Transcript Call Date 10/15/2013

Operator: Thank you for standing by, and welcome to the HDFC Bank Q2, FY 2013-'14 Results Conference Call presented by Mr. Paresh Sukthankar. At this time, all participants are in listen-only mode. There will be a presentation followed by a question-and-answer session.

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

Paresh Sukthankar - Executive Director: Thank you. Good evening, everyone. I've got Sashi and (Bhavin) with me as well. I'll try and walk you through a few numbers. I'm sure most of you have probably had a chance to look at the press release and the numbers already, so I won't go into too much of detail and then we'll launch straight into the questions.

In terms of some of the key P&L parameters, net revenue growth was up 18%, the net interest income growth was about 15.3%. The NIM for the quarter was at 4.3% as against 4.5% – 4.4% in the corresponding quarter of last year.

The other income growth was about 25%, which took the other income to INR1,844 crores. The other income includes the fees and commissions, the FX and derivatives revenues, also includes the mark-to-market on investments.

This quarter, we had a negative der of INR173 crores. This includes the portion that could have been amortized as per the RBI guidelines, which we did not amortized, so whatever was the mark-to-market on the investment, we have taken as a charge to P&L in this quarter itself.

Operating expenses, the growth was lower than the past and as a result, the cost-to-income ratio did improve to about 46.5%. Total provisions were more or less flat to last year. The profit before tax at INR3,000 crores, about 31.7% growth over last year, while the net profit growth, profit after tax at INR1,982 crores was 27.1% over the corresponding quarter of last year.

Overall balance sheet growth was 14%, loans and advances growth was 16%, deposit growth was 14.2%, savings account growth was 17.8%, CASA ratio was 45%.

NPLs were 1.09%. Net NPAs were 0.3%, again the comparable figures for last year were about 0.9% and 0.2% for the sequential, the earlier quarter was 1.04% and 0.3%.

From a branch distribution network expansion point of view, we were at 3,251 branches, so we've added about 132 branches in this quarter, almost 95 of these branches were in unbanked areas. So today we have almost 53% or 54% of our total branches in semi-urban and rural areas.

Finally on the capital adequacy, we were at 14.6% total cap ad and Tier 1 at 9.9%. These cap ad numbers do not include the profits for the half year. This is a change from what used to happen till last year where if the accounts were audited, you could take the profits for the year into your network calculation for capital adequacy ratio purposes. Although, our half year results have been audited, this year accounted new guidelines that we have not taken the profit. So if they were to have been considered, the Tier 1 would have been at 10.9% and the total cap ad would have been at 15.6%.

So those are some of the key financial parameters, we'll throw the house open for questions.

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Operator: Manish Ostwal, K.R.Choksey.

Manish Ostwal - K.R.Choksey: My first question on the net interest margin side. On a sequential basis, the margins have declined pretty sharply from 4.6% to 4.3%. So what are the factors contributed to this margin contraction, number one? Number two, some of the banks have used the refinance and the ForEx window to protect the margins and you have seen the increase in the borrowing number on a sequential basis. So, in our case, it has not been that case. So how do you respond that??

Paresh Sukthankar - Executive Director: Sure. So, first of all, the sequential drop of course, was from about 4.55, so it's about, say, a 20 odd basis points impact, not 30, but the drop has primarily been because of the higher cost of funds which came through in terms of incremental deposit costs and the cost of the LAS borrowing essentially through MSF rates. We have traditionally had a very good liquidity buffer that we maintained in the form of treasury bills, which therefore give us funding at LAS rates, by – because of the measures the amount which was available at LAS got capped at 0.5% of BTL, although it was liquidity being raised against these surplus SLR or the T bills that we were holding, the cost of that overnight went up by 300 basis points, so that would have shaved off a little in terms of the NIM impact. The other was of course, that we were having to maintain high levels of CRR, because at 99% to be maintained every day. We were effectively maintaining 105% to 107% of our requirements at CRR, so naturally there was a further shaving off of a couple of basis points of NIMs from that. So, combination of two, three factors, which essentially sort of in order resulted in the immediate impact of NIM. Obviously, there is also a repricing on some of the corporate assets, because as the money markets got tight and rates – short-term rates went up in terms of, say, commercial paper rates or generally rates in the market, short-term lending rates also went up, but when you look at a particular quarter, the increase in costs happened suddenly overnight, say, July 15, and whatever corporate assets kept coming in, for whatever the period that they were on the books during that quarter would have seen the high yield, but there is a land and lag, so some of that would probably have some mean reversion as you get into the next couple of quarters. So these were the couple of elements on the NIM side. But broadly, I think what we've said for longest time is that, 4.1% to 4.5% is the range that our NIMs will be maintained within. We are roughly in the middle of that range right now. Whenever there is a positive or negative swing, it might move 10, 15 basis points in a particular direction and tends to mean revert a little over a period of time and that’s how we have maintained this range. I think, we will still maintain the NIMs within that range of 4.1% to 4.5%.

Manish Ostwal - K.R.Choksey: Secondly Sir, opportunity to borrowing refinance in the ForEx window that – can that opportunity protect our margins?

Paresh Sukthankar - Executive Director: Looking at it, talking about the new window, which is borrowing up to 100% of net worth that one?

Manish Ostwal - K.R.Choksey: Yes, Sir.

Paresh Sukthankar - Executive Director: So we have traditionally not borrow too much, in fact, we're not even been at 50% of – the earlier entitlement or the earlier eligibility, which was there to borrow up to 50% of net worth in foreign currency. We have by and large not even availed of that so far. Right now, I think given the confessional swap, could we look at some of amount of borrowing we could. But in any case as the money markets have tended to ease off and as the MSF rate has come down and I think we are counting on the fact that over a period of time, as the currency volatility tends to sort of essentially stop being a major concern. You should see the LAS rate once again becoming the effective rate. Then at that point of time, whether we would still want to borrow in foreign currency to swap and fund our local currency book is something that we will look at that point of time. So while we are extremely enthused with the FCNR part of the new measures, we are not as gung-ho on the borrowings to manage the liquidity and the funding costs.

Manish Ostwal - K.R.Choksey: Secondly, in terms of growth outlook, I mean this quarter, we've seen that loan book growth slowed down to 16% in line with the system. We have been articulated HDFC Bank will grow slightly premium to the system. So, this time in line with the system, so it is a cautious decision in this environment to grow slowly or maybe in line with the system, that could be the strategy?

Paresh Sukthankar - Executive Director: No, there is no change in strategy. I think our strategy remains – as I said, it is a two-step strategy. One, we believe the banking system itself typically grows at a multiple of 2.5 to 3 times real GDP growth. That's normally the core growth rate for the banking system for loans and the fact that we would grow at a few percentage points faster than the system. Both of these elements remain part of our core strategy. Tactically, in this quarter, we did decide to moderate the growth rate a little for two or three reasons, and as it happens when you compare that with the system, the system has seen an aberration of perhaps higher than the normal three times GDP growth rate because that 4.5% or thereabout in terms of GDP growth, you should have seen the banking system loan growth at about maybe 13% or 14% if at all. But because you've seen perhaps some of the commercial paper or other market borrowings come back into the banking system, you've seen the banking system loan growth a little higher than what the normalized system loan growth is. Having said that, the reason why we've grown a little slower this quarter, I would say, two or three reasons. One, on the wholesale side, there were opportunities to lend at slightly higher rates, but the marginal asset yield vis-a-vis the marginal cost of funds, because deposit rates had also gone up, were not so attractive from a NIM perspective or a spread perspective. So it makes sense for us not to chase too much of that asset growth, recognizing also that the higher corporate rates, corporate lending rates were likely to normalize within a couple of months, while the higher deposits that you might have to contract to fund that could be slightly longer tenure. So you'd get stuck when the repricing happened a couple of months down the line. So there was some slightly clearly deliberate holding back of the amount that we could have grown and we were growing on the wholesale side. Second, when you look at the retail side, some of the loans, some of the underlying loan demand is a function of the pace at which the underlying products are growing. So depending on car sales or commercial vehicle sales and so on, you will see there is a demand for those products and while therefore we have continued to grow, if there has been a slower growth in sales of some of the underlying products, the loan growth while still healthy would have been slightly lower than what we could have done if the demand was higher. That is where I think the slower growth in the economy is translating into slightly lower demand for specific products. Therefore, for those specific loans, there is slightly slower growth rate. Thirdly, is really more of a timing issue where in this quarter we did not purchase the normal home loan purchase that we do. As you are aware, we originate roughly, say, about INR800 crores to INR1,000 crores of home loans a month. So, typically, we would have purchased about, say, INR1,200 crores to INR1,500 crores of home loans in a quarter. We didn’t do that this quarter. I am sure it will happen in the next week or two. It's a question of when the deal – when the pool is put together and when we do the purchase. So that would have been again something, which would have made a difference of about 1% or 1.5% in terms of rate of growth.

Manish Ostwal - K.R.Choksey: Last question, till date how has been the festival season so far, early comments could you give us?

Paresh Sukthankar - Executive Director: I think it's really too premature to comment. I think there is a lot of mixed sort of feedback from different markets and for different products. So fingers crossed at this point of time.

Manish Ostwal - K.R.Choksey: Secondly, two data points I require. One is base rate linked to loan book size and the second is the wholesale deposit outstanding number.

Paresh Sukthankar - Executive Director: Roughly between 20% to 25% of our loan book would be linked to base rates. As far as wholesale deposits, approximately maybe 30% of the fixed deposits maybe what you would call wholesale.

Manish Ostwal - K.R.Choksey: Maybe it a stable from June levels?

Paresh Sukthankar - Executive Director: Yeah, it's not changing.

Manish Ostwal - K.R.Choksey: What is the RWA?

Paresh Sukthankar - Executive Director: If you don't mind, can we come back because to answer the first question and some data points you can even take offline, but as far as the risk-weighted assets, since you are asking for that, it's a INR3,41,000 crores. My request to everyone if you can probably restrict yourself to two questions and then come back again if you don't mind not because I don't want to answer all the questions, but because I think everybody should get a quick chance.

Operator: Kashyap Jhaveri, Emkay Global.

Kashyap Jhaveri - Emkay Global: My question is on the operating cost, which is hardly sort of grown at about a double-digit number. If I look at your cost to core fees plus (NA), that has also now reached about 12-quarter low. So what's the guidance on the cost trend? Second question would be on your slippages which for H1 under your Basel III disclosure is about INR1,600 crores odd or about 120 basis points. Last call you had mentioned that CV would continue to give us pain for about two more quarters. So how has it behaved in this quarter and what's the outlook for next two quarters or so?

Paresh Sukthankar - Executive Director: Let me answer to – I mean there is a question on operating expenses and then on slippage.

Kashyap Jhaveri - Emkay Global: Right.

Paresh Sukthankar - Executive Director: As far as operating expenses are concerned, the two main points that we've been making is that we do see an improvement in the cost income ratio primarily on the back of operating leverage which is to say that we have made investments in particular in branch expansion, but also in terms of rolling out our products across larger geographies, in semi-urban and rural areas in the last couple of years and as those revenues come in, the incremental cost to drive those revenues should not be so much and therefore as some of those branches breakeven or as some of those other investments start paying off or generating revenues, we should see that happening. While we expect this to happen in a gradual manner, obviously, currently there is also in the current environment of slightly muted growth. There is also further focus on cost and productivity, which will give some short-term gains as well, which are showing up, in fact, in the last couple of quarters. For instance, our staffing is more or less stable between the June and September quarters. So, virtually the last two employees, so we really effectively have the same employee base in the last quarter. So at the same time, we've added about 132 new branches. It's not that we are cutting back on the investment side, especially where it's part of a strategic plan. In fact 95 out of these 132 branches are in unbanked area as I mentioned earlier. So I think that expansion piece will continue, but we do see a – I mean there is a focus and we would do see therefore cost-to-income ratio being under a tight leash. As far as asset quality is concerned, like you rightly mentioned, last quarter also we had said that some of the main drivers of the slippages or the higher NPL creation, especially on the retail side, were the commercial vehicle and construction equipment portfolios. The increase that we had seen in terms of basis points last quarter was about 7, 8 basis points and this time we have seen about 5 basis points. The reason for that is last quarter, that is a June quarter, we had seen an increase in couple of these retail products and a little bit on the wholesale side. In this quarter, we haven't really seen any meaningful slippages on wholesale side which could have moved the needle. So we have seen continued stress on the same to for the product portfolios and I think that is reflective of the environment in terms of slow growth as well as delayed payments that some of these customers are facing. I mean, think about it, if these are customers even within the commercial vehicle and construction equipment portfolios which everybody have been talking about. If these are customers who in the last two or three years of the slowing economy still were managing to keep themselves regular and it's only now that they are becoming non-performing. It's clearly therefore not a lack of intent or it's not to do so much with, say, poor trade, underwriting and so on. A lot of this is therefore customers who have managed the stress in the initial slowdown period, but as the economy has continued to slow down and as the recovery has taken that much longer and perhaps exacerbated by the fact that some of them have got large or extremely highly delayed receivables are not being paid on time. That is where the strain is ultimately showing up even on relatively good borrowers. So I do believe therefore that as and when you have a pickup or a recovery and as therefore the operating environment for these customers and these segments tends to pickup, which like I said last time, could be a couple of quarters away at least if depending on when you see the economy bouncing back to whatever measure. Then some of these are customers, who as their own liquidity situation increases, improves, will probably start to paying.

Kashyap Jhaveri - Emkay Global: In that particular portfolio, any spillovers yet left or are we sort of done with that portfolio?

Paresh Sukthankar - Executive Director: These are large retail portfolio. So you will have customers who are today may be 30 plus or 60 and who mighty slip into 90. That is – it's not a 0-1 situation. I'm not saying that things are getting significantly worse in terms of the rate of slippages or anything of that sort, but I don't think we've seen the peaking of NPL creation in some of these products.

Kashyap Jhaveri - Emkay Global: Sure. That's it from my side. I will come back in the queue again. Thank you.

Operator: Mahrukh Adjania, Standard Chartered.

Mahrukh Adjania - Standard Chartered: Just wanted to check, firstly, breakdown of provisions. Sir, investment depreciation would have gone through the trading gains line, is that correct?

Paresh Sukthankar - Executive Director: That's right.

Mahrukh Adjania - Standard Chartered: Then in terms of loan loss provisions?

Paresh Sukthankar - Executive Director: There is essentially about – about INR60 crores is the general provisions and the rest are the specific provisions.

Mahrukh Adjania - Standard Chartered: In terms of the CD ratio, Sir, what ratio would you be comfortable with? Obviously, borrowing has – deposit rates have been tight over the last quarter, but where would you like to bring it down to? What would be the targets?

Paresh Sukthankar - Executive Director: See, ultimately, we have to see our CD ratio – if I look at it not just in terms of CD, which is in terms of in proportion to deposits, but also when I look at the capital and the sub-debt and so on, right, and the fact that we also have roughly about 3%, 3.5% of the book now in foreign currency, which obviously is funded from borrowing, the 85% would roughly come to about 76%, 77%. So at this point of time, we are looking to more or less match the loan growth in absolute terms with the deposit growth net of the reserves. So that is what we would be comfortable accounting to growth. Right now in this quarter, I guess the main swing factor will be what happens on the FCNR, because clearly that is something that we are focused on because it's not just a source of funding at lower than market, because of this swap that is being offered by the RBI, but also has benefits in terms of the reserves in PSL that RBI has announced. So apart from the normal deposit growth, there will be a rub-off of what happens on the FCNR front. But broadly, Mahrukh it's fair to say that we are looking to pace our loan growth to what we comfortable doing on the deposit side, while maintaining a certain mix.

Operator: Kunal Shah, Edelweiss Securities.

Nilesh Parikh - Edelweiss Securities: Paresh, Nilesh here. So just on this entire thing on the OpEx any reversal of provisions that we would have done in that line item in this quarter?

Paresh Sukthankar - Executive Director: No there was no reversal.

Nilesh Parikh - Edelweiss Securities: On the OpEx.

Paresh Sukthankar - Executive Director: On the OpEx side, no. No there is no reversal on the OpEx side. There have been operating expense cuts, but there has been no reversal.

Nilesh Parikh - Edelweiss Securities: The other question is on the margins, so you said that the guided range is now about 4.1% to 4.5%, was it – last quarter, was it 4.3% to 4.6%? Was it something that you….?

Paresh Sukthankar - Executive Director: The range is actually being if you go back to the earlier days before we recast the margins, which was 3.9 to 4.2 or so, right, or 4.2, 4.3. The recasting of the origination cost from the NIM line to the operating cost resulted in about a 20 basis points shift. So that 3.9 went to about 4.1, 4.2, whatever you may call it, to about 4.5. Last quarter was a peak at 4.55. Therefore, in terms of one decimal growth at 4.6, but even last quarter we were really talking about somewhere between 4.1, 4.2 at a bottom end and 4.5 at the top end. The point I am making is not whether one is trying to push the either extreme by 10 basis points in either direction. I don't think we are – I am trying to guide to a particularly range. I think the point I am trying to make is that there is a range and there will be fluctuations of 15, 20 basis points, 10, 15 basis points in either direction within that range, but that tends to be a bit of a mean reversion, because whenever something suddenly causes the NIM to go up, then there are factors, which tend to pull it down towards a little bit of a median or a mean. Similarly, when there is a shock like what happened right now, where there is a sudden impact which impacts say the cost before it impacts the or before it shows up and goes through the asset yield side, then maybe there is a timing difference where you take a bit of a hit and then the repricing tends to play out and you tend to then have the NIM improving again. So all I am saying is that I don't think we're going to see a unidirectional move in NIM in either direction and that the broader range of somewhere in this 4.1 to 4.5 is still a reasonable range. Right now we are roughly in the middle of that.

Nilesh Parikh - Edelweiss Securities: Just one thing on that, you mentioned that the MSF rates going up. So there was a bit of an impact in terms of the margins. If you can just quantify that out of the 20 bps decline that you've seen, how much would have been contributed just because of the LAS moving to from the repo to the MSF?

Paresh Sukthankar - Executive Director: Yes, I think there were twin impacts there. One was the fact that we were keeping therefore a little higher levels of CRR, right, because (as against) the requirement, we were keeping about 105% to 107% of CRR that would have had a couple of basis points impact. Then the actual impact of the LAS borrowings for all practical purposes being made at MSF rates would have had another roughly 8 or 10 basis points impact. So I guess in combination we have probably seen about 10, 12 basis point impact of these two measures.

Nilesh Parikh - Edelweiss Securities: Since (indiscernible) September 30, we've see at least the MSF rate come down about 50 bps, so probably that impact kind of emerges to an extent?

Paresh Sukthankar - Executive Director: Yes, I guess progressively that would tend to come off, because like I said earlier, I mean it's not that we have been borrowing MSF. Traditionally MSF was borrowing over and above your surplus (EBs), right. So you never ever – and really may not have to do that really, right. So it's a question of as you go back to really the LAS rate being the effective rate and, yes, you're right, now to whatever extent that cost would go down that would certainly be a bit of relief. Also I guess beyond that, so that is in a more direct impact to whatever extent is the borrowing, but I think as a signal, if that has also triggered a moderation in deposit rates, that also is generally a positive both for the system and for us, because when you look at the time and the deposit rates and CD rates and market rates, all gone up, while the corporate lending rates also went up fairly sharply perhaps to a similar extent, the retail lending rates for various reasons did not go up to the same extent, so a normalization of deposit rates is definitely there for welcome.

Operator: Manish Karwa, Deutsche Bank.

Manish Karwa - Deutsche Bank: Just wanted to check on your treasury portfolio, can you explain how this INR173 crores have come and what is the position as of current yields?

Paresh Sukthankar - Executive Director: The INR170 crores odd had some sort of – its a combination first of all of mark-to-market losses and some actually booked or realized losses. The mark-to-market portion is about 100 and – the mark-to-market portion which was eligible to have been amortized was INR135 crores, which is really from some of our corporate bond portfolio, which was mark-to-market given what happened to market yields, but where we did not avail of the dispensation given by RBI to amortized that. Of course, yields have come off a little from where they were, but not substantially. I guess since some of these are slightly longer tenure, it really depends on where long-term – how the long-term yield outlook will be before we figure out where – how much of the mark-to-market gets reversed out this quarter. So that's where the mark-to-market piece was – that rate of 173 is, 135 is the mark-to-market, the rest was realized.

Manish Karwa - Deutsche Bank: Assuming where yields are today, does it mean that in the next quarter, we see a reversal of at least some part of that INR173 crores?

Paresh Sukthankar - Executive Director: Yeah. There would be some pull back from where we were, there is no doubt. Of course, what is relevant as you can imagine is what yields will be on December 31st. The point is very simple. AFS does need to be mark-to-market, right. So that's what we have done. The RBI differentiation is that you still have to market-to-market, but you account for it in your book, you can – whatever a portion of that on an equal basis. So it could either be a portion in three parts I guess over three quarters or one-seventh and then for the remaining six months of the year. That is the portion that we have not done. So all we have said is, mark-to-market as of September 30th, but that entire piece is coming into P&L. Obviously therefore if some of that mark-to-markets or the yields sort of recover from there, then they will come off from where they were as of September, and there will be some relief on the bond portfolio.

Manish Karwa - Deutsche Bank: As part of your footnote, you've also mentioned that you've transferred about INR1,930 crores from AFS to HTM and recognized a loss of INR16.9 crores. That's the total loss that you had and you had recognized that on that transfer amount?

Paresh Sukthankar - Executive Director: On that transfer amount, that will be the amount. So these were securities that as you can see, large amount and the impact of that is relatively small, but these were securities that we were keen to move to an HTM from an actual holding point of view. So what we have done obviously till that time, whatever was the mark-to-market that has been accounted for and we have also indicated from a disclosure perspective that, had we not transferred them what would have been the impact if it had remained here.

Manish Karwa - Deutsche Bank: ForEx or derivative revenue, is it specific to this quarter only wherein you had massive volatility or can we expect a strong trend going forward as well?

Paresh Sukthankar - Executive Director: So there is an element of one-off there, about 12% of the revenues, about roughly INR60 crores or so – around INR60 crores over the (indiscernible) was a gain that we made roughly in that region, was a gain that were made on the swap book, which was really given the high interest rates, the sudden spike in rates, that while it hurt the bond portfolio, gave some gains on the interest rate swap book. That was you can say a one-off. So that we obviously don't expect to happen from – unless there are other market opportunities which arise, but clearly that would be in many ways a one-off. Apart from that, we have seen slightly higher volumes and slight improvement in margins relating to some part of our customer flows, including in particular some flows on the NR side. This is not the new NRI deposit flows or the FCNR flows we are talking about, not the new scheme, but some flows that we had started seeing at that point of time as well. Of course, the higher volatility did mean that there were more corporate flows or customer flows which came in during that time because they were more customers who were looking to hedge their exposures, which had otherwise not been done. So it has typically increased customer flow, which happens when there is higher volatility, and obviously, if there is a low volatility, customers feel that much more comfortable not covering that proportion of their exposures.

Manish Karwa - Deutsche Bank: On this FCNR deposit as banks, we will be making any fees of that in terms of exchange?

Paresh Sukthankar - Executive Director: Not really, no, there won't be – and it is because, here you are doing the swap with RBI. So it's not a – there is no FX spread further on that, but it's obviously, an attractive piece from a pure borrowing perspective, especially, because of the CRR, SLR and the (PLR).

Operator: Rakesh Kumar, Elara Capital.

Rakesh Kumar - Elara Capital: Just a question from cost of fund side. Looking at the borrowings for this quarter it remained like flat at the level. Within borrowing actually close to other than the capital borrowing. So that is close to 80% is from the foreign market. So what is a replacement? We have done, redeemed the deposit basically in the term deposit, so which has cost us close to 20 bps increase in the cost of fund?

Paresh Sukthankar - Executive Director: I'm not sure, whether I've understood the question. I mean as far as the borrowing piece is concerned there has been really no different source or substitution of borrowing, the borrowing which was there as I said earlier from, continued to be either from LAS which was done at MSF rate – are you looking at from the balance sheet, is it that the borrowing numbers that you are looking at?

Rakesh Kumar - Elara Capital: Yes, like if you see the March number and if you see the September number, so there is no change in the borrowings. The borrowing is like of the total borrowing actually a majority of borrowing, 80% of the borrowing is from the foreign markets. So there the replacement would have not happened. So whatever replacement has happened that has happened within the deposit and within the deposits like, so, how much replacement we have done in the term deposit which has cost us around 20 bps increase in the cost of funds?

Bhavin Lakhpatwala - VP - Finance: The borrowing that do you under LAP, it doesn’t come under the borrowing – really it gets netted out from the investments, so you will not be able to see it as part of the borrowing.

Rakesh Kumar - Elara Capital: In a term deposit like how much fixed deposit we have got like how much replacement we have done in the term deposits?

Bhavin Lakhpatwala - VP - Finance: Are you talking about foreign term deposits?

Rakesh Kumar - Elara Capital: No, deposits, total term deposits….

Paresh Sukthankar - Executive Director: Obviously, whatever are the regular fixed deposits which mature every month, right, those would have been rolled over, or whatever incremental deposits we saw, would have been at the rates that were happening in the marketplace. The borrowing, if you are looking at the impact on the NIM which when we spoke about the borrowing earlier, the borrowing, as Bhavin was explaining, does not show up as a borrowing, the way the accounting for that is under the LAS window because it's a repo. It effectively shows as a net of – you net debt off from investment. So that borrowing – because it is as I said earlier clearly against the excess SLR in the form of T-bills or whatever is that we were holding. That is not being reflected here as a separate line for you to see the impact of that, but as far as actual borrowings are concerned, the borrowing as they show off here would not have changed because as you rightly said, these are essentially to capital or other forms of borrowings which have not changed at all and foreign currency borrowings, again, which have not changed. So the impact of the higher cost would have been either on the LAS fees, which would come as part of investment and higher deposit cost where the fixed deposits on a monthly basis would be – which would come up for maturity and would reprice would be about almost value-wise it would be about – so the typical deposit repricing would be at about say about INR4,000 crores of thereabouts a month that's usually, but obviously when there is a spike you can have some higher flows, which tend to get reprice, because customers are looking to catch the higher rates, but that is a normalized rate of fixed deposit reprice.

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Rakesh Kumar - Elara Capital: So with this thing you had state that you want the cost of fund could be as stable if they come down in the third quarter number?

Paresh Sukthankar - Executive Director: Yeah, I would imagine that partly because of some of the rate itself MSF rate having come down and to the extent that the liquidity conditions are improved and the figures deposit rates have also come off from where they were at peak and to the extent further that you have come of these FCNR and other flows coming in not just to us, but in the system itself. You should see a deposit rates and deposit cost and overall funding cost therefore come down slightly in the next couple of quarters.

Rakesh Kumar - Elara Capital: Just one more question if I would ask. One more question on the like asset side just to add, like the stream like slightly the composition has increased on the corporate side, so maybe like – well if we maintain the like the composition there is a likelihood that the margin could expand like next quarter?

Paresh Sukthankar - Executive Director: Well, I mean, the shift is really somewhat small, right. I mean, it's now 54, 53, 46, 47, so it's really not a huge change in mix, but I think the real question is, on the corporate side, clearly the marginal yields tend to be lower than on retail. However, on the retail side, you have different products with different rates, and there is a competitive environment on the retail side as well. So the change in mix if it's a 1% or

2% change in mix may not have a huge impact on NIM, but over a period of time if there is a swing of more than 2%, 3% in any of the category, then you can have a small impact on NIM. But again all of these factors, whether it's the actual fixed deposit rates, whether it's the borrowing costs, whether it's the CASA ratio, all of these on the cost side and the loan mix, the level of competition for retail in particular within the wholesale book, the growth between working capital and terms, all of these factors tend to have pulls and pushes in to the NIM in different direction. So, which is why I think I had mentioned earlier, there is a range that tends to be a fairly stable range or a – and the NIM tends to be a little bit of a mean reversion which we sort of tend to see.

Operator: Jatinder Agarwal, CIMB.

Jatinder Agarwal - CIMB: Sir, just one question. When I do on a point-to-point basis, we get some marginal fall in yield on average loans on a quarterly basis. Was that really the case? If it was, could you explain what led to that?

Sashi Jagdishan - Head - Finance: Jatinder, there are two impacts to that. Retail assets we accrue interest on a 90-day basis, 90 on 360. So this quarter there were 92 days, so to that extent you will have a day – where there are two days. Second one is, we have increased the foreign currency book amount during this quarter, so there will be couple of basis points of impact to that. These are one of the two reasons why always second quarter you will have a bit of a slight depression in the yields on loans.

Jatinder Agarwal - CIMB: If you go by the history, you actually raised base rates in early August, if I am not wrong, should that play out in terms of higher loan yields as we go into 3Q and 4Q?

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Paresh Sukthankar - Executive Director: The increase was actually more of a reverting to where we had been. So one, of course was, we had reduced base rates by about 10 basis points each in the previous two quarters. So we increased it by 20 basis points. You are right. It was there probably for a little less than a couple of months. But the proportion of our book which is base rate linked is not very large. As you look at the entire retail book other than perhaps some part of business banking, most of the others are fixed rate loans which are not linked to our base rate. So that not really change. On the wholesale side, there are some working capital I believe which are base rate linked or some term loans, but the rest of it is really fixed rate product, which maybe a 90-day bill or a six-month loan. So it's not really floating or a variable rate loan linked to the base rate. Yes, progressively, if we were to change base rate further, then actually that would flow through. The impact, which would flow through a little more in this quarter is that whatever fixed rate loans, short-term loans that we might have put on at different points of time in the quarter, obviously that had been on the books for maybe 30 days, 45 days, whatever period for the last quarter to whatever extent it spills over into this quarter, you will continue to derive those yields. Perhaps relative to that, if there is some drop-off in the cost, right, because the cost impact was upfront and then you had the repricing of loans. If there is a reduction in the funding cost because of whatever we said in terms of MSF rates coming down or liquidity easing and so on, you might have the benefit of that lower cost coming through a little quicker while the assets will again reprice on maturity. So, all of this is part of that mean reversion for NIMs that I mentioned earlier.

Jatinder Agarwal - CIMB: Just briefly, are you seeing any pricing pressure in terms of retail asset yields?

Paresh Sukthankar - Executive Director: Yeah, I think we have seen competition fairly intense on the retail lending side. I mean, not so much rates coming down, which I have been spoken about right now, but if you look at this entire July 15th and onward period, when clearly funding costs had gone up and the corporate yields had gone up, relative to that, retail lending yields did not go up by more than 25 or in some products maybe 50 basis points. So, clearly, there was not as much of an increase in retail loan rates as there had been on the wholesale side, reflecting perhaps the high level of competition or the fact that most banks have been focusing a little more on retail, perhaps in the face of wholesale not growing or asset quality pressures on the wholesale side. As we now enter this, what is traditionally the festive season, traditionally it tend to have in any case some more special schemes or special offers and so on, which again, directly or indirectly tend to reflect the pricing pressures given the competition. So I think we need to wait and watch exactly what happens, but I would say that, yes, there is some pricing pressure build up on the retail side relative to the rest of interest rate movements in the market.

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Jatinder Agarwal - CIMB: Just one last question, Sir on the retail asset book, on a home loan originator, how is the month-on-month traction behaving without numbers, I'd say. If you think from the start of the year to the…?

Paresh Sukthankar - Executive Director: So far it's been fairly stable. We haven't seen any real movement in either direction.

Operator: Paresh Jain, Antique Stock Broking.

Paresh Jain - Antique Stock Broking: Sir, just wanted to know, sir, the gold loan originations, have they come off sharply, because I have seen a decline in the gold loan portfolio this quarter?

Paresh Sukthankar - Executive Director: Yes. So two things, one is origination did come off and also as the prices have been volatile, we have made some margin calls, and because these are short duration loans, as the – if your incremental origination is off a little and you have run-offs from the existing portfolios, on the existing portfolio you tend to therefore have a small contraction. So, yes, we did see a little bit of lower origination and the run off for the margin calls would have resulted in that portfolio, on a net basis, not growing.

Paresh Jain - Antique Stock Broking: This has got nothing to do with the RBI or the government's effort to curb anything related to gold.

Paresh Sukthankar - Executive Director: This is not – because these are not products to purchase gold or anything. These are just loans to customers against security of gold, so I don't think that has got really any linkage, but the impact of course has been there.

Paresh Jain - Antique Stock Broking: But the thing is that price of gold, it has again gone up from the April levels and so to say that we should be slightly maybe better off in terms of – that is just I thought so…

Paresh Sukthankar - Executive Director: It's not a large product for us, right, so it doesn't really move the needle. The only part which from a regulatory perspective, has had stopped, so this is not necessarily in this quarter some time back, probably first quarter itself is that fact that as far as lending against gold is concerned, you can't lend against gold coins, so that in many cases – this is not certainly so much an impact in this quarter and even in the previous quarter, but beyond that to the extent that there is price movement, we – if the market itself in terms of demand for that product improves, fine, and maybe the margins calls which would have reduced existing outstanding might come off a little, but we really don't look to grow our book based on an existing amount of gold based on the higher price, I think that we tend to not push.

Operator: Anish Tawakley, Barclays.

Anish Tawakley - Barclays Capital: Two questions; one, I think you mentioned the – you added 132 braches but only two employees, is that correct?

Paresh Sukthankar - Executive Director: That is correct.

Anish Tawakley - Barclays Capital: So is there still slack in the system or are you now sort of over utilized and what would that mean for OpEx growth with this dynamic? The second, I had a question on loan yields similar to what Jitendra asked I think – which is on the credit card right, is our credit card – because the credit card book has grown, are credit card yields higher than the average or lower than the average when you consider the fact that some of the book doesn't pay interest, right, the transactional part? So would an increase in the credit card book push up yields or push down yields?

Paresh Sukthankar - Executive Director: So, Anish, one, of course, the increase in the credit card book again in relative terms as you can see very, very small. I mean, in fact, if you look at personal loans plus credit cards, in the last one year as a proportion of the retail loans that has increased by 1%. So it's too small to move the needle. But to your question, the effective yield on a credit card portfolio, as you rightly said, because there is a fair portion which does not – which is just a transactor and not the revolver on which you earn the interest. The actual interest rates would be in the mid-teens in terms of effective about 16%, 17% or something of that range, say 15% to 17%. So, again, not large enough or not high enough to make a difference to the overall. What was the other question?

Anish Tawakley - Barclays Capital: On OpEx, the slack in the system…

Paresh Sukthankar - Executive Director: OpEx, yeah, see let me begin the primary focus of the improvement in the cost-to-income ratio remains an attempt to really let the investments that we have already made in terms of the branches that we have opened and where we have to get the revenues to come in and which has been happening, but therefore as the branches complete 2 to 3 years, 2.5 or 3 years and they breakeven. Obviously, therefore that incremental revenue is coming from cost which are already in this, so that is the primary focus. But in addition, given the overall environment, there is also a tighter control and a larger focus on operating expenses and managing costs, so which is inevitable for any organization in a slightly lower or a slightly muted growth environment. That is where the – if there are areas where we can manage our staff productivity, between the newer branches and some of these are also remember the branches in unbanked areas, like I said, almost close to 95 out of the 130 are unbanked areas. So these would be – some of them would be twoman branches and smaller branches. So from the closest hubs, redeploying staffing or managing overall productivity levels is to offset where we might have certain areas where we may have new hires in certain areas where they maybe scope for us to become that much more efficient. All of that is part of the – of the focus that we've got right now. So, not saying that we are not going to be adding more people or that there will not be an increase in operating expenses, it's just that the jaws hopefully will sort of widen, because we are looking at an improvement in the cost-to-income ratio. I do not want you to extrapolate any one quarter, because some of these measures are more definitely focused at a particular point of time, but on an annualized basis, clearly we do believe that an improvement in the cost-to-income is one of our key priority.

Anish Tawakley - Barclays Capital: Sir, I understand that, but could you say, for example, add another 132 branches by adding – by doing it this way or has this lever been almost maxed out?

Paresh Sukthankar - Executive Director: Anish, I can't speak to the last bit, but I would say that a lot of – I would maxed out, but we certainly would have, because it's not only a question of branches, it's also improving productivity in non-branch related businesses. So that is of independent focus, it might converge with and therefore you can look at it as you've added so many branches and so many people are now got added. But both of these are independent focus areas. The idea to improve – to add branches and manage growth there; some of these are leaner branches because of the size of the branches and separately to optimize on our staffing patterns and overall productivity levels.

Operator: Saikiran Pulavarthi, Espirito Santo Investment Bank.

Saikiran Pulavarthi - Espirito Santo Investment Bank: There are two questions from my side. First one being, what will be the impact in running retail lending business due to the RBI circular in September on subvention on price/moratorium offered by dealers and manufacturers. Second thing is, HDFC Bank deposit rates on short-end are highest when compared with the peer group. It's a little bit surprising because considering we have better managed (indiscernible). These are my two questions.

Paresh Sukthankar - Executive Director: On the one, submission fees and so on is, in any case, whatever were the submission we were always passing those through. So, there is not really to our mind it will not really have any impact on either business or the P&L for those products. As far as the lending rate, the deposit rates are concerned. I think the short-term rates were really a function of what the market rates were, money market rates were, because even if you therefore paid a certain amount, if the opportunity was to deploy that money at a higher rate, then that still remains attractive. So, from our point of view, given also that we are large transactional banking player, sometimes there is an opportunity for us to get flows in and to get that money at that cost as long as it is still lower than the marginal cost in the market or the marginal opportunity cost in terms of a yield that you can get if you look to deploy that money. So what you're saying is still absolutely true that we as a bank are comfortably placed from a deposed franchise point of view and the fact that our core loan book is funded from our core deposit franchise, but tactically there could be opportunities which we therefore tap into, looking at what the money market opportunities are and what the short-term deposit rates are.

Saikiran Pulavarthi - Espirito Santo Investment Bank: Just a follow-up question on the point one (indiscernible) subvention. When you think you're getting passed on in pricing, it means that it's taken into the cost kind of a thing or it's you are netting off against the interest income in terms of the (indiscernible) P&L perspective?

Paresh Sukthankar - Executive Director: Basically to that extent, the EMI to the customer would have gone down, and therefore which is why the interest cost to the customer was what – was lower to that extent, which is why the customer was getting a lower effective cost for his borrowing – his or her borrowing. So now the question is whether you, therefore, do this separately or you merge it into the EMI. The effective impact to the customer or to the bank will be negligible. Even if there is a small timing difference, it will be negligible.

Operator: (Hiral Desai, Alpha Enterprises).

Hiral Desai - Alpha Enterprises: Sir, most of my questions have been answered. Just wanted to get an update on the rural and the semi-urban piece, which has been a focus for the Bank. So if you could comment a bit on how the asset and the liability side is creeping up? Related to that, just wanted to take a stock of it, given the macro environment, is the rural growth sort of holding up better and the fee income opportunity on the rural and the semi-urban, if you could just comment on that?

Paresh Sukthankar - Executive Director: So one, you are absolutely right that in relative terms, the semi-urban and rural fees, especially the rural fees is holding up a lot better and maybe that's partly a function of the fact that you had a good monsoon and agri and so on, although some of that were yet to play out. But it's also a function of the fact that we are relatively new in those markets and so for us it's a somewhat virgin market and therefore whatever we are growing is on a smaller or negligible base. To that extent, therefore there is a lot more growth that we are looking to tap into. But, clearly, I think the branches that you have added in the last few years and our presence in these markets, we have been rather pleased with whatever programs we’ve seen there. In fact, to put into perspective, right now between the – if you look at just as a percentage of the total branches, we have seen the almost 50% odd of the total branches now are in semi-urban and rural, in fact 54% and those are, of course, lower cost and therefore an absolute amounts maybe lower business but from a cost-to-income or a payback period point of view, they still remain fairly attractive. I must say that whatever growth is currently coming from those branches is more balance sheet driven in the sense that either the deposits side or the lending side. In fact, we actually have some branches where the loan growth has outpaced the deposit growth because depending on the specific market debt and some of this could be seasonal, there may be some months where ultimately, especially the agriculture related sort of areas, you may have the deposit – after harvest the deposit, the branch being much more deposit driven, but right now it's a little more asset driven. But the fee growth, I must confess, in some of these branches is still relatively small. So it's much more deposit in CASA and that too more than cards (indiscernible), and then it's the lending because what we have found is that although you have a large number of banks who may have already been in rural and semi-urban areas, a lot of these branches – a lot of these banks don't necessarily offer the complete range of products on the lending side in these branches. So when we are offering a complete retail loan suite, plus of course the agricultural related products and the tractor loans and car loans and LCV loans and gold loans and the entire range of retail loan, we do find that the demand is fairly healthy for us.

Hiral Desai - Alpha Enterprises: The savings growth in these, sort of, branches have been in sync with what you have seen historically in your urban branches or the growth rate is relatively slower there?

Paresh Sukthankar - Executive Director: I think the – if you talking about the growth rates are good, the absolute amount of the ticket sizes as you can imagine are definitely smaller.

Hiral Desai - Alpha Enterprises: So they will be smaller by what percent is what I'm trying to understand actually.

Paresh Sukthankar - Executive Director: I think it depends on the …

Sashi Jagdishan - Head - Finance: indiscernible) 30% of what one would get in a metro or urban branch.

Operator: (Aditya Singhania, Enam Holdings).

Aditya Singhania - Enam Holdings: I just had a question on the FCNR scheme. Could you give us some sense of how much you could be raising overall from the scheme and how the cost could compare versus sort of local funding at basis?

Paresh Sukthankar - Executive Director: The FCNR piece on a fully swap basis would cost somewhere closer to 8.5 or thereabouts. So it's not significantly cheaper money intrinsically. It's somewhat closer to a fixed deposit, although it is cheaper than – three-year fixed deposit currently would be at clearly 9 plus. This would be somewhere between 8.25 and 8.75, let's say roughly 8.5, but what makes it a winning proposition is a fact that these are – these do not have CRR and SLR and also give some relief on the PSL side.

Aditya Singhania - Enam Holdings: So what would that sort of benefit give you 100 basis points, or more?

Paresh Sukthankar - Executive Director: From a management sort of point of view, one could easily attribute that much if not a little more than that. From the amounts point of view, I mean, it's still early; everybody's is trying to scramble to get as much as possible. We've done about roughly 300 million or so, so far on the FCNR side. Hopefully in the next couple of months, we should end up doing maybe at least three times of that by the end of the scheme.

Aditya Singhania - Enam Holdings: So maybe 1 billion or so…

Paresh Sukthankar - Executive Director: Thereabouts, yes.

Aditya Singhania - Enam Holdings: The second one, just in terms of the funding you current account piece is obviously quite slow given the economy, how much on a sort of weighted average or a daily average basis would CAR fund – CAR, so the funds have gone down over the last, let's say, four to six quarter?

Paresh Sukthankar - Executive Director: On what basis?

Aditya Singhania - Enam Holdings: I'm saying on a daily average basis…

Paresh Sukthankar - Executive Director: On daily average basis, it would have come down by almost – only CAR?

Aditya Singhania - Enam Holdings: Only CAR, yes.

Paresh Sukthankar - Executive Director: About 4% or 5%.

Aditya Singhania - Enam Holdings: 400 basis points?

Paresh Sukthankar - Executive Director: Yes, because the growth has just now been about flat, because if you look at year-on-year, what you understand mean September of last year and this year. Last year, of course, there was a – on September 30th there was bit of a one-off, which was mentioned in the press release for last year's September. So we had done a securitization piece (indiscernible). This is the first deal that we did again for purchase of the home loans. There were some floats which were linked to that which were still with us. But if you knock that off, the current accounts in the last one year have grown by about 5%. Our total deposit growth has been, let's say, about 14%, 15%, so obviously on an incremental basis, if you look at the 15% growth and that has dropped from what was, the CASA proportion used to be in the CAR proportion as a percentage of total deposits is to be roughly about 17%, 18%. It's now about a fourth of that or thereabout. So there would have been…

Aditya Singhania - Enam Holdings: Sorry, 17%, 18% of deposits has become 15% odd of deposit, right?

Paresh Sukthankar - Executive Director: Correct, approximately.

Aditya Singhania - Enam Holdings: So 200, 300 basis points.

Paresh Sukthankar - Executive Director: Yes.

Aditya Singhania - Enam Holdings: If I May just add one more question, the refinance plan, one of your competitor bank reported yesterday and they mentioned a significant increase in the use of refinance lines from NABARD, SIDBI, et cetera. Have you not had the opportunity to use those lines given that you also have sort of fairly large MSME business and BSR business?

Paresh Sukthankar - Executive Director: We have not really drawn these lines, any material extent at least.

Aditya Singhania - Enam Holdings: I mean would there not have been a big cost arbitrage last quarter especially?

Paresh Sukthankar - Executive Director: Well, I am not so sure, whether we have a sizeable amount that would have been eligible, but we certainly did not draw them down. Right, Sashi?

Sashi Jagdishan - Head - Finance: I'll say if – what happened is frankly we have not examined this (indiscernible). I'll get back to you on this. If there were any opportunities at all, (indiscernible) we did have our limits utilized completely, but we'll just check this out.

Operator: Subramaniam, Sundaram Mutual Fund.

P.S. Subramaniam - Sundaram Mutual Fund: One question on, how much was the outstanding floating provisions that we had at the end of the quarter?

Paresh Sukthankar - Executive Director: Floating provisions is much in that 18 – INR1,855 crores, so it's not changed in this quarter.

P.S. Subramaniam - Sundaram Mutual Fund: The other question is, earlier you had mentioned that, you didn't throw your wholesale because you felt that the incremental split on the business was not great enough, as things stand now, how are you seeing this?

Paresh Sukthankar - Executive Director: So clearly, while little bit of the yields have come off, the cost have also come off to a larger extent. So we are better off putting on some of the assets now slightly better environment than what we have seen 45 days back. So we would be happy to grow it a little better in this quarter than last.

P.S. Subramaniam - Sundaram Mutual Fund: All the best.

Operator: (Hiren Dasani, Goldman Sachs).

Hiren Dasani - Goldman Sachs: Just very small point. So is the effective tax rate for us now moved to 33.99% or…

Paresh Sukthankar - Executive Director: Yeah, because the…

Sashi Jagdishan - Head - Finance: 33.8% on a full year basis; for the first quarter 33.9%.

Paresh Sukthankar - Executive Director: Yeah, so it's pretty much 33.8%, 33.9%, 34%. Basically the surcharge has gone from five to 10. So last year was about 32% and now its 32.4% and now it's closer to 34%.

Hiren Dasani - Goldman Sachs: I mean, if I look effective tax rate of the earlier years prior years you were never close to the marginal tax rate if you were to calculate in terms of the surcharge and all. So you probably had some benefits which are no longer there?

Paresh Sukthankar - Executive Director: We had some tax free income, because we would hold some mutual funds and so on which would give us some tax rate income that is obviously not worthwhile right now. So there is no income which is tax free really and of course, the – so we are pretty much at the marginal tax rate.

Operator: (Amit Premchandani, UTI Mutual Funds).

Amit Premchandani - UTI Mutual Fund: If I did a branch addition during the quarter and the location addition during the quarter, they are virtually the same, almost 131, 132 roughly. So is it safe to assume that most likely the branch addition going forward will be location based rather than greater penetration in the same locations?

Paresh Sukthankar - Executive Director: That is absolutely true. That's right, because a lot of these are not just new locations, but also a lot of them are unbanked or under.

Amit Premchandani - UTI Mutual Fund: So in terms of what is the set of a location you are looking at, because at around 3,200 branches, it appears that you are not going to increase your branches, say, in city or metro areas. So how big can be the branch trend for you; is PNB a benchmark or is SBI a benchmark?

Paresh Sukthankar - Executive Director: No, I don't think we are looking at benchmarking to a particular bank, but I think we do believe that there are opportunities. When we’ve got, say, branches in some of the rural areas or some of the semi-urban areas and we look at the catchment area beyond say 20, 30 kilometers from there, almost in a hub and spoke sort of a method, we do believe there are opportunities for us to add could be a couple of hundred branches in a year, where a good 70%, 80% or maybe even 90% of the new branches tend to be in these newer locations. So partly driven by the business in opportunity in different areas and partly driven by the fact that you do need a certain number of unbanked areas as a proportion of your total branches in unbanked areas for percent of the total branches. We will continue to add this, but we don't have a certain number or a goal to sort of speak. Also what happens is every year as the economy grows, you tend to have maybe 30, 40, 50 new centers which were below the threshold of what you felt attractive which would then come into your radar for expanding business. So it's really a moving target in some ways as long as these branches have a certain amount of potential and as long as in our minds and in our workings, we can generate a certain amount of business and breakeven in a certain period, we would continue to grow those.

Amit Premchandani - UTI Mutual Fund: How does it kind of then relate to that M&A strategy if any? Because, generally people and bank acquisition happened because of the branch network and all that stuff, now since you almost covered the entire locational kind of whatever M&A target will be there, say, a bank that will have 500 branches and most of the locations will be covered by you. So is it safe to understand – is it safe to assume that the M&A – the reason for M&A is no longer applicable for the HDFC Bank because it almost covered all the locations?

Paresh Sukthankar - Executive Director: All I would say is that purely branch network or distribution may not be a key driver of looking at M&A or evaluating M&A opportunities. From our point of view, in the last few years, as we've grown organically from a branch network point of view that has been a preferred mode of growing our distribution. It does not mean that we will never look at or we would not evaluate opportunities if they came our way, inorganic opportunities if they came our way, but clearly, purely acquiring a certain branch network or a location, wanting to cover certain part of the market would not be a huge driver for evaluating M&A opportunities.

Amit Premchandani - UTI Mutual Fund: In terms of provisions that you have made during this quarter, the entire provision is specific?

Paresh Sukthankar - Executive Director: No, about INR60 crores odd is general provisions and the balance is specific.

Amit Premchandani - UTI Mutual Fund: Generally standardized?

Paresh Sukthankar - Executive Director: Standardized.

Operator: M.B. Mahesh, Kotak Securities.

M.B. Mahesh - Kotak Securities: Just a couple of questions. One, on the OpEx line, we've started seeing an instance where the unsecured loan piece, which is your personal loan, credit cards, actually kind of growing at all of 20%. Just wanted to understand is there any impact of this coming in on the OpEx line, because at one point of time, between 2008 and 2011, you had a reasonably high collection related cost. Just trying to check as to whether this will again start to kick in, in your numbers sometime soon, because there will be some level of deterioration that you see in the portfolio as normal course of event.

Paresh Sukthankar - Executive Director: So I think there are two elements to this. One, you're right that any unsecured product would have a higher expected loss, and therefore is slightly higher operating and take smaller ticket size or slightly higher operating and perhaps a slightly higher collection cost relative to some of the secured products. That is what is priced in when you charge a higher rate for, say, a personal loan as against a car loan or a home loan. But right now the proportion of personal loans in our total portfolio are, in fact, if I look at even personal loans plus credit cards, in September of 2012 it was 19.9%, say 20% of the retail loan portfolio and now it is 21% of the retail loan portfolio. So the change in mix at 1% of the retail portfolio is clearly not large enough to – where even if there is some increase in operating or collections cost to really make an impact on the operating expense line. As it happens on a sort of related, but different note, if I look at the deterioration in asset quality in the last couple of years, although traditionally the unsecured products are and therefore will always remain a higher risk, because of the fact that you don't have security, the actual deterioration that one has seen in this cycle so far has been much more for products where the asset has been the source of income, rather than where an individual has taken a loan, but has an independent source of income. So a salaried person taking a credit card or taking a personal loan, vis-a-vis, let's say, somebody who takes a commercial vehicle and actually uses that or a construction equipment and uses that to generate income to repay the loan, we've actually seen that the deterioration in asset quality or the pressure that has been seen on the asset quality front has been higher for loans which are secured loans, but where the asset is the source of income. This is, I guess partly driven by what's happening in the economy and the business cycle and liquidity in the environment and all of that, but that's really been the case. So actually today, it's quite likely that the collection expense for some of the secured products might actually be even equivalent or maybe even sometimes higher than for the unsecured products. So, I'm not sort of denying the fact that what the point that you point that you made where some of these products or our unsecured products would be in the longer run or over a – from an expected loss point of view would be higher overall cost, credit cost and operating cost put together, but that's certainly not been the experience in the recent few quarters.

M.B. Mahesh - Kotak Securities: Second point is, is it possible for you to – to kind of give some kind of color on what is the kind of income that we are generating on this rural and semi-urban initiative, both either from a NII or a total income line or if it's different at the operating profit level? Is it possible to kind of give a broad color as to what we are seeing that and how do we see this moving in the next probably couple of years or how do we starting seeing this, because there is a lot of investment which the Bank has done on the rural side?

Paresh Sukthankar - Executive Director: I think this is something which I've (may not) sort of put numbers (off the top), because as you rightly said, this is a part of the business which has – where we have made investments in the last, say, two or three or four years. The basic model has been tested in the sense that whenever we've gone to some of these, we have typically done some pilot and then expanded these along the way. So, it's a model which has been tested and then we have scaled it up, but ultimately what you're going to see right now coming through is really on a slow basis to the extent that, either there us deposit growth or asset growth coming from these branches and there are certain cost which have been incurred or which are being incurred on a regular basis from an operating perspective. So today, it's quite likely that on a flow basis, you could have maybe 15% to 20% of our incremental deposits or loans, retail loans coming from these markets, but that maybe still sort of – if not scratching the surface, certainly offers a long way to go in terms of further increasing that proportion over a period of time, while a lot of cost are already baked in there. So all I can say is that as these branches continue to grow, the incremental flows in terms of both deposits and loan origination will keep sort of building up while the major portion of our expense, whether it's people, whether it's the rentals and so on are already baked in there. I think we've probably run out of time. Do we have any questions left or we have hopefully finished?

Operator: Sir, we have two more questions – three more questions.

Paresh Sukthankar - Executive Director: Then I'd, it certainly doesn't add up to six. I guess it's a moving target, but okay, I think we will do a hard stop at 6.30 so if we can – one of questions I can take, maybe even restricted to one question per person, so we can try and squeeze in whatever we can.

Operator: Jyothi Kumar, Spark Capital.

Jyothi Kumar - Spark Capital: If you look at the sublevel demand deposits, they have gone up by close to INR1 trillion on Y-o-Y. One, how do you see the spike in demand deposits, given that you have sizable transactions? Two, more importantly, I do not see any meaning increase in your CAR base even on a Y-o-Y basis. I think you explained part of it earlier.

Paresh Sukthankar - Executive Director: So you are right that our own CAR has increased by only about, say, even adjusted for the base would have been maybe 5% or thereabouts. The increase in CAR at system level also tends to be, I guess, linked at least to two or three things. One, the level of economic activity and therefore the GDP growth actually plays a large role, because when it comes to the liquidity in the system, SMEs holding flows, payments through the entire supply chain, all of this as the growth rates come down and as the liquidity flowing through the system comes down either because of the monetary policy or because of other measures, the growth in CAR does tend to come off. Secondly, at a time when you have higher deposit rates on fixed deposits, both CAR and (SA) does the cannibalization from current phasing to fixed deposit. Thirdly, when we markets – whether it's the primary or the secondary market are going through a lower, again, that tends to impact the transactional flows and therefore whether it's the IPOs, whether it's settlement volume and the stock exchanges, all of those again tend to be lower if the capital market activity is at a lower end. So, all of this certainly do impact the amount of current account growth in the system and for us. To further compound it on a relative to other deposit growth point of view, I can say that when we talk about the growth in the semi-urban and in particular rural areas, while that offers very good growth opportunity for savings account and fixed deposits, the current account opportunities in these markets are negligible. So, again, if you look at in isolation to current account, there is a bit of mismatch.

Jyothi Kumar - Spark Capital: But do you see this as a sign of economy sort of plateauing out or bouncing back?

Paresh Sukthankar - Executive Director: Well, I wouldn't say that the current account piece is really a lead indicator of the economy bouncing back. I think if anything, the current account piece might be hopefully a lagged indicator, when the economy moves up you should see some improvement in current account, but I wouldn't say necessarily the other way around.

Operator: Nilanjan Karfa, Jefferies.

Nilanjan Karfa - Jefferies: Only one question, you mentioned the FX and some 12% of that is a one-off and probably, if I heard it right, it's a banking swap book, is that right?

Paresh Sukthankar - Executive Director: See the thing is, this is FX and derivatives, so it's an interest rate swaps, which came into the money when the rates moved up.

Nilanjan Karfa - Jefferies: You rebooked your swaps or how did it happened essentially, just wanted to get some understanding on that?

Paresh Sukthankar - Executive Director: These were the swaps which were therefore…

Sashi Jagdishan - Head - Finance: These are hedges against some investment books.

Paresh Sukthankar - Executive Director: Because we had these hedges against the investment book, you had the mark-to-market on the portfolio, on the bond portfolio, and you had some of that as a positive on the interest rate swap.

Nilanjan Karfa - Jefferies: But if it's on the investment book, shouldn't it flow through the investment line or…?

Paresh Sukthankar - Executive Director: No, the investment line would have been what has happened to the mark-to-market on the investment itself. The swap, (if it's) a derivative, it would have come through whatever is the derivative line.

Operator: There are no further questions, sir.

Paresh Sukthankar - Executive Director: Thank you, everyone. Sorry, we've taken a little longer than what I thought. But once again, thanks for being patient and hopefully we've been able to answer your queries. Bye.

Operator: Thank you, sir. That does conclude our conference for today. Thank you for participating on Reliance conference. You may all disconnect now.