ICICI Bank Limited
Q3-2010 Earnings Conference Call, January 21, 2010

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Moderator Ladies and gentlemen good evening and welcome to the ICICI Bank Q3FY2010 earnings conference call. Joining us on the call today are Mr. N. S. Kannan, Executive Director and CFO and Mr. Rakesh Jha, Deputy CFO.

As a reminder for the duration of this conference call all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Kannan. Thank you and over to you Sir.

N. S. Kannan Good evening all of you this is Kannan from ICICI Bank and I have with me Rakesh, Anindya, Rupesh and all my other colleagues. I would like to now start the call to talk about our performance for the third quarter of current fiscal year. I will do it in three parts as usual. In the first part I will talk about the operating environment. In the second part I will talk about our articulated strategy of 4Cs and the report card against that strategy. And in part three, I will talk about the financial performance of the Bank.

Part I-Operating Environment – The growth outlook in the economy has improved very significantly. We saw the release of fiscal Quarter 2 GDP estimates and the growth came out at 7.9% compared to 6.1% growth observed in Q1. On the industrial side, the Index of Industrial Production for November came at 11.7% while the average growth was 10.4% between August and November, this was lead by consumer durables and capital goods and also intermediate goods implying a very strong recovery in the industrial sector. On the consumer side, car and commercial vehicle sales have been very robust and home loan disbursement continued to pickup. On the liquidity, inflation and interest rates, there is a very robust inflow of foreign institutional investor money. It was estimated at about $21 billion during the 9 months period of the current fiscal year and with a net inflow of $6.5 billion in Q3 alone and over and above $8.3 billion USD we witnessed in Q2. The rupee systemic liquidity has been very comfortable to the extent of Rs.772 billion lent by the banking system to RBI on a daily basis. The 10-year G-sec yields; however, increased by about 45 basis points during the quarter. This happened on the back of the GDP growth numbers, inflation concerns and other statements which have been made in the market. The WPI inflation has picked up with a reading at 7.3% for the month of December 2009. Food inflation remained very high at 19.9%, WPI will also continue for the next two quarters to be impacted by adverse base effect also. Inflation declined during Q3-2009 and bottomed out in Q1-2010 as you all know.

In the banking system – the overall credit growth continued to be sluggish compared to the last year. The systemic credit growth declined to 14.3% on a year-on-year basis at January 1, 2010, compared to 23% a year ago. If we exclude the last week of December the credit growth was actually 12.3% year-on-year at December 25, 2009. We believe several factors contributed to the slowdown in non-food bank credits, 1) The overall credit demand from the manufacturing sector slowed down reflecting a decline in commodity prices and drawdown of inventories. 2) The corporates were able to access non-bank domestic sources of funds primarily through IPOs, QIPs and internal accruals. 3) Unlike in the previous year oil marketing companies reduced their borrowings from the banking sector as oil prices moderated. 4) A significant amount of bank finance went to corporate sector through banks investment in units of mutual funds. 5) Bank credit to retail sector moderated due to lower demand especially in the unsecured retail segment. 6) And finally there were large repayments from the opening retail portfolio of the banking system.

So this is the overall view. The general sentiment on the economy is bullish. The liquidity is currently comfortable. Banking system credit growth is slowly picking up but it is much sluggish compared to the last year.

So now let me move on to Part II where I am going to talk about the 4C strategy which we had articulated and the delivery against those targets. At the outset let me say that the bank continued to focus on the execution of its 4C strategy and trying to improve the operating performance of the bank.

Let us go over each of the “C's” – First on CASA improvement. The CASA ratio has improved from 27.4% at December 31, 2008 to 36.9% at September 30, 2009 and to 39.6% at December 31, 2009, so there has been a sequential increase of CASA ratio quarter-on-quarter. The CASA deposits grew by 36% from Rs. 574.00 billion at December 31, 2008, to Rs. 782.00 billion at December 31, 2009. We raised Rs. 17.36 billion of savings account deposits and 35.81 billion of current account deposits during the quarter. The savings account attrition was lower than the previous quarters as a systemic saving deposit growth is usually low in Q3. Nevertheless, if you look at 9 months as a whole we have raised about Rs.100 billion of savings deposit inline with our expected trend of about Rs.11.00 billion a month. There were some quarter end current account floats but even if you account for it, if you look at the CASA ratio on an average basis even that has gone up to around 33% to 34%.

Now let me move on to the second “C” – Cost Control. We have continued to keep a strict control on expenses. Operating and DMA expenses decreased 20% as compared to last year and 2.7% sequentially from the previous quarter and it stood at

Rs.13.42 billion for the quarter. As a result the cost-to-average assets stood at 1.5% which is amongst the best in the Indian banking sector. However, I have to add that the operating expenses will increases as the pace of branch addition will increase going forward.

Third on the Credit Quality Monitoring and Control – The accretion to retail non-performing loans decreased from Rs. 13.00 billion in the 1st Quarter of the current fiscal to Rs.10.00 billion in the 2nd Quarter and further declined to Rs. 6.25 billion in the 3rd Quarter of the fiscal year. The total NPL accretion put together for the bank also came down from about Rs. 11.00 billion in the last quarter to Rs. 7.50 billion in Q3-2010. We continued to reduce unsecured personal loans and credit cards portfolio as we have articulated. Net personal loan and credit card portfolio it declined from Rs. 168.00 billion on March 31, 2009, to Rs. 103.00 billion as on December 31, 2009. The proportion of non-collateralized retail loans to total loans was 7.8% on March 31, 2009 and has come down to 5.8% on December 31, 2009, despite the denominator coming down. The absolute level of net NPA as a result of all this has decreased during the quarter and the net NPA ratio despite the assets coming down has remained at a same level as the previous quarter at 2.19%.

And final "C" on Capital Conservation – The capital adequacy at December 31, 2009, was 19.4% within that Tier-I was at 14.2% as per RBI's Basel-II framework. So all in all we have seen a continued progress on our 4C strategy and the delivery there.

And let me now come to the final part on financial performance – As I mentioned earlier the bank continued to focus on improving the core operating income, so I will first talk about the profit and loss account highlights.

The net interest income increased from Rs. 19.90 billion in Q3-2009 and Rs. 20.36 billion in Q2-2010 to Rs. 20.58 billion in Q3-2010 despite the reduction in loan book. This was made possible because the net interest margin has improved sequentially from 2.5% to 2.6% in the quarter. The fee income continued to increase sequentially from Rs. 13.19 billion in Q1-2010 to Rs. 13.87 billion in Q2-2010 to Rs. 14.22 billion in this quarter. The treasury income for the quarter was negligible as increase in yield on government securities by 45 basis points meant that the treasury income for the quarter was negligible. It should be noted that the contribution of treasury income to earnings was significant at Rs. 9.76 billion in the corresponding quarter last year and Rs. 2.97 billion in Q2 of the current financial year. So you will have to really look at treasury income being negligible in the context of what we have done in the corresponding quarter as well as the previous sequential quarter.

The other income was supported by divestment of majority stake in merchant acquiring business that led to a gain of about Rs.2.00 billion in the quarter. The total provisions which is one of the key line items we have been tracking that sequentially reduced from Rs.10.71 billion in the previous quarter to Rs.10.02 billion in the current quarter. The provision coverage ratio of the bank including technical and prudential write-off was at 61.9% at December 31, 2009, technical/prudential write-off include Rs.25 billion of outstanding write-offs made during the 9 months of this current financial year. This treatment is subject to confirmation from RBI. As a result of all the above the standalone profit after tax of the bank increased by 6% from Rs. 10.40 billion in the previous quarter to Rs. 11.01 billion in the current quarter. The profit after tax was lower compared to Rs. 12.72 billion in Q3 of the last year primarily due to the lack of treasury income which I mentioned earlier. The profit after tax for the 9 months period as a result of this was flat at Rs. 30.19 billion compared to the last year 9 months period.

The consolidated profit after tax of the bank and its subsidiaries increased by 18% from Rs.28.29 billion in the last year 9 months to Rs.33.28 billion in the current year 9 months.

Now let me move on to the balance sheet highlights – The advances of the bank declined by about 6% in Q3 due to repayment from retail and short term corporate loan portfolio and reduction in overseas loans. We continue to reduce unsecured personal loans and credit card portfolio as I mentioned earlier. However, there have been sanctions for project finance which are expected to result in disbursement during the next financial year. Due to lower credit growth in the system and demand for credit substitute so we saw a phenomenon of while the credit growth in the system was lower there was an increase in demand for credit substitutes and we took advantage of this opportunity and made higher credit substitute investments such as certificate of deposits and bonds and debentures, that led to a growth in our investment portfolio.

Our retail disbursement increased from Rs.18.29 billion in Q1 and Rs.36.42 billion in Q2 to Rs.52.81 billion during the 3rd Quarter. While I am on this topic, let me also talk about the net restructured loans. This is another parameter which investors and analysts have been tracking. The net restructured loans as on December 31, 2009, were Rs.53.38 billion. This was really the summary of financial performance.

Let me move on the subsidiaries very quickly – Our principal non-banking subsidiary, ICICI Life maintained it's position as a largest private sector life insurer based on retail new business weighted received premiums during the 9 month period with a market share of 9.3% so sequentially the market share during the year has been increasing. And ICICI Life's new business Annualized Premium Equivalent (APE) in Q3 increased by 49% from Rs. 10.00 billion during the last year Q3 to about Rs.15 billion in Q3 of the current financial year.

ICICI General which is our general insurance subsidiary reported a profit after tax of Rs. 0.43 billion in Q3-2010. ICICI Prudential AMC which is our mutual fund registered profit after of Rs. 0.40 billion for Q3 of this fiscal year. And finally for ICICI Securities – the profit after tax for Q3 was Rs. 0.37 billion. So this is really the summary of the operating and financial performance for the bank and its subsidiaries. I would now close my opening remarks here and I would be happy to take questions from all of you. Thank you very much for listening patiently.

Moderator Thank you very much sir. Ladies and gentleman we will now begin the question and answer session. Our first question is from the line of Rajgopal Ramananathan of Centrum Broking. Please go ahead.

Mr. Ramanathan Hi Kannan, just a few elementary housekeeping questions, I need the cost of deposits number for the last three quarters?

Rakesh Jha It was 6.8% in Q1, 6.1% in Q2, and 5.4% in Q3.

Mr. Ramanathan Okay. In addition to this one, just want to also understand ICICI HFC's NPL the gross and net NPL over the past 4 quarters?

Rakesh Jha ICICI HFC's gross NPL currently is 1.6% and the net is 1.3%. In the previous quarter the net was about 1.1% and last year the net NPL would have been about 0.4%. Since December 2008 the book has not increased.

Mr. Ramanathan So the gross numbers have they moved up, what is the experience?

Rakesh Jha There was some increase which is there but the percentage increase is essentially because of the book not increasing in this period, the gross NPL in aggregate is about Rs.1.9 billion.

Mr. Ramanathan Okay, just one more question, regarding the expense ratios in the insurance business, there seems to be a perceptible improvement in the expense ratios sequentially around 200 basis points what has driven such an improvement there?

N. S. Kannan That is the overall expense improvement strategy which we started last year, that continues like in the Bank and ICICI Life as well; so that has been the primary reason. And of course with the renewal premiums growing positively while we have seen some slowdown in the new business premium, and the denominator has also increased leading to a reduction in expense ratio.

Mr. Ramanathan And my final question on the AMC business, you have reported a profit number of around Rs. 0.40 billion now could you sort of give us some flavor on the top-line and the actual profits with respect to assets managed for example, I just want to understand whether it is the PMS business which is driving the profitability or is it the retail AMC business itself?

Rakesh Jha The total gross income would be about Rs.1.3 billion, out of that PMS will be a very small part of it. It would not be more than say 15% of this.

Mr. Ramanathan So does that mean that the profits are more driven by savings in distributor pay outs here?

Rakesh Jha The asset under management on the year-on-year basis has gone up and specially on the debt side. If you recollect last year in December quarter the money made by mutual funds was much lower because the debt funds were not making that much of returns, that is the main reason for the increase.

Mr. Ramanathan Okay that will be it.

Moderator Thank you Mr. Ramanathan. Our next question is from the line of Mahrukh Adajania of Nomura. Please go ahead.

Mahrukh Adajania Hi, what is the yield on assets?

Rakesh Jha 7.6%.

Mahrukh Adajania And what was it last quarter?

Rakesh Jha About 8%.

Mahrukh Adajania Okay and just wanted to check in terms of loan growth would you still be ending the year flattish or would de-growth in the balance sheet continue for the next quarter or maybe the next couple of quarters?

Rakesh Jha Last quarter in any case because of the priority sector targets there would be increase in the priority sector loan book. In addition to that the reduction in the retail book is now decreasing as we do more disbursement. So I think from December 2009 levels one would see a growth in the loan book.

Mahrukh Adajania Okay. And just to reconfirm your slippage during the quarter was Rs. 7.50 billion. Is the right number?

Rakesh Jha Yes.

Mahrukh Adajania Okay, thanks a lot.

Moderator Thank you. Our next question is from the line of Amit Premchandani of UTI Mutual Funds. Please go ahead.

Mr. Premchandani Yeah, hi sir, just a question on the RBI coverage ratio requirements, what is the Bank's view on creating some buffer on the coverage ratio because say from September 2010 onwards suddenly one corporate NPL hits the bank the quarter-on-quarter profitability will be severely impacted if there is no buffer so what are your views on that?

N. S. Kannan We have said that the coverage ratio of 62% including prudential/technical write-offs made during the year is subject to RBI confirmation. Over and above that if you look at the trends in terms of our incremental attritions in nonperforming loans and the provisions we have been making, we do not see any problem in a normal course reaching 70% by September 2010.

Mr. Premchandani Yeah, I am not questioning that, I am just saying in case beyond September 2010 if some corporate NPL suddenly hits, the provisioning requirement will not be 10% or 20% and staggered over a period of time, but it will be suddenly 70% because you do not have any buffer so what is your view on that?

Rakesh Jha As Kannan said we would first reach the 70% mark and thereafter we will see whether we need to increase the buffer or not. But of course if the guidelines remain in the current form that volatility will be there in the P&L of banks.

Mr. Premchandani Okay. You had earlier guided that your advances book would be flat year-on-year at the end of the year, but for that you require around 22% quarter-on-quarter loan growth so do you expect on a year-on-year basis decline in loan book next quarter?

Rakesh Jha As we have been saying through the year we do not really have a specific loan growth target for the current year. And as I said we will see some growth in the current quarter on the corporate side and definitely on the priority sector lending side so we should be seeing loan book which is greater than as on December 2009 levels.

Mr. Premchandani Okay, thank you. That is it from my side.

Moderator Thank you Mr. Premchandani. Our next question is from the line of Madhuchanda Dey of Kotak. Please go ahead.

Madhuchanda Dey Yeah I have two questions, first is what was the quantum of loan restructured in the quarter and was there any upgrade from the erstwhile restructured asset?

N. S. Kannan It was about Rs. 6.00 billion of incremental restructuring and upgrade was in the order of about Rs. 1.00 billion.

Madhuchanda Dey Okay and what is the sustainable level of CASA that you see for yourself?

N. S. Kannan We would be very happy with a sustained CASA of about 33% to 34%. Since we have seen that deposits have not grown that has also helped the CASA ratio. Going forward with the deposit book increasing at a 33%-35% level on a sustained basis we will be very happy.

Madhuchanda Dey And if I may just ask one more question, given that you have done all the changes in strategy that you have highlighted, will you start growing at least a little below the industry rate from FY2011, is that a fair assumption?

N. S. Kannan Absolutely.

Madhuchanda Dey Thanks.

Moderator Thank you Ms. Dey. Our next question is from the line of Dipankar Chowdhury of Deutsche Bank. Please go ahead.

Mr. Chowdhury Yeah hi, Rakesh if you could just help me reconcile the gross NPL figure there is a net reduction of about Rs. 4.00 billion and Kannan said there are new accretion of about Rs. 7.50 billion. So could you give me the write-offs and sales to ARCIL?

Rakesh Jha During the current quarter we have not made any sale of NPLs to ARCIL or to any other asset reconstruction company. We have done a technical or prudential write off against retail loan that was about Rs. 10.20 billion and in addition to that there would be some small amount of settlement on the corporate side.

Mr. Chowdhury Okay, since you still have not got clarification as to how much technical write-off qualifies for coverage calculation, are you comfortable doing such large write-offs every quarter?

Rakesh Jha Write-offs that we have made for example from the current quarter or for the nine months' period is in the nature of technical write-off as defined by the RBI guidelines. We would seek a confirmation from RBI that is why Kannan had mention that it is subject to confirmation from RBI, we do believe that it would be included in the coverage ratio.

N. S. Kannan And conservatively we have not taken the benefit of write-offs done prior to the current financial year. That has not been taken into account as a technical/prudential write-off.

Mr. Chowdhury Okay, understood. The second question is on your branch additions, why are these plans heavily back-ended or are you deliberately holding off because your assets are not growing?

Rakesh Jha We were trying to open most of the branches by March or April so by the time our financial year numbers are declared we would have opened all these branches and we will be at about 2,000 branches.

Mr. Chowdhury Okay, understood. Thank you very much.

Moderator Thank you Mr. Chawdhary. Our next question is from the line of Mr. Vishal Goyal of UBS Securities. Please go ahead.

Vishal Goyal Hi everyone. Just one question on expense ratio at the Life Insurance company. Do you think that this kind of a number is sustainable for next year?

N. S. Kannan Yeah, we think it is sustainable and also growth will come back to the industry and the company so there should not be any problem.

Vishal Goyal Then can we say that our expense overruns are over?

N. S. Kannan No. Expense overrun will take some time, but as you would have seen from the financials, during the quarter, i.e. the third quarter the company has actually broken even from a financial accounting perspective.

Vishal Goyal One more question, on the deposit side, what is the proportion of whole sale deposits now?

N. S. Kannan Retail would be 55%.

Vishal Goyal One more question on deposits, about the average maturity of our term deposits, is it increasing in this particular year?

Rakesh Jha It would have gone up, but only marginally. We are focusing on raising our longer term deposits, which are more than 18 months maturity, but in the market you really cannot raise too much of deposits of two or three years maturity due to the lack of demand. So while the maturity profile has definitely increased, it has not increased substantially.

Vishal Goyal Thank you.

Moderator Thank you Mr. Goyal. Our next question is from the line of Amit Rane of Angel Broking. Please go ahead.

Amit Rane Sir, can you give us a sense on the sanctions in the pipe line for ICICI Bank as of now and the sectors to which the sanctions are going to?

Rakesh Jha We do not really give any specific numbers on the sanctions, but as we have said earlier, most of the sanctions that are happening currently are on the corporate side in the infrastructure segment that is essentially project finance and we are also seeing some proposals coming in from the manufacturing sector.

Amit Rane Okay. Can you give some numbers on that sir?

Rakesh Jha We do not disclose sanction numbers.

Amit Rane Okay sir. Thank you.

Moderator Thank you Mr. Rane. Our next question is from the line of Shri Shankar of TATA Securities. Please go ahead.

Shri Shankar Yeah. Hi. This is Shri Shankar here. A quick question to Mr. Rakesh. If I heard clearly, the accretion to NPAs was Rs. 7.50 billion this quarter of which I also understood that Rs. 6.25 billions was from retail. Is it right?

Rakesh Jha Yes.

Shri Shankar Okay, now which effectively means that the slippages on the corporate side have been pretty low. How much is the total NPAs from the retail side and how much has your retail book contracted during the period?

Rakesh Jha Out of the total gross NPAs of about Rs. 90.00 billion, retail NPLs are close to about Rs. 60.00 billion. On the year-on-year basis, retail loan book would have contracted by about over 30% or so.

Shri Shankar Okay. And also the second question was regarding your restructuring of loans. I think to answer to some questions you mentioned that it is around something like Rs. 6.00 billion and where exactly, in which kind of sectors are you still feeling the pressure on the corporate side?

Rakesh Jha As such we are seeing no pressure. As we have said in the earlier quarter, there are some restructurings which are there where multiple banks are involved in the CDR process so it takes time for the restructuring to get completed and implemented by the banks. These are the same kind of corporates that we were looking at restructuring at the beginning of the year. So incrementally the numbers that we are seeing on restructuring are indeed much lower than what you would have expected at the beginning of the financial year. And most of the restructuring that we have done would be in the corporate portfolio.

Shri Shankar So, if I understand correctly are you telling me that this restructuring was actually initiated at the beginning of the year, but it has transpired to a restructuring only now because multiple banks are involved?

Rakesh Jha It was not initiated, but I was just saying we would have expected some of the corporates to get restructured. It would have got initiated during the financial year and has got concluded now.

Shri Shankar Okay. Thank you.

Moderator Thank you Mr. Shankar. Our next question is from the line of Rajiv Verma of DSP Merrill Lynch. Please go ahead.

Rajiv Verma Hi. I think many of my questions were answered. Basically one is on the fee side, what proportion of your fee income is coming from retail and what is your trend there? And secondly on the overseas books you are actually seeing a contraction. Are you seeing any pick up at all there or is all incremental busing coming only from the infrastructure and the capex side?

Rakesh Jha On the fee income, the proportion of retail is about 45%-46% of total fees. Growth has been equal in both corporate and the retail side. So last year, fee income would have a similar kind of breakup. Prior to that retail used to be about 50% or so.

Rajiv Verma Rakesh, just on that, what proportion of the total fee income would have come from the international side?

Rakesh Jha International, because it will also be a part of retail and corporate, we do not look at it as a separate business. We will have fees coming from NRI business or trade finance or corporate M&A or syndication activities. Overall fee income for international would be about 15% or so of the total fee but it will be both in retail and corporate.

Rajiv Verma Okay.

Rakesh Jha And on the loan growth, we would expect most of the loan growth to come from the domestic book or as you said on the corporate side. In the overseas branches we do not really see much of growth coming in over the next few quarters. It would be kind of a flattish book with some decline because of the repayments of the book.

Rajiv Verma Just one other thing? Why is the tax rate much lower this quarter?

Rakesh Jha Tax rate is basically based on the full year estimate of the tax, for example, in the current quarter we did have about Rs. 2.00 billion of gain coming in from sale of merchant acquiring operations. So the tax rate is lower.

N. S. Kannan So, essentially the composition of income of the quarter and more importantly, as Rakesh mentioned, the projected composition of income for the whole year on that basis it is low.

Rajiv Verma Okay. So basically on anticipation of the future, you have reduced the tax rate?

Rakesh Jha Estimate of the 9 month tax rate is the representation of the full year tax rate and not the current quarter level.

Rajiv Verma Okay.

Moderator Thank you Mr. Verma. Our next question is from the line of Kashyap Zaveri from Emkay Global Financial Services. Please go ahead.

Kashyap Zaveri Hi Rakesh, I just wanted to understand year-to-date our advances decline is about 18% since March 2009 and we were earlier targeting something like a decline of about 10%, so how do we see the growth in fourth quarter and if you could give some numbers on the consolidated balance sheet, I mean, in terms of what is in ICICI, UK, or Canada, and Home Finance?

Rakesh Jha In terms of loan growth as we said earlier increase in the loan book is mainly coming from the corporate side and the fact that we would need to do some priority sector lending in the fourth quarter. On the UK, Canada, and HFC we have given detailed numbers in the presentation in terms of balance sheet and loan book. Overall the balance sheet has been a kind of flat for all these three entities.

Kashyap Zaveri Okay. This is on year-on-year basis.

Rakesh Jha No. This is sequential basis.

Kashyap Zaveri Can you give HFC number same quarter last year?

Rakesh Jha The total loan book last year December was about Rs. 110.00 billion and now about Rs. 120.00 billion.

Kashyap Zaveri But in terms of loan growth are we still sticking to our earlier estimate of a decline of 0% to 10%?

Rakesh Jha As I said, we should end up with something in that range. We do not have any specific targets. I think it will be at best flat.

Kashyap Zaveri Okay. Secondly, just to reconcile, you mentioned there was about Rs. 7.50 billion addition to NPA, so I believe there should be a write-back of about Rs. 13.00 billion or write-off and upgrades of about Rs. 13.00 billion. So it tallies about Rs. 90.00 billion, would that be right? You added about Rs. 7.50 billion during this quarter, and there would have been a write-off and upgrades of about Rs. 12.00 billion in this quarter.

Rakesh Jha Write-offs during the quarter were about Rs. 10.20 billion.

Kashyap Zaveri Okay, on provision side we have provided about Rs. 10.00 billion, but still net NPAs have remained almost flat. Some portion of the provision would be relating to write-off.

Rakesh Jha The net NPAs have come down by about Rs. 1.50 billion, and we added about Rs. 7.50 billion to gross NPAs.

Kashyap Zaveri Okay. That is it from my side.

Moderator Thank you Mr. Zaveri. Our next question is from the line of Mr. Anand Laddha of HDFC Mutual Fund. Please go ahead.

Anand Laddha Hi Rakesh, some sort of numbers. I just wanted to know in this quarter what proportion of the deposit could have got re-priced, any quantum you can specify?

Rakesh Jha Yeah, there are no specific numbers, but I think as we have said earlier that there was about Rs. 300.00 billion of deposits, which we would have raised in the last year, which was a higher cost which would have got re-priced broadly.

Anand Laddha Okay, so in terms of next quarter, any more deposits coming for re-pricing?

Rakesh Jha Not really because last year by middle of December the deposit rate had come down quite significantly, and most of the deposits were one year maturity so most of the re-pricing had happened in the month of October and November and in the first week of December.

Anand Laddha Since most of the operations in UK and Canada had been stabilized, what sort of growth can we expect in those two operations in terms of advance growth and profitability?

Rakesh Jha In UK we would have seen in the current quarter that the investment book, we have been able to reduce by about US$ 300.00 million. Going forward, we would have a similar kind of strategy where we would reduce our investment book and increase the loan book and the entire increase would be largely be limited to Indian companies or India linked business. So we will see growth in the UK loan book. In Canada, I think the loan book will be more of flattish because we are not really seeing much opportunities in terms of growing the loan book there. In terms of profitability, both for UK and Canada, currently the margins are in the region of about 50 basis points or so, we would expect the UK margins over the next couple of quarters to increase closer to 1% as the deposits get re-priced at a lower level. Canada margins would also increase, but it may not be as much as in UK.

Anand Laddha There is one more question. Currently we are carrying lot of excess liquidity in the UK and Canada balance sheet. So is it fair to assume that we are earning negative spread on the excess liquidity?

Rakesh Jha Yeah.

Anand Laddha Okay thanks.

Moderator Thank you. Our next question is from the line of Jatinder Agrawal of RBS. Please go ahead.

Jatinder Agrawal Hi, just one question. I was just scanning through BSE and NSE. There are some block deal for 3i Infotech and FirstSource, some fell down. Could you just share the absolute amount of profits that would have been made on those transactions?

Rakesh Jha In terms of profit, it would have been about Rs. 1.00 billion including both FirstSource and 3i Infotech.

Jatinder Agrawal Okay. That is it from me. Thank you.

Moderator Thank you Mr. Agarwal. Our next question is from the line of Ian Smith of Nevsky Capital. Please go ahead.

Ian Smith Hi, I just wanted to ask quickly about the technical or prudential write-offs. Is it likely going forward in your view you plan to do most write-offs in the form of technical and prudential write-off. I just want to understand how the coverage ratio will move going forward? But also what is your sense of how long write-offs can remain technical or prudential write-offs for example after 12 months would they then need to slip into being just normal write-off, could you give me just a sense of how you view things going forward on that front?

Rakesh Jha Firstly, given the way guidelines are, we would make write-offs more in the nature of technical/prudential write-offs going forward, and these write-offs become actual write-off if loan settlements happens or we do actual waiver. So the write-off amount will keep on reducing on a quarter-on-quarter basis as some of those loans either get recovered partly or get waived or settle. In terms of our time limit for how long technical write-off can per se remain at technical write-off, there is no particular RBI guideline which is there and I guess over a period of time beyond say 3 or 4 years, it of course would then have to either translate into actual write-offs or get settled or waived.

Ian Smith And in terms of looking at NPL coverage going forward is this the right number to be focusing on?

Rakesh Jha We would look at the coverage ratio including the technical write-off number and as Kannan mentioned that we would take a confirmation from RBI about the inclusion of these technical write-offs in the coverage ratio.

N. S. Kannan In terms of the provisioning policy, we will continue with what we have been doing and our provisioning policy especially in the case of retail assets is more conservative than stipulated by RBI.

Ian Smith Great. Thank you very much indeed.

N. S. Kannan Thank you.

Moderator Thank you Mr. Smith. Our next question is from the line of Mahrukh Adajania of Nomura Securities. Please go ahead.

Mahrukh Adajania I just wanted to check the provisions have not fallen off in line with the delinquencies because of aging, right? So, when will it reflect in to the provisions?

N. S. Kannan Yeah, I would say Mahrukh about 2 quarter lag.

Mahrukh Adajania Okay. So sometime in FY11 only?

N. S. Kannan Yeah.

Mahrukh Adajania And Kannan what will be the outlook on margins now, because of course there has been very good deposit re-pricing and average deposit cost is probably as low as it could get now and then of course there will be the impact of savings. So what range of margin improvement would one expect over the next 3 to 4 quarters?

N. S. Kannan One is Mahrukh we have split our loan book into international and domestic. The domestic NIMs would be at 3% in the third quarter and the international book would be about 60 basis points. And considering that it is 3% for a bank with CASA ratio of about 39%, it is not a bad. So may be there will be a very marginal pick up but there will be flattish-to-slight improvement that is what I can say. But if the international book comes down as a proportion of the total, then the margins can go up.

Mahrukh Adajania Okay. Thanks.

Moderator Thank you. Our next question is from the line of Abhishek Agarwal of Religare Capital Markets. Please go ahead.

Abhishek Agarwal Miscellaneous interest income was very high for the nine months ended FY2010. I wanted to understand was there any one-off included in this?

Rakesh Jha For the quarter there is not really any one-off.

Abhishek Agarwal So could we expect that this Rs. 3.00 billion of miscellaneous interest income to continue?

Rakesh Jha As I said earlier, it would include also a part of the impact of the swap that we would have done fix-to-floating rate swaps on our US dollar borrowings. So, it is a net number, which will show between this line item and the borrowings line item. So it is very difficult to say whether this line will as such continue to be at this level or not because if the rates moves other way this line could become lower end get offset by a lower borrowing cost as well. But there has been nothing material which is one-off in this line item.

Abhishek Agarwal Can I have a disbursement figure in housing finance company for the last 2 quarters?

Rakesh Jha Yeah. The total housing disbursement (both the Bank and the housing finance subsidiary) that we have done is about Rs. 36 billion in the current quarter and about Rs. 24 billion in the last quarter.

Abhishek Agarwal One last thing. Like your treasury loss you reported the net figure. Can I have what could be the mark-to-market losses in that and what would be the gross treasury gains?

Rakesh Jha We have not disclosed that numbers separately, but as I mentioned in reply to an earlier query, that treasury gains would have been about Rs. 1.00 billion on sale of certain equity shares during the quarter.

Abhishek Agarwal That is it from my side. Thank you.

Rakesh Jha Thank you.

Moderator Thank you Mr. Agarwal. Our next question is from the line of M. B. Mahesh of Edelweiss Capital. Please go ahead.

M. B. Mahesh Hello. I have one question. What is the kind of level of retail repayments that you expect in the next couple of quarters and correspondingly the kind of disbursement that you look at in this particular portfolio?

Rakesh Jha Repayments on the retail loan book will be in the region of about Rs. 25.00 billion a month.

M. B. Mahesh And what is the kind of disbursements you are seeing today?

Rakesh Jha For the current quarter as Kannan mentioned, we have done about Rs. 53.00 billion of retail disbursement.

M. B. Mahesh And in FY11-12, what is the kind of the international loan book proportion that you are looking at in your portfolio?

Rakesh Jha There is no specific portfolio percentage that we are looking at, but as I said, in the overseas branches the book will be a kind of flat or slightly declining.

M. B. Mahesh Okay done. Thanks.

Moderator Thank you. The next question is from the line of Shankar Naryanaswamy of Standard Chartered. Please go ahead.

Mr. Shankar Hi Rakesh and Hi Kannan. Two quick questions. One on the US dollars repayment bond this year that is calendar year 2010 my estimate is about 2.5 billion including the subsidiaries, is that a fair assessment or do you have a different number?

Rakesh Jha Total repayments including subsidiaries would, I guess, be in that kind of a range.

Mr. Shankar And other question is on your outlook on new borrowings for this year in the bond market, we have seen a lot of pipeline building up from the Indian Banking side as well as corporate side to borrow US dollars. You mentioned earlier in the call that you are not seeing a lot of disbursement on the asset side, but do you see yourself coming to the market anytime soon?

Rakesh Jha Timing is very difficult to say when we would come with an issue. It depends on market conditions, and especially in the parent Bank we would be looking at refinancing of our existing borrowings and we are not looking at any significant growth in the balance sheet. The bond raising that we did in November was primarily used towards repayment of bond maturity earlier in the month.

Mr. Shankar So, on the outlook, you are not seeing increase in demand from the Indian corporates for dollar borrowings, right?

Rakesh Jha There would be some demand which would come up we will have to see at what rate or whether it makes sense for us to lend or not but in the UK subsidiary we would look at it given the access to deposits.

Mr. Shankar Thanks. That is it from my side.

Moderator Thank you Mr. Naryanaswamy. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. N. S. Kannan for closing comments.

N. S. Kannan Thank you all of you for logging on and listening to our talking points for this quarter and I mention again, just to reiterate the operating environment has improved, however, the credit offtake continues to be sluggish and going forward hopefully that will improve. We have stuck to the script and executed on our 4 C strategy and I talked about the report card on each of these. I also mentioned about the financial performance and the focus has been to include the core operating income which we believe we have done in the third quarter of the current financial year. Thank you once again.

Moderator Thank you Mr. Kannan. Ladies and gentlemen on behalf of ICICI Bank Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Facility and you may now disconnect your lines. Thank you.