Transcript of the Conference Call on HDFC Bank's Annual Results for the Financial Year 2008-2009.

Operator:

Thank you for standing by and welcome to the conference call on the Q4 2008-2009 results of HDFC Bank by Mr. Paresh Sukthankar. At this time all participants are in the listen only mode. There will be a brief synopsis of the results followed by a question and answer session at which time if you wish to ask a question please press *1 on your telephone. I would like to hand the conference over to Mr. Paresh Sukthankar, over to you sir.

Mr. Paresh Sukthankar:

Hi, good evening to all of you. This is Paresh Sukthankar here and I have some of my colleagues with me including Sashi Jagdishan. Some of you might have already seen the results and the press release that we have put out, I will just spend a couple of minutes highlighting some of the salient features of the last quarter's results.

The growth in total income; which is total interest earned plus other income has been about 53%. The growth in net revenues which is the net interest income plus other income, has been about 35%. All of this of course is year-on-year i.e. fourth quarter of this year vis-à-vis the fourth quarter of the previous year. I am sure all of you know we are looking at the combined HDFC Bank-Centurion Bank of Punjab for this year versus the standalone HDFC Bank last year, so the numbers are not strictly comparable. As I was mentioning, net revenue growth was about 35%. Net interest income was driven by a 29% growth in average assets and a net interest margin which was roughly stable during the year at 4.2%. Other income, which is the non-funded revenues, were up about 102% to about Rs.1,114 crores. Of this, the major contributor was fees and commissions, which were up 45% to Rs. 714.8 crores. We had fairly strong revenues on FX and derivatives and profits on sale of investments (bond gains) as well. These were about Rs.152 crores and Rs.243 crores respectively. The cost to income ratio did improve because operating expense growth was moderated. For the quarter, the cost to income ratio was about 47% but if you adjust for the fact that we had bond gains in this quarter and you knock those off for the cost to income ratio calculation, then the cost-to-income ratio would have been about somewhere in the low 50s.

The provisions and contingencies for the quarter were up from Rs. 465 crores in March 2008 to Rs. 657 crores this year. Profit before tax was up year-on-year for the quarter by 46% and post tax the net profit growth was about 33.9% up, to Rs.630.9 crores.

With respect to the full year numbers, net revenue growth was about 42%, and net profit growth was about 41.2%, with the net profit for the full year at Rs. 2,244.9 crores.

On the balance sheet parameters, the total balance sheet size was up about 37.6% with the balance sheet size as of March 31, 2009, at Rs. 183,000 crores. Total deposit growth was about 42%, CASA was at about 44%. There has been some recovery in the CASA ratio from where it was in December at around 40%. The gross advances growth was 48%, of that the retail growth was a little faster, hence the proportion of retail in the total loan book has grown and is now around 55%. The Board of Directors have recommended a dividend of 100% that is Rs.10 per share, as against 85% last year. The pay out ratio remains more or less constant at around 22%. On the capital adequacy front, we moved from Basel I to Basel II which has improved the CAR for us by about a little over 50 basis points. We had raised about Rs. 2,875 crores of tier II bonds through the year, this has not just been the last quarter but through various quarters in the year including a few hundred crores in the last quarter of the financial year. The total capital adequacy ratio is therefore 15.7% and tier I capital adequacy is at 10.6%.

A couple of other non-financial parameters - branch network remains at 1,412 (as against 761 in March last year), which is the same as what it was in December. There have been no additions to branches in this quarter although on a year-and-year basis the increase is very stark from about 760 to 1400. Total customers are now at 15 million, total cards (debit and credit) 13 million of which roughly 9 odd million are debit cards and 4 million are credit cards. As far as asset quality is concerned, gross NPAs are at 1.98%. Just to take you back, 1.3% was what the gross NPAs were on a standalone basis for HDFC Bank as of March 2008. On a combined merged balance sheet immediately post merger, the gross NPAs moved up because Centurion had a higher NPA ratio, the gross NPAs had moved from 1.3% (which was standalone) to about 1.7%, that had moved to about 1.91% as of December 2008, and as of March 2009 the gross NPAs are at 1.98%, so there is about a 7 basis points increase in the quarter. We have continued to make strong and conservative provisions, our provisioning has been higher and remains higher than the regulatory requirements. Post those provisions, the net NPA figures have not really changed so much, they remain around 0.63% and the coverage ratio is at around 68%. This is coverage ratio based on specific provisions alone, so this is the proportion of gross NPAs covered by specific provisions only, while the total coverage ratio including both specific and general provisions is a little over 100%.

As far as restructured assets are concerned, we had two categories, restructured assets where the restructuring has already been done and where we have approved but not implemented restructuring. The first category includes loans of about Rs. 120 crores of which about Rs. 69 crores remain classified as NPLs. What you see in the NPLs figure, which I mentioned earlier, includes the above Rs. 69 crores of restructured assets and therefore the restructured standard assets are about Rs. 51 crores. Other than those accounts which have already been restructured, we have another Rs. 305 crores of assets which are under consideration or under process of restructuring and again of those Rs. 305 crores, Rs. 254 crores are already classified as NPLs. So, clearly the larger part of the restructured assets have been classified and remain as NPLs in the books and the standard restructured assets are about Rs. 102 crores, which is about 0.1% of the loan book. Clearly the incremental impact of restructuring as far as the NPL book is concerned, including whatever we have restructured or which are under consideration for restructuring, is not too much.

Those are some of the key highlights and let me now take your questions, I will try and elaborate on some of these issues based on your questions.

Operator

At this time, if you wish to ask a question, please press *1 on your telephone keypads and wait for your name to be announced. If you wish to cancel your request, please press the hash or the pound key.

First in line we have Mahrukh from Nomura.

Ms. Mahrukh:

Hi, Paresh. Thanks for taking this call. I just had a few questions. Working on your restructured loans, ofcourse they are significantly lower than what other banks would likely be showing, as per what Axis Bank has reported, and when you talk to other banks they are more in the range of 2% to 3% assets. So, why are your restructured loans significantly lower than those of the sector? Are we ready to see more NPLs building up in the future or is this just being exaggerated? Also, what are the major sectors where restructuring has happened? Is the number lower as most of your lending in the past has been retail lending where not much restructuring occurs? These were my questions on restructuring. I have other questions as well, but may be we will take them one by one.

Mr. Paresh Sukthankar:

Whatever loan restructuring I have spoken about, you are right, none of that is retail in nature. All the restructured assets would be part of our business banking, emerging corporates, or our corporate banking pieces. Restructured assets are largely wholesale and business banking is a small component of it, which is quasi retail. But there are no restructured assets as far as our auto loans or personal loans or credit cards portfolios are concerned. There are two reasons why the proportion or the total quantum of our restructured assets is not high. One of course is our basic target market and customer base itself. I think, our underwriting standards and the segments that we target have been a lot more on the larger corporate side. These entities, while experiencing stress, have not yet gone to a level where they are approaching default or have defaulted and therefore the number of requests that we have received are lesser to that extent. The other reason, probably the more important part, is that most of our lending is working capital. Typically, the need for restructuring tends to be a little more in the case of term loans, project finance, and infrastructure lending where the lending is long-term and repayments are to be made in the form of installments. In these cases, clearly borrowers in sectors where the level of business and the cash flows have been impacted need to reschedule their repayment schedules. On the working capital side, as long as the required drawing power is available and, the companies have adequate cash flows to service their interest and are therefore maintaining their working capital accounts as regular, the need then for restructuring tends to be a little less. It does not mean that none of these get restructured, you do have some requests for restructuring to convert working capital to maybe working capital term loans and so on, but those are somewhat lesser than perhaps if we were much more of a term-lending bank. I would attribute these two as perhaps the major reasons. I am sure depending on how the economy does over the next couple of quarters, we might get a few more proposals along the way, but this is the snapshot of where we are today in terms of loans already restructured or where the restructuring is under our consideration. Some of these, when I say "under consideration", could be not just with us, but as part of CDR.

Ms. Mahrukh:

Would you be able to give us the fresh slippage during the quarter, Year-on-year the NPLs have grown a lot, but there was no increase quarter-on-quarter. What was the gross slippage, what is the amount of Centurion Bank NPLs that have been upgraded or . . .

Mr. Paresh Sukthankar:

There has been no upgrading of NPLs. Which is exactly why I reiterated the asset classification in respect of the restructured assets. You said that year-on-year there has been a large increase in NPAs. I want to put that in perspective. As I mentioned a little earlier, if you look at the increase in absolute amounts, a major portion of that happened at the beginning of the year as part of the merger. If you look at the gross NPLs at the end of the year for the combined bank, roughly 42% are assets which are from the erstwhile Centurion Bank portfolio, which ofcourse is now part of the combined bank. Those numbers are relevant when we are looking at the total NPLs, since if you were to try and claw back and see where the NPL formations have been, clearly as far as the end NPL figure is concerned, this is not just what we started off with, but what NPLs have formed during the year, net of any recoveries, and writeoffs. In terms of the incremental slippages that we have seen in the last couple of quarters, there were slippages in both retail and wholesale. The retail piece has been seeing slippages for some more time based on the mix of the loan book, but the delta to the gross NPA formation has certainly been a little more on the corporate loans and from the wholesale side.

Ms. Mahrukh:

When do you think the retail NPAs would peak off, since they started a while ago, should they be peaking out anytime soon?

Mr. Paresh Sukthankar:

I do not think there is a concept of peaking off. What we are saying is, in the last few years, across most retail loan portfolios, we had seen some increase in NPLs and a reasonable stability in the delinquency and loss rates for most of the products. The recent increases were the result of a slightly slower denominator growth, and that some of these portfolios were seasoning. Across the range of our retail loan products from car loans to personal loans, two-wheeler loans to credit cards, there is an expected loss which might range from 1 to 4-5% for various unsecured loans and probably more than twice that for cards. These levels have not changed too much for retail loans in the last few quarters, there might have been an odd 0.5% increase somewhere or a 10 basis points reduction somewhere. So, I think for most of the retail loan products, the level of NPLs or the percentage of losses, have been fairly stable. There will be some segments in those products where there has been an increase and there are other segments which have been stable, which is why the overall NPL formation on the retail side has not changed too much.

Ms. Mahrukh:

Right, thanks. In terms of asset growth, was it a conscious decision not to grow loans quarter-on-quarter this quarter, what is the scene like?

Mr. Paresh Sukthankar:

Well, I think it is a mix of two factors. I think there is some deceleration in terms of credit demand. Additionally, we ourselves have typically always paced our growth in the last quarter, with our focus being to catch up on the priority sector lending targets. Non PSL loans are clearly not a priority for us in the last quarter. This is therefore a combination of factors - partly the market demand and partly our own appetite for growth.

Ms. Mahrukh:

What was the yield on loans, in the fourth quarter versus the third quarter ?

Mr. Paresh Sukthankar:

The yields on a quarter sequential basis would be more or less stable may be about 10 - 20 basis points or thereabouts lower as compared to the previous quarter, but not very different.

Ms. Mahrukh:

Okay, thanks Paresh.

Mr. Paresh Sukthankar:

You are welcome.

Operator:

Thank you, Ms. Mahrukh. Next in line, we have Mr. Abhishek Kothari from SPA Securities.

Mr. Abhishek Kothari:

Hello, Sir.

Mr. Paresh Sukthankar:

Hi.

Mr. Abhishek Kothari:

Sir, my question was how come you are recording such a high growth on interest expenses. It grew about 82% for the year, even though you had a CASA of 44%?

Mr. Paresh Sukthankar:

Well, last year's CASA was somewhere in the mid-50s. In the last quarter of 2008 we saw the highest floats that we have probably seen in the history of the bank. This was due to two or three very large IPOs for which we were the refund bankers. We saw double-digit thousands of crores of floats in those quarters. So, it is not as much a sharp increase in this year's interest expense but a rather low interest expense for the corresponding quarter last year. On a sequential basis, there isn't so much of a sharp growth in interest expenses.

Mr. Abhishek Kothari:

What was your cost of funds for the year then?

Mr. Paresh Sukthankar:

The cost of funds on a total basis would be about 5.09%, just over 5%.

Mr. Abhishek Kothari:

And, last year, it was?

Mr. Paresh Sukthankar:

Last year it was about 4.07%.

Mr. Abhishek Kothari:

For your restructured assets, which are under the process, what is the total and the breakup when NPL?

Mr. Paresh Sukthankar:

Rs. 305 crores is the total under consideration right now in process, of which Rs. 254 crores are already classified as NPL.

Mr. Abhishek Kothari:

And standard assets the rest?

Mr. Paresh Sukthankar:

Yes. Just to put it into perspective, at the cost of some repetition, I think there is generally a concern for the system that if a lot of these restructurings do not go through, there are large downsides to the level of NPLs. In our case I can say that if the restructurings go through, there is an upside. If we have already classified the accounts as NPL and if the restructuring goes through and the customers can actually meet the revised restructured repayment schedules, then hopefully, over a period of time, some of these loans might become standard. The incremental downside in terms of all the standard restructured assets becoming NPLs, in our case, will increase the gross NPLs by only 0.1%, which is what I mentioned earlier.

Mr. Abhishek Kothari:

Thank you, that is it from me.

Operator:

Thank you Mr. Abhishek. Next in line, we have Mr. Rakesh Kumar from Karvy Stock Broking.

Mr. Rakesh Kumar:

Good evening sir. Just two-three questions. Could you explain the reason for the sharp rise in your treasury and forex income? If you do not factor such kind of growth, then I think overall performance is not all that great. So, if you can just explain what were the reasons for such a sharp growth in both of these?

Mr. Paresh Sukthankar:

Well, on the bond gains side, there would certainly have been a one-off. At the beginning of the quarter, as the yields came off, we did have an opportunity of booking some gains, and clearly therefore, we got the advantage of bringing a little cash in before the yields went up. As far as the foreign exchange and derivatives business is concerned, there has been a stable growth in these revenue streams. If you look at these on a sequential quarter basis, the foreign exchange revenues have been growing while the derivative revenue has not been a large component, for the last few quarters. In fact, for the last three or four quarters, the derivative component has been a negligible part of the foreign exchange and derivatives revenues. The core exchange revenues have been growing fairly consistently. These are not trading or proprietary but largely customer - driven foreign exchange revenues across both retail and wholesale customers. This is a business which is core to our corporate banking and retail branch banking franchise. These have offset the decline in the derivatives income and ensured that the total growth for that line has done well. The profit on sale investments has a component of one-off because of the bond yields having come off and us having capitalized on that. On a full year basis, there is an element of some lowering of exchange and derivatives income because part of the bond gains were offset by the hedge that we take on the interest rate side for derivatives, but that was not a large component this quarter.

Mr. Rakesh Kumar:

Actually from the first quarter as such, we have not seen any growth in the branches. The number of branches remained the same. So, actually on a quarter-on-quarter basis you have not added any extra branches. You had mentioned that you have around 200 branch licenses. Despite no growth in the branches you are mobilizing quite a lot of CASA deposits. So, could you explain on that part also?

Mr. Paresh Sukthankar:

The branches that you open in a particular quarter, hardly contribute to growth in the same quarter. If you open branches during a quarter, they will be functional for a only a certain number of days in that quarter and will take some time before they build up in terms of their customer base. Therefore, the growth in CASA this quarter, even if we had opened new branches, would not have been a function of these new branches.

If you really look at it, over the last 12 months, between the 400 odd branches that we got from the merger and about 250 branches or thereabouts that we added organically, the total branch network has increased substantially from 760 to 1400. That clearly helps. The other is that in the last quarter, which is the December quarter, we had seen a fair amount of migration of savings accounts deposits to fixed deposits, because the fixed deposit rates were at all time high levels of well over 10%. So, naturally there was a certain amount of shift of savings accounts and perhaps current accounts to fixed deposits. In this quarter, as the deposit rates came down, the incremental migration would have and has moderated, so we have seen some stronger increase in savings accounts. Finally, when you are looking at the 44% ratio, it is also function of the fact that we have moderated the fixed deposit growth because it was almost excessive in the previous quarter. We did see very strong fixed deposit inflows for us in October and December last year, with the flight to quality and all of that. This quarter, our having dropped deposit rates, and the resultant normalization of fixed deposit growth, has caused the CASA ratio to get corrected to that extent.

Mr. Rakesh Kumar:

Could you give me the number for the total provisions that the Bank made for NPAs this quarter?

Mr. Paresh Sukthankar:

The total provisions were Rs. 657 crores of which about Rs. 500 crores are loan loss provisions the balance being are some contingent provisions.

Mr. Rakesh Kumar:

Rs. 500 crores?

Mr. Paresh Sukthankar:

Are for loan losses and . . . sorry, about Rs. 600 crores are for loan losses.

Mr. Rakesh Kumar:

Rs.600 crores?

Mr. Paresh Sukthankar:

Yes, Rs.599 crores, to Rs.600 crores.

Mr. Rakesh Kumar:

Okay. Thanks a lot sir.

Mr. Paresh Sukthankar:

You are welcome.

Operator:

Thank you sir. Next in line, we have Mr. Dipankar Chowdhary from Deutsche Bank.

Mr. Dipankar Chowdhary:

Good evening, Paresh. Just a couple of data points. Firstly, could you give us some idea of the fully written off assets as of 31st March 2009, and what could it have been on 31st March 2008. What I am trying to do is to get an idea of the gross NPLs taking into account fully written off assets, and since you have given a figure for the Centurion Bank NPLs, to facilitate a like-to-like comparison?

Mr. Paresh Sukthankar:

Well. I might not have those figures right now readily with me, but let me give you a quasi way of working that out.

The quarterly annualized specific provisioning charge for loan losses to P&L through the year have been somewhere between 1% to 2.4% of assets.

We have provided for and written off, especially on the retail side, all the NPLs which cross a certain time threshold. On the retail side, we have a write-off policy where depending on whether these are unsecured or secured retail NPLs, we write off most loans after they are roughly 150, 180 or 360 days past due. So, depending on the days-past-due we keep charging them off. Effectively, what you are seeing are the gross NPAs, net of write offs. Whatever write-offs have been done have obviously been charged off through the P&L and that is why the provisioning charge is around 2%.

Most of this of course tends to be retail because the write off on the retail side is purely time-bound while on the corporate side the write offs tend to be more linked to specific customers in terms of where we are on the recovery cycle. If you look at most of the retail loans that we do, the expected losses across different products range from 1% to 5%, the average loss that one would expect in a retail portfolio similar in its composition as ours would therefore be somewhere upwards of around 2 odd percent. So, if our gross NPAs today are around 2% and we really look at a loss of around 2%, the balance would effectively be what we would have written off through the year.

In addition, some portion of the Centurion existing NPLs, that is not those which got formed during the year, but which were NPLs at the time of the merger, were also written off at the beginning of the year or through various points of time through the year.

Mr. Dipankar Chowdhary:

All right. Secondly, could you give us the breakdown of retail assets, the usual housekeeping sir?

Mr. Paresh Sukthankar:

Well, I will give you some of the major components of it. The total retail advances are about Rs. 61,000 crores, of which about Rs. 15,500 crores are auto loans, about Rs. 8,500 crores or so are personal loans, about Rs. 700 crores are loans against securities, about Rs. 1,900 crores are two-wheeler loans, about Rs. 12,700 crores are business banking, commercial vehicles and construction equipment loans are about Rs. 8,000 crores, credit cards is about Rs. 3,900 crores, home loans which include what we have exercised as our option with HDFC limited and taken on our books for priority sector are about Rs. 5,000 crores, and other retail loans are about Rs. 4,000 crores, giving a total of about Rs. 61,000 crores.

Mr. Dipankar Chowdhary:

Ok. Lastly would you still stand by your estimate of 22 to 25% loan growth generally and your taking advantage of occasional opportunities to grow faster in a particular area if there are such opportunities. Would you still stick to that, or do you think the pace has moved downward?

Mr. Paresh Sukthankar:

I would try and answer that in two parts. Do we continue to have the ability to grow at a rate which is somewhere there?

I would like to specifically mention, that we do not have a guidance on a certain loan growth rate, but if you look at our historical growth rates and the fact that we have typically tried to grow at a pace which is slightly faster than that of the system, then do we have the ability to grow at that pace, I believe we do.

Obviously, the actual rate at which we grow will be a also be a function of the pace at which we are comfortable growing and that in a sense means how we see the economy doing, the credit environment unfolding and therefore a lot depends on what we believe the system loan growth will be. If we were to assume or project that the GDP growth is likely to be somewhere between 5% and 6%, and if therefore, the full year loan growth for the banking system is around 15% to 18% or somewhere in that range, then perhaps growing a little faster than that which brings us to around 20% or more than that, seems realistic. If the system grows a little faster than that, I think we would appropriately benchmark ourselves in terms of what rate we would like to grow at. Just given the level of uncertainty in terms of where the system itself is growing and how the economy is unfolding, I would be reluctant to try and plunge into even a range. The fact is that we remain pretty well positioned in both wholesale and retail and we will look to grow in those products and customer segments where the demand is and where we believe asset quality is holding up well.

Mr. Dipankar Chowdhary:

Ok. One last question from me. Do you think 4.2% is too large a margin to hold on to considering that some of the incremental growth can come from relatively lower yielding products with retail falling off sharply in terms of the rates?

Mr. Paresh Sukthankar:

Well, all I can say is, again I do not have a guidance on margin, however historically over the last 16 quarters, we have had net interest margins ranging from somewhere between 3.9% and 4.3%. I think, on average it has been around 4% plus. This has been through cycles of interest rates going up and down and also across some change in the mix of our loans. Your point is well taken that if we see a deceleration in retail loan growth, or if we take on our books, a little more of mortgages to meet PSL or otherwise, and on the other hand corporate loans, especially those to larger corporates to whom one might be comfortable lending to in today's environment increase, there could be slightly lower yields and, therefore, if at all, slightly lower margins. If that is the case, and if the change in yields and margins is driven by the change in asset mix, then that is unlikely to have a P&L impact, because arguably if the borrower is a large corporate or if it is a lower yielding retail asset that would typically mean that the expected loss for that portfolio would also be lower. So, to whatever extent, if at all there is a change in asset mix and if therefore there is a slight difference in the margin, that should hopefully also reflect in a slightly lower credit provisioning charge, whether immediately or with a slight lag, and thus should hopefully be roughly bottom-line neutral.

However having said that, at this point of time, having seen the history of margins remaining in that 3.9% to 4% odd level range, we do not see any trend in the margin going sharply up or down.

Mr. Dipankar Chowdhary:

All right, thanks very much. That is it from me.

Operator:

Thank you sir. Next in line, we have Mr. Prashant Poddar from ICICI Prudential.

Mr. Prashant Poddar:

Good evening, Paresh. Few book keeping questions first of all. What are the retail term deposits as on the year-end?

Mr. Paresh Sukthankar:

Retail term deposits constitute about 69% of the total deposits.

Mr. Prashant Poddar:

Okay. And what was the net interest margin for the full year?

Mr. Paresh Sukthankar:

4.2% for the full year as well.

Mr. Prashant Poddar:

4.2%, and for the quarter also 4.2%?

Mr. Paresh Sukthankar:

That is right.

Mr. Prashant Poddar:

And the breakup of the forex and derivatives revenues into the trading part the revenue through the customer transactions?

Mr. Paresh Sukthankar:

I will not have the exact breakup for the quarter but typically, and this would certainly be probably more reflective of the full year, and not very different for the quarter as well, we tend to have roughly an 80:20 mix between customer revenue and what would be inter-bank.

Mr. Prashant Poddar:

On the operating expenses, staff cost has gone down significantly on a sequential basis, around 15% or so. What is that on account of?

Mr. Paresh Sukthankar:

There has been a moderation in the growth in the staffing cost because we have had some reduction in the staff numbers as far as the sales staff is concerned, this is the contract staff that we have for some of our sales origination. With the increase in our branch network, there is a lot more origination through the branches and to that extent we have not required as much of the variable non-branch sales staff. The other, ofcourse is the fact that in the previous quarter, we had some slight increase in one-off expenses which are not there any more.

Mr. Prashant Poddar:

Next is on growth Paresh. If I just strip off the amount of loans that have gone away from the CBOP book and therefore has contributed to the de-growth through that last three-four quarters, what is the kind of growth that HDFC Bank has seen standalone, is it a de-growth in fact in the last three quarters in absolute numbers.

Mr. Paresh Sukthankar:

I think, if I were to look at the total as of year-end, of the Rs. 100 odd thousand crores of our loan book, the CBOP piece would be somewhere around 10% - 12% or so - about Rs.10,000 crores, which at the beginning of the year, at the time of merger, was about Rs. 16,000 crores. That would have been the reduction as far as the CBOP portfolio is concerned, also in the last couple of months there has been some reduction in borrowing by the oil marketing companies and so on. These were short-term assets. Some of these entities today are a lot more flush with liquidity, and consequently these borrowings have gone down for the system and for us. The core retail growth, however, even net of what has been running off on the CBOP piece, has been pretty strong. This includes about Rs. 4,000 crores that we bought from HDFC Ltd. - mortgages that we have originated, which also qualify for PSL. However, these loans have been originated by us and can therefore be added to the portfolio. The overall growth in retail loans has been actually upwards of 50%, again on an apples and oranges basis – what is, between standalone and merged, not on a comparative basis. Even if you adjust for the Centurion piece, the growth would have been, and this is to some extent an approximation, somewhere in the 20 to 35% range, depending on which line you are looking at.

Mr. Prashant Poddar:

Lastly, on this net interest income which has sort of de-grown in on a sequential basis. Can you throw some light on that?

Mr. Paresh Sukthankar:

On a sequential basis, there is a 10 basis point drop in net interest margin. In the December quarter the margin was about 4.3. That was a bit of a one-off because if you remember in the first half of the last (December) quarter, you saw very high interest rates due to the liquidity crunch. During that time we were liquidity surplus and had been a lender in-call or otherwise. We could thus tap into some tactical opportunities last quarter which obviously did not continue in this quarter with interest rates having come off. So, it has been that, and ofcourse, the fact that we had not stepped up on overall loan growth in this quarter to compensate for the slight drop in margins of about 10 basis points.

Mr. Prashant Poddar:

Lastly, the provision annualized for the quarter was around 2.4%. If I look at the previous year it was 1.7%. What is the indication going forward, what range would it be around?

Mr. Paresh Sukthankar:

I would not make a forward-looking statement in terms of what the range would be. I think it is clear that when we made some one-off gains relating to bonds and so on and given the credit cycle, we used this opportunity to accelerate some of our provisioning, which in any case has been more conservative than the regulatory requirements. Effectively, in this quarter, whatever has been the increase in gross NPLs, we have continued to maintain the coverage ratio of 68%, so there has been very strong provisioning that we have continued. Clearly, going forward, the provisioning would be a function of the incremental NPLs and our desire to maintain generally, a higher, I would not say higher, but certainly a very comfortable level of coverage, which in the last couple of quarters has been in the 60+ range, even on new NPLs. You can imagine, new NPL formations are just substandard NPLs, so if you go by regulatory requirements we need to keep a 10% to 20% coverage for the new NPLs, but we have chosen to be more conservative and to maintain total coverage ratios at well over 60%.

Mr. Prashant Poddar:

What kind of branch licenses are you looking at considering the current scenario?

Mr. Paresh Sukthankar:

Well, we would depending on regulatory approvals, look to add somewhere between 200 and 300 branches, maybe 200-250 is what we would target. Obviously, this would be a function of the licenses being granted.

Mr. Prashant Poddar:

Okay, great. Thank you very much, sir.

Mr. Paresh Sukthankar:

You are welcome.

Operator:

Thank you. Next in line, we have Mr. P.A. Subramaniam from SBI Capital.

Mr. P.A. Subramaniam:

Hello, Sir. My question was on the NII front. Given that your loan book has actually shifted more in favor of retail and that your CASA has improved during the quarter, what would you attribute your fall in net interest income and net interest margin to?

Mr. Paresh Sukthankar:

First of all of course, are you talking about sequential or year-on-year?

Mr. P.A. Subramaniam:

Sequential, sir.

Mr. Paresh Sukthankar:

Okay. On a sequential basis this quarter you would have seen the full impact of the higher cost deposits of the previous quarter. Whatever had been contracted in the last quarter, I mentioned earlier that we did see double-digit fixed deposit rates in the last quarter, those would have come in at various times in the last quarter. Some of the impact in the previous quarter would have been offset by the fact that some of these deposits emanated from accounts that were locked into existing deposit rates and in these cases premature liquidation resulted in a lower interest cost. This quarter would have seen a fuller impact of the new fixed deposit rates.

As far as the shift to retail is concerned, the retail assets have come on the books of the Bank through the quarter led by the reasonably strong growth in some of the retail loan products like auto loans. For these products, the origination costs get charged off to the P&L. For instance if we had booked Rs. X-hundred crores of car loans in the month of March, then the entire origination cost which is paid is charged off to the interest line. So, that also tends to depress the NII a bit.

Mr. P.A. Subramaniam:

Okay, thank you sir.

Mr. Paresh Sukthankar:

You are welcome.

Operator:

Thank you. Next in line, we have Madhuchanda Dey from Kotak Securities.

Ms. Madhuchanda Dey:

Sir, my question pertains to your NPL. Of the gross NPL that you have reported, which are close to Rs. 1,988 crores, which part is unsecured without collateral ?

Mr. Paresh Sukthankar:

I do not have that figure readily available with me, however if I was to look at the retail component of the unsecured book, it would comprise unsecured loans and credit cards. I will just try and give you that figure.

While I am just getting those figures, is there something else, you would like to ask?

Ms. Madhuchanda Dey:

There is a related question. In the last couple of quarters, is there a change in your lending strategy with respect to retail? Are you shying away from unsecured lending? Is there any change within the retail portfolio mix?

Mr. Paresh Sukthankar:

I can say that there is not any single product that we are completely shying away from or which we are exiting. We have not done this in the last few years, even while you have had different players in and out of certain products or certain segments. We have remained a very constant and stable player in most products. However, there are multiple product segments. For example, when you look at unsecured loans, you have personal loans, business loans, and different customer segments within these. Likewise in cards, you might have salaried, self-employed professionals, self-employed businesses, and so on. There could be some segments within some of these products where we have tightened our underwriting standards depending on how the portfolios are performing. Similarly, there may be some locations where we might have seen slightly higher loss experience and there we would have tightened our norms or cut back on some of our origination.

This is an ongoing process, not just in the last couple of quarters. For most of our retail lending, on an ongoing basis, we keep reviewing different products, segments within each product, geographies, sales channels etc. We keep adjusting our credit standards or our origination levels for those segments. Yes, there will be an ongoing change in our strategy or change in focus which reflects our appetite and how various segments of the portfolio are doing.

Ms. Madhuchanda Dey:

The liquid balance sheet growth that we have seen in this quarter, is it in response to some delinquency behavior of any particular product or is it anything else?

Mr. Paresh Sukthankar:

What change are you referring to?

Ms. Madhuchanda Dey:

I am just trying to find out your loan book growth has been steepest in this quarter. You said in your opening remarks that part of it was environment and part of it was your internal decision. When you are referring to the environment, are you referring to any delinquency behavior of your retail product or is it something else?

Mr. Paresh Sukthankar:

I think I should have clarified. What I was referring to was the lower demand from certain segment of borrowers. Like I mentioned on the corporate side, take an example of the oil companies, there are segments of corporate customers who certainly are borrowing less from everyone, including us. I was referring to the environment not so much in terms of the deteriorating credit quality, but more to the demand from segments that we are comfortable with.

Ms. Madhuchanda Dey:

So it is clearly not prompted by any incremental delinquency or any deterioration in bad environment, right?

Mr. Paresh Sukthankar:

No. On an overall basis, the deceleration or the moderation in growth rate, is not driven by any trend in slippages in the bank's asset quality. This is borne out by the numbers as well. As I said, there is some moderation or there is some caution in certain segments or certain products. As you can see, we have grown across almost all individual products within retail, from auto loans to personal loans and credit cards. I am sure in each of those products, there might have been some segment that we have moderated, but this has not affected the overall retail growth much.

Ms. Madhuchanda Dey:

Could you just give me that figure of the unsecured portion in the gross NPL, if you have been able to take it out?

Mr. Paresh Sukthankar:

Of the total NPLs and again this is probably a little more on the retail side, the unsecured piece would be about 30%.

Ms. Madhuchanda Dey:

Okay, thanks a lot. All the best.

Mr. Paresh Sukthankar:

You are welcome.

Operator:

Thank you madam. Next in line, we have Mr. Ashish Sharma from Enam Asset Management.

Mr. Ashish Sharma:

Good evening sir, and congratulations on good set of numbers. First of all, how is the integration going, and how is the performance of the CBOP advance book acquired. Are you looking at running down that book. How is it coming so far, sir?

Mr. Paresh Sukthankar:

In terms of the integration, I think most of what we needed to put in in terms of the integration effort has been done. In terms of the fitment of all the people in the combined team, everybody has their roles and their job descriptions. So all of the personnel integration is in place. As far as systems are concerned, the last leg of the system conversion which was on the retail branch systems, was completed in the last week of January. As we speak, the people, system, and process integration is through. Obviously, what remains, and what is an ongoing process, is actually driving the newly acquired branches to the levels of productivity that we would like to achieve on a combined basis. There is a lower level of productivity, defined as the number of customers acquired per branch or the degree of penetration of existing customers, in the erstwhile Centurion branches as compared to the HDFC Bank branches. We have seen some initial productivity improvements, but it is still early in this journey. I guess over the next six, twelve, to eighteen months, we do hope to continue to see improvements in productivity and therefore deriving the benefits of the merger.

As regards the loan book, there are some components of the loan book which continue to be on a run-off, some that we continue to monitor and others that have been combined with the respective businesses that we have in HDFC Bank. There were two product portfolios on the retail side in particular which were on phase out, from the erstwhile Centurion portfolio. One of those (two-wheelers) has almost fully run off, and will run off completely in the next three to four months. The personal loan portfolio of erstwhile CBOP will continue to run off for the next 18 months or so.

Mr. Ashish Sharma:

So, as of date, what will be the loan book which we have got from CBOP be, sir?

Mr. Paresh Sukthankar:

It would approximately be about Rs. 10,000 odd crores.

Mr. Ashish Sharma:

So, Rs. 5,000 has been . . .

Mr. Paresh Sukthankar:

Has run off, yes either, since they are installment loans, they would just have run off, or in some cases we might have actually exited those relationships.

Mr. Ashish Sharma:

Okay. And sir, did you share the gross slippages increase number for the whole year?

Mr. Paresh Sukthankar:

The gross slippages for the whole year . . . I will be just get it in a minute.

Mr. Ashish Sharma:

Just to get a better idea on your overall advance book, which is majorly dominated by retail and even in that you do not have mortgages. Considering the stress on the system in retail loans is on ex-mortgages how have you been coping up. Also your asset quality has been holding up quite well vis-à-vis other players in the system. Are you following different risk standards or better risk management for your loan growth?

Mr. Paresh Sukthankar:

I think there are several factors which would have contributed to this. This is not very different from what we have been doing for some time. I think we have been a little more conservative in our credit policy. Secondly, we have had a higher share of origination from our internal customers, that is our existing branch customers, rather than from direct sales or from open market acquisition. Depending on the product, almost anywhere between 20% to 50% of the loans or the cards that we source, emanate from our internal branch customers, which results in a better asset quality. The second reason could be the overall level of monitoring and change that we follow. Constant tweaking of our credit policies means that even if we have made some mistakes resulting in some deterioration in some segments of the portfolio, then we very quickly react. We change our policies or we change our origination levels. We have had some regions or some segments for some products which have seen increases in NPAs. But, we tend to react a lot quicker and that helps us contain our NPLs. I think it would be fair to say that as a strategy we have never pushed volumes or market share as an absolute. We try to balance volume growth with appropriate asset quality and margins.

To come back to your earlier question, the increase in gross slippages during this year as against last year was about Rs. 1,000 crores.

Mr. Ashish Sharma:

Thank you sir. You had mentioned that mortgage loans which you sourced from HDFC Ltd. was Rs. 5,000 crores. Was all of this was done in Q4?

Mr. Paresh Sukthankar:

We have taken about Rs. 4,000 crores or so in the quarter from HDFC.
We had some home loans that we had also got as a result of the merger as Centurion also did some home loans. We have added roughly Rs. 4,000 crores as PSL home loans during this quarter.

Mr. Ashish Sharma:

Okay, sir. And one last question, regarding the warrant conversion, what would be the strategy for HDFC if the warrant conversation does not happen. I mean, thanks to market environment, what would be the strategy, do we have any plan B for that, sir?

Mr. Paresh Sukthankar:

Well, to be fair I think that is really a question which should be put to HDFC. All I can say is that, as you are aware, the warrants were issued to enable HDFC to regain the shareholding percentage that they had prior to the merger. It is not that we needed incremental capital. Even today, our capital adequacy on a total basis as well as on a tier I basis is very comfortable. On a tier I basis, it is well over 10% and almost all of it is core equity. From our point of view, I think we remain fairly comfortably capitalized. What HDFC’s call would be in the event that they don’t exercise the warrants, they would have to figure out along the way, but the warrants are valid until December, so there is still some time to go.

Mr. Ashish Sharma:

It would be fair to assume that plan B where HDFC does not exercise warrants, you do not need to raise capital in the next say 12 months, may be in FY-11 second half not immediate.

Mr. Paresh Sukthankar:

I do not have a timeline on capital raising but your assessment is right that merely because the warrants are not exercised we will not fall short of capital.

Mr. Ashish Sharma:

Cool sir, thank you.

Operator:

Thank you. Next in line, we have Mr. Mr. Manish Karwa: from Kotak Securities.

Mr. Manish Karwa:

Hi, Paresh. Most of my questions have been answered. Just wanted one clarification on these HDFC loans that you have bought, would this now be an ongoing thing that you would do for your PSL or would you be looking to get more loans also from HDFC?

Mr. Paresh Sukthankar:

Well, certainly from a PSL perspective, it would be an ongoing thing, given our size and scale. We need to maintain our PSL requirement and cannot afford to lose the opportunity of getting home loans below a certain threshold in terms of ticket size which are a good source of PSL. As far as non-PSL is concerned, whether we would exercise our option and take some of those home loans that we have originated, is something that we will decide from time to time, depending on what our alternative asset opportunities are, what is happening to interest rates and how comfortable we are with the overall asset quality in the system. So, it is not that it is a foregone conclusion that we will exercise our option for the full amount, but certainly as far as PSL goes we would almost certainly exercise that option.

Mr. Manish Karwa:

And lastly, just a little bit on outlook on the retail assets. Now we are seeing some improvements, we hear from various players on the retail side that things in March and April are actually not as bad as they were in the earlier months. Do you also share the same views on the NPL or the delinquency front, and if that is the case is it now a better time to start building up the portfolio a bit more aggressively?

Mr. Paresh Sukthankar:

Well, I can definitely say that both from a slight demand pickup and how incremental slippages or incremental flow rates are doing, the portfolio is growing and holding up quite well in the last couple of months. Whether it is a good time to step on the accelerator or not is something that you can never be sure because we are still not certain whether things have completely bottomed out from an overall economy perspective. Which is why rather than saying that one should push or cut back an entire product, one would have to continue balancing or pushing growth in some segments of products where the portfolio is holding up and where demand is doing fine, and in some other segments which are perceived to be riskier or where delinquencies are slightly higher, one would have to continue to be very cautious. So, yes there is an opportunity for somebody like us who has not been in and out of the market. I think a lot of the market intermediaries realize that unlike some of the foreign or other banks who might have been a little more aggressive and then cut back, we have been there on a stable basis. I think there is a certain amount of loyalty and certain amount of premium that market participants and intermediaries give to a player like us. They would like to partner with us and conduct business with us for this stability. However to ensure that our strategy continues to remain sustainable, we will have to not just push loans because there is an opportunity, but moderate that or balance that with what we are comfortable in terms of asset quality and profitability.

Mr. Manish Karwa:

Right. Thanks a lot, Paresh.

Mr. Paresh Sukthankar:

You are welcome.

Operator:

Thank you sir. Next in line, we have Mr. Mr.Ajitesh Nair: from Edelweiss.

Mr. Ajitesh Nair:

Good evening, sir. Just wanted to get some sense on what are the prime contributors of the fee income, which has been growing very strongly this year?

Mr. Paresh Sukthankar:

Around 75 or a little over 75% of the fees are retail and the balance 25% are wholesale. On the wholesale side the key driver of fees have been cash management, and trade services. On the retail side, the fee income comes from seven or eight products, from distribution of third party products, to retail loans, to credit cards, both on the issuance and from the acquiring side, and to some extent fees and charges that we charge account holders for transactions. There have been some fees which have grown a little faster than others, but we have seen a fairly healthy growth in most of these lines.

Mr. Ajitesh Nair:

Sir, what is the outlook particularly on the retail side of the fee income, what is the sense going into this year?

Mr. Paresh Sukthankar:

There is no significant change in the environment nor have we seen any major change in momentum in the last quarter or two. So, I think we should be able to target to grow fees at a reasonable rate. Again, the rate of growth you see this year looks obviously high because it is a comparison between apples and oranges. If you normalize that for the merger, we have not seen any major quarterly movements. There can be some odd one-offs in an odd product in an odd quarter but not something which can change the overall growth dynamics.

Mr. Ajitesh Nair:

Okay. Sir, on the investment side could you please share what would be the broad details - SLR, non-SLR, and HTM, AFS the duration of those?

Mr. Paresh Sukthankar:

Of the total investments, first of all, about 90% are government securities. The balance, as we do not have material equity portfolio, are CDs, liquid mutual funds, etc. Also included are investments for priority sector lending requirements. As far as the duration is concerned on overall on the HTM we would be somewhere between 3 and 4 years, while in the AFS it would be somewhere in the 1 to 1.5 year range.

Mr. Ajitesh Nair:

Sir HTM would be how much investment?

Mr. Paresh Sukthankar:

Would be a little over 75% of the total government securities.

Mr. Ajitesh Nayar:

Okay. Sir of this, the entire Rs. 243 crores, will be I presume, primarily from the GSEC side or would it also be from the HTM side?

Mr. Paresh Sukthankar:

No, I think there may be some amount, but it is essentially from government securities but some portion of it would be AFS.

Mr. Ajitesh Nair:

Okay sir, finally, about the Rs. 100 crores of standard assets that have been restructured or will get restructured possibly, what will be the broad sectoral composition of this?

Mr. Paresh Sukthankar:

I think there isn't too much of sectoral concentration as such.

Mr. Ajitesh Nair:

Any bulky account in this?

Mr. Paresh Sukthankar:

There may be an account of two which we have already classified as NPL, I would not be in a position to give customer specific or account specific information. As I mentioned, most of the increase in incremental NPLs is wholesale assets - some of it would be mid-sized and some of it could be slightly larger corporates.

Mr. Ajitesh Nair:

Sure.

Mr. Paresh Sukthankar:

In the incremental NPL formation including some which are NPL but for which restructuring proposals have been put up there will be some corporate NPLs and some of these would probably be CDR sort of names.

Mr. Ajitesh Nair:

Okay. Sir, just clarification on the Rs. 1,000 crores, this is the net slippage, right, or this is the gross slippage?

Mr. Paresh Sukthankar:

This is the increase in gross NPAs including the merger impact, net of write-offs and recoveries and this has increased from I think around Rs.900 crores last year.

Mr. Ajitesh Nair:

Rs. 907 crores yeah.

Mr. Paresh Sukthankar:

Yes.

Mr. Ajitesh Nair:

Right sir, thank you so much.

Mr. Paresh Sukthankar:

You are welcome.

Operator:

Thank you sir. Next in line we have Mr. Amit Premchandani from UTI Mutual Fund.

Mr. Amit Premchandani:

Sir just one question about your exposure to certain sectors like gems and jewellery and real estate, the funded exposure?

Mr. Paresh Sukthankar:

The real estate developers as an industry are about 1% of the loan book and gems and jewellery is also about 1% of the loan book.

Mr. Amit Premchandani:

The amount of written off assets in this quarter?

Mr. Paresh Sukthankar:

We have in this quarter, as mentioned in the press release as well, accelerated the provisioning and the write offs for certain retail asset categories given the that the environment has been tough. The total write offs during the quarter would be Rs. 600 – Rs. 700 crores.

Mr. Amit Premchandani:

Sir, in the NPL provisions, what would be the general NPL provision and specific NPL provision?

Mr. Paresh Sukthankar:

There would not be any general provisions because the total level of general provision that we are maintaining right now is far in excess of the requirements after the RBI had reduced the general provisioning percentages in the last quarter. So while none of those have been written back, we continue to maintain our general provisions at that level which is higher than what is prescribed.

Mr. Amit Premchandani:

That's it from my side. Thank you.

Operator:

Thank you sir. Next in line we have Mr. Dhawale from Motilal Oswal.

Mr. Dhawale:

Hi Paresh, most of the questions have been answered, just want to clarify the gross slippage number of Rs. 1000 crores which you said, is that Rs. 1000 crores more than slippages you added last year?

Mr. Paresh Sukthankar:

Yes.

Mr. Dhawale:

Okay, just if you have number on the total addition to that Rs. 900 crores then the reductions and the closing balance, the kind of reconciliation.

Mr. Paresh Sukthankar:

Some of this is on account of the amalgamation and some of these are additions during the year. So if I was to look at the movement of gross NPAs we added on a net basis Rs. 1,980 crores.

Mr. Dhawale:

And third question, is 90% of the investment book into G-Secs, are we are significantly over the mandated SLR requirements ?

Mr. Paresh Sukthankar:

We would be at about couple of percent more.

Mr. Dhawale:

Couple of percent more?

Mr. Paresh Sukthankar:

Yes about 3-3.5%.

Mr. Dhawale:

About 3-3.5% more? Okay thanks, that's it from my side.

Operator:

Thank you. Next in line, we have Mr. Kashyap Zhaveri from Emkay Global Financial.

Mr. Kashyap Zhaveri:

Yeah hi Paresh, good evening. Just wanted to know if you could give guidelines on provision, would the general provisioning be treated as net of gross NPAs only?

Mr. Paresh Sukthankar:

The net NPAs are only net of specific provisions.

Mr. Kashyap Zhaveri:

So these general provisions now can be used only for tier 2 capital?

Mr. Paresh Sukthankar:

Yes, that has always been the case.

Mr. Kashyap Zhaveri:

Okay. It is only for floating provision?

Mr. Paresh Sukthankar:

Yes only floating provisions can be netted off or treated as tier 2, which in any case is not a large component.

Mr. Kashyap Zhaveri:

Sure, secondly in terms our cost to asset ratio after seven odd quarters we are seeing some decline happening from 3.3% in the preceding quarter to about 3% now, what could the trend be, would we reach back to earlier 2.5% to 2.6% level and if that is going to happen then how much time would that take?

Mr. Paresh Sukthankar:

One, we manage more on a cost to income basis than cost to asset basis because a lot of our businesses which obviously generate expenses are businesses which generate floats or fees and not necessarily assets. We are looking to improve the cost to income ratio by a percentage point every year over the next year to two. That is a target, not a guidance. It is something that we would like to attempt and are working towards. When I earlier spoke about looking to increase productivity on the significant increase in the branches, what we are saying is that there is a certain cost which is already baked in, whether in terms of infrastructure, in terms of people and so on and if we can leverage that distribution and that infrastructure to increase our revenue streams, then there will be some improvement in the cost to income ratio.

Mr. Kashyap Zhaveri:

And here we are referring more towards CBOP branches?

Mr. Paresh Sukthankar:

Partly as these would also include branches that we have added organically in the last year or so.

Mr. Kashyap Zhaveri:

Okay.In terms of CBOP branches have they started doing the third party products like we have for HDFC Standard Life?

Mr. Paresh Sukthankar:

We have started rolling those out in the last couple of months.

Mr. Kashyap Zhaveri:

So that would also probably helped us in ramping up fee incomes, I have just done some calculation adding back CBOP's fee revenues for the preceding quarters to HDFC Bank's preceding quarter fee income, and on an YoY basis more or less for the first three quarters we were doing probably single digit or no growth and this quarter I can see about 24% growth happening over there, would it be because of those branches being utilized for third party products and other products?

Mr. Paresh Sukthankar:

Well, certainly there would be some of those branches kicking with in some fee income. But equally, if you look back at the CBOP fee base, the fact is that when CBOP stopped originating two wheeler loans and personal loans back in October / November 2007, a large component of their fee generation dried up. So the base itself for CBOP fees were that much lower by the last quarter. so there is a base correction as well as incremental fee generation which is happening from the new branches.

Mr. Kashyap Zhaveri:

Right, and lastly just for the sake of book keeping, in the same quarter last year, which is Q4 FY-08, what was the margins?

Mr. Paresh Sukthankar:

They were very high, during last quarter of last year they were some 4.5 or something like that, because a lot of huge floats relating to the IPOs were there in the last quarter of 2008.

Mr. Kashyap Zhaveri:

Right. Okay. Yeah, that's it from my side.

Operator:

Thank you sir.

Mr. Paresh Sukthankar:

I would just like to make one point, I think we would probably have another five minutes or so, we will be taking the last couple of questions I think.

Operator:

Okay. Alright sir. Next in line we have Mr. Aashish Agarwal from CLSA.

Mr. Aashish Agarwal:

Hi Paresh, just a couple of small questions. If I were to look at the current accounts, would you have a number on an average may be a monthly or a daily average, what would be the growth for the full year be?

Mr. Paresh Sukthankar:

For this year?

Mr. Aashish Agarwal:

Yeah for a full fiscal 2009.

Mr. Paresh Sukthankar:

Actually, we have seen almost a flat current account position for the year, because the transactional floats from IPOs, the stock exchanges and other capital market related activities went down and were partially offset by or were compensated by the core retail current account growth, which happened through current account acquisition through the year. So the CASA deposit growth has essentially been almost entirely from savings accounts. I see current accounts possibly bouncing back as the level of economic activity goes up, in particular the capital market activity.

Mr. Aashish Agrawal:

Sure, typically in the fourth quarter you tend to run down some of your advances book assigning it and then taking it back may be at the end of first quarter. I believe you have not done it this year.

Mr. Paresh Sukthankar:

Well, you are right, we have not needed to do so much of it. Usually, as we have seen in the last few years, the first three quarters of the financial year witness strong asset growth which we moderate in the last quarter. This year, there had already been a moderation in the loan book (due to a tactical move on the Bank's part allowing some asset to run off or not putting on too many assets) by the end of the third quarter. As a result of this we did not need to further reduce assets in the fourth quarter.

Mr. Aashish Agrawal:

Sure, it is more your strategy rather than lack of demand for something like this in the current environment?

Mr. Paresh Sukthankar:

Yeah. There is no lack of demand of other banks wanting to get loan assets from us, but we had in any case already moderated down to the level that we are comfortable, we were just willing to maintain asset levels rather than needing to further de-grow the loan book.

Mr. Aashish Agarwal:

Sure, and just one small thing, just to clarify, you mentioned the employee expenses are down only because of some employees going away, there is no other reason in the sense of a pay cut or reductions on the fixed side site ?

Mr. Paresh Sukthankar:

There haven't been any pay cuts nor is there any such move intended.

Mr. Aashish Agarwal:

Would the average bonus be same as what it was for the last year?

Mr. Paresh Sukthankar:

I have no comments on how much bonuses we might or might not give, but I think one has to look at what the world is going through to figure out what is realistic.

Mr. Aashish Agarwal:

Thanks sir.

Operator:

Thank you. Do you want me to take up one more question sir?

Mr. Paresh Sukthankar:

Okay one last question.

Operator:

I will do that. Ms. Jyoti from Systemic Shares.

Ms. Jyoti:

Yeah, just one last question. If we look at the system credit rowth in Q4 it was somewhere close to 17-18% level, which was quite low that we have seen in earlier year, so was it because there was a lack of investment demand from the corporate sector or are banks refraining from lending, what is your take on that?

Mr. Paresh Sukthankar:

I think it is a mix, there is a lower demand which is probably driven by a slowdown or cut in terms of new investment or capex-led borrowing that companies are doing. The other part is that there has been some deceleration in terms of short-term borrowings by some of the companies. This is one side - in terms of some moderation in demand from either specific segments or in terms of certain types of lending. It is also probably true that banks have been or are a little more cautious in lending to certain sectors or certain customer segments and therefore even though there may be stronger demand in some segments, if those are perceived to be higher risk, then banks will be a little more cautious. Therefore I think, some part of the slowing credit growth is market driven and some part of it is the caution on the part of banks showing up, depending on what sort of appetite various banks have.

Ms. Jyoti:

Okay, do you see the credit growth to be at lower numbers?

Mr. Paresh Sukthankar:

Well, at this point of time it is anybody guess, but…

Ms. Jyoti:

I just wanted to understand that if it is lower demand for the credit will it affect the advances yields of the bank?

Mr. Paresh Sukthankar:

I think, we have seen drop in loan yields in the last few weeks and certainly in the last couple of months because obviously you have significant amount of liquidity flushing around. You have at least on certain days Rs.100,000 crores going into reverse repo, so there is a fair amount of liquidity and therefore I think the interest borrowing rates for prime corporates, or for those borrowers where banks are very comfortable from a credit risk point of view, have come down and may come down even further. On an overall basis, average loan yields will come down probably in line with what is happening to deposit costs, which are also coming off.

Ms. Jyoti:

Thanks a lot.

Operator:

Thank you Ms. Jyoti. Mr. Paresh any final remarks from your side?

Mr. Paresh Sukthankar:

I think we have probably covered a broad range of questions and I just hope all of you have found this useful. Once again thank you to all of you for having been on this call.

Operator:

That does conclude our conference for today. Thank you for participating. You may all disconnect now.