IndusInd Bank

Q1 FY08 Analysts Conference Call

July 26, 2007

Moderator

Good morning ladies and gentlemen. I am Monali, the moderator for this conference. Welcome to the IndusInd Bank conference call. Today we have with us Mr. Bhaskar Ghose - MD and CEO, Mr. S Nagarajan - Joint Managing Director, Mr. Suresh Pai - Executive VP, Mr. S V Zaregaonkar - Executive VP and CFO, Mr. J Moses Harding Executive VP - Wholesale Banking, Mr. S V Parathasarathy - Executive VP - Retail Banking. 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 now like to hand over to Mr. Bhaskar Ghose. Thank you and over to you sir.

Bhaskar Ghose

Ladies and gentlemen, good morning. This is Bhaskar Ghose from IndusInd Bank and thank you for joining today's teleconference call on our Q1 results for 2007-2008. As always, we have provided you with some fairly detailed information on our results and on certain financial aspects of our bank. This information is before you in the earnings update, which has as usual been meticulously put together by our CFO - Mr. Zaregaonkar, who is here with us. What I will do is, to take you briefly through the highlights of our performance for the first quarter of 2007-2008 and then just point out some of the key features of our results for the first quarter and then we will be happy to take questions from you.

Basically the story of the first quarter is this quarter onwards, we believe that we are beginning to see the growth in business that we have steadily been clocking all this time, being finally translated into an upturn in our profits. This is the start of it, no extraordinary stratospheric rise, but we believe that we have seen the bottoming out of our operating profit down fall or down trend, and now we are seeing the start of the up trend in the cycle.

Both our operating profit and net profit have gone up as compared to the levels of the first quarter of last year. Operating profit up from Rs. 27 crores Q1 of last year to Rs. 32 crores Q1 of this year, which translates into a 19% increase. Net profit has gone up by 62% from Rs. 8 crores first quarter of last year to Rs. 13 crores first quarter of current year.

Talking about business, we have seen growth there too. Once again I will share with you not just the published figures which are the period end figures, but also the averages. Deposits as of June 30, up from Rs. 15,400 crores in 2006, to Rs. 17,329 crores as of June 2007, which is a year-on-year growth of 13%. Advances on a year-to-year basis, point-to-point basis have grown more modestly about 6% from Rs. 10,809 crores to Rs. 11,469 crores. But as I said, we have been consistently sharing with you our average figures as well, because we believe that they are a much better indicator of the actual business performance than the snap shots in periods of time. So, our average deposits and our average advances have both grown by 15%. Average deposits first quarter of last year were Rs. 14,853 crores up to Rs. 17,047 crores first quarter of this year; average advances up from Rs. 9761 crores to Rs. 11,247 crores. As I said in both cases a 15% increase.

Some key highlights of our P&L statement; I will come back to some details of the advances and deposits later. To move onto the P&L statement, Interest income up from Rs. 334 crores to Rs. 432 crores for first quarter of this year. Non-interest income from Rs. 46 crores to Rs. 64 crores, so the total income has moved up from Rs. 380 crores to Rs. 496 crores. But of course much of this has been dampened by an increase in our interest cost; that is something that we need to tackle and continue to tackle aggressively. Interest expense rose from Rs. 277 crores to Rs. 375 crores and this is a result really of the very aggressive interest rates that were quoted across the banking industry during the last 2 months of the previous financial year. So, February and March saw some fairly fierce competition among banks for deposits, as you know interest rates quoted have reached fairly astronomical heights and we participated in some of that and there have been a spill over of some of those high interest costs into the first couple of months of this year - April and May, and that has had the overall impact of raising our interest expenses for the first quarter and as you know, because the term deposit component in our total deposit is high, this is an area where although we are addressing it, we continue to be somewhat vulnerable.

Operating expenses, considering that we added about 24 branches to our network expanding it from a base of a 146 a year ago, to 170, operating expenses have been contained pretty well. It rose from Rs. 76 crores to Rs. 89 crores, so that our total expenses of course as I mentioned, spearheaded by the rise in interest cost, rose from Rs. 353 crores to Rs. 464 crores. So that left us with an operating profit of Rs. 32 crores for the first quarter of this year as against Rs. 27 crores for the first quarter of last year and after taking into account provisions and contingencies, we can go to those details a little later, Net profit for the first quarter of this year was Rs. 13 crores as against the net profit of first quarter of last year of Rs. 8 crores.

A look into the balance sheet now. Capital grew by about 10%, I am talking about the equity capital, from Rs. 291 crores to Rs. 320 crores, which is an outcome of the GDR issue that we had towards the end of March, and together with reserves and surpluses, we saw our tier I capital going up to Rs. 1070 crores, a little lower Rs. 1070 crores.

Deposits, I mentioned that earlier, grew by approximately 13% point-to-point from Rs. 15,400 crores to Rs. 17,329 crores. Borrowings were lower. Other liabilities and provisions Rs.1200 crores to Rs.1613 crores, the bulk of largest single item here, subordinated debt, our outstanding tier II and upper tier II bonds, so we basically end it with balance sheet size of Rs. 20,559 crores.

On the asset side, of note is the fact that, advances went up as I said by 6% point-to-point, 15% in actuality, when you take average advances into account. Other assets, from Rs.994 crores to Rs.1122 crores, and the largest single component of other assets is our cash collateral, that is still outstanding, the remaining cash collateral that is still outstanding from our securitized assets that we have placed with investors, prior to September of 2005.

What about the credit portfolio? We are moving our credit portfolio in the direction that we wanted to. Basically, what we are doing is, of course re-pricing our loans in line with market movements and this is for both our retail loans, including our vehicle finance loans as well as our corporate loans. As a consequence of which our yield on advances have gone up by 200 basis points year-on-year. First quarter of last year our average yield on advances for the bank as a whole was 9.1%, first quarter of this year it has moved up to 11.2%, so an increase of over 200 basis points. This has in fact happened gradually sequentially the way in which we wanted, so no aberrations here. The yields on advances moved up from 9.1% first quarter of last year to 9.43%

second quarter to 9.89% third quarter, to 10.51%, and now 11.2%; So going in exactly the direction that we wanted to. But more specifically, new loans that we have been disbursing this quarter have been at an average yield of 15.31% and this compares with the average yield of 14.11% for loans that were disbursed during the last quarter, which is the fourth quarter of 2006-2007. In fact on our new vehicle loans which were disbursed this quarter, the average yield has been as high as 16.24% and even our corporate loans have been disbursed at average yield of 13.14%, and characteristic of our portfolio as you know is, because of the high component of vehicle finance loans, roughly about 58 to 59% today, there is a very high proportion of our portfolio which has been disbursed on a fixed interest rate basis, and as you know vehicle loans are typically done on fixed interest rate basis. So, as the old loans mature and go off our books and are replaced by new loans, this churning is improving not only our yields for now, but it will have a longer-term impact. To elaborate on that a little, you will recall that about a year and a half ago, we were disbursing new commercial vehicle loans at rates in the region of around 8-8.5%. Today new commercial vehicle loans are being disbursed at rates in the region of about 14.5 to 15%, in just a year and a half time, and the earlier loans have been hobbling us because a large portion of our portfolio still consists of those 8% loans being fixed rate; we cannot do anything about it until they go off our books. But now that lower fixed rate portion is **dwindling** gradually and being replaced by higher fixed rate component which means that today when we are looking at the possibility of a softening interest rate scenario, while for a lot of our competitors, they will see their yields too gradually going down in line with the softening interest rate scenario, for us because 60% of our loans are on a fixed rate basis, those high interest rates will remain. So what worked against us in a rising interest rate scenario is actually going to be working in our favor as the interest rate situation becomes more benign.

Moving onto our NPAs, since we are on subject of our credit portfolio, our NPA figure for the quarter ended June of 2007, the gross NPA figure is around Rs. 362 crores, the net NPA figure is Rs. 288 crores. In percentage terms, 3.14% gross NPA, net NPA figure is 2.51%, more or less flat as compared to the last quarter, but in comparison to the first quarter of 2006-2007, a slight rise and for example the net NPA figure as of June 2006 was 1.84%. But just to take you through the specifics or the details of this NPA figure, you will recall that we had during the course of last year in September of 2006, we had classified last of our legacy problem accounts as an NPA, basically the private sector oil refining company that we have been talking about for quite sometime now, and that added Rs. 123 crores to our gross NPA figure. We had an outstanding of about Rs.170 odd crores, we wrote off roughly about Rs. 48 crores leaving Rs. 123 crores which we added to our gross figure, and again just to remind you, I do not want to go into details we have talked about this in the past, but just to remind you, we are the only lender to this company that has classified its exposure as NPA, all the other lenders to this company still have their outstanding as standard assets. So a fairly substantial chunk of our gross NPA figure is accounted for by just that one loan and of course you will recall that we have specific security for that and we are optimistic that the security, the documents whatever we have will work in our favor in the courts; we have filed a case against this company.

The remainder - roughly a little over 50% of the outstanding figure, is accounted for by our vehicle finance division. And again just to remind you, a very large component of that, we consider only to be technical NPAs, arising from the fact that vehicle finance loans are characterized by delayed payments i.e. delayed by over 90 days, so which in an NBFC environment would still remain standard, but in a banking environment automatically turns NPA, but these are all recoverable from our perspective. So, as I said, the rise in our NPA figure in Q1 of 2007-2008 is really being accounted for by rise in our technical NPAs from vehicle finance division and that also because of the increased disbursements in vehicle finance that has taken place, so in proportion they have increased.

Moving onto our net interest margin, our net interest margin or rather our net interest income, is slightly up from Rs. 57.04 crores first quarter of last year to Rs. 57.40 crores first quarter of this year, but our net interest margin has declined slightly from 1.22% to 1.12%, and this is despite the fact that our average yields on advances has gone up, as I mentioned, by over 200 basis points. This is simply because, again as I mentioned, our cost of deposits continues to be high, largely as an outcome of the high cost deposits that we took on our books in February and March of this calendar year. In fact the cost of deposits for Q1 for the bank as a whole is 7.94%, as opposed to 6.48% for Q1 of last year. A lot of these deposits of course we have had to take, again just to remind you, to make up for the fact that we had to stop securitization of assets and which is something that was driving a lot of the funding that we were getting. But because of the new securitization norms, we stopped securitization of assets, and that gap had to be filled by bulk deposits, which in a rising interest rate scenario worked against us, but as I said in a more benign interest rate scenario, we are seeing an improvement already.

First quarter cost of deposits for the bank as a whole on an average is 7.94%, but just for your information, to take a look into the first month of the second quarter, the cost of deposits for July so far is already down to about 7.79%, just in the course of the first 3 weeks or so of July. So with the interest rates on deposits expected to keep softening and our interest rates on advances going up as our whole low yielding advances get replaced by new high yielding advances, we expect that our net interest margin will soon see an upward trend.

A word about our deposits, our CASA (current account savings account deposits) rose during the quarter by Rs. 555 crores; in percentage terms this translates into 15.01% as of the end of first quarter, as compared to 13.28% in the first quarter of last year. So we are seeing gradual but steady increase in our CASA proportion, as well as in our absolute CASA numbers. Also of course, today we have a larger number of branches than we had earlier. Besides, fairly soon we will be able to utilize the services of our marketing subsidiary which has over 600 outlets all across the country, which all this time we were using only for sourcing of vehicle loans and the collections of the vehicle loans, loan payments, and now under the new Business Correspondents dispensation of Reserve Bank of India, we will now be able to use these even for retail deposits. So with that we expect our retail deposits, our lower cost deposits, to start rising and our CASA proportion to go up in consensus.

We have already seen a broad basing of our retail customers. On the deposits side we have over 6.6 lakh retail customers as against 5.1 lakh a year ago and just this first quarter of the current year we have acquired 60,000 new deposit customers, and as I said, added the 600 odd outlets of the marketing subsidiary, which we will bring into play in tranches for our low cost retail deposits. We have also taken other initiatives, like our recent tie up with Religare Securities which has allowed us to offer 3 in 1 accounts to retail customers in the capital market segment and therefore capture those flows and those deposits which so far we did not have the ability to do, so as you know, these 3 in 1 accounts - basically a combination of savings account which comes to us, the demat account which comes to us, the trading account which goes to our partner Religare Securities, all of this is a seamless integration of our two systems and with this the deposits arising from retail capital market activities, which we were not getting, will also start being added to our overall deposits. Also just as an observation, we have reduced our dependence on inter bank deposits. A few years ago, our inter bank deposit component was as high as 50%. As of June 2006 - a year ago, our inter bank deposits comprised more than 18% of our total deposits. Today that component is down to only 9.5%.

Moving on to non-interest income as I mentioned that we have seen an increase in our non-interest income this quarter to Rs. 64 crores from Rs. 46 crores first quarter of last year, this has been fairly well distributed across the board, no undue dependence on any one segment; it has come from commission, exchange, brokerage, from our regular lines of business, our foreign exchange commission, our LC commission, our bank guarantee commission, from other income sources like processing fees, etc., which has also contributed fairly substantial amount, and of course our recovery from bad debts which continues to be a virtual line of business for us. So as a consequence of which, we ended with Rs. 64 crores as opposed to Rs. 46 crores of the first quarter of last year.

Just a word about the line of business we have been focusing on particularly, which is our inward remittances, it continues to be a thrust area for us. We now handle on an average a thousand transactions a day, with inflow volume of Rs. 4 crores. We have a tie-up with 16 exchange houses in the Middle East as against 12 such tie ups a year ago, and there are 15 more propositions, similar proposals under consideration. We are also planning and we are in the process of tying up with Times of Money especially for catering to other countries such as the USA, UK, Australia, and Canada, all of which have very large NRI populations and the new country that we are looking at for this is Saudi Arabia, very little competition there and very large inflows.

Finally, a word on technology, which we have always viewed as a major driver of our business. This quarter we launched our contact center and this would help to improve our level of engagement with our customers. Also as I mentioned, through our technology base we have managed to offer the facility of online trading, by integrating our systems seamlessly with that of Religare Securities, which is expected to contribute to our fee income as well as to our CASA deposits. On a pilot basis we have now taken up the centralization of our account opening operations, which in phases will be extended to all our branches.

So in sum, we are optimistic about the months to come, given the fact that a lot of new branches are coming into play, we have applied for new branches in this year also, 2007-2008, are hopeful of getting a large number of new branches, plus as I said, our outlets of our marketing subsidiary, our focused concentration on CASA deposits, and of course the fact that for the market as a whole the interest rates situation is likely to soften, so I think we foresee good news on the deposits front, which is an area which has been pulling us down in the past. Another area of good news is the advances side where softening interest rates, which might translate into lower yields for other banks, will not do so in our case, because of the high fixed rate component of our loans gradually as I said our old loans are getting replaced by higher yielding new loans, and of course fee based income, traditionally not a focus area for our bank till couple of years ago, increasing across a variety of sources including, and I should have mentioned this when I was talking about fee income, sale of third party products, especially on the insurance side, a very fast growing business for us. So, with that focus we should be seeing that component of our income going up again.

So that ladies and gentlemen is pretty much, can't use the word summary, of our performance for the first quarter, and let me reiterate that the earnings update that you have in front of you gives you, as usual, a wealth of information on our bank, but nevertheless whatever you do not see in the earnings update, whatever you have not heard during this presentation, we will be happy to take questions from you. Thank you.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may 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 questions. To ask a question please press *1 now. First in line we have Mr. Amit Rane from Quantum Securities.

Amit Rane

Hello.

Bhaskar Ghose

Hello Mr. Rane.

Amit Rane

Yes sir, I have a question on these marketing subsidiary that you have, you have about 600+ marketing subsidiaries, I would like to know, from when these will be operating as a deposit collecting branch?

Bhaskar Ghose

Well, it is a marketing company that we have and we are loosely calling it a subsidiary, but it is fully controlled by us;, and this is a company that has actually been in existence for quite sometime. This was something that was brought into the merger by Ashok Leyland Finance, which had this subsidiary for several years before the merger took place, and that is why I mentioned that the outlets of the subsidiary, which are now roughly around 600 in number, have spread across the country, of course especially in areas where we do not have branches. So that gives us a very extensive coverage. These have traditionally been used for the sourcing of vehicle loans and for collecting repayments of vehicle loans, and all this time for regulatory reasons, even after the merger we have been continuing to use these outlets, in their traditional role of sourcing of vehicle loans and for collection of repayments, but as I mentioned, there has been a development which will work in our favor now, which is the announcement of the Business Facilitator and Business Correspondent models by Reserve Bank of India a couple of months ago, which allows certain eligible entities - and certainly this marketing subsidiary is an eligible entity - it allows eligible entities to offer a much wider range of banking products and services, and which includes from our perspective something which is very important, which is our liability products. So now gradually in phases it is not that you know tomorrow, next week, or next month suddenly we are going to have 600 outlets going in with all guns blazing into the deposit collection market, but in phases we will be putting these into play so that we will have a much wider network for collection of retail deposits.

Amit Rane

Right sir, my question was specifically on that only, like have you defined the phases like 100 branches by the end of second quarter, 100 more by the end of third quarter like that?

Bhaskar Ghose

Well, the first set of outlets that will go into play will of course be those offices of Ashok Leyland Finance, those branches of Ashok Leyland Finance, which have not been converted into branches of our banks, that comprises roughly about 43 or 44, and these are already fully equipped in terms of connectivity, in terms of people, so therefore this will be the first set of offices that will go into play, and then we will develop on this to cover the other outlets in a phased manner.

Amit Rane

Right, thank you sir.

Bhaskar Ghose

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Lokesh Mallya from Birla SunLife Mutual Fund.

Lokesh Mallya

Good morning sir.

Bhaskar Ghose

Good morning Mr. Mallya.

Lokesh Mallya

I would like to ask what your capital raising plans are for this year, I mean how much in like perpetual, UT2 and equity if any? And secondly, also if I were to apply Basel II right now, what would be your overall capital adequacy and tier I capital?

Bhaskar Ghose

On capital raising plans, since we have raised some new equity capital towards the end of March that has given us additional headroom for raising additional new tier II capital of around Rs. 400 crores. So some portion of that, may be between Rs. 300 and Rs. 350 crores, we will be raising by way of subordinated debt during the remainder of this year in order to make sure that our capital adequacy ratios stay at desired levels, which is basically about 11.5% plus. It is unlikely that we will be raising any fresh equity capital for the rest of this year, but we are looking at other structures as well and the timing of this subordinated debt this year will of course depend on market conditions in terms of competition from other banks and trade etc. Sorry, your question about Basel II, today as you are aware, as of June, our capital adequacy is 12.16%, and if we were to apply Basel II to our balance sheet today, thanks to the fact that we have a very large proportion of retail credit which attracts a much lower capital allocation, our CRAR would actually be 12.79% i.e. an actual improvement of 63 basis points, so as I said we wish that Basel II were made applicable to us right away.

Lokesh Mallya

And your tier I would be at?

Bhaskar Ghose

Tier I today is at 7.17%.

Lokesh Mallya

Under Basel II?

Bhaskar Ghose

Under Basel II our tier I would be, we have not computed it, we will come back to you on that, but certainly and obviously there would be an improvement on that as well.

Lokesh Mallya

Okay, thank you sir.

Moderator

Thank you very much sir. Next in line we have Mr. Kumaresh Ramakrishna from Deutsche AMC.

Bhaskar Ghose

Hello.

Kumaresh Ramakrishna

Hello Mr. Ghose. A couple of questions here, now on the NPA figures which you mentioned now you have mentioned that the NPA was about Rs. 288 crores at the end of Q1, could we have the corresponding figure for at the end of FY07 what was the figure as on ending March 2007?

Bhaskar Ghose

Just for a change of tone I will put you onto our CFO Mr. Zaregaonkar.

Kumaresh Ramakrishna

Okay.

S V Zaregaonkar

The gross NPAs at the end of Q4 were at Rs. 342.74 crores, and Q1 gross NPAs were at Rs. 362.07 crores. The percentage of gross NPA in Q4 was 3.07 and percentage of Q1 is 3.14. Net NPAs for Q4 last were Rs. 273.75 crores and Q1 the number is Rs. 288.08 crores. Net NPA percentage for Q4 last year was 2.47 and Q1 it is 2.51.

Kumaresh Ramakrishna

Were there any write off in the first quarter this year?

S V Zaregaonkar

Sorry?

Kumaresh Ramakrishna

At any write off of bad loans assets.

S V Zaregaonkar

First quarter, no, first quarter we have not done any write off.

Kumaresh Ramakrishna

Okay, I have one more on the breakup of assets, I mean you mentioned about 58% of the loan book is towards vehicle loan, what comprises the balance 42%?

Bhaskar Ghose

The balance 42% is roughly about 30% wholesale and about 12 to 13% is other retail assets other than vehicle finance.

Kumaresh Ramakrishna

What portion of the asset book would be, lets say in terms of unsecured loans like personal loans for instance?

Bhaskar Ghose

Personal loans is, it is on page 6 of the earnings update, Personal loans as of June 30th 2007 Rs. 71 crores, down from Rs. 90 crores in June 2006, and much of the personal loans which we actually disbursed are through our corporate employee loan program, where actually we disburse loans to employees of our corporate clients, providing deductions from out of salary, so that takes a lot of the risk element out of personal loans.

Kumaresh Ramakrishna

Okay, and one last question, I am not sure if you would be able to give me the figure right away, but this is on the advances portfolio, would you have a figure for the average yield on the portfolio?

Bhaskar Ghose

Average yield on the portfolio, yeah, average yield as I mentioned, as of second quarter is 11.16% for the portfolio as a whole.

Kumaresh Ramakrishna

Okay, thanks.

Bhaskar Ghose

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Vishal from IL&FS Investsmart.

Vishal

Hello.

Bhaskar Ghose

Hello Mr. Vishal.

Vishal

Yeah, sir I just have two questions, one is on your credit-deposit, I wanted to understand that why was your CD ratio lower in terms of you know I can understand that your deposit growth was a little faster but now since as you said rightly that in the first month of Q2 FY08 your cost of deposits have come down from 7.94% to 7.79%, do you see that your deposit growth will be lower in the next quarter and your advances growth will be higher and your NIMs will show a marginal improvement in that case?

Bhaskar Ghose

Yeah we are expecting that are in line with, first of all as I mentioned, in line with the overall market scenario we will see our deposit rates fall as well, but of course the fact that we have new branches in the marketing subsidiary we were talking about whose focus will be on retail deposits and therefore that will take away a lot of the act of our bulk deposits, so yes in general we see our deposit rates going down. Again as I mentioned, in terms of the advances portfolio, our old low yielding advances, especially the fixed rate advances on the vehicle loan side are being replaced by the higher yielding advances, the overall yield on the portfolio, so in a declining interest rate scenario will improve and to answer your question on the lower CD ratio, actually our credit deposit ratio as of June, which was 66% which rose from 63% of last quarter of last year if you take a look at the March 31 figures. Our credit deposit ratio on Year on Year was lower as a consequence of the reduction in our market borrowings by about Rs. 1170 crores.

Vishal

Okay and sir one more question was on your fixed rate loans, what is the percentage of your fixed rate loans to your total advances that is going to be re-priced as you said?

Bhaskar Ghose

The entire vehicle finance segment which is about 57% of our overall portfolio, plus we have a small percentage of loans for the remaining part of the portfolio, I would say roughly about 60 to 61% portfolio is on fixed rate basis, which of course is being re-priced.

Vishal

And sir what is your current average incremental rate of lending?

Bhaskar Ghose

As we have mentioned, incremental rate of lending, our new loans which we disbursed during this quarter, the average yield has been 15.31%. See, on the vehicle loans, on the new vehicle loans and this is across the entire spectrum of vehicle finance, the average yield has been 16.24% and on the new wholesale loans the average yield has been 13.14%.

Vishal

Okay sir, thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1. Next is a follow up from Mr. Lokesh Mallya from Birla SunLife Mutual Fund.

Lokesh Mallya

Just a few things both on deposits and advances; firstly, corporate lending segment is showing a decline even over last year and also over last quarter, what could be the reasons for that, you are planning to cut down on this particular segment? And secondly, what would be the proportion of bulk deposits in your total deposits currently?

Bhaskar Ghose

There is no intention that we have of lowering our wholesale banking or corporate lending at all, because corporate lending in any case is giving us fairly good yield as I was saying on an incremental basis we are getting about 13% plus on our corporate loans, plus of course the opportunity it gives us for large amount of cross sale of transaction products as well as other non-interest income products, but the reason why you have seen a relative decline is because there was a portfolio of securitized assets that we had bought from ICICI Bank a couple of years ago and that is slowly running off our books, which actually suits us fine because that was taken on our books at a relatively low rate of interest. So at the time that we took that tranche on our books, the size of that transaction was about Rs. 2000 crores, which is down to about Rs. 700 crores, so you will see just the repayment of that gradually is what reflects as an apparent reduction in our corporate lending portfolio.

Lokesh Mallya

Sir you are saying that these securitized assets were corporate loans that were securitized?

Bhaskar Ghose

Not really, because we bought them from ICICI Bank and therefore that is the reason why we classified them as wholesale advances.

Lokesh Mallya

Okay, you classified them as wholesale advances is it?

Bhaskar Ghose

The underlying assets or retail assets, but because we sourced them from a wholesale source, we classified them as wholesale advances, and that is now as I said, gradually being repaid, much to our relief, because they carry very low rates of interest.

Lokesh Mallya

Sir, what would be the kind of final timeframe or maturity for these securitized assets?

Bhaskar Ghose

By the end of this calendar year, even before the end of this financial year.

Lokesh Mallya

Okay, and about the bulk deposit sir?

Bhaskar Ghose

I will again, just for a change, put you onto Mr. Moses Harding - our head of wholesale banking.

Moses Harding

We track the deposits in three categories viz., CASA, card-rate linked term deposits and "purchased funds" which are taken at premium to the card rates. Now, the deposit portfolio mix is of 15% CASA, 10% from card rate term deposits and 75% from high value term deposits. While the efforts are on to achieve granulation by being less dependent on high value term deposits, the positive take away for us is that these high value deposits, with an average tenor of

6 months, get re-priced at lower rates by 75-100 basis points, tracking the decline in interest rates.

Lokesh Mallya

Okay, and you said this particular category is currently around 75% of the total deposit. Okay, thank you sir.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1. I repeat, participants who wish to ask questions may please press *1. Next is a follow-up from Mr. Kumaresh Ramakrishna from Deutsche ANP.

Kumaresh Ramakrishna

Yes just one clarification I needed on this corporate book, you mentioned that you have no intention as of now to pad on the exposure to the corporate, now within the corporate segment I mean what typically would constitute the clientele in the sense I mean are these SME kind of corporates or are these large corporates, I mean if you can just give us an idea about what would be the borrower profile?

Moses Harding

Basically our corporate book has three categorization; one is the large cap with the turnover of Rs. 300 crores and above, the mid cap segment with a turn over of Rs. 25 to Rs. 300 crores, and small cap companies with turnover/sales below Rs. 25 crores, and within that our focus is on SME, which would constitute 60% of the corporate book. And as regards business strategy for the top end customers, the relationship will be skewed towards non-fund and non-credit products, because we are not really keen to lend to them at sub optimal rates. So, the focus is on SMEs to build up a holistic relationship through a mix of fund, non-fund, and non-credit products, so that the portfolio yield and the customer's profitability will be much higher from that segment. Does that answer your question?

Lokesh Mallya

Yeah that answers, just one thing, you also mentioned about this portfolio which you bought out from ICICI, which is actually running down. Now assuming that this portfolio, which is about 700 crores, let us if it runs down over whatever next 12 months or whatever, I mean is it going to be replaced through fresh loans to the SME portfolio?

Moses Harding
That's right.

Lokesh Mallya

To maintain this portion at about 30-35% of the overall loan book?

Moses Harding

We are adding almost Rs. 500 crores month-on-month basis on the corporate book, even on the repayment if you take, including that ICICI portfolio of around Rs.150 crores, the incremental add-on is around Rs. 350 crores in the corporate books month on month basis

Lokesh Mallya

Thank you

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1. At this moment there are no questions from the participants. I would like to hand over the floor back to Mr. Bhaskar Ghose for final remarks.

Bhaskar Ghose

Thank you very much. We appreciate the opportunity that you have given us to present to you our 1st quarter financials, and as always, should you have any further questions or any follow up issues, please do get in touch with us, we would be happy to reach you for one on one discussions on our Q1 results. Thank you very much, and thank you for your support

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 and have a nice day.