

ICICI Bank Limited

Earnings conference call - Quarter Ended September 30, 2019 (Q2-2020)

October 26, 2019

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Moderator: Ladies and gentlemen, good day. And welcome to the ICICI Bank Q2 FY2020 Earning Conference Call. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * than 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sandeep Bakhshi – Managing Director and CEO of ICICI Bank. Thank you and over to you, sir.

Sandeep Bakhshi: Good afternoon to all of you and welcome to the ICICI Bank Earnings Call to discuss the Q2-2020 results. Joining us today on this call are Vishakha, Anup, Sandeep Batra, Rakesh and Anindya.

Our core operating profit increased by 23.6% year-on-year to 65.33 billion Rupees in Q2 of 2020.

We continue to maintain a stable and healthy funding profile. We have focused on growing retail term deposits and our CASA deposits in absolute terms. During the quarter, savings account deposits increased by 120.93 billion Rupees to 2.3 trillion Rupees and current account deposits increased by 140.30 billion Rupees to 944.31 billion Rupees at September 30, 2019. The average CASA deposits increased by 10.9% year-on-year in Q2 of 2020.

On the assets side, the domestic loan book grew by 16.4% year-on-year at September 30, 2019 driven by retail loans,

which grew by 22.2% year-on-year. The overall loan growth was 12.6% year-on-year.

Over the past year, we have taken a number of initiatives on the digital front to expand the customer base, smoothen the onboarding process further, enhance the transacting experience and deepen the penetration of our products and services among existing customers. Some of our initiatives such as Amazon Pay credit card and InstaBIZ have seen a lot of interest from customers. While digital transformation remains a cornerstone for driving business and improving efficiency, we are also focused on expanding our physical infrastructure. We are growing our branch network based on the economic activity and growth potential of different locations. We had earlier mentioned that we are looking at opening 450 branches during the year. We added 346 branches in Q2 of 2020. The branches seek to meet evolving customer requirements, with contemporary design, rationalised use of space and dedicated areas for transactions and customer engagement.

Coming to asset quality, the gross NPA additions during the quarter were 24.82 billion Rupees. The NPA additions and gross provisions for the quarter were in line with expectations. The provision coverage ratio excluding technical write-offs was 76.1%. The net NPA ratio declined from 1.77% at June 30, 2019 to 1.60% at September 30, 2019. The corporate and SME portfolio internally rated BB and below was 160.74 billion Rupees as of September 30, 2019 compared to 175.25 billion Rupees as of March 31, 2019 and 153.55 billion Rupees as of June 30, 2019.

As we have mentioned in the past, our focus is on growing the core operating profit in a risk calibrated manner. We are seeking to improve our share of profitable market opportunities by making our delivery to the customer more seamless and frictionless through digitization and process improvements.

We have recently undertaken several initiatives in the SME business to streamline the sales engine, credit processes and underwriting. Through these initiatives we aim for higher sales velocity, lower and predictable turnaround time and improved credit decisioning. These initiatives have been rolled out in our branches in multiple cities in the last quarter.

In our rural business, our strategy involves a comprehensive approach to cater to the needs of semi-urban and rural areas. Our reach in rural areas is supported by a network of branches, on-field staff and business correspondents providing last-mile access in remote areas. Of the Bank's network of 5,228 branches, nearly half are in rural and semi-urban areas. We have a reach in over 1 lakh villages and are working to provide dedicated banking services to the customers at their homes in 66,000 of these villages. We have recently partnered with CSC e-Governance Services India to expand rural reach and extend all banking services to the rural customers including transaction and bill payment services at their door step. Our approach revolves around meeting the end-to-end needs of our rural customers and offering a bouquet of services and products to capture the entire value chain. Specific initiatives include the Self Help Group programme which provides zero-balance savings

account and term loans for meeting business requirements of women and solutions for dairy farmers. Digitization underpins the Bank's offerings in rural banking as well. Our unique mobile application called 'Mera iMobile' allows customers to avail more than 135 services including non-banking information and agri-related advisory on crop prices, news and weather. The app is available in 11 languages. Till date, the app has processed a total of 30 million financial and non-financial transactions.

In the corporate banking business, we continue to grow our credit portfolio with focus on granularity, transaction banking and improvement in the credit rating profile. Our aim is to capture the business opportunity across corporate ecosystems. We have dedicated teams of key account managers to cross-sell retail products to employees of corporate borrowers. In commercial banking, we are focusing on leveraging the India-linked trade corridor, driving granular business and increasing client coverage through about 100 dedicated branches.

We continue to be focused on achieving a consolidated return on equity of 15.0% by the quarter ended June 2020.

With these opening remarks, I will now hand the call over to Rakesh.

Rakesh Jha: Thank you, Sandeep. I will talk about the P&L details, our performance on growth, credit quality, performance of subsidiaries and capital during Q2 of 2020.

A. P&L Details

Net interest income increased by 25.5% year-on-year to 80.57 billion Rupees, driven by both loan growth and an increase in margins. The net interest margin was at 3.64% compared to 3.61% in Q1 of 2020 and 3.33% in Q2 of 2019. Interest on income tax refund was 0.42 billion Rupees this quarter compared to 1.84 billion Rupees in Q1 of 2020 and 0.05 billion Rupees in Q2 of 2019. The impact of interest on income tax refund on net interest margin was about 2 basis points this quarter compared to about 9 basis points in Q1 of 2020. The impact of interest collection from NPAs was about 4 basis points this quarter compared to 8 basis points in Q1 of 2020.

The domestic NIM was at 3.92% in Q2 of 2020 compared to 3.93% in Q1 of 2020 and 3.71% in Q2 of 2019. International margins were at 0.41% in Q2 of 2020 compared to 0.33% in Q1 of 2020 and 0.05% in Q2 of 2019.

Total non-interest income was 41.94 billion Rupees in Q2 of 2020 compared to 31.56 billion Rupees in Q2 of 2019.

- Fee income grew by 16.1% year-on-year to 34.78 billion Rupees in Q2 of 2020. Retail fee income grew by 20.5% year-on-year and constituted about 74.0% of overall fees in Q2 of 2020.

- Treasury recorded a profit of 3.41 billion Rupees this quarter compared to a loss of 0.35 billion Rupees in Q2 of 2019.
- Dividend income from subsidiaries was 3.77 billion Rupees in Q2 of 2020 compared to 1.67 billion Rupees in Q2 of 2019. Dividend income from subsidiaries in Q2 of 2020 included the final dividend for FY2019 from ICICI Securities and ICICI Prudential Life Insurance.

On Costs: The Bank's operating expenses increased by 24.4% year-on-year in Q2 of 2020. During the quarter, employee expenses increased by 28.9% year-on-year. The growth in payroll expenses was about 20% year-on-year which reflects employee additions of about 16,000 over the last 12 months and annual normal growth in salaries. The Bank had 99,893 employees at September 30, 2019. The non-employee expenses increased by 21.6% year-on-year in Q2 of 2020. Given the business opportunity, we have been investing in people, expanding our distribution network and spending on sales promotion and advertisements. While we will continue to make investments in people, technology, distribution and building our brand, our endeavour would be to ensure that revenues grow at a faster pace than expenses.

Provisions declined by 37.2% year-on-year to 25.07 billion Rupees in Q2 of 2020 compared to 39.94 billion Rupees in Q2 of 2019 and 34.96 billion Rupees in Q1 of 2020.

The growth in core operating profit and reduction in credit costs resulted in an increase in profit before tax from 12.56 billion Rupees in Q2 of 2019 to 43.67 billion Rupees in Q2 of 2020.

The tax expense was 37.12 billion Rupees during the quarter. Pursuant to the changes in the corporate tax rate, we have decided to exercise the option of lower marginal tax rate of 25.2%. Accordingly, the accumulated deferred tax asset has been re-measured resulting in a one-time additional charge of 29.20 billion Rupees in the standalone financial results. Profit after tax was 6.55 billion Rupees in Q2 of 2020 compared to 9.09 billion Rupees in Q2 of 2019. Excluding the impact of one-time additional charge due to re-measurement of accumulated deferred tax, the profit after tax would have been 35.75 billion Rupees in Q2 of 2020.

B. Growth

The domestic loan growth was 16.4% year-on-year as of September 30, 2019 driven by a 22.2% year-on-year growth in the retail business. Within the retail portfolio, the mortgage loan portfolio grew by 19% to 1.9 trillion Rupees, auto loans by 6%, business banking by 47%, rural lending by 19% and commercial vehicle and equipment loans by 28% year-on-year. The personal loan and credit card portfolio grew by 47% year-on-year, off a relatively small base, to 524.52 billion Rupees and was 8.6% of the overall loan book as of September 30, 2019. Given the recent developments around a particular housing finance company, I would like to mention that the portfolio we

bought from this company is granular in nature and meets our risk return thresholds. Further, the collection for almost the entire portfolio has been taken over by the Bank.

Last quarter we had mentioned that we had reorganised the SME business, with the retail business group focusing on enterprises having a turnover of less than 2.5 billion Rupees and the mid-market group focusing on enterprises with turnover of 2.5 to 7.5 billion Rupees being aligned with the corporate banking group. The SME business comprising of borrowers having a turnover of less than 2.5 billion Rupees grew by 30% year-on-year to 190.64 billion Rupees as of September 30, 2019.

Excluding net NPAs and restructured loans as of September 30, 2019, growth in the domestic corporate portfolio was about 7.3% year-on-year. The Bank is focusing on meeting the commercial banking needs of its corporate clients, including foreign exchange and derivatives, trade finance, payments and collections.

The net advances of the overseas branches decreased by 13.0% year-on-year in Rupee terms and 11% year-on-year in US dollar terms as of September 30, 2019.

As a result of the above, the overall loan portfolio grew by 12.6% year-on-year as of September 30, 2019.

Retail loans as a proportion of total loans was 62.1% as of September 30, 2019. Including non-fund based outstanding, the share of the retail portfolio was 49.9% of the total

portfolio as of September 30, 2019. The international loan portfolio was 9.8% of the overall loan book as of September 30, 2019.

Coming to the funding side: during the quarter, period-end CASA deposits grew by 14.6% to 3.2 trillion Rupees at September 30, 2019. The term deposits increased by 34.9% year-on-year, from 2.8 trillion Rupees to 3.7 trillion Rupees. The total deposits increased by 24.6% year-on-year to about 7.0 trillion Rupees at September 30, 2019.

C. Credit Quality

The gross non-performing assets were 456.39 billion Rupees at September 30, 2019 compared to 457.63 billion Rupees at June 30, 2019.

During the quarter, the retail portfolio saw gross NPA additions of 13.23 billion Rupees and recoveries and upgrades of 7.14 billion Rupees. The increase in additions was generally in line with the growth in the retail portfolio and reflects the seasoning of the portfolio.

Out of the corporate and SME gross NPA additions of 11.59 billion Rupees, about 4.13 billion Rupees represents the increase in outstanding of accounts classified as non-performing in prior periods. This includes 3.49 billion Rupees due to impact of rupee depreciation on foreign currency NPAs. Of the balance slippages, 3.73 billion Rupees were from the BB and below portfolio as of September 30, 2019. These include 0.79 billion Rupees of devolvement of non-

fund based outstanding to existing NPAs and slippages of 2.94 billion Rupees from other loans rated BB and below.

The recoveries and upgrades were 12.63 billion Rupees in Q2 of 2020. The gross NPAs written-off during the quarter aggregated to 13.28 billion Rupees. The Bank sold NPAs aggregating 0.15 billion Rupees during Q2 of 2020.

The net non-performing assets were 109.16 billion Rupees at September 30, 2019 compared to 118.57 billion Rupees at June 30, 2019. The net non-performing assets declined by about 51% compared to September 30, 2018.

The loans and non-fund based outstanding to borrowers rated BB and below (excluding NPAs) were 160.74 billion Rupees at September 30, 2019 compared to 175.25 billion Rupees at March 31, 2019 and 153.55 billion Rupees at June 30, 2019. The non-fund based outstanding to non-performing loans, was 33.71 billion Rupees as of September 30, 2019 compared to 36.27 billion Rupees as of June 30, 2019. The Bank holds provisions of 13.43 billion Rupees as of September 30, 2019 against this non-fund based outstanding. The fund and non-fund based outstanding to borrowers under the earlier resolution schemes was 39.29 billion Rupees as of September 30, 2019 compared to 40.03 billion Rupees as of June 30, 2019. The balance 85.50 billion Rupees of fund-based and non-fund based outstanding to borrowers rated BB and below, excluding restructured, includes 46.62 billion Rupees related to cases with an outstanding greater than 1.00 billion Rupees and 38.88 billion Rupees related to cases with an outstanding of less

than 1.00 billion Rupees. On slide 20 and 21 of the presentation, we have provided the movement in our BB and below portfolio during Q2 of 2020 and H1 of 2020.

- There were rating upgrades to the investment grade categories and a net decrease in outstanding of 9.80 billion Rupees in Q2 of 2020 and 25.98 billion Rupees in H1 of 2020.
- The rating downgrades from investment grade categories were 20.72 billion Rupees in Q2 of 2020 and 27.88 billion Rupees in H1 of 2020. Downgrades during the quarter comprises a few accounts, spread across sectors.
- Lastly, there was a reduction of 3.73 billion Rupees in Q2 of 2020 and 16.41 billion Rupees in H1 of 2020 due to slippage of some borrowers into the non-performing category.

The loan, investment and non-fund based outstanding to NBFCs was 265.78 Rupees at September 30, 2019 at a similar level compared to June 30, 2019. The loan, investment and non-fund based outstanding to HFCs was 141.31 billion Rupees at September 30, 2019 compared to 155.16 billion Rupees at June 30, 2019. The loans to NBFCs and HFCs were about 5% of our total outstanding loans at September 30, 2019.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was 225.15 billion Rupees at September 30, 2019 compared to

202.49 billion Rupees at June 30, 2019. The increase in the builder portfolio was due to an increase in outstanding largely to well-established builders. Our builder portfolio is about 4% of our total loan portfolio.

Our exposure to the telecom sector was about 1.8% of our total exposure at September 30, 2019. The exposure would predominantly be to the top two players in this sector.

D. Subsidiaries

The details of the financial performance of subsidiaries is covered in slides 29 to 31 and 52 to 57 in the investor presentation. I will briefly talk about the major highlights. The financials of ICICI Securities, ICICI Securities Primary Dealership, ICICI AMC and ICICI HFC have been prepared as per Ind AS. The financial statements of these subsidiaries used for consolidated financials have been prepared as per Indian GAAP.

Value of new business of ICICI Life increased by 20.2% year-on-year to 7.09 billion Rupees in H1 of 2020. The new business margin increased from 17.0% in FY2019 to 21.0% in H1 of 2020. The protection based annualised premium equivalent increased by 86.8% year-on-year to 4.97 billion Rupees and accounted for 14.8% of the total annualised premium equivalent in H1 of 2020. The new business premium grew by 20.5% from 42.77 billion Rupees in H1 of 2019 to 51.52 billion Rupees in H1 of 2020. The Embedded

Value was 226.80 billion Rupees at September 30, 2019 compared to 192.48 billion Rupees at September 30, 2018.

The Gross Direct Premium Income (GDPI) of ICICI General was 64.40 billion Rupees in H1 of 2020 compared to 73.05 billion Rupees in H1 of 2019. Excluding the crop segment, Gross Direct Premium Income (GDPI) increased by 16.2% in H1 of 2020 to 63.86 billion Rupees compared to industry growth of 14.4%. The company's combined ratio was 101.5% in H1 of 2020 compared to 100.1% in H1 of 2019 primarily on account of long-term motor policies and losses from catastrophic events in various states. Excluding the impact of catastrophes, the combined ratio was 100.1% in H1 of 2020 compared to 99.5% in H1 of 2019. The profit after tax increased by 6.1% year-on-year to 6.18 billion Rupees in H1 of 2020. The return on average equity on an annualised basis was 22.3% in H1 of 2020.

The profit after tax of ICICI AMC increased from 1.96 billion Rupees in Q2 of 2019 to 3.05 billion Rupees in Q2 of 2020. The increase in profit after tax reflects the benefit of lower tax rate applicable to domestic corporates.

The profit after tax of ICICI Securities, on a consolidated basis, was 1.35 billion Rupees in Q2 of 2020 compared to 1.34 billion Rupees in Q2 of 2019. The company continues to broad base its business model to comprehensively cater to all investment, protection and borrowing needs of its customers. It is making progress in its strategy of becoming a digitally powered virtual financial supermarket and in articulating its strategy and performance to stakeholders.

ICICI Bank Canada had a profit after tax of 14.2 million Canadian dollars in Q2 of 2020 compared to 12.4 million Canadian dollars in Q2 of 2019.

ICICI Bank UK had a net profit of 11.9 million US dollars in Q2 of 2020 compared to a loss of 14.7 million US dollars in Q2 of 2019.

ICICI Home Finance had a loss of 0.61 billion Rupees in Q2 of 2020 compared to a loss of 0.06 billion Rupees in Q1 of 2020 and a profit after tax of 0.15 billion Rupees in Q2 of 2019. The loss in Q2 of 2020 was due to provisions on the non-mortgage portfolio and expenses on scaling up of business over the last few quarters.

The consolidated profit after tax was 11.31 billion Rupees in Q2 of 2020 compared to 25.14 billion Rupees in Q1 of 2020 and 12.05 billion Rupees in Q2 of 2019. Excluding the impact of one-time additional charge due to re-measurement of accumulated deferred tax, the consolidated profit after tax would have been 41.01 billion Rupees in Q2 of 2020.

E. Capital

As per Basel III norms, including profits for the half year, the Bank on a standalone basis had a CET-1 ratio of 13.24%, Tier 1 capital adequacy ratio of 14.62% and total capital adequacy ratio of 16.14% at September 30, 2019. On a consolidated basis, the Bank's Tier 1 capital adequacy ratio was 14.30%

and the total capital adequacy ratio was 15.81%. RBI during the quarter reduced the risk weights on consumer credit, excluding credit card receivables, from 125% to 100%. This has resulted in positive impact of about 25 basis points on the CET-1 ratio of the Bank.

With this, I conclude my opening remarks and we will now be happy to take your questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the questions-and-answer session. We take the first question from the line of Mahrukh Adajania from IDFC Mutual Fund. Please go ahead.

Mahrukh Adajania: My first question was on the slippage. So, if you see the movement in NPLs, the breakdown of the NPL slippages, and the movement in BB, is it correct that most of the slippages have come from the BB and below portfolio where borrowers have an outstanding of Rs. 1 billion or below?

Rakesh Jha: If you look at the slippages from the BB and below portfolio, the aggregate slippage was only Rs. 3.73 billion for the quarter. So, that would be a fair assumption.

Mahrukh Adajania: Okay. And the other thing I wanted to check is that, could you give a sector wise breakdown of your BB and below portfolio, like the broad three-four sectors?

Rakesh Jha: We have not given that breakup. We could look at giving it in the future. But typically, these would be sectors like construction, infrastructure.

Mahrukh Adajania: Okay. But no color. You did mention that the increase of Rs. 21 billion in this quarter was from various accounts across sectors. Any sectors you could name?

Rakesh Jha: There would be similar kind of sectors. Infrastructure, construction would be some of these. If you look at the aggregate of about Rs. 21 billion, there would only be a few accounts which are there from the corporate portfolio.

Mahrukh Adajania: Okay, got it. And just one clarification on the telecom exposure, it hasn't changed much between June and September, while MCA filings show a big charge in your name in August. Would this include all sanctions and charges?

Rakesh Jha: Yes.

Moderator: Thank you. We take the next question from the line of Ashish Golechha from Ajit Securities. Please go ahead.

Ashish Golechha: Congratulations, Sir, for a very good set of numbers. After you have joined, the perception of investors and employees at ICICI has improved a lot. Sir, my first question was on IBC recoveries. Any idea on the recoveries you expect within the next three to six months?

And second question was with respect to the telecom portfolio. With respect to the fund based and non-fund based limits which we have given to the top two clients, how are we safeguarding ourselves? Do we have any collateral security with respect to that?

Rakesh Jha: On the first question on IBC, banks have exposure to one steel account. It is a large exposure and resolution is still

pending. It is currently with the Supreme Court, so hopefully it will get done sometime in the current financial year. There are a couple of other resolutions within the IBC framework which we are currently working on and a couple outside as well. In a multiple banks situation, we are kind of trying to negotiate a resolution. We have talked about our credit cost estimate of 1.2% to 1.3% for the financial year. If you look at our credit cost for the year, we have indeed assumed some of these recoveries in our guidance, especially the steel account and a couple of other accounts. We are hopeful that it gets done. If that does not happen and slips into next financial year, there will clearly be some impact on the credit cost for the year.

In terms of the telecom exposure, we would not want to mention about specific companies or specific structures in terms of the lending. But yes, as we have been saying we are completely focused on ensuring that we protect the shareholder interest in terms of the lending business that we are doing. I would leave it at that.

Moderator: Thank you. Next question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: Hi. I just had a question again on the credit cost, you mentioned that you are factoring in some recoveries. Is the 1.2% guidance for the entire financial year 2020 or is it an exit quarter run-rate? Given that you have delivered a 2% credit cost in the first half, achieving 1.2% for the year means we are talking about a credit cost lower than 100 basis points in the second half. Is my interpretation right or wrong?

Rakesh Jha: Suresh, at the beginning of the year we had talked about credit cost in the range of 1.2% to 1.3% for the entire financial year, which was indeed assuming a couple of large recoveries, including the one steel account that we talked about. As you can imagine, the quarter in which we get recovery from the steel account, the credit cost would, by definition, become quite negligible. For example, if the write-back on steel account comes in Q4-2020 then credit cost in that quarter will be a much lower number per se. If you look at the incremental additions to NPAs, the trends there, the provisioning on that, it has pretty much been on track with what our expectation has been for that 1.2% to 1.3% number. Maybe we would be at the higher end of that range because there have been some changes in the overall macro and the RBI guidelines which came out on June 7th regarding resolution of stressed assets. If a resolution doesn't happen in a particular case, and it doesn't get referred to IBC, you may have to take a higher provision on that case. We will have to see whether some of that plays out. But you are right, if we don't see the recoveries coming in, it would be fair to assume that the current run-rate would end up closer to 1.8% to 2%. But otherwise, given the expected recoveries we would expect to get closer to the 1.3%.

Suresh Ganapathy: Okay, fine. That's very clear. The other thing is the 1.8% total exposure to telecom is both fund and non-fund put together, right? And as a percentage of total exposure, right?

Rakesh Jha: Yes, sure.

Suresh Ganapathy: So, can you tell me the absolute number please, if you don't mind?

Rakesh Jha: It is about Rs. 200 billion.

Suresh Ganapathy: Okay. And one last question on the downgrades to BB and below. I know the problem here is how do we judge what could be the potential pipeline, because this quarter has been a blip as you had Rs. 20- 21 billion of downgrades in a single quarter to BB and below. How good is your assessment of the BBB book? I am not talking about the current run rate, but perhaps with such large numbers coming across its very difficult to put in a number for the upcoming quarters. We just wanted to know your assessment of the book about BB and below.

Rakesh Jha: So, Suresh, I suppose you are talking about the movement into the BB and below book because of the downgrades. Correct?

Suresh Ganapathy: That's right.

Rakesh Jha: As you are saying it is indeed somewhat difficult to assess. We report these numbers based on the position at the quarter end, and these are all based on internal ratings, so we do factor all that is happening across. I think it will be fair to assume that we would not be completely immune to what is happening in the macro today. Over the next couple of quarters, it would be fair to assume that the additions to the BB and below could be somewhat higher than what we have seen in the earlier quarters. But it's very difficult to kind of have a precise number on that. But qualitatively, while many of these accounts are indeed facing stress, we do expect recoveries to happen. In some of these cases there are some transactions which are planned and as and when they happen there will be recoveries that come in. So, these are not accounts which would kind of

straight away flow into the NPL bucket, but again, it is a qualitative assessment, we will have to see how it plays out. That's the reason we did not mention it upfront. But, it would be a fair assumption that we will see some impact of the macro in the next couple of quarters. Overall, given the macro context, we are still quite comfortable with that. Downgrades will happen and there is an independent rating assessment done within the Bank which factors in the developments that are happening.

Moderator: Thank you. Next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: Thank you for the opportunity. Most of the questions have been answered, only one question on the operating expenses. Operating expenses grew by 21% YoY in the first half of the year and given the earlier trend it was somewhat shocking. How do you see the overall cost efficiency in the Bank going forward in terms of the cost-income ratio?

Rakesh Jha: Yes, at the Bank we are completely focused on growing the risk calibrated core operating profit and that gets driven by where we are on the net interest income, fees and expenses. The increase in expenses that we are seeing currently, a part of it I talked about is on the employee expenses. Basically, the actuarial valuation of the provision on retirals as yields went up in Q2 of last financial year and went down this year. But even then, we saw a 24% kind of quarter-on-quarter growth. We are seeing a run-rate of 20- 21%. We have added employees in our front line businesses, most of them on the retail and the rural side. We have opened new branches, as Sandeep talked about. We are investing in sales, promotions and advertisements and

I am sure you would be seeing some of that. We are also investing in technology as more and more transactions happen digitally. With respect to cost, the trend in the current financial year would remain similar to what we have seen in the first half of the year. We expect to start seeing benefits from these expenses. I am not calling these investments because they are in the routine nature of business per se, and the revenues from these expenses would come in, in some cases instantly, in some cases with some lag. If I look at it from a medium-term perspective, we would definitely look at growing our revenues at a higher pace than the expenses. But this year we are planning to increase the employee strength and the branch network which we have not done for some time in the past. And there is clear business rationale and opportunity mapping which has been done before incurring these expenses.

Manish Ostwal: The second is, growth rate of the domestic corporate loan portfolio. So, what kind of growth rate can we expect, given the slowing economy? I understand the retail portfolio is growing reasonably well but on the corporate side some of the peer banks have reported very high growth. What is your assessment of corporate loan book growth in the domestic market?

Rakesh Jha: The way the Bank and each of our businesses are looking at loan growth is that wherever there is an opportunity which meets our risk and return threshold, we would be happy to grow. There is no specific loan growth target or aspiration that we have per se. In some of the segments in our retail portfolio, our market share has been lower compared to some of the other parts of the business. We are still at a relatively lower base in areas such as business banking, credit cards and personal

loans. Mortgage is a large portfolio and continues to grow well. We will definitely see slower growth in the vehicle business. Overall, we have been running at around 20% growth rate in the retail portfolio and if the opportunity continues, we will continue to grow at that pace. But if we see any change in equation on risk or return, we would calibrate that growth.

On the corporate side, the focus is not just on lending but also on growing the float income through payment and collection business, growing fee revenues through forex, derivative and transaction banking, it is looked at on a holistic basis. What we track is the return that we make with each individual client. So, that is the approach which is there. We are also quite happy to sell down portfolios or get prepayments where the margins are not as high. You would have seen this reflect in the overall margin for the Bank. We have seen a year-on-year increase of 30 basis points in this quarter. The quarter two margin itself has seen some improvement over the last quarter. Sorry for a long winding answer , but that is how we are looking at loan growth.

Manish Ostwal: So, my second question on one data point, apart from the provision coverage ratio of 85%, are we holding contingent or floating provision? And if yes, how much? Thank you.

Rakesh Jha: We don't really have much of it. Actually, we don't have any floating provision. We have some provisions against the non-fund exposure to the non-performing loans that we talk about in our presentation, about Rs. 13 billion or so. And then we have the general provision on standard assets.

Moderator: Thank you. We take the next question from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: I have a question on the term deposit growth which has been very strong for us over the recent quarters. So, firstly, what is driving this 35% y-o-y growth? And how has been the traction in 'FD Xtra' and other innovative deposit products that you have introduced over the past couple of quarters? And how do we account for the extra benefits of life insurance, health insurance? Does this cost show up in other expenses?

Rakesh Jha: So, one, on the overall term deposit growth, a lot of it, most of it has come from the retail term deposits. We have mentioned earlier also that over the last five to six quarters, we have focused a lot on growing the retail term deposits. The aggregate retail deposits that we raised in FY2019 was more than what we had raised in the previous couple of years and that momentum has continued into this financial year as well. Also, it is not that we are pricing our retail deposits higher than our peers, in fact, we are kind of leading in reducing the term deposit rates. We feel quite comfortable that in terms of the loan growth opportunity which is there for us, and we believe over the next few years, it is a significant opportunity that we have. So, from a funding point of view, we are quite comfortable in terms of raising term deposits and CASA deposits. And most importantly, raising it at a competitive cost of funds. On some of the other products that we have launched on the fixed deposit and savings deposit side are very recent events and we are thus not talking about those numbers yet. It does create an interest and excitement and makes people more aware about the product and the additional facilities that they can get with the product. Finally, we do believe that the customer is looking at liquidity as an important factor along with returns and 'FD Xtra' is a critical product from that point of

view. The cost for all the new add-ons that are accounted for in the respective quarters show up as a part of our expenses. It is not a very large number.

Nitin Aggarwal: Okay. And secondly, two data point questions. One is on the retirement provisions quantum that we have made, and have we fully provided that? And second is what is our outstanding BB and below investment book.

Rakesh Jha: So, we have not disclosed the retirement provisions separately. But we do a quarterly actuarial valuation resulting in quarterly volatility. For example, the yields went down a bit this quarter, so we would have got a higher rate, while the yields had gone up in the same quarter last year resulting in some saving on that account. So, as of September 30th, or as of any quarter end data, we are always fully provided for, our obligations around, pension, gratuity, leave, all of that. We don't disclose that number separately; maybe we will consider looking at that in future. What was your next question? Sorry, I missed that.

Nitin Aggarwal: Outstanding BB and below investment book.

Rakesh Jha: It is a small book, about Rs. 6-7 billion. So, it is not something material at all.

Moderator: Thank you. We take the next question from the line of Nilesh Soman from Keynote Financial. Please go ahead.

Nilesh Soman: Sir, I have two questions for you. First question is are you planning any new product launch this quarter? And second one is, what is your plan regarding adding new branches in this quarter?

Rakesh Jha: In terms of new branch additions, we have talked about adding about 450 branches during the year. As Sandeep mentioned earlier, a lot of them have already been opened. On new products, it is something that we do on an ongoing basis, there is no specific plan around it. We just talked about some of the new initiatives and innovation that we have done around the fixed deposit product. So, that is something which you will see on an ongoing basis.

Moderator: Thank you. We take the next question from the line of Tejas Badheka from HSBC. Please go ahead.

Tejas Badheka: I just wanted to check that what would be certain numbers around the real-estate exposure that you were just mentioning, the one which is in the news right now? If you can just give some numbers around it.

Rakesh Jha: Real-estate, in terms of the portfolio?

Tejas Badheka: The one which is in news recently, which you said is quite granular in nature and has been meeting the return thresholds at your end.

Rakesh Jha: Sorry, I did not get the question.

Tejas Badheka: Can you elaborate a little more on some numbers around your exposure to Indiabulls Group or one other group which are in the news right now? Or is there any way we can have a look at those numbers?

Rakesh Jha: We don't talk about individual borrowers at all. On an overall basis, we have mentioned in the past that in our NBFC, HFC portfolio we don't have any material exposure or any large exposure to any of the companies which are under stress or

supposedly under stress. But beyond that, we have not commented on individual borrowers per se. In addition to that, earlier I had talked about the fact that we have purchased portfolios from some of the NBFCs and HFCs, and in case of this one particular HFC which is currently undergoing resolution, we have purchased portfolios which are completely granular. We have largely moved the collection on this portfolio to the Bank. The portfolio is doing fine, so we don't have any specific concerns on the same.

Moderator: Thank you. We take the next question from the line of Prasheel Shah from Capgrow Capital. Please go ahead.

Prasheel Shah: One of your peer banks recently said that there were new signs of stress from MSME sector, what is your feedback on the same?

Rakesh Jha: Which sector, sorry?

Prasheel Shah: MSME.

Rakesh Jha: We are not really seeing that in our MSME portfolio. Our MSME portfolio will kind of reflect largely in the business banking portfolio that we have, and maybe the lower end of the SME portfolio that we have. We are seeing pretty stable trends in terms of asset quality. But again, you have to look at the fact that our portfolio size, per se, has not been that large relative to our overall loan portfolio. We are tracking that portfolio and are quite comfortable with the trends that we are seeing and we have not seen any change in trend at all.

Moderator: We just lost the line for the current participant. We take the next question from the line of Saikiran Pulavarthi from Haitong Securities. Please go ahead.

Saikiran Pulavarthi: Just quickly on the business banking and personal loans, the growth has been pretty strong both year-on-year and quarter-on-quarter. Considering the environment, how confident are you and what is the thought process of growing this book at this point of time? Thanks.

Rakesh Jha: We have said earlier that in a lot of these portfolios we are focused on our existing customers, in ensuring that the process for onboarding customers is eased up and wherever possible we are using insta products to reach out to the customers and the growth that we see is an outcome of these measures. We are not really diluting any of our credit underwriting norms or return expectations. If anything, we may have to tweak something to make it a bit tighter. So, we are quite comfortable and are of course tracking the environment. If at any point of time we believe that we need to change our approach here, we would be looking at doing that. But as of now, we are quite comfortable with the growth that we are seeing.

Saikiran Pulavarthi: And the second thing is that, when I look at your segmental PBT wholesale banking has turned profitable after a long-time. Would you like to comment on the profitability going forward, especially on the corporate banking side? At what levels could it settle on a sustainable basis?

Rakesh Jha: I think that will take maybe a couple of quarters more. I think there are still some provisions which we talked about earlier and hopefully that gets offset by the recoveries which come in. But if the recoveries don't come in, the credit cost could be higher. So, there will be a couple of quarters more of provisions. And beyond that, from an operating income perspective, the entire drag of non-performing assets will also

come off by the time we end the financial year. We are seeing reasonably healthy growth on the fee revenues, and we are focused a lot on, payments, collection and some of the other products as well, other than lending. We are thus quite optimistic about the growth in the wholesale banking segment. However, you will start seeing more consistent numbers there, from the next financial year, maybe in the second half also if we see the write-backs, but those are lumpy, so that is still conditional.

Saikiran Pulavarthi: Okay. Just a couple of data keeping questions. Adjusted for retiral provisions, what will be the cost growth for this quarter? And the second thing is, on the HFC side there is a meaningful reduction in the capital adequacy ratio, would you like to comment on that? Thanks.

Rakesh Jha: So, on expenses, essentially the growth in employee expenses that you are seeing is about 28- 29%. If you were to look at the growth in only the payroll expenses, excluding these retirals, the increase would have been around 20%. As I said, there is a run rate of around 20-21% which is there on expenses. On the housing finance company, from a capital point of view, it would reflect the fact that they have made a loss during the quarter. There is a certain approach that the company has for its business. They are in a phase of transition as they build their book. This year, we are not focused on it from an outcome perspective of profits per se. Given the way they are building the business, we will start seeing much more stable numbers from the next year.

Moderator: Thank you. Next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Rakesh, just want to see how repo-linked loan has been launched? If I have to look at repo linked home loans for ICICI Bank, the gap between you and the largest bank is significantly higher. How would you compete with them and grow the housing loan portfolio?

Rakesh Jha: Our approach towards this market benchmark linked product is to understand how the market pans out for this product over the next three-four months. We have not really been aggressive in terms of pricing of this product. We would want to be competitive as long as it meets our return threshold. Risk wise we are absolutely comfortable. A couple of months down the line, once we have a much better sense of how the market rates, the benchmarks and the deposit rates are moving, we would look at how to price it differently, if at all we would want to. But overall if you look at the portfolio on the housing side, over time we have also been doing a fair bit of loan against property business as well. With that mix, if it does not meet our return threshold we are fine even if we see somewhat lower growth there. But we do believe that it is a transition phase and over the next three months we will have a better sense of how the rate moves.

Anand Laddha: No, my question was because currently repo rate linked loans are higher than our existing MCLR linked loan. So, was wondering...

Rakesh Jha: They are actually quite similar. When we had launched it, it would have been somewhat higher. But post the repo rate cut by RBI in October, our rates also came down by 25 basis points. As of now they are quite similar in terms of the earlier rates.

Anand Laddha: Okay. And do you think, so today the pricing is repo plus spread, and then the credit spread. At any given point of time can you change the spreads or this remains set for next three to four years?

Rakesh Jha: The RBI guideline is very clear on this. If you have taken a loan linked to repo rate, then as a bank we cannot change that spread unless there is a change in the credit parameters for the borrower or once in three years as RBI has given that option to banks to change the spreads.

Anand Laddha: Okay. But as a bank, can you launch a new scheme or a new rate product every quarter? Like today it is repo plus 300 basis points, for next month can you launch repo plus 280?

Rakesh Jha: You can do that. There is no guideline which says that pricing cannot be different for new customers.

Anand Laddha: Okay. And lastly one more question. The CA growth has been significantly higher this quarter. Is there any one-off? How should one look at the CA growth for us? And if you can also give some color on the PSL, how we are on the PSL target for this quarter or the first half?

Rakesh Jha: On the current account deposit, again, I think you should look at the daily average balance and there also for the quarter we have done quite well, the growth has been above 15%. The efforts that we have been taking on the business banking side, in the self-employed segment, and on the corporate side with respect to payments and collections, all of that along with the government banking segment as well, is reflected in the growth that we have seen on the current account side.

Anand Laddha: Perfect. And on priority sector?

Rakesh Jha: On priority sector, it is a running target which is there. I think overall priority sector we are always comfortable. It is with respect to the sub-targets, that there is a trade-off between how much risk you want to take versus the target. Last year, the overall allocation of the RIDF, because of the PSL shortfall had come down for us. We had purchased PSLCs in the market. This year again we will see how it plays out.

Anand Laddha: And lastly on power sector resolution, what sort of resolution do you expect in the next one or two quarters? What is our power sector NPL? And how much of the same do you expect to get resolved?

Rakesh Jha: Power sector has been a long drawn story; I don't think we have any specific expectations on that. There are a couple of cases on which banks are working, nothing which is bilateral here. So, we will see. I don't think that one can be too optimistic on the power sector resolution, as of today.

Moderator: Thank you. The next question is from the line of Gurpreet Arora from Aviva Life Insurance. Please go ahead.

Gurpreet Arora: I have few quick questions. A few quarters back Sandeep had alluded to disclosing or detailing out the medium-term ROE. Are we ready to discuss that? Is the Bank looking at any standalone ROE targets henceforth?

Second question is, in your opening remarks you spoke about the retail slippages. If you could elaborate a little bit more, with respect to what segments are doing well, and what segments are contributing to the slippages? And what sort of retail credit costs would you want to maintain?

And last question is, have you done any portfolio buyout in the first six months of this year?

Rakesh Jha:

On ROE, we have said that our first target is to reach 15% consolidated ROE by June 2020. And as we get to that then we will talk about a more medium-term or long-term ROE. If you look at the numbers more recently, we are heading in that direction, but clearly we are still some distance away from getting there. On the retail slippages, we mentioned that there were gross additions of about Rs. 13 billion and recoveries and upgrades of about Rs. 7 billion. The net increase or the net addition is about Rs. 6 million for the quarter. There is nothing specific per se which is there, generally the trends are stable. Other banks have talked about some increase in delinquencies in the commercial vehicle/commercial equipment portfolio which will be true for all the banks, including us. But otherwise, it is quite stable and even on the outstanding basis the gross NPAs on retail portfolio is around 2% or slightly below that and the net is around 0.8-0.9%. Overall, we are seeing stable trends.

On credit cost, it is a bit difficult to say because it will completely be a function of the portfolio composition per say. We have mentioned in the past that the provisions to core operating profit should be around 20-25% which translates to about 1% credit cost is on the portfolio. Within that given the composition of retail, if mortgages, business banking or personal loan could be higher, we will have to see how that plays out.

And on portfolio purchases, in this quarter we have not done much. We would have done some portfolio buyouts in the June quarter, but the larger part has been done in the second half of the last financial year.

Gurpreet Arora: One last data keeping questions. What is the outstanding provision on standard assets as on September end?

Rakesh Jha: It is Rs. 30.9 billion.

Moderator: Thank you. We take the next question from the line of Krishnan ASV from SBICAP Securities. Please go ahead.

Krishnan ASV: Just one question based on ICICI Home Finance subsidiary. In terms of impairment recognition, is there a certain consistency that you are now seeing?

Rakesh Jha: Not able to hear you, can you just repeat, we are not able to hear you clearly.

Krishnan ASV: So, my question was on the ICICI Home Finance portfolio. Is there a uniformity that you are building in terms of income distribution and asset classification in that portfolio. And how far are you from establishing that uniformity between the home finance subsidiary and your normal ICICI core lending operations?

Rakesh Jha: Are you talking about the NPA classification? So, there actually it is quite the same as what it is for the Bank. We have seen some slippages there in the non-mortgage portfolio. And that is where the credit cost has come in. Further, over the last three or four quarters we have been expanding from a growth point of view. So, again, largely on a planned basis, for this year we were expecting profitability to be on the lower side as we make investment for future growth in this company. On NPA recognition per se, it is pretty much the same as the Bank, of course, they are on IndAS, so there are no other material differences vis-à-vis the Bank per se.

Moderator: Thank you. We take the next question from the line of the Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: Question on the slide 24 and strategy related to the incremental downgrades that we have seen in the BB and below. How different is it if you map the book to an external rating? For example, the entire BBB portfolio which is let's say about 30% odd, how different will this be if it is mapped to an external rating? Related question is, would you have seen the gap versus external rating widen or narrow over the last four to six quarters?

Rakesh Jha: It is a difficult one to answer, so I can give you a more generic answer. In general, we find that in many cases our internal ratings are lower than the external ratings. It would not be true for all cases. But the challenge is that, not all exposures are externally rated. So, if you see the risk weighted asset base, for some of it we don't have external rating availability itself. So, to map that is going to be difficult. But in general, I would say that these ratings on an average would clearly be lower than what you see from external rating agencies. But, it may not be true for all the cases. And generally, on the lower rated side, which is BB and below, there the ratings would kind of be more aligned to external rating.

Nilanjan Karfa: Okay. And the other question, I mean, would you want to disclose how many standard accounts are there on which we have signed ICAs, both a number and outstanding basis?

Rakesh Jha: I would have been very fine to disclose, I don't have that number off hand.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference back to the management for closing comments.

Sandeep Bakhshi: So, I think it is a Saturday afternoon and Choti Diwali, so wishing you all a very Happy Diwali. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Bank, that concludes this conference. Thank you for joining us. You may disconnect the lines now.