ICICI Bank Limited
FY2010 Earnings Conference Call, April 24, 2010

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Moderator Ladies and gentlemen; good evening and welcome to the ICICI Bank Q4FY10 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 touchtone phone. At this time, I would like to hand the conference over to Mr. Kannan. Thank you and over to you sir.

N. S. Kannan Thank you. Good evening all of you. First of all my apologies for doing this on a Saturday in the evening and thank you for joining us on the call. I will do this in three parts. First Part I will talk about the operating environment, then in Part II, I will talk about the strategy for the financial year and the delivery against our strategies, and then Part III I will talk about financial performance of the Bank.

First on the operating environment. The growth outlook for the economy itself has improved very significantly during financial year 2010. The GDP growth for the first nine months of the financial year was 6.7%. The index of industrial production grew very strongly in double-digits by 10.1% during April to February 2010, led by a strong recovery in the manufacturing sector.

On the consumer side, car and commercial vehicles sales have been robust and home loan disbursements have continued to pick up. Exports have started growing since November 2009, partly helped by the base effect, and it is complementing a strong domestic demand we have seen.

The net FII inflow has been a USD30 billion during the financial year 2010 compared to a negative inflow during financial year

2009. The systemic liquidity continues to be comfortable with about Rs. 315.00 billion being deployed in the LAF window by the banks as on April 22, 2010. Increase in CRR by 25 basis points is expected to absorb about Rs. 125.00 billion of excess liquidity from the system. The ten year g-sec yields increased by about 25 basis points during the last quarter. The supply of government bonds is expected to keep the 10-year bond yield at elevated levels going forward as well. The WPI inflation has increased to 9.9% for the month of March 2010.

Moving over to the banking system, the credit growth accelerated towards the end of the financial year with non-food credit growth at 16.9% for the whole of the financial year, slightly ahead of our own expectations. The aggregate deposit growth for the financial year was 17%.

Moving on to the annual policy statement by Reserve Bank of India, the key policy measures which have been announced are: increase in cash reserve ratio by 25 basis points from 5.75% to 6%, Increase in repo rate by 25 basis points from 5% to 5.25% and increase in reverse repo rate by 25 basis points from 3.5% to 3.75%. RBI's economy and monetary projections are as follows: GDP growth at 8% for the financial year 2011. However, we expect the GDP growth to be higher if monsoon happens to be normal. The WPI inflation at March 2011 has been placed at 5.5% by RBI. The aggregate deposits are projected to grow by 18% during the financial year. And finally, the non-food credit has been projected to grow at 20% for the current financial year.

There have been a few key regulatory and development measures which have been introduced in the monetary policy. One is banks are allowed to classify their investments in non-SLR bonds, issued by companies engaged in infrastructure activities and having a minimum residual maturity of seven years under the held-to-maturity category. Two, a discussion paper on the mode of presence of foreign banks through branch or wholly-owned subsidiary is to be prepared by September 2010. And three, a working group with a representatives from the government, the Reserve Bank of India, SEBI, IRDA and IBA, is to be constituted to recommend a road map for the introduction of a holding company structure together with a required legislative amendment and framework. We will wait and see how these developments happen going forward to have an appropriate response.

Now, let me move on to the Part II which is the strategy for the financial year for our Bank and the delivery against the articulated strategy.

As you all know in financial year 2010, we position the balance sheet for the next phase of growth. We focused on 4C and let me now list out the progress made against these 4Cs. The first C being CASA improvement. The CASA ratio increased to 41.7% at March 31, 2010 from 28.7% at the beginning of the year. CASA deposits increased by 34% to Rs. 842.00 billion at March 31, 2010 from the opening level of Rs. 626.00 Billion. We have raised about Rs. 122.00 billion of savings account deposits and about Rs. 94.00 billion of current account deposits during the financial year. While the period end CASA ratio was at 41.7%, I am happy to report that the average CASA ratio for the Bank is about 35% currently.

The second C – Cost Control. The operating expenses and DMA expenses decreased 16% in the financial year 2010 as compared to the previous financial year. The operating expenses increased by 12% quarter-on-quarter, essentially due to increase in staff expenses. This increase in staff expenses was due to payment of the bonus for the whole of the financial year in Q4-2010. The cost to average asset ratio for the financial year was at 1.6% which we believe is among the best in the banking sector. Going forward, expenses will increase from the current level due to growth in business volume and the full impact of branches opened in the fiscal 2010. Overall, costs are expected to increase in line with the loan book which is something which we will keep monitoring going forward.

The third C – Credit Monitoring and Control. The net non-performing asset ratio decreased to 1.87% at March 31, 2010 from 1.96% at March 31, 2009 and 2.19% at December 31, 2009. The addition to gross NPL was about Rs. 7.00 billion during Q4-2010, of which addition to retail NPL was about Rs. 5.00 billion. The addition to retail NPL, I am happy to report, has come down sequentially. It was about Rs. 13.00 billion in Q1-2010, about Rs. 10.00 billion in Q2-2010, about Rs. 6.50 billion in Q3-2010, and as I mentioned earlier, about Rs. 5.00 billion in Q4-2010.

The proportion of personal loans and credit card receivables in the total loan book decreased to 4.8% at March 31, 2010 from 7.8% at the beginning of the year. This is something again we have articulated from time to time that we will be focusing on reducing and I am happy to report that this proportion was under 5% at March 31, 2010.

The final – C on Capital Conservation. The capital adequacy of the Bank at March 31, 2010 was 19.4%. Tier-1 was at 14% as per RBI's Basel-II framework.

The Board also recommended a dividend of Rs. 12 per share to the shareholders.

Let me now turn to Part III, which is the financial performance of the Bank. First is P&L highlights during Q4-2010. The net interest income was Rs. 20.35 billion in Q4-2010, compared to Rs. 21.39 billion in Q4-2009. The net interest margin was maintained at 2.6%. The fee income increased 13% to Rs. 15.21 billion in Q4-2010 from Rs. 13.43 billion in Q4 2009. Fee income has continued to increase through the year from Rs. 13.19 billion in Q1-2010 to Rs. 13.86 billion in Q2-2010, to Rs. 14.22 billion in Q3-2010 and Rs. 15.21 billion in Q4-2010. So we have been having a sequential expansion of fee income.

Treasury income was Rs. 1.96 billion in Q4-2010, essentially from equities, government securities, and reduction in mark-to-market on credit derivative portfolio.

The provisions for Q4-2010 at Rs. 9.90 billion is lower compared to Rs. 10.71 billion in Q2-2010 and Rs. 10.02 billion in Q3-2010. Again, on provision we have been having a sequential reduction. The provisioning coverage ratio at March 31, 2010 was 59.5% compared to 51.2% at December 31, 2009.

RBI has allowed us time till March 31, 2011 to reach a provisioning coverage ratio of 70%. And we should be able to achieve it in the normal course and we are on track having now got the two additional quarters. However, the write-offs made by the Bank have not been considered as technical write-off.

As a result of all of the above the profit after-tax increased by 35% to Rs. 10.06 billion in Q4-2010 from Rs. 7.44 billion in Q4-2009. For the full year profit after tax increased 7% to Rs. 40.25 billion in FY2010 from Rs. 37.58 billion in FY2009.

Now, let me move on to the balance sheet highlights. The loan book has expanded marginally to Rs. 1.81 trillion at March 31, 2010 from Rs. 1.79 trillion at December 31, 2009. The decrease in retail loans was due to scheduled repayments and prepayments; however, the pace of decrease has reduced significantly.

The leading indicators point to a growth in the loan book in fiscal 2011. Our retail disbursement including the disbursement in ICICI home finance company and construction finance have increased to Rs. 69.44 billion in Q4-2010 from Rs. 18.29 billion in

Q1-2010, Rs. 36.42 billion in Q2-2010, and Rs. 52.82 billion in Q3-2010. There have been sanctions for project finance in FY2010 which are expected to result in disbursements in FY2011.

Let me move on to the consolidated performance and performance of subsidiaries. Consolidated profit after tax increased by 31% to Rs. 46.70 billion in financial year 2010 from Rs. 35.77 billion in financial year 2009. The consolidated ROE stood at 9.5% in financial year 2010.

ICICI Life maintained its position as a largest private sector life insurance company based on retail new business weighted receipt premium during financial year 2010. The company achieved accounting profitability for the first time since inception with a profit after tax of Rs. 2.58 billion in financial year 2010.

ICICI General maintained its leadership in the private sector during financial year 2010. Its profit after tax increased to Rs. 1.44 billion in financial year 2010 from Rs. 0.24 billion in financial year 2009.

ICICI Asset Management Company's profit after tax increased to Rs. 1.28 billion in financial year 2010 from a marginal profit during the last year. And finally, ICICI Securities' profit after tax increased to Rs. 1.23 billion in financial year 2010 from a marginal profit in financial year 2009. And again, just to reiterate as I mentioned the consolidated ROE stood at 9.5% during financial year 2010.

Now let me give some closing remarks and also the outlook for financial year 2011. As you all know a year ago economic environment was uncertain and the credit demand was relatively muted. In this environment we worked towards positioning the balance sheet of our Bank for the next phase of growth by focusing on the 4C's. We are happy with the progress made on all the metrics. The successful execution of the strategy has significantly strengthened the balance sheet.

The environment has changed since then. India has demonstrated its strong fundamentals with the speedy recovery in growth. And the coming years are expected to see sustained growth driven by twin pillars of investment as well as consumption.

There are opportunities in infrastructure and manufacturing project finance, loan and bond syndication, capital markets activity, domestic and international trade finance, and balance sheet based working capital financing. Our long tradition of project finance and corporate banking, our ability to leverage our deep knowledge, our global presence and our ability to offer structured and customized solution position us uniquely to capitalize on these opportunities.

On the retail side, we have observed that the smaller market beyond the large urban centers are emerging as important drivers of growth. Customer segment that were earlier nascent are maturing and new customer segments have emerged. These distinct customer segments require specialized strategies. Accordingly, we are transitioning from a product centric to a customer centric structure to deliver value propositions to identified customer segments. We are starting fiscal 2011 with a large branch network and nationwide presence across large medium and small markets which we aim to leverage effectively to acquire and service our customers.

So in this context going forward, our strategy is to really expand on the work we have done on the 4C's. The key elements of the Bank's strategy for this financial year are set out below.

One, continued growth in current and savings account (CASA) deposits and retail term deposits. While the Bank's focus during financial year 2010 was on increasing its proportion of CASA deposits, during fiscal 2011, the Bank will seek to maintain its CASA ratio on a growing deposit base.

Further, the Bank will also focus on leveraging its branch network to increase its retail deposit base. Second, we want to leverage capital by capitalizing on opportunities in select asset segments. During financial year 2011, the Bank will focus in capitalizing on certain select credit segment, including home loan, other secured retail loans and project finance and growing our commercial banking activity.

Third, on cost efficiency. While the absolute level of operating expenses is expected to increase going forward we would focus on maintaining the cost efficiencies.

And finally, on reduction in provisions, the Bank has placed a great emphasis on strategies to achieve a reduction in provision for non-performing assets. During fiscal 2011 we will continue to focus on this area.

So with this let me close my remarks on the results and we are all happy to take any questions you may have. Thank you.

Moderator Thank you. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may e press '*' and '1' on their touchtone phone. If you wish to remove yourself from the question queue you may press '*' and '2.' Participants are requested to use handsets while asking a question. Participants are also requested to limit their questions to two per participant during the initial round. Anyone who has a question may press '*' and '1' at this time. The first question is from the line of Mahrukh Adajania from Nomura. Please go ahead.

Mahrukh Adajania Hi. Was there any sell down to ARCIL this quarter?

Rakesh Jha There were no sell down from the gross retail NPLs during the quarter.

Mahrukh Adajania Can I have the break up of disbursements?

Rakesh Jha Total disbursement for the quarter was about Rs. 70.00 billion. Out of which about Rs. 4.00 billion was in the housing finance company, and rest was in the Bank. Of which about Rs. 28.00 billion was housing finance and rest was largely vehicle financing.

Mahrukh Adajania You have reduced delinquencies during the quarter. Are there any targets going forward?

Rakesh Jha As we have said, we would look at sustaining the lower numbers that we have seen on the retail NPLs, with some decline as we go into the next year. And provisioning should start declining as we go into the next year because the gross additions have come down.

Mahrukh Adajania The next quarter onwards you could see declining provisions?

Rakesh Jha We would see some declining provisions. It will not be as significant as we would expect in the steady state which we have communicated as coming down to 1.0-1.2% of the loans. It will gradually move towards that. It will take 4-5 quarters to reach that level.

Mahrukh Adajania In terms of margins, the impact of agri lending you would have seen in the fourth quarter would that still come in the first quarter of next year or is it all in Q4-2010. How do you expect that to impact margins now?

N. S. Kannan Normally, it hits the margin in the first quarter so that impact will be there. Apart from that the process of computation of interest on savings account deposits has changed from April 1 and that will also have an impact of around 15 basis points in NIM during the first quarter.

Mahrukh Adajania Just had a question on life insurance as well. Of course, expense ratio has declined very favorably. Is this a sustainable breakeven or would you see an accounting profit now every quarter or that depends on the growth? And expense ratio what is the variance now? Is there a negative variance even now, how do you look at it?

N. S. Kannan We do believe that expense ratio will go down. Of course, sharp reduction has happened in the past because of various cost reduction measures which have been taken and like us the life insurance subsidiary will also be focusing on efficiencies. But to answer your question on the profit, we believe that for the accounting year they should be able to make profit, however, quarter-to-quarter we will have to wait and see how the seasonality of the business develops because this is a very seasonal business within the year. And bulk of the fixed expenses get incurred upfront, which gets covered over a period of time. So I would say that on a yearly basis we can expect the accounting profits to continue, but quarterly we will have to wait and see how the seasonality develops.

Mahrukh Adajania A clarification on the expense ratio. You think that even with the growth you would see it come down further over the course of the next year?

N. S. Kannan We think that it can come down, but again, as I mentioned, the sharpness of reduction has already happened. We will see a muted reduction than we have seen in the past.

Moderator Thank you. The next question is from Macquarie. Please go ahead.

Suresh Ganpati Hi, this is Suresh Ganpati. Just wanted to understand what has been the growth in your domestic business in FY10 and can I get a split up of domestic and international book, one year ago, and what it is right now?

Rakesh Jha Our overall loan book came down by 17% year-on-year. During the quarter there was a marginal increase in the loan book. Domestic book growing by about 3% during the quarter. For the year both the domestic and the overseas book came down nearly by the same level of 17%.

Suresh Ganpati So going forward you see the international book also declining on an absolute basis and domestic book picking up. Is that the scenario which we can envisage?

Rakesh Jha Yes, that is the expectation for the coming year where the domestic book should grow and the overseas book would remain flat. In addition, in the current year, we also saw some increase in the credit substitutes which are a part of the investment portfolio. That is the reason why the advance growth was a bit lower in the last quarter also.

Suresh Ganpati What is the proportion of international and domestic loans? Is it 80-20 or 75-25?

Rakesh Jha It is 25% overseas.

Suresh Ganpati And just some clarity on the margins in the international business. That is about 50 basis points, right, currently?

Rakesh Jha Yes, it is around that level.

Suresh Ganpati And the domestic would be closer to 3%?

Rakesh Jha Yes.

Suresh Ganpati Are you seeing the international business margins picking up or you are seeing it at the same level at about 50 basis points, what is your view on that business. So far at least in this particular quarter have you see any visible change in the international business margin?

Rakesh Jha We have said in the near-term if you look at the next few quarters, the overseas margins would not really increase from the current level because there are not too many of repayments on that portfolio. In the current year the repayments are about 10% of the loan portfolio. And on the borrowing side, the incremental borrowing cost has come down substantially from the level which it was a year back. But it continues to be still higher than the rate at which we used to raise money earlier two years back. That will continue. So overall, next few quarters the margin will be at a similar level in overseas business.

Suresh Ganpati By virtue of growing the domestic business much faster than the international business is there a tendency for margins to gravitate more towards 3%. We may not go to 3% immediately but maybe somewhere stabilize around 10 to 15 basis points higher than what it is now? Is that a fair assumption?

Rakesh Jha Subject to what Kannan said that immediately in the current quarter there will be the impact of higher interest cost on savings deposits and the impact of the priority sector lending that we did in the current quarter.

Suresh Ganpati One last question on the write-off, have you done any write-off this particular quarter?

Rakesh Jha No.

Suresh Ganpati If you have not writen-off then how can the NPL accretion be Rs. 7.00 billion? You need to do at least Rs. 1.50 billion write-off to have a net accretion of Rs. 7.00 billion?

Rakesh Jha There would have been some upgradation on the corporate portfolio.

Suresh Ganpati So there has to be some reduction closer to Rs. 1.50 billion to justify a slippage of Rs. 7.00 billion?

Rakesh Jha Yes.

N. S. Kannan That is correct.

Moderator Thank you. Mr. Ganpati. The next question is from the line of Amit Ganatra from Religare Asset Management. Please go ahead.

Amit Ganatra Can you provide the breakup of your CASA deposits?

Rakesh Jha At March 31, the savings deposits was Rs. 532.00 billion and current account deposits was Rs. 310.00 billion.

Amit Ganatra My next question is that what is the total amount of restructured assets?

Rakesh Jha About Rs. 53.00 billion, that is roughly the same level as of December.

Amit Ganatra So no incremental restructuring done in this quarter?

Rakesh Jha Some incremental restructuring of about Rs. 3.00 billion would have been done during the quarter and there would have been a similar amount which would have either got upgraded or repaid in the outstanding of the existing restructured loans. So the outstanding amount is nearly same.

Amit Ganatra Of this total restructuring that you have done during this last one year how much is already slipped into NPLs?

Rakesh Jha As of now, there is no significant slippage.

Amit Ganatra You said retail NPL addition was Rs. 5.00 billion. How much of that was corporate?

Rakesh Jha Gross additions were Rs. 7.00 billion. Of which Rs. 5.00 billion was retail. The rest of the Rs. 2.00 billion would be corporate and other portfolio.

Amit Ganatra So this is the gross or this is taking into account the slippages and recoveries?

Rakesh Jha This is the gross. In addition, there would have been recovery of about Rs. 1.50 billion. So the increase that you see in the reported gross NPL number is about Rs. 5.50 billion.

Moderator Thank you. The next question is from Deutsche Bank. Please go ahead.

Dipankar Hi, this is Dipankar here. Two general questions from my side. One is that the fee income momentum seems to be very surprising considering balance sheet is still contracting. Typically, it tends to be in line with balance sheet growth. So could you just explain that?

Rakesh Jha If you look at it on a sequential basis it is up about 7%. And the increase that we have seen partly would be coming from commercial banking, within the corporate side, and also on the retail side, if you look at the disbursement volumes, while they are still lower than what we used to do at peak, they have clearly gone up, compared to the previous quarter. And on the corporate side while the loan growth is not there, incremental business volumes have clearly gone up during the quarter. So the fee income build up is there, but of course, it is only a 7% growth quarter-on-quarter.

Dipankar Since you had much better platform to grow with a much higher CASA ratio for a while now, maybe at least for a quarter, I am considering the Q4 trends to be very strong. Is it just that your repayments are too much otherwise you could have normally seen higher growth in the fourth quarter itself?

Rakesh Jha There were a couple of things. One is the retail repayments continue to be high. So overall, repayments and prepayments in aggregate would have been in the region of Rs. 70 billion to Rs. 80 billion on the retail portfolio. In addition, about six months back, we had done some amount of shorter term corporate lending, when the liquidity was high in August-September of last year. There would have been maturities of all those corporate loans as well. So essentially the increase that we are seeing in the current quarter has more come about because of the priority sector lending that we have done. But we expect that in fiscal 2011, we should be able to target to grow in line with the overall market in our domestic loan portfolio.

Dipankar Without trying to put words in your mouth if the expectation of a domestic growth this time is around 20%, so we will be in line with that, is that what you are targeting?

Rakesh Jha Yes.

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

Amit Premchandani When do you see the lending rate start going up? Because RBI has already hiked rates twice while there has been no movement in the lending rate and deposit rates have gone up.

N. S. Kannan Liquidity in the system is very comfortable. We will have to really wait and see. There is no immediate plan of increasing the lending rate.

Amit Premchandani Will it be contingent upon some other state banks increasing lending rates. They never increased lending rate for two years in

FY05 and FY06, so what is your strategy in that scenario if state banks do not increase lending rates?

N. S. Kannan Over the last year we have followed our own strategy. But it is really mandated by our own balance sheet. For example, in auto loans we have not been aggressive. We never followed the first year low and the second and third year higher rate mortgages that some other state owned banks offered. In fact, we waited for about seven to eight months to see how the competitive situation develops for introducing such a product. So I would say that we will not be bothered about what their lending strategies will be. Having said that I think sometime during the year, the lending rates will increase because if you see the RBI statements, they have very clearly said that the current rates are not at the normalized levels and they are still at somewhere between a crisis level and the normalized level. So I think they will increase the rates and probably absorb some liquidity also from the system. They seem to be suggesting that they will do it in a non-disruptive manner, so through the year probably rates are likely to go up.

Amit Premchandani Another thing was what will be the likely impact, although it's a hypothetical question, is there is a no load regime on insurance suppose SEBI wins the case and it imposes a no-load regime what would be the likely impact on the insurance business?

N. S. Kannan We will have to really wait and see how the regulatory situation develops. It's too premature to think how it is going to develop, but for now it is very clear that insurance companies can go and sell their existing and new products and ICICI Prudential Life Insurance Company has a comprehensive the product range from our customers' requirement perspective. So if at all our competitive advantage in the current situation can only improve because we can very well manage our leadership position with the existing suite of products.

Amit Premchandani In one of the notes to account it is mentioned that you have been given extension to achieve the 70% provision coverage ratio by March 2011. Is it only in your case or some of the other banks or it is for the entire industry?

N. S. Kannan This is specific correspondence between us and RBI and they have said that the two quarter extension is for us, but we hear from the market at least one other bank has been granted an extension. The Governor has said that the RBI will look at it on a case-by-case basis and give extension if required.

Moderator Thank you. The next question is from the line of Ajinkya Dhavale from Bajaj Alliance Life Insurance. Please go ahead.

Ajinkya Dhavale The repayments during the year on retail loans are scheduled to be about Rs. 350.00 billion. What is the quantum next year?

Rakesh Jha It would be about Rs. 200.00 billion, but there will be some prepayments as well. Thus the overall repayments and prepayments should be in the region of Rs. 200-250 billion.

Ajinkya Dhavale Can you give me the disbursements on the retail products for a full year?

Rakesh Jha Total disbursement was about Rs. 177.00 billion out of which in the housing finance companies it was Rs. 47.00 billion and in the Bank it was Rs. 130.00 billion, of which housing loans were about Rs. 55.00 billion in the Bank.

Ajinkya Dhavale Balance would be mainly in CVs and autos?

Rakesh Jha Yes.

Ajinkya Dhavale What is the branch expansion plan? We seem to have fallen a bit short of the target.

Rakesh Jha We are at about 1,750 branches at the moment. Over the next few weeks we should be at 2,000 branches. We are in advanced stages of opening those branches. In the next month or so, we should be at that number.

Ajinkya Dhavale Over and above that do we plan to further ramp up in the next year or will we be consolidating somewhere?

Rakesh Jha e are looking at opening new more branches as well, but that may not be as much as we did in the last couple of financial years. Once we finish this set of branches, we would then apply to RBI for the fresh set of branches.

Ajinkya Dhavale Whatever 250 odd branches which will be opened in one month period, has the operating cost been fairly accounted in this quarter or it will further go up as we move ahead in the next quarter?

Rakesh Jha It would further go up.

Ajinkya Dhavale I thought the expenses could have been a bit up fronted.

Rakesh Jha Revenue expenses cannot be upfronted.

Ajinkya Dhavale Third question is on the international subsidiaries. Just as a trend a lot of cash and liquid investments have gone up and the bonds have come down, is there something to read in that trend or it's just a normal thing?

Rakesh Jha Well it's a normal thing, it would be based on what are the expected repayments on the borrowing as on a particular date. The liquidity level would have been slightly higher, but that would normalize going forward.

Ajinkya Dhavale One last data point, what would be the interest on deposits for the full year, the number?

Rakesh Jha You mean the cost of deposit?

Ajinkya Dhavale No, the interest on deposit out of the total interest expense, how much would have been interest on deposits?

Rakesh Jha Rs. 115.00 billion.

Moderator Thank you. The next question is from the line of Saikiran Pulavarthy from India Bulls Securities. Please go ahead.

Saikiran Pulavarthy What could be the strategy in terms of sourcing the retail loans considering the DMA expenses have risen significantly in the recent past in percentage terms?

Rakesh Jha The DMA expenses for us have been at very low level. Going forward the strategy is very clearly to source a higher proportion of our retail loans through the branches we have rolled out. Each of the branches would now be looking at both assets and liabilities. And we would expect more of the sourcing to come through our own branches and the reliance on DMAs would continue to be low vis-à-vis the overall sourcing of business. One exception is the car loans where dealerships will be key for sourcing.

Saikiran Pulavarthy If you can share this number at this point of time, what percentage of the disbursements are sourced from DMA/ dealerships?

Rakesh Jha It will vary across each of the products, for example, for car loans, between dealership and DMAs it will still be at 70% because most of the business for car loan is through dealerships.

Saikiran Pulavarthy Another question considering the Rs. 4.00 billion disbursements in the HFC, what could explain a sharp fall in the HFC loan book on a sequential basis, is there any securitization which has been done in the housing finance subsidiary?

Rakesh Jha For the quarter, the disbursement is only about Rs. 4.00 billion which is much lower than the previous quarters and because of the normal repayments on the portfolio, the loan portfolio came down for the company.

Saikiran Pulavarthy But if I look at it, it's approximately an 8% sequential decline, so I am just trying to understand if I am missing anything there.

N. S. Kannan That was because of the incremental disbursement was only Rs. 4.00 billion.

Saikiran Pulavarthy Any major adjustments in the equity in the UK subsidiary because there were some net write-back and at the same time healthy profits as well. But sequentially the equity number has been more or less flattish.

Rakesh Jha It would have been a change of about $40 million in the mark-to-market, it is the change that has been there.

Saikiran Pulavarthy But the net worth remains flattish, so I am just wondering whether I am missing anything apart from the MTM.

Rakesh Jha The net worth for UK subsidiary has indeed gone up between December and March in line with the profit for the quarter and write-back on the mark-to-market. In the presentation because of the percentage given without decimal, it may be causing a confusion. Actual net worth has gone between December and March..

Moderator Thank you. The next question is from the line of Manish Karwa from Kotak Securities. Go ahead.

Manish Karwa Hi, I just want the movement of NPLs on a yearly basis.

Rakesh Jha We would be putting that out with annual report for the movement for the entire year.

Karwa

Manish Karwa Next year, when you are saying that loan book will start growing, what is a rough target within segments, would international be also growing or would it largely be retail and corporate in India?

N. S. Kannan Domestic loan book should grow in line with domestic system and the international loan book should be largely flat, so the overall loan book will grow at a little bit below the Indian banking system's growth rate.

Manish Karwa One more data point which I want is what are reserves in the UK subsidiary and the reserves in the Canada subsidiary?

Rakesh Jha It's about US$ 630 million for the UK subsidiary. KarwaAnd for the Canadian subsidiary, it is about CAD 970 million.

Manish Karwa Can you get the investment that you have made in those subsidiaries back to India since we do not have much of plans to grow business out there, because ROE in that business is very low, you are sitting on really excess capital out there.

Rakesh Jha Currently, for example, in UK we clearly have plans for growing business there which would involve growing the Indian linked business. While we will continue to decline or reduce the investment book in line with the normal repayments as well as by selling down the investment portfolio as and when market opportunities are there. You would have seen in the current year, we have been able to reduce the investment portfolio quite a bit. There are significant opportunities to do India linked business from UK especially given that we have a very good retail deposit franchise there. So the UK balance sheet will grow in the coming years and we would be able to leverage on the existing capital there. In Canada in terms of growth, because there is an expectation for us to grow in the domestic Canadian business as well, which we are currently not that comfortable in growing in a significant way due to insufficient experience. Therefore we have not grown the loan book in Canada. Going forward we will see how the opportunities are there in terms of doing business. Currently in any case, given that at the parent bank level. the capital that we have in significant excess of our requirement, so there is no thinking of bringing back any capital from UK or Canada in the near term at all, even if we don't grow the Canadian book. There is no real need of bringing that capital back into India.

Manish Karwa Lastly what is a normalized level of operating expenses from here on, I understand there would be some one-off in the fourth quarter?

Rakesh Jha Normalized level in a sense if you look at the overall expenses for the year, for the next year the expense growth should be in line with the balance sheet growth broadly.

Moderator Thank you. The next question is from the line of Manish Ostwal from Darashaw & Co. Please go head.

Manish Ostwal What is the total restructured book as on 31st March, 2010?

Rakesh Jha It is Rs. 53.00 billion.

Manish Ostwal During the quarter how we have restructured?

N. S. Kannan We have restructured Rs. 3.00 billion and about Rs. 3.00 billion of existing restructured loans have either been partially repaid or have been upgraded. And therefore the net number remains the same as of December.

Moderator Thank you. The next question is from the line of Vishal Goyal from UBS. Please go ahead.

Vishal Goyal On the risk weighted assets, despite a 2% quarter-on-quarter increase in loan book, our own balance sheet risk rated asset actual has gone down, so what could be the reason?

Rakesh Jha We would have got some benefit on the external rating for the portfolio. There were assets for which we would have got external rating in the current quarter because of which risk weighted assets have come down. That will not be a trend, it is more a one-off where ratings have happened for the portfolio.

Vishal Goyal Can we get a broad number for our corporate portfolio, how much should be externally rated?

Rakesh Jha It will be in the region of roughly about 40% to 50%.

Vishal Goyal A question on the current account, despite our decline in overall loan book, we have seen healthy growth in current accounts, so what is driving current account share, are we introducing new products, competing with others, that definitely would be the reason, but any significant driver on current accounts?

Rakesh Jha We have focused on the capital market related activities and commercial banking through the year. Those are the factors which have led to the increase in the current account level.

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

Jatinder Agarwal If you look at your loan book on a sequential basis, there is not a significant absolute net addition to the domestic corporate loan book. If you look at the system we have seen significant loan growth across some of the competitors and on the industry level. Two things, one, are the rates at which lending is happening unattractive or some of the terms at which some of the industry growth is happening is not something which is comfortable for ICICI Bank, if you could explain that.

Rakesh Jha On the corporate portfolio, there are attractive opportunities at decent rates which are available. Lot of it today is in the infrastructure space in term of project financing where we have been doing a lot of business, but that does take some time in terms of reflecting in disbursements. Over the next year or so, the sanction that we have done will reflect in numbers in terms of disbursements. In the system there is a decent amount of short term lending happening at pretty low rates. That is something that we are not actively doing and as we mentioned that in the current quarter, our corporate portfolio also declined because we had done some amount of shorter term lending during the year which would have matured for us by March. Otherwise, from our point of view, it is competitive, but there are decent attractive rates available on the project finance businesses especially.

N. S. Kannan Also, If you look at the credit substitute as a proxy for lending activity, on that basis we are at upwards of 20% annualized growth for the fourth quarter and there was indeed lot of corporate bond opportunity in the last quarter which we took advantage of. So I would suggest that you look at the whole credit substitute as a proxy for the growth, because going forward also in terms of opportunities it could come both in the loans as well as in corporate bond markets.

Moderator Thank you Mr. Agarwal. The next question is from the line of Ganesh Ram Jairaman from Spark Capital. Please go ahead.

Ganesh Jairaman On your accounting for loans which you repossess, how do you account for it. When a commercial vehicle, for example, turns into an NPA. Can you repossess it, does it get accounted as a current asset in your balance sheet and not as an NPA and adjusted for impairment or how does it get accounted, or how does it work?

Rakesh Jha When we repossess say a vehicle, till the previous quarter it was reflected in our other assets on our books while the loan amount was closed. From March 31, 2010, in the current quarter we have changed that practice to still continue to reflect that amount in the loan book as a loan outstanding and the loan is shown as an NPL and included in the NPL number that we have reported for the quarter. So in the overall context, it's not a large number, it's about Rs. 2.00 billion in aggregate of gross loans outstanding.

Ganesh Jairaman What is the quantum of earnings profits, which you have accrued because of related party transactions with your subsidiaries?

Rakesh Jha It is disclosed in detail, item by item, in our annual report as a part of the notes to account, so it will be a part of that the annual report.

Ganesh Jairaman That's it from me. Thank you.

Moderator Thank you. The next question is from the line of Ramnath V from Birla Sun Life Insurance. Please go ahead.

Ramnath V I just wanted to understand the sharp rise in profits of your AMC business. What exactly is driving the profits in that particular segment?

N. S. Kannan It is the increase in the asset under management and the asset management charges thereof.

Ramnath V And is it also because of sharp gain from the cost side?

N. S. Kannan The company undertook some cost efficiency improvements too. But the overall increase has been largely on account of the increase in asset management charges on increasing funds under management.

Ramnath V And since the large part of the increase has happened only on the debt side, so the fees have largely been increased only on the debt side, is it?

N. S. Kannan No, fees have not increased. The fees have grown only in line with the assets under management.

Ramnath V And the other question that Manish had asked on your Canada subsidiary, you have invested close to Rs. 33.00 billion in that particular subsidiary and you had also said that the regulatory environment is getting slightly tougher over there. And are you planning to get back some money at a later point in time or what exactly are the plans for that in the next one year?

Rakesh Jha At some point of time, if it is really necessary we will look at getting the capital back. As of now, we don’t have any capital requirement at the parent bank level and we do see that there are opportunities for growth in UK and Canada and we will assess that. Currently, there is no plan of bringing the capital back.

Ramnath V Sure, thanks.

Moderator Thank you. The next question is from the line of Nikita Khilani from VCK Shares. Please go ahead.

Nikita Khilani Good evening sir. I wanted to know the NIM for Q4-2010 quarter.

Rakesh Jha 2.6%.

Nikita Khilani And for the full year also it's 2.5%?

N. S. Kannan 2.5%, yes.

Nikita Khilani And sir what's the employee strength as of 31st March?

Rakesh Jha About 35,500.

Nikita Khilani And what's the plan for addition given the number of branches coming online?

Rakesh Jha As far as the remaining 300 or so branches out of our 2,000 branches are concerned, those are already staffedSo the net addition to the employee base should not be very significant. Maybe between 1,000 and 2,000.

Nikita Khilani Thank you sir.

Moderator Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani Yeah one data point in terms of breakup of provisions and contingencies for the quarter as well as for the year?

Rakesh Jha Breakup in terms of what, Hiren?

Hiren Dasani Specific loan loss provisions for the quarter and for the year?

Rakesh Jha Largely specific loan loss, nearly all of it will just be specific provisioning for loans.

Hiren Dasani Even for the quarter as well?

Rakesh Jha Yes.

Hiren Dasani Because if I look at almost Rs. 9.90 billion of loan loss provision for the quarter. So if I look at almost the same amount that it would be about 220 basis points as a percentage of the loan book for the quarter on an annualized basis.

Rakesh Jha Yes.

Hiren Dasani And the other question is that on ICICI Lombard as well on the Asset Management side, there is some quarter-on-quarter decline in the profitability, so is it meaningful to look at it that way or there could be some year-end adjustment?

Rakesh Jha I would look at it more from an annual perspective.

Hiren Dasani Specifically, on the General Insurance side, I mean because there was no kind of calamity or something which I could think of in Q4.

Rakesh Jha Yes. In terms of assessment of reserving, we would have strengthened our reserving on the claims. There have been no real actual claims as such that has come up, but we would have strengthened our reserving on the portfolios.

Hiren Dasani Great, thanks.

Moderator Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta Hello, just a clarification about the merchant acquiring business transaction that we did in the third quarter, the profit on that account has been accounted under which line item in the quarter?

Rakesh Jha In other incomes in the December quarter.

Alpesh Mehta Other income, but which line item lease and other or the trading profits?

Rakesh Jha Lease and others.

Alpesh Mehta Lease and others. So I guess that amount is around Rs. 2.00 billion last quarter?

Rakesh Jha Yes.

Alpesh Mehta And this quarter, the lease and other income amount is around Rs. 1.75 billion, so what's the guidance on this particular line item, because it appears to be fluctuating heavily every quarter?

Rakesh Jha By the nature of it, other income will be such miscellaneous items. The core item in this is the dividend income that we get from our subsidiaries which was quite strong for the current quarter and it includes lease income which is a winding down portfolio, so lease income has been coming down for us. It's very difficult to give guidance for this line item.

Alpesh Mehta And second thing about this trading profits, can you just quantify what would be the trading profits and the mark-to-market losses during the quarter?

Rakesh Jha We would not have had any material mark to market losses.

Alpesh Mehta And was there any mark to market in the last quarter?

Rakesh Jha There were some mark-to-market losses in the previous quarter.

Alpesh Mehta And can you just give us the breakup of your investment book? The SLR, non-SLR and from SLR what would be the HTM and AFS and the duration?

Rakesh Jha We typically carry about 75% to 80% of our SLR portfolio in the HTM portfolio. The other breakup that you asked for is given in the presentation. The percentage varies depending on how much we are holding the AFS or HFT portfolio.

Alpesh Mehta And what would be the duration under AFS.

Rakesh Jha Duration under AFS is typically always lower than say two years, currently it's about one year.

Alpesh Mehta Thanks a lot.

Moderator Thank you Mr. Mehta. The next question is a follow up from the line of Mahrukh Adajania from Nomura Securities. Please go ahead.

Mahrukh Adajania — Yeah I just wanted to know the marginal cost of deposits or the average cost.

Rakesh Jha — Average it's about 5% for the current quarter.

Mahrukh Adajania — And what will be the cost of term deposits?

Rakesh Jha — Cost of term deposits within that would be about 6.5%.

Mahrukh Adajania — And I just wanted to reconfirm the housing finance disbursements this quarter at the Bank level were Rs. 28.00 billion, is that the correct number or did I get it down wrong?

Rakesh Jha — Housing disbursement of Rs. 28.00 billion for the parent bank.

Mahrukh Adajania — Thank you.

Moderator — Thank you. The last question is from the line of Shankar Narayan Swami from Standard Chartered Bank. Please go ahead.

Shankar N Swami — Hi Rakesh, this is on the international operation, I just wanted to clarify, is your branch book in Singapore, Bahrain, and Hong Kong shrinking faster than the subsidiaries and secondly, on the deposit front, you have had the guarantee on Hong Kong and Singapore branch deposits that would expire in 2010 end, what is the kind of level of deposits which is still outstanding in debt guarantee?

Rakesh Jha — For the year, overall loan book has gone down by about 17% in the branches. What we have said is that in fiscal 2011 we expect the balance sheet to be flat or a marginal decline in the overseas branches.

Shankar N Swami — And secondly, all of us have been expecting a bond issuance from you for a while, there is a lot of repayment as well over the next 6-7 months. Is there any expectation of bond issue in the international market or how are you funding it alternately if there are no plans as of now?

Rakesh Jha Currently, the liquidity is extremely comfortable in terms of our own liquidity position even taking into account the repayments that are there in the next few months. So at some stage of course we will do a bond issue to refinance some of our existing borrowings. As of now, we will time it depending on how the market is and what our requirements are?

Shankar N Swami And you have some bulk repayments coming from some of your borrowers which will kind of match your refinancing requirements.

Rakesh Jha If I look at say the next three-four months, the liquidity that we will be carrying in the balance sheet, in any case would be more than sufficient to take care of those liability repayments in the branches and in UK and Canada. So as such from just a funding point of view, I don't see a requirement for us to do a bond issue for that, but overall from a market point of view, we would look at doing a bond issue at some point of time.

N. S. Kannan Yes just to add to that, liquidity is comfortable across all international geographies, it's only a question of just to strengthen our long term ALM profile, whenever it is appropriate and it is most optimal, we will go with our bond issuance, but currently liquidity is extremely comfortable.

Shankar NSwami Got it sir.

Moderator Thank you. I would now like to hand the conference over to Mr. N. S. Kannan for closing comments. Please go ahead sir.

N. S. Kannan Thank you all of you for joining the call. Just to reiterate the element of bank strategy for 2011 financial year, is just going to be again fourfold strategy, one is to continue the good work we have done on current and savings account deposits and add to that focus on retail term deposits as well. Second, leverage our capital, the capital adequacy ratio as I mentioned is very healthy at 19.4% and given that environment is providing us lots of opportunities both in corporate and retail, we will leverage the capital by capitalizing on opportunities and select asset segments. Third, the cost efficiency drive will continue. While the absolute level of cost may go up, we will be focused on maintaining the cost efficiencies. And finally, the credit quality agenda will continue in terms of focusing on provisions and reducing them. We have continued to place great emphasis on strategies to achieve a reduction in provisions and this focus will continue. Thank you once again for joining us on this call. For any other questions you have, all of us are available and we could take those questions offline. Thank you.

Moderator Thank you gentlemen of the management. Ladies and gentlemen on behalf of ICICI Bank that concludes this conference call. Thank you for joining us and you may now disconnect your lines.