Transcript

Conference Call of Jammu & Kashmir Bank

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Presentation Session

Moderator: Good evening ladies and gentlemen. I'm Jayanth, moderator for this conference. Welcome to the conference call of Jammu & Kashmir Bank. We have with us who will discuss the financial results for the quarter ended September 30th 2008.

At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Dr. .

Haseeb A Drabu: Hi, good evening everybody. I hope that you have received or will receive the earnings update this September 30th 2008; we have announced the results this morning. I will take you through the updates, the performance highlights briefly and then I will be happy to take any questions that you may have. As you have seen the results, we have gone through a fairly difficult quarter quite well I thought if you look at four or five critical parameters that the net interest margins have improved in this quarter to 3.4 on an annualized basis, up from 2.9 in the corresponding period last year. This is also the first quarter where we are actually seeing deposit growth higher than advances growth. Deposits have grown at about 20% and advances at about 18%. At the same time we have improved the credit deposit ratio from about 66% to 68%. Our yield in advances has improved to 11.22% compared to 10.38%. Our net interest income has shown very good rate of growth, it has gone to 34% QOQ. Our operating profits are up 25% and net profits are up at 8%. The other important highlight of this quarter has been that inspite of what's been happening in the markets, our liability management has been very good. Last quarter if you recollect there was a decline in cost of deposits and this quarter we see pretty much a flat cost of deposit; it has gone up marginally from 6.14% to 6.30% about 16 basis points hike. So we have absorbed pretty much the increase in the deposit rates largely by an improvement in CASA which has gone up from 35% to 39% corresponding period. So all told the key financial ratios are looking much better than what they were a year ago. The only thing that explains the low net profit growth is aggressive provisioning plus some loss on account of trading incomes and we have seen that our non-interest income has not kept pace and that is largely also because of some loss of business opportunity in the two months that J&K went through trouble in July and August, so some routine non-interest incomes like draft payments, insurance and all that has come down which we hope to make up in the coming quarters. But the broad philosophy of the numbers this time around has been worked out in relation to the overall economic environment and the emerging environment that the bank sees and we expect the uncertainty to continue for another two or three quarters, so we have made substantial provisions even on tax compared to what we had done last quarter from 38 crores to about 48 crores of tax provisioning and we always intend to do much of tax provisioning through force. We are hoping that, that will not happen now and we also expect that most of the provisioning is not related to stressed assets; it is not that we expect some NPAs to emerge or some stress in the assets; it is largely related to the investment side where we see some mark-to-market losses either in equities or in the bond portfolio. We do hope that…we see it more as a cushion which will sail us through Q3, Q4 uncertainties. We have also added about 5 odd crores on unidentified bad debts this time which was not there last time, so broadly we have gone for higher provisioning levels compared to last year which explains the disjuncture between net profit and operating profits. As I said we have done about 5 crores of provisioning for unidentified bad debts. We have increased our provision for standard assets. We have done about 12 crores for depreciation on investments and 48 crores of provision for tax which actually results in an overall provisioning of about 72 crores compared to 42 crores in Q2 last year accounting for about 70% growth in provisioning. So that broadly is the story, but I would really emphasize the fact that despite a very adverse environment both in terms of the sector that we are in plus the location that we are in which is J&K, we have two months of turmoil in the state, our net interest income shows excellent buoyancy of about 34% and the other issue which most banks are concerned about cost of deposits, we have maintained them at substantially lower levels. So this is the broad story on results and I will be happy to take questions now.

Question and Answer Session

Moderator: Thank you sir. Participants please press * and 1you're your questions

First question comes from Mr. Altesh Mehta from Motilal Oswald.

Altesh Mehta: Good afternoon sir, congratulations for a very good set of numbers sir. Sir, a few questions from my side regarding the share of J&K Bank deposits and advances and the overall deposits and advances. Second thing is slippages in the first half, actual gross slippages, what would be the share of well deposits in the total deposit and the AFS duration.

Haseeb A Drabu: Okay, I will take this one by one. While our share of advances in J&K has gone upto almost to about 50% and the share of deposits is about 62%. Our CASA as I told you has increased so correspondingly the bulk deposits have dropped which has grown up from 35% by about 10%, which underlies the whole issue of the tax stagnancy in CASA deposits and consequent improvement in the margins…

Altesh Mehta: But sir if you can throw some light regarding the absolute numbers of the same?

Haseeb A Drabu: Absolute numbers I will give you in a minute what the numbers are looking like in terms of bulk deposits? As regards the NPA levels…the gross NPA has come down from about 487 crores to 476 crores so there is a net, net recovery of about 10 crores which we have seen this quarter and gross NPA correspondingly is down from 2.7 to 2.3 and net NPA is also down to 0.96. So…

Altesh Mehta: Sir, if you can throw some light regarding the gross slippages during the first half of the year?

Haseeb A Drabu: We didn't see much slippages as I said on a net basis we have recovered more than we had, had slippage, but we would talk about 18 to 20 crores of slippage and about 32 crores of recovery. So the numbers are very small and these really are translated to the environment that we are seeing here, but these are specific where it is more to the business rather than to environment that there will be a slippage. If I take it what you really are saying is that, are there any slippages because of the environment we are facing.

Essentially there are two things, one is the large part of the portfolio which is 50% is protected from the environment which we are facing which is J&K, because frankly J&K while we had different issues there, this quarter, we are not having the same kind of issue that we find in the rest of the country. So 50% of our portfolio is… Second is when you look at the issue like this, it is related to what part of my portfolio is built up over the last two to three years. Even there I think we are being very conservative and not more than 25%, 30% of my portfolio is built up in the last two, three years. So to that extent the incidence of that asset bubble and the pricing of these assets, has affected us much less. Thereby we do not expect slippages of the kind that this environment would generate. So, I would tend to think that our NPAs would show or have for the last three quarters shown inclining trends not just in relative terms but even in absolute terms. So we are past the stage where we did book some NPAs, large ones which I had constantly kept saying that I will take it into my books in the first couple of years and we have done that so that pin up is over and we are now seeing a reduction. I think gross recoveries are much higher than our net slippages.

Altesh Mehta: And sir, AFS duration?

Haseeb A Drabu: In terms of the AFS – the numbers which I can…about as on September 30th '08 will be about 79 and the percentage of AFS is about 20% and very marginal is held for trading, so it is 80:20 now.

Altesh Mehta: Yeah. So what would be the duration on the AFS portfolio? I guess you have more on the…

Haseeb A Drabu: We look at short-term only and we are no looking basically at about 12 months to…

Altesh Mehta: Okay and sir can you throw some light, regarding the strategy going forward whether we will be continuing with the same strategy that is increasing our exposure in the J&K space regarding the loans or…?

Haseeb A Drabu: You see, broadly our strategy now is our loan growth we will calibrate it at the level that we are today at which is 80%:20%, we are not getting into … that is number one. Within that the geographical split between J&K and the rest of India, we have reached the desired levels. If you recollect 3 years ago I said 50% is what we are looking at, we will basically maintain around 50%, 55% is what we will do. Going forward for the next one year I think there is going to be stability in this ratio now. We are consolidating J&K, we have got our gains from there and the rates are much higher in J&K as compared to other things. So currently we will maintain this ratio for the next six months between now and let us say March 31st then we will have a look at what the environment is looking like in the rest of the country and then proceed forward. The other reason also is that ticket size in J&K is much smaller so the risk of getting into an impairment also is much lower when compared to the rest of the country. So I would still be kind of continuing with this strategy for the next 6 to 8 months. Also that we are now of the view that given the extreme uncertainty in the overall…not just India, but globally also we had burnt our capital from 13.5% to 12.5%, capital adequacy is 12.5% now, we would for the next six months reserve capital, which essentially means that we grow as a company. As you can see now this quarter the deposit growth is higher than advances growth. So this is why we want to maintain a kind of liquid position because I think the biggest danger to the sector today is that in the current environment, a liquidity problem could escalate into a solvent's issue, so we don't want to go into that either.

Altesh Mehta: Okay and sir what would be the outlook on the margin sir?

Haseeb A Drabu: Margins we will maintain about 3.4, 3.5. This would be largely whatever reprising has been done which would kind of compensate for the increase in the deposit rate. Though I do see that deposit rates we have lost three four quarters, we have weathered it very well, in Q3 I do see some pressure on cost of deposit. As regards the numbers, 62% of my deposits I told you has come from J&K and the total is about 17,600 crores.

Altesh Mehta: 17,600 crores would be what?

Haseeb A Drabu: Deposit out of J&K straight.

Altesh Mehta: Okay and sir what would be the bulk deposit? I just wanted a figure on that.

Haseeb A Drabu: The bulk deposit figure I don't have it ready, but I can have it sent to you, as in bulk deposits across the country right?

Altesh Mehta: Yes, across the country because I guess you classify anything above the card rate as a bulk deposit right?

Haseeb A Drabu: Yes, that I will give you and in terms of advances our number is about 10,200 crores out into J&K which is 48% and 50 is the number we are looking at. Out of the profit, 76% of my profits come out of J&K.

Altesh Mehta: And sir, what is the PLR increase we did in the last quarter? I guess it was around 125 bis?

Haseeb A Drabu: Yes it was 125 bis.

Altesh Mehta: And what is the current year PLR?

Haseeb A Drabu: 14.5.

Altesh Mehta: Okay sir, thanks a lot.

Moderator: Our next question comes from Mr. Ashwini Agarwal of Demeter Advisors.

Ashwini Agarwal: Hi Mr. Drabu this is Ashwini here. Quick questions just to follow up on the conservation of capital comment that you made, going ahead two things, number one, the announcement today that foreign investor limit in insurance will be raised to 49%; how does that change your plans in terms of conserving resources to invest in Metlife and second, you had a capital raising plan which obviously has been put on hold, but by when do you think you can run on the little bit of oxygen that you have?

Haseeb A Drabu: The capital raising plan, I would not even make a guess, because we are doing it at about 800 and today we are at 400! So we are looking at doing it at about 700 odd but we will re-visit the issue sometime in February. For the moment it is in the cold store. Surely, the announcement that insurance will now be 49% gives us a lot of advantage over others because we have a joint venture with Metlife. We own 25% of it and we have said that we will go to 26% to classify the joint the venture otherwise some mark-to-market investment for us. So we do hope that will keep investing in this business; we have so far invested about 220 crores in this business and there are some capital calls which will be required to be made and we will do that.

Ashwini Agarwal: But can your current balance sheet sort of support that with the profits that are coming through in normal course?

Haseeb A Drabu: The whole idea of doing capital raising was to finance the Metlife plus some other plans that we had in terms of looking at opportunities of inorganic growth and we will have to be…we can't fund it for very long, but at least for a year, year and a half we should be able to manage.

Ashwini Agarwal: The available for sale, there is this number in your press release of 29 crores at the end of last quarter in investment in shares. Now does that include the Metlife?

Haseeb A Drabu: No.

Ashwini Agarwal: This is just pure equity portfolio?

Haseeb A Drabu: That's right. It comes there largely because of a quirk in the definitions. Anything below 26 is seen as an investment and not as a joint venture which is why we have to declare it. We have already got the Board permission, Reserve Bank of India permission, as well as our Board and also Metlife that we are increasing our stake from 25% to 26% in which case it is a joint venture in which case the entire amount invested on Metlife will not come as an investment at all, it will be a subsidy in joint venture. That's how it is.

Ashwini Agarwal: I suppose the equity portfolio however small it is at this point in time would require a further provisioning in this quarter.

Haseeb A Drabu: I would doubt it. I do not know what's going to happen now, but the portfolio itself is very small, it is only about 48 crores so we have done a lot of provisioning this quarter itself on it so I would be surprised to see further…on it, because we have provided at levels of about 9,000, 10,000 so not much to provide for now.

Ashwini Agarwal: Okay, I will come back with further questions as we go along.

Haseeb A Drabu: Our next question comes from Mr. Lalitav Srivatsav of Techno Shares.

Lalitav Srivatsav: This is Lalitav Srivatsav here; I have three questions for you. First of all if you can give some idea on the new deposit that you are raising, the bulk deposits that you are raising what would be the rate of that firstly? Secondly, right now you have seen that even though the yield on advances has gone up, the cost of deposits has not moved up significantly on that front. So what would be the outlook for that for coming quarters or say for FY10? Thirdly sir, I want to have an outlook for the whole banking system as well as for J&K Bank individually as to what is your take on the slow down in demand scenario so what would be the credit outlook for the longer term, for the next one, two years may be?

Haseeb A Drabu: To be honest, I don't see a slow down in terms of credit growth. If the system is still growing at about 30% then hardly one can speak of a slow down. The problems that the policy makers are facing is that inspite of everything that they have done, the credit growth has not slowed down at all. We are still looking at some of the top Banks making 33%, 34% and that is putting pressure on liquidity as well as other things so it is also a fact that other sources of financing has dried up therefore bank financing is going to get into sole issue of dilemma of higher growth even at current levels of demand because other sources have dried up. When have you seen the last IPO coming in? So those kinds of things are there. I would frankly look at a kind of 20% to 25% growth over FY10. I think because the squeeze will come in now. The sooner it comes the better it is, otherwise one will get into all kinds of micro economic complications the way things are moving; which is why I think the critical play in banking segment today is not asset growth or liability management which brings us to this question that you are raising is how are we…at what rate are we contracting bulk deposits. As a matter of principle we are using bulk deposits only as a liquidity management measures rather than financial items. So the whole focus has been on retail deposits, which are paying up now. As you can see as I have mentioned a couple of times that CASA has gone up substantially in this quarter and it has constantly been on the rise. We have a seasonality to CASA and we touched about 40% last year by the year end giving like for like we should hit about 45% of CASA in the course of this year. So that should be a huge leap for us and that underlies the whole question of how we have maintained our cost of deposits (not sure) yield has increased. Going forward, there is no denying the fact that in Q3 there will be pressure on deposits, cost of deposits for us as well as banking segment as a whole. I would expect for the bank that we will move from about 6.3% to about 7%, which is about 40, 50 basis point high. But we also feel that the way we have reprised our assets and the way the cost to income ratio is coming down substantially, we should be able to maintain our bottom line to the extent that we can control asset pricing and as CASA improves we will absorb the shock on cost of deposits and I would believe, that our margins, net asset margins will remain in the region of 3.4, 3.5 that we have achieved this quarter. So we don't see great pressure coming for us on the cost. We have recalibrated our advances and as I have pointed out right in the beginning that one of the important features of this is that I think first time in 10 quarters or 9 quarters that our advances growth is lower than our deposits growth which I think is a desirable thing for the moment the way the (not sure) is shaping up. We have contracted bulk deposits at around 11, 11.30, 11.50, 11.60 on an average basis, so incrementally our cost of deposit would be somewhere around the range of about perhaps 9.75, 10 incremental. Average is about 6.3, 6.4.

Lalitav Srivatsav: Right sir thank you.

Moderator: I request the participants to press * and 1 for your questions.

Our next question comes from Mr. Mahesh of Edelweiss.

Mahesh: Good afternoon sir. Sir there is one question on the credit front. Despite the system going at a fairly strong pace your advances growth has been fairly well below industry average, what is the reason for it? Secondly, is there anything of concern within J&K because of which you would like to slow down credit growth given the kind of environment that you have witnessed in the past?

Haseeb A Drabu: One reason is that we have deliberately kept the credit growth slow. The second issue is we started the strategy about 3 years back that we will focus more and more on J&K. 3 years back or 3-1/2 years back our total exposure in J&K was about 20% of our total lending. Now we have taken it from 20% to almost 50% in the last 3 years. These are small ticket lendings and we have shed or the repayments have come on bulk lendings, large ticket lendings 200, 300 crores. So in some ways the net credit growth looks slowed down. But it is really a matter of how we have organized from large ticket to smaller and more well priced loans. To build that kind of a book takes time so it is in that context that you have to see this "underperformance" compared to industry average, which has really been the core of our entire strategy and its real performance that you don't normally tend to see this kind of improvement in interest margins, or increase of 35% net interest incomes as we have seen. But this is largely because we have focused on smaller ticket lendings and that has been at the expense of showing high growth. So it is not really a constraint or a problem or a part of a deliberate strategy which I think will also stand us in good stead because as I pointed out that the old impairment of assets will depend on how much you have added in the last two to three years when the asset price bubble really worked its way into the interest system.

In terms of concerns in J&K frankly no, and I think this quarter proves that despite having lost two months, July and August our net interest incomes have done very well, advances growth is exactly what we thought it should be 20% may be 200 basis points less than that, but broadly in line. There has been no slippage because of that. Yes, we have suffered on non-interest income which is like routine incomes, money on drafts and so on and so forth or perhaps there has been some loss on insurance which will make up in the course of the next two quarters. So if anything the fact that what it proves to you is that even as there is some visible televised trouble in J&K, the economy does function in a certain manner and last two months were really critical because there was a strong economic component to the whole thing; because factories were shut, and traders didn't open shops, it was not like a military situation, everything worked, yet there was trouble. So I think that concern should now be truly thrown off because our performance last decade or so if I can say has at best been shown that it is invariant to the kind of stable society trouble that you tend to see in J&K. So there is an underlying economic system that works and works pretty well. The biggest threat of course was of impairment which as I said has not happened and going forward also we do not see any impairment happening in the Q3, Q4 coming out of J&K. It is possible that some impairment might happen in the rest of the country as and when I do not know…we had consortium lendings in many places, but environmental led impairment in J&K is not there, so that should not be a cause for concern.

Mahesh: Sir how much would the J&K economy be dependent on exports because of which you will probably see some kind of slow down?

Haseeb A Drabu: All told I looked at this number…if you look at the export to GDP ratio, we are somewhere between 7% to 10%. But then in exports you don't count tourism. So if you were to add tourism also, but that may see a slow down, now that we are not into the season first of all till well into June next year or May, but even then, taking a long-term view on it we add another 6% to it so best to best 15% is India performance related kind of impact on the economy. So otherwise exports are only about 7% to 10%.

Mahesh: Okay. Secondly, you send you are lending in consortium. Are they any kind of infrastructure related projects, because we have seen a few banks disclosing NPAs on this front, being a part of the consortium?

Haseeb A Drabu: No, we are into some elements of hydro, we have a couple of hydro projects which one has been just commissioned now, which is a large project for us, which has 300, 400 crores from us which is Baglihar.

Mahesh: Is it operational?

Haseeb A Drabu: Yeah it is operational. It started about two months back. As of yesterday, the second unit is also launched, 150 megawatts so that is in the clear. We have a couple of the same type of hydro power projects in other parts of the country and those are looking alright.

We have not taken long exposures for the threat of facing asset-liability mismatches and which are causing problems. So we are not into infra structure financing. Though we also have done take out financing arrangements whereby we don't take an exposure for more than six years, we then do a TO financing out of it and then register from our books.

Mahesh: Okay. What will be the composition of real estate today?

Haseeb A Drabu: We are doing about 12% of our total book and within that 12%, almost the commercial realization will be about 20% to 22% rest will be residential and housing and so on and so forth.

Mahesh: Okay and you did not give the number on the bulk deposits?

Haseeb A Drabu: I said I don't have it readily available, but I will get back to you.

Mahesh: Okay thank you sir.

Moderator: Our next question comes from Mr. Clyton Fernandez of Anand Rathi.

Clyton Fernandez: Good afternoon sir, I have a follow up question to the lending business, your loan book. I just wanted to know what are the segments which are driving that growth which you are seeing this year and what could be the focus areas for growth going forward?

Haseeb A Drabu: Well 50% of J&K business essentially is trade, services, retail and personal consumption loans, salary driven, that's 50% of our portfolio and the rest is SMEs and Corporates.

Clyton Fernandez: Are you seeing any kind of increased delinquencies especially on the SME front?

Haseeb A Drabu: In our SMEs we are in J&K mostly, so I don't see at the moment any delinquency at all inspite of the two months that we had where we did not do too well in the state, we didn't change delinquency this quarter.

Clyton Fernandez: Okay, going forward would you be focusing more on the trade services part or would you be focusing more on SME or is it equal focus?

Haseeb A Drabu: Well it would be more or less equal but we would essentially look at trade and services as a planned thing for us in the State right now.

Clyton Fernandez: Okay and I am assuming that the trade service was your collateralized secured loans?

Haseeb A Drabu: Yes.

Clyton Fernandez: What proportion of your trade services portfolio would be or your retail personal loan would be unsecured?

Haseeb A Drabu: Very little because whatever I have retail portfolio as in personal consumption all that is entirely…you see we have a peculiar situation in J&K that all the salaries are disbursed through us, so we automatically kind of collaterized, so we don't see a risk at all there. Let's say you take about 3,25,000 government employees and another 1,50,000 of state government employees and so on and so forth, all their salaries comes to us. So we are naturally protected against any default from that.

Clyton Fernandez: Okay, basically you are saying that, that proportion would still be small?

Haseeb A Drabu: Yes, very small.

Clyton Fernandez: Okay thank you sir.

Moderator: Our next question comes from Mr. Saday Sinha of Kotak Securities.

Saday Sinha: Hi sir, I am Saday here, many of my questions have been answered. One question on the slippage front, as one of the participants was asking, if I am not wrong our gross NPA at the end of the last financial year was 485 crores, it has increased to 493 crores. Although, it has increased only 6 crores, I think the slippage will be obviously 6 crores higher than the total recovery. So,

Haseeb A Drabu: I don't know what numbers you are looking at, but as of March it was 485, as of June '07 it was 487…September it was 476, yes you are right so there is marginal slippage. The gross NPA ratio was down from 2.5 to 2.

Saday Sinha: And apart from being a banker, you are also an economist so what is your stake on the slow down in the overall economy?

Haseeb A Drabu: Honestly I am a bit surprised by this whole thing of slow-down being ramped up because credit growth has not slowed down. I keep saying this, that 34% credit growth is not signals of economic slow down and what also surprises me immensely is the way the RBI is reacting to this entire situation. I mean CRR cuts and (not sure) cuts and all that are not very healthy from a macro economic perspective at this point of time. They may make the life of a banker relatively simpler but it has huge macro economic implications and they are climbing the wrong kind of thing by doing all this and not looking at the fact that this is a dollar equity that has caused the essential crisis. So you need to address it from that perspective which is not being done. CRR cuts are not solutions because at the end of the day you will not have the option to cut the CRR. So I think that is…there are measures that are possible but are not being taken up in this whole…I have been arguing for some time now that we should make AAA corporate bonds or PSU bonds (not sure) because what is the difference between IOC and GSEC, there is no difference? So why is GSEC (not sure) and IOC bond not (not sure) and we could improve liquidity through that. But the essential point is that I am not quite in agreement with what is being done by the Reserve Bank in easing the situation. If it does further now…I think they have done so far is to undo the last hike of Reddy which was a bit steep and bit unnecessary because the earlier hikes had not worked in the system. But going forward now, I don't see any easing of monetary policy frankly. So I see the situation continuing like this for the next 3, 4 quarters which is why we are in some ways building up a whole thing of…doing enough provisioning to ensure that one doesn't get caught into a situation which is not so desirable.

Saday Sinha: Okay. My next question is not for J&K Bank but for the banking sector as a whole when will we start seeing cut in the lending rate as today itself P&B has announced around 50 basis point cut in their PLR, so when the banking system as a whole we will start seeing the cut in the interest rates.

Haseeb A Drabu: Now we are in the busy season, I don't think we should expect many cuts in this. I am sure P&B has good reasons to cut its hedge; I don't know from what level they have cut to what level. But I would begin to look at these cuts somewhere in January rather than November, December. So, I would perhaps focus on Q4 to see that…by then we would also realize this is the first year in which in deposit rates in November or October are higher than the deposit rates in March. It is a very unusual year. I have not seen this in many, many years. Deposit rates tend to be the highest in March when banks are scrambling and falling head over heels for raising deposits to increase Balance Sheet. But this is the first year in many, many years that you see that this is higher in October, November. If it eases somewhere around December, January when we get the tax season; I think that is when the banks would want to re-think and then do it.

Saday Sinha: Okay, thanks a lot Dr. Drabu; I am through with my questions.

Haseeb A Drabu: Thank you.

Moderator: Our next question comes from Ms. Diana Monteiro of Economic Times.

Ms. Diana Monteiro: Hi I have three questions. Firstly, your other income is just 5% of your total income, so are we looking at increasing this because in the last analyst meet you had spoken about increasing it and how? Secondly, your PAT has grown around 7%, is this a percent we are happy with? Do we want to increase this and how? Thirdly, what has been your branches? Have we grown in branches?

Haseeb A Drabu: Well in PAT I explained the reasons why it is at 7%. When you look at net interest it is growing at about 35%, operating income is growing at about 25%. We have done (not sure) that is why PAT is down. It is not a matter of whether I am happy with this kind of PAT, obviously I am not. You have to understand that this PAT comes in a certain environment and in a certain context of banking as well as macro economic context in India. So, it is in anticipation of certain environmental uncertainties that we anticipate in Q3, Q4 that we have done this. As regards the other income, yes we have said that we would increase it. We had increased it substantially, I think it is a little more than 5%, but constantly our other incomes and non-interest incomes have gone up and this has gone up on the back of a couple of things; one is insurance and the other is the service charges that we levy for (not sure) and also increasing proportion of non-fund based spending that we are doing. This quarter has been badly hit which again earlier I said that because of two months of bandh in J&K hit us on the insurance side as well as some incomes also came down because the usual routine banking work of drafts and all that got hampered. We should be able to improve this substantially in the next quarter as well as Q4, so we will make up for that. As regards the branch expansion now, we are adding another 50 branches in the course of this year, out of which about 30 are in J&K and 20 are outside of J&K and we should reach levels of about 650 by March 31st.

Ms. Diana Monteiro: Thank you.

Moderator: Our next question comes from Ms. Rosita D'souza of Elara Securities.

Ms. Rosita D'souza: My question has been answered thank you very much.

Moderator: Our next question comes from Mr. Amit Ganatra of Lotus India.

Amit Ganatra: What kind of investments is planned in Metlife in the next one year?

Haseeb A Drabu: We should look at about 75 to 100 crores.

Amit Ganatra: As per the reported Balance Sheet for the second quarter and first quarter, there is a difference in reserves; the reserves have gone down; any specific reasons for this?

Haseeb A Drabu: Reserves have not gone down…just one second Parvez can answer that question.

Parvez: Hello Parvez here, can you repeat the question?

Amit Ganatra: The reserves in surplus figures from first quarter to second quarter '09 it shows a decline, although the net profit has gone up; any specific reasons?

Parvez: No, if you are comparing with the corresponding quarter at that particular point of time, 28 crores has just come by way of application money that does not reflect in the corresponding September '07.

Amit Ganatra: No, I am not comparing September '07 to September '08. I am comparing June '08 to September '08. I am comparing your last earnings update that you had sent after the first quarter result, so, the reported reserves as on June '08 if you compare them to reported reserves of …

Parvez: That must have been that in June the retained profits might not have reflected in the reserves and surplus, that might have reflected in the current provisions. Otherwise for the reserves and surplus updates are concerned it has gone up by the net profit number….

Amit Ganatra: Ideally it should have gone up by the net profit, but there is a big difference.

Parvez: I will look into it. I think the June numbers might not have reflected in the second profit portion that is why you get a decline in the vis-à-vis…

Amit Ganatra: I will just tell you the numbers for your benefit. It was 2,326 crores as on first quarter; it has come down to 2,232 crores.

Parvez: That is what I am saying, as far as that particular portion is concerned, that is not reflecting the retained profit number, whereas in this quarter that may be reflected in the current provisions, I will just check up and I will come back to you on this.

Amit Ganatra: Are three any recoveries that have been included in other income, recovery from return of account?

Parvez: No there is not anything major on that particular thing.

Amit Ganatra: Okay, thank you.

Moderator: There are no further questions, now I handover the floor to Dr. Haseeb A Drabu for closing comments.

Haseeb A Drabu: Thank you very much for taking time out to come on this conference call. Just wanted to state that this has been a good quarter for us in what I think is a very difficult situation. But I also feel that there is a need to be conservative at this point of time because we are looking at a fair degree of uncertainty in the next two quarters and it is exactly what we have done, we have tried to do in the course of this quarter, we do expect to maintain the guidance that we have given in the beginning of the year for the year end in terms of both profit as well as asset growth. Hopefully, we will deliver on those as we have done in the past. Thank you very much.

Moderator: Thank you sir, ladies and gentlemen, this concludes the conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.