ICICI Bank Limited
Q1-2011 Earnings Conference Call, July 31, 2010

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ICICI Bank has announced the amalgamation of Bank of Rajasthan with ICICI Bank, subject to necessary approvals. There can be no assurance that these approvals will be obtained or of the time involved therein. The proposed amalgamation would be governed by the provisions of Section 44A of the Banking Regulation Act, 1949 and is subject to approval of Reserve Bank of India. Reserve Bank of India may modify the scheme approved by the shareholders. There can be no assurance that terms of the scheme will not have an adverse impact on ICICI Bank. The proposed amalgamation and any future acquisitions or mergers may involve a number of risks, including deterioration of asset quality, diversion of our management's attention required to integrate the acquired business and the failure to retain key acquired personnel and clients, leverage synergies or rationalise operations, or develop the skills required for new businesses and markets, or unknown and known liabilities, some or all of which could have an adverse effect on our business.

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Moderator: Ladies and gentlemen. Good evening and welcome to the ICICI Bank Q1-2011 earnings conference call. Joining us on the call today are Mr. N. S. Kannan, Executive Director & 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 and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by entering "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kannan. Thank you and over to you, Sir.

N. S. Kannan: Good evening to all of you. Welcome to the conference call on financial results of ICICI Bank for the quarter ended June 30, 2010. I would like to make the opening remarks in five parts. Part I, on the macroeconomic environment, Part II on the strategy for the year, Part III on the performance in the first quarter with key elements of our strategy and the overall financial performance, Part IV on the consolidated results of the Bank and Part V on the outlook for the rest of the year.

First, on the economic environment. The Indian economy continues to exhibit strong growth, which is becoming more and more broad-based. Apart from the strong 8.6% GDP growth recorded in the last quarter of fiscal 2009, recent economic indicators also point to strong investment momentum, healthy pick-up in external trade and recovery in private consumption. The progress of the monsoons so far has raised expectations of better agricultural output this year compared to last year. This should be a positive for agricultural output as well as the broader rural economy, which should in turn add further momentum to manufacturing performance. Keeping in view these trends, the RBI in its recent monetary policy revised its GDP growth estimate for fiscal 2011 upwards to 8.5%.

However, as we all know, inflation has been a cause of worry to the policy-makers. WPI inflation has continued at double-digit levels since February 2010. Initially the high inflation was being driven by food and supply-side constraints. More recently, the rise in prices has been more broad-based across food, fuel and manufactured products and is seen to be driven by demand-side factors too. Inflation is expected to moderate as the impact of the monsoon and the easing of the base effect come into play in the coming months, but would continue to be relatively high, with RBI's year-end estimate being 6%. Our estimate is 7-8%.

In order to anchor inflationary expectations and normalise policy rates to a level consistent with the growth in the economy, the Reserve Bank of India has been progressively tightening monetary policy. In April 2010, the Reserve Bank increased the repo and reverse repo rates and CRR by 25 bps each. This month, the Reserve Bank has increased the repo rate by 50 bps and reverse repo rate by 75 bps, thereby also narrowing the LAF corridor. This process is expected to continue.

The systemic liquidity changed sharply during the quarter, moving from surplus to deficit, largely due to the outflow on account of spectrum auction (estimated at Rs. 1.3 trillion by RBI), as well as the quarterly advance tax payment. While progressively tightening monetary policy, RBI has been taking steps to ensure that liquidity is managed smoothly without any systemic shock. Liquidity is expected to remain marginally tight in the weeks ahead.

Coming to the banking sector: credit growth has accelerated with non-food credit growing at 21.7% year-on-year at July 16, 2010. This was partly driven by funding towards the 3G and BWA spectrum payments. The lending market continued to be extremely competitive, and aggressive pricing schemes have continued despite the tighter monetary policy and liquidity conditions I described earlier. Deposit growth has moderated and the year-on-year growth of total deposits was 14.6% at July 16, 2010. Against this backdrop, wholesale deposit rates started firming up during the quarter and some banks have also announced retail deposit rate increases. Going forward, we expect deposit rates to increase and lending rates to align with cost of funding with a lag.

In Part II, let me now briefly describe our strategy for the year. As you would recall, for FY2010 we had set out a strategy of 4Cs: CASA growth, Cost control, Credit quality improvement and Capital Conservation – to position the balance sheet for the next phase of growth. By the end of FY2010, we had made substantial progress on all of these parameters. For FY2011, our strategy is to sustain our achievement on these parameters by: continuing to grow CASA and maintain a CASA ratio higher than the system average which is about 35% and, sustain the reduced level of NPL accretion and significantly reduce provisions. So the 4C strategy really continues. On the back of this improved balance sheet profile we are seeking to leverage the strong capital base for growth and in this context we have mapped out the elements of our growth strategy. Accordingly, during the year even as we sustain momentum on the 4C's we would drive growth in earning assets both in corporate and retail in chosen segments of business.

I will now take you through our performance this quarter in the context of the above strategy. The key highlights are: The Bank continued to improve its CASA ratio from 41.7% at March 31, 2010 to 42.1% at June 30, 2010. CASA deposits at June 30, 2010 were Rs. 846.21 billion. The growth in CASA was driven by a Rs. 33.28 billion increase in savings deposits, even as current account deposits declined in line with systemic trends. Operating expenses declined marginally on both a sequential and year-on-year basis. The cost-to-asset ratio was maintained at 1.6%, while the cost-to-income ratio was marginally higher at 40% in Q1-2011 compared to 37% in FY2010. I am happy to report that we continued to make substantial progress on credit quality, with accretion to retail NPLs coming down to less than Rs. 2.00 billion. The net NPA ratio reduced to 1.62% and the provision coverage improved to 64.8%. We would reach the provision coverage requirement of 70% by March 2011 as permitted by RBI. Restructured loans declined to Rs. 37.37 billion from Rs. 53.13 billion at March 31, 2010. Incremental restructuring for the quarter was less than Rs. 2.00 billion. Our capital adequacy continued to be strong at 20.2%, with Tier-1 at 14.0%.

Coming to the P&L for the quarter, Profit after tax in Q1-2011 was Rs. 10.26 billion, representing a growth of 17% from Rs. 8.78 billion in Q1-2010. Net interest income was Rs. 19.91 billion in Q1-2011 compared to Rs. 19.85 billion in Q1-2010. Net interest margin improved by 10 basis points year-on-year despite the increase in cost of savings deposits. Fee income grew by 7% to Rs. 14.13 billion in Q1-2011 from Rs. 13.19 billion in Q1-2010. Treasury income was Rs. 1.04 billion in Q1-2011 compared to Rs. 7.14 billion in Q1-2010, given relatively limited opportunities in markets during this quarter. Provisions at Rs. 7.98 billion in Q1-2011 were lower compared to Rs. 13.24 billion in Q1-2010 and Rs. 9.90 billion in Q4-2010, in line with the progress we have made on asset quality over the last year.

Coming to the balance sheet, during the quarter we saw a sequential expansion in the advances as well as in customer assets (loans and loan equivalents), with the customer assets growing by about 15% on an annualized basis. We have seen sequential expansion in advances during the first quarter of this year. This is in variance to last year, when advances declined sequentially by about Rs. 200.00 billion primarily due to repayment of agri-loans. This quarter, the overall advances increased by about Rs. 30.00 billion even as retail advances declined by more than Rs. 25.00 billion as the higher incremental disbursements were more than offset by the repayments/ prepayments during the quarter. The growth was driven by increase in corporate advances by about Rs. 40.00 billion and advances at international branches by more than Rs. 30.00 billion. Half of the increase at international branches was on account of rupee depreciation.

Coming to Part IV, which is the consolidated results. Consolidated profit after tax of the Bank increased by 5% to Rs. 10.91 billion in Q1-2011 from Rs. 10.35 billion in Q1-2010. Here I want to explain that while the loss after tax of ICICI Prudential Life Insurance Company (ICICI Life) for Q1-2011 was Rs. 1.16 billion, this is before accounting for a surplus of Rs. 2.35 billion in the non-participating policyholders' funds, which would be transferred at the end of the financial year based on the appointed actuary's recommendation. If this surplus were transferred in Q1-2011, the profit after tax of ICICI Life for the quarter would have been Rs. 1.19 billion and the Bank's consolidated profit after tax for Q1-2011 would have been Rs. 12.64 billion. ICICI Life maintained its position as the largest private sector life insurer based on retail new business weighted received premium during Q1-2011. ICICI Life's new business annualised premium equivalent (APE) increased by 90%. ICICI Life's unaudited New Business Profit (NBP) increased by 91% to Rs. 2.25 billion.

Finally, in Part V, I would like to talk about the outlook for the rest of the year. Coming to our expectations for the rest of the yea, we will continue to focus on execution of the strategy that I described earlier. We expect to accelerate the sequential expansion in the asset book. While the corporate side is showing growth momentum, we have also undertaken several initiatives in the retail business including moving towards enhanced branch and customer-centricity. As these take effect, the retail portfolio is also targeted to grow in the coming quarters. We expect to maintain margins and cost ratios, and grow fee income broadly in line with the loan book. Provisions are expected to continue to moderate from the current levels.

I also wanted to update you on the proposed merger of Bank of Rajasthan. As you know we have received the shareholder approval from shareholders of both banks and have applied to RBI for its approval. The matter is currently with RBI. With this we would be happy to take your questions.

Moderator: Thank you, very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Manish Karwa of Kotak Securities. Please go ahead.

Manish Karwa: I just wanted an update on the fee income front. The trend has actually been very weak this quarter. Any particular reason or it is general market condition?

N. S. Kannan: The fee income during the quarter grew by 7% on a year-on-year basis. The growth was driven by robust growth of nearly 20% on the corporate side partly offset by lower retail fees during the quarter. The retail fee was impacted on account of lower fees from the credit card segment where we have been doing lower incremental issuances. However, with retail assets growth picking up and momentum in corporate business continuing, we expect fee growth to be in line with overall asset growth for the year.

Manish Karwa: And secondly on the operating expenses what is the outlook? Because while salaries have gone up this quarter, your other operating expenses continue to decline despite you opening a lot of branches over the last few quarters.

N. S. Kannan: Actually two line items where we have seen an increase. One is on the employee expenses as you mentioned and the other is on the branch related expenses. We will continue rationalisation of costs and in our view, we should be able to comfortably maintain cost income ratio of 40% going forward and cost to asset ratio between 1.6% and 1.7%.

Manish Karwa: Right and just wanted one data point. What are your consolidated loans for this quarter?

N. S. Kannan: It is about Rs. 2.2 trillion.

Manish Karwa: And what was that in March?

N. S. Kannan: It was about Rs. 2.15 trillion

Manish Karwa: Okay. Thanks.

Moderator: Thank you, Mr. Karwa. Our next question is from the line of Suresh from Macquarie Securities. Please go ahead.

Suresh: Hi this is Suresh here. Just two quick questions, one thing is on the corporate lending front. You have about Rs. 40.00 billion of disbursements done this quarter. Does it include telecom lending?

N. S. Kannan: It was across industries, part of it was telecom.

Suresh: But you would have funded the 3G and BWA auctions?

N. S. Kannan: In a small way.

Suresh: Ok. Also, can you just share your SLR investments this particular quarter? Basically your deposit growth is actually down and so in that sense, wanted to understand if are you funding your growth by winding down the SLR portfolio?

Rakesh Jha: The SLR portfolio is about Rs. 700.00 billion at June 30, 2010. This is marginally higher than what we had at March 31, 2010. However, at March 31, 2010, we had a much higher cash balance, which has come down.

Suresh: Thank you, so much Rakesh.

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

Mahrukh Adajania: I had a couple of questions. Firstly in terms of the funding. In the past, your growth was largely being funded by bulk deposits. Recently, while your CASA growth has been impressive, with growth picking up, the share of bulk deposits should increase. Wanted to understand whether you have any internal benchmarks defined on the extent of reliance on bulk deposits and some colour on your outlook on that front.

N. S. Kannan: The intention is to continue to increase CASA, and especially savings deposits going forward and align growth accordingly. Most of the new branches we set up last year, were towards the end of the year. As these branches come into production, the savings account deposits would grow in coming quarters. And of course, the Bank of Rajasthan merger (whenever it happens) should also help us. Internally, we have also been focusing on the granularity of deposits in terms of getting retail deposits. So these are the strategies that would continue. As I mentioned earlier, we will be working to maintain the CASA at higher than 35%-37% to support growth. So to answer your question, yes, going forward while we grow, we will continue to ensure that our reliance on wholesale deposits does not increase beyond this proportion.

Mahrukh Adajania: What is your amount of savings deposits in the quarter, at the end of June 2010?

N. S. Kannan: It went up by about Rs. 33.00 billion and was about Rs. 565.00 billion at June 30, 2010.

Mahrukh Adajania: Okay. And the other question was, have your restructured loans gone down because there was a huge repayment or something?

N.S. Kannan: No. During the quarter, there were upgrades, because of which the restructured loans are lower. Here, I would also like to mention that incremental restructuring during the quarter was less than Rs. 2.00 billion. Also, based on payment performance of existing restructured accounts, we are expecting further upgrades.

Mahrukh Adajania: And what about your slippage during the quarter. You mentioned the number for retail NPL accretion at about Rs. 2.00 billion, right?

N.S. Kannan: It was less than Rs. 2.00 billion.

Mahrukh Adajania: Okay so what is the total slippage for the quarter?

N.S. Kannan: The gross NPAs increased by about Rs. 3.50 billion during the quarter.

Mahrukh Adajania: Okay, and could you quantify the amount of telecom funding during the quarter?

N.S. Kannan: We have not given out a specific number, but as I said we were there in only a small way in 3G/BWA financing.

Mahrukh Adajania: Okay. Coming back to your NIMs again, can you tell us, where do you expect the NIMs to settle, especially in the current rising interest rate environment and assuming that the current liquidity situation persists for say two more quarters. In the past, because of higher proportion of bulk deposits, your NIMs would have come under pressure in this situation. With an improved CASA mix, what is your expectation now?

N.S. Kannan: The way we look at NIM is that yes, to some extent we have been able to pass on a part of the increase in the cost of savings deposits, but the pressure on NIM on account of this higher cost will be there. But as we said earlier, for the year as a whole, I think we should be able to maintain the NIM as of last year, as we expect that with rise in deposit costs, it is only a matter of time before base rates also go up.

Mahrukh Adajania: Just in terms of Bank of Rajasthan, there would be some provisioning shortfall on employee expenses, gratuity etc., once the merger is done. Would that be taken through a knock in the reserves or any thoughts on that?

N.S. Kannan: That is the current intention. However, we will have to wait and see when it happens depending on the approved Scheme. .

Moderator: Our next question is from the line of Ankit Ladhani of Anvil Shares and Stock Broking. Please go ahead.

Ankit Ladhani: Basically I joined in a little late, so if you can just help me out with the restructured assets numbers?

N.S. Kannan: The restructured loans at the end of the quarter was Rs. 37.37 billion; it was down from Rs. 53.13 billion at the end of March 31, 2010.

Ankit Ladhani: What will be the total slippages from restructured loans?

N.S. Kannan: It is negligible.

Ankit Ladhani: Can you just tell me the break up of the gross NPA for the quarter in terms of the slippages, upgradation and recovery?

Rakesh Jha: The net addition to Gross NPA is about Rs. 3.50 billion. There were no write-off of NPAs during the quarter.

N.S. Kannan: If you had missed it, we ended the quarter with a net NPA ratio of 1.62% and the provision cover improved to 64.8%.

Moderator: Our next question is from the line of Nilesh Parekh of Edelweiss. Please go ahead.

Nilesh Parekh: Has there been any utilization of cash collateral on the securitization pool this time?

Rakesh Jha: There would have been some utilisation and this would have reflected by way of impact on NII for the quarter. This was pretty much be in line with what was there in the last year on an annualized basis.

Nilesh Parekh: So, would it be around Rs. 1.50 billion?

Rakesh Jha: For the quarter, the impact was slightly below Rs. 1.00 billion.

Nilesh Parekh: Have we booked any losses on the CLN, CDO portfolios?

Rakesh Jha: Nothing material.

Nilesh Parekh: In the international book?

Rakesh Jha: Both in the domestic book and in the international book.

Nilesh Parekh: Sorry, I missed the figure on the retail disbursements during the quarter?

Rakesh Jha: The retail disbursements for the quarter were about Rs. 55.00 billion.

Nilesh Parekh: Some colour on the break up?

Rakesh Jha: About Rs. 35.00 billion was towards housing finance business and rest of it would essentially be towards vehicle financing. Unsecured retail was nearly zero.

Nilesh Parekh: What about disbursement in housing finance company?

Rakesh Jha: Almost all the disbursements were done from the parent bank, so the number for home finance company would be very small.

Nilesh Parekh: Looking at the retail slippages at less than Rs. 2.00 billion, and assuming that the incremental slippages in subsequent quarters would remain at these levels, I would believe that you could reach the 70% norm on provision coverage if you continue to maintain the provisioning at around Rs. 8.00 billion, as in the current quarter. Or is it that you would align the provisioning to lower NPA accretion and target to meet the provision cover norm only by March 31, 2011?

Rakesh Jha: We would reach the 70% cover earlier than March 2011 based on the current additions that we have seen.

N.S. Kannan: Even in the current quarter, we ended up with a better coverage ratio than what we had anticipated.

Nilesh Parekh: So, that is my question. Would you lower the provisions so as to reach 70% coverage only by March 2011, or are you okay with achieving the provision coverage ratio earlier too?

Rakesh Jha: We have been providing as per our provisioning policy and we shall continue to do that and neither slow down or accelerate the provisioning on NPLs. Even using our existing provisioning policy, based on the current levels of NPA accretion, we expect to reach the coverage norm earlier than March 2011.

Moderator: Our next question is from the line of Rajeev Varma of DSP Merrill Lynch. Please go ahead.

Rajeev Varma: Just wanted to understand what is your growth strategy. Mr. Kannan mentioned that we have outlined a new strategy mapping out the growth parameters, so just wanted to know if you could expand more on that?

Rakesh Jha: As Kannan mentioned it is essentially growth in terms of the earnings assets. With our focus on four Cs, the process of balance sheet consolidation is pretty much done and the agenda going forward would be to leverage the capital base to grow the earning assets. In this regard, we are already seeing opportunities on the corporate side in a significant manner and in the next few quarters the retail loan book should also start increasing on a sequential basis. As the balance sheet grows, the focus would be in terms of leveraging the capital and increasing the ROE through that. On the ROA, the provisioning coming down should anyways provide the upside.

Rajeev Varma: Just one more thing. What was the retail repayment in this quarter and do you see that trending down over the next six months?

Rakesh Jha: Retail repayments during the quarter were around Rs. 70.00-75.00 billion. We expect the number to go down through the rest of the quarters during the year.

Moderator: Our next question is from the line of Manish Ostwal of Darashaw & Company. Please go ahead.

Manish Ostwal: Out of the total restructured book of Rs. 37.37 billion, how much loans turned to NPA over the last one year?

Rakesh Jha: The slippage from our restructured portfolio to NPL has been negligible.

Manish Ostwal: Second question is on total deposits growth. How much of additional term deposits have you raised and at what rates?

Rakesh Jha: The outstanding term deposits at June 30, 2010 were lower than March 31, 2010. The cost of term deposit was about 6.2% for the quarter.

Manish Ostwal: What is the duration of our deposits?

Rakesh Jha: Term deposits would typically be about one year or slightly more than that.

Manish Ostwal: Your fee income grew 7% on a year-on-year basis, could you tell me what are the underlying drivers of fee income because fee income is not matching with our asset growth?

N.S. Kannan: Underlying drivers are the corporate fee income, which grew by around 20%, as corporate assets grew during the quarter. The retail fee income however declined, largely because of decline in credit card fees as we have not been issuing any significant amount of credit cards over the last few quarters.

Manish Ostwal: For the current year, what is our expectation on asset growth, because you said fee income will grow in line with asset growth?

N.S. Kannan: We maintain our projection of 15-16% growth in the overall loan book for the year. Within this, the domestic loan growth should be higher at nearly 20% and the international book should either be flat or grow at single digit growth rates.

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

Jatinder Agarwal: Can I have some data on pending sanctions? Basically trying to understand if that is what gives you confidence on the loan book growth for the rest of the year.

N.S. Kannan: We have not given out specific numbers, but we do have a robust sanction pipeline and as these materialize into disbursements going forward, we are quite confident of achieving the 15-16% overall loan growth.

Jatinder Agarwal: Some sense in terms of which sectors are these coming from?

N.S. Kannan: Largely project finance sanctions. Within that, it is mostly power projects and other infrastructure projects. And as Rakesh mentioned, we have been seeing a decline in retail repayments quarter on quarter. Sequentially retail disbursements have been increasing and at some point in time soon, the disbursements would exceed the repayments and pre-payments on the existing book. As a whole, the retail book should also start growing shortly.

Jatinder Agarwal: In terms of these sanctions on the domestic corporate loan book, are they fixed-rate sanctions or are the rates decided at the time of disbursal?

N.S. Kannan: Firstly, the sanctions would be linked to the base rate and secondly, the rates on the loans are reset at periodic frequency. We do not take interest rate views on disbursements towards long-term loans. There is of course a normal liquidity risk attached, but we try to mitigate the interest rate risk by having loans with periodic resets.

Jatinder Agarwal: What I am a bit concerned about is the ability to improve margins as you go forward because if some of these loans actually get funded from term deposits could we still expect to see margin improvement going forward?

N.S. Kannan: We would again go back to saying that our own sense is that the margins will be stable. At this point in time, that is what we can say, especially given some of the pricing pressures in the retail asset segment. We anticipate that lending rates will rise with a lag to deposit rate increases and that net interest margins should at best be stable during the year and that we are quite confident of maintaining it.

Moderator: Our next question is from the line of Anand Laddha of HDFC Mutual Fund. Please go ahead.

Anand Laddha: Hi, good set of numbers. Just a couple of clarifications. Can I know what has been our average CASA for this quarter?

N.S. Kannan: It will be about 37%.

Anand Laddha: Also wanted to know what could be our current employee strength and whether there are any plans for addition to the employee base during the year?

Rakesh Jha: Around 43,000 employees at June 30, 2010. This includes employees who have now been made full time employees. Based on the number reported for March 31, 2010, the comparable number has gone up by about 2,000 employees for the quarter.

Anand Laddha: Sorry, are you saying year-on-year growth and 2,000 are addition?

Rakesh Jha: Just to clarify, at March 31, 2010, the total number of full-time employees reported was about 35,000. To this, we have added another 2,000 employees during the quarter. Further, there are other employees who have been made full time employees during the quarter. Accordingly, the total number of employees at June 30, 2010 has increased to 43,000.

Anand Laddha: You mentioned that the corporate fee income has gone up by 20% and retail has seen some decline. Can I get the break-up of fees in terms of proportion of corporate fees and retail fees?

N.S. Kannan: Retail would be around 40% and corporate and international put together would be about 60%.

Anand Laddha: International includes the remittance part of the business?

N.S. Kannan: This is the branch-based lending business and remittances put together.

Anand Laddha: Sir, what could be the decline in the retail pie this time?

N.S. Kannan: In terms of assets?

Anand Laddha: No. In terms of retail fee income. I mean you just mentioned that corporate fees have grown by 20%. What would have been the decline in retail fee?

N.S. Kannan: Retail fees declined by around 10%. Within that, credit card fees would be a much sharper decline.

Moderator: Our next question is from the line of Anand Vasudevan of Franklin Templeton. Please go ahead.

A. Vasudevan: Can you help me with some data points. I want to know what is your number of savings accounts customers at the end of Q1-2011 and what was this in Q4-2010 and Q3-2010. ?

Rakesh Jha: We do not currently have the numbers. We will give it to you separately.

A. Vasudevan: Secondly on NIMs can you give us the break up between the domestic and international NIMs for the last three quarters?

Rakesh Jha: The domestic NIM currently will be at about 2.8%. The overseas NIM has improved a bit, and it is at about 80 basis points currently for this quarter.

A. Vasudevan: What was it for Q4-2010 and Q3-2010?

Rakesh Jha: Overseas NIM would have been at about 60 basis points and domestic NIM would have been at about 3% for Q4-2010.

Moderator: Our next question is from the line of Alpesh Mehta of Motilal Oswal Securities Limited. Please go ahead.

Alpesh Mehta: Hi, good set of numbers. Just wanted to know what would be the gross slippages during the quarter?

Rakesh Jha: About Rs. 3.50 billion is the addition to NPA.

Alpesh Mehta: It is possible to get the gross slippages?

Rakesh Jha: This is the net increase in NPAs, which is the number that we report.

Alpesh Mehta: Secondly about this upgradation in the restructured category are we allowed to classify these accounts from out of the restructured category?

N. S. Kannan: RBI has not mandated disclosure on the total outstanding book of restructured assets. They do require us to disclose the volume of assets restructured during the year. However, as an additional disclosure, we have been reporting the outstanding restructured assets for the last several years. As per our policy, based on one year of satisfactory payment performance as per restructured terms, we stop including the asset as part of the outstanding restructured assets disclosure. It is on this basis that the upgradation has happened this quarter also. RBI also differentiates between restructured assets with good one-year performance track record and other restructured assets by way of differential risk weights being applied in the capital adequacy computation.

Alpesh Mehta: But if I have to get the number of the gross restructured book or excluding this 12 months of performance what would that be?

N.S. Kannan: At the beginning of the quarter, the net outstanding restructured assets were about Rs. 53.00 billion, which is now around Rs. 37.30 billion at June 30, 2010.

Alpesh Mehta: What would be our exposure to the aviation sector?

N.S. Kannan: It will be less than 1% of the total exposure. Also, in some specific instances, our exposure is backed by collateral security not directly linked to the aviation industry.

Moderator: Our next question is from the line of Tabassum Inamdar of Goldman Sachs. Please go ahead.

Tabassum Inamdar: Two questions, first on insurance, can you give us some guidance in terms of where you expect the margins to settle after the new IRDA regulations?

N.S. Kannan: It is a bit early to exactly determine, but the way we are looking at it is that the reduction in yield guidelines and the surrender guidelines would have a significant impact on the margins of the business. The life insurance companies would have to work on specific plans aimed at cutting the distributor commission sharply by about 30-40% as also reduce the operating expenses by about 30 to 40%. We believe over a period of time these numbers are achievable because firstly, all the players are impacted, so I do not think we will lose any competitive position but given our commission structure and given our brand we will be probably stronger in a competitive context. Secondly if you really compare it from the point of view of the distributor, there is no significant disadvantage in distributing insurance products vis-à-vis mutual funds, where commissions are already cut significantly. So we think that the cut in the organizational expenses as well as cut in commissions are something, which is achievable over a period of time. Probably the margins will drop by a couple of percentage points or so, but we think that we have a model to get there and that is way we are looking at it currently.

Tabassum Inamdar: On the Bank, just one detail if possible. Other income seems to have gone up year-on-year significantly, is that because of dividend or is it because of gains booked from venture capital?

N.S. Kannan: Largely it is because of dividend from the subsidiaries.

Tabassum Inamdar: Now that you are merging Bank of Rajasthan what are the new additional branches you might set up on your own this year in FY2011. Will you be opening new branches in ICICI Bank itself?

N.S. Kannan: Currently we are working on a plan for branch expansion and the locations for which we would make an application. However, for the immediate future, the addition would be by way of Bank of Rajasthan's 460 odd branches only and we will evaluate as we go along. We would, of course, if not this year, in the medium term definitely, be looking at expanding branches organically as well.

Tabassum Inamdar: When do you expect to get the approval from RBI and what would be the effective date and month for the merger?

N.S. Kannan: We really do not know Tabassum. We understand that things are progressing well and hopefully during the quarter we should get RBI's approval as we are currently not seeing any hindrances to the process.

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

Ganesh Jairaman: We have seen over the last month that advances on the systemic side has been falling but demand for CP or NCD has been growing. Do you see that impacting your NIMs as a result?

N.S. Kannan: These are all only tactical short-term instruments; we do not see NIMs getting impacted on account of that.

Ganesh Jairaman: Could you just give me details of how much CDs or bulk deposits in your liability portfolio?

Rakesh Jha: Of the total deposits, 60% is retail deposits rest of it will be corporate and other deposits.

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

Saikiran Pulavarthi: On the international funding side, what has helped us to improve our margins on a sequential basis by around 20 basis points? Because, my back-of-the-envelope calculation suggests that there has been no significant decline in deposit / borrowing costs?

N.S. Kannan: The international book at the branches is largely funded by borrowings. The improvement in NIM has happened largely on account of repricing of assets.

Saikiran Pulavarthi: Am I reading it right? I am seeing a 16% sequential decline on the deposits on the overseas front, our domestic credit deposit ratio is around 71%, which has not moved and then if I reverse calculate, it appears that there is an 18% decline in overseas deposits on sequential basis?

Rakesh Jha: Our overseas branches, as we have said earlier, are mainly funded out of wholesale borrowings, mainly bond issuances, and the deposit base is quite low. They have always funded not more than 15% to 20% of the total balance sheet and these are typically term deposits, which are relatively high-cost. But it is a very small base that we are talking about. This is unlike our overseas subsidiaries in UK and Canada where the balance sheet is largely deposit funded.

Saikiran Pulavarthi: Okay. Going forward do you think these margins can be sustained at these levels at least on the international front?

N.S. Kannan: Yes, the hope is to improve it.

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

Amit Ganatra: Has there been any sale to ARCIL this quarter?

Rakesh Jha: No.

Amit Ganatra: What is the total amount of outstanding sale to ARCIL?

Rakesh Jha: About Rs. 32.00 billion in the investment book.

Amit Ganatra: On a quarter-on-quarter basis if you try to calculate your interest income divided by the average advances in the last two quarter, the yield on advances seems to be coming down every quarter. Even for this quarter, it appears to have come down. To some extent it is explained by the fact that the retail book is going down and it is substituted by corporate but incrementally you said that the retail book would also grow. So does that mean that yield on advances should stabilize at current levels?

Rakesh Jha: It should stabilize at the current level but hopefully as the funding cost rise, the lending rates will also increase. So it is difficult to say when the crossover will happen.

Amit Ganatra: Right. That will depend on the base rate going up and the systemic rates going up.

Rakesh Jha: But otherwise you are right that the rates should stabilise.

Amit Ganatra: This is the kind of NIM that we have seen for ICICI Bank for quite some time. Going forward, in a rising rate environment, would you think that NIMs can actually improve now on a longer term basis because your funding profile has increased and the proportion of bilk deposits has declined - not necessarily for this year, but say for next year?

Rakesh Jha: As we have said on the domestic side we are close to about 2.8% margin currently, which also got impacted by the increase in cost of savings deposits and the full impact of the agri-lending we did in the March quarter. So going forward the target would clearly be to expand margins from the current level. As overseas margin expand and the overall contribution of the domestic book increases, we should see margin expansion in the medium term. Of course, in the near term we will have to see how soon the lending rates respond to the increase in deposit rates.

N.S. Kannan: Structurally we do have about Rs. 35.00 billion NPL and about Rs. 32.00 billion investments in security receipts and to that extent, the NIIS are somewhat depressed. Over a period of time, as we work out the NPLs and the security receipts, our interest income from interest earning assets should increase.

Amit Ganatra: On a consolidated basis this quarter the ROA is 1.13%. In the past you used to guide of like doubling of ROE in the next three to four years. Does that guidance also include the fact that the ROA will also expand?

N.S. Kannan: Yes, it includes the guidance of ROA also expanding but again coming back to the consolidated ROE for this quarter as I mentioned earlier the life insurance company loss is at about Rs.1.10 billion, which would have been a profit of about Rs. 1.20 billion if we had taken into account the non-par surplus, which is about Rs. 2.35 billion. This surplus would get added to the shareholders' funds once confirmed by the actuary. So, if you really take that into account then the consolidated ROE will be better.

Amit Ganatra: When you talk about doubling of ROE you are mentioning about the bank ROE or the consolidated ROE?

Rakesh Jha: We have talked about the number of 14% to 15% in terms of the ROE target.

Amit Ganatra: Is it the consolidated ROE or is it the bank's ROE?

N.S. Kannan: It depends on the timeframe you are talking about. If its FY2012, we should achieve the target on a consolidated basis. On a standalone basis, we could take a bit more time.

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

Hiren Dasani: On the fee income side would it be fair to assume that the impact of the lower commission charges on life insurance policy sales has not yet flown through the P&L?

N.S. Kannan: The change in guidelines on insurance is going to come in to effect only from September 1, 2010.

Hiren Dasani: Okay. So to that extent the retail fee will still have some downside from here on?

N.S. Kannan: Yes. But as you know for us that is not as large a number compared to our total fee income as it is with some other banks.

Hiren Dasani: On the housing finance company one sees a Q-O-Q decline in the loan book, is it because of normal repayments?

N.S. Kannan: Yes, and also the fact that incrementally we have been booking the assets in the parent bank.

Hiren Dasani: Okay, but are we still following the strategy of booking priority sector eligible loans in the bank and others in the HFC?

N.S. Kannan: We are largely booking it in the bank only, given our capital adequacy and the enhanced deposit franchise.

Hiren Dasani: Break-up of the auto loans earlier used to be kind of 10%, 15%, and 1% in auto, CV, and two-wheelers respectively. Would it be similar in this quarter as well?

Rakesh Jha: Yes, it would be similar. Two–wheeler, of course, has become a negligible proportion now. Otherwise auto is about 10% and commercial vehicles about 15%.

Hiren Dasani: On the employee expense side, in Q4-2010, we were told that the increase is because of the fact that bonus provisions were made for the entire year in Q4-2010. However, on a sequential basis, we have not seen a decline in employee expenses. Would this be because of some pro-rata provision for bonus for the current year, or is it because of higher head count?

N.S. Kannan: It is because of three reasons. One is because of the salary increases, which was in the range of 10-12%. The second impact is due to increase in retirement provisions, because of increase in salaries, which I mentioned above, as also the decline in bond rates. Third, we have indeed made some provision for performance-linked pay for the current year. All these three have contributed to increase in employee expenses in the quarter.

Hiren Dasani: Is the increase in gratuity from Rs. 3 lakh to Rs. 10 lakh maximum applicable for us as well?

N.S. Kannan: It is not applicable for us because we did not have any such limits.

Moderator: Thank you. The next question is from the line of Nischint Chawathe of Kotak. Please go ahead.

Nischint Chawathe: This pertains to the insurance business. In light of the revised business model for life insurance business, do you expect any additional capital requirement for the business?

N.S. Kannan: We have reviewed it and at this stage the company will not require any additional capital.

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

Kashyap Zaveri: Congratulations on a good set of numbers. Can we have the break-up in terms of current and savings account?

Rakesh Jha: Savings is about Rs. 565.00 billion and current is about Rs. 281.00 billion.

Kashyap Zaveri: Looking at the breakup of your international book, there seems to be good growth in both UK and Canada in the 'loans to customers' category. Is this because of some onetime business we have done or is there a change of strategy over there?

N.S. Kannan: In UK, the strategy continues to be to do incrementally India-linked business in the form of loans. We have reduced the investment book to expand the loan book. Canada is flat.

Kashyap Zaveri: In your presentation, the loans to customers have actually gone up by about at least 10% in terms of proportion. During Q1-2011, the proportion of loans to customers in Canada subsidiary was about 68%.

Rakesh Jha: Balance sheet size has come down also.

N.S. Kannan: The balance sheet size has come down from about CAD 5.5 billion to about CAD 5.2 billion. So it is more like a proportion changing rather than any significant increase in absolute terms. Other than same trade assets.

Kashyap Zaveri: In terms of 3G loans, I understand, a lot of them have taken short term loans and intend to probably roll it over with term loans or ECBs later on. This could mean opportunities for loan growth on your international front too. Just wanted to clarify, that the 15% growth that you have mentioned, is that the consolidated growth or is it the growth in the domestic book?

N.S. Kannan: 15% growth is for ICICI Bank Limited, which is the domestic bank and international branches. Overseas branches should grow at low single digits whereas domestic loan book should grow at about 20%. So our own estimate based on overall domestic plus the overseas in the parent book is about 15% to 16%.

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

Nilanjan Karfa: On the life insurance, you said you do not need capital. But what about the IRDA regulation that all new policies need to have a risk component. Have you analyzed the kind of new policies that you will sell and what would be the likely impact?

N.S. Kannan: One of our strategies will be to enhance the sale of non-ULIP products and second, on the pension side I think the pension policies will get less popular. But we do not envisage any problem in executing the 4.5% guaranteed return as that can be done through a fixed income strategy. So it is more like tweaking the policy at the margin in terms of size of policies but more importantly the customer's choice could undergo a change quite drastically. Just to summarize, at the end of the day while there could be a reduction in margin by say a couple of percentage points, we believe that the growth of the industry would not get impacted.

Moderator: Due to time constraints that was the last question. I now hand the conference over to the management for closing comments.

N.S. Kannan: Thank you for joining us on Saturday evening on this call. Rakesh, Anindya and Ranju are available to answer any questions you may have subsequent to the call. Thank you and have a good weekend.

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