, do you continue to de-emphasize that or do you find that the profitability there with the pickup in yields is now making it an attractive business?

Vishakha Mulye

We have both domestic and international balance sheets and what we generally offer to our client is the choice whether they want to borrow from us in the domestic market or in the international market. The clients' balance sheet is becoming more and more dollarized, it is more in his interest to borrow in the international market and therefore it is not by design but by the preference of our client that the international balance sheet is growing. We expect that to continue for some more time.

Moderator

Thank you very much sir. Next we have Mr. Subramaniam from UTI Securities.

Subramaniam

Good afternoon sir, a question on your international banking subsidiaries, they have been growing at over 100% per annum over the past 3 years, when do you see this kind of growth to moderate? Hello.

Vishakha Mulye

Basically, at the moment, the pipeline on the international side is quite robust.

Rakesh Jha

Given that there will be some base effect which will come in especially in the UK subsidiary which has grown quite significantly over the last couple of years is now, it is now close to $6 billion balance sheet. So to expect the balance sheet to grow at 100% next year would really not be feasible, but if you look at the Canadian subsidiary and the Russian subsidiary they are still much smaller in size, so growth would be at a higher pace, may not be 100%.

Subramaniam

Okay, and considering that your foreign business is growing as much, what kind of capital requirement you foresee over the next 4 to 5 years for these subsidiaries including your insurance subsidiaries?

Rakesh Jha

On the insurance side, as we have said that we know we would be raising capital through ICICI financial services as and when it gets set up. W look at the banking subsidiaries as part of the banking business overall, so if the growth is either in the branches of subsidiaries the total capital is what we look at.

Subramaniam

I was rather than looking at the mode by which you would be raising the capital I just wanted to understand what kind of capital requirement could your subsidiaries have over the period of next 5 years?

Rakesh Jha

As I mentioned on the banking subsidiaries we do not actually look at it separately from the overall bank level. For other subsidiaries the main capital requirement was in the insurance business, which we are addressing separately.

Subramaniam

Any numbers how much would you require for the insurance business irrespective of the mode by which you would be raising capital over the next 4 to 5 years?

Rakesh Jha

As you know that in ICICI financial services we currently propose to raise about $650 million and we have mentioned that capital would be good for the company for a period of 18 months or so, and if the growth rate continue at the current pace that could be a good indicator for you to take.

Moderator

Thank you very much sir. Next in line we have Mr. Aditya Narain from Citigroup.

Aditya Narain

I just have a short question on yields on the investment portfolio how they have moved both over the quarter and how one expects them to move given the mix that you have currently there?

Rakesh Jha

Yield on investment has bee stable.

Aditya Narain

Right, and just some sense of the durations you are running both on the HTM and the AFS?

Rakesh Jha

Overall, we would still be running at slightly below 2 years.

Moderator

Thank you very much sir. Next is a follow up question from Ms. Mahrukh of UBS.

Mahrukh

Just a few more questions, what was your cost of deposit and cost of funds in 1Q-08?

Rakesh Jha

Yeah, the cost of deposits was 7.9% and the cost of funds was about 7.8%.

Mahrukh

And yield on advances was 10 %?

Rakesh Jha

Yield on advances was slightly more than 11%.

Mahrukh

Okay, and in terms of retail disbursements what would be the car and CV disbursements and even two wheelers if you have?

Rakesh Jha

The disbursements on the car was about Rs. 35 billion and on commercial business was about Rs. 15.00 billion, and two wheelers was about Rs. 8.00 billion.

Mahrukh

Thanks a lot.

Moderator

Thank you very much mam. Next is a follow up question again from Mr. Kashyap of Emkay Shares.

Kashyap

Yeah, hi, I just wanted to understand you mentioned that interest on the RBI balance is in the same quarter last year was about Rs. 0.30 billion odd right?

Rakesh Jha

Yeah.

Kashyap

And how much was that in the Q4?

Rakesh Jha

Q4 was about Rs. 0.90 billion.

Kashyap

Earlier in the conference call you mentioned that adjusted for this RBI balances income which is not accruing now, the NIMs could have been almost the same, is it something that I read properly?

Rakesh Jha

Yeah. Last year in Q1, CRR was 5% and now it is 6.5%.

Kashyap

Okay, and if you could just tell me what was the interest paid on deposit in the same quarter last year?

Rakesh Jha

It was about Rs. 25 billion.

Moderator

Thank you very much sir. We have Ms. Mahrukh from UBS again in question queue.

Mahrukh

Sorry, just a clarification, the CRR interest in the fourth quarter was Rs. 0.65 billion, right?

Rakesh Jha

The total CRR income in Q4 was Rs. 0.90 billion, including the normal payment.

Mahrukh

Okay, normal payment plus, okay thanks.

Moderator

Thank you very much Ma'am. At this moment there are no further questions from participants. I would like to hand over the floor back to Ms. Mulye for final remarks. Over to you Ma'am.

Vishakha Mulye

Thank you very much everybody. If you have any specific questions please feel free to call any of us. Thank you and bye, bye.

Moderator

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.