IndusInd Bank Limited

Q3 FY08 Results Conference Call

January 31, 2008

Moderator: Good morning ladies and gentleman. I am Rita, 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. V. Zaregaonkar, Executive VP and CFO; Mr. J. Moses Harding, Executive VP and Head – Wholesale Banking. For the duration of the presentation, all participants' lines will be in a listen-only mode. I will be standing by for the question and answer session. I would now like to hand over the floor to Mr. Bhaskar Ghose. Thank you and over to you sir.

Bhaskar Ghose: Thank you Rita. Good morning ladies and gentlemen and welcome to our third quarter conference call on our results for this year. Again, just if I were to describe the quarter very briefly in a sentence, I would say that it is a quarter where we have continued to see business growth. It is also a quarter where we are seeing profit growth catching up. You will recall that although business growth has been fairly consistent, in past quarters, we have been a little, shall we say, apologetic about profits growth and that is no longer the case. The last couple of quarters including this quarter we are seeing profit catching up, the growth rate of profits catching up with the growth rate of business. Total business for the third quarter this year crossed Rs 32,000 crore. In fact, it was Rs 32,500 crore going by the classical definition of deposits and advances and this compares with Rs 27,210 crore a year ago which was a growth of approximately just under 20%. Our total assets touched Rs 23,359 crore as opposed to Rs 19,987 crore. Now the interesting thing is that interest income has grown strongly. Gross interest income grew 32%, I repeat, 32% from Rs 379 crore third quarter of 2006-2007 to Rs 501.6 crore third quarter of this year and our net interest income in fact, because of a number of reasons that I will mention later, our net interest income showed an even higher growth of over 60% from Rs 62.8 crore third quarter of last year to Rs 99.56 crore, about a Rs 100 crore third quarter of this year. Total income rose from Rs 145 crore to Rs 164 crore taking out of course the interest expense. Our NIMs which has been a cause of concern earlier this year, you will remember that we touched a low of 1.12% first quarter of this year, in fact grew to 1.57% in the second quarter of this year and we end the third quarter with 1.74%. This is in line with an indication that we had given earlier, that we expect that by the end of the fourth quarter, by the end of this financial year, we should be touching, not for the whole year but for the fourth quarter we should be touching about 2% levels for our NIM. Our net profit for the third quarter this year was Rs 25 crore as against Rs 22 crore last year; that is a growth of around 16%. For the nine-month period, net profit was Rs 61 crore versus Rs 47 crore of last year i.e.; as of September 30th. Moving on to other balance sheet numbers, our deposits have moved up by 23% from Rs 15,942 crore as on December 31, 2006, to Rs 19,570 crore as of December 31, 2007, and incidentally I will just take a minute here to mention, to give you a little bit of breakup about that deposit growth. Yes, basically while our deposits grew on the whole as I said 23%, current account deposits grew 32% from Rs 1,363 crore third quarter of last year to Rs 1,805 crore third quarter of this year and our savings deposits grew 44% from Rs 817 crore to, I am sorry Rs 817 crore was the figure for the second quarter. The savings deposits figure stood at Rs 1,178 crore as of the end of the third quarter. I will give you the savings account figure for Q3 of last year, but basically the growth was 44% at 1,178 crore for third quarter of this year. So, as a consequence of which, our CASA which was 13.68% as of the end of third quarter grew to 15.24% at the end of third quarter of this year. Still low, but at least we are moving in the right direction. Advances saw 15% growth from Rs 11,268 crore to Rs 12,934 crore, to a large extent tempered by two factors - the first factor was that there was some capital constraints given the kind of, not capital constraints in an absolute sense, capital constraints given the kind of CRAR levels that we have chalked out for ourselves, so that was a constraint and incidentally I will touch upon this later, but it's our intent to keep our capital adequacy level at minimum of 11.5%. So, that is the kind of internal minimum that we have set for ourselves, so against that background, that was one of the reasons why advances growth at 15% was a little subdued, but also the other factor was the main growth engine, the fuel of our advances in the last couple of years which was vehicle financing, that is something that we deliberately and consciously reduced in line with what you will recall I had said sometime ago, in line with our intentions that we would reduce our proportion of vehicle finances from the existing levels of about 56% - 57% to about 42% - 43% as a proportion of our overall advances by March of 2010. In line with that, in fact we deliberately slowed down our vehicle advances and I will talk a little more about that later, but just to go back to what I had mentioned earlier, I said I will come back with a figure for our Savings Bank accounts for Q3 of last year, that figure was Rs 817 crore Q3 of last year, which has grown 44% to Rs 1178 crore Q3 of this year. Still on the subject of balance sheet numbers, I mentioned that CASA figures have grown even though proportionately we still have some way to go before we reach our target of around 30% to 35% where we plan to be by March of 2010, but in the process we have also reduced our dependence on inter-bank deposits, which a few years ago used to be horribly high at 32%, even last year, third quarter of last year it was as high as 14%, now it is down as of third quarter of this year, it is down to 6% of our total deposits, so greater and greater reliance on our own deposits. On other top line numbers, the only other notable point to make is that, in respect of our non-interest income we have seen a drop there from Rs 83 crore as of the third quarter of 2006-2007 to Rs 64 crore third quarter of 2007-2008. The reason for that is because the third quarter of last year contained a figure of Rs 44 crore as our recovery figure from bad debts and that figure has come down to Rs 9 crore as of the third quarter of this year. This is in line with again something I had said earlier that all our past bad debts, all the bad debts which we had written off, which we were targeting for recovery, from which we have seen good recovery figures all these years, that portfolio is now petering out, as we have extracted pretty much most of what we could extract from that past portfolio of bad loans. So, this portfolio is probably good for revenue for us for the next may be year and a half or two. So, that would really put all our legacy issues behind us, but in the process, of course it means that while our core non-interest income has grown, on the NPA recovery side we have seen a drop from Rs 44 crore, as I mentioned, to Rs 9 crore and that really accounts for the overall drop in our non-interest income for the third quarter of this year, vis-à-vis third quarter of last year. A word about our advances portfolio, the main reason for our increase in net interest margins, increase in our profit figures, of course is that our yields on advances have gone up substantially. This is in line with what we have been attempting to do for the last few quarters, which is to move, to restructure our advances portfolio and move it from where it was, where there was a high component of relatively low-yielding fixed rate loans to move it towards a more optimum mix, more optimum or higher earning mix, so this repricing of loans has helped us to do this. Both on the vehicle finance side, we have been putting on vehicle finance loans at much higher yields and even corporate loans, which are of course of a floating, bulk of them are on a floating rate basis, those also have gone up. In fact, for the Bank as a whole, our yield on advances, for our advances portfolio as a whole, we crossed 12%, it was 12.01% for the third quarter of this year. This compares with 9.89% for the third quarter of last year, so therefore we have seen our average yield on our total advances portfolio going up by over 200 basis points and that's been the main contributor to our increase in net interest margins or net interest revenue and our net profit. In fact, the yield on advances that we have seen in our portfolio has consistently been improving quarter after quarter. Just to take you through the last few quarters, starting from Q1 of 2006-2007, when our yield on advances was 9.09%, it moved up to 9.43% in the second quarter of last year, to 9.89% third quarter of last year, across to 10.51% in the fourth quarter of last year and this year we have seen our yield on advances going up from 11.16% in the first quarter, to 11.60% in the second quarter and now as I mentioned 12.01%. So, these have been very significant improvements in our advances portfolio. Our net interest margin as I mentioned, as of Q3 is 1.74%, that also has been consistently moving up, but of course it hasn't been moving up quite as significantly or quite as dramatically as our yield on advances. That of course is because cost of deposits has also risen. Cost of deposits has gone up by almost 100 bps QoQ, Q3 of last year to Q3 of this year, from 6.83% to 7.79% and incidentally last quarter Q2 of this year, our cost of deposits was 7.77%, has remained roughly static from Q2 to Q3. This is partly of course because we have seen a high interest rate regime ruling the market and partly because you are aware that I made a mention of this, CASA proportion although rising, is still low, so therefore obviously we continue to be a little dependent, a little vulnerable to interest rate movements in the market. So that is the reason why our cost of deposits remains high, but of course as our CASA keeps growing with our expanding network of branches, with our new business correspondent outlets kicking in, with the cross-sell effort continuing with our asset customers from the vehicle finance side, we are going to see our CASA proportions grow, our fixed deposit or term deposit portion fall and therefore our overall cost of deposits go down, even as our yield on advances rises. And incidentally, just a word on our investments portfolio, Q3 of this year, yield on investments was 6.97%, would have been much higher, had it not been for the fact that approximately a Rs1,000 crore of our investment portfolio, Rs 6,500 crore give or take, about a Rs 1,000 crore out of the Rs 6,500 crore represents low-yielding RIDF bonds of NABARD, which we have had to invest in for our past shortfall in meeting our priority sector targets. These NABARD bonds have an average yield of, what is it, like around 4% or so, between 3.5% and 4%. Because we have Rs 1,000 crore out of Rs 6,500 crore of our investment portfolio in NABARD bonds, our yield on investments is 6.97%. It would have been otherwise higher, but again, even that has sequentially gone up in the last quarter, i.e. Q2 of this year it was 6.79%, Q1 of this year it was 6.88%. Moving on from NIM, to I talked about our CASA, will go up partly because of the expansion in network that we have. So, just a word on that… As of now, we have 179 branches and 169 offsite ATMs spread across 147 locations in the country. We have one more branch license still in hand and license for 14 more offsite ATMs. We have not as yet received our branch authorizations from RBI for this financial year 2007-2008, which we expect to do in the coming weeks, so that should add several more branches to our kitty. I do not know, as to how many more branches RBI will license us to open, but we are reasonably confident it will be more than the number that we got last year and last year I think it was around 40 branches that we got licenses for. In addition, as I had mentioned in the past, under RBI's business correspondent guidelines, we are converting our marketing outlet, we have reconstituted the company, and there are a few legal t's to be crossed and I's to be doted before that company is finally operated. But this is a marketing company that you will recall, was a subsidiary of the erstwhile Ashok Leyland Finance and now is a subsidiary of our Bank, and this is a marketing company with 600 plus or minus outlets all across the country. By definition, in locations we do not have branches, so it gives us a very wide coverage and these 600 outlets are already actually operating units. These units have been operating for sourcing vehicle finance business and of course doing the collection of debts and these are the outlets that under Reserve Bank's business correspondent guidelines will now be permitted to distribute our entire range of retail banking products and services and of course the most important one for us is our deposit products and just to bear in mind that all these outlets have existing customers, existing customer relationships which are asset-based relationships, so the exercise there will really be an exercise of cross-selling to existing clients rather than trying to get hold of the completely new customers, and these 600 outlets of course will not be activated, all of them will not be activated at one go. These will be done in stages starting fairly soon, we do not have a specific date to that. We have said there are few legal matters to be sorted out internally for us, but it should be, these first set of outlets should be operational fairly soon. I talked about the erstwhile Ashok Leyland

Finance, let's move on to our vehicle finance division. In this nine-month period ending September of 2007, we disbursed close to Rs 3,200 crore, more specifically Rs 3,170 crore of vehicle finance loans and this compares with a higher disbursement level of Rs 3,900 crore for the first nine months of last year. Again, just to remind you, that this is to a large extent deliberate, although of course it does reflect to some extent, the slowdown in commercial vehicle production in the country, but it is largely deliberate in line with our intention to bring down our vehicle finance component in our credit portfolio, in our advances portfolio from the high of around 58% that we have reached to around 42% - 43% by March of 2010, and this is as good a time as any to mention that the only reason why we are doing this is because let's remember that vehicle finance, the yield that we get are highest among any of our business segments, let's remember that the vehicle finance division gives us access to priority sector loans. A large proportion of our vehicle finance loans qualify as priority sector advances. It also gives us access to large numbers of asset-based clients, most of whom are still on the fringes of mainstream banking and therefore most of whom are right for conversion to mainstream banking customers without too much of competition from our immediate peer group banks. So, all of these are vehicle finance activities contribute, but yet despite all these advantages we are still planning to bring down the proportion of our vehicle finance portfolio to about 42% - 43%. From a peak level of 58%, it is now down to about 54%, but the reason why we are planning to bring it down is because we are conscious of the fact and this hit us last year, you will recall, conscious of the fact that because vehicle finance is fixed rate finance for typically a period of 3 to 4 years, it leaves us in a bad position when interest rates are going up, although of course it benefits us vastly when interest rates are going down, but at the end of the day we do not wish to be vulnerable quite to that extent to interest rate movements in the market. Overall, our vehicle finance advances are at Rs 7,040 crore as of December 31, 2007. As I said, that constitutes about 54% of our total loan book, down from the peak of 58% a couple of quarters ago and the rough distribution or the rough share of different categories of vehicle finance loans that we have is commercial vehicles constitutes about 62%, that is anyway our area of core competence, that is anyway the activity that brings us, as I said a whole lot of new customers, gives us access to priority sector loans. Commercial vehicles constitute 62% of our vehicle finance portfolio followed by construction equipment about 14%, two and three wheelers put together about 11%, cars 9%, and utility vehicles 4%. Moving on to the other side of retail banking, apart from vehicle finance, a word on our deposits. Overall retail deposits, which of course include term deposits, retail deposits have grown from Rs 5,440 crore to Rs 7,742 crore in this one-year period, December of 2006 to December 2007, and that translates into a growth of about 42%. The number of customers, I am talking about only retail deposit customers, has increased by about 40% from 5.4 lakhs to about 7.5 lakhs. Most of our retail thrust, of course, is as expected backed with our technology background and strength. Most of our retail products have a strong technology thrust to them. As of now, we have seen these products finding increasing usage among our customers. We have more than 1 lakh, users of our internet banking facilities, in fact the exact number is 1,04,516. We have almost 4.4 lakh ATM-cum debit cards in use and the call center that we established, we kicked off about last quarter, the call center is now handling roughly about 400 incoming calls per day. In addition, we are now planning, still on the subject of our technology-based retail banking products, we are planning to launch in the near future our M-Commerce services, which among other things would allow third party payments through our mobile banking services, mobile cellphones. Moving on to wholesale banking, our corporate loan book has grown by about 34% during the nine-month period from April 2007 to December 2007 and has now touched almost 4000 crore. Number of clients also has grown. We now have about 1600 wholesale banking clients, a growth from 1200 to 1600 during this nine-month period and in line with our strengths in SMEs, you will remember that we have been bankers to the SME segment ever since we came into existence in 1994. So out of the 1600 customers that we have, it is no surprise to know that as many as around 1400 are from the SME segment. I talked about yields on advances, our average yield on corporate loans has improved from over the same nine-month period from March 2007, from 8.73% to 10.68% as of December 2007, and even non-interest income, if we were to leave out, I am excluding here the NPA recoveries of course, the non-interest income also has grown from Rs 21 crore nine-month period of 2006, to Rs 29 crore in the first nine-month period of 2007. I will just make a brief mention on one of our thrust areas, which is remittances, that despite our relatively small size in the overall banking market, we are a fairly large player in terms of inward remittances from overseas. So that business continues to grow. We are now seeing about 3000 transactions everyday constituting about 1 million dollars of funds inflow and these are daily figures. We now have tie-up with as many as 20 of the large exchange houses including for the first time one in Hong Kong. This is our first foray into South East Asia. The other exchange house tie-ups that we have had so far have been in the Middle East, so this represents a further expansion of this business, both from a volume perspective as well as geographically. We have continued the success that we have had in Haj remittances and this year within this period of one month during the Haj month we issued more than 16,000 drafts and two new products revolving around this new initiative - one is the remittance card and the other is the multi city draft. These are now ready for launch. Finally, just a reminder that our shareholding pattern as of now remains more or less unchanged from where it was last quarter, aside we have seen a slight increase in our FII shareholdings. The promoting company IIHL continues to hold 28.45%. FII shareholding in our bank is now up at 20.35%. Indian Public holds about 18%. The other significant portion would be our GDR portion, which you recall, we did a GDR issue in March of 2007, so that represents about 9.22% of our shareholding. So, that's where we stand as far as our third quarter is concerned, and we will be happy to take questions from you and incidentally I will add that we have been joined by our Head of Retail, EVP, S.V. Parthasarathy, so he is also here to tackle questions on our retail banking business. Please do go ahead.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, kindly press *1 on our 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, kindly press *1 now. I repeat, participants who wish to ask questions, kindly press *1 now. First in line, we have Mr. Chopra from B&K Securities. Over to you sir.

Sandeep Chopra: Good morning sir. Could you just get me the number for the revaluation reserve that you did during the quarter you have mentioned somewhere in your press release?

Bhaskar Ghose: Yes, we will just give that to you. In fact, that is partly how we were able to get our CRAR up and I will talk about our CRAR may be a little later, but that is how we were able to get our CRAR up by about 60 basis points, but I will turn this over to our CFO - Mr. Zaregaonkar for more complete answers to your question.

S V Zaregaonkar: During this period, we carried out the revaluation of our fixed asset comprising of land and buildings.

Sandeep Chopra: Sorry, how many sir?

S V Zaregaonkar: No, we have carried out the revaluation of fixed asset comprising of lands and buildings only, right.

Sandeep Chopra: Okay.

S V Zaregaonkar: And the total revaluation surplus was around Rs 240.78 crore. In terms of RBI guidelines, we have considered 45% of this surplus as part of Tier II capital and that has improved our capital adequacy ratio by 67 basis points.

Sandeep Chopra: Okay. Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on our telephone keypad. Next in line we have Mr. Sachin from SKP Capital.

Sachin Doshi: Hello sir.

Bhaskar Ghose: Yeah, good morning Mr. Sachin, go ahead.

Sachin Doshi: Yeah, I just wanted to know what is the yield on corporate loans, can you just tell it because I missed that out in the concall actually.

Bhaskar Ghose: Actually, I mentioned that the yield on our corporate advances currently is 10.28%.

Sachin Doshi: Okay.

Bhaskar Ghose: Sorry, 10.68%.

Sachin Doshi: Okay.

Bhaskar Ghose: Has grown from 8.73% as of March 2007.

Sachin Doshi: Okay. And what was the reason behind the improved yield on the corporate advances?

Bhaskar Ghose: A couple of reasons. One is that some of our low-yielding earlier assets, in fact, there were some securitized assets that we had bought, those ran off our books.

Sachin Doshi: Okay.

Bhaskar Ghose: Plus of course, new lending has been at much higher rates.

Sachin Doshi: Okay. Thanks a lot sir.

Moderator: Thank you very much sir. Next in line we have Mr. Agarwal from Angel Broking. Over to you sir.

Vaibhav Agarwal: Good morning sir.

Bhaskar Ghose: Good morning Mr. Agarwal.

Vaibhav Agarwal: Sir, I believe there has been a management change in the Bank. Could you tell us more about that and what the change in strategy has been for the Bank in general?

Bhaskar Ghose: Well, the management change was announced, of course you will recall in December.

Vaibhav Agarwal: Right.

Bhaskar Ghose: Basically, we have a team of people coming in from ABN AMRO Bank. Mr. Romesh Sobti who was the country head of ABN AMRO Bank for a long time.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: He will be taking over as the MD of this Bank and there are few other people who are joining with him, whose portfolios are still to be decided and allocated

Vaibhav Agarwal: Okay. And in terms of the management strategy, I mean has there been a substantial change in that for the Bank going forward?

Bhaskar Ghose: Well, in all fairness, I would let that question be answered by Mr. Sobti later.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: But in any case, the overall strategy for the Bank, we are really catering to our strengths and we do not really see that undergoing any major change and I say that once again with the qualification that at the end we will have to let Mr. Sobti answer that question.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: But strengths are basically 3-fold, some of which we have been exploiting regularly, some of which we have initiated the process of capitalizing on.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: And these are basically on the retail banking side. Our strengths continue to be in vehicle finance, that is a core competence area, so that is one of the areas, small as we are, we are one of the leaders in the field. The second area is especially when it comes to commercial vehicle financing because as I said it gives us a lot of other benefits as well.

Vaibhav Agarwal: Right.

Bhaskar Ghose: The second thing of course, our SME business which I gave you an indication on, that by letting you know that we have about 1400 out of 1600 wholesale banking clients who are SME customers and they give us higher yields, they give us much larger proportion of their fee-based income, and most of our new products and services on the wholesale banking side, have been designed to cater to their requirements, so the SME segment continues to be a thrust area for us. And the third area ofcourse which we have really underexploited for many years now, but over the last several months we have taken initiatives to address that and that is our NRI segment.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: You are aware that we are the first and still the only Bank to have been established by NRIs.

Vaibhav Agarwal: Right.

Bhaskar Ghose: In the early years, most of our growth was fuelled by NRI business flows, thereafter because of the growth of the…

Vaibhav Agarwal: Vehicle finance?

Bhaskar Ghose: No, vehicle finance came later of course.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: But after that the domestic economy grew so quickly and so attractively that in any case much of our initial NRI thrust was diluted because we saw lot of other opportunities here, but there is no doubt about the fact that we have certain in-built advantages in our NRI clients which we, as I said, never fully capitalized on, so that is something which we are going to continue to do, initiatives that we started.

Vaibhav Agarwal: So, what is the size of your international book?

Bhaskar Ghose: Size of our international book… for it I turn this over to my colleague Moses Harding to answer.

Vaibhav Agarwal: Sure.

Bhaskar Ghose: I will start the reply to your question by saying that the NRI business that we have enjoyed or the NRI support that we have enjoyed in the past and the support that we plan to garner once again, is largely in the area of fee-based business.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: Because in the past, mainly it took the form of FCNR deposits. The economics of FCNR deposits in any case as a whole has changed for the banking sector, but what we are really planning on, is to get a lot of fee-based income arising out of wealth management initiatives arising out of partnerships with our strategic alliance allies in two or three countries with large concentrations of our NRIs, where again the revenue will be split on a fee-sharing basis, so most of our NRI business really is fee-based.

Vaibhav Agarwal: The wealth management, I mean could you elaborate on that for NRIs.

Bhaskar Ghose: I am sorry.

Vaibhav Agarwal: You know, wealth management for NRIs as in for their investments in India, I mean in general or how is that?

Bhaskar Ghose: That is exactly the point. See, one of the things which we are doing here is not only cater to their investment needs in India.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: Something that most banks in India are doing. We are also very mindful of the fact that when you are looking at the investment portfolios of the high-networth NRIs or at least the mass-affluent NRIs, we are mindful of the fact that a relatively small portion of their investment flows coming to India when we are talking about really wealth management customers. Typically a high-networth NRI, typically invests about 20% to 25% of his investment portfolio in India, the rest of it stays overseas in various other forms and countries and most Indian banks have been competing for this 20% to 25% share.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: Our objective is to expand that to get a share of the remaining 75% to 80% business that stays outside, which is the reason why we have tied up with strategic alliance partners in key countries around the world where we do have our high-networth NRI customers present and also through our, are you aware that Hinduja Group has a private bank in Switzerland.

Vaibhav Agarwal: Okay. I did not know about that.

Bhaskar Ghose: A private bank in Switzerland which has been in existence for about the same amount of time as IndusInd Bank has.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: And they are specialized private banking entity, so with their help, with the help of our strategic alliance partners, and with some new initiatives that we are planning, our objective is to get a sizeable portion of the 80% investment flows of NRIs that stay outside India.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: So therefore, if you are talking about loan books, our loan books, remember that we do not have an overseas branch.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: So, when I talk about our NRI strategy.

Vaibhav Agarwal: Right.

Bhaskar Ghose: It is not really centered around giving loans to non-ethnic Indians in other countries, the kind of thing that a lot of the Indian banks with branches abroad have been doing. That is not our focus area for NRIs.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: But anyway just to complete the answer, I will come back to the question that you originally asked, pass you to Moses Harding for an answer on the overseas notebook, on the foreign currency notebook.

Moses Harding: Firstly, I will add something to bring more clarity on our cross-border (international) business. Our cross-border business consists of trade flows (arising out of imports and exports), remittances (inward and outward) and the bullion activity. I will first give you the top-line numbers. The turnover of the total Foreign Exchange business is around Rs 34,500 crores and turnover on the remittance business through Exchange Houses and through tie-up with banks is around Rs 1,200 crore and on the bullion consignment business around Rs 2,000 crore. These are the top-line numbers. And the bottom-line number contributing in terms of commission is around Rs 11.8 crore, exchange around Rs 13.5 crore, rebate and transaction fees from Correspondent Banks around Rs.3.9 Crores

Vaibhav Agarwal: Pardon, I did not hear that.

Moses Harding: Rs 3.9 crore.

Vaibhav Agarwal: Okay.

Moses Harding: Transaction fee from exchange and rebate from corresponding bank.

Vaibhav Agarwal: That is for the quarter?

Moses Harding: Overall with a top-line business of around Rs 35,000 crore from cross-border model business, the bottom-line contribution is around Rs 30 crore.

Vaibhav Agarwal: For the quarter?

Moses Harding: No, YTD.

Vaibhav Agarwal: Okay.

Moses Harding: As far as NRI business is concerned, as you are aware, the top-line deposit numbers are shrinking across the board for all banks. All

NRI deposit schemes are offered at sub-LIBOR (being regulated by RBI) as against Libor Plus rates offered by off-shore branches of Indian Banks.

Because of that, our NRE top-line deposit numbers have come down to around 100 million dollars, around Rs 400 crore from around Rs 700 crore last year

Vaibhav Agarwal: Okay. Hello?

Bhaskar Ghose: Yeah, go ahead.

Vaibhav Agarwal: Sir, your staff expenses are showing de-growth, so I mean is there a conscious cost cutting going on or something like that?

Bhaskar Ghose: No, I will pass this on to Mr. Zaregaonkar who will give us a view on the cost-cutting on staff.

S V Zaregaonkar: More or less, it is on the trend and in-line with the last Q3 and in-line with our budget. The staff number last year was 2,558 and this time we are having staff on board at 2,787. Perhaps, you are looking at the Q2 number.

Vaibhav Agarwal: Right, right.

S V Zaregaonkar: There was a higher amount for payment to staff in that particular quarter.

Vaibhav Agarwal: Okay, okay.

S V Zaregaonkar: It was mainly annual bonuses and some portion of variable allowance given to them at that time.

Vaibhav Agarwal: Okay. Hello?

Bhaskar Ghose: Yeah, go ahead.

Vaibhav Agarwal: Sir, in terms of you know your ROA targets, could you shed some light, I mean you know any improvement expected, just a broad guideline, may be something, you know from where it is going to come.

Bhaskar Ghose: Well, there are a whole lot of areas from which it is going to come, some of which are just outlined in my earlier answer to you. A lot of it of course will be contributed by our thrust towards increasing our CASA, because basically…

Vaibhav Agarwal: It is very difficult to actually increase that very quickly.

Bhaskar Ghose: That I know, that is exactly the point because we do not expect any dramatic improvement. CASA does not improve dramatically from week to week.

Vaibhav Agarwal: Right.

Bhaskar Ghose: We are conscious of that. So, the kind of target, CASA levels that we have in mind, which is about 30% to 35% of our overall deposits, we do not expect to get there much before March 2010 at the earliest, but of course it will continue to go up and in our case we are optimistic because there is a scope for it to grow, because for most other banks CASA has reached more or less a steady state in the 30% to 40% range, but in our case because we have not fully exploited that even from our customers there is a lot of scope for our cost of deposits to go down and therefore from our own existing customers through a cross-sell process, we are now pursuing that particular initiative. So, CASA will go up, but as you correctly pointed out, not overnight, it will take some time. But, in the meantime, as I mentioned earlier, I do not know whether you have caught that part of the presentation.

Vaibhav Agarwal: Actually I joined a little late, I am sorry about that.

Bhaskar Ghose: Our yield on advances has been going up substantially. From the third quarter of last year to the third quarter of this year, we have seen an increase in our yield on advances by over 200 basis points and there is a lot of scope there, also because it is not just a question of our putting new loans on our books at higher rates, it is also a question of the fact that our advances portfolio in the past have consisted of a large proportion of low cost fixed rate loans, which we could do nothing about, until they ran off our books.

Vaibhav Agarwal: Okay, right.

Bhaskar Ghose: Those are running off our books, so it is not just new loans coming on at high rates, but also old low-cost loans, low-yielding loans going down. So, therefore there is a lot of scope even if we do not do anything more to increase our lending rates, even if we just continue with our existing lending rates, our overall yield on advances will go up because the low-yielding fixed rate advances will keep running off.

Vaibhav Agarwal: Right.

Bhaskar Ghose: So, these are the kind of efforts that I had mentioned and of course on the non-fund side, the SME thrust, our third-party product distribution, which now we are expanding to all our outlets, including the 600 new outlets from our business correspondent subsidiary. So, with all these things, there is going to be a big, we are planning a big surge in our non-interest income as well.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: And all of this, we have, you know in terms of the branch network, new branches, just for your information again, have been contributing very good deposit rate numbers. The last 40 branches that we opened have an average cost of deposits of about 5.25%, which is more than 250 basis points lower than the average cost of deposits for our **B**ank as a whole, so this is a very encouraging sign to know that our own branches and not just one or two isolated branches, but across the board the new branches are delivering these kinds of low cost deposits. So, as these volumes build up, we will certainly see an overall impact on our profit. And the kind of target ROA that we have in mind in the near, in the immediate future is to cross 1%.

Vaibhav Agarwal: Cross 1%. Okay. Hello? Hello?

Bhaskar Ghose: Go ahead.

Vaibhav Agarwal: Okay, thanks a lot sir. That's it.

Bhaskar Ghose: Alright.

Moderator: Thank you very much sir. Next in line we have Mr. Deepak from Unified Wealth Management. Over to you sir.

Mr. Deepak: Hello.

Bhaskar Ghose: Yes Mr. Deepak.

Mr. Deepak: Yeah. Could you throw some light on your technological infrastructure.

Bhaskar Ghose: Had I known this question could be there, I would have had our technology subsidiary chief over here, but nevertheless I am handing it over to someone who knows the business just as well, which is our CFO Mr. Zaregaonkar.

Mr. Deepak: Yeah, okay.

S V Zaregaonkar: Bhaskar Ghose has, in his presentation, covered the initiatives on technology front. We are now concentrating much on M-Commerce. As you know we have come out with mobile banking products and payment gateways, which will be the thrust area. We will be adding new products and we hope to do better in that. In the period under review, we have entered into a lot of tie-ups with the exchange houses and of late is the tie-up in Hong Kong with Exchange House. So, our focus will be ensuring that we add to the product offerings on the retail side.

Mr. Deepak: What is the core banking software that is in….

S V Zaregaonkar: We have the core banking software from Misys which was earlier Midas-Kapiti International (MKI), a UK based company and along with this core banking software, we have built around a number of interfaces to meet our business requirements.Around 46 interfaces are active and live, to ensure that the customer requirements are met efficiently and in a best possible way. We are now working on Data warehouse project.and I-Flex will be helping us to take us through the BASEL requirements. This apart, our efforts are continuing to improve upon the front-end requirements, and we are very confident that technology should not be an issue for us. At the moment, we have DRP site in a different seismic zone wherein we get the data in sync with our production server on 24x7 real-time basis., and we do not have any issue on technology.

Mr. Deepak: Thanks a lot.

S V Zaregaonkar: Thank you.

Moderator: Thank You Mr. Deepak. Next in line we have Ms. Jyoti from KR Choksey. Over to you ma'am.

Jyoti Khatri: Hello.

Bhaskar Ghose: Hello Ms. Jyoti.

Jyoti Khatri: Sir, couple of questions. Firstly, how the margins are expected to behave going ahead, you know with the change in the loan portfolio as you said, the share of the vehicle finance would shrink going ahead and since this is a segment which enjoys high yields.

Bhaskar Ghose: It is a good question. In fact, it is with a little bit of regret that we are shrinking our vehicle finance portfolio given the high yields that it gives us for reasons that I mentioned.

Jyoti Khatri: Yeah.

Bhaskar Ghose: But overall our yield on advances will continue, their upward path. I mentioned actually earlier in the presentation that, as of December, although our NIMs were 1.74%, we are expecting by the end of this year, i.e. by March 2007, our NIMs to be approximate 2%. Let me repeat, we are not talking about NIMs for the year as a whole, but I am talking about NIMs by March 2008. Sorry, I said that by mistake. March of 2008, we are expecting our NIMs to be approximate 2%.

Jyoti Khatri: Okay.

Bhaskar Ghose: And this is a combination of, as I mentioned earlier, the fact that we are putting new loans on our books at higher interest rates, the fact that lot of our old low-cost fixed rate loans are now running off our books, so there is a widening of yields from both ends, thus of course as our cost of deposits gradually falls with our new retail thrust and new retail branches delivering on CASA, our 600 outlets being activated under the business correspondent model, so our cost of deposits also starts falling. So, it is a war on three fronts - gradually decreasing cost of deposits, the fact that our low cost, our whole low cost fixed rate loans are running off our books, and that our new loans are being put on much higher rates, and all of this in any case is also helped by a benign interest rate scenario for the market as whole, then of course it will be an even greater advantage, greater bonus for us.

Jyoti Khatri: Okay. Sir, as you said, some of the old low cost loans are going off the book, can you share the number like how much was the proportion of those loans in total loan portfolio?

Bhaskar Ghose: Okay. I will just very briefly mention on the corporate side. Then, I will pass you on to Mr. Parthasarathy, because lot of the old cost fixed rate loans were our commercial vehicle financial loans which were put on our books two years ago in response to market competition, but otherwise on the corporate side, there are two or three low-cost fixed rate loans on our books, which are going to go off our books in the next six months or so. Plus, we had a securitized portfolio which we had bought with an average yield of about 7% or so and at one point of time that was a very substantial load drag factor on our books, but now the outstandings under that are rapidly diminishing and they are down at about Rs 258 crore.

Jyoti Khatri: Rs 258 crore.

Bhaskar Ghose: At the peak, this was about Rs 2,600 crore. So, Rs 2,600 crore we had on our books at 7% fixed rate about two years ago, which is now down to 200 and odd, about a tenth of that, Rs 258 crore, and going off. But, apart from that, a very major contributor for the runoff of our low cost fixed rate loans is the vehicle finance side, so now I hand you over to Parthasarathy for that.

S V Parthasarathy: See in our vehicle finance portfolio, in the early part of the 2006 and later part of 2005-2006, we had concluded sizeable loans, particularly on commercial vehicles around 8% to 8.5% which is more or less at a break-even level considering the present cost

Jyoti Khatri: Okay.

S V Parthasarathy: This typically has got a tenor of 3 years' time and you would understand that by March, about 2 years of this portfolio would have been completed and major portion of the portfolio would cease to be in books. From the present portfolio, there would be a consistent run down of low yielding portfolio. Therefore, out of the present portfolio of whatever we have, we will have close to approximately one-sixth of our portfolio to be at the old <u>interest rates put down every month</u>, one. Two is in continuation to your earlier question, whole portfolio yield was 12% while we were doing commercial vehicle at 8-8.5% the total yield in VFD was around 12% even in the year 2005. Now, the average rate has moved up close to about 15-16%. Therefore, there has been a shift to the extent of 4% in our portfolio yield. And commercial vehicles also, we have increased our yield from close to 8.5–9% to 12.5–13.5% which is also moving linear with our total portfolio yield.

Jyoti Khatri: Okay sir. You said it will go up by September, of this year or next year?

S V Parthasarathy: No, September of 2007 is over, it is 2008. 2008, by September, the entire portfolio will run off the book.

Jyoti Khatri: Okay.

S V Parthasarathy: One more thing to answer your earlier question also.

Jyoti Khatri: Yeah.

S V Parthasarathy: Even though we have reduced our disbursement from Rs 3,900 crore (Dec 2006) to Rs 3,200 crore as of December 2007, the vehicle portfolio per se will increase by 1000 plus book size. Therefore, in book, while on one hand there is a disbursement decrease, the book size will go up and that will contribute to the bottom line

Jyoti Khatri: Okay. One last question. Can you share us the numbers on assets, i.e.; gross and base and net increase?

Bhaskar Ghose: May be I will turn you over to our CFO Mr. Zaregaonkar.

Jyoti Khatri: Yeah.

S V Zaregaonkar: Our gross NPA for December 31, 2007, was Rs 411.41 crore, constituting gross NPA percentage of around 3.16%, as compared to gross NPA of around Rs 367.26 crore constituting gross NPA percentage of about 3.24% last year at the corresponding quarter. The net NPAs for the Q3 of the current year, we are at Rs 313.27 crore translating into a net NPA percentage of 2.42%.

Jyoti Khatri: Okay.

S V Zaregaonkar: Last year at this time the net NPAs were at Rs 287.87 crore constituting a net NPA percentage of 2.55%.

Jyoti Khatri: Okay.

Bhaskar Ghose: Just one thing I will add Ms. Jyoti.

Jyoti Khatri: Yeah.

Bhaskar Ghose: So that we do not lose perspective on this.

Jyoti Khatri: Yeah.

Bhaskar Ghose: That of our NPA figures, roughly 50% is wholesale and 50% is retail.

Jyoti Khatri: Okay.

Bhaskar Ghose: And of the wholesale portion, we have one large single account loan taking up Rs 123 crore of net NPA space.

Jyoti Khatri: Okay.

Bhaskar Ghose: And this is an oil refining company and my friends who will remember, in our earlier presentation on this, you will remember that this is an oil refining company which has a large number of lenders in the banking sector. We are the only banks to have classified this as an NPA. Every other bank in the industry still has it as a standard asset. So, Rs 123 crore is one account alone on the wholesale banking side which is about half our overall portfolio, and the other half of our portfolio, which is retail, mainly vehicle finance, this is a characteristic of vehicle finance, most of these we consider to be recoverable and these have been classified as NPAs largely because of the fact that commercial vehicles in particular while we as a bank have a 90-day NPA recognition norm, the bulk of the players in commercial vehicle financing who are NBFCs, they have a income recognition norm of, they used to have 12 months, now down to 6 months.

Jyoti Khatri: Okay.

Bhaskar Ghose: So, therefore for vehicle finance, commercial vehicle finance borrowers, they are accustomed to paying their dues with, you know, three-four month delay which for NBFCs would constitute a standard advance, but for us would become an NPA, but these are technical NPAs because these are all recoverable, in fact a bit of penal components also.

Jyoti Khatri: Okay. And how about the recovery of this Rs 123 crore?

Bhaskar Ghose: This Rs 123 crore, at the moment it is in court. One of the reasons why we classified this as an NPA, against the runoff play in the banking sector as a whole, is because we have exclusive charge over specific asset of theirs, which are basically their tax refunds from the government, their MODVAT receivables, their countervailing duty receivables from the government, so it is coming from a third source, not from the company itself.

Jyoti Khatri: Okay.

Bhaskar Ghose: So, we have got exclusive charge over that and we are obviously confident enough of being able to recover it which is why we decided to classify it as an NPA and proceed against the company.

Jyoti Khatri: Okay. Thanks for the information.

Bhaskar Ghose: Thank you.

Moderator: Thank you very much ma'am. Next in line we have Mr. Pankaj Talwar from Ohm Investment.

Pankaj Talwar: Hi, this is Pankaj Talwar.

Bhaskar Ghose: Hello Mr. Talwar.

Pankaj Talwar: Hi, how are you? I have a couple of questions. One, what is your book value as of 31st December?

Bhaskar Ghose: We will give you both book value as well as adjusted book value.

S V Zaregaonkar: Book value is 34.91.

Pankaj Talwar: 34.91 adjusted for the gross NPAs.

S V Zaregaonkar: Yeah, and excluding the revaluation reserves.

Pankaj Talwar: Okay.

S V Zaregaonkar: Adjusted book value with NPAs reduced from there, is 25.1.

Pankaj Talwar: 25.1?

S V Zaregaonkar: Rs 25.12.

Pankaj Talwar: Okay. I came in the call a little late, just wanted to check, when is the change in management going to take place?.

Bhaskar Ghose: Sometime next month.

Pankaj Talwar: And what is the strategy with the new management, can you throw more light on that?

Bhaskar Ghose: It will be unfair of me to comment on what the new management may or may not do. So, that is something that I guess we will have to leave to the new management to outline, but the overall direction in which we are going, let's also remember that this is a direction which we have taken also in consultation with our Board of Directors, so I think the overall guidelines will probably remain. They may be tweaking it a bit here and there, but the overall strategy which I spelt out a little while ago, by and large that will remain.

Pankaj Talwar: But do they get a lot more say in running the bank, I do not know how many individuals are coming, is it one individual or a team of people?

Bhaskar Ghose: It is expected a team of people coming in.

Pankaj Talwar: Okay. Will they have a leeway to make their own decisions, you know run the bank independently or is it, can you tell that.

Bhaskar Ghose: I am not sure I understand the question. I mean, your question somehow suggested that, as of now there is no independence of decision making. Is that what you have been suggesting?

Pankaj Talwar: No, no, there is independence in decision making I just thought the new team coming in.

Bhaskar Ghose: Okay, that way, that way. Yeah, of course, new team I am sure will be given enough leeway to forge their own path, but I mean I will give you a slightly absurd example just to illustrate the point. Suppose the new team says that look we don't have branch expansion because we are accustomed to an environment where you know, we work with five or six branches, so let's close down all the other branches, let's reduce it to five or six branches, if that kind of independence likely….

Pankaj Talwar: My question involves around rationale thinking, those guys would think rationally.

Bhaskar Ghose: I am sure they are going to continue to capitalize on our existing strengths which is what we are doing ourselves at this point of time, which is why I don't, I mean, again qualifying my comment by saying it is really up to the new management to spell out the details of their strategy, but overall my comment is that it is unlikely that we will see a complete U-turn.

Pankaj Talwar: Right. And just the last one. How is the team being incentivised in terms, you know, how much ESOP or stocks being given?

Bhaskar Ghose: That I think in all fairness you should ask the new team.

Pankaj Talwar: Okay, what percentage of the equity, any idea about that?

Bhaskar Ghose: I am sorry Mr. Talwar, I am not in a position to discuss that. That is something you will have to ask the new team.

Pankaj Talwar: Okay, thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Rahul from Lucky Securities. Over to you sir.

Rahul Bhangadia: No, my questions have already been answered. Thank you very much.

Moderator: Thank you very much sir. Next in line we have Ms. Snehal from Techno Shares.

Snehal Rao: Good afternoon sir.

Bhaskar Ghose: Good afternoon.

Snehal Rao: I would just like to have a break-up of the vehicle advances again in terms of percentage. I need the two and three wheeler allocation in that case.

Bhaskar Ghose: I am turning over to Mr. Parthasarathy, he will answer the question.

S V Parthasarathy: You want as of December 2007?

Snehal Rao: Yeah.

S.V. Parthasarathy: Commercial vehicle constitutes 12.4%.

Snehal Rao: Okay.

Snehal Rao: And commercial vehicle, other commercial vehicle and commercial vehicle will constitute, 40%.

Snehal Rao: 40% as of December.

S V Parthasarathy: Yeah.

Snehal Rao: Okay.

S V Parthasarathy: Two and three wheeler will constitute 5.5%.

Snehal Rao: I am sorry sir.

S V Parthasarathy: You are talking about the overall portfolio or..

Snehal Rao: I need the entire break-up that you have given initially of the commercial vehicles being 52%.

Bhaskar Ghose: I will give you that, the information just is in front of me.

Snehal Rao: Yeah.

Bhaskar Ghose: Out of our overall vehicle finance portfolio, commercial vehicles are 62%.

Snehal Rao: Okay.

Bhaskar Ghose: Construction equipment is 14%.

Snehal Rao: Okay.

Bhaskar Ghose: Two and three wheelers 11%.

Snehal Rao: Okay.

Bhaskar Ghose: Cars 9%.

Snehal Rao: Okay.

Bhaskar Ghose: And utility vehicles are 4%.

Snehal Rao: Okay. And the entire value of the vehicle finance advances in value terms is how much?

Bhaskar Ghose: As of now, standing at Rs 7,040 crore. As of now meaning December 31, 2007.

Snehal Rao: Okay. And sir we know that you are intentionally reducing the vehicle finance portfolio by say 58% to 42%, almost a downfall of 16%. Where is the bank looking forward to allocate these 16% of advances then?

Bhaskar Ghose: Mainly to the two remaining segments, one is of course the wholesale banking portfolio, which largely consists of SMEs, from which we get not only higher yields on advances, than we would do for large corporates, but also a much larger share of their non-fund business and the second of course is the other retail business. Our other retail currently consists of mainly loans to traders, which are highly collateralized. So- that again we see a lot of other fee-related income coming on to this, but the point that I would like to mention is that it is not that we are talking about shrinking our book size. So, I don't want to leave you with that impression. Our loan growth will continue to take place. In fact, we plan to grow at a much faster pace than we had done in the last one year. As you are aware, from Q3 of last year to Q4 of this year, our advances growth was relatively low at 15%, partly because of capital-related issues. We intend to ramp that up much higher, so there will be no shrinkage. In fact, there will be an expansion in our loan portfolio. I am merely talking about the relative break-up among these three segments, vehicle finance, other retail, and wholesale.

Snehal Rao: Okay. And sir one last question about…

Bhaskar Ghose: Talking about vehicle finance going down from the peak of 58%, incidentally now it is about 54%.

Snehal Rao: Yeah. So, I just wanted to know the difference, where exactly the advances will be shifted then, because the percentage that you are reducing, you might be allocating to other sectors also. I just wanted to have a look of those two.

Bhaskar Ghose: Yeah, these two. But in any case this is going to go down to the target level of 40% to 42%, only by March 2010.

Snehal Rao: So, whatever would be the reduction would be probably increased in those particulate areas that you have mentioned now.

Bhaskar Ghose: Correct.

Snehal Rao: Okay. One last question, can I have the break-up of the other income component?

Bhaskar Ghose: Yeah. Mr. Zaregaonkar…

S V Zaregaonkar: The other income for Q3 was Rs 64.54 crore as compared to Rs 82.47 crore. The drop in other income was mainly on account of lower bad debt recovery. Last year Q3 we had bad debt recovery of Rs 44.02 crore, as against the bad debt recovery for the Q3 of the current year was, which is Rs 8.99 crore.

Snehal Rao: Okay. And could I have the break-up of that, where exactly is this other income, components of that.

S V Zaregaonkar: Oh, yeah. You can say fee income. Last year Q3 it was 49.18 crore. As against that, the number for current quarter is Rs 53.90 crore. We had a profit on exchange transaction of last year Q3, it was Rs 4.45 crore, Q3 this year it was Rs 6.02 crore.

Snehal Rao: Okay.

S V Zaregaonkar: That apart, we had other income in terms of profit on sale of land, buildings, and loss on repossession of the vehicles.

Snehal Rao: Okay.

S V Zaregaonkar: The loss was Rs 5.72 crore, this year it was 6.84 crore. We had also another item in this other income. There is a profit on sale of investments. Last year, we had earned profit on sale of investments of Rs 1.04 crore.

Snehal Rao: Okay.

S V Zaregaonkar: Current period Q3 it is Rs 12.24 crore.

Snehal Rao: Okay.

S V Zaregaonkar: Yeah.

Snehal Rao: Fine sir.

S V Zaregaonkar: If you total up all these things, you will get the Q3 number at Rs 82.47 crore.

Snehal Rao: Okay.

S V Zaregaonkar: There is adjustment on account of amortization of premium of HTM securities. Last year, we had Rs 10.51 crore and this year it will be Rs 9.78 crore.

Snehal Rao: Okay sir. Do we see a rise in the fee-based income from here, because now that you have said that the NRI segment, wherein the major component of money of NRI segment is the most from fee-based income, so do we see a rise in the fee-based income going forward from this particular segment?

Bhaskar Ghose: Yes, we do. It is not just NRIs.

Snehal Rao: No, my question is assessment on these NRIs.

Bhaskar Ghose: The income line that Zaregaonkar referred to of course is our LC commissions, our guarantee commissions and so on. So, beginning with that, that is one of the areas that we are targeting for an increase.

Snehal Rao: Okay.

Bhaskar Ghose: And the fact that we are increasingly dealing with SMEs, it makes it easier for us to do that, because first and foremost SMEs pay much higher fees than the large corporates do for the same kinds of transactions.

Snehal Rao: Right.

Bhaskar Ghose: And secondly SMEs give us, you know, typically an SME has one or two or maximum three bankers.

Snehal Rao: Okay.

Bhaskar Ghose: And therefore unlike for a large corporate where we have done that, we have been through that game ourselves, we have been bankers to large corporates and in many cases, not all, many cases we have not got really a fair share of non-fund business, but for SMEs we tend to get not just our share but proportionately higher share also. We try and do that through you know better service, quicker turn-around time, and so on. So, we get much higher return on our loans just by way of much higher non-fund business growths from them.

Snehal Rao: Okay.

Bhaskar Ghose: So, therefore the SMEs are great source of our increasing non-interest income. Of course, on the general retail side, we will be ramping our income flows from third-party product distributions, mainly mutual funds, we have got about 30 of them, 30 mutual funds that we distribute.

Snehal Rao: Okay.

Bhaskar Ghose: And our insurance is going to be ramped up significantly because now insurance will be distributed from all our 600 business correspondent outlets as well and let's remember, also that for us specially on the general insurance side, for us general insurance is almost the same as motor insurance and motor insurance is almost captive business for us for the vehicles that we finance, specially on the commercial vehicle side. We have got some very aggressive tie-ups in place now and on the life insurance side, we have recently changed our life insurance bancassurance partner to Aviva and we found that the results have been very much better than with our earlier bancassurance partner on life insurance side.

Snehal Rao: Okay.

Bhaskar Ghose: So, third-party products are going to be a major source of our increase in fee income and then of course the other things that we are seeing a ramp-up of, is something which is, you know, almost boring to talk about, but is a big fee earner for us, which is our processing fees.

Snehal Rao: Okay.

Bhaskar Ghose: Our processing fees especially on the retail banking side.

Snehal Rao: Okay.

Bhaskar Ghose: So, that is something where we find that it is a little easier to push those through to be quite right. And of course what I did not mention this time, but I had mentioned a little while ago, about our NRI-related wealth management initiatives.

Snehal Rao: Okay. Thank you sir. I am through with my questions. Thank you.

Moderator: Thank you very much ma'am. Next in line we have Mr. Anuj from ASK Investment Managers. Over to you sir.

Anuj Sharma: Yeah, hi, Anuj. Well, Bhaskar, I have a question on your branch network. If I understand it right, our approvals for this current year is still pending from RBI, is that right?

Bhaskar Ghose: That is correct.

Anuj Sharma: Okay. And when was this approval made and how many licenses had we requested for?

Bhaskar Ghose: Little unfair to mention that. I do not think we should because, let's wait until we get the licenses, but all I will reiterate, as I had said earlier, is that we expect to get going by the discussions with RBI, we expect to get a larger number of branches for this year 07-08 than we got last year. Last year, it was about 40 branches or so.

Anuj Sharma: Okay. No, my question is because our CASA and our fee-income targets really depend upon the branch network, why is that it has been very slow this year, any reasons, any understanding as to why so delayed?

Bhaskar Ghose: Not really. I think there are a few banks whose branch license authorizations are still to come through and as I said our discussions with RBI at the level that we have had for our branch authorization, we have got a fairly good idea of what kind of a number we are going to get, but as I said that until we get it, it is a little unfair to say, but all I say it will be more than the earlier 40, but let's not also forget that we are not dependent, going forward we are not dependent only on our branch network. I reiterate that the business correspondent guideline is a big, big boon to us. For our Bank, where we already have an existing fully owned marketing subsidiary with 600 outlets all across the country, which all this time had been authorized to distribute only our vehicle finance products, now under RBI's business correspondent guideline is entitled to distribute all our retail products, so we are very pleased about that, we are very excited about that because now we have as many as 600 outlets through which we can distribute all our retail deposit products as well.

Anuj Sharma: Okay.

Bhaskar Ghose: So, in a sense, that is going to give us a much larger network than even whatever number of branches that we get this year from RBI.

Anuj Sharma: Right. Okay. Just one more thing, what is the internal target for branches we would have on a long-term basis?

Bhaskar Ghose: Well, to a large extent, I mean it is not that we have set a particular target for ourselves except in our business trend that I can share with you, but I think that part of it I should leave to the new management to answer, but in general I will just say that these 600 outlets that we are converting into full retail banking outlets except that you know they cannot do a few banking-related things, but all our retail banking products they will be able to distribute. The idea is that we will keep picking out the more active ones over there of those 600 outlets and converting them into our branches, because they will be readymade outlets to be turned into our branches. So, we are really talking about an available pool of 600 outlets to choose from.

Anuj Sharma: Okay. Thank you Bhaskar.

Moderator: Thank you very much sir. Next in line we have Mr. Rajesh from Dipen Mehta Stock. Over to you sir.

Rajesh Prabhu: Yeah, hi. I think most of my questions are answered. I just had one supplementary question if possible. Sir, can you share your thoughts on these non-performing assets at gross level, going forward?

Bhaskar Ghose: At the gross level, okay let's just go back a little bit, see, most of our non-performing assets are really historical assets, are really legacy assets.

Rajesh Prabhu: Okay.

Bhaskar Ghose: They are all, if you drill down, you will see that all our accounts that we had put on our books in the year, prior to the year 2000 and over a period of time these have been recognized as NPAs and most of them have been written off and we have pursued them and got some very good recovery results from them. Of the new loans that we have disbursed and by new I mean loans that we made after the year 2001 when the bank underwent a full restructuring of its risk management practices, we have hardly added any new NPAs on the wholesale banking side.

Rajesh Prabhu: Okay.

Bhaskar Ghose: I cannot give you exact figures, but just back-of-the-envelope calculations, we would have put, on the corporate side, we put on about 12 crore during this year, but just overall from the year 2001 onwards, we would have disbursed an incremental amount of new loans of may be around Rs 42,000 to Rs 43,000 crore in the aggregate.

Rajesh Prabhu: Okay.

Bhaskar Ghose: From 2001 onwards. Out of this, an amount of barely about Rs 50 crore has turned NPA on a gross basis.

Rajesh Prabhu: Okay.

Bhaskar Ghose: So, Rs 50 crore out of the total disbursement of Rs 42,000 - 43,000 crore…

Rajesh Prabhu: That's negligible.

Bhaskar Ghose: It gives us an idea of what our new corporate lending has been like.

Rajesh Prabhu: Okay.

Bhaskar Ghose: It is really an outcome of the new risk management practices we put in place; we do not expect therefore any very significant addition to our NPA portfolio on the wholesale banking side going forward.

Rajesh Prabhu: Okay.

Bhaskar Ghose: On the retail banking side, as I mentioned, a very large proportion of our NPAs are really technical NPAs rising from the fact that the bulk of our retail loans are really vehicle loans and vehicle loans, in particular commercial vehicle loans, that is a space which is occupied just in terms of number of players, that is a space that is occupied largely by NBFCs.

Rajesh Prabhu: Yeah.

Bhaskar Ghose: You know, there are only a handful of banks in that space, I am talking about commercial vehicles.

Rajesh Prabhu: Okay.

Bhaskar Ghose: There is us, there is ICICI Bank, there is HDFC Bank and pretty much that's it. In commercial vehicles, trucks, there is any hardly any other bank player. The rest of them are all NBFCs. And NBFCs have a different, even under RBI guidelines; have a different NPA recognition norm. As banks, we are required to, anything which is overdue for more than 90 days, we are expected to classify as NPAs.

Rajesh Prabhu: Yeah.

Bhaskar Ghose: NBFCs, till very recently, that period was 12 months. Anything that is overdue over 12 months is classified as NPA.

Rajesh Prabhu: Okay.

Bhaskar Ghose: Now tightened it to about six months. Whatever it is, the fact of the matter is for that space the vehicle finance borrowers are accustomed to dealing with, lenders who are not overly bothered if their dues are you know 3-4 months, 5 months old.

Rajesh Prabhu: Okay.

Bhaskar Ghose: They are still standard assets on their books.

Rajesh Prabhu: Okay.

Bhaskar Ghose: So, therefore in order to be competitive, we have to fall in line as well.

Rajesh Prabhu: Okay.

Bhaskar Ghose: But it does not really bother us because we know all of it is recoverable.

Rajesh Prabhu: Okay.

Bhaskar Ghose: But it appears as a statistic on our books.

Rajesh Prabhu: Okay.

Bhaskar Ghose: So therefore going forward, we don’t really expect NPAs; and you know vehicle finance, we are going to continue to see our historical rate and we are talking about having 20 years of experience in vehicle finance.

Rajesh Prabhu: Okay.

Bhaskar Ghose: As you remember, Ashok Leyland Finance is 20 years old.

Rajesh Prabhu: Yeah.

Bhaskar Ghose: So, they have been through many, many cycles of these.

Rajesh Prabhu: Okay.

Bhaskar Ghose: And their practices now have been tuned very well to what the market reality is.

Rajesh Prabhu: Okay.

Bhaskar Ghose: And typically we see vehicles finance NPAs in region of about 1% to 1.5%, so going forward we expect to see that kind of NPA level.

Rajesh Prabhu: Okay.

Bhaskar Ghose: But as I said, it really does not bother us because large portion of it will be technical NPAs. Mr. Zaregaonkar will add something to it.

S V Zaregaonkar: See you are referring to net accretion in the gross level NPA for Q3.

Rajesh Prabhu: Yeah.

S V Zaregaonkar: That was especially in vehicle finance division segment, there are delays in collection of the installments.

Rajesh Prabhu: Okay.

S V Zaregaonkar: This is a particular phenomenon which happens normally in Q3.

Rajesh Prabhu: Okay.

S V Zaregaonkar: Unlike the Q4 and Q1, Q2, because post monsoon this kind of situation arises and this is an every year phenomenon. Going forward, we expect that this accretion will get arrested.

Rajesh Prabhu: Okay.

S V Zaregaonkar: The reverse trend will be there. You will find that the net accretion will be on negative side.

Rajesh Prabhu: Okay, great. Thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Umang from Dalal and Broacha. Over to you sir.

Umang Shah: Good afternoon sir.

Bhaskar Ghose: Yes Mr. Umang. Can you be a little louder; we cannot hear you too well.

Umang Shah: Yeah, am I clear now?

Bhaskar Ghose: Yeah, it is perfect.

Umang Shah: Sir, just had a couple of questions. The way you said that we would be having certain low cost assets that would be going off the book within next couple of quarters, in the same way, do we have any high cost deposits that would be going off the books may be Q4 or probably Q1 of 09?

Bhaskar Ghose: For this, I will pass you on to our Wholesale Banking Head, Mr. Moses Harding.

Moses Harding: Actually, if you can recollect Q4 of last year, the interest rates almost peaked out.

Umang Shah: Right.

Moses Harding: And one-year deposit rates were going anywhere between 11.5 to 12.5. At that time, most of the corporates, cash-rich corporates encashed that short-term opportunity, by investing their surplus funds as long-term deposits. So, in this Q4, we have a lot of high-cost deposits maturing. That is getting replaced at almost 2% lower. So, we see a good benefit on the net interest income side due to interest cost reduction in the quarters to come.

Umang Shah: Sir, could you give us a figure as to what would be the amount of those high-cost deposits?

Moses Harding: On March maturity, we have around Rs 2500 to Rs 2700 crore of those Rs 500 crore.

Umang Shah: 500 to 2700.

Moses Harding: Rs 2500 to 2700 crore.

Umang Shah: Okay, sir the other question that I had was, what would be the fixed and the floating ratio of your loan book?

Bhaskar Ghose: We have Mr. Bhandari, our Risk Management Head will answer this question.

Mr. Bhandari: See we have roughly around net figure 31% is the floating rate and 67% is on the fixed rate.

Umang Shah: 31% of the total loan book?

Mr. Bhandari: Yeah.

Umang Shah: Would be floating?

Mr. Bhandari: Yes.

Umang Shah: Okay. And 67%?

Mr. Bhandari: This will be fixed.

Umang Shah: Is fixed, alright. Just one question to Mr. Bhaskar Ghose. During his presentation, he mentioned that certainly going forward you are looking at higher advanced growth. Let’s say if were to put some ballpark figure, what kind of growth do we foresee in the coming quarter?

Bhaskar Ghose: Is it talking about year-on-year growth, of around 25%.

Umang Shah: Around 25%.

Bhaskar Ghose: Yeah.

Umang Shah: So sir, for achieving this growth, do we have any fund-raising plans in the pipeline?

Bhaskar Ghose: Yes, we do. In fact, that one of the things that we have really have not touched upon so far, that is the capital raising exercise. As you are aware, we have ended December 2007 with about 12% capital adequacy ratio.

Umang Shah: Right.

Bhaskar Ghose: That certainly will not be adequate as we move forward with our growth plans.

Umang Shah: Exactly.

Bhaskar Ghose: So, we have, for the immediate future, that is by the end of this financial year, which is further to say by March 2008, in the next two months, are planning to raise some new equity. The plans are already in the pipeline, they are being implemented and our expectation is that new equity will come in by the next two months.

Umang Shah: Okay. So sir roughly what would be the amount that we are looking forward to raise?

Bhaskar Ghose: Well, I would say the rough amount, the minimum that we are talking about would be roughly in the region, we are issuing about, or let's put it this way; it really depends on the price at which we issue it, but if I were to give you a rough ballpark figure because I do not want to take any bets on the exact price at which this will be placed because some of these negotiations are still in progress, we are not looking at the general public issue, we are talking about an additional amount of may be between Rs 275 and 300 crore.

Umang Shah: Rs 275 to 300 crore.

Bhaskar Ghose: But the exact number will emerge after the negotiations, which are going on.

Umang Shah: Right. And as you said that this would not be for the general public, so this would be a QIP?

Bhaskar Ghose: It would take the form either of a GDR, preferential allotment, or QIP, but it would not be a domestic public issue.

Umang Shah: Alright. Thank you sir. I am done with my questions.

Bhaskar Ghose: Thank you.

Moderator: Thank you very much sir. Next in line we have Ms. Lakshmi from Capital Market.

Ms. Lakshmi: Hello. Actually most of my questions have been answered except a general view on the interest rate. What do you expect going forward?

Bhaskar Ghose: Again, may be I will ask our treasury, treasury falls under Moses Harding, so it is only fair to let him answer that question.

Ms. Lakshmi: Okay.

Moses Harding: In fact, we had predicted the interest rate rightly almost a year back. If you remember, I made a comment last year that we were running against the wind (of rising interest rate scenario) and now the tide has reversed, we are going to run along the wind. So, that has indeed reflected in the net interest income, and going forward we look for interest rate remaining steady. We have to see what is happening in the US. US FED has again reduced the interest rates by half percentage yesterday night.

Mr. Lakshmi: Yeah.

Moses Harding: So probably that has arrested interest rates moving up, although we need to see the inflationary pressure here. If the US recession is going to stay, probably that will bring the oil price down; it will bring down the essential commodity prices down, so that is good news for India as far as the inflationary pressure is concerned. So, we look for rate cuts going forward even in March or April, and that will really help us to reduce our cost of funds and continues to post higher margins.

Ms. Lakshmi: Okay, thank you.

Moderator: Thank you very much ma'am. Next in line we have Mr. Ravi from Indsec Securities. Over to you sir.

Ravi Mehta: Hi, good afternoon.

Bhaskar Ghose: Good afternoon Sir.

Ravi Mehta: Yeah, my question is on the cost of deposits. I mean, as you said that some amount of deposits, the high cost deposits would be running off the books, but going ahead would be to stick to higher CASA ratio to bring down the cost of deposits or will there be any conscious effort to cut down the deposit rates, I mean what is the outlook on that space as far as the competition is concerned and is there any room to do that?

Bhaskar Ghose: Yes, there is plenty of room Mr. Ravi. See, cutting down deposit rates on the fixed deposit side is not entirely in our hands, that is really market determined. So, you know that one of the things that has been responsible for our reduced profits in the last few quarters because our term deposit proportion is very high. So, therefore when interest rates go up it hits us more than lot of other banks, which is exactly the reason why it is now our prime effort to make sure that our CASA proportion goes up, because CASA as you know, is insulated against interest rate movements as the current situation now stands.

Ravi Mehta: And my second question is on the allocation as far as the business mix is concerned, the lower allocation to CV segment, is this out of compulsion that you do not see any revival in demand or is there any conscious effort to allocate more towards the whole in retail.

Bhaskar Ghose: It is a conscious effort. In fact, I often say that you know we have asked Mr. Parthasarathy to put brakes on his lending partly because we consciously want to bring down our vehicle finance portfolio. Actually during the presentation, I had mentioned that the fact that our vehicle finance disbursements have been lower is only to a small extent because there has been a slowdown in commercial vehicle production in the country. The larger portion of this is because we have made a conscious effort and this is something I have been talking about for the last at least three or four quarters, a conscious effort to move our vehicle finance component in our total advances down from the peak level of 58% to roughly about 42% - 43% by March 2010.

Ravi Mehta: And lastly what would be the duration of assets, can you throw some light on that?

Bhaskar Ghose: Duration of the investment book?

Ravi Mehta: Yeah.

Moses Harding: The asset book duration on the VFD, is at an average duration of 24 months and on the non-VFD asset side it will be less than a year. On the VFD side the assets are mostly fixed rate and on the non-VFD side, they are mostly BPLR linked with annual re-set. On the investment book, the HTM duration is 4.24 years and non-HTM comprising of HFT and AFS is around 0.58 years. This is duration of our entire Asset Book consisting of loan and investment portfolio.

Ravi Mehta: Okay, fine. Thanks a lot.

Moderator: Thank you very much sir. Next is a follow-up from Mr. Agarwal from Angel Broking. Over to you sir.

Vaibhav Agarwal: Sir, few questions on your business correspondent outlets. The change in guidelines that has happened recently…hello?

Bhaskar Ghose: Yeah, go ahead Mr. Agarwal.

Vaibhav Agarwal: Has the change in guidelines happened recently and secondly could you give some idea about the geographical distribution, you know in terms of Tier I, Tier II, etc. And thirdly, if you could draw some sort of comparison with other private banks and if at all you know if they have you know these kind of marketing outlets, does it compare to the DSAs or is it more similar to you know these outlets of CitiFinancial and others.

Bhaskar Ghose: To answer your first question, these guidelines are fairly recent, which came out towards the end of 2006.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: And they were very welcome guidelines for us because you know for someone like for example State Bank of India, with over 12,000 branches, it may not make any difference, but for us this was very welcome news mainly because we had this marketing subsidiary in place already. Just to give you a little more information about that, this is a marketing subsidiary that the erstwhile Ashok Leyland Finance which is now our vehicle finance division, this is a marketing subsidiary that the erstwhile Ashok Leyland Finance had it for the sourcing of vehicle finance loans and for the collection of payments and even after the merger took place, we have continued to use these outlets in their traditional role of sourcing vehicle finance and doing the collections, partly because of regulatory reasons. Now, that the business correspondent model has been allowed and the business correspondent guidelines of RBI have been announced, we are in a position to use this marketing company of ours to distribute all our liability products also because earlier that was really the restriction, so this is very good news for us because it gives our efforts to gain retail deposits, in our efforts to ramp up CASA, this gives us a huge potential boost because we have these 600 outlets which can now act as our distribution points for all our retail deposit products. The geographical distribution is quite frankly all over the country.

These were put in place, I had mentioned this a little while ago, these were put in place to augment the efforts of our branch network, so almost by definition they are located in places where we do not have branches. So that is truly an augmentation of our network. There is no duplication of it. We have a branch somewhere in this marketing company outlet right next door, no, it is truly an expansion of our network. And, sorry what was the third question that you had asked.

Vaibhav Agarwal: I mean you know some sort of comparison….

Bhaskar Ghose: You asked whether this can be compared with DSAs, the answer is yes and no because we use this marketing company in much the same way as most other banks use DSAs, but the reason why this is a superior model, this is something we are saying from our experience, the reason why this is a superior model to DSAs is first and foremost the client relationships that stay with us because as you know DSAs are ultimately the point of contact with the client. So, the client relationship resides with the DSAs, so tomorrow if the DSA moves from one bank to another, all the client relationships also move with that DSA. Now, we do not use DSA, we use this marketing company, so therefore we face no such problems, we own the client relationships. Secondly, because we own the client relationships, it becomes easier for us to do the cross-sell. These are client relationships which so far have been asset-based client relationships centering around the vehicle finance loans. Now, we can leverage around the same relationships which have been developed over a long period of time to cross-sell our liability products. And thirdly, the other advantage over the DSA model which most other banks use is on the risk management side. For DSAs, you know let's go back a little. For a bank that uses DSAs, they really have no control over the DSAs, to put it broadly, their risk management practices and that is the reason why we have had so many instances where we have heard about examples of double financing, you know a car or a vehicle that has been financed by one bank, has unknowingly been financed by another bank and this has happened partly because DSAs are incentivised to ramp up volumes. The more the volumes they bring in, the higher becomes their pay. It is all commission based. Whereas in our case because these are all own employees, they do not work on commission basis, they work on salaries and of course the good ones get bonuses and promotions and so on. So, therefore there is no real incentive for them, to start indulging in these kinds of practices, plus we can in any case apply our risk management methods right up to the point of the customer, because the point of contact with the customer is through our own people. So, therefore, as a result of which, what happens is, we own, I mean putting in a broad way, we own the company, we own the employees, and we own the clients, and none of these claims can be made by someone who owns a DSA.

Vaibhav Agarwal: So, they have been never under a franchise model, I mean right from the beginning.

Bhaskar Ghose: That is correct.

Vaibhav Agarwal: Okay.

Bhaskar Ghose: So, therefore, this should make it relatively easier for us to activate our business correspondent model and get it to distribute our liability, that is to say our deposit products.

Vaibhav Agarwal: Okay, thank you sir.

Bhaskar Ghose: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Mangesh from Almondz Global Securities. Over to you sir.

Mangesh Kulkarni: Good afternoon sir.

Bhaskar Ghose: Good afternoon Mr. Mangesh.

Mangesh Kulkarni: This is regarding the extension of the previous question. In about the 600 branches of the NBFC, when these branches will start contributing in terms of sourcing as both liabilities also, like accepting deposits and all.

Bhaskar Ghose: Okay, may be Mr. Mangesh, for a change, I will turn this over to Mr. Parthasarathy to answer, but incidentally assets are already generated through vehicle finance. It is the liability side that we are now interested in getting them to generate. As for the timing and so on and how we will phase it out, I will just pass you on to Mr. Parthasarathy.

S V Parthasarathy: See, these 600 centers, we have been having these 600 centers as Bhaskar said for a long time distributing asset products. We have a) the client base, and b) we have the local knowledge in relation to these 600 centers. We are in the process of working out some pilot projects for the current year, may be before March, we will start with few centers, and we are also seeking some technology upgradation in this particular aspect. What this prove for the current year, we will start with some pilot project and the full level of implementation would be done during the course of next year and possibly the fruits of all this will be in a medium term. Have I answered your question?

Mangesh Kulkarni: Sir, what is the client base now. Hello ?

S V Parthasarathy: Client base is about 2 million customers.

Mangesh Kulkarni: And what is the employee strength of this NBFC ?

S V Parthasarathy: .First and the foremost thing is this is not an NBFC. This is a Sec 25 company - business correspondent company incorporated in line with the business correspondent model of RBI policy. Okay, the employee strength is approximately 2,000 numbers. We may scale it up

Mangesh Kulkarni: Okay sir, thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. At this moment, there are no further questions from participants. I would like to handover the floor back to Mr. Bhaskar Ghose for final remarks. Over to you Sir.

Bhaskar Ghose: Thank you very much and thank you ladies and gentlemen. I think that was a very good session. We had a lot of questions, lot of opportunity for us to have an interactive conference call. I end by repeating what I said at the start of this conference, which is that we are now seeing our business growth translate into higher profit growth which is something that we had always said would happen. It is happening gradually, no dramatic increases, but this gradual upward move will continue to take place, as we get out of our past problems and move into and capitalize on all the investments that we have made in terms of branch network and in business strategy. So, thank you very much, and we look forward to your continued 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 line. Thank you and have a nice day.