ICICI Bank Limited
Earnings Conference Call – Quarter ended June 30, 2012 (Q1-2013)

July 27, 2012

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Moderator: Ladies and gentlemen, good day and welcome to the ICICI Bank Q1 FY '13 Results Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' followed by '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 and CFO of ICICI Bank. Thank you and over to you sir.

N. S. Kannan: Good evening and welcome to the conference call on the financial results of ICICI Bank for the quarter ended June 30, 2012, which is the first quarter of financial year 2013, that is Q1-2013.

As always, my remarks this evening would revolve around four key themes:

Part 1: The domestic macro-economic and monetary environment;

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

Part 3: Consolidated results;

Part 4: Outlook for the full financial year 2013.

Part 1: The domestic macro-economic and monetary environment

Global economic conditions continued to remain uncertain during the quarter. While concerns of a sovereign default and the possibility of Greece exiting the Eurozone abated, the possibility of a prolonged economic recession remains, with data indicating that even the core economies in the region are slowing down.

On the domestic front, inflation risks persisted, even as there were indications of a growth slow down and weak investment climate. The index of industrial production (IIP) was considerably weak during the quarter, recording a decline of 0.9% in April 2012 and a growth of 2.4% in May 2012 on a year-on-year basis. Merchandise exports growth, which slowed since the second quarter of fiscal 2012, continued to moderate, and recorded a decline of 0.7% during Apr-May 2012 on a cumulative basis. The deceleration in imports was sharper with a decline of 2.4% during the same period, mirroring the slowdown in growth and investments. The GDP growth for fiscal 2012 was 6.5% as compared to advance estimates of 6.9%.

Overall inflation eased slightly from 7.69% in March 2012 to 7.25% in June 2012. However, food inflation rose from 10.11% to 10.81% during the period. Fuel and manufactured products inflation eased during Q1-2013, while core inflation, which is manufactured products excluding food products, remained flat at around 5.0%.

Systemic liquidity eased during the first quarter of fiscal 2013 compared to the fourth quarter of fiscal 2012. The average daily borrowing by banks under the LAF window came down to about Rs. 970 bn during Q1-2013 from about Rs. 1.4 trillion during Q4-2012. Liquidity pressures have further eased in July 2012 with average LAF borrowings reducing further to less than Rs. 500 bn. Interest rates on market instruments like Commercial Papers and Certificate of deposits normalized during the quarter with the easing of liquidity in the system. The 3-month CP rates which had crossed 11.0% during Q4-2012 moderated to about 9.5% during Q1-2013. A similar trend was seen in CD rates as well.

Considering a reduction in inflation recorded in the fourth quarter of fiscal 2012 and signs of slowdown in growth, the Reserve Bank of India reduced the repo rate by 50 basis points in April 2012. However, with inflationary trends persisting subsequently, the Reserve Bank of India left policy rates unchanged in the subsequent policy announcements. The yield on the 10-year benchmark government securities eased during Q1-2013 with yields declining by about 40 basis points to 8.2% during Q1-2013.

Equity markets remained volatile during the first quarter of fiscal 2013, mainly due to uncertainties around resolution to the European debt crisis and weak domestic macroeconomic data. FII inflows during Q1-2013 were USD 724 mn on a net basis. The benchmark BSE Sensex moved from 17,404 at March 30, 2012 to a low of 15,948 in May 2012 before increasing to 17,430 at June 29, 2012. The Rupee depreciated significantly against the dollar by about 10% from Rs. 51.2 per USD at end-March 2012 to Rs. 56.3 per USD at end-June 2012. The Reserve Bank of India announced several measures to arrest the Rupee movement including enhancing foreign investment limit in government securities by USD 5 bn to USD 20 bn, allowing long-term investors like sovereign wealth funds, endowment funds, insurance and pension funds to invest in government securities, relaxing external commercial borrowing norms for manufacturing and infra companies etc.

Credit offtake from scheduled commercial banks remained moderate during Q1-2013 on a year-on-year basis. Non-food credit recorded a 17.4% increase year-on-year at July 13, 2012 compared to a growth of 16.8% at March 23, 2012 and 19.3% at March 30, 2012. Similar trends were seen with respect to deposit growth. Total deposit growth recorded a 14.7% increase year-on-year at July 13, 2012 compared to a growth of 13.5% at March 23, 2012 and 17.4% at March 30, 2012 to 13.4% at June 29, 2012. Demand deposits grew by 6.6% year-on-year at July 13, 2012, compared to 15.3% at March 30, 2012 and a decline of 2.6% at March 23, 2012. Growth in time deposits decelerated from 17.7% at March 30, 2012 to 15.6% at July 13, 2012.

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

With this background, I now move to Part 2 on the performance of the Bank during the quarter. Let me begin with the progress on our 5Cs strategy:

With respect to Credit growth: Total advances of the Bank increased by 21.6% on a year-on-year basis from Rs. 2.21 trillion at June 30, 2011 to Rs. 2.68 trillion at June 30, 2012. The growth was largely driven by domestic corporate loans which increased by 28.3% on a year-on-year basis and net advances of overseas branches which increased by 34.5% 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 8.1%. Growth in the retail loan portfolio increased to 10.3% on a year-on-year basis at June 30, 2012, compared to 7.7% at March 31, 2012. The growth in the retail portfolio was driven by growth in the secured retail lending categories with outstanding mortgages increasing by 9.0%, auto loans increasing by 17.0% and commercial business loans increasing by

22.7% on a year-on-year basis. The unsecured retail portfolio for the Bank was Rs. 35.48 billion at June 30, 2012, at about the same level as at March 31, 2012.

Moving on to CASA deposits: Mobilisation of CASA deposits has been challenging given the volatility in demand deposits in the system. Despite this, the Bank maintained its average CASA ratio. The average CASA ratio during Q1-2013 was 39.1%, at the same level as in the previous quarter. On an absolute basis, the Bank's savings account deposits grew by Rs. 18.77 billion in Q1-2013. Overall, current account deposits declined by Rs. 42.19 billion. The period end CASA ratio for the Bank was 40.6% at June 30, 2012 as compared to 43.5% at March 31, 2012.

On Costs: For Q1-2013, operating costs, including DMA expenses, were higher by 16.7% on a year-on-year basis. On a sequential basis operating expenses have declined by 4.4% due to lower bonus provision in Q1-2013 as compared to Q4-2012. For Q1-2013, the Bank's cost-to-asset ratio was 1.8% and the cost to income ratio was 41.8%.

Let me move on to the next C on Credit quality: Provisions remained at broadly the same level on a year-on-year as well as sequential basis. Provisions were Rs. 4.66 billion in Q1-2013 compared to Rs. 4.54 billion in Q1-2012 and Rs. 4.69 billion in Q4-2012. Credit costs as a percentage of average advances were at 71 basis points in Q1-2013 on an annualised basis. On a sequential basis, provisions remained largely unchanged as lower restructuring provisions were partly offset by standard asset provisioning of Rs. 0.76 billion in Q1-2013, reflecting the growth in the loan book. During Q1-2013, our gross additions to gross NPAs were Rs. 8.68 billion, as compared to gross additions of Rs. 30.62 billion during the full year FY2012. Our recoveries in Q1-2013 were Rs. 4.00 billion, resulting in net additions to gross NPAs of Rs. 4.68 billion. We have also written-off Rs. 1.20 billion during Q1-2013. On a full year basis, the Bank does not expect credit costs to average loans to exceed 75 basis points. The net NPA ratio was 61 basis points at June 30, 2012 as compared to 62 basis points at March 31, 2012. Our provisioning coverage ratio was 80.6% at June 30, 2012 as compared to 80.4% at March 31, 2012. The net restructured assets portfolio decreased from Rs. 42.56 billion at March 31, 2012 to Rs. 41.72 billion at June 30, 2012, primarily due to sale during the quarter of the Bank's loan to Kingfisher Airlines, classified as standard restructured at March 31, 2012. During Q1-2013, the Bank saw gross additions of Rs. 3.53 billion to its net restructured portfolio.

Final C on 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. During Q1-2013, the Bank added 360 ATMs to its network, taking the total number of ATMs to 9,366 at June 30, 2012 to supplement its branch network of 2,755 branches at the same date. The Bank also focused on increasing convenience for customers while transacting through various channels. Accordingly, during Q1-2013, the Bank enhanced its website to offer a differentiated portal experience to different segments of the customers. This enabled faster access to services based on individual needs. The Bank's facebook initiative continues to be appreciated by customers with over 650,000 fans for the ICICI Bank facebook page.

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

Net interest income increased 32.4% year-on-year from Rs. 24.11 billion in Q1-2012 to Rs. 31.93 billion in Q1-2013. The net interest margin improved from 2.61% in Q1-2012 to 3.01% in Q1-2013, an increase of 40 basis points. On a sequential basis, the net interest margin was at a similar level as compared to 3.01% in Q4-2012. The NIM on domestic business was at 3.32% in Q1-2013 as compared to 3.31% in Q4-2012 and 2.94% in Q1-2012. International NIM improved from 1.52% in Q4-2012 to 1.60% in Q1-2013 on account of some repricing of assets.

Fee income increased by 4.4% on a year-on-year basis from Rs. 15.78 billion in Q1-2012 to Rs. 16.47 billion in Q1-2013. 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 Q1-2013, there was continued momentum in granular fee income streams such as forex & derivative fees, transaction banking fees and remittance fees. In addition, the Bank has also seen growth in retail asset fees in Q1-2013.

Other income for the Bank increased from Rs. 0.90 billion in Q1-2012 to Rs. 2.54 billion in Q1-2013, primarily due to higher dividend received from subsidiaries. In Q1-2013, the Bank received dividend of Rs. 1.33 billion from ICICI Bank Canada following approval from their regulator OSFI. Further, in Q1-2013, the Bank has continued to receive dividend from ICICI Life, which had not been the case in Q1-2012 as dividend payouts by ICICI Life commenced from the third quarter of the last fiscal.

During Q1-2013, treasury recorded a loss of Rs. 0.21 billion as compared to a loss of Rs. 0.25 billion in Q1-2012 and a profit of Rs. 1.58 billion in Q4-2012. The loss in Q1-2013 was primarily on account of the loss on security receipts and losses on the Bank's equity investments, offset in part, by proprietary trading gains and gains on the fixed income portfolio.

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

As a result of the above drivers, the Bank's standalone profit before tax increased by 39.5% from Rs. 17.80 billion in Q1-2012 to Rs. 24.83 billion in Q1-2013.

The Bank's standalone profit after tax increased by 36.3% from Rs. 13.32 billion in Q1-2012 to Rs. 18.15 billion in Q1-2013.

Part 3: Consolidated results

The profit after tax for the life insurance subsidiary was Rs. 3.49 billion in Q1-2013 as compared to Rs. 3.39 billion in Q1-2012. This level of net profits reflects an annualized return of about 28.5% on the Bank's invested capital. 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 28.7% from Rs. 4.43 billion in Q1-2012 to Rs. 5.70 billion in Q1-2013. The new business margin for Q1-2013 was 15.0%. The retail weighted received premium for ICICI Life increased by 30.0% in Q1-2013 compared to a 2.8% year-on-year decline for the private sector and 26.3% growth for the industry. ICICI Life maintained its market leadership in the private sector with an industry market share of 5.3% on the basis of retail weighted received premium for Q1-2013.

ICICI General recorded a 107.5% increase in profit after tax from Rs. 0.40 billion in Q1-2012 to Rs. 0.83 billion in Q1-2013, 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 8.7% in Q1-2013. As I had mentioned during the fourth quarter results call, during FY2013, ICICI General would have some impact of the motor third party business as the liability is actuarially valued periodically and due to any share of the declined pool accruing to the company. However, despite this impact, we expect the company to be profitable in FY2013.

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 Q1-2013 was CAD 11.9 million as compared to CAD 12.3 million for Q1-2012. Total assets for ICICI Bank Canada were CAD 5.32 billion at June 30, 2012, a marginal increase as compared to March 31, 2012. The capital adequacy ratio at June 30, 2012 was 31.8%.

ICICI Bank UK continued to see balance sheet consolidation during Q1-2013 with total assets declining from USD 4.08 billion at March 31, 2012 to USD 3.86 billion at June 30, 2012. The profit after tax for ICICI Bank UK for Q1-2013 was USD 4.4 million compared to USD 5.0 million in Q1-2012. The capital adequacy ratio was 34.1% at June 30, 2012.

Now let me talk about the overall consolidated profits.

The consolidated profits for Q1-2013 increased by 24.6% to Rs. 20.77 billion compared to Rs. 16.67 billion in Q1-2012. The consolidated RoE improved from 12.0% in Q1-2012 to 13.3% in Q1-2013.

Part 4: Outlook for the full financial year 2013.

As I had mentioned earlier, 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 fiscal 2013 is in this overall context.

For fiscal 2013, we estimate our domestic loan growth to be slightly above system growth, driven primarily by growth in the retail portfolio and continued offtake out of past project sanctions and working capital demand in the corporate segment. We currently estimate the system growth for FY2013 to be about 17%-18% and accordingly expect our domestic loan growth to be about 20% for the full year. However, given the current environment and the large amount of repayments on the overseas loan portfolio in FY2013, we would expect our overseas loan book to remain flat or decline slightly in FY2013.

For FY2013, the target for average CASA ratio would remain at about 38%-40%.

With respect to margins, while there is some uncertainty on the system interest rates and the trend in lending and deposit rates going forward, the Bank would endeavour to achieve an overall margin of about 3.0% for the full year FY2013 as compared to 2.73% for the full year FY2012.

For FY2013, we continue to expect overall fee income growth to reach double digits driven primarily by the momentum in granular streams such as forex & derivative fees, transaction banking fees, remittance fees and retail fees.

With respect to operating expenses, we would be working to keep the cost to income at about 41%-42%

With respect to credit costs, the Bank expects that it would be required to make standard asset provisioning going forward. However, overall credit costs, including such standard asset provisioning, is not expected to exceed 75 basis points for the full year FY2013, based on the current RBI guidelines and our current assessment of asset quality trends.

The Bank expects to achieve continued improvement in the standalone RoA from 1.50% in FY2012 to about 1.70% over the next two years. The Bank would target to reach an exit run rate of 15% for consolidated RoE by the end of this financial year. Our growth strategy will continue to be balanced vis a vis risk and profitability, given the overall global and domestic environment.

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

Moderator: Ladies and gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Suresh Ganpathy from Macquarie. Please go ahead.

Suresh Ganpathy: I had a question on the revised priority sector lending guidelines which were released about a week ago. I wanted to know whether it would have any impact. How much of your portfolio would have to be declassified? To give some examples, lending to housing finance companies has been declassified and lending to certain companies in the supply chain of the agri sector has been declassified. So can you just give us some indication of the impact?

N.S. Kannan: There would be some impact of the priority sector guidelines. As per the Nair Committee recommendations, we were hoping that RIDF investments would get considered on an outstanding basis for computation of the priority sector obligations but that has not happened. Under the guidelines RBI has made certain categories of loans ineligible under priority sector lending. However, there are also some positives such as buyouts under certain categories continuing to be eligible for the priority sector lending. So, the guideline is a mix of some positives and negatives. The Bank will continue with its strategy of granularly building the priority sector portfolio. The challenges on account of the guidelines will be there across the banking system. So, relatively we do not expect to be disproportionately impacted. Further, as we have articulated earlier, we are factoring in some shortfall in achieving our priority sector lending targets for FY2013. We do not expect those estimates to change significantly based on the revised guidelines.

Suresh Ganpathy: The outstanding RIDF anyways was not allowed to be computed as a part of PSL in the earlier guidelines as well. It was a part of the Nair Committee recommendations.

N.S. Kannan: I agree with you but given the Nair Committee recommendations we were hoping for it to be implemented, which has not happened now.

Suresh Ganpathy: So, can you quantify what could be the amount in your book in FY2012 if you were to declassify them as per the revised guidelines?

Rakesh Jha: These guidelines have come recently and we will have to look at each of these clauses and conduct a full assessment of the portfolio in terms of what the declassification could be and what could be the additional things which could get classified as PSL. We would not be able to give a specific number of the quantitative impact right now.

Suresh Ganpathy: And lastly on the losses on security receipts, what could be the loss during this quarter?

Rakesh Jha: About Rs. 1 billion.

Moderator: Thank you. The next question is from the line of Subramanian PS from Sundaram Mutual Fund.

Subramanian PS: On the revised restructuring norms, if you were to adhere to these norms how would the restructured loan book look like. Would it be any different from the number that you have previously disclosed?

Rakesh Jha: The final guidelines have not yet been issued. It is a working group report that has been released. We will have to look at the exact guidelines when it comes, for the classification of restructured loans and upgradations. The report mentions that upgradation of restructured loans should be aligned with existing RBI guidelines on restructured loans i.e. when general provision requirement on restructured loans normalizes or the risk weight normalizes as per the current guideline, the restructured loan should be upgraded to standard assets. Currently, as you are aware, our reporting is based on a one year period of payment performance which is the same criteria which given by RBI for the risk weighted assets. A restructured loan carries 125% risk weight till one year of payment performance after which the risk weight reverts to 100%. RBI has additionally mentioned about the general provision criteria also being included. Once the final guidelines come we would get a sense of what exactly would be the impact. However, in terms of the general provision increase and other impacts, it is not going to be a significant impact for us given our current portfolio.

Subramanian PS: On the dividend that you started getting from your Canadian subsidiary, could you share with us what the tax implication of this is for both the Canadian subsidiary and the Bank?

Rakesh Jha: We are required to pay 15% tax on the dividend income that we receive from our overseas subsidiaries.

Subramanian PS: The branch expansion we have seen is quite muted. Also CASA growth is very low. I wanted to know what the outlook for branch expansion is and what the reason for the slow expansion is.

N.S. Kannan: On branch expansion, we expect to add about 200 to 250 branches in FY2013. On CASA, I would like to split that into savings accounts and current accounts. If you look at the savings account deposits on a y-o-y basis, we have seen a growth of about 17%. Further, based on the period end numbers savings account deposits increased by about Rs. 19 billion during the quarter. However, increase in average SA was much higher than that keeping the average CASA ratio at about 39%. So there is no real concern from savings account perspective. On current accounts there is a general concern at a system level as some of the banks who have reported their results have also seen a significant sequential decline in current account deposits. Hence, it is an industry phenomenon given the corporate cash accrual performance and in the current environment the sensitivity of corporates to leaving cash without earning any interest. Hence, we are seeing trends similar to industry for CA and we do not have any specific concern on SA.

Subramanian PS: Apart from the dividend from the Canadian subsidiary, what was the quantum of the other dividend income?

N.S. Kannan: The other primary component is dividend from ICICI Life of about Rs. 750 million. As we have said earlier, we expect similar dividend payouts from ICICI Life every quarter.

Subramanian PS: Would the Canadian subsidiary start giving dividend every quarter from now?

N.S. Kannan: No, we do not expect to receive dividend from Canadian subsidiary every quarter. As we have said, this is the first time we got equity dividend after OSFI approval. Dividend from ICICI Bank Canada may come on an annual basis, subject to regulatory approvals.

Moderator: Thank you. The next question is from the line of Saikiran from Espirito Santo.

Saikiran: With respect to your margin guidance, I believe last time you mentioned about 10 to 15 basis points improvement and now you are talking of about 30 basis points improvement. Can you explain what has changed in the last quarter to improve the guidance?

N.S. Kannan: We have been focusing a lot on margin improvement. The international margin was about 1.60% during the quarter and domestic margin was also maintained sequentially at about 3.32%. We have been quite disciplined in terms of incremental lending and wherever there are opportunities to reprice, we have been doing it. Hence, we are now confident of saying that we will get to about 3% for the fiscal year 2013.

Saikiran: Can you comment on the domestic advances growth for FY2013 and how this could pan out between retail and corporate?

N.S. Kannan: As we have mentioned earlier, we would like to get to between 15% to 20% retail loan growth, depending on the market conditions. Further, on the corporate performance, sales growth of large corporates has been about 17% which will entail working capital demand. On the project finance side, disbursements are happening from past sanctions. Based on this, we expect the domestic corporate loan growth to be 20% plus. Our international loan book has declined marginally on a sequential basis in dollar terms.

Saikiran: Can you help us with builder loan portfolio size and the DMA expense number for the first quarter?

N.S. Kannan: Builder loans are about 3.0% to 3.5% of our loan book. The DMA expense is a small number which is included in the overall operating expenses. It is about Rs. 0.50 to Rs. 0.60 billion.

Moderator: Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management.

Ashish Sharma: I wanted to get a sense on commercial business loans. We are seeing that Q-o-Q that there is traction in the book growth. What are the segments we are targeting?

N.S. Kannan: Commercial business loans largely comprise the commercial vehicles business and part of that also qualifies for the priority sector. We call it commercial business because it also includes commercial equipment loans but predominantly, it will be commercial vehicle loans.

Ashish Sharma: So in CV which segments we are targeting? Is it LCV? How is the traction, because Q-o-Q we are seeing quite a sizeable increase in that portfolio.

N.S. Kannan: Largely, HCV and MCV segments are what we are focusing on. Further, just to clarify, the growth numbers I had said earlier are y-o-y growth numbers.

Ashish Sharma: In terms of yields, you mentioned that we are seeing re-pricing benefits. Are the yields stable and do we expect yields to improve hereon?

N.S. Kannan: It will depend on the policy environment. However, we expect the yields to be stable. Over a period of time the funding cost may come down as the wholesale deposit rates are coming down already. Hence, we are able to confidently say that we will be able to maintain a margin of 3% for the current financial year.

Ashish Sharma: Where do you see domestic NIMs stabilizing?

N.S. Kannan: You can expect them to stay at around the same levels, as 1.6% for international NIM would be close to the peak level.

Ashish Sharma: So you do not expect any further improvement in domestic NIM from 3.3%?

N.S. Kannan: Currently, we expect stable domestic NIMs at this level, but we will have to keep on evaluating how the yields and costs move in the system. We will focus on protecting the 3% overall margins.

Moderator: Thank you. The next question is from the line of Jyothi Kumar from Spark Capital.

Ganeshram: This is Ganeshram here. On restructured assets which have been upgraded, is there any reversal of provisions? If any could you quantify that amount please?

Rakesh Jha: The amount would be negligible for the quarter.

Ganeshram I presume the restructured assets from your overseas loan book will be included in your reported restructured portfolio size. If it is indeed so, could you tell me are overseas regulators looking at restructuring the way we do and not the way it is done in those specific geographies?

Rakesh Jha: It will vary from geography to geography and will depend on each regulator whether they treat it as impaired or restructured loan. For example, for an asset in Singapore, regulatory requirements in Singapore would be considered and RBI regulations will be overriding if they are stricter than the regulations in Singapore.

Ganeshram: So you are saying that RBI rules will override the regulatory requirement in those countries?

Rakesh Jha: It will be worst of the two for asset classification.

Ganeshram: I understand that in most countries we find the regulation lot tighter. In that case we should not be having too much loans restructured from the overseas loan book. Is that a fair assumption to make?

Rakesh Jha: It is a fair assumption to make, but indeed there are times when we would end up restructuring loans in the overseas branches.

Ganeshram: Lastly, from the total pool of your restructured assets, could you tell me the proportion which has turned into NPA or has got repaid or upgraded?

Anindya Banerjee: About 5% to 6% of the restructuring that we have done have slipped into NPLs. The outstanding amount would have reduced as per the normal repayment schedule and we would have upgraded out of restructured assets based on payment performance.

Ganeshram: The 5% slippage will be on the existing portfolio size or on the total cumulative restructurings?

Anindya Banerjee: It will be on the total cumulative restructuring.

Ganeshram: Could you tell me that number please?

Anindya Banerjee: We report our restructured assets net of upgrades that we do after one year of satisfactory payment performance.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Standard Chartered. Please go ahead.

Mahrukh Adajania: In terms of slippages, was it from retail or anything specific there?

Rakesh Jha: The slippages continue to be in line with the trend that we have seen over the last few quarters. It includes retail, some delinquencies in the SME segment and the mid-market clients.

Mahrukh Adajania: Now there is no visible large restructuring pipeline. is that correct?

N.S. Kannan: That is correct. If you look at the CDR references today our exposure to those cases is not significant.

Mahrukh Adajania: In terms of any of the under implementation power projects, the asset quality scenario does not change from what was indicated in the fourth quarter, right?

N.S. Kannan: That is correct.

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

Anish Tawakley: I had two questions; firstly on the mix of loan growth in this quarter on a Q-o-Q basis, domestic corporate loan book has grown by 15% while retail loan book has grown by about 1.2%. So which quarter would we expect to see the retail loan growth pick up? And secondly, what is the outlook for domestic corporate loan book for rest of the year. Do we expect it to remain flat going forward?

N.S. Kannan: On retail loans, we have seen healthy trends in disbursements and our focus would be to get to 15% to 20% loan growth by the end of the year. We have the key enablers in place and you can expect a uniform growth for the next few quarters.

Anish Tawakley: You are saying 20% growth we should expect for retail loan book for the year?

N.S. Kannan: I am saying 15% to 20% because we have are coming out of single digit growth rates. On the corporate loan book we have seen working capital led demand and continue to see drawdowns from past sanctions. Based on this, we have articulated to grow slightly ahead of the system and we are hopeful of delivering that.

Anish Tawakley: Even if the corporate loan book remains flat through the year from now, it would show 15% y-o-y growth?

N.S. Kannan: It could be higher than that because even as working capital demand depends on the sales growth of corporates, we do have a pipeline of projects that have been sanctioned and disbursements would happen during the year.

Anish Tawakley: Would we expect restructurings at the current rate for the year?

N.S. Kannan: No, as of now, if I look at the pipeline to be restructured, it is not a significant amount. So I would say that we are closer to the peak of restructurings. However, given the environment, there could always be one or two slippages which one has to watch out for.

Anish Tawakley: But some of the restructured assets can get upgraded. So then on an outstanding basis the restructured loans should decline as additions are expected to be quite low?

N.S. Kannan: Yes, I agree with you, but we had restructured assets of about Rs. 14 billion in Q4-2012 for which upgradation would be possible only after one year of actual payment performance. So we have to give time for that to happen before you can see a large scale deletion from restructured assets.

Anish Tawakley: I was looking at restructurings of last year, in the first quarter it was Rs. 1.5 billion, second quarter it was Rs. 7.5 billion. Now will this Rs. 7.5 billion get upgraded?

Rakesh Jha: If there is a moratorium period then we have to look for actual one year of payment performance.

Anish Tawakley: So it is after the moratorium?

Rakesh Jha: Yes, we have to wait for the actual payment performance for a year. So if there is a moratorium, then the time period will start only after the first payment.

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

Surendra Shetty: Can you please give me a breakup of the impairment provision done during the quarter for NPA and restructurings?

Rakesh Jha: Of the total provisioning, about Rs. 760 million is general provision on standard assets. The remaining would largely be for the non-performing assets. The provisioning for restructured assets is a very small number for Q1-2013.

Surendra Shetty: Ok. Secondly are you looking for a USD bond market issuance going forward?

N.S. Kannan: We keep evaluating the opportunity. We do have some repayments coming up of our earlier bond issues. However, the expected inflows from asset maturities would be adequate to meet the liability repayments. So we do not need a fresh issuance for repayments of our bond liabilities. At the same time, there is a decent pipeline of cases from corporate customers for foreign currency borrowings. We will keep evaluating the options and go for an issuance only if we think that we can protect our international NIM at about 1.5%.

Surendra Shetty: Ok. Can you give me an amount of loan growth due to exchange rate movement?

N.S. Kannan: The international loan book has grown by about 35% on a y-o-y basis in rupee terms. In dollar terms the growth was about 8% for the international book. Overall loan growth adjusted for exchange rate movement was about 15% y-o-y.

Surendra Shetty: Lastly, the loan deposit ratio has gone above 100%, Will you be scaling down the lending?

N.S. Kannan: The loan deposit ratio being above 100% has to be viewed in the context of our overseas branches being dependent on wholesale borrowings. Loan deposit ratio for the domestic balance sheet would be about 77%. It is typically in the 70% to 77% range, which we are quite comfortable with.

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

Bajrang Bafna: Could you please give us a sense on the funded interest term loans in your overall loan book for the last two years that is FY2011 and FY2012?

Anindya Banerjee: Those numbers are not in the public domain.

Bajrang Bafna: Ok. What has been the benefit due to exchange rate movement in the net interest margin?

Rakesh Jha: The net interest margin will not be impacted because the loans as well as net interest income have grown in rupee terms partly due to rupee depreciation. Hence there is no benefit in the overseas margin because of the rupee movement.

Bajrang Bafna: But on absolute terms?

Rakesh Jha: In absolute terms, there would be some impact. On an overall basis it will not be more than couple of percentage of the NII.

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

Nilanjan Karfa: I heard Kannan say that the current pipeline does not look very large. I think that Lanco has asked for restructuring. I also think HCC has been restructured. GVK, GMR probably might need restructuring. How does that look in the near future?

Anindya Banerjee: I would not want to comment on case specific names. But as far as HCC is concerned, that restructuring is approved and given effect to. For rest of the portfolio, as we have said, we have a relatively small exposure to cases that have been referred to CDR and are pending CDR approval. Beyond that currently we have no identified restructuring pipeline. But, as

Kannan said, given the environment it is quite possible that we may have one or two accounts which may require restructuring.

Nilanjan Karfa: Will the mine purchase by Lanco in Australia, automatically fall into the CDR if, for example, Lanco were to come for restructuring for its other debt?

Anindya Banerjee: If a lender chooses to restructure a loan then that lender has to make a reference to CDR and CDR has to accept the reference. After that the loans can get restructured. That is the way CDR process works.

Nilanjan Karfa: But what is the process when you look at a consolidated basis? For example, if the Lanco group comes for restructuring will all its facilities get restructured?

Rakesh Jha: As Anindya mentioned, it will depend on a particular case, which facilities get restructured or not.

Anindya Banerjee: If you stay with the same example, for instance, some Lanco group entities have indeed got restructured last year, but it is not as though every loan to the group has got restructured.

Nilanjan Karfa: Yes, that was a power company, right?

Anindya Banerjee: And we did not have exposure in that case. Other banks have restructured it and the rest of the exposures continue to be as they were.

Nilanjan Karfa: Secondly, on the CDR, can you give us your thought on the proposal for promoter’s contribution?

Rakesh Jha: I think the intention has been that the promoter’s contribution should be high and banks should look at it while restructuring.

Nilanjan Karfa: Last question, can you please share what is the expected run rate of dividend from all the subsidiaries?

Rakesh Jha: It will be difficult to give a quarterly run rate because, as Kannan mentioned, some of the entities would be paying annual dividends.

Nilanjan Karfa: No, I am asking for an annual number.

Rakesh Jha: For FY2013 there would be a growth in dividend from subsidiaries which would mainly come from the fact that ICICI Life started paying dividend only from the second quarter of last year whereas it will pay for the full year in FY2013. The rest of the numbers would be a function of individual profits of the companies, but we would expect the dividend income from subsidiaries to grow at a good pace for the year.

Moderator: Thank you. The next question is from the line of Ramnath Venkateshwaran from Birla Sun Life Insurance.

R. Venkateshwaran: I wanted to get your sense of the NBAP margin in the insurance subsidiary. The NBAP margin is down to 15%. Is this because of the change in product mix or some other factors?

N.S. Kannan: It is based on the products which have been sold during the quarter and the product mix. We would endeavor to keep the NBAP margins between 15% to 16%.

R. Venkateshwaran: So it has got to do largely with the fact that you have changed the product mix?

N.S. Kannan: It is based on what is selling currently in the new regulatory regime.

R. Venkateshwaran: Ok. ICICI Home Finance has been consistently seeing a decline in its loan book. Is this decline because of runoff or is there a movement from the home finance to the parent entity?

N.S. Kannan: We have been booking a bulk of the home loans in the recent past in the parent bank which is one of the reasons why the home loan book of the subsidiary has been going down. However, the subsidiary does have a plan of going to the next level of cities for incremental lending. So we are hopeful of seeing an arrest the decline in their book this year and then grow thereon.

R. Venkateshwaran: What is the purpose of a NBFC specifically for the home finance business given the fact that you are already doing this business through the bank?

N.S. Kannan: The NBFC subsidiary is a good option to have and we intend to continue with the subsidiary.

R. Venkateshwaran: Could it probably look at other operations in the future?

N.S. Kannan: No, it would continue to be in the housing finance space and it will continue to be a 100% subsidiary of the bank. In our presentations, we have been disclosing the balance sheet composition as well as the asset quality of the subsidiary. Hence, there should not be any concern from an investor perspective.

Moderator: Thank you. The next question is from the line of M.B. Mahesh from Kotak Securities.

M.B. Mahesh: There was a recent guideline on the off-balance sheet exposure and mark-to-market conversion into loans. Based on your off-balance sheet exposure, are you seeing any trends of clients asking for conversion of these loans?

Rakesh Jha: Which guideline is this, Mahesh?

M.B. Mahesh: This is a guideline which came out last week on conversion of off-balance sheet mark-to-market related positives with your clients into loans as compared to cash settlement. I wanted to check whether clients are paying their mark-to-market on time?

Rakesh Jha: There are no issues at all. Some years back for a period of time there were some issues, but there is absolutely nothing that we have seen in the last few quarters and we do not expect any challenges on this at all.

M.B. Mahesh: Ok. On the retail loan side, you have said that disbursements have been healthy. Could you quantify what have been the disbursements in your housing loans or retail loans in the current quarter?

Rakesh Jha: Overall retail disbursements during the quarter are about Rs. 78 billion and within that the home loan disbursements would be about Rs. 50 billion. The overall retail disbursements have increased by about 44% on a y-o-y basis.

M.B. Mahesh: Ok. The unsecured portfolio on the retail side seems to be flat over the last couple of quarters. Have we started lending in this particular portfolio?

N.S. Kannan: Yes, we have done some lending and there is some growth in our credit card business as well. However, you would not see the unsecured retail portfolio expand as a proportion of the balance sheet because. Our focus in this segment has been on lending to our existing customers.

Moderator: Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the floor back to Mr. Kannan for closing comments. Please go ahead, sir.

N.S. Kannan: Thank you again for participating in this call. My team and I are available if you have any further questions.

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