

ICICI Bank Limited
Q1-FY2009 Earnings Conference Call
July 26, 2008

Moderator: Good evening ladies and gentlemen. I am Manjula, the moderator for this conference. Welcome to the ICICI Bank Limited Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Rakesh Jha. Thank you and over to you sir.

Rakesh Jha: Good afternoon to all of you. I will do a brief summary on our results today and then we will take questions. As you would have received the presentation, you would have seen that for the quarter our core operating profit was up by about 74% driven mainly by the sustained growth in the net interest income which was up 40% compared to the first quarter last year and strong growth in fee income of about 37% compared to the first quarter of last year. Operating expenses were contained at a growth of only 10% over last year despite the opening of new branches. As you are aware, in the current quarter, we saw a lot of volatility in the markets, both on the equity side and the fixed income side. Because of that, we had a negative impact on our treasury profits resulting in a loss for the quarter of about Rs. 5.94 billion. The loss was mainly on the SLR portfolio and also on the equity portfolio. After considering the treasury loss, profit before tax was down by about 5% compared to the first quarter of last year and profit after tax was down by about 6% compared to the first quarter of last year. The consolidated advances saw a growth of about 20% on a year-on-year basis. In terms of deposits, we actually saw a decline in deposits because of the decline in term deposits. With respect to savings deposits, we saw a year-on-year growth of 35% and our CASA ratio increased as a result to about 27.6% compared to about 22% at the end of June last year and about 26% at the end of March 2008. The net interest margin was about 2.4% which was the same level as the previous quarter, and was up by about 40-50 basis points compared to the June quarter of last year. The cost to average assets, including DMA expenses was about 1.9%. The cost to income and the fee to income ratio appears relatively high because of the income being negatively impacted on the treasury side. The total capital adequacy was about 13.4% with Tier I of over 11%. Gross NPAs as of June 30, 2008 were about Rs. 92.82 billion with net NPAs of about Rs. 41 billion. The net NPA ratio was 1.74%, an increase from March 31, 2008 where it was about 1.5%. The increase was mainly because the balance sheet did not really grow on the advances side between March

and June. In the life insurance business, we continued to see strong growth with a 45% growth in the retail weighted received premium. The new business profit also increased by about 45% as the margin remained at a level of about 19% for the company. The overall market share increased to about 13.8% in the period April to May 2008. On general insurance, the market share increased to about 13.3% and there was a 21% growth in gross written premium which increased to Rs. 10.77 billion in the quarter. We can now take questions.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First in line, we have Ms. Mahrukh from UBS. Please go ahead with your questions.

Mahrukh Adajania: Hi Rakesh. Just a couple of questions- firstly your operating expenses are lower than expectations. I thought most of your branch expenses or branch setup cost was supposed to come in this quarter?

Rakesh Jha: Yes. New branches have been set up and we have incurred that cost in the first quarter. The opening of new branches was spread across the quarter and the recruitment of employees for these new branches had largely happened by the March quarter. So, if you look at the expenses, one benefit, so to say, is the lower retail lending business that we have seen in the last couple of quarters. In addition, we have taken various initiatives to optimize cost like reducing advertisements or promotion expenses and other such expenses. So, if you actually look at the line item-wise break-up of expenses, we have been able to cut down expenses across almost all the line items.

Mahrukh Adajania: So, is it fair to expect that through the year you would see a 10% to 11% increase in operating expenses year on year?

Rakesh Jha: It would be difficult to give a forward-looking statement. In terms of expenses, it should be fair to assume that the growth in expenses will continue to be, at a much lower level than you have seen in the last, few years.

Mahrukh Adajania: Okay. My other question was on the cost of deposits. What is the cost of deposits and the yield on advances for the quarter?

Rakesh Jha: The cost of deposits was about 7.2% for the quarter and the yield on advances was about 10.5%.

Mahrukh Adajania: And the total yield on assets?

Rakesh Jha: The total yield on assets is about 9%.

Mahrukh Adajania: Okay. In terms of NPLs, what has really contributed to the growth? Are there some client derivative positions that have also turned into NPLs or is this just the normal loans?

Rakesh Jha: No, in terms of NPL addition, the largest contributor continues to be the retail business, which in any case is over 58% of our lending portfolio. Then, we also had additions on the rural portfolio and to some extent, there would have been some additions on account of a few cases where the derivative receivable would have been outstanding for more than 90 days. But that would not really be a large contributor.

Mahrukh Adajania: Okay. Thanks so much.

Moderator: Thank you very much ma'am. Kindly note, participants are requested to ask two questions at the initial round due to time restrictions. Next in line, we have Mr. Vijay from BNP Paribas. Please go ahead with your questions.

Vijay: Hi Rakesh, good afternoon.

Rakesh Jha: Hi.

Vijay: Your book value increased by about Rs. 9.00 billion in this quarter over the last quarter whereas the profit is about Rs. 7.28 billion. Can you run me through where the additional Rs. 2.00 billion is coming from?

Rakesh Jha: That would have been the foreign currency translation reserve that would have moved between March 31, 2008 and June 30, 2008.

Vijay: Okay.

Moderator: Thank you very much sir. Next in line, we have Mr. Harikrishnan from Ambit Capital. Please go ahead with your questions.

Harikrishnan: Hi Rakesh. There are two questions that I have. One is on the CASA. Could you explain how the CASA has moved, especially the current account deposits.

Rakesh Jha: On the current accounts, there was a decline in the outstanding current account deposits from March 2008 to June 2008. Typically, this is the scenario on current account deposits in the first quarter because in March, current account deposits are at a higher level.

Harikrishnan: Could we have the number for this quarter and for the June quarter of last year as well?

Rakesh Jha: At the end of this June current account deposits are at Rs. 212 billion. Last June, the number was Rs. 195 billion.

Harikrishnan: Okay.

Rakesh Jha: The savings deposit at the end of this year's June quarter are about Rs. 434 billion. Last year at June end this was at Rs. 321 billion.

Harikrishnan: Okay. The second question which is also a concern area for us is the fact that your credit deposit ratio is fairly stretched at this point of time. Even for the March quarter it was fairly stretched. We thought it really couldn't go any further, but it has increased even further to about 96%. We really are not left with much room for comfort there, are we?

Rakesh Jha: If you look at the last three to six months, we have always been maintaining sufficient amount of liquidity on the balance sheet. So, there is actually no stretch in terms of any of the numbers. It is just the way you would be looking at the credit deposit ratio that may be the issue because clearly we have, certain amount of our funding which coming from longer-term borrowing. So, if you look at our overseas balance sheet, that indeed is largely funded through borrowings. In terms of deposits, the growth has pretty much been in line with the domestic advances growth.

Harikrishnan: Okay. But deposits had grown at a Y-o-Y of only about 2% whereas there was a 13% growth in the advances?

Rakesh Jha: Because in the interim we had raised capital of about Rs. 200.00 billion. So, that would have reduced our deposit requirements. In our deposit portfolio, we continue to focus on the CASA deposits. So, to whatever extent possible, we are reducing our reliance on wholesale deposits and that is the reason you would have seen a reduction in time deposits.

Harikrishnan: The main concern is that NIMs have been protected this quarter. But is it sustainable because at this point of time you would have to raise more bulk deposit?

Rakesh Jha: From the margin perspective clearly there are a number of variables which are in force today. For example, in the current quarter, there has been a hit of the additional 50 basis points hike in CRR. In addition, the liquidity in the market currently is tight with banks borrowing close to about Rs. 400.00 to 500.00 billion from RBI on a daily basis.

Harikrishnan: Okay.

Rakesh Jha: So, there will be some pressure on wholesale deposits. So, while it is difficult to comment on margins, going forward, we would be trying our best to maintain margins by focusing on CASA deposits. But if interest rates in the system go up and liquidity remains tight, then it will obviously impact our deposit cost and margins.

Harikrishnan: Okay, thanks.

Moderator: Thank you very much sir. Next in line, we have Kashyap from Emkay Global Finance. Please go ahead with your questions.

Kashyap: Good afternoon Rakesh. My question is on advances growth. On a consolidated basis, we have seen a growth of about 20%. Could you break it up in terms of what the subsidiaries have done during the quarter?

Rakesh Jha: Advances for UK and Canada have grown by about 85% to 90% and for the parent bank, they have grown by about 13%. ,And Housing Finance Company had an advances growth of 120% because we started booking assets there only from somewhere in second or third quarter of fiscal 2008.

Kashyap: And what is the composition of retail and international book for the parent?

Rakesh Jha: The retail book for the parent is about 57% of the total advances. And the overseas book is about 24%.

Kashyap: In the home finance business, are you booking any non-housing loans also?

Rakesh Jha: No.

Kashyap: Because I checked out the consolidated report for FY08, I found that there are some non-housing finance, non-housing loans which were reported in the annual reports your home finance business also.

Rakesh Jha: I will check on that and revert.

Kashyap: Sure. That's it from my side.

Moderator: Thank you very much sir. I request the participants to ask two questions at the initial round. Next in line, we have Mr. Amit from Lotus India AMC. Please go ahead with your questions.

Amit: Good evening Rakesh

Rakesh Jha: Hi.

Amit: Rakesh, just one question. This treasury loss of Rs. 5.94 billion, is it entirely on account of mark to market or this is the actual loss, I mean when does this get reflected?

Rakesh Jha: It includes both mark to market and realized losses.

Amit: But for accounting purpose, I would presume that the mark to market provisions fall under the overall provisions.

Rakesh Jha: No, the way we do it is if you look at the RBI format, there is a line on profits/loss and revaluation of investments, which is a part of the other income schedule which is where we report this.

Amit: So, this provisions other than tax and contingency is actually for the loan loss provisions.

Rakesh Jha: There may be some other provisions as well there, but almost all of it will be loan loss provision.

Amit: Do you have the breakup in terms of how much is mark to market?

Rakesh Jha: Mark to market and realized assets together are about Rs. 5.94 billion and approximately half of that would be mark to market loss.

Amit: Okay. Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Kshitiz from Anand Rathi Securities. Please go ahead with your questions.

Kshitiz Prasad: Hi Rakesh. Just wanted to know on investment book, what is breakup between AFS and HTM currently.

Rakesh Jha: It would vary on a regular basis, but roughly we have about, slightly below 20% of our book in the AFS category.

Kshitiz Prasad: And remaining will be HTM?

Rakesh Jha: Yes.

Kshitiz Prasad: Okay. And the other question, is it possible for you to give me a broad breakup of that gross NPLs of Rs. 92 billion?

Rakesh Jha: As on June 30th, out of that the total, retail NPLs will be about Rs. 62.76 billion.

Kshitiz Prasad: Okay. And, is it possible for you to give me the breakup of loan loss provisions and investment depreciation within the total provisions other than taxes.

Rakesh Jha: As I said, the mark to market or the investment provisions are in the treasury line item of Rs. 5.94 billion and the provision excluding tax will largely be provisioning on non-performing loans

Kshitiz Prasad: Any provision for standard assets?

Rakesh Jha: On standard assets, there is actually a reversal in the current quarter of about Rs. 0.30 billion. That is the general provision. That is because the loan book has declined.

Kshitiz Prasad: Right. Okay. So, this is provision on standard assets and, , out of the total, Rs. 5.94 billion will be investment depreciation, remaining will be for nonperforming assets?

Rakesh Jha: See, there is a treasury number of Rs. 5.94 billion which includes mark to market losses and realized losses on the investment portfolio. In addition, there is a provision number which is Rs. 7.93 billion which is largely provision for NPLs and there is a write-back of about Rs. 0.30 billion on general provision on standard assets because our loan book would have reduced during the quarter.

Kshitiz Prasad: Okay. Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Suresh Krishnamurthy from CRISIL. Please go ahead.

Suresh Krishnamurthy: Hi Rakesh.

Rakesh Jha: Hi.

Suresh Krishnamurthy: What portion of the loan book is linked to PLR?

Rakesh Jha: We have two benchmark rates, one is on the mortgage loans, the floating reference rate. And the corporate loans are linked to I-BAR, which is the PLR equivalent.

Suresh
Krishnamurthy: Okay.

Rakesh Jha: So, on the retail side, about half the portfolio is mortgages which is largely floating rate and the balance portfolio will be vehicle loans and personal loans, those are not linked to the benchmark rate. On the corporate side as 24% of the portfolio is overseas portfolio that will essentially be linked to the LIBOR, most of them are LIBOR-linked loans.

Suresh
Krishnamurthy: The second question is the profits of international banking subsidiaries.

Rakesh Jha: The profits for ICICI Bank UK was about US\$ 12 million for the quarter ended June 30, 2008 and for Canada it was about US\$ 1 million.

Suresh
Krishnamurthy: Why is there a large difference between consolidated profits and standalone profits this time?

Rakesh Jha: There was always a difference there and the other reason being that this time the loss on the life insurance side has increased compared to the last year. And ICICI general insurance, where we had a profit of about Rs. 0.45 billion last year in the first quarter, this quarter the profit is about Rs. 0.01 billion, given the significant decline in pricing. There has been a decline in the profit of the general insurance business. In addition, we have been expanding a lot on the general insurance side, so the expenses have gone up in the corresponding period.

Suresh
Krishnamurthy: Okay. Thank you.

Moderator: Thank you very much sir. I request the participants to ask two questions at the initial round and then come back for the followup questions. Next in line, we have Mr. Aditya Narayan from Citi. Please go ahead with the questions.

Aditya Narayan: Yeah, hi Rakesh. Two questions, one if you could throw any light on your outlook on asset quality between the different segments and secondly on the international book, those marked down charges that had happened in March, where does that stand, has there been any development in this quarter itself.

Rakesh Jha:

On the first one, on the asset quality, I think the trends are similar to what we have spoken about earlier on the vehicle finance portfolio, it has been pretty stable. There has been some impact on the collections which have happened over the last I would say three or four quarters. Other than that, it has been pretty stable on that portfolio. On the unsecured side, we have seen some increase on the NPLs during the last five or six quarters and that trend has continued. As we have said we stopped doing business on the small ticket personal loans in the month of November 2007 and that book is still running off. So, once that book runs off say by the end of this calendar year, one would see a lower impact in terms of provisioning on that count. Overall we continue to be quite cautious on the retail lending which I guess would be apparent from the retail loan growth that we have seen in the current quarter and may be in the last two or three quarters. We have tightened our credit screens over the last six or nine months and we think in the current environment with interest rates rising, inflation at a higher level, we would not want to aggressively grow on the retail side right now. In the other portfolio, on the rural side, there is the farm waiver, where we have seen some impact of that on the collections because there has been some confusion in terms of who all are actually eligible for the waiver and who all are not. So, there has been additions on that count. We think it will take a couple of quarters to stabilize on the rural side. In the corporate portfolio, we are not seeing any stress visible on the portfolio. On the SME side, again the trend is pretty flat. The only impact there as we have said earlier could be in a few cases where there is derivative exposure and the client may need more time to pay on those accounts. Your second question on the credit derivative book, between March 31st and June 30th, there has been hardly been any change in terms of the impact on the P&L. So, it was pretty flat. During the quarter, the spreads had contracted, so at some stage there would have been some write-back in that portfolio, but by the time the quarter ended the spreads were very much at the level at which they were in March end as there has been a lot of volatility in the US market. You would have seen all the news on the housing companies there and other events happening there. For the non-India credit derivative exposures while we believe that at the current mark-to-market value we would not expect any further losses on that portfolio as of June 30, 2008, we will continue to evaluate if we would want to exit that portfolio if the mark-to-market losses are not any higher than where we were at March 31st just given the significant volatility which is there. We are in the process of evaluating whether to continue with that portfolio for the next three or four years or exit the non-India exposure. On the underlying Indian credit

exposure, there we have no concerns and no plans to exit any of those portions.

Aditya Narayan: Right. And on the credit portfolio, have you booked any losses or is there anything in the underlying portfolio that has got downgraded or visibly where companies have had trouble and you expect them to get downgraded.

Rakesh Jha: During the June 30th quarter, there may have been some small loss that we would have realized on the portfolio. I think it was about US\$ 5 or 6 million, but as I said, going forward from 30th June, we would continuously evaluate our non-India exposure to see whether we want to live with that volatility on that portfolio in terms of mark to market because clearly sitting on June 30th, if you look at all the variables which are there in terms of the US economy, oil prices, and all the stress on the housing companies and banks in US, that is something we are continuously evaluating. So we could definitely realize further losses on the non-India credit derivative book as I said. In addition to the credit derivatives, just to complete, we have our investment portfolio in our UK and Canadian subsidiaries. Again, on a mark to market basis or on a realized basis, during the current quarter, there was not really any material impact on the P&L impact for the two entities. On the UK portfolio which is classified as available for sale, there was an incremental mark to market of about US\$ 20 million during the June 30th quarter. In terms of this entire investment portfolio, in UK and Canada, as we have said earlier we currently have no plans to wind down any of those portfolios or realize losses in any of those portfolio. The portfolio that we are evaluating from June 30th is the non-India credit derivative portfolio.

Aditya Narayan: Just to clarify, that US\$ 20 million is part of this Rs. 5.94 billion?

Rakesh Jha: No, that is in the UK subsidiary.

Aditya Narayan: Okay.

Rakesh Jha: And that is in the AFS portfolio, so that will not go into the P&L in UK, but it will be directly adjusted in the reserves.

Aditya Narayan: Okay thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Vishal Goyal from Edelweiss. Please go ahead with your questions.

Vishal Goyal: Hi Rakesh. Just an update on the venture capital and ISEC plan.

Rakesh Jha: On venture capital, we are in the process of raising a couple of funds. Currently we are in the initial stages and should be doing that over the next few months. On ISEC front, we were looking at listing of the company at some stage earlier last year. The key issue there was that we had these limits from RBI, which were restricting our investment into our subsidiaries, which subsequently RBI has clarified that we could exclude our banking subsidiaries from that limit and with that we are pretty comfortable with our ability to fund all our subsidiaries over the next few quarters. So in the current market environment, we would not be looking at a listing right now, but that is something that we would eventually do.

Vishal Goyal: But the rollout plans are on track?

Rakesh Jha: Yes.

Vishal Goyal: Okay. And venture capital has an AUM of US\$ 2.5 billion?

Rakesh Jha: Yes.

Vishal Goyal: And any fund in pipeline, fund raising in pipeline.

Rakesh Jha: As I said, there are a couple of funds which is certainly in the pipeline.

Vishal Goyal: Sure, thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Anand from HDFC Mutual Funds. Please go ahead with your questions.

Anand: Hello

Rakesh Jha: Yeah, hi Anand.

Anand: Hi Rakesh. Just wanted to have the breakup of consolidated advances in absolute terms and also on the breakup of the treasury loss, I mean how much was equity portfolio mark-to-market loss and how much was treasury.

Rakesh Jha: On the consolidated advances, as on June 30th, the UK loan book was about Rs. 104 billion, Canada portfolio was about Rs. 120 billion, Housing Finance Company was about close to Rs. 90 billion.

Anand: Okay fine. On the breakup of mark-to-market loss of Rs. 5.94 billion?

Rakesh Jha: On the treasury, as I said, of the total loss about half of that loss would be mark-to-market losses, and of the total losses I would say maybe about one-third or slightly more than that would be on account of SLR and other fixed income securities.

Anand: Okay. What could be on equity books?

Rakesh Jha: The balance would be on the equity book and other.

Anand: What is the size of your book, equity book size?

Rakesh Jha: Equity book size varies on a daily basis. It is very difficult to give any number on that. That will not be really material if I give any number.

Anand: Okay, thanks.

Moderator: Thank you very much sir. I repeat, participants are requested to ask two questions at the initial round. Next in line, we have Shrikant from Lehman Brothers. Please go ahead with your question.

Shrikant: I had a question on provisions. Could you give me what is the gross additions to NPLs for this quarter? Net of any recoveries that you might have done?

Shrikant: The reason I am asking this question is you have provided around Rs. 8.00 billion in the income statement as provisions, mandated provisions, and your net interest has gone up by around Rs. 5.00 billion. I thought the gross NPL should be around Rs. 12.00 to 13.00 billion, whereas the number if I do it, it is coming to around Rs. 9.00 billion, just wanted to reconcile?

Rakesh Jha: I was just coming to that. So, if you look at the portfolio, there was an increase in gross NPLs around Rs. 83.5 billion to Rs. 92.8 billion, and during the quarter, we had made some sale of NPLs to ARCIL, so if you take into account those NPLs, the gross number would have been higher by about Rs. 3 billion.

Shrikant: The net also would have been higher, the net NPLs?

Rakesh Jha: Actually, it becomes very difficult to actually adjust for these numbers because there is a portfolio that we sold last year also. I will just explain the issue which is there, for example last year, if we had sold portfolio to ARCIL, within that portfolio, there would have been movement into performing assets from the non-performing status, so actually the addition number if you just add the ARCIL number, sometimes does not reflect the overall picture.

Shrikant: So, sir, the worst cases, I should add back ARCIL, but there will be some write-backs so it will be there somewhere between the number that you put out and that the number after adjusting Rs. 3 billion, right? It will be somewhere in between.

Rakesh Jha: Yes. Only for the incremental number that you are looking at between March and June, that would be a good enough number.

Shrikant: Okay, and can we have a breakup of this addition, gross addition and which segments it has come in from broadly.

Rakesh Jha: We have not disclosed segment-wise addition to NPAs.

Shrikant: If I put the question like this, in terms of, is it in-line with what you have seen in the last 2 to 3 quarters where almost half of retail NPL addition has come through non-collateralized.

Rakesh Jha: It would be broadly in line, but there would be some changes.

Shrikant: Okay, the second question on the margins, it is in response to what you were saying on margins some time back. Your benchmark rate has gone up by 75 bps this quarter, right? The impact of that only from next quarter?

Rakesh Jha: Yes.

Shrikant: So, given that, should we not actually expect margins to improve from current levels?

Rakesh Jha: No, because the increase on the lending side was quite commensurate with the increase on the funding side. So, we had increased our deposit rates by between 50 to 100 basis points, and also the CRR hike effective from the current quarter, the last 50 basis points hike, that will also impact the margins. So I would say that the increase in lending rate was commensurate with the funding cost increase.

Shrikant: But then lending would get replaced immediately, while deposits will take time to replace.

Rakesh Jha: The deposits do get replaced, and as we know on the wholesale side, the liquidity is currently tight in the market, and the wholesale deposit rates have increased.

Shrikant: Okay, and the last question was what was the mortgage disbursements for this quarter, including housing finance company?

Rakesh Jha: About Rs. 44 billion.

Shrikant: Okay, thanks Rakesh.

Moderator: Thank you very much sir. Next in line, we have Ms. Soumya from HSBC Securities. Please go ahead with your questions.

Ms. Soumya: Yeah, hi, my first question is on your fee income. If you could give me the broad breakup, as in the key contributors to the fee income in terms of retail and corporate banking, and secondly wanted to confirm that out of the total provisions of Rs. 7.3 billion, how much of it is provision towards the bad loans?

Rakesh Jha: As I said, if you look at the provision line, that includes provision for bad loans and for standard assets. For standard asset collection, there is a reversal of about Rs. 300 million because of the reduction in the loan portfolio, so the balance would largely be provision against non-performing loans.

Ms. Soumya: Okay.

Rakesh Jha: On the fee side, a break-up into each of the line items of the fee income is not given, but on an overall basis, we have seen a stronger growth on the corporate fee revenues, which has been the trend for the last 4 or 5 quarters. On the retail side, as the retail lending growth has slowed down, so the retail lending linked fees has grown at a much slower pace. On the balance, the growth has been much higher, as I said, on the corporate side.

Ms. Soumya: Okay, thanks.

Moderator: Thank you very much ma'am. Next in line, we have Ms. Tabassum from Kotak. Please go ahead with your questions.

Ms. Tabassum: Yeah, hi Rakesh. Most of my questions have been answered. Just one thing, the retail outstanding loan in ICICI Bank would be how much and housing and personal loans?

Rakesh Jha: In the bank, the home loans outstanding are about Rs. 656 billion and in the Housing finance company, about Rs. 90 billion.

Ms. Tabassum: Yeah. Personal loan and credit cards?

Rakesh Jha: The personal loans are about Rs. 120 billion and cards are about Rs. 85 billion.

Ms. Tabassum: Okay, and this would include the small ticket personal loans which is about Rs. 13 billion or so?

Rakesh Jha: The small-ticket personal loans are additionally about Rs. 10 billion.

Ms. Tabassum: 10, okay. Just one last one. Agriculture loan outstanding would be how much?

Rakesh Jha: It would be about Rs. 130 billion.

Ms. Tabassum: Okay, great, thank you.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Chinmay Sarathy from DSP Merrill Lynch. Please go ahead with your questions.

Chinmay Sarathy: Hi Rakesh, what kind of loan book growth and deposit growth should we build in our model for the full year now?

Rakesh Jha: I think as we have been saying for the last couple of months, the economic environment is challenging right now in terms of the increase in the interest rates that we have seen and the inflation continues to be at a higher level, so there could be further interest rate increases in the rest of the year. So, it is difficult to estimate the loan growth number right now, but clear trends that I can talk about is that on the retail lending side, if you look at this quarter growth, it has been in single digits, and that is the kind of trend that one would expect for the rest of the financial year, but it will again depend on how the interest rates, lending rates, and deposit rates change during the year. From the corporate and international side, while maybe new projects or new investments are not being announced, but the existing pipeline, does seem to get executed right now, so there we see strong enough growth opportunity on the lending side, but again, if rates increase again from the current level, that also could have some impact, so it is difficult to give a number on the loan growth. At the beginning of the year, we were talking about 18% to 20% growth. I think that number would more likely be at about 15% if I look at the current trends, but that is not a number that we are targeting, so our target would depend on how the market evolves.

Chinmay Sarathy: 15% for the standalone business, right?

Rakesh Jha: 15% to 18% for the aggregate consolidated book. But as I said, that is not really the target that we are running with. It will change depending on the market conditions.

Chinmay Sarathy: Okay, Rakesh, and this quarter, we have seen around Rs. 9.00 billion addition to the NPAs versus Rs. 11.00 billion for the previous quarter, that is the March quarter, when do we expect the NPAs to peak from here now, which quarter do you think NPAs will peak out.

Rakesh Jha: It is difficult to estimate exactly which quarter they would peak out.

Chinmay Sarathy: Because I think when we had met I think you have been telling us that the NPAs are expected to peak out in December quarter, and now, still there is no sign of the NPAs peaking out, do you expect any reduction at least in the rate at which the NPAs are increasing quarter on quarter.

Rakesh Jha: We have said December because of two reasons why we expect those numbers to stabilize and reduce is that the small-ticket personal loan book would have largely wound down by that time, and the fact that we have been growing at a slower pace over the last 12 months or so will mean that the additions will be lower, but there are a number of variables which are there in each of the product lines, so it is difficult to give an exact estimate on which quarter one would see peaking out of the numbers.

Chinmay Sarathy: Okay, thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Rajagopal from FPK capital. Please go ahead with your questions.

Rajagopal: Hi Rakesh, just two small questions. One is what is the consolidated net profit for the group?

Rakesh Jha: It is Rs. 6.17 billion.

Rajagopal: 6.17, and any significant losses in your gilt business as well?

Rakesh Jha: No, there was a marginal net profit there.

Rajagopal: Okay, fair enough. As far as this overseas expansion news is concerned, I have been reading a bit in the paper saying that ICICI Bank is thinking of probably acquiring some franchise maybe in UK or other regions in Europe. Are you seriously contemplating any such expansion or is it just media rumours?

Rakesh Jha: As we have stated after this news came out, there are acquisition opportunities in global markets which have been brought to our attention. As is the case with any organization, ICICI Bank monitors the business environment, and explores possible strategic opportunity, including evaluating any targets on an ongoing basis. As of date, clearly we have not decided on making any acquisitions and again as we have said earlier that for any acquisition to make sense for us, we will have to have a strategic fit, which in the current plan of our overseas business, would largely only be if we get access to a large stable deposit base which would be deployable into India-linked loan assets. Of course, we would look at all other issues in this regard. But as of now, there is clearly not any acquisition that we have decided on, and as I said, there is a clear strategic reason for which we will do any acquisition if any.

Rajagopal: Okay, but nothing sort of lined up at least for the next 6 months or so.

Rakesh Jha: I described it right now.

Rajagopal: Okay, just one small question Rakesh. What is the total quantum of loans which have been sold to ARCIL?

Rakesh Jha: As I said in the current quarter, if you adjust the number for about Rs. 3 billion, that would be it.

Rajagopal: And how much was sold last year, so what is the cumulative amount?

Rakesh Jha: Total outstanding securities receipts that we have in ARCIL is about Rs. 30 billion.

Rajagopal: And what has been the experience like?

Rakesh Jha: On the corporate side, it has been pretty good. The retail portfolio has been much more a recent experience, so we will have to see that going forward.

Rajagopal: Yeah, that is exactly why I am asking you because I have had reservations on the fact that you have been selling off retail NPLs to ARCIL, so that is exactly why I asked because if their experience is not going to be great, I guess....

Rakesh Jha: I am not saying that there is any bad experience there. It is too early to make any judgment on that if the sales have happened only 9 months back.

Rajagopal: Even the current quantum of loans which we have been sold, are they majority in the retail category?

Rakesh Jha: Yes

Rajagopal: Okay, fair enough, thanks.

Moderator: Thank you very much sir. I request the participants to ask two questions at the initial round and then come back for the followup question. Next in line, we have Mr. Deepak from Brics Securities. Please go ahead with your questions.

Deepak: Yeah, sir, just wanted to know the breakup of your NPAs in terms of how much is credit cards, how much is personal loans?

Rakesh Jha: As I said earlier, we have not given those break-ups.

Deepak: Okay, thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Sanjay Jain from Credit Suisse. Please go ahead with your questions.

Sanjay Jain: Just wanted to understand further on the NPLs, somebody was just asking about personal loans and credit cards. If I do a very rough calculation, I am getting about 10% NPLs on retail given the number of Rs. 62.76 billion retail NPLs, the 9% to 10% is on the unsecured portion or non-mortgage portion. Firstly, is that correct and can you explain to us what is your strategy on those NPLs. How are you dealing with them and what is the recovery rate?

Rakesh Jha: Yes. Sanjay, on the NPLs, I am just clarifying again that the gross NPLs that we report are gross of all addition to NPLs which have happened over the last several years. We have not really written off retail NPLs on the book, although, for example the retail non-mortgage loans were fully provided at the end of one year, but in terms of the gross NPL, they would continue to be in the book. So, that is the reason why the gross NPA number would be kind of overstated if you are comparing it with other banks.

Sanjay Jain: Okay, now the underlying level of NPL is, that is what we are interested in, so....

Rakesh Jha: Yeah, but that if you cumulate on a book, that numbers will obviously keep on increasing. I am just saying if you are comparing the same number with any other bank, we will have to just keep in the view that we have not written off those NPLs.

So the gross NPL will not be comparable. In terms of our strategy on the retail credit side, as we have said, we are really being cautious in terms of the incremental lending that we have been doing in the last 9 months or so, given the increase in the lending rates that have happened, and some impact on the collections environment that has happened.

Sanjay Jain: What about the NPL's themselves. How are you dealing with them and what is the recovery experience so far?

Rakesh Jha: Again, on the NPLs, we follow a normal collection process which is there for these NPLs. As I said, there has been some impact on collections on the vehicle loans because the repossession of vehicles now takes more time than what it would have taken say 24 months back, so there is clearly an impact there on the collections and the recoveries. Otherwise, in terms of our process we are following the normal process of collections on this portfolio.

Sanjay Jain: Would you give us any percentage in terms of how much is the recovery from 2-wheelers, 4-wheelers, credit cards, and unsecured personal loans.

Rakesh Jha: I don't have any recovery numbers as such to give right now.

Sanjay Jain: Okay and just to finally to clarify. The retail NPLs are Rs. 62.76 billion and your total loan loss reserves are 51.8, and you are saying that you provide 100% on retail within a year?

Rakesh Jha: Let me just clarify the provisioning again. In the non-mortgage retail business, we provide 100% at the end of one year from the loan becoming NPL.

Sanjay Jain: So, that includes auto loans and commercial vehicles and everything?

Rakesh Jha: Yeah.

Sanjay Jain: Okay, so by that and assuming that out of 51.8, there is some reserves for corporate SME lending as well. That means on the retail alone if the current NPLs remain for another six to twelve months, then the provisioning overall will have to go up by at least Rs. 20 billion?

Rakesh Jha: In any case if you look at the last couple of quarters, we have provided about Rs. 8 billion this quarter and about Rs. 9 billion plus last quarter. So, that anyway is a quarterly run rate.

Sanjay Jain: Okay and any signs of deterioration on the SME side or corporate side as yet?

Rakesh Jha: No, as I said on the corporate side, we are not seeing any signs of stress on the portfolio. Similar is the experience on the SME side, and the only exception that I said was on the SME side there would be some cases where we have derivative exposure and there would be delays in payments on that.

Sanjay Jain: Okay, thank you very much.

Moderator: Thank you very much sir. Next in line, we have Ms. Madhu from Kotak PMS. Please go ahead with your questions.

Ms. Madhu: Hi, my question is, if you could throw some light on your branch expansion plans for the rest of the quarter for this year and my second question is the in last analyst communication, you guys had indicated that the target CASA would be 35% in the next two or three years. What is your immediate short-term target, that is by the end of FY '09?

Rakesh Jha: On the branches, as we had got an approval for 475 branch licenses last year. That will take us to about 1425 branches, and thereafter we would apply to RBI and then depending on what approvals we get, we would open new branches. It is difficult to give any firm number.

Ms. Madhu: So, this 1425 should happen, this rollout should happen by when ideally?

Rakesh Jha: We are close to 1400 now, so it should happen by the end of the next quarter

Ms. Madhu: And on the CASA if you could...

Rakesh Jha: On the CASA, to give a target is difficult. If you look at the overall market, I think the CASA growth is clearly running at a much lower level currently than it used to be earlier. So, we have been able to increase our market share there, and while we continue with the medium-term targets, it is difficult to, give out any numbers for the current financial year.

Ms. Madhu: Okay, thank you.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Suresh Ganapathy from Deutsche Bank. Please go ahead with your question.

Suresh Ganapathy: Yeah, hi. Most of my questions have been answered. Just wanted your net restructured loans as of June 30, 2008?

Rakesh Jha: Approximately Rs. 47 billion.

Suresh Ganapathy: Okay. Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Arun from UTI Mutual Fund. Please go ahead with your questions?

Arun: Hi. Couple of things. One is that I want the movement of NPAs including upgradation recoveries, write-offs and provisionings, all the breakups. Secondly, interestingly your net profit is about Rs. 7.28 billion, but the differential in net worth is about Rs. 9.00 billion. What could be the reason for that differential between the net profit and the difference in the net worth between the two quarters?

Rakesh Jha: The net worth I think, we have given an answer earlier. There would be about a Rs. 2 billion movement on account of the foreign exchange translation reserve which directly impacts the network.

Arun: Okay and what would be the aggregate MTM losses on the derivatives exposure including the regular as well as defaulter clients amount as of now?

Rakesh Jha: We have not disclosed these numbers pertaining to your earlier query.

Arun: I mean because without that the analysis won't become strategic. At least, if you can give us some bit of idea especially on the NPL side and what could be the ballpark range for your derivatives, MTM losses and exposures. If you just give us a ballpark range?

Rakesh Jha: For NPL I have in the earlier questions replied to the extent possible in terms of what is the trend that we are seeing and what has been happening in the portfolio. On the forex derivatives, again, with the Indian corporates and SMEs, we had explained the position as of March 31st in terms of that some of the clients had gone legal against bank. That number has slightly increased during the quarter. So, there would be 20 to 25 clients who would have gone legal against us disputing their obligations and as is the practice, once you have receivables that get overdue beyond 90 days, we would then take it as any other NPA and the same treatment would be followed. In terms of the mark-to-market, we have not specifically disclosed any mark-to-market numbers because

that is not really a, indicator because that would include various kinds of mark-to-market positions. On the legal side, we have seen some positive legal developments recently where the transactions prima facie have been recognized to be in compliance with the laws and regulations. So, that is going on track.

Arun: Sir, another thing is, although you mentioned your NII increased by about 30% over the quarter, I mean, since the dilution happened in July last year, then the current quarter would be factoring in the impact of almost let us say Rs. 8.00 billion to giving an 8% rate of interest on the net interest income front. Besides you were expecting some impact of repricing coming in for the rates that ICICI had been offering last year. Therefore, on the face of it, 40% increase looks very impressive, but as part of the annual calculations the growth actually becomes a de-growth, would you basically throw some light on this aspect?

Rakesh Jha: I do not think it will be a de-growth if you adjust for the capital that we have raised for the investments that we would have made in our subsidiaries since that time. Of course, if you adjust for the benefit of the additional capital but do not adjust for investments that we have made in subsidiaries, then it would reflect a lower growth. But between last June and this June, you will appreciate that things have changed. CRR, has increased by more than 100 basis points in the period and there was re-pricing on our wholesale deposits which happened in the month of March and April on which we would have got a benefit on the funding side. But together with that we have mentioned that we have increased our agri lending portfolio in the last quarter, mainly on the corporate side and not so much on the retail side because we are still waiting to see the full impact of the farm loan waiver on customer behavior. So, that impacted our yields adversely. So, for the margins it may be more appropriate to compare it to the previous quarter.

Arun: What would be the trend on the the NII growth front going forward because the current quarter would be reflecting the impact of capital raising which happened last year around July. Do you think there could be a possibility of sluggish growth or do you think there could be some margin growth or a decline?

Rakesh Jha: It is very difficult to put out an estimate on the margin side now because of the volatility in the interest rates in the system right now. The interest rates have increased. RBI may increase the benchmark rates and the CRR further, all of which has a direct impact on banks depending on where the SLR yield is. So, it is very difficult to right now estimate. What I have said is that we

would be trying our best to maintain margins by improving our CASA ratio going forward.

Arun: See, even in a challenging environment your operating costs are running ahead of your net interest income and the other income component is taking a hit. What kind of focus the management is going to have on the cost impact particularly the operating cost front and how are you going to align your operating cost?

Rakesh Jha: Our expenses for the quarter actually grew by 10% only. This was may be a valid question two quarters back. There is volatility in the equity market, fixed income market, and in lending the growth is expected to be lower. So, it is a challenging environment and I do not think anybody is questioning that. In such an environment we would continue to focus on increasing our CASA deposits. We believe that on the corporate side, there are still opportunities to grow both our fund based businesses and fee revenues. On expenses in the current environment, we would want to keep it as tight as possible and that is reflecting in the first quarter numbers.

Arun: See, even operating in environment like ours the interest rates are actually moving up. We are not seeing any sign getting down, so it is going to be a major challenge to ramp up your CASA deposit going forward or do you not expect there would be kind of rundown in the CASA deposit going forward.

Rakesh Jha: We are completely optimistic about the medium to long-term growth opportunities that the Indian banking system has. In the near term, given the higher inflation numbers, given the higher interest rates that are prevailing, given the global uncertainty, it will be a challenging environment on the lending side, on the funding side, including CASA, and on the treasury side.

Arun: Sir, would you expect your margins at least in the quarter presuming the interest rates being what they are right now, do you expect your margins to be maintained or do you expect there some kind of a downward trend in margins?

Rakesh Jha: I think I have explained this earlier also.

Moderator: Thank you very much sir. Next in line, we have Mr. Manish from Motilal Oswal. Please go ahead with your questions.

Manish: Hi Rakesh. Just wanted to know a couple of things. One on the agri loan waiver front, did the implementation happen this quarter and what was the impact?

Rakesh Jha: On the agri loan waiver we had to implement it in the current quarter. June 30, 2008 was the, the date when all the banks would have implemented the scheme. The implementation would have resulted in a write-back of about Rs. 500 million in our provisions.

Manish: Okay and any impact on gross NPLs because of that?

Rakesh Jha: There were as I said earlier some impact on the collection side because of some confusion in people's minds whether their loans were eligible or not. So, if you look on an overall basis, even net of any benefit that would be there on account of the waiver, there would be a net addition to NPLs on the rural side.

Manish: Okay and can you give me the disbursement figures for this quarter including the housing finance company?

Rakesh Jha: That would be about Rs. 91 billion.

Manish: Is this including housing finance? Can you break it down into mortgages, autos, CV and other categories?

Rakesh Jha: Of the total of Rs. 91 billion, disbursement in the bank is Rs. 65 billion and housing finance is about Rs. 25 billion.

Manish: Okay, thanks.

Moderator: Thank you very much sir. At this moment, I would like to hand over the floor back to Mr. Rakesh Jha for final remarks.

Rakesh Jha: Thank you for attending the call and sorry for keeping you waiting on a Saturday evening. For any further queries, you can call us sometime tomorrow. Thanks and bye.

Moderator: Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
