ICICI Bank Limited
Earnings Conference Call – Quarter ended December 31, 2011 (Q3-2012)

January 31, 2012

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Moderator: Ladies and gentlemen, good day and welcome to the ICICI Bank Q3 FY '12 Results Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. N. S. Kannan – Executive Director & CFO of ICICI Bank. Thank you and over to you, sir.

N. S. Kannan: I would make my opening remarks in four parts:

Part 1: Macro-economic and monetary environment;

Part 2: Performance during the quarter, including our performance on our 5Cs strategy

Part 3: Consolidated results; and

Part 4: Outlook for the rest of the year.

Part 1: The macro economic and monetary environment.

The global macroeconomic environment continued to remain subdued with a slowdown in growth and concerns on the Eurozone debt crisis which resulted in extensive rating downgrades of banks and sovereigns. The impact of these events was felt in Indian markets through the capital channel, the impact on equity markets and a sharp depreciation in the currency. In addition, domestic factors such as continued high levels of inflation and a tightening monetary policy cycle resulted in a slowdown in macroeconomic growth and had an impact on corporate performance.

Growth in industrial production decelerated to 3.8% during April-November 2011, compared to 8.4% in April-November 2010. IIP declined by 4.7% in October 2011. Investment activity has seen a significant decline while sales in some segments like passenger cars and cement have also moderated. Merchandise exports also slowed significantly in October and November to 10.8% and 3.9% respectively as against a growth of over 35% in the preceding months of fiscal 2012. While growth in imports has also moderated, the deceleration has not been as pronounced as in the case of exports. Rising input costs, sharp currency movements and moderation in sales growth have resulted in an impact on corporate profitability. GDP growth estimates for fiscal 2012 have been revised downwards by the Reserve Bank of India to 7.0% from the earlier 7.6%.

However, some early positive signs in the macroeconomic environment are visible. There are signs of a moderating trend in inflation, which came down to a two year low of 7.5% in December 2011. The decline was primarily driven by food inflation that declined to a low 0.74% in December 2011 and continued to recede in January 2012 as well. Fuel and manufactured products inflation also showed some moderation although still remaining high. Core inflation declined from 7.9% in November 2011 to 7.7% in December 2011. In terms of growth indicators, the purchasing managers' index has improved from around 50.4 in September 2011 to 54.2 in December 2011. IIP growth was up 5.9% year-on-year in November 2011.

System liquidity remained in deficit during Q3-2012, with banks continuing to remain borrowers under the LAF window. The deficit exceeded Rs. 1 trillion in November 2011 and continued to remain at these levels through the rest of the quarter. Liquidity conditions tightened following advance tax outflows with the deficit reaching about Rs. 1.8 trillion in December 2011. Average daily borrowing by banks from the RBI LAF window was around Rs. 880 bn in Q3-2012, more than double the amount witnessed in Q2-2012. Yield on 10-year benchmark government securities increased by 14 basis points during the quarter from 8.43% at September 30, 2011 to 8.57% at December 30, 2011. Interest rates on market instruments like Commercial Papers and Certificate of deposits increased during the quarter. The 3-month CP rates were in the range of 9.50% at the beginning of the quarter and reached about 9.90% at the end of the quarter, after witnessing a peak of about 10.3%. A similar trend was seen in CD rates as well.

In view of these developments, the Reserve Bank of India, in its recent third quarter review, kept the repo rate unchanged while reducing the cash reserve ratio by 50 basis points to 5.50%.

Equity markets were volatile through the quarter, mainly in reaction to the Eurozone debt crisis and concerns on slowing domestic growth and its impact on the corporate sector. Investments by Foreign institutional investors (FIIs) was weak in the equity markets, with a net outflow of USD 0.4 billion in Q3-2012. However, FII investments in the debt market were robust at USD 3.5 billion during the quarter. The benchmark BSE Sensex ended the quarter lower by 6.1% compared to the September 2011 closing. The rupee depreciated by about 8.4% during the quarter to Rs. 53.11 per dollar at end-December 2011.

Non-food credit growth of scheduled commercial banks has moderated reflecting the slowdown in economic activity. During Q3-2012, non-food credit outstanding grew by 3.2% compared to an increase of 5.4% in Q2-2012. On a year-on-year basis, credit grew by 16.7% at January 13, 2012 compared to an increase of 21.2% at September 30, 2011 and 23.2% at January 14, 2011. The deceleration was seen across sectors. Deposit growth in the system also moderated to 17.2% on a year-on-year basis at January 13, 2012, from 19.1% at September 30, 2011 and 16.5% at January 14, 2011. Demand deposits after declining by 0.9% on a year-on-year basis at December 30, 2011 recorded a y-o-y growth of 5.1% at January 13, 2012. Time deposits grew by 19.5% on a year-on-year basis at December 30, 2011 and by 18.8% y-oy at January 13, 2012.

Part 2: ICICI Bank's performance during the quarter, including our performance on our 5Cs strategy

Let me begin with the progress on our 5Cs strategy:

With respect to Credit growth: Total advances for the Bank increased by 19.1% on a year-on-year basis from Rs. 2.07 trillion at December 31, 2010 to Rs. 2.46 trillion at December 31, 2011. The growth was largely driven by domestic corporate loans which increased by 23.8% on a year-on-year basis and net advances of overseas branches increased by 38.4% on a year-on-year basis. The depreciation of the rupee had a positive impact on the growth of the net advances of our overseas branches. Excluding this, the year-on-year growth in the overseas advances would have been about 16.5%.

On a sequential basis, total advances increased by 5.2% driven by a 14.7% increase in domestic corporate advances. However, the slowdown in new sanctions during the quarter continued, due to the significant decline in new project announcements. The international portfolio in overseas branches increased by 4.4% as compared to September 30, 2011. The domestic retail book marginally increased to Rs. 823.86 billion at December 31, 2011 as compared to Rs. 818.73 billion at September 30, 2011. The year on year growth in the retail portfolio was impacted by continued decline in the unsecured retail portfolio which declined from Rs. 56.70 billion at December 31, 2010 to Rs. 35.09 billion at December 31, 2011. Further while home loan disbursements, excluding builder finance, have increased by about 15% on a year-on-year basis in Q3-2012, due to continued repayments and prepayments on the existing portfolio, the overall portfolio size has increased by only 5.8%.

Moving on to CASA deposits: Mobilisation of CASA deposits has been challenging given the decline in demand deposits in the system. Despite this, the Bank's savings account deposits grew by Rs. 33.49 billion in Q3-2012 and the current account deposits grew by Rs. 70.42 billion. The increase in current account deposits included the impact of greater float on account of NHAI bond issuance related flows. The overall CASA ratio for the Bank increased to 43.6% at December 31, 2011 as compared to 42.1% at September 30, 2011. Even on an average daily balance basis, there was an improvement in the CASA ratio for the Bank. The average CASA ratio during Q3-2012 improved to 39.0% as compared to 38.3% in Q2-2012.

On Costs: On a year-on-year basis, operating costs, including DMA expenses, were higher by 11.7%. During the first half of the year, the higher increase in operating expenses was, in part, on account of the full cost base of the Bank of Rajasthan that was considered in fiscal 2012, whereas it was considered only from mid August onwards in fiscal 2011. The second half of fiscal 2012 would be comparable on a year-on-year basis and accordingly the increase in operating expenses has moderated as compared to Q2-2012. On a sequential basis operating expenses have increased by 1.4% primarily due to an increase in non-employee expenses as employee expenses remained broadly stable. The employee count decreased from 59,033 at September 30, 2011 to 57,733 at December 31, 2011. In Q3-2012, the Bank's cost-to-asset ratio was 1.7% and the cost to income ratio was 41.5%.

Let me move on to the next C on Credit quality: We saw a 26.7% decrease in provisions from Rs. 4.65 billion in Q3-2011 to Rs. 3.41 billion in Q3-2012.

Credit costs as a percentage of average advances were 58 basis points in Q3-2012 on an annualized basis. During the quarter, our net addition to gross NPAs was Rs. 1.81 billion. This comprises slippages of Rs. 8.77 billion and recoveries and upgrades of Rs. 6.96 billion. We have also written-off Rs. 4.68 billion during Q3-2012. The net NPA ratio declined to 0.70% at December 31, 2011 as compared to 0.80% at September 30, 2011. Our provisioning coverage ratio improved to 78.9% at December 31, 2011 compared to 78.2% at September 30, 2011. During Q3-2012, we had additions of Rs. 8.80 billion to restructured assets, primarily on account of restructuring of exposure to a corporate client and of mid market and SME cases that had been referred to CDR. After accounting for upgradations, our net restructured assets portfolio increased from Rs. 25.01 billion at September 30, 2011 to Rs. 30.70 billion at December 31, 2011. Our exposure to cases referred to CDR at December 31, 2011 and those yet to be restructured is about Rs. 13.00 billion. The key cases in this include GTL and 3i Infotech. With respect to GTL while we understand that some other banks have effected the restructuring in Q3-2012, the restructuring arrangement and execution in our case will take place in Q4-2012. Further, some small exposures could be restructured outside the CDR mechanism. The restructured portfolio as a consequence is expected to increase from the current levels.

Customer centricity: The Bank continues to focus on enhancing its customer service capability and leveraging on its increased branch network to cater to its customer base. The focus is on providing increased functionality and convenience to our customers through various technology channels. One such initiative that the Bank has recently launched is an active presence on social networking platforms, which allows the Bank's customers to access their bank account through facebook. Our facebook app, a first of its kind in the country, allows customers to check their account details, view account statements and place various service requests. Within a month of its launch, the ICICI Bank facebook page has over 36,000 fans.

Having talked about the progress on 5Cs, let me move on to the key financial performance highlights for the quarter.

1. Net interest income increased 17.3% year-on-year from Rs. 23.12 billion in Q3-2011 to Rs. 27.12 billion in Q3-2012. The net interest

margin improved from 2.64% in Q3-2011 to 2.70% in Q3-2012 mainly due to an increase in the yield on advances and investments, offset, in part, by an increase in the cost of funds. On a sequential basis, the net interest margin increased by 9 basis points from 2.61% in Q2-2012 to 2.70% in Q3-2012. The NIM on domestic business improved from 2.92% in Q2-2012 to 2.98% in Q3-2012, while international NIM increased from about 1.09% in Q2-2012 to 1.40% in Q3-2012.

2. Fee income grew by 4.7% on a year-on-year basis from Rs. 16.25 billion in Q3-2011 to Rs. 17.01 billion in Q3-2012. The continued moderation in fee income growth was primarily on account of corporate banking fee income which remains impacted by the slowdown in new projects/financial closures. During Q3-2012, there was continued momentum in granular fee income streams such as forex & derivative fees, transaction banking fees and remittance fees. The Bank will continue to focus on these revenue streams going forward.

3. Other income for the Bank increased by 149.2% from Rs. 1.03 billion in Q3-2011 to Rs. 2.56 billion in Q3-2012. This was primarily on account of dividend received from ICICI Life. Going forward, the life insurance subsidiary would continue to pay dividends based on its profitability and subject to regulations. In view of the visibility on profitability of the life insurance subsidiary, we would expect to receive dividend from ICICI Life on a quarterly basis in subsequent periods.

4. During Q3-2012, treasury recorded a loss of Rs. 0.65 billion on account of marked to market losses on the equity portfolio and marked to market losses on security receipts, offset in part by proprietary trading gains.

5. I have already spoken about the trends in operating expenses and provisions while speaking about the 5Cs strategy.

6. As a result of the above, the Bank's standalone profit before tax increased by 24.9% from Rs. 18.78 billion in Q3-2011 to Rs. 23.46 billion in Q3-2012.

7. The Bank's standalone profit increased by 20.3% from Rs. 14.37 billion in Q3-2011 to Rs. 17.28 billion in Q3-2012.

Part 3: Consolidated results

The profit after tax for the life insurance subsidiary was Rs. 3.67 billion in Q3-2012 as compared to Rs. 6.14 billion in Q3-2011. Here I would like to mention that the entire non-par surplus for the nine month period ended December 31, 2010 was recognized in the profit and loss statement for Q3-2011 while the same has been recognized on a quarterly basis in subsequent periods, including in Q3-2012. For 9M-2012, which is comparable on a year-on-year basis in its treatment of the non-par surplus, profit after tax increased by 105.8% to Rs. 10.56 billion compared to Rs. 5.13 billion for 9M-2011. The new business premium for the company was Rs. 11.97 billion in Q3-2012 with new business margins at 16.0%. Following a phase of transition to the new regulatory regime, ICICI Life has started witnessing healthy year-on-year increase in volumes. The new business annualized premium equivalent for ICICI Life increased by 50.6% from Rs. 5.71 billion in Q3-2011 to Rs. 8.60 billion in Q3-2012. ICICI Life saw an improvement in market share with the overall market share increasing from 5.96% for H1-2012 to 6.83% for Q3-2012. The private market share improved from 14.9% in H1-2012 to 19.1% for Q3-2012, based on new business retail weighted received premium.

ICICI General recorded a 38.3% increase in profit after tax from Rs. 0.73 billion to Rs. 1.01 billion in Q3-2012, driven by an increase in gross premiums and investment income. The company maintained its leadership position in the private sector with overall market share of 9.6% up to December 2011. I had spoken about the revision in the third party motor pool loss rates as mandated by IRDA in Q4-2011 and the subsequent capital infusion that we had done in Q4-2011. I had also mentioned that a peer review of the loss rates in the third party motor pool was being carried out. According to the results of the review, the loss rates have been further revised upwards to 159% for FY2008, 188% for FY2009, 200% for FY2010 and 213% for FY2011. This will impact the profitability of the company in Q4-2012. The overall estimated impact on the company is about Rs. 6.27 billion. The industry as a whole is in discussions with IRDA on the manner in which the liability has to be determined and treated in the financials. Along with a revision of the loss rates IRDA has also relaxed the solvency requirements for insurers to 1.1 at March 2012, 1.2 at March 2013, 1.3 at March 2014, 1.4 at March 2015 and 1.5 at March 2016 respectively. We will evaluate any requirement of infusing capital into the company in due course. Effective April 1, 2012, the existing third party motor pool has been dismantled by IRDA and a declined pool has been created instead. Under this mechanism, insurers would cede only those policies to the pool that they would not look at underwriting themselves. Insurers have been mandated to underwrite motor pool policies to the extent of the sum of 50% of their share in total gross premium and 50% share in total motor premium. Any shortfall against this requirement will be allocated to the insurers from the declined pool. Additionally, as against the earlier mechanism of ceding all third party premiums including those related to comprehensive policies, under the declined pool framework, only specific third party insurance premiums would be pooled. Accordingly, under this mechanism, the size of the pool would decline substantially and the allocation of losses to individual insurers would be based on their ability to meet the mandated targets.

With respect to our overseas banking subsidiaries, I would like to mention that the financials reported for ICICI Bank Canada are based on IFRS. As per IFRS financials, ICICI Bank Canada's profit after tax for Q3-2012 was CAD 6.6 million. Total assets for ICICI Bank Canada were CAD 5.28 billion at December 31, 2011, a marginal increase as compared to September 30, 2011. The capital adequacy ratio at December 31, 2011 was 31.6%.

ICICI Bank UK continued to see balance sheet consolidation during Q3-2012 with total assets declining from USD 5.13 billion at September 30, 2011 to USD 4.77 billion at December 31, 2011. During Q3-2012, ICICI Bank UK's investment in bonds of financial institutions, excluding those in Indian entities, declined further from about USD 288 million at September 30, 2011 to about USD 228 million at December 31, 2011. The exposure to European entities is less than USD 35 million and is to UK based institutions. The remaining investments are primarily for entities in US, Canada and the Asia Pacific region. The profit after tax for ICICI Bank UK for Q3-2012 was USD 7.7 million. The capital adequacy ratio was 29.4% at December 31, 2011.

As a result of the above, consolidated profits for Q3-2012 were Rs. 21.74 billion compared to Rs. 20.39 billion in Q3-2011. For the nine month period ended December 31, 2011, which is comparable on a year-on-year basis on account of the treatment of the non-par surplus in ICICI Life, consolidated profits increased by 28.9% from Rs. 45.25 billion in 9M-2011 to Rs. 58.33 billion in 9M-2012. The consolidated RoE improved from 13.7% in Q2-2012 to 14.2% in Q3-2012.

Part 4: Outlook for the rest of the year

There has been a moderation in economic growth, with a significant slowdown in new project activity. At the same time, several changes on the regulatory front are underway. Our outlook for the balance year is in this context.

With respect to loan growth, we expect overall loan growth to be about 18% for FY2012. We expect growth in the fourth quarter to be driven by retail assets growth, working capital demand and offtake from past project approvals in the corporate segment and priority sector lending. We would expect lower growth in the overseas loan book on account of constraints on availability of dollar funding at the desired costs. Here I would like to reiterate that the Bank would look at incremental dollar funding only from the perspective of growth and there is no fund raising requirement to meet liability maturities. The Bank was carrying liquidity of about US$ 900 million at December 2011 in its overseas branches, which together with expected inflows from asset maturities of about US$ 500 million would be adequate to meet an aggregate of about US$ 1.2 billion of liability repayments in Q4-2012. It is to be noted that in the current financial year, the Bank has already repaid liabilities of about US$ 2 billion, including about US$ 700 million in January 2012, while the last bond issuance of US$ 1 billion was in May 2011. For fiscal 2013, the expected inflows from asset maturities are about US$ 2.4 billion and would be adequate to meet the liability repayments of about US$ 2.7 billion.

Given the decline in demand deposits in the system, CASA deposit mobilisation has been challenging. Our target is to maintain the average CASA ratio at about 40% for FY2012.

We expect overall margins to remain stable at 2.7%.

With respect to fees, we have seen continued improvement in certain fee segments such as transaction banking, forex & derivatives and remittance fees. However, fee income was impacted by a slowdown corporate/project finance related fees due to moderation in new projects/financial closures. Going forward, growth in corporate fees would depend on traction in new project announcements/financial closures. We expect to sustain the current fee growth trends.

Operating expenses in FY2012 are expected to increase by about 18%. The increase would be mainly due to the increase in employee base in FY2011, full year cost base of Bank of Rajasthan and the average increase of about 11% in salaries effected for FY2012. For FY2012, we expect the 9 month trends for the cost-to-income ratio to be maintained.

For FY2012, we do not expect the provisions to average advances to exceed 70 basis points, based on the current RBI guidelines and our current assessment of asset quality trends. This includes any NPV impact that we would incur on restructuring of assets in Q4-2012.

Moderator: Thank you. We will now begin with the question-and-answer session. The first question is from the line of Mahrukh Adajania from Standard Chartered. Please go ahead.

Mahrukh Adajania: In terms of GTL, would you have a term loan exposure or a working capital exposure?

N. S. Kannan: We would have a term loan exposure.

Mahrukh Adajania: Is it possible to give any broad range of what the gross NPV hit would on GTL restructuring?

N. S. Kannan: That would be difficult. What I mentioned was that for the outlook of 70 basis points of provision expenses as a percentage of advances for the year as a whole, we have taken into account the NPV impact on account of restructurings.

Mahrukh Adajania: A lot of banks have classified Kingfisher as NPL but it remains standard with foreign and private banks, including ICICI Bank. I understand that a lot of private banks even those with smaller exposures than ICICI Bank have security in terms of shares of the liquor companies. Till what time would you wait before enforcing security? If the account stops paying, would you allow it to become NPL or would you enforce the security? What would be the process?

N. S. Kannan: I do not know about other banks. As of now the company is not in payment defaults to us and so there is no question of classifying that as an NPL as far as we are concerned. The exposure is a part of the restructured assets portfolio as of December 2011. If there is a payment default, we will take all actions appropriate to protect the interests of the Bank.

Mahrukh Adajania: Ok. Is the ₹ 1 billion increase in Other Income because of the dividend from ICICI Prudential Life Insurance?

N S Kannan: We received about ₹ 1.5 billion as dividend during the quarter from ICICI Life.

Mahrukh Adajania: Ok. Thank you.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI. Please go ahead.

Amit Premchandani: On the restructuring numbers, there was a decision in a court case regarding a CDR account. As per CDR, ICICI Bank also had exposure to that group. If that group has been in CDR, is it included in the restructuring number that you publish every quarter?

N. S. Kannan: I presume you are referring to Essar Oil.

Amit Premchandani: Yes.

N. S. Kannan: It would be difficult to discuss asset classification on name specific basis.

Amit Premchandani: But if some account has been restructured 7 or 8 years back, will it still appear in this ₹ 30.00 bn restructured portfolio?

N. S. Kannan: It may not be included in the reported restructured number has and could have already been upgraded.

Amit Premchandani: In terms of overall quality of the exposure to Essar Oil, do you think that it may turn into a NPA or is there any proposal for further restructuring that exposure?

Rakesh Jha: There is no restructuring or NPA proposal that we are looking at. Essentially, this tax liability had to be paid over time. On account of the judgement probably the payment will get accelerated. The company will have to discuss with the Gujarat government on the new repayment schedule and the cash flows will have to be adjusted to that extent. We do not see a NPL or restructuring issue regarding this exposure.

Amit Premchandani: In terms of your exposure to Kingfisher, you have the credit card receivable which flows through your bank. Is there a similar structure with other project finance loans?

N. S. Kannan: Typically in a project finance case the lead bank has the trust and retention account. So, all the disbursements to the company and all the payments from the lenders are made into that account and the company cash flows will get credited into that account. However, in a corporate finance transaction, it gets negotiated on a case specific basis depending on the lenders comfort level in terms of the security structure.

Amit Premchandani: If you have access to the trust account and you are the owner of the account, how does it help you in terms of whether you will have a first charge? If there is a cash flow of 100 and there is a repayment liability of 150, how does it get allocated? Is it a waterfall structure or do you have first right?

N. S. Kannan: It will depend on the contractual arrangement of the seniority of the lenders.

Amit Premchandani: Ok. Thank you.

Moderator: Thank you. The next question is from the line of Anish Tawakley from Barclays. Please go ahead.

Anish Tawakley: My understanding is that a restructured account is classified as standard or upgraded after one year of payment performance. Is that correct?

N. S. Kannan: Yes, the upgradation would happen after observing one year of satisfactory payment performance.

Anish Tawakley: So the ₹ 30.00 bn of outstanding restructured assets would have been restructured in the past one year?

Rakesh Jha: There could cases with a payment moratorium as well. So, all the loans would not typically get upgraded within one year.

Anish Tawakley: Ok. Is it one year of payment performance after the moratorium is over?

Rakesh Jha: Yes.

Anish Tawakley: Could you give me the gross restructurings in the past two quarters?

N. S. Kannan: It was about ₹ 7.5 billion in Q2-2012 and about ₹ 1.5 billion in Q1-2012.

Anish Tawakley: Ok. In terms of the NIM on the overseas book, how is it likely to evolve given that it has improved quite significantly?

N. S. Kannan: The overseas NIM in the past has been running between 1.3 and 1.4%. In the interim it had come down because of the increase in the funding cost while asset repricing did not happen completely. Over this year, the fresh lending has been at the higher rate and some of the lower spread loans are getting repaid or prepaid. As a result, the margins have increased. Going forward we expect the current level of margin to continue.

Anish Tawakley: So, overseas NIMs have now stabilized?

N. S. Kannan: Yes, our target would be to maintain it at the full year levels.

Anish Tawakley: Thank you.

Moderator: Thank you. The next question is from the line of Manish Oswal from KR Choksey Shares & Securities. Please go ahead.

Manish Oswal: Can I have the breakup of provision in terms of loan loss provisions and provisions for restructured assets for Q3-2012?

Rakesh Jha: Provisions for restructured assets are quite small. It is mainly provisioning for loan losses.

Manish Oswal: Ok. In the last few quarters we have seen tepid growth in the fee income, basically corporate fee income. So how do you see the fee income going forward in the next two to three quarters?

Rakesh Jha: The growth in Q3-2012 is about 4-5% on a YoY basis. For the nine months we are running at about 7-7.5%. For the full year, we will end up at around this level of growth in fee income. For the coming financial year, given that we are witnessing a reasonably good growth in transaction banking and the granular fee income of the Bank, we would expect to see double-digit growth in fee income.

Manish Oswal: Ok. Can I have a movement of NPAs during the quarter in terms of fresh additions and upgradations?

Rakesh Jha: Our additions were ₹ 8.77 billion. Recoveries and updates were ₹ 6.96 billion.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Brics Securities. Please go ahead.

Nilanjan Karfa: In ICICI Life, the expense ratio has shot up to 21%. Can you throw some light on that?

N. S. Kannan: It is essentially because of the decline in volumes due to adjustment to the new regulatory regime. The volumes have been slow to start with at the beginning of the year. Secondly, there is a bit of a seasonal effect where Q4 is higher in terms of volume. So it gets corrected for the year. There is no specific concern from our side on the expenses. In addition, ICICI Life is also embarking on a cost control plan. So, there should not be any issues.

Nilanjan Karfa: You said that you are looking further into cost control. I understand that this has been happening over the last four quarters. Could you throw some light on what more we are looking at in terms of cost control?

N. S. Kannan: One of the areas in which the insurance company has been working on is on the sales management side. We are focused on span of control and improving the productivity of the sales force. We have also taken several technology measures in terms of customer convenience as well as internal processes. We have been pursuing these initiatives and believe that ICICI Life would be among the most productive life Insurance companies.

Nilanjan Karfa: You got a dividend of about ₹ 1.5 billion in this quarter and the statutory profit for 9M-2012 for ICICI Life is somewhere around ₹ 10 billion. Is the payout ratio from the company going to be in the range of 14-16%?

N. S. Kannan: No, that is not correct. The company's board declared and approved the dividend in the month of December. While looking at it they had the six months results available to them. So this dividend is for the first six months of the financial year. Going forward, the expectation is to get regular dividend on a quarterly basis. It is subject to their board declaring a dividend and regulatory requirements. Going forward given the profitability of the company, we expect to get dividends on a quarterly basis.

Nilanjan Karfa: So, the profit for H1-2012 was somewhere around ₹ 6.5 billion for which you got a dividend of ₹ 1.5 billion. Is that going to be the payout ratio in future?

N. S. Kannan: ₹ 1.5 billion is our share of the dividend. It is a joint venture where we hold 74% and 26% is held by Prudential. So, you will have to adjust for that.

Nilanjan Karfa: Ok. Regarding ICICI Lombard General Insurance, have you decided to infuse more capital in Q4-2012 because of the third party motor pool loss rates?

N. S. Kannan: We have not yet decided. Both from a perspective of capital infusion as well as treatment from an accounting perspective the discussions are on with IRDA.

Nilanjan Karfa: Ok. On your NIM, there are a couple of levers in terms of how the margins may shape up in FY2013. Is it going to be around 2.8-2.9% going forward in FY2013?

N. S. Kannan: The cost of deposits is broadly plateauing now but one has to wait and see how the rate cut cycle plays out. Assuming that it will go as per our expectations, we have visibility for margins of about 2.8% in FY2013.

Nilanjan Karfa: Would that include your factoring of the 50% to 40% agri loans that you do and the running off of the securitization losses?

N. S. Kannan: That is correct.

Nilanjan Karfa: Thank you.

Moderator: Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Could you provide us in dollar terms the net interest income, PBT and PAT during the quarter? I wanted to understand what the contribution in constant currency was and what proportion has been added because of the currency movement?

Rakesh Jha: In the income statement, there is no impact because we take both interest income and interest expense on the average rate during the period. The impact would be on the balance sheet. The international book which is showing a 38% YoY growth. If you exclude the impact of currency movement, that growth is about 16.5%.

Bajrang Bafna: Ok. We understand is that probably the interest cycle is about to peak. Will this coincide with the peaking of the asset quality cycle? In this cycle except for a couple of issues which pertain to policies on power, aviation, textiles and mining, the asset quality has turned bad because of higher interest rates.

N. S. Kannan: Our own sense is that at least as far as our book is concerned, we do not expect the non-performing loans to increase significantly. As we have seen from the quarter's numbers also, the net NPA ratio has actually declined to 70 basis points. However, there are some cases which will have to undergo a restructuring. We have also said that this is not any sector-specific issue, but issues pertaining to specific cases. We have outstanding restructured assets of about ₹ 30 billion and we have said that currently there is about ₹ 13 billion of exposure in CDR. The credit costs, as I mentioned earlier, is likely to be around 70 basis points of the average loans for this year. Into the next year, we expect that our provision to average advances would be around 75 basis points levels.

Moderator: Thank you. The next question is from the line of Surendra Shetty from UBS. Please go ahead.

Surendra Shetty: Sorry, I missed a point on the refinancing requirement over the 2012 period. I guess there is a certain USD bond issuance which needs to be refinanced?

N. S. Kannan: If you are talking about FY2012?

Surendra Shetty: Yes.

N.S. Kannan: In the current financial year we had a bond issue repayment happening in January 2012, of about US$ 700 million. In anticipation of this, we had kept about US$ 900 million of liquidity as of end December. That was used to repay this bond issue. During Q4-2012, our bond redemptions would balance with our asset maturities. So, we do not have to access the market with a bond issue for repayment of our earlier bond issuance redemptions. What I mentioned was that we may have to access the bond markets if we want to increase the loan book on the international side. However, this will be evaluated based on the cost at which such bond issuances can be done. Even into financial year 2013, we are quite prepared to keep the international loan book at around the same level or even decline slightly. As I mentioned earlier, next year also the bond repayments are similar in quantum to the asset maturities. So we are comfortable on that front.

Surendra Shetty: That means you can cope with the bond repayments from internal cash generation?

N.S. Kannan: From the opening assets, yes.

Surendra Shetty: My second question is regarding your foreign subsidiaries. It seems you have a high level of capital there. Do you have any intention of reducing capital by repatriating a part of it?

Anindya Baerjee: We have said in the past that we will work towards rationalising the capital structure in the overseas subsidiaries and look at a business model there which will enable us to take the ROE to at least double-digits. But that is a longer-term plan, and it will take us one to two years to resolve that.

Surendra Shetty: Thank you.

Moderator: Thank you. The next question is from the line of Naga Deepika from Capital Market. Please go ahead.

Naga Deepika: You said you want to grow the retail book but I could see only the vehicle loans growing in the current quarter? Going forward, where do you see retail asset growth coming from?

N.S. Kannan: There are two reasons for the muted growth in our retail book. One, as I had mentioned during my opening remarks, the retail unsecured loans have been reducing and that decline continued into this quarter as well. Secondly, with respect to the mortgage disbursements, if you look at on a yearly basis, we do see a 15% increase. However, this has not translated into increase in the portfolio primarily because of the opening mortgages book being very large and continued repayments and prepayments happening out of the book. That has not been compensated by the fresh disbursements. When we said that we want to increase the proportion of retail and increase the growth in our retail book, we will continue to grow the auto book, the commercial vehicles book and also over a period of the mortgage book.

Naga Deepika: One more point on the RIDF and related investments. That book has been increasing both on YoY and QoQ basis. What is your guidance for this book and for priority sector lending?

Rakesh Jha: On the RIDF book, it is a function of the call that we have on based on the past shortfall. We would expect that to increase based on the past shortfall that we have had on the portfolio. It is very difficult to give an outlook for this because it depends on when we get a call from each of the government schemes in terms of the funding. On the priority sector lending itself last year we were short on the direct agriculture and weaker section lending. As you are aware, RBI has tightened some of the guidelines which have made it more difficult in terms of achieving the priority sector targets. We are in the process of building up these businesses but in the near-term it will be fair to assume that we will end up with a shortfall on our priority lending targets and some sub-targets within that.

Naga Deepika: My final question is on the slippages front. DDo we have any big accounts in ₹ 8.77 bn of slippages?

Rakesh Jha: There will be some corporate accounts in the slippages, but there is no large exposure that has slipped during the wuarter. The overall aggregate number itself is not a large number in the context of the overall loan portfolio size.

Naga Deepika: Thanks you.

Moderator: Thank you. The next question is from the line of Anand Vasudevan from Franklin Templeton. Please go ahead.

Anand Vasudevan: A question on the cost outlook and the cost-to-income ratio. You gave some numbers on number of employees and it looks like staff numbers also have declined. Is that correct?

N. S. Kannan: Yes.

Anand Vasudevan: Ok. What is the outlook for network expansion and staffing over the next year?

N. S. Kannan: We are in the process of adding about 300 more branches. Once we accomplish that we will review and see whether any further expansion is required in the short-term. We have about 57,000 people currently and believe that the branch productivity and the people productivity can still kick in. So with that we should be able to manage the cost-to-income ratio for FY2013 at about 41%.

Anand Vasudevan: And your outlook for cost to income for this year is 44%?

N. S. Kannan: No. For 9M-2012, the cost to income ratio is about 43.5%. We would be in that range for the whole year as well.

Anand Vasudevan: The other question is on your CASA and the increase in savings accounts deposits. You have said in the past that you will not be the first one to increase the savings rate, but if CASA is going to be a challenge, what are your thoughts on being more competitive at least on high value balances?

N. S. Kannan: If we look at split of CASA, the challenge has been mostly on the current account side even though the numbers are looking good at the end of Q3-2012 on account of the NHAI bond issue float. But the good news is that even on an average basis we have been able to increase the CASA ratio.. On the savings account front, if you look at the numbers for the quarter, we increased it by about ₹ 33 billion. So, despite the rate increases by smaller banks, we are quite happy with the performance on savings account deposit mobilisation during the quarter.

Anand Vasudevan: What is the rate of savings account customer additions that you are witnessing per month?

N. S. Kannan: It would be about 200,000-220,000.

Anand Vasudevan: What are the trends? Is that improving?

N. S. Kannan: It has been improving. There is no real concern on the savings account.

Anand Vasudevan: Ok. Thank you

Moderator: Thank you. The next question is from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal: How much of the treasury loss of ₹ 1.7 billion during 9M-2012 was on account of marked-to-market losses on the equity book?

N. S. Kannan: While we have not given an exact breakup, the bulk of the losses are on account of the equity portfolio. It could be some part realized and some part marked-to-market because. If you look at cases like GTL or Kingfisher, wherever we had some equity exposure we have to take marked-to-market at the end of every quarter. The other item in the treasury loss numbers is the marked-to-market on the security receipt portfolio. These two items account for the bulk of the treasury losses.

Vishal Goyal: And the security receipts will continue for the next year also or will it be over next year?

Rakesh Jha: It will be a lower amount next year.

Vishal Goyal: Thank you.

Moderator: Thank you. The next question is from the line of Krishnan ASV from Ambit Capital. Please go ahead.

Krishnan ASV: The pace of upgradations and recoveries has been fairly strong. What is resulting in this? Are there more intense efforts now on recovery?

N. S. Kannan: No, nothing significantly different from what we used to. It is just normal effort which continues.

Krishnan ASV: Ok. I think nearly 70-80% of your incremental credit growth during Q3-2012 has been towards the domestic corporate segment. What is the nature of exposure incrementally? Which sectors are growing in the portfolio right now?

N. S. Kannan: It is a bit broad-based. Disbursements from some of the projects finance approvals we have done in the past are happening. We have seen some expansion projects in iron & steel, cement etc. These are also areas where we have seen disbursements. We have also seen working capital disbursements happening during the quarter. So, I would say that it is a bit broad-based across sectors and across term loans and working capital loans.

Krishnan ASV: How has the commercial vehicle business performed in Q3-2012? Is it seasonal?

Rakesh Jha: There would be some buyout that we would have done in this segment, which would have qualified for priority sector lending. Otherwise, if you leave that aside the trend has been consistent over the last few quarters.

Krishnan ASV: Thanks.

Moderator: Thank you. The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Can we get an estimate of the international book that you have in the parent balance sheet? What is the breakup between working capital, ECB and foreign currency loans for domestic corporates?

Rakesh Jha: We have not given any specific breakup. It is largely lending to India-linked companies. It has a small proportion of trade finance. The large proportion is lending in the form of ECB which Indian companies brought into India. Overseas advances will also have M&A acquisition financing.

MB Mahesh: About growth on the retail portfolio, it has been quite a few quarters where the repayment continues to remain faster than the pace at which we are adding loans. When do we start witnessing the reversal of this trend and see some higher growth in the retail book, especially on the housing portfolio?

N. S. Kannan: We are hoping to see it in FY2013 itself. The lower growth in retail is partly on account of the unsecured loans still coming down. Also, the branch based sourcing model is taking a bit of time to result in an increase in volumes. We expect these things to get sorted out in FY2013 and we should see growth in the portfolio.

MB Mahesh: Is it fair to assume that of 1.5% of slippages that you have reported this quarter, the international book is not witnessing the same level of delinquencies as the overall book?

Rakesh Jha: Yes, that will be a fair assessment.

MB Mahesh: So in effect, the slippages that you are witnessing in the overall book will be somewhere in the range of about 1.7 to 1.8%, if I remove the international book? Even now the slippages seem to be on the higher side and on the retail side the overall gross NPA has not changed materially. Where are we still witnessing such large slippages in the last couple of quarters?

Rakesh Jha: If you look at the retail portfolio, some customers actually flow into the 90 day plus bucket and then post collections there is an upgrade that happens. As you know from last year we started reporting the gross additions on a gross basis for retail also. So it shows up as a gross addition and a recovery and upgradation as well. The gross addition to the NPL is also coming from the retail portfolio but we have a similar amount of upgrades happening. The net addition is close to zero on the retail side, but on a gross basis it is there both on the addition and deletion side.

MB Mahesh: The kind of slippages that you are witnessing in this portfolio currently and what you have underwritten in terms of loans post 2009, are you still witnessing a large part of these NPLs coming from the pre-2008 loans?

Rakesh Jha: No, as I said on the retail side it is a normal operational matter. It is not a concern at all.

MB Mahesh: Has there been any improvement in the underwriting that you have seen post-2009 and pre-2009?

N. S. Kannan: The retail credit losses are close to zero and overall, given the economic environment, we have been able to contain the provisions at less than 70 basis points as against our earlier estimate of 80 basis points. We are looking at 75 basis points for the next year as well. The second issue is of the restructured loan increases. From our own experience of slippages from restructured to NPL in the past during several quarters, we have seen it is less than 10%. So, it also not fair to assume that restructuring is to delay a NPL situation. In summary, I would say that the asset quality has played out quite well and to our satisfaction.

MB Mahesh: Thanks.

Moderator: Thank you. The next question is from the line of Jatindar Aggarwal from RBS. Please go ahead.

Jatindar Aggarwal: When we try to calculate your yield, it seems lower compared to competition. Is it on account of the overseas book or a difference in the domestic book?

N. S. Kannan: The yield is a mix of overseas and domestic. If you have to compare with competition our proportion of overseas branches are higher than competitors. Also some of our competitors would be active in retail unsecured loans domestically where yields are much higher. In comparison our book has been coming down. These could be the two reasons for the overall yield being comparatively lower.

Jatindar Aggarwal: Where can we see a delta in terms of your average yield on loans starting to move up? How is the gap actually getting bridged relative to competition?

Rakesh Jha: For the overseas portfolio, you can assume that we are lending at LIBOR plus 350-400 bps. If you calculate backwards, you will get the number in terms of what the yield on domestic advances is. On the advances side our yields would be comparable if not better than most of the other banks. One challenge in terms of margin for us has been that our yield on investments has been lower. This is an area where we are working on in. On the funding cost side, we also have to work to increase the average CASA as a percentage of total funding.

Jatindar Aggarwal: My second question is regarding credit substitutes. Is it fair to assume that this book is about ₹ 400.billion? What I have done is total investments minus SLR minus equity investments and RIDF. The balance is about ₹ 400 billion last year and about ₹ 430 billion currently.

Rakesh Jha: That would broadly be the correct approach.

Jatindar Aggarwal: What is your sense on this credit substitutes portfolio relative to competition? Some of your peers seem to be growing this book very strongly.

Rakesh Jha: If you look at credit substitutes, it would include part of the book that we maintain for liquidity purposes, which will be certificate of deposits. Whether we put money into CDs or into mutual funds or into government securities that will be a function of our views on each of those specific markets. In credit substitutes from a lending point of view, the corporate bonds and debentures is one book which we have also grown over the last year and a half. We do not want to increase it beyond a point because it does carry market risks.

Jatindar Aggarwal: Thanks

Moderator: Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: What is the domestic NIM?

N. S. Kannan: 2.98%

Hiren Dasani: I think in one of the responses earlier Rakesh mentioned that overseas NIM at about 1.4% is now more or less at a stable level. Is there not scope for improvement there?

N. S. Kannan: No, I think it will be at about 1.4% levels.

Hiren Dasani: So then if there is any NIM expansion next year, it has to happen on the domestic side?

N. S. Kannan: That is true and further, the mix of domestic and international business could change. The mix traditionally used to be about 25% international, but has now it has become close to 28-29% primarily because of the exchange rate fluctuation. So, with the exchange rate stabilizing and the growth being more on domestic side going forward, the proportion is expected to normalise. The uptick in the mix in favour of domestic could give us a positive with respect to margins.

Hiren Dasani: But do you expect domestic NIM to increase meaningfully from here on? If you look at your peer group which is at 40% CASA ratio, they are at between 3.5 -3.75% for NIM.

N. S. Kannan: Over a medium-term our target would be to improve the domestic NIMs.

Hiren Dasani: But what about FY2013? Do you think NIMs would be better than what they are currently?

N. S. Kannan: We are targeting an overall NIM of about 2.8% basis points for FY2013. The situation could be different as we go forward into the year because the rate increase cycle is now over. One has to see how the things play out and how the repricing happens on assets and liability side when interest rates decline. That is why I am saying that as of now we have the visibility for 2.8% for overall NIM. Beyond that, we will have to see how things play out.

Hiren Dasani: On the restructured book, have you guided for any increase in the next quarter from ₹ 30.00 billion? What would be the potential restructured book by March 2012?

N. S. Kannan: We have said that ₹ 30.00 billion is the outstanding restructured portfolio as of December 2011. We also said that about ₹ 13.00 billion is the amount of our loan exposure which is in the CDR mechanism undergoing restructuring currently. So that addition will happen in Q4-2012.

Hiren Dasani: When you report the ₹ 30.00 billion restructured book, it is basically net of some repayments which would have happened?

N. S. Kannan: That is correct.

Hiren Dasani: Do you see the pipeline ₹ 13.00 billion moving up materially over the next three to six months?

N. S. Kannan: Given the sort of situation we are in, there could be a few assets which can get added to that number.

Hiren Dasani: But ₹ 13.00 billion includes all the non-CDR cases?

N. S. Kannan: That is correct.

Hiren Dasani: Regarding the life insurance profits, it is heartening to know that this subsidiary has started paying dividend now and that we expect it on a quarterly basis going forward. Does it mean that the growth outlook on that business has substantially changed?

N. S. Kannan: The life insurance business itself has an ability to grow between 15 to 20%. The primary issue was that growth came down because of the regulatory changes. We have put substantial capital in that business and the solvency and margins are far in excess of the regulatory requirement. When the Board looked at the dividend proposal, they also looked at whether the payment of dividend was going to impact future growth and solvency ratios. There is any issue of this dividend constraining growth of the life insurance company.

Hiren Dasani: The reason I asked this question was that if one talks to industry participants one believes that because of the surrender charges being higher for the earlier book, possibly some of the profits which life insurance companies are witnessing today are not sustainable.

N. S. Kannan: It is indeed true that part of the profit would be coming from the surrender charges of the past but it is also true that the cost structure has gotten much better. The efficiencies have started kicking in and the scale has been achieved. So those economies are also resulting in profits for the new business. Also, the renewal premium is giving us some fund management charges and ongoing revenue streams. The overall profit is a combination of these streams and there should not be any concern on that account.

Hiren Dasani: And lastly, what is the builder loan portfolio and excluding that what would be the core mortgage growth?

Rakesh Jha: The builder loan book has come down by about ₹ 9-10 billion during the Q3-2012.

Hiren Dasani: What would be the core mortgage growth?

Rakesh Jha: Compared to December 2010, if you look at home loans excluding the builder financing, the growth is about 5-5.5%. There is not a major difference on that account. For the quarter, it indeed does have a difference because for the quarter the builder loan portfolio has declined.

Hiren Dasani: The mortgages have gone up in Q3-2012?

Rakesh Jha: For Q3-2012, they have.

Hiren Dasani: Thanks.

Moderator: Thank you. Ladies and gentlemen due to time constraints we will take the last question from the line of Adarsh P from Prabhudas Lilladher. Please go ahead.

Adarsh P: On fee income when you say the growth in next year could be in double-digits what could be the downside risks?

N.S. Kannan: We really hope that there is no downside to that. While the corporate fee income has remained under pressure in Q2-2013 and Q3-2012, alternate streams like transaction banking, remittances and forex & derivatives are growing. Also next year, given a lower base we expect a better year in terms of the third-party distribution fees. So given these streams, we believe that we can achieve a double-digit growth in fee income next year .

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the call back to Mr. Kannan for closing comments. Please go ahead sir.

N.S. Kannan: Thank you once again for joining in.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Bank that concludes this conference call.