Q3 2014 HDFC Bank Ltd Earnings Conference Call - Preliminary

17 January 2014

Presentation

OPERATOR: Thank you for standing by, and welcome to the HDFC Bank Q3 FY13/14 Results **Conference Call** presented by Mr. Paresh Sukthankar, Deputy Managing Director of Bank. At this time, all participants are in a listen-only mode. There will be presentation followed by question-and-answer session. (Operator Instructions)

I would like to hand the conference over to Mr. Paresh Sukthankar. Over to you, sir.

PARESH SUKTHANKAR, DEPUTY MD, HDFC BANK LIMITED: Thanks. Good evening to all of you. I will just mention I'll walk you through a, not a full scale presentation, but just some of the key numbers on this quarter's results, and then we'll take questions. I have Sashi and Bhavin with me as well. I'm sure most of you would have had a chance to look at the results that we have declared.

But in brief, the total income growth for the quarter was 17.8% at INR12,739 crores. Net revenue growth was 14.8%. If you look at the composition of that net revenue, roughly 68% of net revenues is net interest income, which grew at 16.4%. The balance 32% of net revenues, which was other income, was at INR2,148 crores which grew at 11.4%.

The other income has various components, but the largest contributor to other income, which is INR1,575 crores of the INR2,148 crores, was fees and commissions. And fees and commission growth was also at 11.4%, which is the same as the total other income.

Moving on to the expense lines, the operating expenses were on a tight leash. Growth in OpEx was 3.8%. Operating expenses for the quarter were INR2,895 crores. The cost to income ratio therefore did improve, on a year-on-year basis improved from 47.2% to 42.7% and even on a sequential basis from the last quarter around 46% -- 46.4% to 42.7%.

Total provisions for the quarter were INR389 crores as against INR405 crores in the corresponding quarter of the previous year, and I think the asset quality remaining stable as the provision line also remain roughly stable. Profit before tax at just under INR3,500 crores at INR3,499.2 crores, increase by 28.8% over the corresponding quarter of the previous year. The effective tax rate is higher this year than it was for last year, and as a result the profit after tax net profit was INR2,325.7 crores, which was 25.1% higher than the corresponding quarter of the last year.

On the balance sheet side, there was a fairly healthy growth. The overall balance sheet growth was 22% year-on-year. Clearly, the one major impact on the balance sheet numbers in particular, and of course to some extent on the P&L as well, during this quarter was the Bank's efforts at tapping into the opportunity, which was relating to the FCNR window which had been provided by RBI where this window is available till November end, where banks raising FCNR deposits could swap them with RBI at a concessional rate of 3.5%.

The Bank had done rather well under this window because we've raised a total of $3.4 billion as FCNR deposits, which was swapped, and which therefore come in into the balance sheet. There were also some linked lending in the overseas branches as a result. So, clearly this has, to some extent, given a boost to what was the normal balance sheet growth during this quarter.

So, to put some of the numbers around this, the total deposit growth, that is December-over-December, was 22.9% where total deposits have now touched INR349,215 crores. This, as I've mentioned earlier, includes the roughly $3.4 billion of FCNRs, let's say, approximately INR21,000 crores. So, adjusting for that FCNR, the rest of the deposit growth would have been about 15.5%, and the CASA ratio without the FCNR piece would be about 43.7%, say just under 44%. If you were to add that FCNR piece swapped in, it would be closer to [41.1%].

On the loans and advances side, again overall loans and advances growth was at 22.9%. So both deposit and loans have actually grown at the exact same growth rate of 22.9%. And adjusting for the growth in the overseas loan book linked to this FCNR opportunity, the loan growth would be 18.3% as against the 22.9%.

As a result of that overseas lending, the overseas book saw a bit of a blip where today it's about 8% of the total loans and advances as against what used to be about 4% to 5% earlier.

Moving on to the infrastructure fees or the distribution fees, our network now is 3,336 branches and 11,473 ATMs. And about 55% of these branches are now in semi-urban and rural areas. If you look at the year so far, which is the first nine months of the year up to December, we have added 274 branches this year. Of which, 179 branches were in unbanked areas.

For this quarter -- during this quarter, that is September to -- the October to December quarter, the total branches that we added were 85, out of which 66 were in unbanked areas. So the important thing to note is that although we have had expenses under tight leash, we haven't cut back on the expansion of the branch network, although of course a lot of these branches on unbanked areas, so they are relatively smaller in terms of size and expense.

Moving on to what has been a particularly satisfying line this quarter has been on the asset quality front. I think we are pleased that asset quality has remained stable, on a sequential basis has improved from 1.1% to 1.0%. It's not just the fact that the loan growth has been fairly strong even in terms of the actual increase in gross [NPAs], the increase in gross NPAs during this quarter has been a little lower than what it was in the previous quarter on a sequential basis.

So NPAs gross at 1%, net at 0.3%, restructured loans in at 0.2%. So across all the three parameters, NPAs remain well under control or stressed assets remain well under control. The coverage ratio based only on specific provisions remain stable at 74%.

Just to conclude on the capital adequacy side, without counting the year-to-date profits, the total and Tier-I CAR are at 14.7% and 9.9%. As you know, we could include the year-to-date profits only at the end of the year. But if you just on a pro forma basis look at those which would obviously come in at the end of the year, if you add year-to-date profits, then the total CAR as of December would be 16.2% and the Tier-I ratio would be at 11.5%.

So, that's just a quick rundown of some of the key numbers. We'll be happy to take questions now. Can you please throw the -- the call open for questions?

Questions and Answers

OPERATOR: (Operator Instructions) Nikhil Rungta.

MAHRUKH ADAJANIA, ANALYST, STANDARD CHARTERED: Hi, this is Mahrukh. Just have a couple of questions. For [fee] on this FII thing, there is a lot of newsflow since morning. So, any clarity you have on the FII -- the FII limit and also once you get it clarified, how frequently will you have to approach FIPB again. So, that's the question on FII limits. And then I have a question on retail lending as well.

PARESH SUKTHANKAR: Okay, so let me try and finish off this. Honestly, I think there is much more that we are seeing on the tickers or what have been asked from us than what we know. The position as well as we're concerned is that we have put an FIPB application. There were some data points that we're asked for and some opinions, legal opinions that we're asked for both of which had been provided. And this has been submitted to FIPB and from what we saw the last release from FIPB that they're yet to take a decision on our case because the decision was deferred.

I guess the particular speculation which from what we see from the media is whether the FIPB would treat HDFC's shareholding as an indirect foreign shareholding, and whether that in any way therefore comes into play as far as our application is concerned. We obviously don't know how this will be viewed by FIPB, but the legal opinions that we have seem to suggest that the requirement circulars or the press notes have -- each of them have a clause which talk about grandfathering in terms of shareholding which was -- which preceded the date of that guideline or that press note or the circular.

How that is interpreted and so on I think obviously is what I think has been conjunctured, but as far as we are concerned we haven't heard back anything about whether the FIPB is considering favorably or otherwise our application. We have submitted everything, including the legal opinions that are being required. So we are awaiting any decision and from the best of what we know, there has been no decision which has been taken because that's -- [otherwise] would have been conveyed to us and even I think the press release then says that it has been deferred.

So, the second part of your question about if -- once this comes through how often it would [let me] to go is I think even more conjuncture because I have no clue. As far as we are concerned what we have approached FIPB for is that we currently have a certain FDI shareholding and we have an FII existing shareholding and a 49% FII limit, which has been approved by the Board earlier. So, the FDI is remaining the same, because that you can only go and seek specific approval whenever there is actually an issuance and so on.

Keeping the FDI the same which is roughly say around 18% -- 17%, 18%, we have sought an approval to go up to the 49% total FII limit, which -- limit which we have, as against that the current FII shareholding is about 36% -- 35%, 36%. So, that's what we have -- and because the total shareholding has crossed -- total foreign shareholding has crossed 49%, which will be FDI plus the FII actual shareholding right now, that has crossed 49%.

We're seeking this approval to go from that 49% up to the 67% which is the limit which is there in the FII piece. That's what our application is for, and we'll just have to [complete] their response; beyond that, [at this] point of time, we have nothing more that we could add from our side because that will be only adding to the conjuncture.

MAHRUKH ADAJANIA: Okay, perfect. Thanks. And just in terms of retail loan growth -- so in terms of growth in personal loans, just as a proportion of retail loans, now they are close to the 2005, 2006 levels. Is that okay with you as in that -- given the weak macro, would you continue to focus till the CV sector and cars revive or --?

PARESH SUKTHANKAR: I think the individual growth rates in each of our businesses are paced to the comfort level that we have in terms of how each of these portfolios is performing. So as far as personal loans is concerned the portfolio quality has remained fairly stable. The segments that we are looking to -- continue to grow in are those where we are comfortable growing within the risk parameters or the credit parameters that we have put in place.

The proportion is also naturally a function of not just how fast that particular product grows but other products. And like you mentioned, there has been some deceleration in auto loan growth, again linked to what's happening to the underlying sales of cars, and virtually a negligible growth in the commercial vehicle portfolio especially when you look at it sequentially because again, partly given sluggish growth in the underlying sales of the commercial vehicles and also given the moderation in [indirect] asset, given the way the portfolios have been behaving.

But there's also a bit of a distortion because in the last two quarters, we haven't bought home loans. We bought only about INR500 crores while we would be buying a few more thousand crores from what we are eligible. So between now and the year end, which is when -- because most of what we're buying is PSL. Once that comes in again, the proportion might come down a little because it would be in addition to the home loan piece. But right now, we are comfortable with the pace of growth as far as the personal loan piece is concerned.

MAHRUKH ADAJANIA: Sure, thanks. And outlook on margins for the next two to three quarters?

PARESH SUKTHANKAR: I really don't have a guidance on margins. I mean we've never had one. But other than the fact that I think the range that we have had which has been let's say 4.0%, 4.1% on the downside to [above] 4.3%, 4.4% on the high side. So that's somewhere between 4.0% and 4.4%, I think still remains a reasonable range for us to remain in terms of margins.

I must mention that the reduction of about 10 basis points that we've seen in this quarter's margins are really a bit of an impact primarily driven by this substantial growth in the FCNR fees both in terms of getting these swapped FCNR deposits on to our books in local currency and the fact that linked to that, there was an expansion in the overseas loan book which is at a much lower margin.

If we did not -- [that means, it would] clearly have impacted margins by let's say about 15, 16 basis points. So if we had not had -- we'd have probably seen 4, 5 basis points improvement in margins on a sequential basis but just given the impact of this particular opportunity, there's an immediate reduction in NIM although the basic growth in terms of getting those FCNRs is still very valuable because you're getting these deposits without any reserve requirements and they also give us some benefits in terms of PSL.

MAHRUKH ADAJANIA: Okay. Thanks. Thanks a lot.

OPERATOR: [Ms. Ruchi Jain].

RUCHI JAIN, ANALYST: Yes, hi. Thanks for taking my question. So I have two questions. Firstly, on the FCNR (B) swap that you mentioned, that resulted in a higher loan book overseas and I notice that there is 8% versus some 3.5% in the year earlier. Could you explain why would you have a higher loan book with the FCNR (B) swap?

PARESH SUKTHANKAR: Sure. You have a second question?

RUCHI JAIN: I'll tell you after this one is answered.

PARESH SUKTHANKAR: Okay. The thing is that the customers, the non-resident customers, there was -- FCNR offering was partly on a leveraged basis. So these are customers who would have borrowed in foreign currency from our overseas branches, some of them.

And therefore there is a growth in the overseas book where the banks would have raised foreign currency or would have borrowed and lend to these customers who then would have also placed FCNR deposits here. So while the total FCNR book here increased by about $3.4 billion, the overseas book would have increased by somewhere about $1.8 billion or $1.9 billion.

RUCHI JAIN: Okay. And was that the way the product was structured or --?

PARESH SUKTHANKAR: [It is], yes, I mean, not entirely, because there are some customers who [are not in that], but yes, that would certainly be one of the options.

RUCHI JAIN: Okay, okay. And then, I had a question on basically the technology investments that you're currently making. So, from what I understand in the US, the percentage of transactions that are happening at branches has reduced drastically, say over the 20 years it's come down from say 90% of transactions being taken place at the branch and now it's just 50%. So what kind of trends are you seeing in the Indian markets. So, what percentage of all transactions happen at the branches versus online versus mobile and what kind of investments is the Bank making to stay ahead of that curve?

PARESH SUKTHANKAR: The Bank has been servicing its customers through multiple channels for a number of years, so whether it's ATMs, phone banking, net banking, mobile banking and so on. In fact, the proportion of customer-initiated transactions which go through branches is now around 20 odd percent -- around 20%. And so, I'm surprised when you said 50% for the US, we seem to be doing a little better here.

But, the net and the ATM channels do see the maximum number of in terms of proportion to the total. We continue to invest in branches because we see that that's an important channel for acquiring customers and for cross-sell.

On the other hand, we continue to also invest in the direct banking channels or the alternative channels because we find that those are convenient channels for servicing customers, providing customers a 24/7 and greater convenience to interact with the Bank, and also clearly lower cost from the Bank's point of view.

So, that will remain -- it doesn't mean that because the other channels are picking up, we sort of are shying away or moving away from the branch channel because that that remains -- branches still remain an important channel for acquiring customers.

RUCHI JAIN: Okay, and just a follow-up on the (multiple speakers).

PARESH SUKTHANKAR: If you don't mind, can we come back to you so that we just have a chance for everybody to have at least a couple of questions and we can come back towards the end if don't mind.

RUCHI JAIN: Sure.

PARESH SUKTHANKAR: Thank you.

OPERATOR: Kashyap Jhaveri.

KASHYAP JHAVERI, ANALYST, EMKAY GLOBAL: Yes, hi. Congratulations on a good set of numbers. Just wanted to understand -- in past when we had operating revenues growth -- operating revenues growth which was touching like 30, 40s, our ROAs used to be like 120 basis points, 160 basis points; and today, that's materially slowed down to about 14% and we have ROAs which are sort of probably not heard of in the banking system in India. So, just wanted to understand how much -- how far can costs -- a tight leash on costs can take us in terms of our ROAs? Can we sustain this number for probably quarters or years to come?

PARESH SUKTHANKAR: Well, I don't have again a number that I would want to guide you to or commit to in terms of our ROAs. But let me just go through the construct of what you are saying. The reason why ROAs have improved even -- despite a sort of more moderated revenue growth has obviously -- can only be attributed to two lines, which is operating expenses and credit costs.

I will say that the larger contributions between the two has come from credit costs where our mix of loan book, between a little more than half the loan book being in retail and the rest in wholesale, what one might have expected or priced in as expected loss and our actual loss experience even through this extremely challenging credit cycle has been holding up a lot better.

So, I guess as long as our asset quality tends to hold up better than our own historical averages, so it's not just I'm not comparing this only with what's happening in the industry but even relative to our historical NPA levels which used to be say 1.3% to 1.5%, today as we are in this 1%, 1.1% range in the last three or four quarters, then that differential has made a significant contribution to the higher-than-historical ROAs.

As far as the cost is concerned, we did have and have had slightly elevated cost to income ratios primarily on the back of the significant expansion that we have done, not just in branches, branches are an important component of it, but also having rolled out a number of our products across this wider geography plus our Sustainable Livelihood Initiative where we have almost 4,000 odd employees and so on.

So I think there are enough investments which have resulted in higher costs. In the last two or three quarters, as revenue growth has moderated because of the macro environment, GDP growth being slower, credit environment being challenging, we have tried to accelerate our operational efficiencies, productivity focus, cost control, so what we would have -- derive the benefits over an extended period of time, we have tried to crunch that into a shorter period. We've also done tactical stuff to throttle certain expenses because we believe that's the appropriate way to manage a business during a slightly slower growth phase.

So, how much of this is sustainable? I'm sure some part of the expense growth will have to get normalized when you have stronger revenue growth, that's realistic. But equally, the rest of it is really dependent on the credit cost vis-a-vis the expected losses that are priced into our NIMs.

KASHYAP JHAVERI: Right. Second question is on your FCNR (B) deposits. You also have a loan book against this FCNR (B), that leveraged product, [that Bhavin spoken about]. Now, on both the legs, do you have fixed interest rates or have you offered a fixed return product to our clients?

PARESH SUKTHANKAR: No, I think we are running no interest rate risk on this at all, the sense that whatever the rate at which we have got the -- on the foreign currency leg, there would be both legs on -- I think both of them are on a fixed rate basis with a locked-in spread there, which is very narrow in the foreign currency book. And then, the rate of interest on the FCNR is also of a fixed rate and swapped as you know at 3.5%.

KASHYAP JHAVERI: Right. Right. Actually, my question is a little different in a sense that, does the client have to bear any interest rate risk out here?

PARESH SUKTHANKAR: Not really, no. I don't think he has to bear an interest rate risk either.

KASHYAP JHAVERI: Okay, okay. Yes, that's it from my side. Thank you.

PARESH SUKTHANKAR: Thanks.

OPERATOR: Vishal Goyal, [USB] Securities.

VISHAL GOYAL, ANALYST, UBS SECURITIES: Yes, hi Paresh.

PARESH SUKTHANKAR: Hi, Vishal.

VISHAL GOYAL: I have two questions. One is on the home loans basically originated this year, what is the amount and how much of that we already basically taken in -- and you said INR500 crores something, but how much did we originate?

PARESH SUKTHANKAR: We've been originating roughly INR1,000 crores a month. And therefore by that token we should have been taking about to say INR1,500 crores or INR1,200 crores to INR1,500 crores a quarter is what you would have been typically been buying.

We should have been -- we would have been eligible to -- or would have taken on our books if it was PSL. In the last two quarters, we have taken only about 500 and -- say around INR500 crores to INR600 crores.

VISHAL GOYAL: Overall? YTD, INR500 crores?

PARESH SUKTHANKAR: First quarter --.

UNIDENTIFIED COMPANY REPRESENTATIVE: First quarter, we did --.

VISHAL GOYAL: Not for the quarter. INR500 crores is for the last nine months.

UNIDENTIFIED COMPANY REPRESENTATIVE: Last six months. We did (inaudible) in Q2. Q3 we have --.

PARESH SUKTHANKAR: (inaudible) revenue numbers for the last two quarters which have been June and September quarter, sorry the September and December quarters I'll just check how much we might have bought in the first quarter, which is the June quarter.

But the INR500 crores I'm talking about is what we had bought in this December quarter. We had not bought anything in the September quarter. So it's actually the -- it's the same INR500 crores for the last two quarters and the June quarter we'll just figure out how much it is.

VISHAL GOYAL: Okay. The reason I asked is my next question is linked to that. We had this FCNR (B) in this particular quarter, but for example going forward, if we were to think of loan growth, which are the segments basically it will come from, I mean obviously the retail to corporate proportion, how will it change and also within retail to corporate, which are the segments we are looking at?

PARESH SUKTHANKAR: Well, if you look at it the relative growth rates between wholesale and retail have tended to lean towards one or the other in different quarters. So in the first two quarters of the year, retail loan growth outpaced the wholesale loan growth. And this quarter, the wholesale loan growth was a little ahead of the retail loan growth.

We are not targeting a certain mix on a conscious basis. We are comfortable growing both pieces based on demand, competitive conditions and our perception of risk. Right now, I would say that because the wholesale business is essentially working capital driven and there is not too much of CapEx expected in the immediate near future, it's quite likely that on an ongoing basis, the retail business could be marginally ahead of the wholesale business if I add back what we would be buying from time to time on the home loan piece as well.

If I look ahead and if I -- next year, we believe the economy picks up by let's say 1% or a little more than that and if we believe that a large part of that recovery in the economy is in the back of improved CapEx or investment demand, then clearly maybe the corporate loan growth could receive a -- could get a bit of a boost.

As far as retail is concerned, the growth in commercial vehicles was muted because of asset quality concerns. Car loans was around 11%, 12% year-on-year again given the underlying sales but most of the other products had grown at reasonably healthy growth rates. So I would say that again depending on how car sales and other product sales go into next year, I would imagine that you should see some pickup on the retail side as well especially if interest rates were to remain stable or come off a little.

VISHAL GOYAL: Okay. Thank you, Paresh. All the best.

OPERATOR: Mr. Abhishek Kothari.

ABHISHEK KOTHARI, ANALYST, VIOLET ARCH: Just wanted to understand, in case of the absence in CV growth, where would you focus to meet your PSL targets?

PARESH SUKTHANKAR: Well, fortunately in the immediate few quarters, we would also get a bit of a relief on the PSL because of the FCNR piece. As you know, one of the benefits of the FCNR scheme was that the deposits that you sort of raised under this window, you would see an adjustment to net bank credit. So, there would be some relief that you would get under PSL front as far as the amount that we have raised on the FCNR.

But, as far as the rest of the business is concerned, whether it is the business banking piece, which is SME, the home loans piece which qualifies for PSL, and the other wholesale and retail businesses where you have some customer profiles which would qualify for PSL would continue.

Again, it's not that we are looking to not grow the CV business at all. It's a question of what rate we are comfortable growing and also the -- when we talk about that line it's commercial vehicles and construction equipment. So some amount of the moderation is in the CE side, which really does not have any PSL implication.

ABHISHEK KOTHARI: And sir, can you give me the provision breakup for this quarter?

PARESH SUKTHANKAR: Well, the -- of the total, the general provisions, which is for standard assets this time is about INR80 crores. There is no floating provision and the rest would be specific provisions.

ABHISHEK KOTHARI: Okay, that's it from my side. Thank you.

OPERATOR: Mr. Kunal Shah.

AMBAREESH BALIGA, ANALYST, EDELWEISS SECURITIES: Hi, Paresh. This is Ambareesh here. On -- the last couple of years, we've been expanding in the Tier 4 centers -- Tier 3 and Tier 4 centers and just wanted to understand from you in terms of the progress on asset mobilization from these branches and on the deposit side. So what proportion are these branches contributing to our overall business and is it as per expectations?

UNIDENTIFIED COMPANY REPRESENTATIVE: Right. The last three years we have sort of been ramping up our distribution in the Tier 3 to Tier 6 cities. We have a construct wherein we do have year one, year two, year three plans. As we speak today, roughly on a flow basis, not on a stock basis, about 20% to 25% of the asset flow comes from these branches now. Are they within -- are they in line with plans? Yes, not entirely but roughly around 70% to 75% of the branches are in line with plans. We have to work harder on the balance 25%.

AMBAREESH BALIGA: And on the deposit side because you know --.

UNIDENTIFIED COMPANY REPRESENTATIVE: Similar numbers, 20% to 25% of the flow of deposits come -- incremental deposits come from here.

AMBAREESH BALIGA: Okay. And going forward in terms of expansion of branches, the large part of the expansion is behind us. So, going forward, as productivity improves from these branches, where do you see that settling in the overall piece for us?

UNIDENTIFIED COMPANY REPRESENTATIVE: Well, we still have plans to open roughly around 200 to 300 branches per annum and we seem to have a horizon to do so for the next two to three years roughly as we speak now.

AMBAREESH BALIGA: Okay. But this 20% to 25% on flow basis, does -- on the overall contribution, on a stock basis, when will you -- when do you think it will have a meaningful impact?

UNIDENTIFIED COMPANY REPRESENTATIVE: It will take a long time because let's face it, these are -- some are short-term loans, the average duration is about two, three years. Only when the entire momentum starts to pick up, maybe it will be probably in the next five to seven years and we would have a fair amount of healthy proportion on a stock basis.

But at least we are happy that on a flow basis, we have seen these kind of numbers, which is what we expected in our -- in the plans when we set up these branches.

PARESH SUKTHANKAR: So I think it's important to also to look at the revenues or the business volumes which are flowing here from these branches in relation to the costs of these branches because these are, as you can imagine, smaller branches in less expensive locations from a pure cost structure point of view.

And that whatever loans that we originate, a higher proportion of those loans would also qualify for PSL as compared to the urban markets. So the overall revenue and cost construct is a little different. So it's not just in terms of the proportion of the volumes that you get, but in terms of the other collateral objectives that you're trying to meet when you're going into semi-urban and rural branches and [a lot have been] unbanked.

And again, I think, this is -- if this is the way things are right now, if you look at it from a slightly more medium to long-term point of view and if you believe that India is ultimately a 7%, 8% GDP growth story, then we do believe that the benefits of that growth will increasingly trickle down to semi-urban and rural India.

And therefore the business potential in a lot of these markets, which today maybe Tier 4 or Tier 5 or Tier 6, will only improve. And if they are running roughly to schedule and plan at this point of time when the economy is clearly sort of not firing on all cylinders, then hopefully over a period of time, it can only get better, was the rational behind our expansion into these markets.

AMBAREESH BALIGA: Sure. And the other question is on CASA. CASA has been coming off this quarter also, even adjusting for the FCNR. So it's kind of slowly trending down, so where do you think that stabilizes, and in terms of what is a steady state level for CASA for us?

PARESH SUKTHANKAR: Well, if you look at it, and if you just sort of peel the onion a little and look at say savings account, right, savings account growth actually has still remained fairly healthy. I mean even now for this quarter the savings account growth -- savings account deposit growth is about 15%, 16%, which is probably in line with the total deposit growth excluding the FCNR piece.

The pain has really been that the current account line has clearly not been growing. In fact, at a system level, the current accounts have de-grown. And even for us, the numbers while they are some 2%, 3% growth, at least after two quarters of virtually zero growth or even lower growth, there is -- and this is really sort of astounding for a positive but there is a slight pickup on a relative basis, on a sequential basis vis-a-vis where current accounts were.

And clearly current accounts will grow only when you have a higher growth rate in the economy and slightly easier liquidity in the system because if people are not being paid on time, that the large corporates are not paying, mid-sized corporates or SMEs, if payments by say state governments to contractors or people executing projects to contractors, the entire liquidity scenario is stretched, then current accounts tend naturally to get drained out in a period like this.

Equally, those parts of current accounts which are linked to the markets will pick up only as you have a higher level of activity on the markets, including IPOs and so on. So If I have to therefore go back to what does that do to CASA, the savings account, as a total of our -- of our total deposits, has actually still remained in the roughly 27% to 28% range, which is not very different, maybe less than about 1% difference on what it used to be in earlier.

How much current accounts can bounce back because those have clearly come down by [maybe] 5%, 6% or even more is really a function of, one, the market is normalizing and then you would figure out whether there has been any shift in market share as far as that is concerned.

Beyond that, I think, we have if you look at the last seven years, we have -- we had lows of CASA of about 40%, 41%, which was in the December quarter of 2008 and we've had as high as 52%, 53% also. So, we had a range which is as wide as a 10% swing in CASA.

AMBAREESH BALIGA: The low was because of the merger, right? So --.

PARESH SUKTHANKAR: No. It was of the merger and actually -- well, the merger came down to about 43%, 44% and then in December 2008, post the global financial crisis, you had this huge amount of -- you had very high interest rates. So people had moved from savings and current to fixed deposits. And we had seen a huge inflow of fixed deposits during that time when there was a flight to quality and so on. So there have been various market and interest rate related factors which had caused that swing.

But the point I was making was that the CASA is certainly an extremely important element of our strategy and it remains a priority. But it's not an engine itself. The importance of the CASA is to get stable relatively lower cost deposits which are not so price sensitive and which give us a good funding base to build our asset strategy on.

And obviously that contributes in terms of funding and therefore, at a certain cost and therefore the margin, the net interest margin and it contributes in terms of our customer base to which we can then cross-sell other products. I think the important thing to note is that even in this quarter where if you include the FCNRs, the CASA would be probably closer to 41% or if you knock it off and you say it's 43.7% just in terms of indication of the core momentum on CASA, even at that level our NIMs still remain reasonably comfortable at the [4.2%] level.

And therefore, there is in our entire balance sheet structure, an ability to go through interest rate cycles, CASA cycles, and a certain loan mix, and still maintain NIMs because the end objective is to have relatively stable NIM in a range. I would think that there would be some -- there could be -- we would like to target an improvement in CASA as the current account businesses were to bounce back. But other than that, I think if we were to maintain a CASA level which is a little higher than the system, I think that is what would give us a slight cost advantage.

Finally, on the rural and semi-urban branches, clearly we must appreciate that while the savings account piece will continue to grow, there really isn't too much of a current account opportunity when it comes to especially rural and unbanked areas. So, by definition there at the margin, the CASA proportion may be lower although the savings account proportion will remain fairly flat.

AMBAREESH BALIGA: Great Paresh. All the best. Thank you very much.

PARESH SUKTHANKAR: Thank you so much.

OPERATOR: Mr. Rakesh Kumar, Elara Capital.

RAKESH KUMAR, ANALYST, ELARA CAPITAL: Thanks. Sir, just one -- a couple of questions. Firstly, what is the rate we are offering on this loan against FCNR deposit?

PARESH SUKTHANKAR: No. There isn't a loan against FCNR deposit product right now. I mean which product you're talking about?

RAKESH KUMAR: Against the FCNR deposit, what we get -- we give any loan against that or we don't -- we are not giving any loan against that?

PARESH SUKTHANKAR: No, if you're referring to the lending that I was speaking about earlier, that was a lending that was done in our overseas branches before this as a part of this scheme. Those deposits, which are already therefore -- which are now coming as FCNR deposits, those would already have been [under lien] for those loans which have been made.

So, incrementally when it comes to any normal FCNR deposit, the loans against deposits, most of the same rules that you have for normal loans against deposits placed by the customers. There is no separate product as loan against FCNR deposits other than what was part of this structure, which was there during this window.

RAKESH KUMAR: Okay. And secondly, out of the total incremental borrowing during this quarter, how much could be the capital borrowing and the non-capital borrowing?

UNIDENTIFIED COMPANY REPRESENTATIVE: We've also sort of gotten about $325 million, which is the foreign currency borrowing which is also allowed under the Tier I capital rules.

PARESH SUKTHANKAR: So $325 million is the borrowing under the -- $325 million is the borrowing under the -- within the tier one windows whereas in that -- but the $3.4 billion that I was referring to was FCNR deposits [as distinct from this].

RAKESH KUMAR: Yes, I know. What I'm trying to understand because like we already had these FCNR resources with us and on top of that we have taken borrowings also apart from the capital borrowings. So basically that investment book is also rising. So it is at this point in time it is adversely impacting our margins. So what was the need to take a non-capital borrowing when we already had so much of FCNR borrowing -- FCNR deposits as a resource, so just from that angle I was coming?

PARESH SUKTHANKAR: Okay. No, so the -- you're saying the $300 million-odd, right?

RAKESH KUMAR: Yes. That is a capital borrowing. So apart from that capital borrowing, so what was the need for us to take that borrowing on the book at this point in time when already we had so much of resources on the FCNR?

PARESH SUKTHANKAR: So the only other --

UNIDENTIFIED COMPANY REPRESENTATIVE: Borrowing.

PARESH SUKTHANKAR: Let me put this way, other than this capital-related borrowing, for any other borrowing that the Bank had done in its overseas books was linked to the lending that was being done to NRI customers for the FCNR scheme. So you're talking about two distinct books. In our overseas branches, we obviously don't have any deposit base [for the name]. So there is borrowing and lending in the overseas branches with a certain fixed spread.

So any other borrowing -- there is no other borrowing that we have done in the local currency books at all. The only other borrowing that is the borrowing that we have made during this quarter have either been, what we just referred to under as linked to the Tier I capital, which again is not -- doesn't qualify for capital, but is -- the limit was linked to the Tier I capital, which is therefore just plain and simple liquidity where again it was at a slightly concessional rate in terms of these swaps.

The rest of the borrowings are foreign currency borrowings which have remained in foreign currency for foreign currency loans which were made to our non-resident Indian customers.

RAKESH KUMAR: Understood. Understood. Just one question if I may ask?

PARESH SUKTHANKAR: Yes. Sure.

RAKESH KUMAR: On this, Kisan Gold Card if you can briefly elaborate because the book is quite large, so just --?

UNIDENTIFIED COMPANY REPRESENTATIVE: Sure. We -- this is normally in this particular part of the period there are -- there is -- it's a cyclical thing. I think even in the third quarter of last year also this has seen a bit of a growth. These are nothing but crop loans. Two is, we've also sort of extended the offering to more branches in this particular fiscal.

Last year, we were probably offering it in around 1,000, 1,100 branches. Now, it has gone up to about 1,600-odd branches. So that itself has given us a huge fillip in terms of growth. That's one of the reasons why you are seeing a fair amount of growth [when the season has commenced].

RAKESH KUMAR: This is essentially the agri lending which (multiple speakers).

UNIDENTIFIED COMPANY REPRESENTATIVE: Agri lending. Yes.

RAKESH KUMAR: Okay. Thanks. Thanks a lot. Thanks.

OPERATOR: [Ashish Sharma].

ASHISH SHARMA, ANALYST: Yes. Good evening sir. And congratulation on a good set of numbers. This -- on the collection efficiency across retail segments, sir, just color on that. I mean has it sort of improved or the trend has remained the same?

PARESH SUKTHANKAR: We've seen some -- well, let me put them into two. In products, which had been showing some stress which you've been talking about for some time.

ASHISH SHARMA: Yes, for [CV and CE].

PARESH SUKTHANKAR: CV and CE, we've seen some stabilization of slippages and recoveries being -- collections remaining slightly better. So we've seen that the rate of increase in NPAs in those two products has at least stabilized, stopped getting -- stopped increasing.

In the other products there really hasn't been any meaningful change. There are obviously some regional variations in some segments. But overall, the retail asset quality has, in this quarter, actually remained slightly better than the -- [this quarter].

ASHISH SHARMA: Okay. In terms of the growth rate across segments, I mean, retail in particular, I mean, do you expect it [remain tepid] for another quarter or so, I mean, before you see little bit of improvement there?

PARESH SUKTHANKAR: Well, I think a lot of this really depends on at least for two of the three or four major products, it depends on the underlying sales, right? So for car and commercial vehicle, there is a linkage first to what is happening to sales of these products.

ASHISH SHARMA: Yes.

PARESH SUKTHANKAR: And then, of course, in the case of CV,CE also a function of whether we see liquidity conditions or payment discipline in that improving. I would think that, yes, it would remain a little tepid for a couple of quarters, at least in terms of the current environment for some of these products.

In car loans where there isn't any credit-related moderation in growth, it really depends on when the markets tend to pick up.

ASHISH SHARMA: Okay. And just lastly, on the non-retail side, I mean we've grown actually quite strongly in this quarter, 20% QonQ to be precise, I mean is it sort of an exposure that are short tenure in nature which will sort of go off the books or I mean are we sort of -- I mean this is the kind of exposure, because the growth has been quite strong in this quarter. So --

PARESH SUKTHANKAR: Yes, there is a large part of the increase is in short-term lending; these are large corporates who are borrowing short-term working capital, it's a question of getting those loans at the right rates. These are not long-term loans. So, some of them could come up as the rest of the loan book increases. Clearly, with the surge in liquidity that we saw in this quarter, some of it clearly went into reducing some amount of CDs or some any other higher cost of funds that we might have had. Some of it went into the regular growth that we always see, and clearly, the incremental growth was pushed through on the shorter end of the corporate lending spectrum. And as a result, you're right, you're seeing a slightly higher than normal growth on the corporate side and therefore, even the mix of the domestic book is a little slightly leaning towards profit only in this quarter. But the growth rate also looks high because if you look at the sequential growth in wholesale over a period of time, we've had one or two sluggish quarters on the wholesale side when retail was growing a little faster.

ASHISH SHARMA: Okay.

PARESH SUKTHANKAR: [It's about] catch up as well.

ASHISH SHARMA: Perfect, sir. Thank you and all the best, sir.

PARESH SUKTHANKAR: Thank you.

OPERATOR: Thank you. Next in line, Mr. Nilanjan Karfa from Jefferies. You may go ahead, sir.

NILANJAN KARFA, ANALYST, JEFFERIES & COMPANY: Hi, thanks for the opportunity. Two questions. Number one is, on the branches, what is the proportion of rural plus unbanked and where are you vis-a-vis the RBI regulations and when do you suppose given the current strategy you'll achieve those and thereafter you'll start taking the benefit of that? That's question one.

PARESH SUKTHANKAR: Okay. We are as we speak in 55% semi-urban and rural. In terms of unbanked also, we are right now meeting the -- if you look at the mix that we have right now, we have met the --

UNIDENTIFIED COMPANY REPRESENTATIVE: The requirement.

PARESH SUKTHANKAR: Requirement of the proportion that we need to maintain and to the extent that if you look at the incremental branches or the new branches that we added during this quarter, almost 60 --

UNIDENTIFIED COMPANY REPRESENTATIVE: 66.

PARESH SUKTHANKAR: 66 out of the 85 branches were unbanked.

NILANJAN KARFA: Okay.

PARESH SUKTHANKAR: So we're creating a (multiple speakers) to be a buffer to be able to add branches in other regions in due course. Obviously, when we add them and how many we add will also be a function how we see the market picking up, because clearly at this point of time, we don't want to sort of use the upfront expenses until we see the -- but from a regulatory perspective, in terms of mix of the locations, I think we are comfortably placed right now.

NILANJAN KARFA: Okay, great. Question two is on this, you talked about those tactical changes on the Opex side. Now, we have been talking about it. Just wanted to understand, let's assume the economy stays the way it is, let's say about 5% odd GDP growth and associated investment-driven growth, how do you see -- in four quarters time, where should the expense -- how should the expense ratio growth be, assuming environment remains the same? Just to get a sense of --.

PARESH SUKTHANKAR: Looking last three quarters or four quarters, I think (inaudible) to us. But no, I think, let me put it this way, maybe I said some of this a little earlier, right, there were some parts of what we were looking to do in terms of operating expense management or efficiencies, productivity improvements where we knew that we were sort of investing a little more in terms of some of the infrastructure around the people, because we want to get those businesses rolled out [before] when we launch the new business, although [it would be in our] geography and as these businesses, I would say, [mature at least, so clearly], we do need to get high levels of efficiencies and improvements in productivity. So that was something that we thought we would do over a period of time and clearly now the pace at which we want those improvements to happen, we've accelerated. So that is really just doing a little quicker and perhaps being a little more demanding, but things that we always wanted to do. When I talk about some of the other tactical things, I mean, [we have to say] that we would throttle expenses which we believe are not as important from a priority point of view or which are (technical difficulty), which are somewhat discretionary, which is not to say that they are wasteful, they do have some utility, but obviously not expenses that you would want to incur when you are going through a relatively challenging macro or a slower growth rate.

NILANJAN KARFA: Right.

PARESH SUKTHANKAR: Obviously, those are that ones that you would not un-throttle if you mind unless you saw markets picking up.

NILANJAN KARFA: Okay.

PARESH SUKTHANKAR: So I would say that there are some parts of what we are doing which would continue and some parts which would get unwound in terms of the cost control measures as markets normalize and businesses' growth pick up.

NILANJAN KARFA: Okay, great. Thank you so much, Paresh. Very helpful.

OPERATOR: Mr. Ashish Tawakley from Barclays.

ANISH TAWAKLEY, ANALYST, BARCLAYS CAPITAL: For me, I'm Anish Tawakley.

OPERATOR: Yes, Mr. Anish, you may go ahead.

ANISH TAWAKLEY: Yes. Hi, Paresh.

PARESH SUKTHANKAR: Hi.

ANISH TAWAKLEY: Hi. I just will take another crack at this expenses question. If you were to look at your budget for the year when you started and look at the expense now, I presume the growth is much lower.

PARESH SUKTHANKAR: Yes.

ANISH TAWAKLEY: Which heads would have taken the biggest hit?

UNIDENTIFIED COMPANY REPRESENTATIVE: Staff is the main one, which has taken the biggest hit. We had sort of projected some amount of growth in numbers, which we have moderated.

PARESH SUKTHANKAR: So to put it into numbers, right, I mean, if you look at our staff strength a year back, we were at about 60 --

UNIDENTIFIED COMPANY REPRESENTATIVE: 69,000.

PARESH SUKTHANKAR: 69,000. And today, we are at about -- well, you're actually at about 68,200. So this is despite the fact that over the last year, we would have added a few hundred branches. In absolute number of employees, we would be about say a 1,000 less. Clearly, that's one line that we can talk about. Obviously, related to that, there are therefore other expenses which move around people, including whether it's expenses, whether it is technology and other expenses which are ultimately linked to the number of people that you might have. But clearly, that has been a line that we've cut back on. There are other --

UNIDENTIFIED COMPANY REPRESENTATIVE: (inaudible) spends, which as Paresh was mentioning in the earlier conversation, wherein we have sort of (inaudible) on some of them. So as he said, as and when the topline picks up, probably we may have to unthrottle them.

ANISH TAWAKLEY: And is there any like metrics that you could sort of cite in terms of just to help us understand that it's not too severe, right, whether attrition rates or what you're monitoring to see that -- I presume like employees have just come down as some attrition that you wouldn't liked and stuff like that, and how tight the cost control is?

UNIDENTIFIED COMPANY REPRESENTATIVE: No, I'll tell you one of the things that we have done. For example, we do have productivity benchmarks at various levels, whether it's sales and operations, etcetera. We have announced it between 10% and 20%, depending on the functions. So when you increase the productivity benchmarks, so there will be a bit of a capacity release, which we have used to deploy in the incremental 274 branches that have been opened during the year. The balance, yes, we normally have the normal attrition. So in certain cases, we did not have to replace these kind of attrition. So this has helped us to sort of tactically help us in moderating some of the staff numbers and hence the staff cost.

PARESH SUKTHANKAR: Right. To answer your question, I mean we're not doing stuff which we believe in any way hurts the basic fabric of the organization or compromises on the future growth. So I think we are very conscious of what we want to and what we are willing to do. Again, like I said, we continue to add new branches and therefore, the redeployment happens at the front end in terms of businesses. There are some business groups, where we have actually hired and added people. So, I think it's really a question -- I mean one could argue that when you've been through an extend period of rapid growth and while you always try and be conscious on the cost front, you do tend to perhaps not be as, shall I say, conscious of the need to maintain a very tight control on certain investments or certain expenses, where we have I think tightened here. But, attrition rates and so on have actually remained very stable. So, I don't think we have anything that we have done has taken away from what we're doing. The fact is that growth is that much lesser, you'll need slightly lesser capacities in terms of rolling out.

ANISH TAWAKLEY: And just one final question, what would be the range of loan yields in your offshore book? I mean what would be the average loan yield out of the offshore branches?

PARESH SUKTHANKAR: I wouldn't [opt it out on the yields, but our excess spreads] on the overseas book, generally speaking, would be somewhere between 0.5% and 1%, right?

UNIDENTIFIED COMPANY REPRESENTATIVE: 1%. And this, the new ones that we put this quarter would be much lesser.

PARESH SUKTHANKAR: Yes, if you're talking about generally, it may be close to 1%, but if you're talking about (inaudible) probably be less than half that.

ANISH TAWAKLEY: So, you would be borrowing at about 3% and lending at about less than 4%. Is that [correct]?

PARESH SUKTHANKAR: Yes, (inaudible).

UNIDENTIFIED COMPANY REPRESENTATIVE: This I think one-off that we did during this quarter.

ANISH TAWAKLEY: Yes, okay.

PARESH SUKTHANKAR: [I said], even lesser than that for this particular --

UNIDENTIFIED COMPANY REPRESENTATIVE: This particular one-off that we did during this quarter.

ANISH TAWAKLEY: Thanks a lot, yes.

UNIDENTIFIED COMPANY REPRESENTATIVE: You're welcome.

PARESH SUKTHANKAR: Just one question --

UNIDENTIFIED COMPANY REPRESENTATIVE: The moderator.

PARESH SUKTHANKAR: Moderator, how many more --

UNIDENTIFIED COMPANY REPRESENTATIVE: Questions.

PARESH SUKTHANKAR: Participants do we have (multiple speakers)?

OPERATOR: (multiple speakers) 15 participants in the Q&A.

PARESH SUKTHANKAR: Sure, sure. My request to remaining 10, 15 participants would be that, if some of your questions have already been asked, if you can restrict yourself to one question, if you must, of course, please do go ahead and ask your other questions.

OPERATOR: Excuse me, sir.

PARESH SUKTHANKAR: Yes, please go ahead and there are many questions.

OPERATOR: Okay. Next in line with Umang Shah from CIMB Securities. You may go ahead, sir.

JATINDER AGARWAL, ANALYST, CIMB SECURITIES: Hello.

PARESH SUKTHANKAR: Yes.

JATINDER AGARWAL: Good evening, sir. This is Jatinder.

PARESH SUKTHANKAR: Hi, Jatinder.

JATINDER AGARWAL: Sir, two questions; one, in terms of product pricing and underwriting standards. If you could give us some brief thoughts across product segments, at least the key ones? And I will come for the second after this.

PARESH SUKTHANKAR: Well, if you're looking about just the last quarter or so, I don't think there has been much of a change across the board. There may have been some segments or some sub-segments or products where there might have been some change here and there.

JATINDER AGARWAL: Okay.

PARESH SUKTHANKAR: [Because] we have been now for almost a couple of years in an environment where the economy has been slowing down.

JATINDER AGARWAL: Right.

PARESH SUKTHANKAR: So, a lot of the changes which were necessitated by the macro environment are specific to how the portfolio was behaving in a certain segment or in a particular part of the country, in terms of regional imbalances in terms of asset quality. A lot of those changes keep happening from time to time. And I think if I look at the last quarter or two, it's not that things have got significantly worse or have changed which have caused a further --or necessitated a further increase or further tightening in the credit standards or whatever. In fact, today, much of the lending that is being done is on a criteria which we are comfortable can sustain in an environment like this.

JATINDER AGARWAL: Okay.

PARESH SUKTHANKAR: From a pricing perspective, I think the only regret is that perhaps in the last few months, as the competition has in some ways intensified on the retail front --

JATINDER AGARWAL: Okay.

PARESH SUKTHANKAR: The pricing has not moved up on the retail side as it did on the wholesale side when we went through this six-month period of tightened liquidity conditions.

JATINDER AGARWAL: Okay.

PARESH SUKTHANKAR: So, even when the deposit rates had spiked up and market rates on commercial paper or bank CDs had gone up and there was an immediate impact on yields on the wholesale side, the retail spends or retail -- sorry, their yields remained more or less the same. And in fact, if you look at the festive season, there would have been some marketing offers which would have maybe increased the level of competition. Having said that, I think now, that phase is sort of through. On an incremental basis, I see yields also remaining fairly stable; and depending, of course, on what happens to policy rates and more importantly liquidity going forward, you could see what happens to retail lending rates.

JATINDER AGARWAL: Perfect. And sir, the second is related to capital, so including all this D-SIB charge and CCCB, what type of tier-1 would you be very comfortable running this down to?

PARESH SUKTHANKAR: Well, tough to say right now, but I would imagine that unlikely that we would want to have a tier-1 which is much below, let's say a 9%, 9.5-ish sort of range. Of course, this is not an absolute number. All we are saying is that, as against in the recent past when a bank could afford to have a tier-1 which was even going down to let's say the 7% or 8% level, for all the regulatory reasons that you just mentioned and just given the expectations of a good bank, I guess having a core tangible, core equity tier-1, I guess one would probably need to be somewhere in that 9% range or 9% plus range. Right now, as I mentioned earlier, during year-to-date profits, we would be at 11.5% (multiple speakers); without that, you would be about 10%, 9.9%.

JATINDER AGARWAL: Okay. That is useful. Thank you, sir.

OPERATOR: Thank you, sir. Next in line, [Mr. Harin Desai] from Mumbai. You may go ahead, sir.

UNIDENTIFIED PARTICIPANT: Thanks for taking my question. Sir, I had a question on the fees and commission line item. If I look at last four quarters, it's slowed to that 11% to 12% range. So within that, just wanted to get a sense of, let's say, within transactional banking, retail assets, if you could give us some flavor on where these line items are growing?

PARESH SUKTHANKAR: Most of these line items are growing in the low-to-mid teens or maybe in fact some of them even the rest of the retail, that is rest meaning other than third-party distribution, have been growing in the mid-to-high teens. The third-party distribution incomes, which are essentially both insurance, mutual funds, those on a year-on-year basis are lower by about 26%. So what happens is that you do have lines which are growing in the high-teens, mid-teens, maybe even some which are growing in the 20s and then you have a fairly sizable revenue stream in fees which is de-grown by a little over 25%, and which is how you are coming to that overall muted 11%, 12% fee growth.

UNIDENTIFIED PARTICIPANT: So could you specify line items that are growing in excess of 20%?

PARESH SUKTHANKAR: Actually, there wouldn't be too many which are growing more than 20% on a sustained basis. We [plan] to have a good quarter in an odd number, but most of the others would be in the mid-to-high teens.

UNIDENTIFIED COMPANY REPRESENTATIVE: A change in quarter three income.

PARESH SUKTHANKAR: (multiple speakers) that is one quarter. For instance, when you look at --

UNIDENTIFIED COMPANY REPRESENTATIVE: The festive --

PARESH SUKTHANKAR: The festive season, you would have (inaudible).

UNIDENTIFIED COMPANY REPRESENTATIVE: (inaudible) will be higher.

PARESH SUKTHANKAR: All of those had some seasonal element or you might say a particular product for a particular quarter which -- again, there are some products which have a relatively low base. So again, they tend to show higher growth rates. So --

UNIDENTIFIED PARTICIPANT: But historically, we mentioned that the fees and commission fees has a low correlation with the loan growth and given that the opportunity would be slightly lower in the semi-urban or the rural areas, so how should we read the fees and commission line item over, let's say, next six quarters to eight quarters?

PARESH SUKTHANKAR: Frankly, I think the transaction banking activities should bounce back again as you have a slightly higher level of wholesaler profit activity. The real swing factor will be the distribution of our investment products because I think there, you've had different swings from changes in pricing to just extremely poor sort of demand growth given the sort of current appetite that retail investors might have had, depositors might have had. So I would say that some pickups from here would be possible when you do have a recovery on the appetite from our customers on investment products, both mutual funds and insurance and then, on the transaction banking and trade side, as you have a pickup in manufacturing activity.

UNIDENTIFIED PARTICIPANT: Sir, lastly, what is the current base of savings account that we have on the quarterly addition run rate?

PARESH SUKTHANKAR: We don't actually -- you're talking about the total deposit or talking about current base (inaudible)?

UNIDENTIFIED PARTICIPANT: The number of savings account that we would currently have.

PARESH SUKTHANKAR: Total savings accounts will be about 20 million.

UNIDENTIFIED PARTICIPANT: Okay, okay. Thanks a lot and all the best, sir.

PARESH SUKTHANKAR: Thank you.

OPERATOR: Thank you sir. Next in line, Mr. Vibhor Mittal from Mumbai. You may go ahead, sir.

VIBHOR MITTAL, ANALYST, STANDARD CHARTERED BANK: Yes. Thanks for taking my question, sir. You mentioned that there is some slowdown in the growth of the retail CV loan book because of some concerns on the asset quality. So, just wanted to check what would be the proportion of the CV loan book in the overall retail portfolio and how the gross NPA number for the retail CV loan book alone look as of now?

PARESH SUKTHANKAR: Okay. The commercial vehicle and construction equipment portfolio put together with 11% of our retail loan book.

VIBHOR MITTAL: Okay.

PARESH SUKTHANKAR: And our retail loan book is about 54%, 55% of the total loan book -- of our total domestic loan book.

VIBHOR MITTAL: Okay.

PARESH SUKTHANKAR: As far as the individual NPAs are concerned, we don't really put them to the public domain on individual products. But all I can say is that the construction equipment/commercial vehicle portfolio has seen an increasing NPL, which has sort of tended to stabilize, but -- so, we don't really give those figures on an individual basis.

VIBHOR MITTAL: Okay. Thank you.

PARESH SUKTHANKAR: You are welcome.

OPERATOR: Excuse me, sir, shall we take our next question?

PARESH SUKTHANKAR: Yes, please.

OPERATOR: Thank you. Next in line, Abhishek Bhattacharya from Nomura. You may go ahead, sir.

ABHISHEK BHATTACHARYA, ANALYST, NOMURA: Yes. Hi, I just had a question on the movement in gross NPLs for the bank. I'm just referring to the Basel III disclosures you have made and if I compare the December to the September disclosures, I see the addition is about 320 billion this quarter and with a similar number of reductions, so can you explain that?

UNIDENTIFIED COMPANY REPRESENTATIVE: Sure. Yes, actually, let me also sort of bring your attention to the note that is there in the Pillar disclosure. We have changed the disclosures in this particular quarter. For example, earlier on, if a customer were to be in an NPA status and if he sort of came back into a non-NPA -- sorry, into a performing standard status, we used to take it once. But here, suppose, during the quarter, if he's come in and gone out in three months time, two times, we are grossing up that particular turnover, both in the additions and in the reductions. So, there is a bit of an inflated number, which is there in this particular quarter on that particular line item, which is the additions and also in the reductions piece. So, if you really look at the ratio, it will be roughly around the 1.8% as per the new disclosures. Otherwise, if you go by the old method, it would be somewhere around 1% at the [best].

PARESH SUKTHANKAR: So, just to clarify us, therefore, the opening figure, the closing figure, nothing, none of that changes, it's just the additions and the recoverings get added on because there was a clarification given by [that], this is really more relevant from a retail loan performing status perspective, which is where there is maybe a recovery of our installment again becoming something overdue and again, recovering. But the gross NPA addition after all of this between what were the actual gross NPAs outstanding as of September, December and now, if you look at therefore the difference between these, the increase in gross NPAs as you can see during this last quarter has been INR77 crores, which is lower than what the actual increase in gross NPAs were between say a June and September.

ABHISHEK BHATTACHARYA: Okay. That answers my question. Thank you.

PARESH SUKTHANKAR: Thank you.

OPERATOR: Thank you. Next in line with Saikiran from Mumbai. You may go ahead.

SAIKIRAN, ANALYST: Hi. Just a quick question on the retail book. If you look at in the last 18 months or so, do you think excluding the CV and then CE book have seen more stress and also if you look at in terms of rejection ratios, how that would have been behaving? Any color on that will be useful. Thank you.

PARESH SUKTHANKAR: No, I think, except for this one product which I think we've all sort of beaten to death in terms of restriction, in most of the other products, there really hasn't been any meaningful across the board change in the delinquencies or the slippages. There might have been some slices of a particular product which might have shown some increase, others which have shown decreases, but overall, in some ways, quite surprising but certainly happening in this environment. Overall, across most of the other products, the asset quality has remained fairly stable; this includes the autos and the personal loans and the credit cards and so on; really nothing much has changed.

SAIKIRAN: Even on the rejection incremental sourcing, if you look at the kind of leverage which the -- or rather, I will put it this way. The difference on the customer, would you have seen some sort of an increase or decrease on that, sir?

PARESH SUKTHANKAR: Well, the reject rates might have seen some change that we have seen. But what we tend to do very quickly is the moment we find that for some reason, let's say because of say existing leverage or what we are seeing to, what is happening to, let's say, salary income levels increasing and so on, whatever the reason might be, if we find that reject rates are going up, we immediately tweak the origination parameters where we don't -- we are sort of not originating loans which get rejected. So there is a corrective -- closing the loop because otherwise, we are running up costs by our originating transactions and then rejecting that. So, would there have been a change in some ways in terms of the reject rates had things not changed in terms of origination? The answer is yes. But again, this is really more specific to certain segments. So I think when you look at self-employed professionals, when you look at small businesses, there would be a difference but perhaps in the salaried segments, you would not have had as much of a difference as yet.

SAIKIRAN: Great. That is useful, thank you.

PARESH SUKTHANKAR: You're welcome.

OPERATOR: Thank you, sir.

PARESH SUKTHANKAR: Can we have the next question?

OPERATOR: Sure, sir.

PARESH SUKTHANKAR: Can you put it on to the next question, maybe the person is not on? Hello?

OPERATOR: Next in line, Mr. [Kiran Shraddha] from ICRA. You may go ahead.

UNIDENTIFIED PARTICIPANT: Yes, good evening. Want to clarify asking what would be the impact on the bank given the new regulations, which came out a couple of days ago regarding loans -- our hedge fund currency loans given by the bank?

PARESH SUKTHANKAR: We haven't been able to dimension that as yet because when we had given some inputs in earlier, we were -- based on the draft guide, the discussion paper, and the draft guidelines should come out, we were --

UNIDENTIFIED COMPANY REPRESENTATIVE: Evaluating.

PARESH SUKTHANKAR: Evaluating things on a slightly different basis. I don't think this is going to be very material for us, but I don't want to [get] to a number right now. So we will be needing a few more days before we can put a number of that, size of that.

UNIDENTIFIED PARTICIPANT: Okay. My next question is, you mentioned that in year-to-date, the quantum of the cases of mortgage scores have been lower than what has been in the past. I wanted to understand what would be the reason for that, is it possibly a shortage of PSL assets?

PARESH SUKTHANKAR: So the proposition of PSL that we were originating is a little lower than what it used to be because the criteria for defining PSL --

UNIDENTIFIED COMPANY REPRESENTATIVE: Has changed.

PARESH SUKTHANKAR: Has changed in terms of the ticket size which qualifies and does not qualify for PSL. So there was some change there which did reduce to some extent the amount of loans which qualified for PSL.

UNIDENTIFIED PARTICIPANT: What is [given] in this, the --?

UNIDENTIFIED COMPANY REPRESENTATIVE: Yes. In the urban areas, it's about INR25 lakhs; and in non-urban areas, it's INR15 lakhs. The amount has been dropped. So effectively while the number of cases we seem to be meeting, we have grown, because the value criteria has dropped; therefore, there is a proportion of our distribution that's come off.

PARESH SUKTHANKAR: And say that again from our point of view, as you know, the loans that we really buy are essentially the PSL and there is also a certain seasoning that is required before under the guidelines that have not been in place for about a little less than a year. Those loans have to be seasoned for a year before we buy them. So there is this lead and lag. Also, from our point of view, we need to have these loans on our books before year-end, whatever is the [PSL] that we want to buy. So while so far we've bought -- this was a question that was asked earlier also. The total amount that we've bought year-to-date this year is about INR1,600 crores, out of which about INR500 crores was bought in this last quarter, about INR450 crores, INR500 crores, and the balance was bought in the first quarter which was the quarter ended June. So year-to-date, we have bought about INR1,600 crores. We will buy a couple of thousand crores [before year-end].

UNIDENTIFIED PARTICIPANT: Okay. On the gold loan [portfolio] although that's a small part of your book, just wondering have you seen a dip [to INR600 crores] on a year-on-year basis, any thoughts on that? And secondly, on the Kisan Gold Card, are we secured by gold or are these unsecured loans?

PARESH SUKTHANKAR: No, no, first of all, the Kisan Gold Card has got nothing to do with [actual] gold. It's I think just a nomenclature, but it's essentially these are crop loans; so secured typically by land, agricultural land, nothing to do with gold at all. The gold loan piece, you're right, has come off year-on-year and even sequentially, I think has been pretty flat or come off maybe, primarily reflecting the fact that the obviously gold prices has come off and therefore, with our margins, you'd have required customers to top up and reduce their outstandings which is what would have happened; also, fresh sort of sales of gold loans have been moderated during this period when there was this volatility of gold prices. And because these are pretty short-duration loans, the moment they just drop off a little in terms of our new disbursements and the existing loans are running off at a reasonably rapid pace. The loan outstandings therefore come off. You have to run at a certain pace to stay where you are. I think a lot of that is probably true. Going forward, you might see a small pickup, but it's still not growing at the rates that were growing a year or two back when the base was much smaller; and of course, gold prices were on a different trajectory. Today, gold loans are about 3% of our retail loan book; and a year back, they were about 4% of our retail loan book.

UNIDENTIFIED PARTICIPANT: What is the maximum LTV on these loans and have you changed the LTV over the last [6], 12 months given the volatility in gold prices?

PARESH SUKTHANKAR: It would have, if you would have reduced the LTVs on these loans in the last 12 months, yes.

UNIDENTIFIED PARTICIPANT: Thank you.

PARESH SUKTHANKAR: Welcome.

OPERATOR: Next in line, Mr. [Rajiv Anand] from Mumbai. You may go ahead, sir.

UNIDENTIFIED PARTICIPANT: Hi, good evening. Can you hear me?

PARESH SUKTHANKAR: Yes, sure.

UNIDENTIFIED PARTICIPANT: Yes. Just one last question and I heard your discussion on costs and all, just wanted to confirm, there is no one-off, there is no such thing as a provisions for gratuity which were written back because interest rates are higher, no such thing?

PARESH SUKTHANKAR: There were some contributions from those, but they were pretty small. I mean they were all like --

UNIDENTIFIED COMPANY REPRESENTATIVE: There were some small gains, actual gains that we've had, but there's nothing significant.

PARESH SUKTHANKAR: It will be --

UNIDENTIFIED COMPANY REPRESENTATIVE: Yes, because the long-term liabilities, but it's -- we don't have too much tension, but there is a bit of a small relief that we've got this quarter on account of --

UNIDENTIFIED PARTICIPANT: Because what other private banks, it was material one or two quarters ago, so just asking --?

UNIDENTIFIED COMPANY REPRESENTATIVE: Yes. Some private banks have a larger pension liability. We do not have that much of pension liability.

UNIDENTIFIED PARTICIPANT: Okay.

UNIDENTIFIED COMPANY REPRESENTATIVE: Proportion of that kind of stuff is much lesser.

UNIDENTIFIED PARTICIPANT: There is no one-off in the cost?

UNIDENTIFIED COMPANY REPRESENTATIVE: No, no, not too much.

PARESH SUKTHANKAR: No material one-off, there might have been some small amounts, but nothing which distorts the numbers too much.

UNIDENTIFIED PARTICIPANT: Right. Okay. Thank you.

OPERATOR: Thank you, sir. Next in line, Mr. Kashyap Jhaveri from Mumbai. You may go ahead, sir.

KASHYAP JHAVERI: Yes. Actually, all my questions have been answered. Thank you.

PARESH SUKTHANKAR: Thanks.

OPERATOR: Thank you, sir. Next in line, Mr. [M.B. Mahesh] from Mumbai. You may go ahead, sir.

UNIDENTIFIED PARTICIPANT: Good evening. Sir, just one question is on this, the recent news articles around the ATM network, the cost involved in running this business, any idea, how does this impact given the recent news articles surrounding the same?

UNIDENTIFIED COMPANY REPRESENTATIVE: First thing, let's clarify that the news articles talk about both honest transactions which is our customers using our ATMs; these are remote farmers which is other side, our customers using other banks' ATMs. So similarly, there will be another piece which is the office transactions which is the other bank customers using our ATMs. Now, we currently do not charge any one of our customers using our ATMs. And I don't think we have ever had a discussion even internally to even have a proposal of charging. So obviously, we are not sort of [supposed to] that kind of a move as we speak today. But on the acquiring piece, it is a fact that we and probably some of the private banks are one of the few net acquirers in the [bank system]. As you know, some of us have invested a lot in the ATM technology piece. So we have invested fair amount of ATMs in the last couple of years. It is a reality that the costs, both real estate, technology, and some of the security costs, have gone up. So at the current levels, the economics is nothing exciting. It's not sort of meeting the minimum returns that one would expect from an economic perspective. So on that piece, we do sort of our routine for a slight increase in interchange which will help us on the other office piece interchange going up.

UNIDENTIFIED PARTICIPANT: But has it already reflected from a cost perspective as of now?

UNIDENTIFIED COMPANY REPRESENTATIVE: Yes, it is.

UNIDENTIFIED PARTICIPANT: And even after that, we're still reporting about an 8% growth in the [non-fixed] expenses. Is that the way or we'll see the impact still coming through in the next few quarters as well?

PARESH SUKTHANKAR: Yes. These are -- yes, it is. In fact, if you see the rentals of our ATM premises have all gone up, the -- some of the outsource costs, all this requires -- ATM management cost includes cash and transit costs. All that have gone up over the last 12 months to 15 months. And that will continue to go up even as we speak. Now, with the additional security measures, you will see the impact in fact hitting probably in a couple of quarters when you start to --

UNIDENTIFIED COMPANY REPRESENTATIVE: (multiple speakers).

PARESH SUKTHANKAR: As we relook at some of the administrative expenses in terms of the CCTVs and more high-defined cameras, et cetera, or remote monitoring of -- in addition to the physical security guard. So the subject matter is pretty much relevant. It is a fact the costs have gone up. On a pure P&L perspective for that particular piece, there is a bit of a drag, I guess so. But as I mentioned to you, we're not sort of [lottery] or charging on the honest transaction that is to our customers using our own ATMs, but definitely for the people who are not our customers, we would like to sort of increase the charges. And by the way, these are charges probably which you will charge the other banks. I don't think this will be passed onto the other customers, of course subject to the regulations of my transactions.

UNIDENTIFIED PARTICIPANT: Okay.

UNIDENTIFIED COMPANY REPRESENTATIVE: And your basic point is that banks cannot be -- banks who create infrastructure for ATMs cannot be expected to be subsidizing banks who decide not to pick that route. So --

UNIDENTIFIED PARTICIPANT: True. Second question is on this, there is about INR190 crores in the non-interest income line, the everything is just income from return of assets?

PARESH SUKTHANKAR: Yes, it is. In fact, this is the line which has now come up in the last two years for [these as well as] netting up from the provisions. These are novel recoveries which happen out of the return of book.

UNIDENTIFIED PARTICIPANT: Okay, sure. Thanks a lot.

PARESH SUKTHANKAR: Thank you.

OPERATOR: Shall we take the next question, sir?

PARESH SUKTHANKAR: Yes, please. How many more questions left?

OPERATOR: Mr. Adharsh P from Prabhudas Lilladher, you may go ahead, sir.

ADARSH PARASRAMPURIA, ANALYST, PRABHUDAS LILLADHER: Yes. Just a quick one on the pricing again. As you mentioned, some retail segment, you all are seeing some competition. Just wanted to understand, is it like, structurally, are you seeing banks or people in market passing on a lower credit cost experience to the customer now and probably how are you all pricing that in as well?

PARESH SUKTHANKAR: Well, I guess one could argue that the lower cost could be partly attributed to lower credit cost. But I think a lot of the players perhaps don't have not enough experience to have seen whether these are credit costs that they are incurring. But I think it's more to do with the immediate competition perhaps from players who are looking to grow their retail books in the light of slower growth in the wholesale side.

ADARSH PARASRAMPURIA: Any specific product segments that you would think that things are relatively a little more tight or comfortable, either ways?

PARESH SUKTHANKAR: I think this is -- I mean, you look at -- if you open the newspapers, you'll see that rates whether it's on auto or mortgages, which are the typically the larger two retail products I think have been more competitive than especially in relation to the interest rates on other lending. I'm not saying that there is any irrational lending at all or that irrational pricing is happening. All I'm saying is that it's slightly more competitive than what it used to be.

ADARSH PARASRAMPURIA: Right. So my question was that do you think we're coming to that point at least for you all or some of the established players, where you all are seeing that what you would be pricing and since you may be matching prices in the market, the credit cost buildup that you are doing in your pricing is probably coming down?

PARESH SUKTHANKAR: I don't think so because, I mean, I -- if you really have lower pricing for these products enduring for a longer period of time and we actually see credit costs not just for a particular player but by different players in the entire industry remaining low, then, one could argue that some of that is trickling through. I think it may be a little premature to say that, for sure.

ADARSH PARASRAMPURIA: Yes, that's about it. Thanks, Paresh. Yes.

PARESH SUKTHANKAR: Thanks.

OPERATOR: Thank you, sir. Next in line, Mr. Manish Choudhary from IDFC Securities and you may go ahead sir.

MANISH CHOWDHARY, ANALYST, IDFC SECURITIES LTD.: Hi, thanks for this. Just wanted to check on the effective tax rate. You mentioned it's slightly higher this quarter. Just wanted to understand some of the reasons behind this. I mean, any sense of whether this is likely to sustain going forward? Should we treat this as a normal tax rate going forward or will it revert back to the earlier levels?

PARESH SUKTHANKAR: No, it's a very simple thing as the surcharge was increased in the last budget effective April 1. So the marginal tax rate for last year was 32.45%, which is now 33.99%. So that's sort of -- and hence, your effective tax rates have gone up this particular --

MANISH CHOWDHARY: So in fact, you had these higher tax rates for all the three quarters so far and unless in next year's -- next budget, you've actually had that surcharge reduced again, which I guess your guess is better than mine, you will see this higher tax rate because there really isn't much of a difference between the marginal tax rate and for us, right?

PARESH SUKTHANKAR: Yes. And probably last year, we did have a bit of a surpluses, which we deployed in some tax-free mutual fund investments. Now, liquidity being tight since the second quarter, we've not had such opportunities so far.

MANISH CHOWDHARY: Thanks for this.

PARESH SUKTHANKAR: Yes.

OPERATOR: Thank you, sir. Last question comes from Mr. [Hiren Dasani] from Mumbai, you may go ahead, sir.

UNIDENTIFIED PARTICIPANT: Thank you for taking the time at the last of it. So on the FCNR, I know there were a lot of discussion happened. The right way to look at it is that $3.4 billion has been raised. But, against that, $1.9 billion is the lower spread business, right? So, the real benefit of the margin expansion will come on the remaining $1.4 billion, $1.5 billion? Is that the right way to think?

PARESH SUKTHANKAR: No. The right way to look at it is that you have separately in overseas branches, say about $1.9 billion of --

UNIDENTIFIED COMPANY REPRESENTATIVE: Loans.

PARESH SUKTHANKAR: Of loans --

UNIDENTIFIED COMPANY REPRESENTATIVE: And borrowing.

UNIDENTIFIED PARTICIPANT: And borrowings for the bank in foreign currency, which is a low-margin business in itself, right?

UNIDENTIFIED COMPANY REPRESENTATIVE: Yes.

PARESH SUKTHANKAR: Separately, you have $3.4 billion, which let's say about INR20,000 crores odd of fixed deposits raised --

UNIDENTIFIED COMPANY REPRESENTATIVE: In India.

PARESH SUKTHANKAR: In India.

UNIDENTIFIED COMPANY REPRESENTATIVE: Brought into India, rather.

PARESH SUKTHANKAR: Right.

UNIDENTIFIED PARTICIPANT: Sure.

PARESH SUKTHANKAR: One swapped in foreign currency swapped into rupees with the RBI in that window. And then, you have that much more of rupee deposits. Though the rupee deposits are of course all time deposits, but no CRR, SLR. And therefore, whatever you lend those fixed deposits at is the lower-margin or whatever margin business that you get in local currency. The other benefit that you would get is to be extent of this rupee, or to say of INR20,000 crores or whatever it is. To that extent, that much of loans would -- in terms of working out your requirement for PSL, you reduce that much from your net bank credit. So, you might have a saving of about say INR4,000 crores or something like that -- sorry, about INR8,000 crores, I am sorry, about 40% of INR20,000 crores in terms of your potential PSL requirements as you grow your loan book.

UNIDENTIFIED PARTICIPANT: So, would you say that the potential margin accrual, which is likely to come from the FCNR because of the cost benefits of no SLR, CRR and no PSL is yet to come in or that is there in the number?

UNIDENTIFIED COMPANY REPRESENTATIVE: It will slowly build up, yes.

PARESH SUKTHANKAR: Yes.

UNIDENTIFIED PARTICIPANT: It will slowly build up, right?

PARESH SUKTHANKAR: Yes.

UNIDENTIFIED PARTICIPANT: Okay. And last question on the employee cost, lot of debate has happened. I just wanted to look at it from the ESOPs point of view, should we remain -- I mean in our model, should we build that the ESOP issuance this year will not be very different from the historical averages?

PARESH SUKTHANKAR: Yes, the ESOP issuance, because we do it at market and on an intrinsic value basis does not fit the P&L.

UNIDENTIFIED PARTICIPANT: Yes, but it's one way of giving the comp, right?

PARESH SUKTHANKAR: Yes, so, I think that will remain unchanged.

UNIDENTIFIED PARTICIPANT: But, it will not be at significantly higher proportion compared to let's say the earlier year, because the comp expense growth is very low this year.

PARESH SUKTHANKAR: But as employees, we can remain eternally hopeful, but -- no, there haven't been any decision taken and that's something which the Compensation Committee of the Board decides. So you'll have to wait and watch.

UNIDENTIFIED PARTICIPANT: Okay, thank you.

PARESH SUKTHANKAR: You are welcome.

OPERATOR: Thank you, sir. So, there is no further questions.

PARESH SUKTHANKAR: Okay, thank you so much to everyone. I am afraid this took a little longer than what we thought it would. But, I hope we've been able to answer all your questions. Once again, thanks for being on this call.

UNIDENTIFIED COMPANY REPRESENTATIVE: Thank you very much.

OPERATOR: Thank you, sir. That does conclude our conference for today. Thank you for participating.

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