ICICI Bank Limited
Q2-2010 Earnings Conference Call, October 30, 2009

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Moderator: Ladies and gentlemen good evening and welcome to the ICICI Bank's Earnings Conference Call. I would now like to hand the conference over to the management of ICICI Bank. Thank you.

Mr. N. S. Kannan: Hello good evening to all of you. This is N. S. Kannan, CFO of ICICI Bank. I have with me Rakesh Jha, Deputy CFO and the rest of my investor relations and finance team. I will break the opening remarks in three parts. I will first talk about the operating environment, then about our strategy and delivery and finally the financial performance of ICICI Bank.

On the first part, which is the operating environment, we see the economy doing well. All the economic indicators show a good momentum. In the industrial sector we are seeing a broad based momentum. Several projects are now getting off the block and getting towards financial closure. On the consumer side we are seeing car sales growing. Home loan disbursements have also gone up and debit card spends have been rising. Now let me talk about the liquidity and interest rates. As you are all aware there was a net foreign institutional investment inflow of about US$ 8.00 billion in the second quarter of this financial year following US$ 7.00 billion during the previous quarter. Several companies have taken advantage of these market conditions to raise equity capital and reduce leverage. The 10-year Government of India security yields remained volatile during the quarter. However, the borrowing program for the first half was successfully completed by the government and accordingly the borrowing pressure has substantially eased in the second half of the current financial year.

In the second quarter review of monetary policy 2009-2010 on October 27, 2009, the Reserve Bank of India commenced an exit from the special measures introduced in fiscal 2009 following the global financial crisis. They withdrew some of the special liquidity injection measures introduced in fiscal 2009 based on comfortable liquidity conditions and low utilization of some of these facilities. They have not changed any of the key policy rates and the cash reserve ratio. However, they have increased the provisioning requirement for advances to commercial real estate classified a standard asset from 0.4 to 1%. They have also stated that banks should increase the total provisioning coverage, including floating provisions, to 70% by September 30, 2010. Finally, the SLR requirement has gone back to 25% from 24%.

If I move onto the banking system, the liquidity in the system is comfortable. About Rs. 1.0 trillion is being lent by banks to the Reserve Bank of India on an overnight basis under the LAF window. Non-food credit growth remained muted at about 13% as of September 25, 2009. However, we expect the credit growth to pick up with a recovery in the economic activity and as project investments get transformed into actual investments. So the overall economic environment today is positive and optimistic and the monetary conditions and the banking systemic conditions are very stable.

Now let me move onto the second part of my presentation which is about our own strategy and delivery. At the cost of repetition let me again reiterate that we have followed for this financial year a strategy around 4-Cs. Let me stick to that script and let me look at what is this 4C strategy and what has been our report card against each of the Cs in the 4C strategy. The first C is CASA improvement which we have taken upon ourselves as an important balance sheet funding stabilization strategy and cost reduction strategy this year. The CASA ratio has further improved from 30.4% at June 30, 2009 to 36.9% at September 30, 2009. There have been some quarter end current account floats because of the market activity. However, not withstanding this, even the average core CASA ratio has increased significantly over the previous quarter. During Q2-2010, we have raised close to Rs. 49.00 billion of savings account deposits.

Let me move onto the second C which is cost control. On cost control, we have continued to make very good progress. The operating expenses have decreased 18% as compared to the last year and 8% as compared to the last quarter. As a result, the cost to average assets ratio which was 1.7% in Q2-2009 has come down to 1.5% in Q2-2010 despite assets declining marginally. However I must point out that the operating expenses could increase from here as the pace of branch additions will increase in the second half of the current fiscal. We continue however, to pursue our targets for opex for this year to keep it at the same absolute level as in the last year.

Let me move onto the third C which is credit quality. We continue to reduce the unsecured personal loan and credit card portfolio. The net personal loan and credit card portfolio, which is the uncollateralized retail portfolio, declined from Rs. 168.00 billion at March 31, 2009 to Rs. 124.00 billion at September 30, 2009. If I look at this as a percentage of the total loan book, unsecured retail loans have come down from 7.6% in the previous quarter to 6.6% currently. Our absolute level of net NPLs has decreased during this quarter and the ratio has remained at the same level of 2.19% as for the previous quarter. The addition to gross retail NPLs has decreased from over Rs. 13.00 billion from Q1-2010 to about Rs. 10.00 billion in Q2-2010.

On the final C which is capital conservation, our capital adequacy at September 30, 2009 was 17.6% and within that, tier 1 was at 13.3%, as per RBI's Basel II framework. Our tier 1 ratio is the highest among large Indian banks.

Now let me move onto the third part of my presentation which is the financial performance for the second quarter of this financial year. The Bank has increased its core income on a sequential basis.

If I talk about the profit and loss highlights, the net interest margin has improved sequentially and in comparison to Q2-2009 by 10 basis points to 2.5%. The net interest income as a result has increased sequentially to Rs. 20.36 billion for the second quarter from Rs. 19.85 billion for the first quarter. So there has been a sequential expansion in net interest income. The fee income has increased sequentially to Rs. 13.86 billion for this quarter compared to Rs. 13.19 billion for the previous quarter. So while fee income has declined on a year-on-year basis, it is expanding on a sequential basis.

Operating expenses (including direct market agency expenses) decreased by 8% to Rs. 13.79 billion in Q2-2010 from Rs. 14.94 billion in Q1-2010. We achieved a reduction in the cost to average asset ratio to 1.5% for Q2-2010 which is one of the lowest in the Indian banking sector. Total provisions decreased sequentially by 19% to Rs. 10.71 billion in Q2-2010 from Rs. 13.24 billion in Q1-2010. We had mentioned that Q1-2010 had a one time impact of provisions on restructuring of corporate accounts. As a result of these there has been an 18% sequential increase in the standalone profit after tax of the bank from Rs. 8.78 billion in the first quarter to Rs. 10.40 billion for the second quarter.

The performance of the subsidiaries has improved significantly. One of the primary reasons is that the losses of ICICI Prudential Life have come down during the second quarter of this financial year compared to the second quarter of the last financial year. Subsidiaries such as ICICI Securities and ICICI Prudential AMC have reported good profits, thanks to the improvement in market conditions. As a result, on a consolidated basis profit after tax increased by 11% sequentially and 76% year-on-year to Rs. 11.45 billion in Q2-2010.

Now let me move onto the balance sheet highlights. As I mentioned earlier the CASA ratio has improved to 36.9% at September 30, 2009. We have raised about Rs. 49.00 billion of savings account deposits and about Rs. 41.00 billion of current deposits during this quarter. Advances have declined by 3.7% in Q2-2010, mainly due to repayments from the retail portfolio and also the short term agriculture finance portfolio. We continued to reduce the unsecured personal loans and the credit card portfolio during the quarter. We expect credit growth to pick up in the second half of the financial year. Disbursements in mortgages (including ICICI Home Finance Company) has increased from about Rs. 11.00 billion in Q1-2010 to Rs. 24.00 billion in Q2-2010. We are also seeing a demand from the infrastructure sector.

The net NPA ratio was at the same level as June 30, 2009 at 2.19%. The absolute level of net NPL has decreased from Rs. 46.67 billion at June 30, 2009 to Rs. 45.58 billion at September 30, 2009. There have been some questions on the impact of RBI guidelines on increasing provisioning level to 70% by September 2010. In this context, we will wait for the final guidelines as there are certain aspects which are still not clear. For example we need clarity on whether write-off should be included in the calculation of provisioning coverage. There have also been comments in the market on increasing the period over which provisioning coverage needs to be increased. However, based on the current level of gross and net NPLs, we will need about Rs. 17.00 billion of provisions to reach the 70% coverage over the next one year. As our current provisioning policy already provides for 100% provisioning for all retail loans, except mortgages, within one year of the loan becoming non-performing, a large part of this requirement would be met by our normal provisioning if we do not make further write-offs. Further to that we have to await the guideline from Reserve Bank of India as to how this provisioning coverage has to be implemented.

To summarize, the operating environment is positive we are seeing general momentum in the economy. Liquidity conditions are comfortable and the monetary policy and interest rates are stable. We have stuck to our strategy of 4 Cs and have made considerable progress across all of them. On financial performance, the Bank has increased its core income on a sequential basis. So with these opening remarks, I and my team are very happy to take any questions you may have. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. Our first question comes from the line of Mr. Mahrukh Adajania from Nomura.

Mr. Adajania: What is the quantum of restructuring during the quarter? How much have you provided and what is the outlook on slippages in the quarters ahead?

Mr. N. S. Kannan: The restructuring has been about Rs. 8.50 billion and the net outstanding restructured loans at September 30, 2009 are about Rs. 48.00 billion. As we have said earlier, there would be some more restructuring that would happen over the next couple of quarters.

Mr. Adajania: Thanks.

Moderator: Thank you. The next question is from the line of Mr. Krishnan ASV from Ambit Capital.

Mr. Krishnan ASV: I wanted to get a sense of the impact of the one percent provisioning on commercial real estate? You have mentioned that provisioning has come down on a sequential basis, but looking ahead with the increase in provisioning to commercial real estate from 0.4% to 1%, what is the impact on the provisioning numbers?

Mr. N. S. Kannan: Our portfolio to this sector is quite limited. In any case as we are carrying a much higher level of general provision over and above what is required by the Reserve Bank of India, the net impact is going to be very marginal for us. We do not expect any additional provisions. The excess general provision will come down marginally.

Mr. Krishnan ASV: Okay. The second question I had was on the loan growth front. At this point of time we seem to be in a mode of a balance sheet contraction and hence CASA improvement is showing up in percentage terms because deposits are being allowed to mature. At some point of time we will need to raise term deposits as well. So what is the stable sustainable CASA we are looking at?

Mr. N. S. Kannan: We have articulated earlier also that by the end of the year we would like to get to the system average of 33% to 35% CASA ratio. It is not that we want to be contracting the deposits. We will look at our own strategy and the environment in the context of deposit raising and accordingly the deposit rate will really be a derived number. What is probably instructive to notice is that during this quarter we have raised savings bank account deposits of Rs. 49.00 billion. That is a kind of momentum we are seeing on the savings side. The overall deposit growth would really be a derived number based on asset growth opportunities.

Mr. Krishnan ASV: Okay. How much of current investment book would be in the HTM category and how much in AFS?

Mr. Rakesh Jha: Of the government securities book, typically we keep the HTM at the limit that is available, i.e. 25% of NDTL. Of the total government securities, about 75% would be in the AFS category.

Mr. Krishnan ASV: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Mr. Aditya Narain from Citi Group.

Mr. Aditya Narain: My question was on margins. Is it possible to give any sense of the levels or the directions of margins on the domestic book and on the international books?

Mr. Rakesh Jha: In the overseas book the margin is about 50 basis points, while for the domestic book it would be in the region of about 2.8%. The margin in the overseas book has come down in the last 12 months given the increase in the funding cost, while the lending rates have not really gone up. That is the reason why we have seen a decline in the margin.

Mr. Aditya Narain: So the slight shift in margins over the last quarter would have been on the domestic book.

Mr. Rakesh Jha: It would be entirely on the domestic book.

Mr. Aditya Narain: Okay thanks.

Moderator: Thank you Mr. Narain. The next question is from the line of Mr. Ajitesh Nair from UBS.

Mr. Ajitesh Nair: Thank you. Good evening I just wanted to get your thoughts on whether with this ongoing cost control exercise, is there a risk of under investing when the growth comes back meaningfully?

Mr. N. S. Kannan: We are very conscious of not cutting the investment type of expenditure. The components of cost which we are focusing on are outsourced manpower, retail collection expenses and the excess physical infrastructure. We do believe that there is further opportunity to rationalize this expenditure. However, the operating expenditure is likely to go up with all the 580 new branches being implemented during this financial year. A good target for us to pursue would be to keep the operating expenses at the absolute same level as the last year and still implement the 580 additional branches. We believe that this would be optimal without cutting any investment type expenditure.

Mr. Ajitesh Nair: The second question is on the growth in savings deposits which has been very strong on a q-o-q basis. Do you think this run rate of Rs. 45.00 billion could be sustainable going forward?

Mr. N. S. Kannan: We have been having about Rs. 12.00-13.00 billion of accretion per month which we have been seeing for several months now. Since February onwards we have been seeing a number which is around that. In the first quarter of this financial year the whole banking system has been helped somewhat by the pay commission arrears which came into the banking system and several other payments which happened during the quarter but our own machinery is in place in terms of pursuing a CASA growth of more than Rs. 12.00 to Rs. 13.00 billion per month. There will be some kind of a volatility depending on some of payouts happening or not but on core machinery, the 475 branches which we have put in last year and the 111 branches which we have put in the year before that are functioning well. With the addition of these new branches we are on target on our savings account deposits strategy.

Mr. Ajitesh Nair: Okay. Thank you.

Moderator: Thank you Mr. Nair. The next question is from the line of Ms. Madhuchanda Dey from Kotak.

Ms. Dey: You mentioned in the opening remark that there were some one-off elements in the CASA figure. So excluding that could you give us a sense of the core CASA which is sustainable according to you?

Mr. N. S. Kannan: It is not really a one-off in. It is largely because there was a lot of activity towards the end of September and you would have seen that reflecting in some other banks as well.

There were IPOs, and QIPs because of which money gets passed on to the banking system for a few days. I do not want to take it away by saying that this is one-off because if that activity continues that kind of float will stay in the banking system. The point that I was trying to make is that there has been a sharp increase of CASA to close to 37% at September end but one has to be aware that there was a lot of market related activity towards the end of September giving us a momentum in the current accounts deposits. What I also mentioned is that CASA, even if we look at it on a core or an average basis, while we have not put out a number, it has been significantly higher than what it was in the previous quarter. So the directional trend is very positive. We are very much on target on our CASA improvement strategy.

Ms. Dey: Of the Rs. 41.00 billion you have given in the presentation, how much would have come from capital market related float?

Mr. N. S. Kannan: That is very difficult to segregate and give, but my point is that the core CASA is also improving sequentially.

Ms. Dey: Could you also give us a breakup of the Rs. 10.00 billion addition to NPL that you have seen in the quarter and if you have done any sale to ARCIL? What is the write-off that you have taken in the quarter?

Mr. Rakesh Jha: We have written off about Rs. 6.00 billion of retail loans during the quarter and in terms of the gross sales of retail NPLs during the quarter, it would have been about Rs. 7.00 billion. This is without adjusting for any recoveries from these loans that we have sold. So totally a Rs. 13.00 billion reduction would have come on account of the write off and the gross sales of retail NPL.

Ms. Dey: Okay thanks.

Moderator: Thank you Ms. Dey. The next question comes from the line of Mr. Ramnath V from Kotak Securities.

Mr. Ramnath V: I just wanted a small clarification on the improvement in margins that you have given. How much of this is on account of better spreads and how much of it is because of the fact that the proportion of non-interest bearing liabilities is going up in your balance sheet?

Mr. N. S. Kannan: Essentially the increase in margin is nearly equal to the increase in spreads.

Mr. Ramnath V: If I look at your housing loan portfolio that has been consistently coming down. Any particular reason for that?

Mr. N. S. Kannan: That is because of the repayments coming on the opening book but at this point I should also clarify about the Rs. 24.00 billion disbursement in Q2 on account of mortgages. A significant portion of mortgages also gets booked in ICICI Home Finance Company, which is a 100% subsidiary of ICICI Bank. The economic benefit of that comes through the dividend payment by that subsidiary into the parent. So that is why you will have to look at both the books together while you determine the home loan exposure of ICICI group as a whole.

Mr. Ramnath V: Right. So there have been no sales from the housing subsidiary as such.

Mr. Rakesh Jha: No, we do not do that.

Mr. Ramnath V: Despite the rupee actually appreciating the international loan book has remained flat. Any particular reason for that or is it the cross currency adjustments that have happened over there?

Mr. Rakesh Jha: For the book in UK and Canada there would be some currency adjustments but in the overseas branches the book has nearly been flat. There were no large repayments that were there in the current quarter, it has essentially been flat. The currency movement has substantially happened post September 30, 2009.

Mr. Ramnath V: So basically the loan book has remained flat.

Mr. Rakesh Jha: In Canada it has come down a bit.

Mr. Ramnath V: Okay thanks.

Moderator: Thank you. The next question is from the line of Mr. Rajeev Varma from DSP Merrill Lynch.

Mr. Rajiv Varma: Just wanted to have an idea of what would be the total disbursements made in the quarter. I separately wanted to reconfirm the addition to the NPL of about 10.00 billion, after adjusting for write-offs, sell down etc.

Mr. N. S. Kannan: The addition to retail NPL would be Rs. 10.00 billion and aggregate would be about Rs. 11.00 billion. In any case the addition to gross NPL is less than the addition in the previous quarter.

Mr. Rajiv Varma: What would be the cumulative write-offs?

Mr. N. S. Kannan: Cumulative write-off on the retail loans would be about Rs. 35.00 billion.

Mr. Rajiv Varma: What about the total disbursements which have happened and are you seeing a pickup? Can we expect that leading to loan growth in the second half?

Mr. N. S. Kannan: Clearly short term disbursements are picking up and project finance sanctions are also happening. The project finance disbursements will happen over a period of time because this is just a sanction which has happened and some of these companies have also had access to the equity markets where they have raised equity first. So we do expect disbursements to pickup in the project finance as well as in the corporate finance portfolios and apart from these in the home loan as well as auto loan portfolios, there will be continued pickup. These are the four key areas where we will be focusing on.

Mr. Rajiv Varma: Right and the unsecured loan book will be running down?

Mr. N. S. Kannan: Yes. It has already come down from about 7.6% of the loan book to 6.6% of the loan book during the quarter. Incrementally we will provide personal loans on a selective basis to our existing customers if required and if we find it worthwhile. On credit card issuances incrementally has come down to about 800 cards per month from the peak levels of about 200,000 in the past. The two-wheeler business has pretty much stopped except for selective cases. Our Small Ticket Personal Loan business has also been discontinued. So we expect the percentage of retail unsecured loans to the total loan book to keep coming down as the loan book increases going forward.

Mr. Rajiv Varma: Thanks a lot.

Moderator: The next question is from the line of Mr. Amit Premchandani from UTI Mutual Funds.

Mr. Premchandani: On a Quarter on quarter there has been a significant increase in the domestic corporate book by Rs. 86.00 billion. I wanted to know whether it is sustainable or it is short term in nature.

Mr. Rakesh Jha: It will largely be sustainable. There would be some small amount of short term loans that we have done but a very large part is term lending. In the next coming quarters we would expect disbursements to pick up on the corporate side as well.

Mr. Premchandani: Okay. Thank you sir.

Moderator: Thank you. The next question comes from the line of Mr. Ganesh Jayaraman from Spark Capital.

Mr. Jayaraman: You were mentioning that your restructured assets Rs. 48.00 billion. Could you tell me what your restructured assets is facility wise?

Mr. Rakesh Jha: The outstanding restructured loans of Rs. 48.00 billion that we mentioned is based on facility wise classification. On a borrower wise basis the total amount may be about 15% higher.

Mr. Jayaraman: What is your exposure to companies or customers who have not restructured with you but have restructured with other banks.

Mr. N. S. Kannan: We would not have that number.

Mr. Jayaraman: Okay. Thank you.

Moderator: Thank you. The next question comes from the line of Mr. Ajinkya Dhavale from Motilal Oswal Securities.

Mr. Dhavale: Could you share the number of pending applications on restructuring?

Mr. N. S. Kannan: There is as such no system of pending applications. It was only a special requirement as of March 31 to have that disclosure. Typically it is not that you have applications coming in. You may be just be having discussions and negotiations with most companies and banks. Therefore, there is no specific number that we can comprehensively disclose in terms of application. But we have clearly said that there will be indeed be some restructuring in the next couple of quarters.

Mr. Dhavale: Okay. Would you like to give some guidance on FY11 loan growth in the context of the industry or individually for your bank?

Mr. N. S. Kannan: On domestic loan growth will largely be in line with the system

Mr. Dhavale: Okay. Thanks.

Moderator: Thank you. The next question comes from the line of Ms. Lakshmi Ahuja from Marwadi Shares & Finance Ltd.

Ms. Ahuja: Is the restructuring done in the current quarter of about Rs. 8.50 billion, under normal restructuring since the RBI special dispensation has been closed at June 30.

Mr. N. S. Kannan: Yes.

Ms. Ahuja: Okay. So adjusting for that the total restructured assets would be around Rs. 41.50 billion. Your total outstanding restructured assets currently are around Rs. 48.00 billion. If we adjust this Rs. 8.50 billion it would come to around Rs. 41.50 billion.

Mr. Rakesh Jha: Rs. 41.50 billion was the closing balance as of June. We should not be adjusting for the Rs. 8.50 billion because these are also restructurings.

Ms. Ahuja: Okay and what will be the cumulative provisioning on these restructured assets?

Mr. Rakesh Jha: That would be about 5% of the loans, about Rs. 2.00 billion.

Ms. Ahuja: Okay. Do we have any floating provisions on our book?

Mr. Rakesh Jha: No. we do have the additional standard asset provisions over and above the requirement of RBI.

Ms. Ahuja: Okay. Thank you.

Moderator: Thank you Ms. Ahuja. The next question comes from the line of Mr. Jai Prakash Sinha from Quant Broking.

Mr. Sinha: Good evening sir. The borrowings have gone up sequentially by almost 100.00 billion. Are we facing any liquidity shortage?

Mr. Rakesh Jha: We had done some borrowing in the repo market with CBLO, so that shows up as a borrowing and it would have been not been there on the following day. So there was no such increase in borrowings. There were some arbitrage opportunities of borrowing in the repo market and lending it in other markets to make some small margin, given the excess liquidity in the system. So that is the only reason. If you do a repo then it actually nets off from the investment and does not show up as borrowing but it was a CBLO repo that we had done which shows up as gross borrowing. That number since would have gone down. There was no issues in terms of deposits or liquidity. It was just short term money market operation done with a view to take advantage of the arbitrage available in the market.

Mr. Sinha: Okay. During the quarter were we a net lender or a borrower?

Mr. N. S. Kannan: If we look at the excess liquidity that the Bank held over and above the SLR and other requirements, we would have been holding at least Rs. 200.00 billion of liquidity on an average during the quarter. That would be true for all the banks and not only for us.

Mr. Sinha: Okay. Thanks a lot.

Moderator: Thank you Mr. Sinha. The next question comes from the line of Mr. Anand Laddha from HDFC Mutual Funds.

Mr. Laddha: Hi. Good set of numbers. This quarter we had Rs. 10.00 billion of accretion in the retail NPA. In terms of any guidance, what was the peak and what kind of number can we expect going forward?

Mr. Rakesh Jha: Clearly the accretions have peaked during the June quarter and the September quarter witnessed declining trend. Going forward on incremental additions on the retail side we would expect to continue to decline from this level of additions on a quarter on quarter basis. In terms of provisioning there could be some lag in provisions.

Mr. Laddha: Can you also give some sense of how much of margin improvement will be coming from the re-pricing of deposits in the second half?

Mr. Rakesh Jha: In terms of deposits re-pricing the deposit maturity is typically 12 months. So about half the deposits would come up for maturity in the half year. In terms of the higher rate deposit that we raised in the last year between September and November, about Rs. 300.00 billion of deposits would come up for re-pricing. So we would get that benefit in terms of the funding cost. Of course on the lending side also loan yields have been declining. The government security yields have also been declining because we have a large portfolio of floating rate government securities which got reset at much lower rates given the decline in the short term yields.

Mr. Laddha: Fine. Can you give me the average duration of your investment portfolio.

Mr. Rakesh Jha: The average duration would be in the region of about three and half years.

Mr. Laddha: Is this is for HTM or overall?

Mr. Rakesh Jha: Overall.

Mr. Laddha: Okay, and what would it be for AFS?

Mr. Rakesh Jha: AFS would be slightly more than a year.

Mr. Laddha: Okay. Thank you.

Moderator: The next question comes from the line of Mr. Manish Oswal from Darashaw & Co.

Mr. Manish Oswal: Out of the total fee income, what is the breakup from retail side and corporate side?

Mr. N. S. Kannan: That would be 50-50.

Mr. Manish Oswal: For FY2010 what is the overall outlook for credit growth for the bank?

Mr. N. S. Kannan: We expect to end up with a flat balance sheet in terms of the loan book and assets. So in the second half we should see some growth on the lending side.

Mr. Manish Oswal: Thank you very much sir.

Moderator: The next question comes from the line of Mr. Jatinder Agarwal from RBS.

Mr. Agarwal: Could we have a sense of employee base over the last 12 to 18 months?

Mr. N. S. Kannan: The employee base currently is 33,700 and a year back it was about 36,000.

Mr. Agarwal: The year end number was about 35,000, would that be right?

Mr. N. S. Kannan: Yes, that is correct.

Mr. Agarwal: Thank you.

Moderator: Thank you. The next question comes from the line of Mr. Ian Smith from Navsky Capital.

Mr. Ian Smith: Hi. On the lending rates do you have any intentions to reduce the PLR over the coming months? In relation to the new RBI guidelines on moving potentially from the PLR environment to one based on a base rate, what is your sense of how that might impact things or whether it will be smooth transition?

Mr. N. S. Kannan: Let me take the second question first. On the base rate system RBI is waiting for comments from the public before they come out with a final guideline. One important thing is that this base rate system is a new system and the existing loans transition is an important issue because all banks would have done sub-PLR lending. Obviously we cannot hold the same rates under the PLR applicable under the base rate also. So it has to be a regime shift and in the report put out by RBI it is very clearly articulated that it is so. So I see it impacting all banks equally and I am sure the same lending rates that are prevailing in the market will get converted into the base rate plus spread kind of regime. So I do not see any impact if the banking system moves to that. On the issue of whether we will reduce the PLR or not, that really depends on the market conditions. We want to be competitive in our loan rates in the home loan and auto loan markets because we think that these two businesses are good to pursue and the credit quality of these business is holding up quite well. However, we do not want to be the best rate lender. We have seen public sector banks reducing the rate on home loans which we have not followed. So we will be competitive but we will do it at a rate which makes sense for us. That is going to be the strategy on PLR and lending rates going forward.

Mr. Ian Smith: Thanks. I wanted to get an idea of margins given the level of term deposits that will be re-pricing over the coming two to three months. I suppose is a trade-offs between taking the benefit yourself or actually reducing the PLR. What is the general sort of thinking or background with questions around growth vis-à-vis margins?

Mr. N. S. Kannan: Rakesh was talking about the deposits we took in the months of October and November last year and they were contracted at the rates of about 11%. If you look at the wholesale deposit rates today, they are about 6.5% for the same one year deposits. So if we look at it from a repricing perspective, we get a benefit of about 4.5% in the deposit rates. Some part of that may get translated into lending rates. Part of that may have to be passed on to the customer based on the market environment. We have articulated earlier that by the end of the year we would see an expansion of NIM by about 20 basis points from the beginning of the year. So that is target we are pursuing internally.

Mr. Ian Smith: Thank you very much.

Moderator: Thank you Mr. Smith. Our last question comes from the line of Mr. Sachin Upadhyay from Alchemy Shares.

Mr. Upadhyay: Hi. I wanted to know what is the bulk deposit as a percentage of total deposits and how much of deposits are contracted over 9%.

Mr. Rakesh Jha: We would not readily have that breakup of deposit as per their costs. On the overall deposits, slightly over 50% of the deposits are retail deposits and rest of the deposits are corporate.

Mr. Upadhyay: How many branches have we opened in Q2?

Mr. Rakesh Jha: We are now currently at about 1,520 branches. So we have opened about a 100 branches during the first half of FY2010. We still would be opening about 480 more branches from the licenses that we have and that should happen by the end of the financial year when we should be at about 2,000 branches.

Mr. Upadhyay: Right. Thank you.

Moderator: Thank you. I would now like to hand the floor back to the management of ICICI Bank for closing comments.

Mr. N. S. Kannan: Thank you very much. If you have any further questions I am available and my investor relations team and Rakesh Jha are available. We will be happy to take any other questions you will have offline. Thank you very much once again for participating in this call. Good night.

Moderator: On behalf of ICICI Bank that concludes this conference. Thank you for joining.
