ICICI Bank Limited
Q1-2010 Earnings Conference Call, July 25, 2009

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Moderator: Good evening ladies and gentlemen. I am Manjula, 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. The chairperson for today's call is Mr. N. S. Kannan, CFO, ICICI Bank. Now, I would like to hand over to Mr. Kannan. Thank you and over to you sir.

Mr. N. S. Kannan: Thank you Manjula. Hello everyone, good evening. We have announced our first quarter results of this financial year. Let me first take you through the results, then we can answer any questions you have. Here, I have my colleagues with me, Rakesh Jha, Anindya, Rupesh, and Rajendra to answer the questions along with me. I will take the opening remarks in three parts. I will talk about the operating environment during the quarter, then about our own strategy and how we have delivered on it, and finally the financial performance for the quarter. On the operating environment, if we look at the economy, after a year of unprecedented volatility, the Indian economy is showing some signs of improvement. If you look at the government securities market, though the liquidity has been abundant, the 10-year government yields increased over the quarter on concerns on government borrowing program. At the budget which got presented, the net borrowings are far higher than last year as well as the interim budget. The government is seeking to address these concerns through front loading of the program and we expect that about two-third of the program will get completed in the first half of the current financial year and hopefully this will avoid crowding out in the second half. Also, there could be some possibility of disinvestment which will mitigate the pressure. On the industrial and corporate sector, the industrial production grew by 2.7% in May 2009 registering a growth for the second consecutive month and as you would have observed, the six core sectors grew at 6.5% in June 2009. The prices of key commodities are stabilizing. The steel prices at 538 US dollars per tonne, aluminium prices currently hovering around 1,600 US dollars per tonne. The capacity utilizations across the key sectors have shown improvement. So, all in all, we are seeing some kind a stabilization and possibly a positive sentiment across industry, economy, and the liquidity environment.

Let me now move on to the second part of my remarks on our strategy and the delivery on it. We have clearly articulated the strategy for the current year as being centered around 4 Cs, that is capital conservsation, CASA improvement, cost control, and credit monitoring and control. Let me now talk about how we have delivered against each of these strategies. On the first

C which is capital conservation, the capital adequacy of the Bank at June 30, 2009, was 17.4% and the tier I within that was at 13.1%. Our tier I ratio is the highest among the large Indian banks and we believe that this kind of a capital base gives us enough ability to leverage in the areas where we want to grow in the second half of the current financial year. The second C on CASA improvement, the CASA ratio has improved from 28.7% at March 31, 2009, to 30.4% at June 30, 2009. During this period, the total deposits have come down by approximately Rs. 75.00 billion, but predominantly because of our not taking wholesale deposits. We have raised Rs. 34.00 billion of savings account deposits over the quarter, so we are operating at a monthly run rate of over Rs. 10.00 billion of accretion to savings bank accounts. The third C we had articulated was on cost control. On operating expenses, we continued to have tight leash on our expenses and the expenses decreased 20% as compared to the same quarter last year and 7% as compared to the previous quarter. The cost to average asset, despite reduction in our total assets, has declined from 1.9% in Q1-2009 to 1.6% in Q1-2010. So, we continue to have tight control on our cost. Finally, on credit monitoring and control, we have seen the loan book declining by 11.6%. This is on account of our sharply reducing the disbursements of unsecured personal loans and credit cards which is part of our strategy and these are the areas where we have seen higher than anticipated credit losses over the course of last year. On the net NPL ratio, we had NPA ratio of 2.19% at June 30, 2009, compared to 1.96% at March 31, 2009. This increase in net NPA ratio is primarily on account of reduction in customer assets as advances have declined by 9.3% during the quarter. I will talk about the provisioning later when I talk about the financials. So, all in all, I just wanted to summarise on our strategy and delivery. We are sticking to the strategy of 4 Cs which we have articulated and we are seeing clear delivery against our strategy and I will talk about the provisioning specifically later in my presentation.

The third part of my remarks is on financial performance. If I have to just summarise the highlights of our profit and loss account, we have seen a 31% increase in profit before tax to Rs. 12.05 billion in Q1-2010 to Rs. 9.22 billion for Q1-2009. The profit after tax increased by 21% to Rs. 8.78 billion in Q1-2010 from Rs. 7.28 billion Q1-2009. The consolidated profit after tax improved by 68% to Rs. 10.35 billion in Q1-2010 from Rs. 6.17 billion in Q1-2009. The higher increase in consolidated profit after tax compared to our standalone profit after tax is primarily because of the reduction in losses of our life insurance subsidiary to about Rs. 0.36 billion during Q1-2010. Net interest income for Q1-2010 was at Rs. 19.85 billion compared to Rs. 20.90 billion for Q1-2009. This decrease in NII is primarily because of the decrease in advances by 11.6%. The net interest margin was maintained at the same level as the first quarter of the last financial year at 2.4%. We had always articulated that during the last quarter of a financial year, we need to do low margin agricultural loans to meet our priority sector requirements and the full impact of it, in terms of yields, comes in the first quarter of the subsequent financial year. So, that is the reason why you have seen the sequential decline in net interest margin from 2.6% to 2.4%. The decrease in margin was also because of higher level of liquidity which we have been maintaining in our balance sheet. On the fee income, we had Rs. 13.19 billion of fee income in Q1-2010. We have seen a decline in fee income from around Rs. 19.58 billion levels in the first quarter of the last financial year, but that is because of general slowdown in the corporate activity through the last year and distribution of retail savings and investment products being much lower in volume compared to the previous years. However, on a sequential basis, the fee income has been stable at around Rs. 13.00 billion compared to the previous quarter. This quarter, we have had a robust treasury income. Actually, we have realised Rs. 7.14 billion of treasury income in the P&L account in Q1-2010. The corresponding number for Q1-2009 was loss a of about Rs. 5.94 billion. Treasury gain in this quarter has been primarily on account of gains from government bond and equity-related capital gains. On the operating expenses, as I mentioned, we have seen a 20% year-on-year decline and 7% sequential quarter-on-quarter decrease in the operating and DMA expenses. The cost to average asset ratio is at 1.6% compared to 1.9% for Q1-2009. So, despite a reduction in assets, we have been able to bring down the cost to assets ratio. Finally, on the credit expenses, we had a total provisions during quarter of about Rs. 13.24 billion. This included about Rs. 2 billion of restructuring provisions predominantly on account of one large power project. Excluding this, the total amount of credit loss for this quarter was broadly in line with the Q4-2009 levels. So, we hope to continue to deliver on this front through the year and based on the risk containment measures we have taken in terms of sharp reduction in the unsecured loan disbursements, credit card, two-wheeler, the small ticket personal loans and other personal loans and tightening of our collection process, we are targeting a reduction in retail provisions in the second half of the current financial year. On the balance sheet, on CASA ratio, as I mentioned, it was 30.4% at June 30, 2009, compared to 28.7% at March 31, 2009. Savings account deposits increased by about Rs. 34.00 billion in during the quarter. Advances declined by 9% in Q1-2010 due to repayments from retail loans and short-term agri loan. Net NPAL ratio finally was at 2.19% at June 30, 2009, compared to 1.96% at March 31, 2009, which is primarily because of the reduction in advances which declined by 9.3% during the quarter. So, with these opening remarks, our team and I are ready to take any questions you may have on our financial results. Thank you.

Moderator: Thank you very much. We will now begin the Q&A interactive session. Participants who wish to ask questions, 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, please press *1 now. Kindly note, I request all the participants to ask two questions at the initial round and then come back for the followup questions. First in line, we have Mr. Dipankar Choudhury from Deutsche Bank. Please go ahead with the questions.

Mr. Choudhury: Is it the right way to read that you said that the total restructured assets provision was Rs. 2.00 billion during the quarter which was a one-off unusual item?

Mr. N. S. Kannan: I mentioned that of the total provisions of Rs. 13.24 billion for the quarter out of which Rs. 2 billion is on account of restructured provisions predominantly on account of one large power project asset which I talked about.

Mr. Choudhury: Can you help us understand the movement in NPLs a little bit because your gross NPLs has come down significantly. Provisions also have come down and net NPLs is also sort of flattish. So, could you just give a figure as to how much was the NPL formation during the quarter and explain this a little bit.

Mr. Rakesh Jha: In terms of the NPL movement during the quarter, we have given the outstanding numbers at the beginning of the quarter and the end of the quarter. The two things that you would have to adjust for, one is that on the retail portfolio, we have started making write-offs during the last three quarters. For the current quarter, the write-off of retail NPLs would have been about Rs. 11.00 billion. This is the first reason which caused the decline in the gross NPA number as we look at it. Secondly we have sold NPLs of about Rs. 4.50 billion to ARCIL.

Mr. Choudhury: So, the formation during the quarter, new NPLs during the quarter were around Rs. 12.00 billion?

Mr. Rakesh Jha: You will have to first adjust for these two numbers and then there will also be a movement in the NPLs that we sell to ARCIL due to upgrades and downgrades So, if you adjust only for write offs and sale to ARCIL without adjusting for ugrades and downgrades it may not give you the correct picture. As I said, it will be slightly higher than the last quarter. So, once you adjust for the things that I mentioned, that will give you the gross addition for the quarter.

Mr. Choudhury: Okay. thanks.

Moderator: Thank you very much sir. Next in line, we have Sunil Garg from JP Morgan. Please go ahead.

Mr. Sunil Garg: I had two questions. One is, you mentioned you upgraded some restructured loans. If you could provide some color on the Rs. 32.00 billion upgradations. And the second question is going forward are you still going to foresee a strategy of balance sheet contraction or are you going to change that in light of the change to economic environment?

Mr. N. S. Kannan: Let me talk first about the strategy of balance sheet contraction. We don't have a specific strategy of balance sheet contraction, but as we have articulated, we will conserve capital and will make sure that we are not present in the unsecured retail segment where we have seen the NPLs developing over the past few quarters. So, we would not like to be there in that part of the portfolio. Our strategy in terms of loan growth will, going forward, be focused on home loans, but bulk of that home loan will get booked in ICICI HFC. Apart from the home loan segment, we think that in project finance and corporate finance, there are opportunities, but bulk of it probably will materialise during the second half of the current financial year. So, I don't want to put a target for as a group specifically because it is a derived number, but even to keep a flat, to a 5% growth for the whole year, we have enough and more opportunities to disburse to the desirable segments of project finance, corporate finance, and home loan and continue to maintain and increase our market share in these segments.

On the restructured assets, the additions to opening net restructured loans was about Rs. 14.50 billion. We started this quarter with an opening balance of about Rs. 59.00 billion of restructured assets and we saw an upgrade from the opening balance of about Rs. 32.00 billion of restructured loans, which have been upgraded primarily because of satisfactory payment performance of these loans. So, we ended the quarter with net restructured loan of Rs. 41.50 billion at June 30, 2009. As we speak, we will continue to restructure further assets during the second quarter of this financial year also.

Mr. Sunil Garg: Kannan, just to clarify, when you said satisfactory performance, can you tell us how long the satisfactory performance was. And just on your home loan strategy, what is your take on the pressure on pricing?

Mr. N. S. Kannan: On restructuring, the satisfactory performance is for a minimum period of one year as per the regulatory guidelines as well. So, that is when we upgrade the assets. And on home loan pricing, we were the first to reduce the home loan rates and we are quite competitive in the market compared to the leading home loan lenders in the country. Our disbursements month on month have increased and we would like to play in that market based on our current strategy on pricing.

Mr. Sunil Garg: Thank you.

Moderator: Thank you very much sir. Next in line, we have Ms. Mahrukh from Nomura. Please go ahead with the questions.

Ms. Mahrukh: Just had a couple of questions. Firstly, when do you see the home loan demand picking up and how much is booked in the Home Finance Company in this quarter? Also, if you could give the sell-down to ARCIL this quarter, probably I missed the number. And the other thing I wanted to check is that your life insurance losses are coming down which is positive, so any specific reason therefore that. And what would be your fund management charges on a weighted average basis for your Unit linked insurance products (ULIP)?

Mr. Rakesh Jha: In terms of the trend that we are seeing currently, we think that by the second half of the financial year, we should see a strong growth in the housing loan market and if we look at our lending rates over the last one month, we have brought our lending rate in line with the market and we would expect the second half of the financial year to see much stronger growth on the housing business. For the bank, it will continue to be only the home loans that are eligible for priority sector lending that we would be focusing on. The rest of the loans will continue to be booked in the Housing Finance Company. The disbursement number for the quarter for Housing Finance Company was about Rs. 8.50 billion

On the ARCIL sale, we sold about Rs. 4.5 billion of NPL to ARCIL during the current quarter.

On the life insurance business, the losses that we have seen over the last few quarters has been coming down partly because of the much slower growth in the new business premium. So, the loss in the current quarter was only Rs. 0.36 billion. The pretax loss was close to Rs. 1.00 billion. We got a benefit of deferred tax during the current quarter. That is why the after tax loss was much lower. As we have said we would expect over the next two years for the company to break even and start making profits unless there is substantial change in the growth trajectory itself.

Mr. N. S. Kannan: So, financial breakeven in FY2011 is what we are continuing to target. As Rakesh mentioned, if the growth surprises us, of course, it might get pushed out, but we are pretty confident of getting to a breakeven situation by FY2011.

You asked the question on the fund management charges in the life insurance business. On our equity products, we get a fund management charge of around 2.25% and the incremental sales are predominantly in equity. So, that will give you a sense of our annual fund management charges.

Ms. Mahrukh: Okay, thanks so much. And just one more thing, when would you see your margins pick up, given that there is so much of liquidity on the balance sheet.

Mr. Rakesh Jha: We will see a much more significant repricing of the wholesale deposits because most of the deposits that we raised in last year from September-November at rates of 11%-12% were typically one-year maturity deposits. So those will start maturing from September-November of the current financial year. So, in the December and March quarter, one would expect to see the benefit of that on the margin.

Ms. Mahrukh: And gross savings deposit accretion of Rs. 10.00 billion that you talked about, what was it at its lowest or what was it last quarter?

Mr. Rakesh Jha: January to March was roughly at a similar level. It is in Q3-2009 that we had seen a decline.

Ms. Mahrukh: Okay. Thanks so much.

Moderator: Thank you very much ma'am. I request the participants to ask two questions at the initial round and then come back for the followup questions. Next in line, we have Mr. Ashish from Enam AMC. Please go ahead.

Mr. Ashish: Just a clarification on the advances growth number. There was some confusion as to one media report said that we would like to grow our asset book by less than 20%. Can you clarify, because I had assumed that since Rs. 300.00 billion of repayments are supposed to come, so to even grow at 5% to 10%, you have to increase our balance sheet by Rs. 600.00 billion. So can you clarify on that sir?

Mr. Rakesh Jha: What was mentioned actually was that in the areas that we would want to grow, that is the corporate lending and home loans that is the kind of growth that one would see in the second half of the financial year. So, on an overall balance sheet basis, as Kannan mentioned, it will be about 5% growth. Of course, it will depend on how the credit environment is in the second half of the financial year. The 20% number was only for the second half and only for part of the portfolio.

Mr. Ashish: Okay sir. And second clarification would be on the restructured loan book. Had we done any restructuring on the international loan book in the standalone bank?

Mr. Rakesh Jha: The number that Kannan disclosed of Rs. 14.50 billion included restructuring in our overseas branches as well. It is not a very significant number compared to the total number.

Mr. Ashish: Okay. And lastly, in your 2009 annual report, there was a MTM loss on loans sold to ARCIL. Do you expect the trend to continue in FY2010?

Mr. Rakesh Jha: That is based on the NAV of the ARCIL security receipt that we hold in our investments. That will continue to be a quarterly phenomenon and depends on what the actual NAV that comes out to be at the end of the quarter. It depends on what the recovery by ARCIL is on these NPLs.

Mr. Ashish: Okay. Have you made any provision on these security receipts in Q1-2010?

Mr. Rakesh Jha: Yes, there would be some provision on this account in the Bank's P&L.

Mr. Ashish: Okay. Thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Rajeev Verma from DSP Merrill Lynch. Please go ahead with the questions.

Mr. Rajeev Verma: Hi. Could you just give me an idea what is the equity gain in the current quarter and secondly, just to understand on the fee side, are we seeing any trends I know growth has been quite muted, but are you seeing any signs of pickup at all on the fee side. Secondly how does the new insurance capping on charges affect your operations going forward given your FMP fee charges of 2.25%?

Mr. Rakesh Jha: On the treasury income we don't give a product-wise breakup on a quarterly basis. The treasury income for the quarter does include some write-back on our credit derivative portfolio given the compression of spreads on these credit derivatives.

Mr. Rakesh Jha: Treasury income also includes some amount of equity gains and some amount of equity mark to market reversal and the balance will be on the fixed income securities.

On the fee income, currently the trend that we are seeing is similar to what we have seen in the last six months. Corporate activity, we believe, has started picking up, but by the time it actually translates into business for us either in terms of disbursements or other opportunities in fee income, it would more be towards the third and the fourth quarter. So, we expect the fee income run rate to pick up in the second half of the year.

Mr. N. S. Kannan: On the new IRDA guidelines on the capping of charges on ULIP products, we believe that any kind of measure which looks at capping the reduction to the gross yield on IRR basis to the customer is beneficial in the long run, both for the customer as well as for the industry. I understand that there is a life council meeting which is going to happen, where the industry is going to discuss this issue. So, we will have to just wait and see the output of the discussions and then seek some clarifications on the circular. We think that this will possibly lead to some kind of a structuring of the products in the short term and re-filing if required. But over the long term, both for the industry as well as customer, we think it is a very important move. We look at it as a positive. In any case our commissions and charges would probably be one of the lowest in the market.

Mr. Rajeev Verma: Okay. Thanks a lot.

Moderator: Next in line, we have Madhuchanda Dey from Kotak Securities. Please go ahead.

Ms. Dey: Yeah, I have a couple of questions. First is, if you could tell me what kind of restructuring proposal you have and if you could give a sectoral breakup of the Rs. 32.00 billion upgrades?

Mr. Rakesh Jha: On restructuring, as Kannan mentioned that we would expect over the next two or three quarters some more amount of restructuring to happen in the corporate book both domestically and in the overseas book. It is very difficult to give a number because these are arrangements where multiple banks are involved, so a restructuring proposal to be finalised and approved by each of the banks will take time. But there will definitely be addition to the restructured loans over the next two-three quarters.

Ms. Dey: I understand the point. Just to put it in perspective, last time you had mentioned that there was about Rs. 20.00 billion of proposal pending. So, out of this, was it that Rs. 14.50 billion got restructured and the remaining is still pending and it will get carried over, if you could just clarify that for me please?

Mr. Rakesh Jha: Most of that the pending application got restructured during the current quarter. Of course, of that Rs. 20.00 billion, in some of the cases there would not eventually be any restructuring because the proposal would not have been accepted by the Bank.

Mr. N. S. Kannan: But there will be further applications after that date.

Ms. Dey: Okay. And any sectoral breakup of that Rs. 32.00 billion upgrade?

Mr. Rakesh Jha: It is very difficult to give a sector because these are typically corporate exposures which are relatively large. So it is much more company specific than sector specific.

Ms. Dey: Okay. And secondly, the balance sheet guidance that you are giving is much lower than the broad industry average. What would make you start lending again, is it incremental slippage being contained at a particular number or a CASA hitting a particular level?

Mr. N. S. Kannan: We have clearly been focused on this 4Cs strategy which I articulated right upfront. We are going to be focused on some segments like project finance, corporate finance, and home loans where we think the asset quality will be good and there will be an opportunity and we do have necessary structuring and syndication and project appraisal capabilities in areas such as project finance. Those are the areas where we are going to be pursuing a growth, but for any meaningful significant disbursements to happen, I guess we will have to wait for the second half of the current financial year. That is why I am not able to give an amount, but as I mentioned earlier, given that the advances have declined in the first quarter, even for maintaining a flat or a 5% growth through this whole financial year, we have enough leverage to pursue the growth opportunity in these desirable segments. Clearly, the strategy is going to be not to be aggressive or not even be present in areas such as credit cards, two-wheelers, the small-ticket personal loans and other personal loans to the extent possible. So, whatever asset growth we will achieve at the end of the year is really an output of these strategies and we are not working towards a number.

Ms. Dey: And just last one question if you permit me to, this slippage in the quarter appears to be slightly higher than what you did last quarter also. So, do you see it is peaking out or you are anticipating some more slippage in the coming two quarters also?

Mr. N. S. Kannan: You are right, slippages have increased, but again, if I analyse the portfolio, it is largely again on account of the retail unsecured portfolio where our strategy is to ring-fence the existing portfolio and not increase our exposure incrementally to that portfolio. That strategy is firmly in place. A couple of portfolios will peak this quarter, maybe one or two portfolios within that will continue and if you take out the provision of Rs. 2.00 billion on account of restructuring, credit losses were broadly at the same level as the last quarter. So, one or two portfolios peaking and maybe one or two portfolios within that retail unsecured portfolio continuing into the next quarter. So, as Rakesh mentioned, we are hopeful that by second half of the current financial year, our incremental provisions on a quarterly basis, we should be able to bring down in absolute terms.

Ms. Dey: Okay. Thanks a lot.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Amit from UTI Mutual Fund. Please go ahead.

Mr. Amit: What is the total mark to market write-back on overseas subsidiaries as well as the overseas branches on account of credit derivatives?

Mr. Rakesh Jha: On the credit derivatives, we don't really disclose the mark to market numbers on a quarterly basis. There was some amount of write-back which was there. In the UK investment book we have disclosed in the presentation that there was a write-back of about US$ 68.50 million pre-tax in the reserves.

Mr. Amit: Okay. Thank you.

Moderator: Thank you very much sir. Next, we have Mr. Kashyap Zaveri from Emkay Global. Please go ahead.

Mr. Zaveri: Just wanted to know equity investment in subsidiaries in this quarter has remained flat across all the subsidiaries, so any any guidance on the trend going forward?

Mr. N. S. Kannan: Overall, I do not see any reason to infuse significant amount of capital in any of the subsidiaries in the current financial year. In ICICI Prudential Life Insurance, capital infusion will be about Rs. 3.00 billion of which ICICI Bank's share would be 74%.

Also, I mentioned earlier that bulk of our home loan incremental booking will happen in HFC. So there might be some capital requirement in that company. But then it really depends on the growth opportunities there

On capital requirement for ICICI Bank UK, we will have to wait and see if any growth opportunity arises and whether any incremental mark to market is there. That is something I am not able to make a comment on today because we will have to wait and see how the market develops.

Apart from this, I do not see any significant need for infusing capital. But just to round up, our capital adequacy ratio is at 17.4% total and Tier I at 13.1%. So, we are more than adequately capitalised to take care of any of the subsidiary capital requirements as well.

Mr. Zaveri: Right. And is the disclosed equity investment in subsidiaries gross of any dividends which you would have received from any of them. I mean, it is not after netting off dividends which would have gotten from those companies?

Mr. N. S. Kannan: It is our investment in share capital of those subsidiaries.

Mr. Zaveri: Okay. Now, in this earlier question on capping of charges on ULIPs, would the mortality charges be also included in this 3% yield?

Mr. N. S. Kannan: I think that is one of the clarifications which the industry will be seeking at life council. I think it is not specifically mentioned in the guideline.

Mr. Zaveri: But at least, as of now, we are sure about portfolio allocation charges or premium allocation charges or management charges?

Mr. N. S. Kannan: Yes.

Mr. Zaveri: Okay. And just lastly, I can see a change in outstanding provisions of about Rs. 2.80 billion, from about Rs. 53.00 billion to about Rs. 50.00 billion. Would this be purely provisions converted into write-offs or there is any write-back of provision also included here?

Mr. Rakesh Jha: This would include all the impact of the provisioning done during the quarter, the write-offs that we talked about, and the sale of NPAs to ARCIL as well.

Mr. Zaveri: Right, And just lastly, a book keeping question, if you could give me a breakup of loans in terms of rural, SME, international for the same quarter last year?

Mr. Rakesh Jha: For the June 2008 quarter, the retail was 55%. The corporate portfolio was about 10%. Our agri book was about 6%. And the overseas book was about 24% and SME was about 3.5%.

Mr. Zaveri: Just last one question, have you taken any hit on the balance sheet on account of any MTM? I can see a difference of about Rs. 2.20 billion if I were to add this quarter's profit to Q4 reserves?

Mr. Rakesh Jha: That would be the impact of foreign exchange translation reserve.

Mr. Zaveri: Okay, sure, that's it from my side.

Moderator: Thank you very much sir. Next in line, we have Mr. Krishnan from Ambit Capital. Please go ahead with the questions.

Mr. Krishnan: You have mentioned that the NIMs are a bit lower on a sequential basis because of the full impact of low margin agricultural loans whereas your press release seems to suggest that agricultural loans have been dipped during the quarter. So, I just wanted to understand what exactly is happening there?

Mr. N. S. Kannan: These are the disbursement which were built in the last quarter of the last financial year to meet with our priority sector requirement and typically these assets get built in the last fortnight of a financial year. The full impact on the yield comes in the subsequent quarter. Typically, these assets run down during the year. These are about six-month maturity assets and again we build it back at the end of the financial year. So, that's why you will see the biggest impact in terms of yield reduction coming in the first quarter of the financial year.

Mr. Krishnan: Okay, fine. Secondly your operating expense has been trending down over a period of time, but to what extent do you think you can further control costs?

Mr. N. S. Kannan: As we have articulated, what we are trying to pursue for this year is to keep the absolute level of operating expenses at the same level as the last financial year and at the same time establish 580 additional branches through this financial year.

So, that is the kind of aspiration we have on cost. In terms of manpower, we will continue to have control on outsourced employees. Then, the physical infrastructure is one area where we feel we can continue to rationalise into next couple of quarters. And finally, on collection expenses, with us incrementally not disbursing unsecured loans which require a large collection machinery, we think that we will be able to bring down those collection expenses. So, these are the four areas where we are continuing to work on and we are quite confident that we will be hold the operating expenses at the same level as the last financial year and implement these 580 additional branches at the same time.

Mr. Krishnan: Okay. Just one last query. The credit deposit ratio of the bank has actually cooled off a fair bit, from almost over a 100%, it has now come off to 94% or thereabouts. Where is this likely to settle down? The system is running at roughly around 70% of the credit deposit ratio, I just want to understand where is it that you would want to see it settle down?

Mr. Rakesh Jha: The credit deposit ratio for us has been high because our overseas business is largely been funded out of borrowings. That is the reason why on an overall balance sheet basis, the ratio appears much higher than for the other banks. On the domestic balance sheet, the credit deposit ratio for us is at about 73%. And I think it will broadly continue to be at the same level.

Mr. Krishnan: Okay, sure. Thanks a lot.

Moderator: Thank you very much sir. Next, we have Mr. Saikiran Pulavarthi from Centrum Broking. Please go ahead with the questions sir.

Mr. Pulavarthi: A couple of questions. What is the reason for the sharp quarter-on-quarter reduction in off-balance sheet exposure? And the second thing is regarding the UK subsidiary, what is contributing the 14% asset growth in UK subsidiary? And also, a housekeeping question, what is the corresponding quarter UK subsidiary PAT numbers?

Mr. Rakesh Jha: The decline off-balance sheet risk weighted assets is essentially on the treasury side, that is on the foreign exchange and swaps that we have with customers

ICICI Bank UK has registered a q-o-q asset growth of 14% partly because of the currency movement which accounts for about half of the increase. So, the actual increase is roughly about half because the balance sheet is reported in US dollars although some of the assets and liabilities are in euros and sterling.

Profit after tax in ICICI Bank UK in Q1-2009 was US$ 11.9 million.

Mr. Pulavarthi: Also one more last question in terms of the liability franchise, what is your view on the current accounts because savings account forms a major portion of your CASA and is seeing a healthy growth, but if I look at the current accounts for the past two years, it is more or less at the same level. What is your view on that?

Mr. N. S. Kannan: I think it is for the system itself. If we look at the results of some of the other banks which have come out also, from March to June normally there is a decline for the system in current accounts because of the typical year end activity of corporates and and small and medium enterprises. So, we are pretty much in line with the banking system. I think with the banking system itself, it sort of grows during the year and with our focus on transaction banking, both in corporate as well as SME sector, we think that we are on target to take the CASA ratio up to closer to 33% levels by the end of this financial year.

Mr. Pulavarthi: Thanks a lot. That's it from my side, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Abhijit Majumdar from Prabhudas Lilladher. Please go ahead.

Mr. Majumdar: Your interest on investments quarter on quarter has declined by about Rs. 3.00 billion, but the investment book roughly has increased. Can you explain this?

Mr. Rakesh Jha: The yield on the investments would have gone down primarily because of the decline in the SLR yields in the current quarter.

Mr. Majumdar: Thanks, I am through.

Moderator: Thank you very much sir. Next in line, we have Mr. Jatinder Agarwal from RBS. Please go ahead.

Mr. Agarwal: Good evening. Just one small question. Can you provide your consolidated loans and the year on year growth?

Mr. Rakesh Jha: The consolidated loan book was about Rs. 2,400.00 billion. And last year it was about Rs. 2,500.00 billion.

Mr. Agarwal: Perfect. And on your total cumulative written off book on your retail, whether it includes small ticket and credit card whatsoever, can we have that amount?

Mr. Rakesh Jha: That is completely written off from the books, so we don't even track it. For the current quarter, I gave you the number, that is about Rs. 11.00 billion.

Mr. Agarwal: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Hiren Dasani from Goldman Sachs. Please go ahead.

Mr. Hiren Dasani: Hi. Just two things. One is on the non-interest income, there is a line called lease and other income, that number was ranging in the range of about Rs. 1.20 billion and suddenly it has dropped to Rs. 0.57 billion this quarter, so any explanations for that?

Mr. Rakesh Jha: It is mainly the dividend distribution from subsidiaries or the income that we get from subsidiaries and including from the venture funds that we would have invested in. The dividend income from venture funds would be lower for the current quarter.

Mr. Hiren Dasani: Is there any timing of dividend between Q1 and Q2 or something like that, which would have been accounted last year in Q1 and this year maybe in Q2?

Mr. Rakesh Jha: No, not really.

Mr. N. S. Kannan: But having said that, one has to monitor the Q2-2010 profits of the subsidiaries and their subsequent dividends. For that we will have to wait for the markets to stabilise. We can get a sense of their PATs from the consolidated disclosures. So, we will have to sort of wait and see how the market conditions develop for further dividend from the subsidiaries.

Mr. Hiren Dasani: Okay. Secondly, on the guidelines on ULIP charges by IRDA, earlier, questions have also been asked, but let's say as of today based on whatever is your understanding of the revised guidelines, do you think it can put material pressure on the NBAP margins?

Mr. N. S. Kannan: We will have to really analyse that and come back to you.

Mr. Hiren Dasani: Okay. And in housing loans, are the loan rates now comparable for the new as well as the existing customers or existing customers are still paying higher amount?

Mr. Rakesh Jha: Rates at which existing customers are paying will depend on the point of time the customer would have taken the loan. This would be the case across all banks.

Mr. Hiren Dasani: No, what I meant was like some of the other lenders have reduced for existing customers the loan yields by about 200 to 250 basis points on the peak. So, would the reduction be similar or maybe that would still prompt your existing borrowers to kind of switch to others?

Mr. Rakesh Jha: We have done about 150 basis points in the last few months including 100 basis point in the June quarter itself.

Mr. Hiren Dasani: Okay. And lastly on the international side are we still looking at retail deposit-led growth only or the wholesale markets have kind of opened up enough for us to grow?

Mr. Rakesh Jha: On the wholesale market our credit spreads and bond yields have come down we would still want to raise money in the wholesale bond market only at much lower rates than what currently is prevailing. In terms of liquidity, access to that is clearly there now, so it is more an issue of pricing. At the current level at which our bonds are trading, we would not be comfortable raising money, so we are not looking at an issuance currently.

Mr. Hiren Dasani: Okay. Thanks, that's it.

Moderator: Thank you very much sir. Next, we will be taking the last three to four questions which is on queue. Next in line, we have Ms. Tabassum from UBS. Please go ahead with the questions.

Ms. Tabassum: Yeah, hi. I just have one question. In UK and Canada, have you restructured any loans?

Mr. Rakesh Jha: In UK and Canada, we would have restructured some of the loans, but as I said that number currently is not a large number, but going forward, we would have more restructuring in that book just like in the domestic corporate and in the overseas branches as well.

Ms. Tabassum: Okay. Thank you.

Moderator: Thank you very much Ma'am. Next in line, we have Mr. Aditya Narayan from Citigroup. Please go ahead with the questions.

Mr. Narayan: I just had a couple of quick ones. Firstly, your offshore book has been growing well while domestic balance sheet has been contracting. Any sense if that kind of trend will continue and what is the kind of growth you are looking there? Secondly, in terms of the APE on the ICICI Life, that is actually halved in the first quarter, so any direction you could give us in terms of how much of this is market influenced, how much of this is strategy, and really how much we are looking at it growing going forward? And the third thing is the standard provision number that you have given for the first quarter, what is that number on the balance sheet at March 31, 2009?

Mr. Rakesh Jha: On the last one, the general provision number was the same number at March 31, 2009 because RBI reduced the general provision requirement last year, but they had not allowed banks to write back their existing general provision, so our general provision number has been the same in the last two quarters. On the first one, in the overseas book the growth that we have seen has been in the UK balance sheet maybe at about US$ 500 million of growth on account of disbursements while the rest of the growth would essentially be an impact of the currency movement. If you look at our overseas branches or at the Canadian subsidiary, the book has pretty much been flat or been declining a bit adjusting for the currency. So, it is not that we are looking at any significant growth in our overseas business currently. In UK we are able to raise longer-term retail term deposits. We have recently started focusing more on two-year, three-year deposits in UK, so to the extent that we are able to raise those deposits, we would look at opportunities in taking India-linked exposures in the UK book which will be at the kind of growth that we saw in the current quarter. Otherwise, we are not really looking at any significant growth in the overseas business.

Mr. N. S. Kannan: On ICICI Life Insurance side, the reduction of absolute new business profits is primarily on account of the reduction in new business premiums and the margins have been stable at around 19%. We do not see any significant reduction to margins on a business as usual basis. On the growth, yes, you are right that we have had a decline, but month on month, our market share has been going up and we expect the whole industry to grow at around 10% growth for the year and our earlier estimate for the whole year growing at the same level as industry grows. So the start has been slow for the year, but again the first quarter is normally the lean quarter for the life insurance industry, so we hope to be able to catch up during the year, but we expect the overall industry to grow only at 10% during this year.

Mr. Narayan: Just one more question if I might add. There is this US$ 48.0 million write-back on the UK subsidiary which goes to the reserves. Is there anything in the P&L? I think you had mentioned US$ 68.0 million, but I am not sure if it is pretax, are they separate or is there a US$ 68.0 million pretax write-back in the P&L?

Mr. N. S. Kannan: No, that is only in the stockholders reserve. About US$ 68.00 million is pre-tax and about US$ 48.0 million is post-tax. There is no impact in the P&L.

Mr. Narayan: Okay.

Moderator: Thank you very much sir. The last question comes from Mr. P. S. Subramanyam from SBI Cap Securities. Please go ahead.

Mr. Subramanyam: Good evening. My question is on the loans which are being sold of to ARCIL, could you say what kind of risk you still hold on these loans that you sell off to ARCIL and what would be the cumulative amount that you have sold off till date?

Mr. Rakesh Jha: Currently, most of the purchase that ARCIL has been doing has not been on a cash basis. So, essentially when banks sell NPLs to ARCIL they also correspondingly do invest in the security receipts issued by the trust and that is used to fund the purchase by ARCIL. Our aggregate investment in security receipts of asset reconstruction companies at June 30, 2009, was Rs. 35.70 billion.

Mr. Subramanyam: Okay. And how much is the cumulative write-offs that you have taken on this?

Mr. Rakesh Jha: This is the number which is there on the books. So, what we would have sold to asset reconstruction companies would have been a higher number.

Mr. Subramanyam: Okay. But your risk is limited to the Rs. 35.70 billion amount that you hold?

Mr. N. S. Kannan: That's correct.

Mr. Subramanyam: Okay. Thank you.

Moderator: Thank you very much sir. At this moment, I would like to hand over the floor back to Mr. Kannan for final remarks. Please go ahead sir.

Mr. N. S. Kannan: Thank you. Once again, sorry, we had to pull you out on a Saturday for this call and I and my team is available for any further questions you have offline and thank you very much once again.

Moderator: Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx's conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
