ICICI Bank Limited
Q3-2011 Earnings Conference Call, January 24, 2011

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Note: ICICI Bank received approval for the merger of erstwhile Bank of Rajasthan, which was effective from the close of business of August 12, 2010. The Bank's financials accordingly include the financials of erstwhile Bank of Rajasthan during the quarter.

Moderator: Ladies and gentlemen, Good evening and welcome to the ICICI Bank Q3-2011 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, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this 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: Hello. Good evening all of you and welcome to the conference call on financial results of ICICI Bank for the quarter ended December 31, 2010, that is third quarter of the current financial year. I would like to make my opening remarks in four parts. Part one, on the macroeconomic and monetary environment; part two on performance of the Bank during the quarter including performance on our 5C-strategy for the current financial year; part three where we will discuss the consolidated results; and, part four, finally on outlook for the rest of the financial year.

Let me now start with part one, which is the macroeconomic and monetary environment. As we all know, India's GDP growth in the first half of financial year 2011 was 8.9%, driven by better performance in the services and the agriculture sectors. The growth seems to be more broad-based compared to the last financial year. Growth in Index of Industrial Production or IIP on a trend basis and ignoring the month-on-month volatility has been moderating, which has been primarily due to the high base effect. Inflationary trends, however, have posed a challenge. Despite a normal monsoon, food inflation remained high and touched 13.6% in December 2010 after unseasonal rains in October-November damaged some crops. This together with the impact of international commodity prices is putting upward pressure on inflation, even though manufactured products inflation remains within comfort level at around 4.5% in December 2010.

Accordingly, we have seen monetary policy action aimed at containing inflationary expectations and controlling build-up of inflationary pressures. During the quarter, RBI increased both the repo and reverse repo rates by

25 basis points each, taking the total increase in repo rate to 125 basis points and reverse repo rate to 175 basis points since April 2010. We have also seen RBI reduce the SLR requirement to 24.0% in its December policy. This was in response to the tight systemic liquidity caused by high government balances with RBI, increase in currency in circulation and credit growth outpacing deposit growth. The open market operations of RBI in government securities have partially eased the liquidity situation, as seen in the reduced dependence of the banking system on the Liquidity Adjustment Facility or LAF of the RBI. After having borrowed nearly ₹1.2 trillion on an average per day during December 2010, with a peak borrowing of about ₹ 1.7 trillion, the average bank borrowing at the repo window till January 21st was around ₹ 884.00 bn. However, the LAF balances have increased since then and currently it is around ₹ 1.14 trillion.

The tight liquidity manifested itself in higher short term rates, with interest rates on most of the short-term money market instruments including treasury bill yields, inter-bank call money rates, rates on Commercial Papers, rates on Certificate of deposits, all of them rising by close to 150-200 basis points. The tight liquidity and increase in the repo and reverse repo rates resulted in pushing the short-term yields on government securities further higher. However, the 10-year government securities yield moved up only marginally from 7.84% at end-September to 7.92% at end-December 2010, thereby flattening the yield quite considerably.

Credit growth has picked up during the quarter with year-on-year non-food credit growth of 24.0% at December 31, 2010, compared to 19.0% at September 24, 2010. Data published by RBI upto November 19, 2010, indicates that the pick-up is driven by a number of sectors, including industry, real estate, housing, as well as by the seasonal increase in the agriculture credit. Deposit growth has also improved during the quarter. Year-on-year deposit growth was at 16.5% at December 31, 2010 compared to 14.3% at end-September. However, the negative growth in demand deposits on a year-to-date basis continued during the quarter, offset by higher term deposit growth.

During the quarter, we have seen banks increasing retail term deposit rates by 50 basis points to 125 basis points across various tenures in response to tight liquidity and relatively lower rate of deposit growth as against credit

growth. Following the deposit rate hikes and resultant increase in cost of funds banks have also increased lending rates. The base rate of banks applicable for all lending from July 1st, 2010, was increased by 25-100 basis points while the PLR applicable on existing portfolio was increased by 75 to 150 basis points. Following some of the measures relating to housing loans announced by RBI in the November 2010 monetary policy, special interest rate schemes were also withdrawn by most players during the quarter.

Given this backdrop, let me move on to part two, which is performance of the Bank during the quarter including performance on our 5C strategy. As you all are aware, we have articulated the two-phase strategy to improve our return-on-equity.

- One is to improve and stabilize the return-on-assets through a focus on funding cost, operating cost, and credit costs; and
- Second is to leverage our capital base for further growth.

This year we have entered the second phase, i.e., growth while continuing to improve our return-on-assets as well. This is encapsulated in our 5C strategy. I will begin the discussion on our performance during the quarter by highlighting the progress we have made against each of the 5Cs.

First on credit growth: Total advances increased sequentially by 6.4% from ₹ 1.94 trillion at September 30, 2010 to ₹ 2.06 trillion on December 31, 2010. The year-on-year growth was 15.3%. We continue to see robust growth in the domestic corporate book. We also took advantage of market conditions to raise $1.00 bn of ten-year money in the international bond markets and use this for selective India-linked growth in our international branches book. During the quarter, the seasonal build-up of the agricultural portfolio for the priority sector lending also commenced. The retail book, which had been declining till the first quarter stabilized during the second quarter and continued to be stable on a sequential basis during the third quarter. Total retail disbursements were about ₹ 71.00 bn during the quarter compared to ₹ 78.00 bn in the previous quarter. The decline was mainly due to lower disbursements in the home loan segment in line with slower growth seen in the industry.

Second on CASA: The Bank's CASA ratio at December 31, 2010, was 44.2%. We have seen the average CASA improve during the quarter to

40.3% from 39.2% in the previous quarter. During the quarter, current account deposits declined mainly due to the reduction in capital market floats related to primary offerings of equity. Savings deposits, however, have continued to grow, and the growth during the quarter was about ₹ 13.30 bn.

Third C on Cost: The operating expenses increased sequentially, primarily due to increase in employee cost and within that primarily due to higher provision for bonus. Further, the operating expenses for the quarter also includes the full operating cost base of erstwhile Bank of Rajasthan, of approximately ₹ 900 mn compared to the last quarter when the operating cost were included only for 49 days in the quarter. The current quarter has also seen cost increase on account of employee addition and full impact of costs relating to branch additions done in the previous quarters. The cost-to-asset ratio as a result was 1.7% and the cost-to-income ratio for the quarter was 42.1%. However, since we have provided for the bonus in this quarter, if we look at on a nine-month basis ended December 31, 2010, the cost-to-asset ratio was 1.7% and the-cost-to income ratio was around 41.0%.

Fourth C on credit quality: I am happy to report that we continue to make progress on improving credit quality. This is reflected in several ways as follows:

1. The provisioning charge in the income statement came down to ₹ 4.60 bn from ₹ 6.41 bn in the previous quarter. On an annualized basis, this represents about 1% of advances, down from about 1.4% in the last quarter and significantly lower compared to our peak level of close to 2.5%.
2. The net NPA ratio declined to 1.16%, compared to 1.37% at September 30, 2010 and 2.19% one year ago.
3. The provision cover ratio was 71.8% compared to 69.0% at September 30, 2010 and 51.3% a year ago. We have thus achieved the RBI required minimum provision coverage as of December 31, 2010, ahead of the March 31, 2011 deadline.
4. The restructured loans remained stable at around ₹ 25.60 bn at December 31, 2010. You would recall that it was ₹ 25.80 bn at

September 30, 2010. We had about ₹ 6.00 bn of additions, which were offset by deletions including upgrades.

5. Finally, on the retail unsecured book, this is something which we monitor very closely. This book is now less than 3% of our total advances.

Let me move on to the fifth C, which is customer service. Here, we have continued to focus on a segmented approach, building enhanced channel capabilities and improved service orientation. In this direction, we have now enabled fund transfer, term deposit creation and bill payments at our ATMs. We have recently launched cash withdrawal at point of sale terminal at merchant establishments using debit cards. This is to enhance convenience and ease of transaction for our customers. We have entered into a tie-up with Vodafone to offer a bouquet of financial products such as savings accounts, prepaid instruments, and credit products through a mobile-based platform. This partnership is expected to bring unbanked and under-banked population into the organized financial services framework and assist in furthering the electronic payments market in India.

While on customer service, I must also highlight that we have made significant progress in our merger integration with Bank of Rajasthan. We have established IT connectivity, enabled anywhere banking, undertaken complete re-branding and renewed active customer relationship. We expect process integration and complete system migration to happen by March 2011, which should allow customers of both banks to enjoy a uniform and seamless experience.

Having talked about the progress on 5Cs, let me move on to the key financial performance highlights for the quarter.

Net interest income increased 12.3% year-on-year to ₹ 23.12 bn. This includes interest on income tax refund of about ₹ 0.52 bn in Q3-2011 and ₹ 0.24 bn in Q3 of the last financial year. The net interest margin was stable at 2.6% in Q3-2011. During the quarter, the higher systemic rates led to increase in cost of funds, especially from December 2010, which was cushioned partly due to higher average CASA during the quarter. On the asset side, we saw improvement in yield on SLR on account of resetting of interest on floating rate bonds and the yield on advances improved on account of better yields on incremental disbursements. The base rate was

actually increased by 25 basis points during the quarter and subsequent to that, we have increased the base rate by 50 basis points.

The fee income grew by 14.3% year-on-year to ₹ 16.25 bn in Q3-2011. This was driven by higher activity in corporate and international banking. During the quarter, the Bank earned a treasury profit of ₹ 0.21 bn as the losses on the government securities portfolio was offset by gains made from proprietary equity and corporate bond portfolios.

I have spoken about the operating expenses and provisions, while describing the progress against 5Cs. Broadly, the operating expenses increased both on year-on-year basis and sequential basis, mainly due to employee expenses including bonus provisions and Bank of Rajasthan costs coming for the whole quarter, while provisions have reduced both on a year-on-year basis and sequential basis. Based on the above, profit before tax for the quarter was ₹ 18.78 bn, which represents a year-on-year increase of 37.4% and a sequential increase of 19.5%.

As we have mentioned in the last quarter's analyst call, the estimated tax rate for the year includes the benefit of provisions made in Bank of Rajasthan's accounts prior to merger with ICICI Bank for employee benefits that will be funded during this year. Accordingly, the tax rate for the quarter is around 23.6% that is in line with the estimate of tax rate for the full year as well.

As a result of the above numbers, the profit after tax for the quarter was ₹ 14.37 bn, a year-on-year increase of 30.5% and a sequential increase of 16.3%.

Let me now move on to part three, which is on consolidated results. Before I talk about the numbers, I would like to explain that the Insurance Regulatory and Development Authority (IRDA) vide its circular dated December 27, 2010, has permitted surplus in non-participating policyholders' funds of life insurance companies to be recognized in the income statement on a quarterly basis instead of being done only at the year end, as was the requirement earlier. The full impact of this change for the nine months ended December 31, 2010 is reflected in the accounts of ICICI Prudential Life Insurance Company and in our consolidated accounts

in Q3-2011. The Bank's consolidated profit after tax for 9M-2011 and Q3-2011 include ₹ 3.84 bn on account of this transfer.

The consolidated profit after tax of the Bank for 9M-2011 was ₹ 45.25 bn, representing a consolidated ROE of 11.6% for the period. The consolidated profit was higher by 36.0% on a year-on-year basis. This was driven primarily by improved financial results of the Bank's insurance subsidiaries.

ICICI Life's unaudited new business profit (NBP) during the nine month period was ₹ 5.79 bn. ICICI Life's profit after tax for 9M-2011 was ₹ 5.13 bn. ICICI Life's new business profit and profit after tax for Q3-2011 were ₹ 1.00 bn and ₹ 6.14 bn, respectively. ICICI Life's profit after tax for 9M-2011 and Q3-2011 include ₹ 5.2 bn on account of transfer of surplus in the non-participating policyholders' funds on a quarterly basis, which I had explained to you earlier.

Here I would like to briefly touch upon the trends in the life insurance business. As you are all aware, post the change in ULIP regulations, the industry had witnessed a sharp drop in volumes. We have seen a shift in the product mix from regular premium ULIP to single premium ULIP and to non-linked products. In October-November of 2010, retail received premiums (with 100% weightage for single premiums) of the industry declined by 11% on a year-on-year basis, ICICI Life's retail received premium grew by 10% in this period. Our market share for October-November 2010 on this basis was 7.7%. ICICI Life's new business profit margin was 18.7% in 9M-2011. For Q3-2011, the new business profit margin was 17.6%. Our strategy continues to be to restructure distribution and costs, leverage ICICI Bank branches for distribution and limit the impact on new business margins through these measures.

ICICI Lombard General Insurance achieved a gross written premium growth of 28.3% in 9M-2011 compared to 9M-2010. Its profit after tax for the period was ₹ 2.10 bn, a year-on-year growth of 59%.

ICICI Prudential Asset Management Company reported a profit after tax of ₹ 0.52 bn in 9M-2011 relative to ₹ 1.07 bn in 9M-2010. Its performance has been impacted since the second quarter of this year by decline in money market funds and the impact of increase in interest rates on mark-to-market valuations in the money market funds.

ICICI Bank UK's profit after tax for the nine month period was USD 28.3 mn, compared to USD 24.8 mn in 9M-2010. ICICI Bank Canada's profit after tax for 9M-2011 was USD 24.8 mn compared to USD 27.5 mn in 9M-2010. The profits at these two overseas banking services were driven largely by improvement in net interest margins and net interest income, offset by lower fee income.

Now let me move on to the final part with outlook for the rest of the financial year. Our current expectation is that the economic growth momentum will be sustained given the strong underlying drivers. There are some downside risks, as in, monetary tightening due to high inflation as well as slower pace of investment activity, than earlier anticipated, in view of some delays in approvals and policy issues. We expect inflation to be at 6.5% to 7.0% by March 2011, compared to RBI's comfort zone of closer to 5.0%-5.5%. This is in view of the higher food prices and impact of fuel price increases partly offset by the high base of last year. You would recall, from November 2009 onwards, inflation was on an uptrend, increasing from 4.5% in November 2009 to over 10.0% in March 2010 last year.

Credit growth had picked up and we expect it to sustain in the fourth quarter. We are expecting that with term deposit rates at more attractive levels, deposit growth would pick up. However, the decline in system demand deposits between March to December 2010 and the increasing interest rate differential between savings deposits and term deposits points to increasing challenges for banks to sustain and grow their CASA deposits. We expect that government spending up to the advanced tax payment during March 2011 should improve the liquidity gradually, but overall it would continue to remain negative.

As far as ICICI Bank is concerned, we expect to sustain the sequential expansion in the asset book in the domestic corporate portfolio, as well as growth in our international branches through deployment of funds we have raised. As far as the margins are concerned, while lending rates are seen to be aligning with the rise in deposit rates, the lagged repricing of the loan book relative to deposits could exert some pressure on margins going forward. In the next quarter in particular, we would see the full impact of the rise in deposit costs during the third quarter. We would continue to closely monitor the impact of monetary conditions and policy actions on

liquidity and margins. We expect to sustain growth in fee income and maintain our cost ratios at around current level.

On asset quality, as you are aware, the microfinance institutions or the MFI sector has been facing challenges arising primarily out of the sharp drop in recoveries from borrowers in Andhra Pradesh. The recent dispensation by RBI in respect of restructuring these exposures should provide some interim relief to the sector to allow them to reconfigure and align themselves to the expectations of all stakeholders. As we have mentioned earlier, our exposure to MFIs at September 30, 2010 was about ₹ 24.00 bn. Our current exposure to MFIs is approximately ₹ 18.00 bn, it has come down, of which about ₹ 13.00 bn is by way of term loans and about ₹ 5.00 bn by way of portfolio buyouts. Approximately 40% of the portfolio buyouts are contracts originated in Andhra Pradesh. We continue to monitor this development on a proactive basis.

This broadly concludes the summary of our performance and outlook. We would continue to execute our strategy of profitable growth with a view to improve the return on equity.

With this, I will close my opening remarks and we would be happy to take your questions. Rakesh, Anindya, and all my colleagues are here to take any of the questions you may have. Thank you.

Moderator: Thank you very much, Sir. Our first question is from the line of Amit Premchandnani from UTI Mutual Fund. Please go ahead Sir.

Amit Premchandani: Good evening, Sir. Just a question on the disclosure of RIDF investment that you have given. The investments have doubled year on year. Do you plan to meet the priority sector requirement through these investments?

Rakesh Jha: The RIDF allocation is based on the shortfall that banks have on their priority sector lending. Over the last two-three years, allocation has been based on the shortfall in the weaker section lending which has to be 10% of the domestic portfolio. As a result, I understand, in the last two to three years, most of the shortfall has been allocated to the private sector banks. That is why you see the increase in our investment in RIDF and other such funds.

Amit Premchandani: Yes I got your point. But from a margin perspective, how much would be the dilution because of investment in these bonds?

Rakesh Jha: It would be about 20 bps, since the effective yield on these would be about 5% or slightly below.

Amit Premchandani: Going forward, do you expect these allocation to come down? Or because of MFI related issues, could these allocations actually go up?

Rakesh Jha: The allocations are also a function of what other banks achieve in terms of meeting weaker section lending. So it's very difficult to say whether the allocation will be lower or higher. We are obviously working to improve our weaker section lending towards meeting the targets. As far as the MFI issue is concerned, this would have a uniform impact on all the banks, especially in the private sector, and to that extent would not impact us more relative to others.

Amit Premchandani: Okay. Further, on your MFI exposure, do you see any improvement on the ground after the Malegam Committee Report or is it status quo?

Rakesh Jha Broadly, I would say staus quo as far as Andhra Pradesh is concerned. Rest of India, there is no issue which is there as of now.

N. S. Kannan And Malegam Committee Report is just out. RBI has to look at the implementation of those provisions, so we will have to wait and see how it really develops. But my sense is that RBI's dispensation to banks allowing them to restructure gives us the time to work out. At the same time, it gives time for MFIs to reset their aspirations and readjust.

Amit Premchandani: So you don't expect any slippages on this account next quarter because they could be restructured?

N. S. Kannan: We are not expecting any slippages. Since our last conversation, we have brought down the exposure from ₹ 24.00 bn to about ₹ 18.00 bn. We continue to monitor the situation very closely. And now things have gotten a little better because we do have time at our disposal to work out.

Amit Premchandani: And on the employee cost front, there was a 21% increase in employee cost, quarter-on-quarter. Understand that some part of it was because of bonus provision. Should we expect the run-rate on operating expenses to

be at ₹ 7.00 bn or would you say that there are some one-offs in this quarter and that the run-rate could be lower?

N. S. Kannan: Yeah we should expect it around this level.

Amit Premchandani: Okay thanks. That's it from my side.

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

Saikiran: Sir, wanted to understand the movement of NPLs in terms of slippages. Correct me if I am wrong, I heard it as ₹ 6.00 bn in the earlier part of the call, is it right?

Rakesh Jha: ₹ 6.00 bn represents incremental loans that we restructured during the quarter.

Saikiran: And what would be the slippages during the current quarter?

Rakesh Jha: As we have given, the net addition to gross NPAs was very marginal and we have not done any write-offs in the current quarter.

Saikiran: On the deposit growth front, there has been a de-growth during the current quarter. Also the domestic credit-deposit ratio has moved up to 75%. In this context, how do you perceive the margins for the next quarter? You did suggest sometime before that there could be pressure in the fourth quarter. What would be your outlook for say, the next couple of quarters?

Rakesh Jha: The cost of funds for banks has indeed been going up, more so from the month of December. To that extent, the cost of funding for the third quarter does not fully reflect the increased cost seen w.e.f December. So, as Kannan mentioned, we could see some margin pressure going forward in the next couple of quarters.

Saikiran: Okay. And would this be compensated by any improvement in margins on the international side such that the overall margins are not impacted?

Rakesh Jha: On the international side, there would be some improvement which will be there over the next four to six quarters, but that will be a very gradual

improvement on an overall basis. So the overall margin for the Bank would be under some pressure in the near term.

Saikiran: That's it from my side. Thank you very much.

Moderator: Thank you. Our next question is from the line of Abhishek Kothari from Way2Wealth. Please go ahead.

Abhishek Kothari: Sir, could you please give me the breakup of investment book in terms of HTM and AFS along with duration?

Rakesh Jha: The duration for our government securities portfolio is just about three years and this is mostly in the HTM book. The duration for the AFS book will be about one year.

Abhishek Kothari: And what is the breakup between HTM and AFS?

Rakesh Jha: Of the G-Sec portfolio, the AFS is about 20%.

Abhishek Kothari: 20%, okay. And Sir, how much has been the NPA from your restructured accounts so far?

Rakesh Jha: Of the corporate loans that we have restructured, it is a very insignificant number

Abhishek Kothari: Okay, thank you sir.

Moderator: Thank you. The next question is from the line of Suresh Ganpathy from Macquarie. Please go ahead.

Suresh Ganpathy: Hi. Just two quick questions. Of the provisions of ₹ 4.60 bn that you have done during the quarter, how much would be the standard asset provisioning done on teaser loans?

N. S. Kannan: No. We are currently carrying excess standard asset provisioning on our balance sheet, as per RBI provisions. For us, the teaser loan portfolio is around ₹ 50.00 bn. The additional provision on that is really very little in the overall scheme of things, so we didn't have to take any additional P&L charge on this account. The excess standard asset provisioning that we are holding, of course, comes down to that extent.

Suresh Ganpathy: That's fine. So how much is the excess standard asset provisioning that you are carrying now?

Rakesh Jha: It will be about ₹ 4.00 bn or slightly more than that.

Suresh Ganpathy: Okay fine. And just one more thing. Would your domestic and international business margins continue to be at 3% and 0.8% respectively, similar to the previous quarter?

N. S. Kannan: Yes. Broadly 3.0% and 85 basis points respectively.

Suresh Ganpathy: It's just a bit higher, okay. I just wanted to know the reason why margins have not expanded because if you just compare with most of the other banks, they all have reported expansion in margins. Currently, you have a relatively higher CASA ratio. Plus you have done lending rate hikes, and considering that loans reprice immediately, we actually would have thought margins could show some improvement. But it has remained flat on a quarter-on-quarter basis. What would be the explanantion for this? Is it that the quantum of lending rate hikes done by ICICI Bank was much lower than others because you wanted to garner credit growth? How exactly should we read the flat margins?

Rakesh Jha: I think from our point of view, we have indeed increased our lending rates in line with what other banks have done. That is how we have been able to maintain our margins at the current level. I do not think there is any specific reason for the margins not going up in the current quarter for us, except that some of our asset portfolio does get repriced with some lag. If you look at the portfolio, part of it is fixed rate and for the part that is linked to PLR, actually resets only at the end of one year. The difference is that these are not anytime-resets, but the reset only happens at the end of one year from the time that previous reset happened. For this reason, in our case, the loan portfolio takes longer to reprice compared to say, other banks.

Suresh Ganpathy: Okay, fine. The other thing is on loan growth. Where exactly is your guidance for the end of the year – 18% or 20%?

Rakesh Jha: 18%.

Suresh Ganpathy: 18%? Because this quarter itself, you have grown by 6%, and even if you were to continue to grow at this rate in the next quarter, which is anyways a good quarter from the point of view of credit growth, the loan growth for the year is going to be much above 20% and not just 18%. The way we are seeing it, the trends have been improving. So, just wanted to get a clarity on your pipeline for fourth quarter. How does it look for you - is it very strong, much better than the previous quarters?

Rakesh Jha: The pipeline, as you know, has continued to be pretty strong on the corporate sanctions. The key is how much of the disbursements actually happen. But overall, we are looking at the growth being in the region of 18% or so. This is also because, in the coming quarter some of the short term loans that we did in the early part of the year, when liquidity was higher, would be coming up for repayment. So, overall, 18%, I think is the number that we would go by, though we could indeed end up a bit higher on that.

Suresh Ganpathy: Okay, fine. And just final question, what is the tier one ratio including your nine months profit?

Rakesh Jha: The number of 13.72% Tier I that we report is including the nine months profit, because in our case, nine months numbers are audited numbers.

Suresh Ganpathy: Okay, fine, thanks so much, Rakesh.

Moderator: Thank you. Our next question is from the line of Manish Karwa from Kotak. Please go ahead.

Manish Karwa: Hi. I just wanted the proportion of wholesale deposits that we have.

Rakesh Jha: About 40% of the total deposits.

Manish Karwa: Of the total deposits or the term deposits?

Rakesh Jha: Total deposits.

Manish Karwa: And roughly, would it be fair to assume a one-year duration for these deposits?

Rakesh Jha: Yeah, one year.

Manish Karwa: Ok. And also just wanted to understand, over the last three months, what kind of lending rate hikes would have been effected in some of the larger product portfolios – say, housing or corporate portfolio?

Rakesh Jha: On the housing side, I think the entire market basically has moved away from the dual rate loans which were there. And the incremental rate is now 9.50% or 9.75% depending on the size of the loan. The dual rate loans used to have first year rate of 8.25% - 8.50%. With these not there any more, the first year rate for housing loans have indeed increased. On the corporate side, overall, we have increased both our base rate and our PLR. Incremental lending in this segment would be at rates higher by about 100 basis points or so.

Manish Karwa: So you would have raised your lending rates by about 100 basis points on the corporate side? And that should be similar for mortgages also, right?

Rakesh Jha: Mortgages, yeah. But the rate increase in mortgages will be, in effect applicable only for the next 18 months. Because even in a dual rate loan, the rate after 18 months would have been 9.50%.

Manish Karwa: Right. And for existing borrowers who have taken mortgages and are part of your current outstanding, would the rates applicable for them also have increased by 100 basis points?

Rakesh Jha: In Q3-2011, we increased rates by 50 basis points and another 25 basis points in January 2011 for existing mortgage borrowers.

Manish Karwa: Okay. And most of this increase would be applicable from January or December?

Rakesh Jha: Actually, only the last increase that we have done would be applicable from 1st of January. Otherwise, the rest of the increases are already effected in the portfolio.

Manish Karwa: Okay. And roughly can you just help me understand, of your corporate advances, what proportion can reprice immediately and what can probably reprice with a lag?

Rakesh Jha: I have for the overall portfolio. And within that, for the coprorate segment, I guess about 50%, or slightly more would be fixed rate loans which are typically shorter maturity loans which are there.

Manish Karwa: Okay. And when you say short, it would be what? 6 months.

Rakesh Jha: It would be less than a year is what I would say.

Manish Karwa: Just to clarify, you said, 50% of the corporate loan?

Rakesh Jha: This would be all corporate including for example, the lending that we do on, say the agriculture side, which would typically be less than one year.

Manish Karwa: OK, and the remaining part of the portfolio, would that re-price immediately as and when you change your base rate or PLR?

Rakesh Jha: On the balance, the re-pricing happens as and when the reset date falls due. It does not change immediately when the PLR changes.

Manish Karwa: And the reset date could be anywhere between the next three months or one year, is that how it works?

Rakesh Jha: Yes.

Manish Karwa: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Brics Securities. Please go ahead.

Nilanjan Karfa: Thanks for taking my call. A couple of questions. The first is, both the deposits and the CASA are sequentially down. On the other side, on the asset side, both the inter bank balances and cash with RBI are also down 10% or so. Is there anything that we should read into this – a kind of reversal of both the assets and liability?

Rakesh Jha: On the current account side, a part of the capital market float, which had happened during the previous quarter and we have talked about that in the previous quarter end also, has come down. On the asset side, some of the deployment that we would have done in liquid assets also would have come down. Otherwise nothing more than that.

Nilanjan Karfa: Okay, the second is on fee income. Can you split your fee income into say, from balance sheet item and from off-balance sheet items?

Rakesh Jha: Basically, the break-up that we give is for retail fees and wholesale fees.

Nilanjan Karfa: Retail, I understand, your third-party distribution would have been impacted this quarter?

Rakesh Jha: For us, retail, including remittance business would be about 50% and the balance 50% would be wholesale.

Nilanjan Karfa: Continuing on the fee question, I was wondering, do you see that the opportunity is getting crowded in terms of competition both on the corporate and the retail side?

Rakesh Jha: The corporate side, the only fee which has got impacted in the last year or so is the syndication fees. Otherwise, fee revenues are still doing well. On the retail side, because of reduced business that we are doing on the credit card side, the credit card fees has come down on a year-on-year basis. And the third-party distribution, that again is something which is not growing as well as it was say last year.

Nilanjan Karfa: Are you going to lower your guidance on fee income from the way you had tied it to asset growth?

Rakesh Jha: No. We would be targeting to grow it at least at the pace of asset growth going forward as well.

Nilanjan Karfa: Okay. Third is on the funding side. Do you get a general sense of some pressure on funding the loan growth in the system? Is this what is getting reflected in the deposit rates?

Rakesh Jha: On a funding cost basis, yes, the wholesale costs have indeed gone up as you are aware. And I think, this will continue in the next two or three months as well.

Nilanjan Karfa: No. Let me rephrase that question. Would you say that the environment is conducive to pass on 50 basis points hike in next quarter, or say 100 basis points hike over next three quarters? Do you think that is possible?

Rakesh Jha: On the lending side, yes, it should be possible. Of course, at some stage there would be an impact on the credit demand because of these increases. But I think, that if you talk about 50 basis points kind of an increase, there is definitely scope for banks to do that. In fact, that kind of a hike would happen pretty soon, based on the cost of funding that the banks have seen.

Nilanjan Karfa: Okay, so you do not see any pressure from the borrower side essentially?

Rakesh Jha: No. Going forward, you would see some project finance disbursements as well going forward. And that is not a very rate sensitive segment. So somewhat we will have the ability to pass on.

Nilanjan Karfa: Okay. One question on the regulatory pressure that your UK and Canada subsidiaries have been facing. Are you seeing any changes being visible right now?

N S Kannan: There is no regulatory pressure as such. Given what has happened since 2008, there is an expectation that banks incorporated there and raising local deposits do a lot more local lending whereas clearly our business model was built around tapping those liquidity pools to do cross border lending and support Indian companies in their global expansion. For us, that is the credit and the risk that we understand. So given the expectation of doing a lot more of local lending, we are not seeing growth in those subsidiaries as a conscious strategy. There is no other pressure in that.

Nilanjan Karfa: Okay, no, because your assets are lower in both the UK and Canada subsidiaries?

N S Kannan: You would note that there is also a shift from investments into the loan book in the UK subsidiary. Also, as we have been saying that given the expectation that the bank does a lot more local lending in those markets to support those economies, we have been moderating the growth in these subsidiaries.

Nilanjan Karfa: Okay, okay and a couple of data questions, what is your expense ratio on the life insurance for Q3-2011, Sir?

Rakesh Jha: It is 8.9% for the nine months period.

Nilanjan Karfa: Can you split it for Q3-2011?

Rakesh Jha: We can give you that number offline.

Nilanjan Karfa: Okay. One last question, you talked about loan repricing. Can you broadly split your loan portfolio into categories say, reprices in three months, six months and 12 months instead of percentage?

Rakesh Jha: We do not have exact numbers available with us right now.

Nilanjan Karfa: In terms of duration then, on the assets and liabilities, what would be the average duration?

Rakesh Jha: The average duration will be slightly above one year. Though this will not exactly answer your question on repricing.

Nilanjan Karfa: Okay, great, thanks.

Moderator: Thank you. Our next question is from the line of Sandeep Nanda from Bharti AXA. Please go ahead.

Sandeep Nanda: Hi. I wanted to know how much of the NII in this quarter is from Bank of Rajasthan?

Rakesh Jha: That will not be available on a separate basis because it is essentially one entity now.

Sandeep Nanda: Yeah, but roughly…?

Rakesh Jha: We have not disclosed that. Also, it will not be possible to maintain that number separately because the systems are getting integrated.

Sandeep Nanda: Okay, thanks.

Moderator: Thank you. Our next question is from the line of Ashish Sharma from Enam AMC. Please go ahead.

Ashish Sharma: Hi. Congratulations on good set of numbers. Question is on the provisioning number. Now the numbers have come down sharply for the nine months. What would be your guidance going forward on credit cost for the Bank?

Rakesh Jha: We talked about this earlier that the normalized credit cost we believe should be about 100 basis points based on the portfolio we are writing. That is the number that we should be able to sustain on a through-the-cycle basis. So, of course, it will mean that at some points of time it will be lower than that and sometimes it will be higher.

Ashish Sharma: 100 basis point for 2012 or for 2011?

Rakesh Jha: No. I am talking over a longer period of time and not for a particular year.

Ashish Sharma: Okay. And we mentioned about the costs being higher because of numbers for Bank of Rajasthan. Can we have a specific number as to what was the cost associated with the Bank of Rajasthan this quarter?

Rakesh Jha: Again, we would not want to get into separate numbers for the Bank of Rajasthan per se every quarter. But if you look at their run rate in the past it would have been about ₹ 1.00 bn or so per quarter.

Ashish Sharma: Okay. We talked about NIM being sustained. Want to understand are we facing pressure from both sides – that is yield and costs? Is it that the yields are not keeping pace or is it just a cost of funds pressure we are witnessing? I mean, what sort of yield do we have for Q3-2011 vis-à-vis Q2-2011?

Rakesh Jha: For the current quarter, of course, the margins were at the same level as the previous quarter. Going forward we expect that the funding cost in the short-term could be higher without the corresponding increase on the asset side.

Ashish Sharma: Okay. Thanks a lot and all the best for the next quarter, Sir.

Rakesh Jha: Thank you.

Moderator: Thank you. Our next question is from the line of Shrikanth Akula from Spark Capital. Please go ahead.

Shrikanth Akula: Good evening sir. Congratulations for good set of numbers. Just wanted to get some clarity on the balance sheet side. Your balance sheet has grown from ₹ 3.90 trillion by about ₹ 30.00 bn. But we see around ₹ 120.00 bn of increment in advances and some drop in other retail. Can you please

explain to us broadly, what is the drop in the other assets which have come down from ₹ 199.00 bn to ₹ 163.00 bn? Also I see that the balances with RBI have come down?

Rakesh Jha: At September 30th, some of the assets that we had in the form of liquidity, excess liquidity, did indeed get deployed during the quarter. So that is why you see a decline in the cash balances, balance in the bank and SLR.

N S Kannan: The SLR requirement also came down by 1%.

Shrikanth Akula: Okay, and the dip in other assets, what would be the nature of these?

Rakesh Jha: That would actually be more of last day transactions which are there in terms of, say, if you do a sale, it shows up as a receivable in the books, so I think that is the only reason for the change in that number.

Shrikanth Akula: Okay, one more question in terms of the interest earned on investments side in the P&L. The interest earned on investments have gone up roughly by 11% and your investments have gone down by around ₹ 30.00 bn. Can you please explain what kind of yields you have experienced in this book and if I calculate roughly, it looks like you had a 50 bps increase in yield on investment, can you please explain that?

Rakesh Jha: You are talking about which period to which period? Sorry, I missed that.

Shrikanth Akula: From Q2-2011 to Q3-2011?

Rakesh Jha: Sequentially, the yield on the overall investments would have gone up by about 20 basis points or so. For the quarter it was about 6.6%.

Shrikanth Akula: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead

Hiren Dasani: Thanks, Rakesh. Just on the margin side I am little perplexed - are you looking at margin pressure only for the next couple of quarters or do you think that margins may not improve from hereon over the medium to long-term as well?

Rakesh Jha: First, over the medium to long term, we definitely would target higher margin from the current levels. It is just that from December we have seen a very sharp increase in the incremental deposit cost. The full impact of this we expect to see over six months. Especially given the view that over the next few months too, the liquidity is expected to remain tight and both the retail and fixed deposit rates are expected to be at relatively high levels. While, maybe on the corporate side, a lot of this could indeed get passed on, but something like say mortgages, the rates there are still relatively lower, vis-à-vis the incremental funding cost. That is why, in the near-term, that is, in the next quarter or two, we believe that the funding cost could increase more than the increase in yields we could expect on the asset side. Otherwise, as I mentioned earlier, on the overseas branches itself, we would expect the margins which are currently at about 85 basis points, to go up closer to 1.25% in a steady state. That is where we used to be prior to 2008. Similarly, on the domestic side, we expect, that as our deposit base keeps getting more and more of retail deposits and as we work towards increasing the share of average CASA deposits as a percentage of the total domestic funding, the margins on the domestic side also should improve.

Hiren Dasani: Broadly speaking, I mean you had 2.4% kind of NIM as far back as probably March 2008 also. But at that time your CASA ratio was obviously not as high as what they are currently. And the other thing is that on the mortgages I thought most of it was floating rate, right? You also said that the fixed rate loans or dual rate loans are hardly ₹ 30.00 bn on the mortgages side. So where is this disconnect coming in terms of loan yield not going up?

Rakesh Jha: On the margin itself, if you look at the last maybe 18 months or two years, there has been a sharp increase in the RIDF investments, which was not there or used to be a much smaller proportion of total assets, two and a half or three years back when the margins were at 2.4%. This itself has an impact of close to 20 or 25 basis points negative, at current cost of funding. And on mortgages the only thing I was referring to was that, on an incremental basis the rates are still at this level. While you are right that the existing portfolio on the mortgages side reprices as frequently as we change our base rate, on an incremental basis, the loans are still at that rate. So while on an overall yield from the mortgage portfolio per se, is not

a worry, yield on incremental portfolio is still low compared to current funding costs.

Hiren Dasani: And on your investment book also, if I understand correctly, large portion of that would be floating?

Rakesh Jha: No. But if you add floating rate G-sec plus treasury bills that would be a decent proportion of total investments, which should gradually re-price upwards.

Hiren Dasani: Okay, so I mean would it be fair to assume that for the full year next fiscal there should be a margin improvement compared to where it would be in Q4-2011 or that would be too aggressive a call to take?

Rakesh Jha: It is difficult to give an estimate, right now, especially given how the deposit rates have been moving in the last couple of months. So for a prognosis for the next full year we do see some near-term pressure and let us see how the deposit rates go in the next two or three months.

Hiren Dasani: Okay and what would be the effective tax rate for the next fiscal?

Rakesh Jha: The tax rate for a normalized year should be in the region of 26% to 27%. This year we got about 2.5% kind of a benefit because of the transaction of the merger of Bank of Rajasthan.

Hiren Dasani: This year, it would be 2.5% to 3% lower than the…?

Rakesh Jha: 23.5% is where we are at nine months and we would end up around that level for the full year.

Hiren Dasani: Okay, great, thank you.

Moderator: Thank you. Our next question is from the line of Praful Kumar from Principal Mutual Fund. Please go ahead

Praful Kumar: Hi, Sir, thanks for taking my question. I just want to get some more clarity on your margins. What kind of increase in cost of deposits are you factoring in the next two quarters given the current portfolio?

Rakesh Jha: We do not have any exact cost of deposit numbers that we would want to disclose on a go-forward basis. We expect the cost of deposit to go up definitely because the incremental costs are much higher than the average.

Praful Kumar: Sure. And secondly, on the lending side, given the portfolio today, any sense on what percent of the portfolio will be re-priced as you increase your PLR or base rate today? Even a rough number would do – just to get some sense on your re-pricing, how soon it can happen?

Rakesh Jha: Of our total loans, for example, roughly about 10% or so would be linked to the base rate. This includes all business we have done after July 1st. Then a lot of the home loans that we did in the last six months are also linked to base rate, but since these are dual rate loans with fixed rates upto March 2012, any repricing on that will happen only from April 1, 2012. And then of the total loans, about 40% or so would be linked to the PLR. There, as I said, most of that will get reset as and when the reset date falls due.

Praful Kumar: All right. And finally what is the number you are looking at for loan growth for FY12?

Rakesh Jha: FY2012, we have said that it could be around 20%.

Praful Kumar: Okay, 20% you think is doable?

Rakesh Jha: Yes.

Praful Kumar: All right, thank you.

Rakesh Jha: Thank you.

Moderator: Thank you. Our next question is from the line of Khashyap Zaveri from Emkay Global. Please go ahead

Khashyap Zaveri: Hi, congratulations on great set of numbers. Just wanted to understand what is the excess liquidity still available on the book, now that advances have gone up by roughly ₹ 125.00 bn for the quarter?

N S Kannan: We do not have a specific excess liquidity number. For December 31, 2010 I would not say that we had any significant excess liquidity, though I would say we had comfortable liquidity levels.

Khashyap Zaveri: Sure, sir, thank you. That is it from my side.

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

Jatinder Agarwal: Hi, just two questions, one in terms of resistance to rising lending rates. Could you break it up more in terms of specific segments, which is corporate loans or which include infrastructure, then separately segment wise which is mortgages, commercial vehicles and cars, where do you think resistance would start building in?

Rakesh Jha: Resistance, you mean, demand becoming lower in these segments?

Jatinder Agarwal: Yes.

Rakesh Jha: As I said about 50-75 basis points increase from the current level is something which should not impact demand as much, but if lending rates go up more than that it would start impacting. In mortgages, for example, if the rates go above 10.0% - 10.5%, we have seen in the past that the growth slows down. Though it is very difficult to say, I would think that if rates go up 1% from here, there could be some slowdown in demand across segments.

Jatinder Agarwal: Okay, but in terms of infrastructure, would you say that their ability to take further rate increase would be better?

Rakesh Jha: It should relatively be better. But I think if lending rates go up more than 1% it could impact in terms of the level of demand.

Jatinder Agarwal: Okay and generally in terms of the environment in terms of lending, not really related to rates on the corporate side, but on the softer sides of lending - Could you give a sense as to how debt covenants in terms of how competition is behaving and are you sensing some concerns there?

Rakesh Jha: Nothing particularly adverse that we would have seen in the current quarter in the market. It will be a similar trend as to what we have seen in the past. So I would not really worry on debt covenants being diluted by banks too much in the current scenario.

Jatinder Agarwal: That is useful. Thanks a lot.

Rakesh Jha: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. N. S. Kannan for closing comments

N. S. Kannan: Thank you all for listening to our quarterly call. I am there and all my team members are there in case if you have any further questions which we will clarify offline. Thank you and good night.

Moderator: Thank you. On behalf of ICICI Bank Limited that concludes this conference call. Thanks for joining us and you may now disconnect your lines. Thank you.