ICICI Bank Limited
Q2-2011 Earnings Conference Call, October 29, 2010

Please note that the transcript has been edited for the purpose of clarity and accuracy.

Certain statements in this call are forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors. More information about these factors is contained in ICICI Bank's filings with the Securities and Exchange Commission.

All financial and other information in this call, other than financial and other information for specific subsidiaries where specifically mentioned, is on an unconsolidated basis for ICICI Bank Limited only unless specifically stated to be on a consolidated basis for ICICI Bank Limited and its subsidiaries. Please also refer to the statement of unconsolidated, consolidated and segmental results required by Indian regulations that has been filed with the stock exchanges in India where ICICI Bank's equity shares are listed and with the New York Stock Exchange and the US Securities Exchange Commission, and is available on our website www.icicibank.com.

ICICI Bank received approval for the merger of erstwhile Bank of Rajasthan, which was effective from the close of business of August 12, 2010. The financials accordingly for Q2-2011 include the financials of erstwhile Bank of Rajasthan for the period from August 13, 2010 to September 30, 2010, i.e. 49 days.

Moderator: Ladies and gentlemen good evening and welcome to the ICICI Bank Q2-2011 Results Conference Call. Joining us on the call today are Mr. N. S. Kannan, Executive Director and CFO and Mr. Rakesh Jha, Deputy CFO. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. At this time, I would like to hand the conference over to Mr. Kannan, thank you and over to you sir.

N. S. Kannan: Thank you. Good evening to all of you and welcome to the conference call on financial results of ICICI Bank for the quarter ended September 30, 2010, which is Q2-2011 of this financial year. I would like to make my opening remarks in 6 parts; part 1 on macroeconomic environment, part 2 our strategy for the year, part 3 performance during the quarter, part 4 status update on integration of Bank of Rajasthan with us, part 5 financial performance of our key subsidiaries, and finally part 6 outlook for the rest of the year.

First part 1 on macroeconomic environment. As we all know, the GDP growth in the first quarter of this financial year was 8.8% with growth being broad-based across industry, services, and agricultural sectors. The second quarter industrial growth as measured by the index of industrial production that is IIP has shown some volatility declining to 5.6% in August from 15.2% in July. There could be some data issues in addition to the base effect. The RBI Governor in his September 16, 2010 policy statement has also commented that the high volatility over the past 2 months raises some doubts about how effectively the index reflects the underlying momentum in the industrial sector. On an overall basis, we do expect economic growth to be sustained with normal monsoon having a beneficial impact on agricultural growth.

Of course, inflation is an indicator, which policy makers were tracking very closely. While the wholesale price index numbers have come off the double digit levels, they continue to be elevated at 8.6% in September 2010 driven by both food as well as non-food categories. We are seeing food inflation moderating and should further ease, going forward, owing to a better Kharif season. Together with the reversal of the base effect, which should be kicking in from November 2010, the inflation index should come down before ending the year at around 6-6.5% levels. In line with the objective of controlling inflation, monetary tightening has continued. During the quarter, RBI increased the repo rate by 75 basis points and reverse repo by 125 basis points taking the total increase in repo rate to 100 basis points and reverse repo rate to 150 basis points since April 2010. The band between the repo and reverse repo has been narrowed to about 100 basis points now.

The systemic liquidity has been relatively tight with banks on an average having been net borrowers in the liquidity adjustment facility, that is LAF segment, to the extent of about ₹ 240 billion during the second quarter, but that has increased to about ₹ 1 trillion this morning. As you may have also noticed, RBI has today announced a special second LAF facility and as well as on November 1, and a special two-day repo tomorrow indicating that it would ensure that there are no liquidity shocks to the system.

The 10-year government securities yield moved up from 7.55% at end June to 7.84% at end September and has since gone up further. The short-term yields have gone up much more than the long-term yields due to short-term liquidity issues thereby flattening the yield curve.

Banks have increased deposit rates. During the quarter, we have seen wholesale rates increase by about 100 basis points and retail term deposit rates increase by 25 basis points to 100 basis points across various tenures. While banks have also increased the lending rate with base rates going up by 25 to 50 basis points recently, competitive dynamics continue to limit the increase in lending rates and special interest schemes continue on some segments.

Credit growth in the system was 20.1% on a year-on-year basis on October 8. There has been some concern that the year-to-date annualized growth, which was 13.4%, is lower than expectations and therefore the projected full year credit growth of 20% may not materialize. In this context, it may be noted that the year-to-date annualized growth in the same period last year was around 8% while by the year end, system achieved a growth rate of about 17% last year. We would expect some pick-up in credit growth in the second half of this year. A significant part of credit growth going forward would come from project financing which is of longer gestation.

Repayments from existing retail lending portfolios for the system are also moderating growth in the stock of the credit. There are also indications of increasing drawdown from sources other than banking sources in the domestic non-food credit.

Deposit growth continued to be moderate at 12.6% on an annualized basis and 15% on a year-on-year basis on October 8, 2010. We expect deposit growth to pick up with the increases in deposit rates. However, we expect that the growth in demand deposits during the year would be much lower than the 23.4% recorded last year primarily because of the high prevailing interest rates incentivizing customers to shift balances to term deposits. On an overall basis, given the high base of deposits compared to credit and the excess SLR in the system, deposit growth is expected to be sufficient to support the credit growth in the medium-term even at this growth pattern.

Now let me move on to part two, which is our strategy for the year. We have articulated the 5C strategy as many of you will know for this financial year 2011, aimed at pursuing growth opportunities in the economy while; (1) sustaining and accelerating the improvements we have achieved in funding, operating, and credit cost, and (2) offering an improved service experience to the customer. Given the comfortable capital situation and the need to leverage, we have dropped the capital conservation from the 4 Cs we had articulated last year and we have added customer service as the 5th C. We would of course continue to closely monitor the capital adequacy.

The key elements of 5C strategies are: 1) Credit growth which is leveraging our strong capital base for credit growth going forward; 2) CASA: leverage the expanded branch network to maintain CASA ratio on a growing deposit base. So as we speak, we have more than 2,500 branches and we would like to leverage it for further CASA growth going forward; 3) Cost optimization: we continue cost optimization measures through the growth phase with focus on efficiency and productivity rather than absolute cost control; 4) Credit quality: we will further contain the credit cost going forward and finally the 5th C being customer service reorganized for customer centricity with the branch as the primary channel. So these are really the 5Cs we are pursuing as a strategy for the current financial year.

Now let me move on to part three to assess our performance during the quarter against the articulated strategy. I would first like to mention that the merger of erstwhile Bank of Rajasthan, BOR, was effective from the close of business of August 12, 2010. The financials accordingly for Q2-2011 include the financials of erstwhile Bank of Rajasthan for the period from August 13, 2010 to September 30, 2010, i.e. 49 days. At the merger date, BOR had total assets of ₹ 156 billion, advances of about ₹ 65 billion and deposits of about ₹ 135 billion which included CASA deposits of ₹ 47 billion. We will discuss the impact of the merger further subsequently as we go along.

Before that, first the progress against the 5Cs.

(1) Credit growth, the total advances increased from ₹ 1.84 trillion at June 30, 2010, to ₹ 1.94 trillion at September 30, 2010. Excluding the impact of the BOR merger, there was a growth in advances of about ₹ 40 billion during the quarter. While the growth came primarily from the corporate book, I am happy to report that the decline in the retail portfolio has ceased after several consecutive quarters of decline. The retail book was more or less flat on a sequential quarter basis, and we expect it to increase in the coming quarters. Total retail disbursements increased from about ₹ 52 billion in the first quarter to ₹ 78 billion in the second quarter.

(2) Second C on CASA; the Bank continued to improve the CASA ratio from 42.1% as on June 30, 2010, to 44% as of September 30, 2010. The average CASA ratio also improved which is what we track internally very closely. That improved to 39.2% in the second quarter compared to 37.2% in the first quarter and 32.2% in the second quarter of the last financial year. So there has been an improvement both on period end CASA as well as on an average CASA.

(3) The third C on cost; the operating expenses increased sequentially on account of increase in employee expenses and infrastructure expenses; primarily on account of new branches added during the last two quarters. While the cost-to-asset ratio was maintained at 1.6%, the cost-to-income ratio was marginally higher at 41% in Q2-2011 compared to 40% in the previous quarter.

    The full impact of infrastructure related expenses following branch additions during the first half of the year would be seen in the second half of this financial year along with the cost related to BOR; however, we would strive to maintain the cost-to-income ratio at the current levels.

(4) The fourth C, credit quality, I am happy to report that we continue to make significant progress on credit quality with the accretion to retail NPLs coming down to near zero during the quarter. The retail unsecured portfolio has come down to 3.4% of our total loan portfolio. The provision charge in the profit and loss account came down to ₹ 6.41 billion, a year-on-year decline of 40.2% and a decline of 19.7% on a sequential quarter basis. The net NPA ratio reduced to 1.37% and the provision coverage ratio improved to 69%. As you are all aware, we are required to reach 70% provision cover by March 31, 2011. We expect to reach this level earlier than that. I also want to mention that the restructured loans decline to ₹ 25.78 billion on September 30, 2010, from ₹ 37.37 billion on June 30, 2010. This is due to upgradation of corporate loans performing for more than one year on restructured terms.

(5) Fifth C on customer service, I would like to highlight some of our initiatives on the customer service front. We have already implemented a zonal rather than a product focused organization structure. Our other initiatives include priority access and processing for wealth and privilege banking customers. 51 specialized wealth branches and 30 mega branches focused on commercial banking for corporate clients. We have launched our Hindi website as well as taken initiatives to reach out to customers in various regional languages.

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

The net interest income increased 8.3% year-on-year to ₹ 22 billion for the second quarter. The net interest margin was at 2.6% in Q2-2011 compared to 2.5% in the second quarter of last year as well as in the previous quarter. This includes interest on income tax refund of ₹ 0.84 billion in Q2-2011 and ₹ 0.72 billion in the second quarter of the last financial year. During the quarter, the higher cost of incremental term deposits and borrowing was offset by a higher proportion of low cost deposits, thanks to the CASA improving and a higher yield on SLR portfolio on account of resetting of interest rate on floating rate bonds at higher levels in line with the higher systemic rates. The yield on advances remained unchanged at Q1 levels on account of competitive environment. The fee income grew by 14.6% year-on-year to ₹ 15.9 billion in Q2-2011. This was driven by corporate and international fees while the retail fees continue to decline on a year-on-year basis; however, they are stable on a sequential basis. The treasury line shows a negative item of ₹ 1.44 billion. This is primarily due to the impact of rise in government securities yields on the AFS SLR portfolio and mark-to-market provisions on the portfolio of security receipts of asset reconstruction companies. This was offset partly by the gains we made in proprietary trading during the quarter. The AFS SLR portfolio comprising shorter duration securities was impacted by the rise in short-term yields during the quarter; however, we will continue to maintain in our structural book conservative durations going forward as well.

I have spoken about the operating expenses and the provision lines while describing the progress against the 5Cs.

Broadly, the operating expenses increased both on year-on-year basis as well as sequentially due to impact of branch expansion while provisions have reduced significantly both on a year-on-year and sequential basis. Based on the above, profit before tax for the quarter was ₹ 15.71 billion which represents a year-on-year increase of 15.2% and a sequential increase of 13%.

I would now like to explain the lower effective tax rate for the quarter. In Q1, we had provided for tax based on an estimated effective tax rate for the year of 26.2%. The effective tax rate for the full year is likely to be approximately 24% due to the tax benefit of provisions made in Bank of Rajasthan's accounts prior to the merger with ICICI Bank for employee benefits that will be funded during the year, and thereby we will get tax benefit out of those fundings. Finally, the profit after tax for the quarter on account of all of the above was ₹ 12.36 billion, a year-on-year increase of 18.8% and a sequential increase of 20.5%.

Now let me move on to part four; status update on integration of Bank of Rajasthan. As I mentioned, the merger became effective from the close of business hours on August 12, 2010. Subsequently we have made significant progress on integration. The employees of Bank of Rajasthan have been integrated into ICICI Bank, we have mapped the employees as per our grade and salary structure and we have effected an increase in salaries towards alignment of salary scales. The IT connectivity has also been established with basic “anywhere banking” enabled and ATM connectivity being established. On the business front, we have maintained continuity in products and charge structures. The branch and the organization structure have been enabled to focus on deposit mobilization and process credit applications. We expect to enable internet banking in the current quarter and complete integration of all back-end processes before the end of the current financial year.

As regards to the financial impact due to the merger, the networth of Bank of Rajasthan as of March 31, 2010, as you all know, was ₹ 9.37 billion. Additional provisions of about ₹ 4 billion were made relating to pension, gratuity and leave encashment. With this, full provisions have been made (1) on account of 9th bipartite settlement, 2) for alignment of salaries with ICICI Bank, and 3) for second option for pension. There have been other accounting adjustments relating to a) provisioning coverage improvement to 70% on Bank of Rajasthan book, b) mark-to-market on HTM investment portfolio, and c) reversal of deferred tax in the Bank of Rajasthan ceased to be a going concern. So there have been no negative surprises on the asset quality side and our initial assessment at the time of diligence on the quality of loan book continues to hold. As I mentioned, a large part of the adjustments are accounting adjustments, which we have made at the merger accounting date. As mentioned earlier at the merger date, Bank of Rajasthan had total assets of ₹ 156 billion, advances of ₹ 65 billion, and deposits of ₹ 135 billion including CASA deposits of ₹ 47 billion.

Now part five, let me move on to consolidated results. Coming to the consolidated results, the consolidated profit after tax of the Bank increased by 21.8% to ₹ 13.95 billion in Q2-2011 from ₹ 11.45 billion in the second quarter of the last financial year. This increase was driven primarily by improved financial results of the Bank’s insurance subsidiaries. In this context, I want to explain that while the profit after tax of ICICI Prudential Life Insurance Company, ICICI Life for Q2-2011 was ₹ 0.15 billion, this is before accounting for a surplus of ₹ 2.54 billion in the non-participating policyholders’ funds, which would be transferred at the end of the financial year based on the appointed actuary’s recommendations. If this surplus was transferred in Q2-2011, the profit after tax of ICICI Life for the quarter would have been ₹ 2.69 billion and the Bank's consolidated profit after tax for the quarter would have been ₹ 15.84 billion.

The regulatory changes that have come into effect from September 1, 2010, have impacted the sales of insurance industry as seen in the industry de-growth of 3% for the month of September. With the new products being inherently more customer-friendly, we expect the volumes to pick up. Also, with the various initiatives being taken by the company on the cost front, starting right from the last month of the previous year, along with a keen focus on distribution channel productivity, we would aim to restrict the ultimate decline in new business margins to about 3 to 4% from the existing levels.

Outlook for the rest of the financial year that is part six of my opening remarks – We will continue to focus on execution of the 5C strategy that I described earlier. On the domestic front, we expect to accelerate the sequential expansion in the asset book. While the corporate side is showing some growth momentum, the retail portfolio is also targeted to grow going forward. We expect to maintain the margins and cost ratios and sustain growth in fee income. Provisions are expected to continue to moderate from the current levels. On the international side, we expect to see moderate growth in our branches. As far as our international subsidiaries are concerned, we are proceeding very cautiously as there are lot of changes taking place globally in banking sector regulation, covering capital, liquidity and lending. We want the environment to stabilize and we also want to use our capital only to take risks that we are comfortable with. Both our U.K. and Canada subsidiaries are well capitalised and they have a strong deposit base and good liquidity and we will leverage all these at an appropriate time. So with this, I close my opening remarks and I am happy to take any questions from your side.

Moderator: Thank you very much sir. Our first question comes from the line of Mahrukh Adajania from Nomura. Please go ahead.

Mahrukh Adajania: Firstly on loan growth, wanted to understand if the corporate loan growth is term loan growth or short-term loan growth? And in terms of overseas loans, a lot of state-owned banks are seeing good pick-up in overseas loans that is overseas loans to Indian corporates. So what is your status on that and also if you could give the disbursement for housing loans during the quarter?

N. S. Kannan: This is Kannan here. The loan growth on the corporate side during the quarter was on both working capital and term loan side. The project finance disbursements were relatively muted. However, we expect this to pick up going forward. On overseas, yes we do see some demand coming in from Indian corporates going for foreign currency loans and they are coming at good spreads. That is why, as I mentioned earlier, the overseas branch asset book is likely to grow in a moderate fashion..

Mahrukh Adajania: But it did not grow in the first quarter?

N. S. Kannan: During the first quarter, the growth at overseas branches in rupee terms was partly on account of actual dollar growth and partly because of depreciation of rupee-dollar exchange rate. Now in the second quarter, the exchange rate has gone the other way and the rupee has appreciated, so on a dollar basis, the growth is much better.

Mahrukh Adajania: So how much would it have roughly been quarter-on-quarter on a dollar basis?

N. S. Kannan: On a sequential quarter basis, we have done about US$ 400 million from the overseas branches. On home loans, you wanted something?

Mahrukh Adajania: Home loan disbursements.

Rakesh Jha: At about ₹ 45.00 billion.

Mahrukh Adajania: And what would be the contribution of Bank of Rajasthan on net interest income and net profit, though am sure it is extremely insignificant?

N. S. Kannan: Those numbers are really only for 49 days. So, the amounts that contributed at the PBT level were insignificant. At the PAT level, as I mentioned, the tax rate reduction has been on account of Bank of Rajasthan acquisition. So you could take that at about ₹ 0.70 billion of tax saving for the quarter arose out of the merger.

Mahrukh Adajania: Okay and what are your domestic and international NIMs now and what would it be going ahead?

N. S. Kannan: The domestic NIMs were about 3% and international was about 80 basis points. While, over a period of time NIMs should improve, broadly we expect to maintain NIMs at stable levels in the near term.

Mahrukh Adajania: And on NPLs, retail NPLs are inching up. Nothing major, but what is the reason; are we going to continue to see the NPL movement like this going ahead?

On the NPLs, if you look at ICICI Bank's book, the net addition to gross NPL was zero. This is true for the retail book too. Even on the corporate side, overall the net addition was close to zero for ICICI Bank. We added the Bank of Rajasthan NPLs in the books. That is the only change in gross NPL that you see for the Bank. Otherwise, for ICICI Bank per se, the net addition was close to zero.

Mahrukh Adajania: Thank you.

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

Abhishek Kothari: Sir I could not get the number of restructured loan outstanding?

N. S. Kannan: ₹ 27 billion.

Abhishek Kothari: And how much was the slippages to NPL?

Rakesh Jha: It was negligible.

Abhishek Kothari: And could you also give me the gross NPL movement during the quarter?

Rakesh Jha: As I mentioned, the net addition to gross NPLs for ICICI Bank is nearly zero for the quarter. We have added the Bank of Rajasthan NPLs, which is the reason for the increase in gross NPLs for the Bank. Besides, we wrote-off about ₹ 1.30 billion of NPLs on the non-retail side.

Abhishek Kothari: And what would be your advances to microfinance?

Rakesh Jha: It will be about 1% of our loan book.

Abhishek Kothari: That's it from my side. Thank you.

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

Manish Karwa: While you did explain the Bank of Rajasthan impact on the networth, I still want to reconcile the networth number because if I look at it quarter-on-quarter, your networth has increased by ₹ 12.00 billion. While part of the movement is explained on account of Bank of Rajasthan, there is still some gap. Are there some more adjustments being made to the networth?

Rakesh Jha: The only other adjustment would be the foreign currency translation reserve on account of rupee appreciation that was a negative of about ₹ 1.60 billion during the quarter.

N. S. Kannan: Other than that, whatever I explained on Bank of Rajasthan holds.

Manish Karwa: So ₹ 1.60 billion is only foreign currency and the rest would be related to Bank of Rajasthan. You made a profit of about ₹ 12.36 billion on a sequential basis, and your networth has increased by ₹ 12.00 billion. So your profit actually ties up.

N. S. Kannan: Yes.

Manish Karwa: Bank of Rajasthan had a networth of ₹ 3.76 billion at the time of the merger?

Rakesh Jha: That was after drawing up the P&L for Bank of Rajasthan for April 1, 2010 to August 12, 2010. On August 13, 2010, when we merged the Bank of Rajasthan into our balance sheet, we also fair valued their assets.

Manish Karwa: This would imply that there would be further adjustments to the networth to the extent of ₹ 3.56 billion. Out of which, you explained that ₹ 1.60 billion was through foreign currency. So what is the balance?

Rakesh Jha: Let me take one step back and explain again. So, for ICICI Bank's profits, as I told you, the only adjustment which is there is the change in the foreign currency translation reserve. On Bank of Rajasthan, the networth that Kannan mentioned of Rs. 3.56 billion, was as of August 12, 2010. When we took over their assets and liabilities onto our books, we did a fair valuation of their assets and liabilities. For example as Kannan mentioned, while one does not require to mark-to-market the HTM portfolio from an accounting point of view as per the RBI guidelines, but when we take it on our books, we need to do a fair valuation of the HTM portfolio as well. So there was an accounting adjustment on that account. So you are right that the net number from Bank of Rajasthan which remains on the networth which comes into the books of ICICI Bank is close to about ₹ 0.18 billion or so.

N. S. Kannan: Bulk of the adjustments are accounting adjustments.

Manish Karwa: And just couple of more data points. What is your consolidated networth of all the subsidiaries put together?

Rakesh Jha: I will give that to you separately Manish.

Manish Karwa: And lastly in terms of international spreads, is there a case for international spreads to expand now since you mentioned that the new disbursements are happening at reasonably good spreads and you are anyways pretty liquid on your international book.

N. S. Kannan: We would like to take it to about a percentage or so because there are opportunities for fresh lending at decent spreads. As you all know, we have approval for increasing our deposit base in Hong Kong plus with the qualified banking license in Singapore, we also have increased ability to raise deposits. So far, the international book in the parent had been largely wholesale funded. So with the combination of better asset yields and the ability to shift the funding base somewhat towards deposits, we think we can increase NIMs going forward.

Manish Karwa: And would that be the case for your subsidiaries also in U.K. and Canada?

N. S. Kannan: At subsidiaries actually, they have already come up quite nicely. The NIMs there are at about 1% already. So we would strive to keep it at around that level. At the best of time, if you go back before the global financial crisis, they were at about 1.2% or so. We are comfortable with the current levels of NIMs at our subsidiaries abroad.

Manish Karwa: And last time when we had met, you had mentioned that Canada is probably not doing that well, is there any further update on that?

N. S. Kannan: It is not the question of Canada not doing well, it is doing alright. Given the context of global economic conditions, we are proceeding very cautiously as we want to use our capital only to take risks that we are comfortable with. Accordingly we have been very selective about incremental growth. We would, of course, look for trade opportunities between Canada and India as that is one area we think naturally we should be there. So the subsidiary would stay with higher levels of capital adequacy than what is required by regulation. We will see how it goes forward. So the point I want to make is that we are not in a hurry to expand the book just for the sake of leveraging our capital.

Manish Karwa: Thanks and all the best.

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

Suresh Ganpathy: Just had a quick question on loan growth. If I exclude the advances of Bank of Rajasthan, the growth this quarter has actually just been about 2%, which is, to some extent, lower than what some of the large state-owned banks have reported. I understand that you have a target of about 15 to 18% loan book growth by the end of the year. How would you achieve that? Is it based on some assessment of the sanctions getting converted to disbursements because that is still not getting seen in the second quarter results. So how do you explain this discrepancy?

N. S. Kannan: During the second quarter, as I mentioned very clearly in my opening remarks, if you exclude Bank of Rajasthan, we expanded the advances by about ₹ 40 billion.

Suresh Ganpathy: But there would have been some prepayments and repayments also right?

N. S. Kannan: Yes, that is the net increase. What is going to give us the momentum going forward is largely project financing where we have lot of sanctions, which have been done over the last three to four quarters. While the disbursements have been a bit slow, we expect this to pick-up as we go along in this quarter and the next quarter. The second is that there has also been a tendency for some of our borrowers to be tapping the investments market as against the advances market for their funding requirement. This could be because of the base rate regime coming into being. So if you look at our growth, we participated in that economic activity through a growth in our bond book. The growth in customer assets as you can see has been much higher than the growth in advances. The third is that on the retail side; you are right in the sense that so far the repayments and prepayments have been higher than the incremental disbursements in each of the last several quarters. During this quarter, for the first time, there was moderate growth in the retail book, as incremental disbursements were broadly equal to repayments and prepayments. The confidence in total growth rate of about 18% or so for the year is largely on account of the confidence we have on incremental retail disbursements leading to increase in outstanding retail book. Further, the confidence we have on the project finance side as also the demand for foreign currency loans by Indian corporate will give us some momentum. So with all the three, we are quite confident of growing by about 18%.

Suresh Ganpathy: So there is no worry of the sanctions not getting converted to disbursements because of environmental clearances being in place or land clearances not being in place, especially since sanctions can remain as sanctions for an extended period of time. Just wanted to get a better clarity whether you are very confident that those kinds of clearances are in place and those will get converted to disbursements?

Rakesh Jha: There are some delays, Suresh, on account of those clearances, but the current assessment is that the number of projects that we feel are not likely to get off the ground at all is relatively small.

Suresh Ganpathy: Thanks so much.

Moderator: Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Just taking the point forward just now mentioned, can you just put a number for what were the repayments for the first half? On an overall basis, we had said that ₹ 250 billion was supposed to be repayments for this year.

N. S. Kannan: That is expected repayments on the retail portfolio for the year. Broadly one-fourth of that in a quarter is what would be there.

Ashish Sharma: Okay, so we stick by 18-20% sort of growth rate on a standalone basis for this year?

N. S. Kannan: Yes that is what we are looking at.

Ashish Sharma: And provisioning expenses, ₹ 6.41 billion for the quarter and ₹ 14.40 billion for the whole year? What is the run rate we expect going forward? Is there any headroom for further decrease in the provisioning expenses?

N. S. Kannan: Yes, we expect our provisioning as a percentage of the loans to come down to close to 1% or between 1.0% and 1.25%, that should be our exit run rate for the year and we feel it will come down to that kind of level.

Ashish Sharma: And you mentioned about your exposure to microfinance being at 1% of your loan book. Strategically do you perceive any risk to that? There has been lot of regulatory issues for the sector per se.

N. S. Kannan: See clearly this is a portfolio that we are watching very closely, and we have been watching for the last three quarters actually. There is the requirement of meeting the priority sector lending and a part of this is typically met through microfinance lending. So to that extent, portfolios get built by banks in this segment. The percentage of this portfolio is about 1% of our loan book, so that is something which we are comfortable with. The second is that within microfinance, our portfolio is decently diversified and third is that for priority sector, we are not reliant on microfinance alone. We are also having our own deployment of direct credit. So I think we will keep it at about these levels and watch the developments very closely. This is something which is monitored closely by our Credit Committee as well.

Ashish Sharma: And on the same thing, within 1%, how much will be the top four-five players?

N. S. Kannan: We have not disclosed. However, 1% itself is a very small number.

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

Moderator: Thank you. The next question is from the line of Rajeev Verma from Bank of America. Please go ahead.

Rajeev Verma: Can you give some clarity on the fees aspect, as in which are the segments that you are seeing growth?

N. S. Kannan: Overall fee growth was 14.6% on a year-on-year basis and if you look at the fee growth composition, the growth was very robust in the corporate and international segments. The retail segment declined due to decline in fees from credit cards as well as other retail assets and liabilities. I think sequentially we have now arrested the de-growth in the retail fee income and going forward, we would like to keep our own general direction of growing the fee income in-line with the asset growth of the Bank, which we are quite confident of achieving.

Rajeev Verma: So the growth in fees in the corporate segment would be well above 20-25%, is it?

N. S. Kannan: Yes, you are right.

Rajeev Verma: Alright, and just another thing. On the international side, are you still seeing fees coming in largely from M&A transactions or is it just regular lending fees?

N. S. Kannan: It is largely regular lending. Not many M&A type transactions. It also includes retail fees like remittance and so on.

Rajeev Verma: Okay fine.

Moderator: Thank you. Our next question is from the line of P. S. Subramaniam from Sundaram Mutual Fund, please go ahead.

P. S. Subramaniam: The investment book, excluding SLR investments and investments in subsidiaries, has increased sequentially. Now it is ₹ 540 billion. Wanted to understand what are these, are these equity investments or is it credit given to corporates by way of CPs?

N. S. Kannan: Bulk of these would be credit given to the corporates in the form of bonds, slightly longer tenure bonds. This is, as I mentioned earlier, on account of movement towards the investment away from the advances due to the preference of the borrowers, given the base rate regime. It largely comprises medium term bonds issued by good, very well rated companies.

P. S. Subramaniam: Out of the Rs. 540 billion, how much would be lending to corporates?

Rakesh Jha: Corporate sector bonds and debentures would be about ₹ 100 billion of this portfolio.

P. S. Subramaniam: So the rest of the ₹ 440 billion is liquid instruments?

Rakesh Jha: Various things, like for example investment in CDs, which will be maintained by the Bank for liquidity purposes. It will also include investment made in RIDF, on account of short fall in priority sector or agriculture lending in the past. These two will be the other large items, which are there. In addition to that, we will have liquidity in terms of investment in mutual funds. Further, investment in subsidiaries will also be a part of this, which itself is about ₹ 120 billion.

P. S. Subramaniam: That is outside this. If I exclude the investment in subsidiary and the SLR investments, the non-SLR investment book would be something like ₹ 540 billion. I just want to understand how much of surplus liquidity it is that you are carrying on the balance sheet?

N. S. Kannan: Out of that, the surplus liquidity would be close to about ₹ 250 billion, including in the form of either investment in CDs or in mutual fund/ liquid funds.

P. S. Subramaniam: And on the UK book, I see that the deposits have come down sequentially including the term deposits. Any reason for that?

N. S. Kannan It tends to be a rate sensitive market, so we are quite focused. We talked about the asset growth opportunities; we would like to grow assets only in areas, which we are comfortable from a risk perspective. So we adjust the deposit rates accordingly. Otherwise on deposit flow, there is no concern whatsoever. And the other point my colleagues have just told me is that between June and September 2010, actually the deposits for UK have gone up sequentially from about US$ 4.5 billion to US$ 4.8 billion in absolute terms.

P. S. Subramaniam: 51% of your total assets is by way of deposits in ICICI Bank UK. Is that right? Something like US$ 3.7 billion?

N. S. Kannan: You are talking about term deposits. Including demand deposits, about 67% of the asset book is deposit funded.

P. S. Subramaniam: And finally just wanted to understand your strategy on branch expansion. You had 2,500 branches. How much do you plan to end the year with?

N. S. Kannan: This year, there will not be any significant addition to the branches. But as we have articulated earlier, we would like, in the medium term, to go to 4,000 branches. So that will be done in about 3 years of 500 each. But practically, it will not be possible to expand the branch network in a significant manner in this current financial year and after that I think about 15 plus percent increase in branches annually is what we are looking at.

P. S. Subramaniam: Thanks and all the best.

Moderator: Thank you. Our next question is from the line of Vinod Birla from Systematic Shares. Please go ahead.

Vinod Birla: Can I get your sectoral break-up of gross NPAs?

N. S. Kannan: The gross NPAs are ₹ 102 billion and the net NPA is ₹ 31.92 billion. We do not disclose sectoral break-up on a quarterly basis. Retail is about ₹ 68 billion.

Vinod Birla: And what was the Bank of Rajasthan's gross NPAs in this?

N. S. Kannan: It would be close to about ₹ 4 billion.

Vinod Birla: Okay that's it from my side. Thanks.

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

Anand Vasudevan: I have a question on your international book on the parent balance sheet. What are the marginal spreads that you earned during the quarter for the US$ 400 million that you disbursed?

N. S. Kannan: See I don't know specifically, how much we got on the US$ 400 million. But generally, if you look at the pipeline of deals, we are getting deals at LIBOR plus 4.5 or so.

Anand Vasudevan: What is your cost and what is the spread?

N. S. Kannan: Marginally, if I look at our cost of bonds of five year duration, while it has been volatile in the recent past because of the global events, it will be more like about 2.5 to 2.70 over Libor and there is no SLR, CRR obligation on this.

Anand Vasudevan: So on the incremental business, would you be getting spreads of between 150 to 200 basis points.

N. S. Kannan: You can say 150 basis points, yes.

Anand Vasudevan: And the fee that you talked about is the syndication fees on the international book?

N. S. Kannan: No. International book fee is the lending fee, a little bit of syndication fee, some remittance fee and commercial banking trade finance fee as well.

Anand Vasudevan: What sort of growth do you expect? I haven't seen the numbers since you managed US$ 400 million growth in your international book, the book is probably around US$ 10.7 billion or close to US$ 11 billion now. So what sort of growth do you expect on an annual basis?

N. S. Kannan: This year we expect growth to be in single digits.

Anand Vasudevan: And what is your assessment of the ROE you would make in the international business versus what you are making in the domestic business?

N. S. Kannan: At the ROE level, it would be quite similar actually because the cost structure is different. Their cost-to-asset ratio is very low compared to domestic operations because there is not much of retail activity there. But at the same time, their NIM is much lower than the domestic business and it is a bit of fee driven market. So I think these things cancel out and largely we would be at a similar ROE levels.

Anand Vasudevan: Okay. Thank you.

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

Ganeshram: Hi Rakesh. When we had met last year you were mentioning that you are going to change the way you report slippage by excluding recoveries from that. Could you tell me what your gross slippage was for the quarter or for the first half?

Rakesh Jha: As I said, for the full financial year, we would be looking at changing the way we report retail. Currently, we report only on a net accretion to the NPL basis and not the gross added and deleted. So for the full year, we would be changing that. Of course it does not have any impact on the NPL numbers or the net addition to NPL numbers.

Ganeshram: Okay fine. Thank you.

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

Jatinder Agarwal: Hi, just two questions. One on your fee income for the first half, can we get the break-up in terms of how much is pure fees and if you could give a break-up of how much is the dividend during the period?

N. S. Kannan: The fee income does not include dividend income. The dividend income is included in the other income which we show separately, which was ₹ 1.6 billion in the first quarter and ₹ 1.3 billion in the second quarter.

Jatinder Agarwal: Perfect, and secondly on microfinance; you also do microfinance per se on your own balance sheet and then you have loans that would be giving out to MFIs. Could you give us a broad sense in terms of what is the rate at which you lend when you do business on your own balance sheet?

Anindya Banerjee: Business on our own balance sheet is very marginal. That is essentially a business that had come from Bank of Madura, which were Self-Help Group lending in Tamil Nadu, but we had quite early on switched to the funding through the MFI model. We do not do too much microfinance on our own.

Jatinder Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Sagar Mehta from Dalal and Broacha, please go ahead.

Sagar Mehta: Just wanted to get an idea on the break-up of growth in individual loans in terms of home loans, auto loans, etc?

N. S. Kannan: On September 30, 2010, of the total retail outstanding of close to ₹ 20 billion, 65% is home loan, 24% is vehicle loan, of which 9% is car loans and

15% is commercial business and then 3% is other secured loans and about 8% is unsecured that is personal loans and credit cards.

Sagar Mehta: Okay sir, thank you.

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

Hiren Dasani: Couple of questions on the retail side. I see there is no mention of two-wheeler business. Is it insignificant, or incrementally we are not doing anything?

N. S. Kannan: Incrementally, we have not been doing it at all. We have completely exited that business.

Hiren Dasani: We have not started or we do not plan to.

N. S. Kannan: We do not plan to.

Hiren Dasani: Until last quarter, you used to give some more details on the HFC balance sheet. Can I have same details in terms of loan book, networth etc.

Rakesh Jha: The HFC loan book is about ₹ 95 billion.

Hiren Dasani: And the balance sheet size would be?

Rakesh Jha: The total balance sheet size would be about ₹ 100 billion or so. At June 30, 2010, it was about ₹ 120 billion.

Hiren Dasani: And the funding profile would be largely similar with about 60% borrowings, 29-30% deposits?

Rakesh Jha: Yes.

N. S. Kannan: Incrementally, we have been booking loans at the Bank and that is why it has declined.

Hiren Dasani: And are we still following the strategy of non-priority in HFC and priority in Bank or we have kind of moved away from that?

N. S. Kannan: Now we are doing it in the Bank itself.

Hiren Dasani: On the AMC, I see a quarter-on-quarter fall in the profitability, is there anything to read into it?

Anindya Banerjee: Essentially, the funds under management have fallen quarter-on-quarter mainly due to the decline in the debt and money market funds and that has impacted the management fees. Also the returns, the net margins of the company on the debt and money market funds have declined. Further, there have been some marketing expenses on the equity side as a result of which the profit has been impacted.

Rakesh Jha: The AMC is focusing on increasing the proportion of equity-based AUM, so that the business becomes more profitable from an asset management fee perspective.

Hiren Dasani: Some of the other players in the industry have taken some of the MTM hits, which are there on the liquid funds on the AMC P&L I was just wondering whether there is something similar here as well.

N. S. Kannan: That could largely be reflected in the level of returns that the AMC earns from the liquid funds.

Hiren Dasani: But we have not provided any support at the fund level from the AMC because of this new mark-to-market norm?

Rakesh Jha: There would have been some support given by the asset management company, but that is a very small number and that will not be the reason for the decline in the profit is what I am trying to say. So the decline in the revenue from the fees itself has been the main reason for the decline in profit.

Hiren Dasani: And lastly on this MFI book, although I understand that from your P&L point of view, it does not make much of a material difference, but are you seeing any stress on the ground in terms of collection by the MFIs or is it more noise that we are hearing in the media?

N. S. Kannan: We are not seeing any stress in the portfolio itself, but we are watching the developments because of what happened in Andhra Pradesh and the general noise around it. We are just monitoring it very closely.

Hiren Dasani: Thank you.

Moderator: Thank you. The next question comes from the line of Ankit Ladhani from Sharekhan. Please go ahead.

Ankit Ladhani: Can I have a break-up of the provisions into NPA provision and the depreciation on investment?

N. S. Kannan: The total provisioning for the quarter was about ₹ 6.4 billion. We have not given a separate break-up of that.

Ankit Ladhani: And NIMs, what is the target for the year? Will we maintain it at a current level or are we planning to increase in line with the increasing CASA or something?

N. S. Kannan: What we have said earlier would be to maintain it at the same level as FY2010.

Ankit Ladhani: And do we see any growth drivers for the advances going forward, like for the second half and for FY2012 as well?

N. S. Kannan: In the first half, the growth has come mainly from the corporate side and to a smaller extent from the international side while the retail portfolio in the first quarter declined and in the second quarter has remained more or less flat. Going forward, we would expect that corporate side would be the biggest growth driver, but we are also seeing some growth on the international side and the retail portfolio, which for the last eight or nine quarters had been declining continuously, is also expected to start growing.

Ankit Ladhani: And do we have any growth targets like will it be 10% or 20%?

N. S. Kannan: For the year as a whole, 18 to 20% year-on-year growth is what we would like to achieve.

Ankit Ladhani: That is all from my part. Thank you.

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

Nilanjan Karfa: A quick question on the fees front. If I am right, you have done ₹ 78 billion of disbursement in retail assets in quarter 2, but you are also saying that the retail fees that you are getting is going to probably go down. Anything that I should read from this?

N. S. Kannan: Because the large part of the retail fees really came from the credit cards and personal loan side of the business and while we are growing the retail business, we are not really growing that part of the business at all. Where we are growing is in secured products, where the fees are not there to that extent. Secondly while it is not a very large component for us, but the regulatory changes around insurance and mutual funds which kind of limit their distribution payout also impact our fees from third party income.

Nilanjan Karfa: Great! And could you take me through the merger accounting once again because if I add the networth of Q1-2011 with your Q2-2011 profit, and make the adjustments that you spoke about through the reserves, on a net basis, there still seems to be some ₹ 1.7 billion towards some kind of accounting adjustment.

N. S. Kannan: The ₹ 1.6 billion as I said is on account of foreign exchange translation reserve. This has got nothing to do with the Bank of Rajasthan, but just the exchange rate.

Nilanjan Karfa: And going forward when you are expanding the branches and the employees, do you see your expense ratio going up by couple of percentage points?

N. S. Kannan: No, what we have said earlier is that the expenses will grow and we would like to contain the growth inline with the asset growth by keeping the cost to income ratio at about 40% and cost to asset ratio at about 1.6% or so. We are not changing any of those estimates.

Nilanjan Karfa: My last question is on the priority sector. I think you still do about 50% of priority sector lending because of the residual.

N. S. Kannan: Yes.

Nilanjan Karfa: Correct. So how long do you think that is going to go on?

N. S. Kannan: We are doing 50% on a residual basis, till such time we reach 40% on the total book.

Nilanjan Karfa: Okay great. Thanks.

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

N. S. Kannan: Thank you all of you for joining in the call and we have explained all the numbers and your questions to the extent you wanted and if there are any further questions, our team is always there. Rakesh, Anindya all of us are there to clarify and answer your questions. There was one question specifically on what is our consolidated networth, so it is about ₹ 526 billion, I thought I will just close the loop on that. Any other questions you have, all of us are there to answer. Thank you once again for calling and good night and have a good weekend.

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