ICICI Bank Limited
Earnings Conference Call – Quarter ended Dec 31, 2012 (Q3-2013)
January 31, 2013

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Moderator: Good evening ladies and gentlemen and welcome to the ICICI Bank Q3-2013 Earnings Conference Call. As a reminder 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. Should you need assistance during this conference call, please signal an operator by pressing * followed by 0 on your touch-tone phone. Please note that this conference is being recorded. At this time I would like to handover the conference to Mr. N. S. Kannan. 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 December 31, 2012, which is the third quarter of the current financial year 2013, that is Q3-2013.

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

- First: the domestic macro-economic and monetary environment;
- followed by, our performance during the quarter, including performance on our 5Cs strategy;

- then, our consolidated results;
- and finally, the outlook for the full financial year 2013.

Let me start with the first part on the macro economic and monetary environment during the third quarter.

Global financial markets stabilised during the quarter, following liquidity support measures announced by the US, Japan and EU and resolution of the US fiscal cliff for the time being. Domestically, the government continued with policy reforms. Several key measures such as approval of 51% foreign direct investment in multi-brand retail, announcement of fiscal consolidation roadmap, formation of Cabinet Committee on Investments to expedite investments in projects, partial deregulation of diesel prices, approval of the Banking Laws (Amendment) Bill 2011 by both the houses of the Parliament & Companies Bill 2011 by the Lok Sabha, increase in railway passenger fares and deferral of GAAR implementation to FY2017 have been announced since October 2012. These measures, coupled with global liquidity conditions, resulted in an improvement in market sentiment with FII inflows improving from USD 7.9 billion in the previous quarter to USD 10.2 billion in the third quarter and stabilisation of the exchange rate over the past few weeks.

However, indicators of real economic activity continue to remain subdued. GDP growth for Q2-2013 was 5.3%, with the moderation in growth, largely driven by subdued industrial sector growth. Cumulative growth in the index of industrial production (IIP) during April-November 2012 was 1.0% compared to 3.8% in April-November 2011. The growth in IIP has also been volatile with an 8.3% year-on-year growth in October 2012 followed by a decline of 0.1% in November 2012.

Merchandise exports continued to decline for the eighth consecutive month in December 2012. However, the pace of decline has been moderating with exports declining by 1.9% in December 2012 compared to an average 12% decline during Q2-2013. Growth in imports, which turned positive in September 2012, continued to increase driven largely by oil imports. As a result, India's trade deficit widened to USD 147.2 billion during April-December 2012 compared to USD 137.3 billion in April-December 2011 and the current account deficit reached 5.4% of GDP in the second quarter. The Rupee depreciated against the dollar by 4.0% from ₹ 52.7 per USD at end-September 2012 to ₹ 54.8 per USD at end-December 2012.

During the quarter, the moderation of inflation was a key positive, with inflation declining consistently from 8.07% in September 2012 to 7.18% in December 2012. This was primarily due to a moderation in manufactured products inflation which eased from 6.47% in September 2012 to 5.04% in December 2012. Core inflation, which is manufactured products excluding food products, moderated from 5.7% in September 2012 to 4.2% in December 2012.

Systemic liquidity tightened during the quarter on account of seasonal factors, with average daily borrowing by banks under the liquidity adjustment facility (LAF) window increasing to about ₹ 937 billion in the third quarter as compared to ₹ 464 billion during the previous quarter. During the quarter, the Reserve Bank of India provided liquidity support by way of Open Market Operations of about ₹ 385 billion and a reduction in the cash reserve ratio by 25 bps to 4.25%. As a result, interest rates on market instruments like Commercial Papers and Certificate of deposits remained stable during the third quarter. The yield on the 10-year benchmark government securities declined by 10 basis points from 8.15% at end-September 2012 to 8.05% at end-December 2012.

The Reserve Bank of India in its third quarter review of monetary policy on January 29 reduced the repo rate by 25 basis points to 7.75% and the cash reserve ratio by 25 basis points to 4.00%. In the policy statement, RBI has mentioned that the recent moderation in inflation provides space, though limited, for monetary policy to give greater emphasis to growth risks.

The equity market saw a marked improvement during the third quarter, reflecting positive global and domestic developments. Indian markets saw a net FII inflow of USD 10.2 billion during Q3 compared to USD 7.9 billion in Q2. The benchmark BSE Sensex increased by 3.5% during Q3 to 19,427 at end-December 2012 from 18,762 at end-September 2012.

Credit offtake from scheduled commercial banks remained moderate during the third quarter on a year-on-year basis. Non-food credit recorded a 14.9% increase year-on-year at December 28, 2012 compared to a growth of 15.4% at September 28, 2012 and 15.7% increase at December 30, 2011. Similar trends were seen with respect to deposit growth. Total deposit growth recorded a year-on-year increase of 11.1% at December 28, 2012 compared to 13.8% increase at September 28, 2012 and 17.0% at December 30, 2011. Demand deposits declined by 0.5% year-on-year at December 28, 2012 compared to an 8.1% increase at September 28, 2012. Growth in time deposits decelerated from 14.5% at September 28, 2012 to 12.5% at December 30, 2012.

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:

- **First, with respect to Credit growth:** Total advances of the Bank increased by 16.5% on a year-on-year basis from ₹ 2.46 trillion at December 31, 2011 to ₹ 2.87 trillion at December 31, 2012. The growth in total advances was balanced across various loan segments.

Growth in the retail portfolio has been increasing steadily over the last few quarters. This trend has continued into the third quarter as well, with the retail portfolio growing by 17.2% on a year-on-year basis at December 31, 2012, compared to 14.0% year-on-year growth at September 30, 2012. The outstanding retail loan portfolio at December 31, 2012 was ₹ 965.28 billion. The growth in the retail portfolio was driven by growth in the secured retail lending categories with outstanding mortgages increasing by 18.6%, and auto loans increasing by 25.4%. Growth in the commercial business loans moderated to 7.3% on a year-on-year basis, reflecting the market slow down being witnessed in this segment. After reducing the unsecured retail portfolio consistently since FY2009, the Bank has started to moderately expand this portfolio. Accordingly, the Bank's unsecured retail portfolio increased by 12.0% on a year-on-year basis to ₹ 39.13 billion at December 31, 2012, off a relatively small base of ₹ 35.09 billion at December 31, 2011. The retail unsecured portfolio continues to remain small at less than 1.5% of the overall loan book. The increase in the retail unsecured portfolio is predominantly to existing customers of the Bank and the Bank has been following several checks including CIBIL score checks, customer income levels and KYC checks etc. while increasing volumes in this segment.

The growth in corporate and international portfolio was 15.8% on a year-on-year basis, driven largely by a 26.6% growth in the domestic corporate portfolio. This includes some short term loans to high quality corporates that will mature during the year.

Net advances of the overseas branches increased by 5.7% on a year-on-year basis in rupee terms, primarily due to the movement in the exchange rate. In dollar terms the net advances of the overseas branches remained stable on a sequential basis and have grown by 2% as compared to December 31, 2011.

- Moving on to the second C on ***CASA deposits***: Mobilisation of CASA deposits has been challenging for banks during the third quarter, with system demand deposits declining by ₹ 623.51 billion during the quarter. Despite this, the Bank maintained its CASA ratio at 40.9% at December 31, 2012 compared to 40.7% at September 30, 2012. The Bank also maintained its average CASA ratio at 37.4% during Q3 as compared to 37.5% during Q2. During Q3, the Bank has seen an increase of ₹ 22.89 billion in average savings account deposits and ₹ 5.53 billion in average current accounts deposits as compared to the previous quarter. On an absolute basis, the Bank's savings account deposits increased by ₹ 8.45 billion and current account deposits increased by ₹ 18.73 billion in Q3.

- On the third C on ***Costs***: For the third quarter, operating costs, including DMA expenses, were higher by 17.9% on a year-on-year basis. The Bank's cost-to-income ratio declined to 39.5% in Q3-2013, compared to 40.9% in the previous quarter with the cost-to-assets ratio at 1.77% in Q3.

- Let me move on to the fourth C on **Credit quality**: The Bank saw gross additions of ₹ 8.52 billion to its overall gross NPAs. Recoveries in Q3-2013 were ₹ 5.67 billion, resulting in net additions to gross NPAs of ₹ 2.85 billion. The Bank has also written-off ₹ 5.21 billion of NPAs during Q3-2013.

  The net NPA ratio was 64 basis points at December 31, 2012 compared to 66 basis points at September 30, 2012 and 70 basis points at December 31, 2011.

  Additions to the restructured portfolio were ₹ 3.53 billion in Q3, offset, in part, by deletions and repayments during the quarter. As a result, the net restructured loans were stable at ₹ 41.69 billion at

December 31, 2012 compared to ₹ 41.58 billion at September 30, 2012. The Bank has about ₹ 9-10 billion of loans outstanding to cases that are currently under the Corporate Debt Restructuring mechanism.

Provisions for Q3 were at ₹ 3.69 billion, lower on a sequential basis as compared to provisions of ₹ 5.08 billion in the previous quarter, which had included substantial provisions made for the media company recognized as NPA in the previous quarter. Credit costs as a percentage of average advances were at 53 basis points on an annualised basis for Q3 and 66 basis points for the nine month period on an annualised basis. This is after including additional 75 basis points general provisioning for restructured assets as stipulated by RBI. The provisioning coverage ratio was 77.7% at December 31, 2012 compared to 78.7% at September 30, 2012.

- Now to the fifth 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 the third quarter, the Bank added 123 branches to its network, including 101 Gramin branches in unbanked villages across six states in the country. With this, the Bank has a branch network of 2,895 branches at December 31, 2012.

  The Bank has also recently launched a unique flexible recurring deposit product called "iWish" which allows customers to create their own goals and share them with friends and family on Facebook. iWish provides an easy online interface to track progress of all goals and manage them from one place. Family and friends of customers can also contribute towards these goals from any bank account using a VISA debit card.

The Bank's Facebook initiative continues to be appreciated by customers, with the fan base for the ICICI Bank facebook page crossing 1.0 million fans during the quarter to reach 1.4 million fans currently.

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 29.0% year-on-year from ₹ 27.12 billion in Q3 of 2012 to ₹ 34.99 billion in Q3 of 2013. The overall net interest margin improved by 37 basis points on a year-on-year basis from 2.70% in Q3 of 2012 to 3.07% in Q3 of 2013. On a sequential basis, the net interest margin improved by 7 basis points from 3.0% in the previous quarter. The NIM on domestic business increased to 3.47% in Q3 of 2013 as compared to 3.43% in Q2 of 2013 and 2.98% in Q3 of 2012. The sequential increase has been driven by lower cost of funds during the quarter due to the reduction in term deposit rates since the beginning of the year. The international NIM improved on a sequential basis from 1.22% in Q2 of 2013 to 1.31% in Q3 of 2013 due to reduction in the excess liquidity maintained in the international branches in the previous quarter, following large bond redemption in October 2012.

2. Overall, non-interest income increased by 17.1% from ₹ 18.92 billion in Q3 of 2012 to ₹ 22.15 billion in Q3 of 2013.

    - During Q3 of 2013, treasury recorded a profit of ₹ 2.51 billion as compared to a loss of ₹ 0.65 billion in Q3 of 2012 and a profit of ₹ 1.72 billion in Q2 of 2013. The profit in Q3 of 2013 was on account of proprietary trading gains primarily in the fixed income segment.

- Other income was ₹ 1.93 billion in Q3 of 2013, compared to ₹ 2.56 billion in Q3 of 2012. The decline was on account of the Bank receiving dividend for two quarters from ICICI Life in Q3 of 2012, compared to the quarterly dividend that has been received in Q3 of 2013.

- Fee income increased by 4.1% from ₹ 17.01 billion in Q3 of 2012 to ₹ 17.71 billion in Q3 of 2013. Overall fee income growth continued to remain impacted by lower corporate banking fee income due to the slowdown in new projects/financial closures. During Q3 of 2013, the Bank saw healthy growth in its retail banking fees.

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

4. Consequent to the financial parameters I described earlier, the Bank's standalone profit after tax increased by 30.2% from ₹ 17.28 billion in Q3 of 2012 to ₹ 22.50 billion in Q3 of 2013.

I now move on to the consolidated results.

The profit after tax for the life insurance subsidiary was ₹ 3.97 billion in Q3 of 2013 as compared to ₹ 3.67 billion in Q3 of 2012. This level of net profits reflects an annualized return of over 30% on the Bank's invested capital. Following a phase of transition to the new regulatory regime, ICICI Life Insurance has started witnessing healthy year-on-year increase in volumes. The new business annualized premium equivalent for ICICI Life increased by 10.5% from ₹ 20.40 billion in 9M of 2012 to ₹ 22.55 billion in 9M of 2013. The new business margin for Q3 of 2013 was 15.0%. The retail weighted received premium for ICICI Life increased by 12.7% in April-December 2012 compared to a 1.2% year-on-year growth for the private sector and 7.6% growth for the industry. During April-

December 2012, ICICI Life maintained its market leadership in the private sector with an industry market share of 6.6% on the basis of retail weighted received premium.

ICICI General Insurance recorded a profit after tax ₹ 0.95 billion in Q3 of 2013 as compared to ₹ 1.01 billion in Q3 of 2012. The company maintained its leadership position in the private sector with overall market share of 9.6% during April-December 2012. As I had mentioned during the earlier quarters' results call, ICICI General is expected to have some impact of the motor third party business in the fourth quarter, as the liability for the period FY2007 to FY2012 would be actuarially valued, and due to any share of the declined pool accruing to the company. However, despite this impact, we do not expect the company to report a significant loss in the next quarter and accordingly the company would be profitable for the full year FY2013.

Let me move on to the performance of our overseas banking subsidiaries. As per IFRS financials, ICICI Bank Canada's profit after tax for Q3 of 2013 was CAD 8.3 million as compared to CAD 6.6 million for Q3 of 2012. Total assets for ICICI Bank Canada were CAD 5.33 billion at December 31, 2012 as compared to CAD 5.28 billion at September 30, 2012. The capital adequacy ratio at December 31, 2012 was 34.5%.

ICICI Bank UK's total assets were USD 3.98 billion at December 31, 2012 as compared to USD 3.81 billion at September 30, 2012. While working towards capital rationalization, ICICI Bank UK has been looking at selective lending opportunities to highly rated entities, including trade & transaction banking products and smaller term loans to multinational corporations and subsidiaries of Indian companies in UK and Europe. The profit after tax for ICICI Bank UK for Q3 of 2013 was USD 5.4 million as compared to USD 7.7 million in Q3 of 2012. The capital adequacy ratio was 31.5% at December 31, 2012.

Let me now talk about the overall consolidated profits.

The consolidated profits for Q3 of 2013 increased by 21.7% to ₹ 26.45 billion compared to ₹ 21.74 billion in Q3 of 2012. In 2009, the Bank had set a target of doubling its RoE from less than 8% to 15%. At the beginning of the current financial year, we had also indicated our expectation of achieving a consolidated RoE of 15% in the fourth quarter. I am happy to report that in Q3 of 2013 itself, the Bank has achieved an annualised consolidated RoE of 15.7%.

Our outlook for the full year fiscal 2013 continues to be in line with what we had indicated on our earlier calls.

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

Moderator Thank you sir. Participants we will now begin with the question and answer session. We have the first question from the line of Mahrukh Adajania from Standard Chartered. Please go ahead.

Mahrukh Adajania CNBC and other TV channels are flashing some comments on expectations of the management of further margin improvement. How would that be possible in a falling rate environment? Could you explain in detail?

N. S. Kannan The outlook for margins continues to be what I had articulated on earlier calls. We expect to hold the margins at current levels and continue to improve them over the medium term. We have done so in the last couple of quarters as well. The factors which we believe will work in our favour in the short term are the international net interest margins. If you remember international margins had reached about 1.4%-1.5% a couple of quarters back. However, because of the excess liquidity we were carrying for the large bond redemption in October 2012, the international margins had come down to 1.22% in Q2-2013. They have improved in Q3-2013 to 1.31%. We believe that the normalised level for international margins for us would in the range of 1.4%-1.5% and the improvement to those levels would clearly give us a benefit in terms of overall net interest margins. Even with respect to the domestic portfolio, we will continue to look at protecting the margins.

Mahrukh Adajania But on the domestic front, how will your margins behave if the base rate is reduced?

N. S. Kannan We will look at reducing our base rate when we see a reduction in our deposit rates. In doing so our endeavour would be to protect the domestic margin.

Mahrukh Adajania There is pressure on savings deposit growth. Is there any medium term outlook for growth in savings deposits?

N. S. Kannan We expect the savings deposits growth to be higher in the subsequent quarters than what we have seen in the third quarter. In the third quarter our incremental customer acquisition has been quite robust. Also, during the quarter, the additions on a daily average basis have been quite positive and that has enabled us to maintain the daily average CASA ratio at 37.5%. During the third quarter we had to contend with the phenomenon of it being a festive period because of which there has been some movement of deposits towards consumption. But as I mentioned earlier we are quite happy with the incremental customer acquisitions and the daily average accretion to savings account deposits. We do believe that we will be able to increase the savings deposit accretion in the coming quarters.

Moderator Thank you. We have the next question from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal My question is on the loan growth outlook for the next year. What do you think would drive loan growth-project finance, retail?

N. S. Kannan As we had said earlier, our outlook for the domestic loan growth in the next year is to be ahead of systemic loan growth. Within that, the focus in the corporate segment would be on working capital loans where we have already seen a pick-up. In addition, we will target to further increase the growth the retail portfolio. If we look at our performance on retail loans over the last three quarters, on a year-on-year basis, we have been improving the growth from about 10% to 14% and to 17% in the third quarter now. In the medium term, we believe that we have the ability to grow the retail portfolio at about 20% or higher. With respect to project disbursements, these will be a function of whether large new projects get announced or not. For the next couple of quarters we will continue to have project finance disbursements based on the past sanctions we have done. Beyond that we will have to wait and see how the incremental sanctions develop.

With respect to the overseas loan book, the growth would be a function of the appetite from borrowers in terms of their preference of foreign currency loans over rupee loans depending on the relative interest rate differential, and our ability to raise bond market funds at reasonable costs. However, we expect growth on that segment to be less than the domestic loan growth rate.

Vishal Goyal Would working capital, retail and project finance all grow at about 20% or so?

N. S. Kannan We are a bank that starts with a lower base of working capital loans and so even if we follow the system, our growth rate would be higher in working capital. The project finance growth rate in the past has been higher than 20% and there could be a normalization of growth in this segment. On an overall basis the working capital loan growth could be higher than 20% and our endeavour would be to increase the growth in the retail segment to 20% and higher.

Vishal Goyal Ok. With respect to the life insurance company, the accounting profits are plateauing. What is the outlook because the higher margin business is definitely behind us and new business is coming at lower margins?

N. S. Kannan In terms of the next few quarters we expect the life insurance company to continue to deliver profits that will be about 30% return on the invested capital. Yes, there will be muted growth compared to the sharp growth we have seen in the past because they have already achieved this high level of profitability. The way we look at it is that the next few quarters we would be getting about ₹ 750 million of dividend every quarter from that company. In the third quarter the dividend was a bit higher at about ₹ 900 million

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Vishal Goyal Ok, but would the accounting profit track the bank's profit growth or would the banking profit be higher?

N. S. Kannan We expect that the banking profit growth will be higher than the life insurance company profit growth, but that is something which has already happened in the last few quarters. That trend will continue.

Moderator Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri The growth on your international book has plateaued in constant currency terms. Commensurate with that if I look at the numbers which come from RBI in terms of external commercial borrowings, in the last two months we have seen the highest ECB raising by the Indian corporates. So what is the view on the international business and why has our loan growth been modest on that front?

N. S. Kannan Our international loan growth has been modest because the repayments out of the past assets have been very strong for us. If you remember, we had articulated earlier that in this financial year we had repayments of close to US$ 2.5 billion from the opening book and that is something which is playing out. This was also the case on the liability side. So even if we do US$ 2.5 billion of incremental disbursements, the book will stay flat. However, our ability to access resources has only improved today given the risk-off from a global perspective. The way we are looking at this business is that it has to be closely linked to our domestic corporate strategy because largely the corporates borrowing in foreign currency are domestic corporate clients. Secondly, it has to also make sense from a fund-raising perspective which we have to calibrate depending on the global environment. Thirdly, we are quite disciplined about realizing at least 1.4%-1.5% margin on the incremental business in this segment. So I would say that these three would be the boundary conditions under which we will grow. Apart from that our ability to do this business and the demand is not a problem.

Kashyap Jhaveri If I look at your peers in the international business, they have a slightly bigger size loan book than what you have at this juncture and their international loan growth has been at about 20-30%. However, if I look at margins, you would be higher than them in this quarter. Does it mean that we would not do any business which is less than 140-150 basis points of margins?

N. S. Kannan Yes, you can assume that we will not do international lending at anything less than 1.4%-1.5% margins. We are in a situation today where our overall return on assets has caught up very nicely to near best-in-class. If we have to achieve overall return on assets of 1.6%-1.7%, we have to be achieving a 1.4%-1.5% margins on the international book. We are today at a different threshold profitability compared to what we were about two years ago and that becomes a primary consideration for us to grow this business. This will be the philosophy going forward as well.

Kashyap Jhaveri You must be looking at data which comes from RBI and you must have your own sources in the international market. What is your outlook on the kind of borrowers one can see in the external commercial borrowing market? Has the quality deteriorated because we see a lot of infrastructure and power sector companies now in the international market?

N. S. Kannan The quality has not really changed. In general, I would look at this business for the industrial sector as well as for banks as being quite cyclical depending on the domestic interest rate regime. In times where we have had high domestic interest rates, borrowing money through the ECB route even on a fully hedged basis makes more sense. But going forward, depending on what happens to the domestic interest rate regime, this situation can change.

Kashyap Jhaveri In continuation over that comment, could you help us with the borrowing cost for corporates in the overseas markets and what could the spreads be over LIBOR and the forex hedge cost?

N. S. Kannan The 5-year MIFOR will be about 6.5% currently. So we are talking swap of 6.5% on a MIFOR basis plus the credit spread. So for good corporates it works out to be cheaper than domestic borrowing.

Kashyap Jhaveri So 6.5% is the total cost including hedging?

N. S. Kannan No, you need to add the Libor cost and the credit spread

Rakesh Jha That could be an addition ranging from 300 to 500 basis points.

Moderator Thank you. We have the next question from the line of Manish Karwa from Deutsche Bank. Please go ahead.

Manish Karwa Sequentially, on an absolute basis your staff cost has come down and even your cost to income ratio has declined despite the fact that the retail disbursements and retail loans have been growing. Is this because of the bonus provision that will get corrected in the fourth quarter?

N. S. Kannan There are two reasons for the cost to income ratio coming down. First, the income as you have seen has been quite robust and including areas like treasury income we have seen a very healthy year-on-year and sequential improvement in income. This has helped in terms of the denominator impact on the cost to income ratio. If we really look at the expenses, I do not think there will be any significant increase in the fourth quarter on account of bonus or related expenditure. The variations on quarter to quarter basis in staff expenses have been predominantly on account of pension valuation which gets done based on several parameters. There is no specific pattern beyond this.

Manish Karwa So going by what you are saying, most likely, the cost to income should sustain at around the 39-40% range?

N. S. Kannan We have said earlier for the year as a whole we want to be between 41% and 42% for the cost to income ratio. As of now I would stay with that and any further improvement would be good.

Manish Karwa On your overseas banking subsidiaries, despite things getting better in the overseas markets, the ROEs for those subsidiaries continue to remain fairly low. Over the next one or two years, do we see ROEs in those businesses improving?

N. S. Kannan Our endeavour would be to improve the ROEs over a period three years to between 10% and 15% depending on the geography. We will seek to identify India linked and trade opportunities to grow these books. At the same time we will also look at regularly taking dividend from those subsidiaries as well as capital rationalization with the approval of the respective regulators. So the improvement in ROE will be through a combination of organic growth in areas fitting strategy, dividend payouts and some capital rationalization subject to regulatory approvals. We think that this combination of these three things will lead to achieving an acceptable ROE.

Manish Karwa Ok. What would be your outlook on fee income growth?

N. S. Kannan Fee income growth was only about 4% on a year-on-year basis for the quarter. The outlook in the medium term is to endeavour to get it close to the balance sheet growth. In the near term we would continue to focus on fee streams like forex, transaction banking and third-party product distribution on the retail side. On the corporate side, given that new project sanctions are still not happening we would still have some weakness in the corporate lending linked fees.

Manish Karva Ok. So hopefully we should see much better fee growth in FY2014 and in line with balance sheet growth?

N. S. Kannan We would definitely target for better growth for fee income next year, but depending on the environment, we will have to assess whether we are able to reach growth in line with balance sheet levels.

Moderator Thank you. We have the next question from the line of Abhishek Kothari from Violet Arch Securities. Please go ahead.

Abhishek Kothari Sir, what would be the loans that the Bank has in pipeline in CDR?

N. S. Kannan We had mentioned that we have about ₹ 9-10 billion of loans yet to be restructured in CDR currently. We would have expected some of that restructuring to happen in the third quarter itself but some of them could not be implemented in the current quarter.

Abhishek Kothari Ok. Could you give us a breakup of NPAs in terms of additions and deletions during the quarter?

N. S. Kannan In the current quarter, we had additions to the gross NPLs of about ₹ 8.5 billion and about ₹ 5.7 billion of deletions, leading to a net NPA ratio of 0.64%.

Abhishek Kothari Ok. With respect the additions to restructured assets of ₹ 3.5 billion during the third quarter, what was the largest account and in which sector?

N. S. Kannan In the third quarter, the restructuring involved several small sized loans.

Moderator Thank you. We have the next question from the line of Rajeev Verma from Bank of America, Merrill Lynch. Please go ahead.

Rajeev Varma You have been having this discussion with the Canadian authorities on repatriation of capital from your Canadian subsidiary. Is there any progress in that? Secondly, how much are the repayments on your international portfolio for fiscal 2014?

N. S. Kannan On Canada, I can only say that we continue to discuss the capital rationalization and over a period of next 12 months to 18 months we are hopeful of getting some capital back, depending on regulatory approvals. In between, if you remember, we got a dividend payout of about ₹ 1 billion from that subsidiary. We are hoping that going forward we would be able to about Rs 1 billion of dividends per annum from ICICI Bank Canada. The timing however, would depend on which quarter the regulatory approval is received. However, all the above are regulatory discussions and so we cannot be sure of the timing of such decisions but we will continue to engage with them.

On the repayments on the international portfolio, on the overseas branches book, we have about US$ 2 billion of repayments for fiscal 2014. Again that amount is matched on both the asset and liabilities side.

Moderator Thank you. The next question is from the line of Saikiran from Espirito Santo. Please go ahead.

Saikiran Sir your capital consumption in the last seven quarters has not been in sync with the balance sheet growth. Why is it so and how would it pan out going forward?

Rakesh Jha There are a couple of things here. One is that in terms of efficiency of capital, we are trying to get more of our portfolio externally rated. Secondly, on the market risk side we will not see commensurate increase in the risk-weighted assets as would have happened on the balance sheet. If you see in the third quarter, the Tier-1 capital actually went up compared to the September quarter. The only thing to keep in mind for the fourth quarter is that typically the dividend payout will come in the March quarter. So in the last quarter of the financial year we would see a greater decline in the Tier-1 ratio.

Saikiran But in this quarter, the capital release is attributable to the increased rating coverage of your portfolios?

Rakesh Jha In this quarter, there was the addition of the profits for the quarter and some decline on the risk-weighted asset equivalent on the market risk side.

Saikiran Ok. What will be your outstanding builder loan portfolio and, on the auto side, the outstanding dealer financing portfolio?

Rakesh Jha Builder loan portfolios continue to be in the region of about 3-3.5% of the loan book.

Saikiran And the outstanding dealers financing portfolio?

Rakesh Jha The dealer financing portfolio will be less than 1% of total loans.

Saikiran Ok. Could you also help us with the breakup of provisions between NPA provisions, standard assets provisions and others?

Rakesh Jha Of the total provisions we have made general provision on standard assets and for the increase in the standard asset provisioning on restructured loans of about ₹ 1 billion. The rest of the provision is almost all for specific provisioning against NPAs.

Moderator Thank you. The next question is from the line Manish Chowdhary from IDFC Securities. Please go ahead.

Manish Chowdhary Firstly, on asset quality slippages this quarter, could you give us some breakup in terms corporate and retail? Secondly, on fees, could you give us a breakup of growth rates for the corporate and retail segments?

Rakesh Jha As we have said in the past and Kannan mentioned earlier also, we have seen slippages mainly on the SME side which has been coming through for the last several quarters. Given that our overall portfolio in the SME segment is about 5% of the total loans, it does not impact us significantly on an overall basis. On the retail side, there would be some gross slippages but we have been seeing an equivalent number of recoveries as well and so, on a net basis, the additions are close to zero. On the corporate side, we have not seen any material slippage during the quarter.

Manish Chowdhary Ok. Could you give us the relative growth rates for fee income from corporate and retail?

Rakesh Jha On the corporate side we would actually have seen a year-on-year decline in fees, mainly on account of the lending linked fees, loan processing fees, syndication fees etc. even as we have continued to grow the commercial banking and the forex fees. For the retail segment, fees across various categories have grown between 10% and 20%.

Moderator Thank you. We have the next question from the line of Vijay Sarathi from Nomura. Please go ahead.

Vijay Sarathi Is it possible for you to share the new customer acquisition per quarter?

Rakesh Jha We have not been disclosing this till now.

Moderator Thank you. The next question is from the line of Sudhanshu Asthana from Axis Mutual Fund. Please go ahead.

S. Asthana I wanted to understand the loan growth over the last 12 months. Over this period you have added almost ₹ 406 billion of loans. Out of that if I remove the overseas book growth on account of the dollar movement of about ₹ 40 billion, your core growth would be around ₹ 365 billion. Out of this, the corporate book has grown by about ₹ 217 billion which is almost 60% of the incremental growth. How much of this number, which is a 33% growth on the corporate book, have come from disbursements made for projects out of past sanctions, through new loans being disbursed and through working capital? Secondly while your housing loan volumes are increasing CV lending volumes have fallen. So will retail growth be dominated by housing and by non-CV auto loans?

Rakesh Jha On the corporate portfolio, we had said that during the year we typically do a reasonable amount of short-term lending to corporates which matures out before the end of the financial year. So the growth that you see during the year would typically be higher than what we end up for the year. For the full year we are looking at corporate growth to be in the region of 20% to 25%. As Kannan mentioned earlier, we have seen reasonably good growth in working capital loans. Of course, our overall share in the fund based working capital has been on the lower side in the past. On project finance we have continued to see disbursements from the past sanctions, but there has not been any significant addition to the sanction pipeline.

S. Asthana Could you give us a number on how much has been disbursed on the past projects over the last 12 months, so that we could get a fair idea about what has happened to short term loans and working capital.

Rakesh Jha As I said, the overall working capital book would have grown at higher pace than the growth that we have seen for the overall corporate book. If you are comparing say March 2012 to December 2012 then one more element which will be there is that in March we had sold down a part of our corporate loan portfolio as IBPCs. This was to the tune of about ₹ 45 billion, which came back into the portfolio in the September quarter and in that sense is not an additional credit that we have taken during this period. Project finance, as I said earlier, is only from the past sanctions.

S. Asthana Could you also comment on the retail growth?

Rakesh Jha Going forward, in the near term, the growth will be driven largely by mortgages and auto loans. On the commercial vehicle side, we have seen that the incremental disbursements have come down for us as well as the market. Over the medium and long term, while we would be quite keen to grow the commercial vehicle lending portfolio, in the current environment we expect the portfolio growth to be lower than what we see on mortgages and passenger cars.

Moderator Thank you. We have the last question from the line of Hatim Broachwala from Karvy Stock & Broking. Please go ahead.

Hatim Broachwala Sir, there is a lot of competition in the retail segment. So, are we worried about compression in margins in this segment?

N. S. Kannan The retail segment continues to be very competitive and we have seen that play out in the last few quarters with some banks being aggressive on mortgages and auto loans. However, on an overall perspective we believe that we will be able to maintain the margins. The approach we have taken, for example in the auto loan segment was that instead of looking at increasing market share when the segment was very competitive, we continued to be satisfied with a base level of volumes. Also, we should remember that we are operating at a market share of about 8% to 10% across products. So to be able to maintain this kind of market share and probably grow it slightly to be in line with our 20% portfolio growth aspiration, we do not have to undercut in terms of rates. We do not think we need to compromise on margins.

Hatim Broachwala Sir, we have seen an improvement in asset quality for past many quarters. How do we see this going ahead?

N. S. Kannan As I mentioned earlier, the provision cost is pretty much under control. We do think that the earlier expectation of being less than 75 basis points of average loans is something which would have to revise upwards. The NPL ratios are also reasonable and we do not expect them to move up significantly. The only area where we have been watching closely is with respect to the restructured assets. As I mentioned earlier, we have about ₹ 9-10 billion of loans yet to be restructured. That is the only area where I can see some additions going forward. But when we look at the performance of past restructured assets as well, we do not have any big concerns. So, I would say that we are seeing a stable asset quality, but the need to monitor closely is very much there given the current operating environment.

Hatim Broachwala Sir, what were your domestic NIMs for the third quarter?

N. S. Kannan For the quarter, the domestic NIM was 3.47%.

Moderator I would now like to hand the floor back to Mr. N. S. Kannan for closing comments.

N. S. Kannan Thank you everyone for joining the call. My team and I will be available to take any further questions offline. Thank you.

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