IndusInd Bank Limited
Q2 and H1 FY08 results Analysts Conference Call
October 29, 2007

Moderator

Good morning ladies and gentleman. I am Monali, the moderator, for this conference. Welcome to the IndusInd Bank conference call. Today, we have with us Mr. Bhaskar Ghose - Managing Director and CEO; Mr. S Nagarajan - Joint Managing Director; Mr. Suresh Pai - Executive Vice President; Mr. S V Zaregaonkar - Executive Vice President and CFO; Mr. J Moses Harding - Executive Vice President (Wholesale Banking) and Mr. S V Parthasarathy - Executive Vice President (Retail Banking). For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over the floor to Mr. Bhaskar Ghose. Thank you and over to you sir.

Bhaskar Ghose

Good morning, this is Bhaskar Ghose. Thank you for joining our teleconference call for our second quarter results. In a nutshell, this quarter, we have seen significant improvement in terms of our results, on pretty much all the parameters that matter. Let me take you through some of the key highlights of our performance. In terms of operating profit, as you would have seen from the earnings update that you have been given, we have seen a 22% increase quarter-on-quarter in our operating profit and for the first half year a 21% increase. Net profit increased by 30% to Rs. 22 crores, second quarter of this year, as against Rs. 17 crores second quarter of last year. Half-year to half-year, the increase in net profits has been 41% from Rs. 25.19 crores to Rs. 35.56 crores. Sequentially, just to compare our profit numbers with the first quarter of this year, our operating profit has increased by 49% and our net profit by 69%.
Going into some of the details of our P&L statement, our net interest income has shown a 30% increase from Rs. 65.75 crores second quarter of last year, to Rs. 85.73 crores second quarter of this year and comparing half year to half year, there has been a 17% increase from Rs. 123 crores first half of last year to Rs. 143 crores first half of this year. Moving on to non-interest income, despite the fact that for the last 6 or 7 quarters, we have been seeing a consistent improvement in our fee and other income, there has been a further improvement seen in 11 % increase in the second quarter of this year to Rs. 65 crores, as against just under Rs. 59 crores second quarter of last year, and again comparing half year to half year, the improvement has been 23% from a Rs. 105 crores roughly to a Rs.129 crores. Again, interestingly now, since net interest income has been under discussion for our Bank for some time, I would also like to mention that quarter-on-quarter sequentially, from first quarter of this year to the second quarter of this year, our net interest income has increased by 49%.
Few of the key balance sheet figures, advances, an increase of 13% to just over Rs. 12,073 crores at the end of second quarter of this year, vis-à-vis Rs. 10,724 crores at the end of the second quarter of last year. Incidentally, I would just like to mention that the total advances of Rs. 12,073 crores as of September 30, 2007, does not take into account the fact that we carved out about Rs. 225 crores by way of inter-bank participation certificate. So, our actual advances were higher by Rs. 225 crores than the Rs. 12,073 crores which you have seen, recorded as of September 30, 2007.
Deposits, 10% increase, to Rs. 17,640 crores at the end of second quarter, up from just under Rs.16,000 crores end of the second quarter of last year. What is particularly encouraging for us is a 34% increase in our current accounts and savings accounts, low-cost deposits. Our CASA deposits have crossed Rs. 3000 crores for the first time, Rs. 3004 crores as of second quarter of this year, up from Rs. 2241 crores at the end of the second quarter of last year, and

proportionately CASA deposits currently form 17% of our total deposits as against 14%, that it comprised at the end of the second quarter of last year.

Investments have gone up by 11%, roughly in line with the increase in our total deposits.

Some of the key aspects of our P&L account over and above what I have already mentioned is that the total interest that we have earned went up from Rs. 360.60 crores second quarter of last year, to Rs. 460 crores as of second quarter of this year. Our Other Income too increased from Rs. 58.57 crores to Rs. 64.99 crores, that is something I had mentioned. The interest that we have paid out on our deposits, Rs. 294.85 crores as of second quarter of last year, moving up to Rs. 374.75 crores second quarter of this year, in line with increase in our deposit amounts and in line with increase in market interest rates. Now, interestingly enough though, just sequentially if you take the first quarter of this year, our interest expense has remained roughly flat at about Rs. 374 crores from first quarter of this year to second quarter of this year, despite the rise in our deposits, and that is an indication which I will touch upon later in some more detail, that our deposit costs are actually coming down.

Operating expenses up from Rs. 85 crores of second quarter of last year to Rs.102.82 crores second quarter of this year. So, our total expense from second quarter of last year to second quarter of this year up from Rs. 380 to Rs. 477 crores, leaving us mathematically with operating profit of about Rs. 48 crores, Rs.47.90 crores to be exact for the second quarter of this year, as against Rs. 39.25 crores second quarter of last year.

Net profit after taking into account provisions for taxes and other contingencies, second quarter of this year Rs. 22.34 crores, as I mentioned, as against Rs. 17.18 crores second quarter of last year, and incidentally Rs. 13.22 crores first quarter of this year, and half year to half year if we were to make the comparison, the first half of this year our operating profit has been, as I mentioned, up to Rs. 80 crores from Rs. 66 crores first half of last year. Net profit Rs. 35.56 crores, up from Rs. 25.19 crores first half of last year.

The key balance sheet numbers, our equity capital has been augmented from second quarter of last year to second quarter of this year by about Rs. 29 crores, which represents really the GDR issue that we made in March of this year. Deposits I have mentioned; borrowings in the second quarter of last year gone up slightly from Rs. 1274 crores to Rs. 1422 crores. This really was a matter of deliberate policy to take advantage of the lower market borrowing rates that prevailed during the second quarter of this year. Other liabilities and provisions increased from Rs. 1339 crores to Rs. 1767 crores, and the largest single component of these would be again various components of our subordinated debt.

Total balance sheet figure as at the end of second quarter, it is close to Rs. 22,000 crores, Rs. 21,921 crores to be exact, up from Rs. 19,491 crores, so roughly up from Rs. 19,500 crores to about Rs. 22,000 crores from second quarter of last year to second quarter of this year.

On the asset side, we have already talked about advances and investments. Other assets slightly down from Rs. 1153 crores to Rs.1089 crores, to some extent reflecting the fact that the cash collateral on our securitized assets is gradually coming back to us.

In terms of our total business as ordinarily defined, which is the sum of the advances and deposits, close to Rs. 30,000 crores now, Rs. 29,713 crores to be exact, up from Rs. 26,710 crores in second quarter of last year. So, we are now touching Rs. 30,000 crores of total business.

I had mentioned our net interest income, now a word about our net interest margin. As I had mentioned, the interest earned has gone up, interest expended in relative terms has come down because cost of deposits has gone down. Our net interest margin as a result, is now up from 1.34% as of second quarter of last year, which had dipped slightly to 1.12% first quarter of this year, and some of you had expressed concern about that, and I had mentioned that this is something that we will see a steady improvement henceforth, and second quarter of this year has validated that. So, from first quarter, when our NIM was 1.12%, we have moved to 1.57% as of the second quarter of this year. Just to remind, the second quarter of last year was 1.34%.

For the first half as a whole, our NIMs are 1.35% as opposed to 1.28% first half of last year. There is of course a drag effect, a drag down effect, of the lower NIMs for the first quarter of this year. We will go into some details; this has really been possible because of the substantial increase in our yield on advances, we have been talking in the past about how our incremental loans have been put on our books at much higher rates than in the past, and we are seeing evidence of that. It is a fairly dramatic improvement. Our yield on advances which for second quarter of last year was 9.43%, second quarter of this year is 11.60%. So, it is an increase of over 200 basis points. We have seen this improving quarter-on-quarter, last quarter, which is first quarter of this year, our yield on advances was 11.16%, and for the first half, yield on advances last year was 9.27%, which first half of this year on the whole has been 11.39%, so again an improvement of over 200 basis points, even if you look at the first half.

Our yield on investments have moved more or less in line with the market. Just to put some figures on that, second quarter of this year, our yield on investments was 6.79% as opposed to 6.71% in second quarter of last year.

Cost of deposits which had again gone up in line with market trends and last quarter which was the first quarter of this year, our cost of deposits had gone up to 7.94%, actually dropped by 17 basis points to 7.77%, of course higher than the cost of deposits for the second quarter of last year which was 6.54%, but as I said, this had really moved up in line with our market. What is encouraging for us is that from first to second quarter, we have actually seen a drop in our deposit cost, and a substantial improvement in our yield on advances.

I am taking you through some of the other key ratios, look at our NPAs, our gross NPA figure as of second quarter of this year, Rs. 370 crores, net NPAs Rs. 293 crores. Compared to second quarter of last year, gross was Rs. 252 crores and net was Rs. 183 crores. I will just remind you here that you are all aware I have been saying quarter after quarter that really the main addition to our NPA has been the account of one large oil refining company to which we had an exposure of Rs. 173 crores, and from a prudential perspective, we wrote off about 50 crores, leaving Rs. 123 crores, so Rs. 123 crores were added to our NPA figures as of October of last year, so early part of Q3 of last year. So, our Q2 figures of last year do not include this last legacy NPA account, and again, by the way of reminder, this oil refining company which has contributed to our NPA increase, we are the only lender to the company which has classified this as an NPA. All the other lenders to this company continue to show their exposure to this company as 'standard'. This increase of Rs. 123 crores, to see that against the background of the fact, that our gross NPA figures, once again let me repeat, have gone up from Rs. 252 crores to Rs. 370 crores, i.e., an increase of Rs. 118 crores roughly, and our net NPA figure has gone up from Rs. 183 crores to Rs. 293 crores, i.e., Rs. 110 crores. Remember that, this oil refining company alone accounted for Rs. 123 crores. Percentage-wise, our gross NPA percent, as at the end of the second quarter was 3.05%, net NPA 2.43% as opposed to second quarter of last year which was 2.34% gross NPA, 1.71% net NPA. Sequentially, if you look at the first quarter of this year, our gross NPA figure was 3.14% which is now down to 3.05%. Net NPA figure was 2.51%, now down to 2.43%.

Our capital adequacy ratio which was 10.31% as of second quarter of last year, is at 11.77% as of the second quarter of this year, slightly down from the first quarter level of 12.16%, reflecting partly the increase in our business and reflecting partly the fact that some of our earlier subordinated debt is no longer eligible to be counted towards our total capital funds. I might add that at 11.77%, it meets our requirements; it is our intention to maintain our CRAR now and going forward at roughly the 11.5% levels. ROA, 0.41% as of the second quarter, annualized, as opposed to 0.35% annualized, as at the end of the second quarter of last year. Net worth has crossed Rs. 1000 crores; it did so third quarter of last year, showed up in our figures for the fourth quarter of 2006-2007, and we currently stand at 1092 crores of rupees.

The components of our capital adequacy ratio, which just to remind you is 11.77% as of September 30, 2007. Tier I capital close to 7%, 6.96%, and tier II capital, 4.81%.

Moving on to the shareholding pattern of our Bank, the promoting company IIHL, IndusInd International Holdings Limited, an offshore entity compromising large number of NRIs, led by the Hindujas with a large number of NRIs spread over 28 countries, so IIHL the promoting company, the holding is 28.45%. The other significant components are: FIIs hold 18.41%, the Indian public and others hold 17.74%, private corporate bodies hold 16.61%, and our GDR issue that we made in March of last year comprised 9/5th of the 10% or 9.22%.

Some highlights of our business this quarter. Our corporate loan book, you will recall that we had mentioned our continuing emphasis particularly on the SME segment and again you will recall I had mentioned that unlike other banks, for which SMEs are a relatively new customer segment, especially other new private sector banks; for us, SMEs has always been a core customer segment. We have seen a 15% increase in our corporate loan book largely on the back of new loans to SMEs, this is first half of this year versus first half of last year, and from our computations the industry average for increase in corporate loans has been 5%, so we have seen a 15% increase in that. These loans give us fairly high yields not just because of the high interest rate but because we get a lot of other non-funded business from these companies.

Another focus area; inward remittances. We are now averaging 1300 transactions every day, up from about 1000 transactions a day when we last talked to you about this a quarter ago. We are seeing an average flow of about 1 million US dollars every day, by way of these inward remittances coming in largely from the Middle-East, and particularly from the UAE where we have tie-up in that area with about 20 exchange houses and plus. We are seeing the US as another main contributor. We expect these volumes to continue to grow.

Trade finance or foreign exchange turnover that has grown very very significantly. We recorded Rs. 17,100 crores of turnover during this quarter as against Rs. 12,975 crores in Q2 of last year. So, that is a very substantial increase, again highlighting the emphasis that we have been placing on this.

Another area where there was a gap, you will recall that we had talked about the fact that we did not have facilities for online trading to offer our customers. So, we were missing on part of those capital market business flows. We formally launched our association with Religare Securities a few months ago, and that has given us the ability to offer three-in-one accounts to our capital market customers where the savings account and the D-Mat account remains with us, and the online trading account is with Religare Securities. So, we can capture that business, and this is business that was going to our competitors earlier.

The other development that took place during the quarter was that our new contact center became fully functional during the course of Q2 2007-2008.

A word on risk management, important now in the context of whatever is happening worldwide on sub prime crisis , the problem that banks worldwide have been facing. Risk management has been a focus area for our Bank. Let me again bring your attention to that. For us, because of our past NPA problems, this is an area that we had concentrated on very intensively. We have taken lot of initiatives in respect of risk management, which is now acknowledged to be among the best in the industry. We continue to take further initiatives to make sure that we do not run up against the kind of problems that banks elsewhere have faced, and some of our new initiatives and those which are in the pipeline, include further upgrading of ALM systems, our funds transfer pricing systems, our customer profitability and product profitability systems there as well, our CRM (customer relationship management), as well as an enterprise-wide financial planner. So, these are all, both from the balance sheet side as well as from the P&L side, expected to further strengthen our Bank from a risk management perspective, letting us know exactly where we are and what we need to do.

In this connection, I will just touch upon Basel-II and the compliance issues relating to Basel-II. We have already put in place, the building blocks required towards the adoption of the new capital adequacy framework which Basel-II requires. We have been computing our capital requirements and our capital adequacy ratios under Basel-II, even though that is not going to be applicable to us till March 2009, but we have been working out parallel computations of our capital under Basel-II since June of last year and our Basel-II systems are already in an advanced stage of implementation. If you were to compute our capital under Basel-II, then as of 30th September 2007, our capital adequacy ratio, would actually, had Basel-II been applicable today to us, capital adequacy ratio would not be 11.77% which we have recorded, but it would have actually been 12.22% which is a 45 basis point improvement over the existing norms. So, I repeat that we are one of the few banks in the system which actually wishes that Basel-II were already applicable to us. This is largely a result of the fact that on the credit risk side we are very well placed. In terms of market risk, we are largely neutral between Basel-I and Basel-II. In terms of operation risk, like the other banks in the system, I think there is a provision for about 40 to 45 points basis points that we need to make over there, giving us a net benefit of 45 basis points over our present capital adequacy ratio, under prevailing Basel-I guidelines.

A word about our network, as of second quarter of 2006-2007, we had 147 branches and 84 offsite ATMs, giving us a total network of outlets of 231. As at the end of second quarter of this year, the number of branches has moved up to 172. We have opened 75 more offsite ATMs taking that number up to 159. So, our total network of outlets is 331 as at the end of second quarter. Also just by way of reminder, we have 2 representative offices overseas; 1 in Dubai and 1 in London, and we are further expanding our reach through strategic alliances, two of which are already in place in the Middle-East.

Finally, a word about our new initiatives, I talked about how we have 331 outlets in our network, as at the end of September. This reach is expected to be enhanced very substantially, through the application of our 'business correspondent' model. You will be familiar with the fact that Reserve Bank of India under its new 'business facilitator' and 'business correspondent' guidelines, have given banks the leeway to use business correspondents and business facilitators to expand their reach. We have a marketing company which is fully controlled and owned by us, and this is a company that has 600 outlets, well spread out all over India, with no overlap of outlets with our branches, and these are 600 additional outlets, and through the business correspondent model which allows us to distribute pretty much our full range of retail banking products, including liability products, very important for us, i.e., deposit products, as well as third-party products, which we were not doing all this time, through these 600 outlets. So, under the new business correspondent model, we will be in a position to distribute our entire range of retail banking products, through these 600 new outlets which are already in place for us.

Talking still about reach, I mentioned our strategic alliances in the Middle-East, UAE with Union National Bank, and in Qatar with Doha Bank. Now, we are in dialogue with banks in other countries, where we can replicate this kind of tie-up, and we hope in the next few months to be able to add a few more strategic alliance partners and therefore give us a better reach than we would have had in these countries through the establishment of single branches.

Other new initiatives include, factoring services for our exporters, and this is through tie-ups with foreign banks; we are already in dialogue with a few. So, this is something that again we expect to give a value addition to our export clients. In respect of mobile banking, in addition to mobile alerts; daily morning alerts, transaction alerts, balance alerts, we are adding additional services, such as requests for cheque books, stock payment instructions, fate of cheques under clearing, etc.; and since we see mobile banking as being a big banking facilitator in future, we will continue to expand our range of services through this channel. We are introducing mobile commerce with a full range of services. International travel cards are on the anvil as well. Haj demand drafts, this year we expect to issue between 40,000 and 50,000 drafts for Haj travelers, total amount being roughly between 5 and 6 million US dollars.

Remittance products; I talked about particularly the Middle-East and the US. To ramp up the volumes that exist from the US. The sizes of these transactions are typically larger than the sizes of transactions on an average that come in from the Middle-East. So therefore to capitalize on that, we already have web-based remittance facilities. So, we intend to tie up with further new companies, to be able to ramp up those volumes as well from the USA. While on the subject of remittances, the volumes from the Gulf that we receive, again we intend to ramp up through the introduction of remittance cards. All this will add to our fee income. All this should add also to our CASA float funds. So, this gives you an idea of what we have been up to during the second quarter, and we shall be happy to take any questions that you may have.

Moderator

Thank you very much, sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, may press *1 in their telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking questions. To ask a question, please press *1 now. First in line, we have Mr Himanshu from Kotak Securities.

Himanshu Khandelwal

Hello sir.

Bhaskar Ghose

Hello Mr. Himanshu.

Himanshu Khandelwal

First of all, congratulations on a good set of numbers. I just wanted to understand, first of all your yield on advances has improved tremendously. So has there been a re-pricing of loans this quarter also; and also looking at interest rate scenario just now, do you see the re-pricing to continue on the advances side.

Bhaskar Ghose

The re-pricing process actually began some time ago, about a month or so ago, on a broad-based level. There are 2 components to the yield on advances. One is the fact that we have been re-pricing our new loans, both in respect of our retail advances, including vehicle finance advances, as well as on the corporate side. The other aspect of it is that we had a significant proportion of old advances on our books at low rates of interest and at fixed rates of interest. In particular components have been; one is the vehicle finance side. You know, two years ago a lot of the new loans we put on our books in line with market rates, were in yields of 8% and 8.5%, those were fixed rate loans for three years, so, those are gradually running off our books. We expect that the remaining portfolio of the low-yielding assets will run off our books in the next year or two, about 15 months, and they are being replaced by the new higher-yielding loans. On the wholesale banking side, we had some securitised assets that we had bought from a bank which again was at a low rate of interest. Now, at the time that we had bought these assets, they were in the region of about Rs. 2600 crores, now down to about Rs. 335 crores. So basically the combination of our old fixed rate low-yielding loans, both on the vehicle finance side as well on the wholesale side gradually going off our books, and being replaced by new advances at much higher rates; and I think the most dramatic example I can give you on that is again if I go back to the vehicle finance example, two years ago because the market rates had dropped to those levels following the entry of a large new player, new loans two years ago were being disbursed at rates in the region of around 8%. For the last 6 months, I am talking about commercial vehicles here, the last 6 months the same commercial vehicle loans we have been disbursing at rates between roughly about 13% to 13.5% today; in fact two months ago, these were even 14% to 14.5%. So there is a dramatic increase in the yields on the same kind of loans that we had been disbursing two years ago and disbursing today.

Himanshu Khandelwal

You mean to say, by entry of a new player the rates have in fact gone up.

Bhaskar Ghose

No, I said just the other thing, that two years ago when the large new player, whom I shall not name, you can probably guess, but I am not naming them; two years ago when this new player entered the market, rates dropped in over a 2 to 3-month period, from the prevailing levels of around 10.5%, remember I am talking about the scenario two years ago. Before the entry of this new player commercial vehicle loans, at that point of time were going at about 10.5%; within 2 to 3 months of the entry of this new player, the same loans had come down to about 8%. So the commercial vehicle loans we were disbursing two years ago, we were disbursing at 8% to 8.5%; today, in the last six months in particular, we have been disbursing commercial vehicle loans between 13% and 14%.

Himanshu Khandelwal

So do you feel that those rates could sustain, and also on the advances side, I think the advances have gone up by 13%, right; that is just below the industry growth. Is it intentional or how has it been, I mean is it because of the slowdown in the rest of your portfolio, how is the CV financing looking like. Can you just give me a holistic picture.

Bhaskar Ghose

There is no slowdown in our disbursements. In fact, the CV portfolio we have been consciously keeping in check, partly because we want our loan composition to change a little bit, because although today the fact that these loans have been put on our books at 14% and so on will help us in case interest rates were to decline, because remember the CV loans are all fixed rate loans. But nevertheless, we have learnt that fixed rate loans have a tendency to make us vulnerable to interest rate movements. So therefore we are consciously bringing down the proportion of our CV loans which you will see from our earnings update, which our CFO has given to you. Our CV loans as a proportion of our total book, which is currently, CV loans are about 61% of our vehicle finance portfolio which itself is about 56%. So it is, about one-third of our overall book, advances book, is CVs. But our overall vehicle finance portfolio is roughly about 56% of our total loan book. We are planning to bring that down because of the 3-year fixed rate nature of those loans; we are planning to bring it down over a 2-1/2 year period to about 42-43% level. So, that's one of the reasons why we have deliberately held back on vehicle finance loans, while allowing loans in the other segments to grow, that's one side of it. The other side is that the reason why you see 13% is so partly that, that we have deliberately held back vehicle finance loans. Second is that we did some inter-bank participation certificates towards the end of the quarter, about Rs. 225 crores as I mentioned. A third angle to it is that, because our cost of funds, although our cost of deposits is going down as I mentioned, our cost of funds is still relatively high. So, we are ensuring that we put only such loans on our books where we are not under water. So, therefore, because we are a little selective about the kind of loans we put on our books from a need perspective, without compromising our risk management parameters, because we have learnt our lesson the hard way from the loans that we put on our book 10 years ago, that is part of the reason why the growth of our corporate book has been 15%, which actually could have been higher.

Himanshu Khandelwal

Okay, just one more question sir. As far the NPA front is concerned, you have been quite aggressive in recognizing NPAs and provisioning**.** So, do we expect because as you said the large oil-refining company which you have outstanding, do we expect some recoveries on that front later, because you have already classified it as an NPA and written off Rs. 50 crores.

Bhaskar Ghose

Well we have written off Rs. 50 crores of the Rs. 153 crores partly because, as I said, as a prudential measure, because from our own experience in recovering NPAs, we have had, you know, 3-1/2 excellent years of our own NPA recoveries, we know from our experience during the course that some component of the outstanding especially that component which comprises penal interest and so on, is not very easy to get out of the borrower from DRT and High Court judgments. So, that is the portion that we have actually written off, holding us with the remaining Rs. 123 crores, which is what we classified as an NPA about a year ago. The matter is in court. Let me actually just go back a little bit, and say that the reason why this company's other lenders continue to classify this account as a standard account is because a year ago this was taken into the CDR mechanism by the company's bankers, and as you are aware, one of the features of the CDR mechanism is that the classification with which the loan goes into CDR remains frozen for the duration of the package, and at the time that this loan was taken into CDR by its lenders, it was still classified as a standard account which still was with us and that could have been one of the reasons why these lenders took it into CDR, I don't know and I don't want to speculate on that. But as far as we are concerned, we had the option of joining the other CDR bankers and therefore keeping this loan standard on our books. But the reason why we did not do that is because first of all we were not in the same category of lenders, we were not term lenders to the company. More specifically, it is because we have exclusive charge over certain asset of the company which none of the other lenders do, and this is an asset which will yield cash flows to the company. These are basically the company's MODVAT and countervailing duty flows, basically the refunds of the taxes that it paid. We have exclusive charge over there and our documentation we are very confident of, which is the reason why we didn't join the other lenders CDR package and we proceeded separately against the company. So, we are as confident as one can be for any case that is important, that we will get this money back.

Himanshu Khandelwal

Okay sir. Thank you.

Moderator

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

Vishal Shah

Good afternoon sir.

Bhaskar Ghose

Good afternoon Mr. Shah.

Vishal Shah

Congratulations on the excellent set of numbers sir. Sir, a couple of questions… Sir, can you tell me what is your priority sector lending as percentage to your net bank credit currently.

Bhaskar Ghose

I will pass this on to my colleague, Mr. Arvind Jain, who heads our credit functions of the Bank.

Arvind Jain

As of September, we had a total priority sector achievement of 46%.

Vishal Shah

Okay, and what was it the same period last year.

Arvind Jain

It was around 38%.

Vishal Shah

Okay, so now you had some RIDF investments because of default on, you know, priority sector norms by RBI. So, what kind of investments do you have in absolute amount in RIDF ?

Arvind Jain

It is approximately Rs. 1000 crores.

Bhaskar Ghose

It was Rs. 975 crores.

Vishal Shah

Rs. 955 crores?

Bhaskar Ghose

Rs. 975 crores.

Vishal Shah

So, you can withdraw that and you can disburse that as a, you know, your advances or something ?

Arvind Jain

RIDF deposits are there for 7 years. They cannot be withdrawn. I mean, the NABARD gives for making repayments to the banks as and when those funds are returned by the state governments.

Vishal Shah

Okay.

Bhaskar Ghose

The only plus point is that of course since we have fulfilled our priority sector targets, especially our agricultural lending targets, we are not expecting any additional RIDF obligations, but the existing ones of course will remain, as Mr. Arvind Jain has mentioned, they will remain for sometime until they are re-paid.

Vishal Shah

Okay, and sir also on your deposits front, sir, I still see that, you know, there are some, you know, your CASA has improved from 15 to 17%, but is that because of ALFL branches turning into subsidiary, you know, and started contributing the business.

Bhaskar Ghose

Well the erstwhile Ashok Leyland Finance branches which, I must actually clarify something here, the branches of the erstwhile Ashok Leyland Finance, there are barring 43 branches, we have been allowed to convert most of the others into branches of our Bank. So, they are not part of the subsidiary, they are part of the Bank, but their is a separate marketing company which was not Ashok Leyland Finance, which was a separate company of Ashok Leyland, it is a subsidiary of Ashok Leyland Finance which was a pure marketing company, meant for the sourcing of the vehicle finance and for making the collection of repayments. This is the subsidiary which we are now converting into a business correspondent, and this is the subsidiary which has 600 marketing outlets, all this time being used in their traditional role of sourcing vehicle finance and making the collections, but now under RBI's business correspondent model, which we can now use for the disbursement of our full range of retail banking products and services.
But to answer your question a little more specifically, yes the new branches are certainly contributing to our CASA, but I must also add that there are two aspects to it. One is that, our CASA has gone up very largely because of the increase in our current accounts more than our savings accounts and the current accounts have obviously gone up largely because of the contribution made by our corporate clients to that. Because of a lot of new products and services that we have introduced including our cash management services plus a lot of initiatives we have taken on the capital market side, which has improved our current account float.
On the savings account, yes, there is a huge customer base that the erstwhile Ashok Leyland Finance, now our vehicle finance division, has brought in, which are all asset customers which we are now in the process, especially through this business correspondent model, we are in the

process of converting into our liability customers as well. Just to give you some figures, if you take the last 30 odd branches, the last 32 branches that we opened in 15 months prior in the run up to September 2007, 15 months before that, we have seen CASA proportions in excess of 50% in these branches, 50% I repeat, as opposed to the Bank's overall CASA proportion of 17%, and therefore the cost of deposits in these 32 branches is on an average about 5.25% as opposed to 7.77% for the bank as a whole. But because these are new branches at least new as far as liabilities are concerned, the volumes still are relatively low because these branches have all been opened in the last one year or so. So, as they continue to deliver on the liabilities side in the way that they have delivered on the asset side, and as our business correspondent branches or outlets, I wouldn't say branches, outlets start distributing our retail banking products, especially our liability products, we will… see none of these units will contribute huge amounts, I mean there are some exceptions, but none of these units will contribute huge amounts, but we have a large number of these units and the contributions that they will all make at the levels of 5 to 5.5% that we have seen will certainly continuously work to the benefit of the Bank, but I will also mention here that there are some other branches of ours where we have seen the exception to the, you know, relatively low volumes. The case in point is, for example, a branch that we have in a place called Barbil in Orissa. Now Barbil branch, we established about 2-1/2 to 3 years ago. Now, Barbil branch, I mean, is something that we were discussing only a couple of days ago, so it is fresh in my mind. Barbil branch has total deposits of over Rs. 300 crores, of which the CASA proportion is about 35%. So, you know, this is a good case in point, so we have seen branches in areas which ordinarily would be off most of the people's data screens contributing to our low cost deposits.

Vishal Shah

Sir, one more question. Sir any plans on your capital raising because your Tier I is 6.96. So, any plans in future to raise?

Bhaskar Ghose

Yes, we need to continuously raise capital to support our business growth and our risk-weighted assets of September 30, 2007, are Rs. 15,057 crores. This will continue to grow. In fact, at the end of September, we raised about Rs. 50 crores of additional Tier II money, and we expect before the end of this financial year to raise somewhat more subordinated debt. Our Tier II capital is currently 4.82%, down from where it was in March 2007 at 5.20%. There is room for us to raise additional Tier-II capital. So, we will do part of that, but also we will look at Tier-I capital raising possibilities which are likely to materialize before the end of this financial year.

Vishal Shah

Okay sir, thank you.

Bhaskar Ghose

Thank you.

Moderator

Thank you very much sir. Next, we have Mr. Lokesh Mallya from Birla SunLife.

Lokesh Mallya

Hello.

Bhaskar Ghose

Hello, Mr. Mallya.

Lokesh Mallya

Hi, just two questions. Firstly, on the ownership, is there any circular or any directive that you have received from RBI for diluting promoters' stake. Is there any timeframe, you know, below the 10% mark, that is one? Also, if you could give us a sense of exactly, because you have talked about 600 outlets under the business correspondent model, and how that model would be helpful in actually mobilizing deposits. Do you think it is going to be a significant driver for mobilizing deposits?

Bhaskar Ghose

Okay two completely different questions, Mr. Mallya. Let me answer the first question, Mr. Mallya.

Lokesh Mallya

Yeah.

Bhaskar Ghose

On the dilution of promoter share holding, you are aware that RBI had issued guidelines on ownership and governance some time ago, under which of course your reference of 10% is relevant. We are in dialogue with RBI on that, and as you are aware, as of now, not all the private sector banks have yet brought their promoter share holding down to 10%. So, we are in dialogue with Reserve Bank of India and this assurance I can give you that we will work jointly with them towards a resolution on this, and we fully intend to be a compliant bank over this.. So, whatever joint resolution we reach with RBI that will be implemented. We have a few points which we have highlighted to RBI, and as I said that is why we are working jointly towards some resolution here.

Lokesh Mallya

Okay.

Bhaskar Ghose

The other question that you have on the 600 outlets of our business correspondent, see some of these outlets, even today we realized that they have fairly good potential and because we will have under this business correspondent model even those branches of Ashok Leyland Finance, which we are not allowed to convert into branches of our Bank. These are in relatively larger places where the potential is reasonably high. In respect of the other outlets which we have, let us remember that although these are in relatively smaller places, where the aggregate banking deposits are obviously much less than the aggregate banking deposits in metropolitan or urban center, but the plus point that we have is that there is much less competition there. Typically, these are not locations where we see, you know, foreign bank branches or branches of other new private sector banks who are our direct competitors. So, therefore these are places where we can offer our technology-backed products, including what I mentioned about mobile banking and alerts, and products such as demat accounts and so on and third-party products. In fact, we are already doing some of that over there.

You know, the investors in those areas who would have typically been banking with local branches of public sector banks will certainly see a much broader range of products and services from us. So, that is why I am saying, in relative terms the competition is lower than in the urban and metropolitan centers.

The other thing is that, the 600 outlets which largely own our customer relationships, you will remember that I had mentioned that these 600 outlets have been used so far for the sourcing of vehicle finance business, so the customer relationships on the vehicle finance side, which is now in the region of about 16 lakhs, the customer relationships are owned largely out of these 600 or so outlets. So, it should be a relatively easier job for them where they have those customer relationships in place to convert their asset customers into liability customers, and that is really what we are banking on, but the volumes in each sector are not likely to be huge. I have mentioned that earlier also, but when you aggregate these 600 centers, and the fact that these are largely still under-banked centers where the level of banking penetration is still not high, I think we have a fair amount to look forward to.

Lokesh Mallya

Okay. Hello ?

Bhaskar Ghose

You, go ahead.

Lokesh Mallya

Just one more question, the staff cost in this particular quarter has increased, you know earlier it probably within Rs. 24 to Rs. 26 crores, you are looking at a staff cost in this quarter of Rs. 33.9 crores. Any specific reason for that and are you going to maintain this kind of staff cost run rate in each quarter?

Bhaskar Ghose

I certainly hope so. It will be good for our salary packages, but actually to answer it a little more specifically, partly our staff count has gone up to some extent. See when we last talked, our staff count was roughly about 2400 to Rs. 2500. Now, it is closer to 2800. That is part of it, and part of it is also we have revised our salary structure, put some more incentive-based aspects in our package in place, to make sure that we can retain our better performing employees in the face of what is really industry wide attrition.

Lokesh Mallya

Okay. Lastly, I mean you generally do give your average deposit size and probably we will just update it, you know, to find that, but can you give me a sense of what is the percentage of bulk deposits, may be on an average basis also. I mean, where you pay a rate that is higher than the required rate.

Bhaskar Ghose

Well I will give you the averages also, you are right. Normally we do give the averages, so we are in a position to give the averages. Our average deposits for Q2 were Rs. 17,070 crores.

Lokesh Mallya

Okay.

Bhaskar Ghose

Our average deposits for Q2 of last year were Rs. 15,825 crores.

Lokesh Mallya

Okay.

Bhaskar Ghose

So, that is a growth of around 8 to 9%, roughly in line with our general deposit growth.

Lokesh Mallya

And bulk deposits?

Bhaskar Ghose

The bulk deposits would be roughly about 75% of our total deposits.

Lokesh Mallya

Okay. Yeah, that will be all from my side sir. Thank you.

Bhaskar Ghose

Thank you.

Moderator

Thank you very much sir. Next, we have Mr. Deepak from Unifi Wealth Management. Mr. Deepak?

Deepak

Could you tell me something about your international operations? You have offices in Dubai and London.

Bhaskar Ghose

Yes, correct.

Deepak

Could you tell me how it is progressing and what you are planning to do? Do you plan to increase the number of branches overseas?

Bhaskar Ghose
Actually, I had mentioned this earlier, but just for a change of voice, maybe I will turn it over to Mr Moses Harding, our Wholesale Banking Head, to whom our international division among various others departments and divisions report, so I will turn it over to Mr. Harding.

Moses Harding

Good morning, Deepak. International Banking has been one of the focus business lines of IndusInd Bank from its inception. We focus on cross-border trade finance and the global markets – relating to offer of risk management strategies/products - that supplements this business. We have seen in the last 5 years, the growth of our international business has been overall 35% to 40%, both in terms of top line and bottom line numbers year-on-year. We are doing cross-border trade finance through a set of correspondent banks. We have around 300 in number, with whom we have these arrangements, and around 25 to 30 of them are very active providing large credit lines, through them we route our import and export finance transactions.
As a second step, we set up our representative offices in Dubai and London, so as to cement our relationship with correspondent banks who are based in Gulf, UK, and Europe as we already have well set correspondent banking relationships in US markets. So, we enlarged our focus on European market and the Gulf market.
Now, as a third step, is the regional alliance partnership that we have been working on for the last one year, where both the banks considers the other as a favored bank to tap opportunities in the respective countries and to generate higher reciprocal flows. This is just an alternate to a set-up of brick-and-mortar foreign branch network requiring operational cost and capital. As a pilot case, our association with Union National Bank covering UAE and Doha Bank covering Qatar is up and running very well, and we are proposing to establish similar relationships covering other major markets of UK, Europe, Africa, South-East Asia and other areas. So, this gave a tremendous boost to our international business covering non-resident Indians, covering trade and corporate finance and also cross-border merchant banking M&A opportunities. It is priority focus for us because, you are aware that, most of the international companies are looking at India to participate in the growth story and most of the Indian companies are becoming global companies. So, we are seeing huge opportunities in the international business, both on the trade side which comprises of import and export, and also on the investments side either investing abroad or money coming in to India. So, to capture these opportunities, we have strong strategies and business focus towards ramping up our numbers in this segment.

Deepak

Is it currently contributing to the overall revenue?

Moses Harding

As of now, I can give you the March 2007 numbers. The commission from international business was around Rs. 26 crores and commission from exchange business was around Rs. 18 crores, and this year, we have already seen a growth of almost 40% to 45% over those numbers.

Bhaskar Ghose

Plus the interest earning for the funding which you have done.

Moses Harding

In addition to generation of non-interest income, there is also contribution to the Net Interest Income from the foreign currency loans that we provide to our import and export customers. Normally, the spread works out to 1-1.5% on trade finance related loans and over 200% on non-trade foreign currency loans. Handling of collection and bills business adds to our current account float maintained by these companies.

Deepak

Thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1. Participants who wish to ask questions may please press *1. Next in line, we have Mr. Mangesh from Almondz Securities.

Mangesh Kulkarni

Good afternoon Sir.

Bhaskar Ghose

Good afternoon sir.

Mangesh Kulkarni

Sir, this is regarding your preferential issue. What is the progress on this front, sir? There were talks that you are going to make some placements with entities. I just wanted to have some clarification on this.

Bhaskar Ghose

Are you referring to our capital-raising plans?

Mangesh Kulkarni

Yes, sir.

Bhaskar Ghose

Well capital-raising plans, as I mentioned, there are intentions apart from doing Tier II capital, we will be issuing Tier I capital also probably before the end of this financial year and as of now all our options are open, but you know one of the options and I do not want to close the other options by saying this, but one of the options is definitely to cater to the demands that there is from a lot of banks that have been in dialogue with us for taking a stake in our bank and these would mainly be overseas entities. But as of now, to be honest it is not that we have finalized any such placement opportunities with any bank, but there is a lot of demand from foreign banks which are looking to enter the Indian banking market. There is lot of demand for foreign banks for taking a stake in our bank. So, certainly part of our new capital could be raised from those sources, but let me repeat, this is one of our options, nothing has been finalized so far.

Mangesh Kulkarni

What about your breakup of retail lending? You said that 61% is from vehicle finance.

Bhaskar Ghose

61% of our total vehicle finance lending. Today as of March to September of 2007, if you take a look at our overall loan book, and I am including the Rs. 225 crores that we had hived off our books by way of inter-bank participation certificates, our total vehicle finance loan book is Rs. 6826 crores, which comprises roughly about 56% of our loan book. Out of this amount, commercial vehicle loans alone comprise Rs. 4187 crores. Therefore, that is why I was saying that out of the total vehicle finance loan book, commercial vehicles alone contribute about 61%. The remaining retail loans, because we have retail loans over and above vehicle finance loans; our remaining retail which are mainly retail loans to traders, we have some small home loan portfolio and we have some small personal loan portfolio. So, if you add these 3 together, that is another Rs. 1753 crores which comprises roughly about 14% of our overall loan portfolio. So, that is 56% vehicle finance, 14% other retail finance. So our total retail loans are roughly 70% of our advances portfolio and the remaining 30% is wholesale banking, and as I said the focus is more and more towards our traditional set of clients.

Mangesh Kulkarni

Sir, now how many SME clients are there?

Bhaskar Ghose

Moses, how many SME clients we have?

Moses Harding

In the credit relationship, we have around 350 odd SME clients, credit customers, and around 1500 of non-credit clients.

Mangesh Kulkarni

Thank you sir.

Moderator

Thank you very much, sir. Participants who wish to ask questions may please press *1. 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.

Bhaskar Ghose

Thank you very much. We much appreciate your joining us on a Monday morning. I think there were some very good questions. We hope we were able to cover all the ground that you wanted us to cover. Our earnings update has traditionally provided a lot of information, and I think whatever other information was required has been provided in the course of this teleconference call. So, thank you very much. We continue to look forward to your support as we continue to grow in the quarters to come. Thank you.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You many now disconnect your lines. Thank you.