IndusInd Bank

"Q3 FY11 Conference Call Transcript"

January 17, 2011

SPEAKER: **Romesh Sobti, Managing Director and Chief Executive Officer, IndusInd Bank**

Moderator: Good evening, everyone. At the outset, we extend you a very warm welcome to this analyst cum investor call. We are connected to IndusInd Bank from where Mr. Romesh Sobti, the Managing Director and CEO, along with the top management team will be interacting with you all in a few seconds. While welcoming Mr. Sobti, I have pleasure in handing over the floor to him. Thank you and over to you, sir.

Mr. Romesh Sobti: Thank you. Welcome once again to our quarterly call. We have announced the results and as usual we have uploaded the details and rest of presentation on our site a while ago. So as we speak, you can also access it and if we have Q&A, then we can go by that presentation. But to give you a summary of the results, I think the results have to be looked in the backdrop of what the market considers a stressful money market conditions or solid advent on the money market I think which has posed a serious challenge to bank. So we are pricing both the assets and liabilities all the while keeping the book growing. So I think from the noise that I have heard so far as a consensus view and expectations that margin will contract. I think that's why there is a way of again banking stocks.

So in the backdrop of this thing, I think we are very happy to bring out our results. The summary of the results is that all our operating parameters are up. All the parameters that we measure ourselves by, the fix that we share by are up or down as the case may be where they have to be down and we have been able to sustain our health parameters and the quality of our book including the restructured book. Summary of course is that bullet points are net interest incomes have gone up by 53% and this is accompanied by an expansion in our net interest margin to 3.61. Sequentially, we are up from 3.41 to 3.61, just an increase of 20 basis points in our net interest margin, and of course year-on-year the growth is much more stark. The net interest income is up. The fee income is up also handsomely. If you take the entire block of non-interest income, that is up by 68% and the core fee income which we actually measure more rigorously is up by 54%. And we will take you as the slide in the presentation which gives a break-up of the core fee income and you will see that all the big drivers of our core fee whether it is trader remittances or it is third party product insurance and mutual funds, or it is client-based effects or of course the new driver which is investment banking, all of them are up.

So both the revenue side drivers in net interest income as well as the core fee income is up. Our overall revenue increase is 58% which has far increased the cost increase. So positive results as a consequence has resulted in a reduction in our cost to income ratio. I think that's relevant to see this reduction even if it's marginal. I think the reduction is about 25 basis points. It has got to be seen in the light of the large investments that we have made in the branch network. That's why the branch network is now up from 210 in the beginning of the year to 258 and we are well on our way to crossing the 300 mark by March because the pipeline closures on new branches will happen very significantly starting January onwards.

So in the key parameters that we measure, NIM is up. ROA is also up. ROA is now at the level of 1.56. If you see sequentially also last quarter we were 1.38. So there is an upward progression of almost 16 basis points in the return on assets. Large capital infusion happened around the 30th of September which did not impact on last quarter's ROE but ROE is not what hammered down because of the infusion of capital. We have sustained ROE at a pretty decent level of 16.44%. Quarter three of last year was 18.4% and last quarter was around 20%. So I think we are on our way to recovering sooner than we thought. The return on equity parameter which we had said that over the next 12 months we will restore back to the level of 20%.

So ROA, ROE, net interest margin, cost to income ratio, I have already mentioned last quarter was 48.13. It is down by about 20 basis points to 47.91. I think these are the five last drivers that we measure. Of course there is the revenue for employee which has certainly sort of moved up.

Just to give you headlines on the quality of the book, gross net NPAs remained at the level they got at last quarter. So the gross NPA remains at 1.21 and net NPA remains at 0.36. And of course the restructured loan book has fallen even further. I think it's now down to 16 basis points. So restructured book has also not shown any stress. Of course we are giving detailed break-ups as we do every quarter on the movements of gross and net NPAs, the additions and deductions. And we are also giving you the product wise break-up on the consumer finance commission and there of course we are happy to see that as compared to about 1.95 gross NPA in quarter two down to gross NPA of 1.83%. So the book quality is sustained and improved marginally and the other parameters have looked pretty healthy. I told you about the branch network growth and of course apart from that the other quality to highlight is that we have said that we would get into the brand-building exercise for a slew of new first market products have been launched. Two of them are already visible through commercials extensively covered across channels and the third one probably will be launched today. So the branding exercise is well on its way. We have committed a budget of 15 crores for this exercise which we hope that will improve our immediate visibility and of course differentiate us a little bit in terms of the first in market products we have launched, one relating to ATM and the other relating to the statement of account. So that has heightened the customer engagement.

Loan book grew by 31% and if you take a breakup between corporate and consumers, then the consumer book grew by 36% and the corporate book grew by 28%. So loan book growth is 31%. Deposit growth is 25%. In this quarter, we have also besides the capital which came in which was an alternative funding we have used over the quarter to reduce our bulk deposits to same extent. Borrowings have grown up. So we have borrowed from the repo against the security and we have taken the finance from NABARD. So year-on-year deposits have grown by 24%. Sequentially there is a small drop of 600 crores but that is because we have replaced this money by equity, NABARD & CBLO borrowing which is at a much lower rate than what were taking.

Then, finally CASA. CASA last quarter, we had shown 25.4%. That was the CASA last quarter and this is more dropped to 26.8%, the details of which are actually given in the slide 18 of the presentation. So the CASA uptick is continuing and during the course of this discussion, we may spend a little bit more time if you want to on what are the initiatives that we have taken to keep the CASA momentum going. So I think that's the summary. I think we have in our individual interactions we have always talked about re-rating our three-year targets. Of course we have been well surpassed but we are re-rating our targets and I think we are progressing faster than we thought towards the re-rate of targets.

Last item is the book composition. Consumer finance book constitutes 42% of the total book. 58% is corporate. And on slide 17, we have given a breakup of the diversification of the corporate loan book and we have added three blurbs which actually explain in more detail the sensitive sectors which have occupied the minds of analysts and the media over the last two months which is micro-finance, real estate and telecom. In real estate area of course, our exposure was never very high and especially if you divest the real estate from the non-development financing, you just take development financing, then our exposure realizing business is 2%. In the telecom, there is a lot of apprehension on what is going to happen to 2G. Those who finance 2G licenses, this bank has zero financing of 2G licenses, zero financing of either 2G or the 3G spectrum. We only finance the related infrastructure companies like towers and equipment and those all things.

Lastly, microfinance. In this portfolio, you would see that we are showing a portfolio of direct loans of 359 crores. We have hardly any buyouts and this 359 has actually come down today to 259 because 100 crores repayment has come. All repayments have been on time. So I think we are much more comfortable today than we were two months ago on this whole microfinance explosion. That's a very quick summary. All the capital adequacy remains high. You can see a total CRAR at 15.6% without taking into account the accrued profit of three quarters. If you take that, then we are past 60%. Probably we will be past 12% on the TNI as well which is now standing at 0.67. That's the last item. I am quite sure that during the question and answer, a couple of questions are going to be raised, one on this section of ownership. You know that there is an overall cap of foreign ownership about 74% holdings. IndusInd Bank's holding as a consequence of a particular event that happened one day when the stock hits the MSCI when there was large-scale buying by FIIs and that's why the total foreign holding went up to almost 74%. It has now come down to around 72.7% and of course we are engaged on the subject of seeing how we can onshore some of these holdings that are offshore. The other question I think which has been the subject of much disinformation in the market which we will address upfront is the sale of some stock options by the management. I think we have now clarified to a whole lot of investors and analysts that after a hiatus of three years some of us did sell some stock options only the part which has been exercised having sold a large part of our holdings still remain unexercised. On an average I think management members have sold one-fourth or one-fifth of their holdings. There is a lot of disinformation on this core that people have sold out the entire holdings. That's all rubbish. We have clarified that. A lot of it is vested but not exercised. Only that part which was sold which was exercised. Only the exercised part has been sold. Everyone of us is holding at least three-fourth of the regional holding. I personally am holding four-fifth of the regional holding and we will continue to do so. So there is some disinformation. I don't think you should be looking at it. Discontinuity of management at all levels including that of the Managing Director you know that the contract renewal has already happened through the AGM and through the Board Meetings and RBI approval is now awaited because RBI approves the CEO's contract every three years and we expect that approval to come through any day now. So that's just some background information. We can discuss more if you want to and now we are open to questions.

Moderator: Thank you, sir. At this time, if you wish to ask a question, please press "0" "1" on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press “0” “2”. I repeat if you have question for today’s speaker, please press “0” “1” on your telephone keypad and wait for your name to be announced. Thank you.

The first question is from Amit from Religare. Amit, your line is unmated. Please ask your question.

Mr. Amit: Sir, you briefly mentioned about basically you have re-rated your targets and you have been achieving them comfortably but now you already achieved something like 1.56% in terms of return on assets. So are you basically further guiding for an improvement in ROA even from this level?

Mr. Romesh Sobti: Yeah. See, our re-rating actually covered a fresh three-year period because we have two planning cycles. The first cycle gets over in March 2011 but because we achieved what we wanted to achieve in two years’ time, we brought that cycle forward. So in the second cycle of three years, we are now into the third quarter which means that whatever re-rated targets we indicate are the targets that we have over a longer period, which means that we have a nine-quarter target. Whatever we say here is a nine-quarter target. Now you may achieve it earlier or later. So take ROA for instance if you are saying that 1.56 has already been achieved. Yes, our target always was that we should vary between 1.6 and 1.8. So I think we will continue that but the timeframe is the next quarter or the next two quarters. The timeframe for us is one to sustain this and then certainly improve it over the next say nine quarters which is up to March 2014 in the new range so that the new range is… well we said upper is 1.6. You will well argue that you already have 1.6 or 1.56. So the range is 1.62 to 1.8.

Mr. Amit: But where this additional ROA can actually come from if you do the due point of your bank? I mean will it further come from NIM only improvement?

Mr. Romesh Sobti: I think there some specific gains that we certainly expect. We expect the ROA impetus to come from the corporate bank where we have used the capital to penetrate corporate. Now we are seeing cross step. For instance, you see one big driver of ROA on the corporate side of the investment banking income because that hardly uses any capital. Now that also we are tapping those clients to whom we have already led. So they are in the middle market. On the investment banking for instance, last year we made a total investment banking in terms of 19 crores. This year in the nine months’ period, we are close to 50 crores. If you extrapolate it, then I think we have always said that it will be between 50 and 70 crores. We expect investment banking income in a three-year period to go to 250 crores. There is a business plan already in place. We are building the team. And therefore what I am saying is that there is an ROA uplift that is sure to come a) out of the crossed sale that we now see on the corporate banking side, b) on the consumer side as more and more CASA funds our vehicle finance book. You see an uplift there as well. So there are two drivers at work there. And just to give you a hint, our target is that over the next say nine or ten quarters, we will look at funding our entire vehicle finance book through consumer CASA. There is also a CA which comes from the corporate side. The consumer CASA will fund our entire book. In fact, we have targets fix for the book. We will stick that book up to say about 45% of our total. So there are additional drivers that are there. Some of them are NIM and some of them are peak.

Mr. Amit: Just coming on that CASA upfront, in such a high interest rate environment you yourself are opening now a significant rate on your term deposits. In such an environment is it possible to keep on growing CASA significantly, specifically the consumer savings CASA?

Mr. Romesh Sobti: We had the question before. Suman answered it. The kind of CA & SA that you see in the banking system is a function of involuntary deposit. Nobody keeps deposit interest free because you have a liking for a particular bank. Right? So in that scenario you have to see the impact of the rising interest on CASA. How much of this will likely move into fixed deposits? Does it move into fixed deposits?

Mr. Sumant Kathpalia: I think you have to look at this in a very different way. To say that savings account will erode because of interest rate rising is a correct statement. However, what you have to do you have to play it a little smart and what we do as we focus on four areas in gardening our savings account market. First is, we offer a product called "Sweep-In/Sweep-Out". What happens is we offer to the client actually our FD products but he breaks the FD on clusters and sweeps it into the savings account and at that cost even the cost of deposit actually reduces considerably and the funds keep on lying at the savings account but the cluster has arranged in clusters of Rs. 5000 and Rs. 10,000 each. So what you do you break it and the flow actually into the savings account and they lie in the savings account of the client. Second is the focus on NRIs. NRIs don't get influenced so much by the rate. Of course NRI deposits do but I think they want to keep some money in the account and these are linked to the security money which they do through the security trading. So I think that money and the balance sheet continues to grow. At the year starting, we were about 200 crores of balance sheet when we started. Today we are sitting on 600 crores of NR balance sheet only. So we have grown the NR balance sheet only 400 crores this year already in the first nine

	months. Third, what we do on savings account is we do offer best oriented savings account and we have offered new products in that market and as a consequence clients might do lie in savings account. Fourth, whatever we may say there is transaction money and if you are offering better services to the client, the transaction money continues to lie in the accounts if your acquisition is right and your growth in high interest rate will be equal to the acquisition which you are doing on a month-to-month basis. So if you are acquiring 100 crores of new acquisition money, that growth in your SA will continue to be there as long as your acquisition is of the right type and right colour. Last, just focus on the last business opportunity, the government business, the trust trusted association where they do keep money in the savings account as the last slot. Those are opportunities which come your way and you tap those opportunities. So I think you are absolutely right. You go up to mark; you will not get the savings account but they keep it into FD. You got to go after the right product and the right segment to get the money during this time.
Mr. Amit:	Okay. Thanks.
Moderator:	Thank you, Amit. The next question is from Sunil Kumar from Birla Sun Life. Sunil, your line is unmuted. Please ask your question.
Mr. Sunil Kumar:	Hi. On the deposit side only, continuing with this CASA, I just want to understand how much of this CASA improvement has come from the new branches which have been added during the quarter.
Mr. Sumant Kathpalia:	We have added 48 branches this year and about 21 have just added in the last seven days. Twenty branches are open. Out of the 20 branches, 3 are already booked even. Let me tell you. We have a target for CASA per branch and revenue per branch which is what we call as a branch categorization model. The branches which are operational for two months or three months, we have a month-on-month target and we have a category A branch. We will do 20 crores of CASA in year one. For category B branch, we will do 12 crores. And category C branch will do 5 crores of CASA. So that's the target which we go after and there are month-on-month targets which we have given to the branch managers and we are driven on this. Of course, not all of these is retail money. It's CASA when I talk about it. In the initial first year or two years, the current account is more than the savings account in the branch.
Mr. Sunil Kumar:	So let's say if you adjust CASA for these new branches which have been added during this particular quarter, what will that…?

Mr. Sumant Kathpalia: It will be negligible because we have just opened about three months only, three and a half, four months. So it will be negligible. It will not be more than 20-25 crores.

Mr. Romesh Sobti: The impact of this is yet to be seen.

Mr. Sumant Kathpalia: You will see the flow of the branches which are open this year in the next year. Actually the real impact will start coming next year in our balance sheet.

Mr. Sunil Kumar: Thanks. The other question is on the lending side. Now considering the developments in the sector right now, considering our liquidity position, considering the rates which have been going up, almost all the banks have already been passing on the interest rates. So which particular segment do you see the pressure right now or have you started seeing some kind of pressure that borrowers are hesitating from you in the current cycle?

Mr. Romesh Sobti: I think we are seen a pretty robust demand pool across all sectors. Of course there are certain sectors that we haven't participated so much. But just to give you an idea, we re-priced our assets starting in August. So we have raised our pricing starting in August. We are not late reactors. We were leading the market on re-pricing. We have re-priced across the board. We have raised our PLR by about 125 basis points now. And we have raised our base rate by 75 basis points. And so we have repriced like almost across the board. Has that resulted in any reduction in demand? We have not seen any reduction in demand. In fact, our asset growth could have been even higher this quarter and we had to sell some assets for the quarter.

Mr. Sunil Kumar: Okay. Thanks.

Moderator: Thank you, Sunil. The next question is from Venkatesh from ICICI Prudential. Your line is unmuted, Venkatesh, please ask your question.

Mr. Venkatesh: Hi, Mr. Sobti and congrats for the wonderful quarter results. I have a question on the competition of Ashok-Leyland Finance. I am not sure if these numbers are right but from what I heard, it's already disbursing around 150 to 200 crores on a monthly basis compared to 250? What is your view on this?

Mr. Romesh Sobti: I will ask Partha to answer that question. He is the Head Consumer of Finance.

Mr. SV Parthasarthy: I suppose they will reach close about 1000 plus by the end of the current year. It is closer to 200 crores for the last couple of months. I do not foresee Hinduja Finance having any impact in terms of how our disbursement or our clients because they cater to a different profile of clients altogether.

Mr. Venkatesh: What would that be, sir? Which profile of clients?

Mr. SV Parthasarathy: They deal with the different kind of profile all together. Most of our client profiles have a vintage for more than about 10 years' time. We have close about 70% of our customers being repeat in HF and the segment we have been addressing is slightly different from the segment what Hinduja Finance will be addressing.

Mr. Venkatesh: Okay. This is one more question. You said explosion in microfinance was 260 crores. Could you share who would be the particulars and what is your view on the loan book?

Mr. Romesh Sobti: We were 353 crores. We are now down to 253 crores spread over 16 clients and I think what you need to take away is that the attributed exposure to those who have exposures to Andhra Pradesh is now actually down to 80 minus 16, so about 64 crores.

Mr. Venkatesh: I just want to know your view on this particular asset. Do you thing collection can be possible or do you think it may have to be moved to NPL?

Mr. K Sridhar: We don't really expect this particular thing. We will see if it will fall in the near future. We are convinced about the long-term potential for this business but in the short term we do expect that since collections have practically ground to a halt, there will be a wild… especially for the Andhra Pradesh-based MFIs to come back to normalcy. So that could be a requirement for some kind of a restructuring and we understand from our interactions with central banks that they are open to the concept of allowing restructuring this particular segment. In the past, if there was a restructuring in NBFC, then it would have resulted an immediate classification as an NPL but now we understand that RBI is open to allowing the special dispensation for restructuring. So in short we don't expect any immediate kind of NPL and in the long term we still feel that this sector is having a potential viability.

Mr. Venkatesh: Thanks so much, sir.

Moderator: Thank you, Venkatesh. The next question is from Shrikanth Akula from Spark Capital. Shirikanth, your line is unmated, please ask your question.

Mr. Shrikanth Akula: Congratulations on good number, sir. I just wanted to know more details on your vehicle loan segment and what kind of profitability you see in this loan in the sense that how much of your loans are based on fixed interest rate and what kind of comparison you see here in this area?

Mr. SV Parthasarathy: On vehicle finance, the blended yield for us is about 16% which is much higher than any portfolio whether it is fixed income or variable levels of pricing. Fundamentally, on vehicle book portfolio, we have got close to about 400 crores of book which get expired every month and we also have a leeway in terms of re-pricing following month after month. As a result, we don't foresee that this is going to affect us in a medium or even in the long term.

Mr. Romesh Sobti: There is a concept that this book is frozen in time and tenure and rate. It doesn't happen this way. Their repayment is 400 crores and their extra disbursement is also 400 crores. So every month 800 crores comes in at a new rate which just takes the blended rate upward. So over a period of a quarter alone, 2400 crores which is one-fourth of the book of 7000 crores will get re-priced. Its EMI based that's why there is a relief.

Mr. Shrikanth Akula: Okay. Sir, one more doubt regarding the restructured book. You have mentioned that restructured book is 0.16% currently compared to 0.30% last year. Is it the percentage of the entire loan book or is it the NPAs of the restructured book.

Mr. K Sridhar: Restructure as such do not include NPL. These are the ones which are standard and this is a percentage of the total loan book.

Mr. Shrikanth Akula: Okay. Thank you, sir. That's it from my side.

Moderator: Thank you, Srikanth. Participants, I repeat, if you wish to ask a question, please press "0" "1" on your telephone keypad and wait for your name to be announced. I repeat, if you wish to ask to question, please press "0" "1" on your telephone keypad. The next question is from Nidesh Jain. Nidesh removed from the queue. The next question is from Hiren Dasani from Goldman Asset Management. Your line is unmated. Please ask your question.

Mr. Hiren Dasani: Yeah, this is Hiren Dasani. I'm not A. Henda. On the deposit side, what is the retail deposit today?

Mr. Romesh Sobti: Retail deposit, if you look at the total deposit calculation of say 30,000 crores as on date, out of this 30,000 crores, CASA alone is about 8,300 crores. So that is largely retail. That leaves you with 22,000 crores. Out of these 22,000 crores, another 7,500 crores is retail deposit. So if you plus these two together, roughly 50% is retail out of the total base of 30,000 crores.

Mr. Hiren Dasani: Okay. If you look at retail term deposit, it's about 7,500 crores. Right?

Mr. K Sridhar: Seven and a half thousand.

Mr. Hiren Dasani: And what's the breakup of the provisioning line?

Mr. Romesh Sobti: Yeah, provisioning line, I think we have given a breakup somewhere.

Mr. Hiren Dasani: 44 crores is the NPA. I think it's a great cost, 44.5 crores.

Mr. Romesh Sobti: That's right.

Mr. Hiren Dasani: And the remaining about 11-11.5 crores?

Mr. K Sridhar: You remove the tentative provision of 9 crores and 2 crores are the provision.

Mr. Hiren Dasani: Okay. 9 crores is this time benefits. And, sir, what's the outlook on the margins in the next few quarters considering that the deposit cost re-pricing will work out with the lag on the average basis?

Mr. Romesh Sobti: I think, a lot of deposits in our book did get re-priced during this quarter. So there are already at a higher plan rate.

Mr. Hiren Dasani: You mean, fourth quarter. Right?

Mr. Romesh Sobti: I am talking about the third quarter. Third quarter is having a re-pricing already. First four quarters also, there are some deposits that we will get re-priced but I think there is a… the lag on the asset side is going to catch up because a large increase has happened later in the quarter. So we will see the full impact of the increases. In fact, there was a PLR increase that we put in just about ten days ago as well. So I think the lead lag will now sort of match out. We will reach a sort of study. We have seen a hefty re-pricing of our fixed deposit book but fortunately the CASA growth has limitedly blended the increase in the cost of deposits to just 18 basis points in this quarter compared to our last quarter. We do expect that this will go up further in this quarter but we are confident that the re-pricing on the asset side will keep us in the blank on our overall NIM. So if you look at four quarters, six quarters or eight quarters, then our journey towards 4% I think will not halt. We do not expect a compression in our net interest margin. Only the rate of increase may see variation.

Mr. Hiren Dasani: Okay. So what you are saying is even though the incremental deposit cost on the term deposit side has moved closer to 9%, which is I think almost about 200 to 250 basis points increase over the last 3 to 4 months. Even then you are fairly confident of maintaining the margins at the least if it's not improving.

Mr. Moses Harding: Yes. Again I think we are close to that. See, now markets are three months at 9% and one year at 9.75. Market has factored in and the Repo rate increased to 7% and Repo rate remaining operative for another 3 to 6 months. That means, it's all around 7 quarters, 7.5. So a tenor spread of almost 2% overnight, that is already factored in. So the flip side is that in the event of adequate liquidity back into the system and the call money rate going into the last corridor. Then there will be a steeper correction in the sharper end then 9 months can come down to eight quarter or eight and a half. So having managed the worst scenario, I think the range on the upside is very limited. That will be manageable. You see, a lot of tail has been coming in the next three to six months and hope it will subside.

Mr. Hiren Dasani: Sure. Is there any more update on the branch network side in terms of fresh license etcetera?

Mr. Paul Abraham: I think fresh licensing, RBI governance in this respect is that when you hit 75% of your current permission, then you would go with your new list to RBI. We expect to go with our new list to RBI at the end of or by about March beginning this year. So we want to cross our threshold of 300 and about that time we will go and submit our fresh list.

Mr. Romesh Sobti: But we will exhaust the 127 that we worked this year by June and probably March end, I think we will go over the fresh application of 200 branches.

Mr. Hiren Dasani: Okay. Lastly on the consumer banking side, sir, 16% is the blended yield. Right?

Mr. Romesh Sobti: Correct. Blended yield.

Mr. Hiren Dasani: Blended yield. And incremental would be closer to that?

Mr. SV Parthasarathy: Incremental is close to that.

Mr. Hiren Dasani: I mean, would it be like 50 or 75 or higher or would it be lower than 16?

Mr. SV Parthasarathy: It's almost equal to that. The portfolio has caught with the incremental yield.

Mr. Hiren Dasani: Okay. Sir, if I were to understand this correctly, the margin stability will have to come from the higher yields and the corporate side and the improvement in the CASA.

Mr. Romesh Sobti: Correct. and sustenance is done on the vehicle finance side.

Mr. Hiren Dasani: Yes but considering that the cost of funds will go up on an overall basis… if you have to just look at the consumer finance basis, it will have a spread compression there.

Mr. Romesh Sobti: I think there will be higher yields on the investment book.

Mr. Hiren Dasani: Okay. Great. Thank you.

Moderator: Thank you. The next question is from Nidesh Jain. Nidesh, your line is unmated. Please ask your question.

Mr. Nidesh Jain: Sir, may I have the breakup of CASA? And secondly, what proportion of your deposits are NRI deposits?

Mr. Romesh Sobti: I think the breakup is given in that investor presentation. Do you have it with you?

Mr. Nidesh Jain: No. I don't have it right now.

Mr. Romesh Sobti: That's on the side. You go on the slide; you'll get it. We have a breakup. Current accounts are 18% and savings are 8%.

Mr. Nidesh Jain: Okay. And what proportion of your deposits are NRI deposits?

Mr. Romesh Sobti: 5%.

Mr. Nidesh Jain: And given the competitive scenario for the NRI deposits, how do you plan to take it further?

Mr. Sumant Kathpalia: We actually have a team. You see, our NRI deposits are a function of the device business which we have as a rep office where our house is tied up in device and we are second or the third largest recipient of the remittances out of Middle East. We capture those deposits from there and we continue to see growth on that deposit at a rate of 25 to 30% on a CAGR basis. So we don't see that as an issue at all. So we have an exchange office for tie ups. We have a rep office and we are seeing a good profit coming out of that business. So we have a team of 50 people who are sourcing deposits out there.

Mr. Nidesh Jain: Okay. Thank you, sir.

Moderator: Thank you, Nidesh. The next question is from Mahesh from Kotak Securities. Mahesh, your line is unmated. Please ask your question.

Mr. Mahesh: Good afternoon, sir. If you look at the fee income line I just wanted to have a clarification. Some line items like trade fees being flat on a sequential basis are showing an incremental scene from both of these functions, the investment banking side. I just wanted your thoughts on it.

Mr. Romesh Sobti: I think sequentially we are seeing an increase. You know, it's a variation that may happen on the quarter-to-quarter basis. I think the big drivers are foreign exchange and thirty party distributions and investment banking where we have seen not only year-on-year but quarter-on-quarter of sequential increases also.

Mr. Mahesh: So if you look at the process thing, it remains at the most 30 crores QoQ.

Mr. Romesh Sobti: Except for traders remittances where the increase is smaller. The other increases go up to almost 8% sequentially.

Mr. Mahesh: Has there been any reclassification from any of the other nine items including investment banking income or the investment banking income revenue?

Mr. Romesh Sobti: There is no reclassification at all. Investment banking income is completely differentiated and as rectified. There is no room for misclassification. Interest income does not come in here. It is purely fee income.

Mr. Mahesh: What I meant was, has there been any change from the processing fee income line into the investment income line?

Mr. Romesh Sobti: No. Not at all.

Mr. Mahesh: Okay.

Mr. Romesh Sobti: Growth remains the same.

Mr. Mahesh: Okay, so just a question on the vehicle finance side, we knew the fact that this year has been fairly strong from the vehicle finance on the volume side. There is some kind of expectation that you will see a slowdown next year in the overall volume side. So just wanted your thoughts on what kind of loan growth can we expect or you are looking into target for next year in the vehicle finance side?

Mr. Romesh Sobti: We do not want to give any guidance. We are not giving the guidance, but I think CASA will give you a more generic view.

Mr. SV Parthasarathy: Income from vehicle finance. Even though we have been the market leaders and most of our products whatever we deal with right now, the market share for us has not been… even for commercial vehicles where we have been the market leader for quite long. Overall market share for us is about 11%. Organized players, the total market share is about 35%. Therefore still 65% of the total market lies with unorganized segment and there is a huge head room for everyone to grow in this segment. As you see the history, we have been growing quarter after quarter in every segment. For the current year in all the products whatever we deal we have offbeaten the market by close to about 10%. Overall automobile market has grown by close to 27% to 28% and we have grown close to about 35%.

Mr. Mahesh: In other words, can we assume that the composition of the vehicle finance portfolio would remain unchanged for next year?

Mr. SV Parthasarathy: More or less, it will remain unchanged except for the fact that we have gone a bit more aggressive on used vehicle finance. Used vehicle finance meaning most of the customers whom we have in our own portfolio when their contract is due for renewal we do take them into our fold. It gives us a much better yield or much better return. We are not diluting the portfolio standards.

Mr. Mahesh: This 5200 crores of portfolios in the CV, this includes the used vehicles finance portfolio also. Is that right?

Mr. SV Parthasarathy: Yes. It includes the used vehicle finance book also. For the current year, the used vehicle finance disbursement is close to about 555 crores and total used vehicle portfolio will be close to about 700 crores.

Mr. Mahesh: What would be the disbursement you would be doing today?

Mr. SV Parthasarathy: For the current year, it will be close to about 500 crores.

Mr. Mahesh: For the current year, it is okay. Just couple of basic questions one is could we have the breakup of the investment book?

Mr. Moses Harding: We have total investment book of 11,800 crores. Out of that 9,800 is SLR and garment sector, the balance is 1800 crores is RIDF, others are non SLR. Total SLR and garment of around 8000 crores. We have excess book of around 1800 crores.

Mr. Mahesh: How much would be in HTM and AFS?

Mr. Moses Harding: HTM, we are of 8000 crores. Almost the entire crore is SLR and HTM. The balance is in the tables which are under trading portfolio?

Mr. Mahesh: What would be the kind of duration of the AFS book?

Mr. Moses Harding: Total all SLR is around six and a half. The AFS duration will be about 0.8.

Mr. Mahesh: Okay, this quarter, have you made any provisions against this investment book?

Mr. Moses Harding: No.

Mr. Mahesh: Is it possible for us to get the CA & SA breakup of 3QFY10?

Mr. Romesh Sobti: Yes. You want the previous year?

Mr. Mahesh: Yes, for the previous year.

Mr. Romesh Sobti: We can give you that number. I don't think it is available readily here. It's on the website.

Mr. Mahesh: Okay, fine. Thanks a lot.

Moderator: The next question is from Vijay from PNB Paribas. Vijay, your line is unmuted. Please ask your question.

Mr. Vijay: Good afternoon. How should we look at the cost to income ratio for the next few quarters in line of your branch expansion?

Mr. Romesh Sobti: As you know we did not give a guidance, but general what you call ambition we have stated that it was for a longer period that over a period of next 9 quarters for instance we would bring down our cost to income ratio down to 45%, so starting at 50% in quarter 1, we already down to about 47.9%. So I think we will continue to see a downtrending here because the disciplines that we have always talked about in terms of branch breakeven and the staggering of branches between metro and rural branches, that discipline is being maintained. So our overall expectations are that we are not going to see a hump on the cost to income ratio before it comes on to 45%. So our target is that we would see a steady down-trending even if it is 10, 15, 20 basis point, steady down-trending towards 45% over the next nine quarters.

Mr. Vijay: Okay, thank you.

Moderator: Thank you Vijay. The next question is from Ajinkya Dhavale from Bajaj Alliance Life Insurance. Your line is unmated, Ajinkya, please ask your question.

Mr. Ajinkya Dhavale: Good evening, sir. I just wanted to have more clarity on the fee cum growth prospects of various sources I mean you said we are looking at 250 crores of investment banking fees only over next 3 years. So, how this composition is going to change? What will be the key drivers if we see so far, forex is growing really well, banking fees are degrowing, so how do you see various drivers playing out and how one can see the composition of fee in the next plan?

Mr. Romesh Sobti: I think the first of few headlines that this is what we call core fee income growth.

Mr. Ajinkya Dhavale: Okay.

Mr. Romesh Sobti: For us the internal targets are that core fee income growth. We have always increased loan growth. That is one aspect. In terms of drivers, as we increase the penetration into the corporate side of the business, we expect trade and remittances to form a significant portion of our fee income going forward because we have huge capital, we have given lending; now we are demanding cross sell. Demanding the FD and the guarantee businesses and all those sort of stuff, you know. For in this case, we have lost several platforms that will help us maintain the momentum on forward change. Here we are talking of plan based foreign exchange. Rating is separate, continues to remain A driver and of course third party distribution. When you are still seeing growth of 40% a year earlier. As also we are seeing 2% to 3% sequential growth as well. I think third party distribution insurance and mutual fund, we have not seen any slackening and in our plans for the next 3 years distribution will remain a critical part of our fee income. National banking I have already talked to you about. Net general banking fee shows variation. So those processing fee also is a function of new to bank customers that you bring so that we have further loan possessors.

Mr. Sumant Kathpalia: We see actually on the general banking is the function of the minimum balance charges to a large extent which will add you to improve the quality of the book and financial growth. That will actually plateau out at a certain level.

Mr. Ajinkya Dhavale: So broadly the top 4 up to investment banking will be the key drivers and your fee income will be higher than the loan growth.

Mr. Romesh Sobti: Correct**.**

Mr. Ajinkya Dhavale: Okay, thank you.

Moderator: Thank you Ajinkya. The next question is from Amit from Relicare. Amit your line is unmuted, please ask your question.

Mr. Amit: You just mentioned about the fee income growth through investment banking and in fact during my first question only you mentioned to bring it to 250 crores, but I just wanted to understand where is your current presence in investment banking and where it will increase to basically. Are you doing equity related investment banking also?

Mr. Romesh Sobti: We do nothing on the equity side. We are not going to rub shoulders with the big boys. We are not in the IPO business. Actually capital markets are out. Our focus is very, very unique. It is mid-market approach through the debt side. Debts indication, debt structuring, debt advisory, so these are clients to whom we have already lent. When they look at reading that we enable them. There is a little bit of the M&A stuff but that is not going to be a very large component, but we have just hired an M&A person as well and of course there is also the private equity side. We bring in private equity and match them with the expectations of our customers and there is a dedicated resource that we have just hired from the market to help our private equity side. So essentially, mid-market, debts indication, a little bit of M&A and a little bit of private equity, nothing to do on the equity capital market side.

Mr. Amit: In debts indication business, isn't that some bit of capital which is sometimes required?

Mr. Romesh Sobti: We may or may not keep it on our book. So our stance is that we are not going to use balance sheet. But if the pricing is good, we make use some of it on our books. That interest income is not reckon in merchant banking. Then that goes into NII.

Mr. Amit: Okay, thanks.

Moderator: Thank you, Amit. The next question is from Sangmesh from QED Financial. Your line is unmated. Please ask your question.

Mr. Sangmesh: Congratulations on a good set of numbers. I just wanted to get an update on your loan book. So on the consumer finance side; you are actually getting into a new product which was the LAP portfolio. I just wanted to see what is the traction you are seeing in this portfolio?

Mr. Sumant Kathpalia: We have started very recently and we have disclosed close to about 50 crores. On this we see extremely good interest on those particular line and for the next year we are testing the market price now we want to be sure before we scale up which are the markets and what are the potential and we are seeing some margins that showing us huge potential.

Mr. Sangmesh: Secondly also you were working on the supply chain financing which was another way you were going to scale up your corporate loan book. I believe till the last quarter you had a portfolio about 500 crores. You wanted to scale it out of the CB business. Was we update on that?

Mr. Ramesh Ganeshan:	We have now scaled it up further with both on the channels side as well as on the supplier side on the vendor side as well, so we have in fact launched few channel finance programs last quarter. We have signed a channel finance with HeroHonda with Titan industries and also with the Tata Motors as well and we are doing a few other on the vendor side, so this book will be growing and we see a very good growth in this quarter as well.
Mr. Sangmesh:	What is the current portfolio in this book?
Mr. Ramesh Ganeshan:	I think over between both the books put together is over 600 crores.
Mr. Sangmesh:	Actually you have seen an increment of about 100 crores in this quarter.
Mr. Ramesh Ganeshan:	That is right.
Mr. Sangmesh:	Thank you.
Moderator:	Thank you Sangmesh. At this time, there are no further questions from the participants. I would like to hand floor back to Mr. Sobti, over to you sir.
Mr. Romesh Sobti:	I think we have given a pretty exhaustive introductory debate. There are many factors. We will have to tackle them on a one to one basis. But there is much more detailing given in all the website and the investor presentation. So thank you very much. We will close the call.
Moderator:	Thank you sir. Participants, thank you for using Arkadin Event services. With this we conclude this call. Thank you for your participation. Have a nice evening. You may all disconnect now. Thank you.