ICICI Bank Limited
Earnings Conference Call – Quarter ended June 30, 2013 (Q1-2014)
July 31, 2013

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Moderator: Ladies and gentlemen, good day and welcome to the Q1-2014 Earnings Conference Call of ICICI Bank. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you should need assistance during the conference call please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now 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, 2013, which is the first quarter of the current financial year 2014.

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

- First: the 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 2014.

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

On the global front, growth forecasts by the IMF have been revised downwards across economies. Further, while economic conditions in the US have been showing signs of recovery, indications from the US Fed of possible withdrawal of quantitative easing have affected market sentiments. This resulted in volatility in capital flows, exchange rate, bond yields and equity market returns across several emerging economies including India.

In the domestic economy, the government has taken several steps to revive investment activity, which augur well for an improvement in the long term growth prospects of the country. These include approval for mechanism for coal supply to power producers, increase in gas prices, clearance of several projects by the Cabinet Committee of Investments and increase in FDI limits in some key sectors. However, current economic activity continues to remain subdued. The growth in the index of industrial production (IIP) remained weak recording a growth of just 0.1% during April-May 2013. Exports declined by 1.4% while imports grew by 6.0% during the first quarter resulting in a higher trade deficit of USD 51 billion in the first quarter compared to USD 45 billion in the previous quarter.

Headline wholesale price based inflation continued to remain below 5% at 4.9% in June 2013. There was consistent moderation in manufactured products inflation which eased from 4.1% in March 2013 to 2.8% in June 2013. However, consumer price inflation remained at over 9.0% during Q1-2014.

Given the volatility in global markets and domestic concerns, during Q1 of fiscal 2014, the Rupee depreciated by 9.4% from Rs. 54.3 per USD at end-March 2013 to Rs. 59.4 per USD at end-June 2013. The depreciation was sharp in June 2013, when it breached the Rs. 60 per USD mark. FII flows were volatile with net outflows of over USD 6.0 billion in June 2013 alone compared to inflows of a similar amount during April-May 2013.

Considering the above trends, the Reserve Bank of India put on hold its reduction in policy rates after the 25 basis points reduction in repo rate announced in May 2013. On July 15, 2013, with a view to stabilising the exchange rate, the Reserve Bank of India increased the Marginal Standing Facility rate to 10.25% and fixed the borrowing limit for banks under the Liquidity Adjustment Facility or LAF, at Rs. 750 billion. The immediate impact of these measures on the market was a sharp increase in interest rates, particularly short term rates. Subsequently, on July 23, 2013, the Reserve Bank of India, set the overall limit for LAF access by each individual bank at 0.5% of its net demand and time liabilities, effective July 24, 2013. In addition, effective July 27, 2013, the minimum daily cash reserve ratio balance required to be maintained by banks was increased to 99% of the stipulated fortnightly requirement from 70% earlier. In its monetary policy statement on July 30, 2013, RBI kept the policy rates unchanged and has mentioned that the liquidity tightening measures would be rolled back in a calibrated manner once stability in the foreign exchange market is restored. Since July 15, that is the initiation of various measures by RBI, there has been over 200 basis points increase in short term rates, 100 basis points increase in the G-sec yields and 1% depreciation in the exchange rate.

Credit offtake during the first quarter remained moderate. Non-food credit by scheduled commercial banks recorded a 13.9% increase year-on-year at June 28, 2013 compared to a growth of

16.1% at June 29, 2012. Deposit growth continued to remain muted with total deposits recording a growth of 13.8% year-on-year at June 28, 2013 compared to a growth of 13.5% at June 29, 2012. Demand deposits grew by 10.9% year-on-year while time deposits grew by 14.1% at June 28, 2013.

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 12.3% on a year-on-year basis from Rs. 2.68 trillion at June 30, 2012 to Rs. 3.01 trillion at June 30, 2013. The growth in the domestic loan portfolio was higher at 14.1% on a year-on-year basis at June 30, 2013. The growth in advances was balanced across various loan segments.

  As I had mentioned on the earlier results call, from March 31, 2013, we have revised the presentation of the domestic loan portfolio mix to better reflect the nature of the underlying loans. The disclosure of loan portfolio at June 30, 2013 is on a similar basis. For your convenience, we have included in the presentation, data for June 30, 2012 on the revised basis. My subsequent discussion on our credit growth for the year is based on the new classification.

  I am happy to report that the Bank continues to see strong traction in its retail lending business. Mortgage and auto loan disbursements increased year-on-year by 36% and 17% respectively, and the outstanding mortgage and auto loan portfolios grew by 20% and 21% year-on-year respectively at June 30, 2013. Commercial business loans declined by 18.6% on a year-on-year basis at June 30, 2013, reflecting both a slowdown in this segment as well as continued run down of the bought out portfolio in this segment. Coming to the unsecured credit card and personal loan portfolios, there was an increase of about 37% on a year-on-year basis. While the growth rate is high due to the low base, the outstanding unsecured credit card and personal loan portfolio at Rs. 48.69 billion at June 30, 2013 was only about 1.6% of the overall loan book.

Based on the above trends in individual products, we saw a year-on-year growth of 26.6% in the organic retail loan portfolio (excluding buyouts) at June 30, 2013. On a total retail portfolio basis, including the impact of run down of the earlier buyout portfolios, the growth was 12.6% on a year-on-year basis at June 30, 2013. With the re-basing of the buyout portfolio over the course of the year, the Bank expects to see strong growth in its total retail loan portfolio, including buyouts, on a full year basis.

The growth in the corporate and international portfolio was 14.1% on a year-on-year basis. Growth in the domestic corporate portfolio has moderated from about 30% year-on-year at March 31, 2013 to 20.0% year-on-year at June 30, 2013, in line with expectations. Net advances of the overseas branches increased by 7.6% 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 and year-on-year basis at June 30, 2013.

- **Moving on to the second C on CASA deposits:** Reflecting our strong retail franchise, the Bank saw an addition of Rs. 32.02 billion to its savings deposits in the first quarter. The Bank was able to maintain the current account deposits at a stable level at June 30, 2013 as compared to March 31, 2013. As a result, the CASA ratio for the Bank improved from 41.9% at March 31, 2013 to 43.2% at June 30, 2013. The average CASA ratio improved from 38.1% in the previous quarter to 39.0% in the first quarter.

- **On the third C on Costs:** For the first quarter, operating costs, including DMA expenses, were higher by 17.3% on a year-on-year basis. The Bank's cost-to-income ratio declined to 39.4% in the first quarter of fiscal 2014, compared to 41.8% in the first quarter of fiscal 2013.

- **Let me move on to the fourth C on Credit quality:** The Bank's asset quality trends continue to be broadly in line with expectations. During the first quarter, the Bank saw gross additions of Rs. 11.16 billion to its overall gross NPAs, primarily driven by slippages in the SME and mid-sized corporate loan portfolios. Recoveries in the first quarter were Rs. 3.10 billion, resulting in net additions to gross NPAs of Rs. 8.06 billion. The Bank has also written-off Rs. 3.96 billion of NPAs during Q1-2014. The net NPA ratio was marginally higher at 69 basis points at June 30, 2013 compared to 64 basis points at March 31, 2013.

  During the quarter, the Bank restructured Rs. 8.32 billion of loans, similar to the level seen in the previous quarter. After taking into account deletions and the required specific provisioning, the net restructured loans for the Bank increased to Rs. 59.15 billion at June 30, 2013 compared to Rs. 53.15 billion at March 31, 2013. The Bank has a pipeline of about Rs. 10-11 billion of loans referred to CDR. In addition, the Bank may also undertake some bilateral restructurings.

Provisions for Q1 of 2014 were at Rs. 5.93 billion as compared to Rs. 4.66 billion in Q1 of 2013 and Rs. 4.61 billion in Q4 of 2013. In Q1-2014, the Bank has made specific provisions of about Rs. 2.00 billion at rates higher than the minimum percentages prescribed by RBI guidelines against certain NPAs in the corporate and SME portfolio. The provisions also reflect the impact of higher general provisioning requirement on restructured loans. As a result, credit costs as a percentage of average advances were at 82 basis points on an annualised basis for Q1-2014. The provisioning coverage ratio on non-performing loans continues to remain healthy at 75.4% at June 30, 2013.

- **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 quarter, the Bank added 250 branches and 421 ATMs to its network. With this, the Bank has a branch network of 3,350 branches and 10,902 ATMs at June 30, 2013. The Bank also continues to strengthen its technology channels for increasing customer convenience. During the quarter, the Bank launched "Money2India Mobile App" to help Non-Resident Indians track their money transfers to India. Money2India.com currently has over a million registered users and is a popular online money transfer tracking service offered to non-resident Indians by the Bank, for over a decade. The Bank's Facebook initiative continues to be appreciated by customers with about 2.3 million fans. ICICI Bank continues to have the largest fan base on Facebook among the Indian banks.

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 19.6% year-on-year from Rs. 31.93 billion in Q1-2013 to Rs. 38.20 billion in Q1-2014. The Bank saw a year-on-year improvement of 26 basis points in its net interest margin from 3.01% in Q1-2013 to 3.27% in Q1-2014. The domestic NIM was 3.63% in Q1-2014 as compared to 3.51% for the full fiscal year 2013. In line with our expectations, we have seen an improvement in the international business margins from 1.34% for the full fiscal year 2013 to 1.60% in Q1 of 2014.

2. Total non-interest income increased by 32.1% from Rs. 18.80 billion in Q1-2013 to Rs. 24.84 billion in Q1-2014.

    - During Q1-2014, treasury recorded a profit of Rs. 4.03 billion compared to a loss of Rs. 0.21 billion in Q1-2013 and a profit of Rs. 0.93 billion in Q4-2013. The profit in Q1-2014 was primarily on account of realized gains on the fixed income portfolio. Going forward, the treasury performance would depend on market developments, including the impact of policy measures.

    - Other income was Rs. 2.88 billion in Q1-2014, compared to Rs. 2.54 billion in Q1-2013.

    - We have seen an improvement in fee income growth from about 3% for the full year FY2013 to 8.9% on a year-on-year basis in Q1-2014. The improvement in fee income growth was primarily driven by growth in the retail banking fees.

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

4. The Bank's standalone profit after tax increased by 25.3% from Rs. 18.15 billion in Q1-2013 to Rs. 22.74 billion in Q1-2014. This translates into an annualised return on average assets of 1.75% for Q1-2014, compared to 1.51% for Q1-2013.

5. The Bank's capital adequacy at June 30, 2013 as per Reserve Bank of India's guidelines on Basel III norms continues to remain strong at overall capital adequacy ratio of 17.04% and Tier-I capital ratio of 11.72%, giving us the ability to grow our business further. In line with applicable guidelines, the Basel III capital ratios reported by the Bank for the quarter ended June 30, 2013 do not include the profits for the quarter. On a comparable basis, total capital adequacy ratio as per Basel II norms would have been 18.35% and Tier-1 capital adequacy would have been 12.48%. Including the profits for the first quarter, the capital adequacy ratio for the Bank as per Basel III norms would have been 17.39% and the Tier I ratio would have been 12.07%. On a consolidated basis, the Basel III Tier I ratio would be higher by about 25 basis points and the overall capital adequacy ratio would be higher by about 90 basis points, since on a consolidated basis, only the equity investment in the insurance subsidiaries is deducted from capital.

I now move on to the consolidated results.

The profit after tax for the life insurance company in Q1-2014 was Rs. 3.64 billion as compared to Rs. 3.49 billion in Q1-2013. The Q1-2014 level of net profits reflects an annualised return of about

30% on the Bank's invested capital. The new business annualized premium equivalent for ICICI Life was Rs. 5.41 billion in Q1-2014 compared to Rs. 5.70 billion in Q1-2013. The new business margin for Q1- 2014 was 15.0%. The retail weighted received premium for ICICI Life decreased by 9.4% during April-June 2013 compared to a 28.0% year-on-year decrease for the industry. During April-June 2013, 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.

The profit after tax for the general insurance company in Q1-2014 was Rs. 2.03 billion as compared to Rs. 0.83 billion in Q1-2013. The company maintained its leadership position in the private sector with overall market share of 9.4% during April–June 2013.

Let me move on to the performance of our overseas banking subsidiaries. As per IFRS financials, ICICI Bank Canada's profit after tax for Q1-2014 was CAD 14.4 million as compared to CAD 11.9 million for Q1-2013. Total assets for ICICI Bank Canada were CAD 5.23 billion at June 30, 2013 compared to CAD 5.37 billion at March 31, 2013. The capital adequacy ratio was healthy at 31.0% at June 30, 2013 compared to 33.2% at March 31, 2013.

ICICI Bank UK's total assets were USD 3.75 billion at June 30, 2013 compared to USD 3.59 billion at March 31, 2013. The profit after tax for ICICI Bank UK for Q1-2014 was USD 5.4 million compared to USD 4.4 million in Q1-2013. The capital adequacy ratio was 26.6% at June 30, 2013 compared to 30.8% at March 31, 2013.

In line with the objective of rationalizing the capital invested in overseas banking subsidiaries, we received capital repatriation of USD 100 million from ICICI Bank UK, including redemption of USD 50 million of preference capital in Q4-2013. During Q1-2014, ICICI Bank UK has also called back USD 50 million of tier II capital bonds. Further, ICICI Bank Canada has repatriated CAD 75 million of equity capital to the Bank during Q1-2014. Going forward, we will continue to focus on rationalizing the capital invested in the overseas banking subsidiaries.

Let me now talk about the overall consolidated profits.

The consolidated profits for Q1-2014 increased by 32.3% to Rs. 27.47 billion compared to Rs. 20.77 billion in Q1-2013. This level of profits reflects an annualized consolidated return on average equity of 15.6% for Q1-2014 compared to 13.3% for Q1-2013.

I would now like to talk about our outlook for fiscal 2014. As I had mentioned earlier, there has been continued moderation in economic growth, along with increased volatility in financial markets. At the same time, several changes on the regulatory front are underway. Our outlook for fiscal 2014 is in this overall context.

- With respect to loan growth, we would continue to target domestic loan growth at 2%-3% higher than the system growth, with higher growth in the reported retail portfolio of about 18%-20%. The growth in our international book in our overseas branches will depend on conditions in the global funding markets.

- Given the current growth trends in demand deposits in the system, our target would continue to be to maintain the average CASA ratio at 38%-39% for FY2014.

- We continue to target an improvement of about 10 basis points in the overall net interest margins on a full year basis.

- Driven by growth in the retail fee segment, we continue to target an improvement in fee income growth to double digits in FY2014.

- For FY2014, our endeavour would be to contain the cost-to-income ratio to about 40%

- While the asset quality trends continue to be challenging for the system as a whole and we would expect additions to NPLs and restructured assets to continue, for the full year FY2014, the Bank continues to target provisions of about 75 basis points of average loans.

In conclusion, I would like to say that during the quarter we made progress on our stated objectives and achieved healthy operating parameters in the context of a challenging operating environment. Our retail franchise has seen good growth, with respect to both the liability and the asset franchises. We have also seen the first steps in rationalisation of capital at our overseas banking subsidiaries. We continue to make progress in improving our profitability metrics, such as margins, fee income growth and operating expenses.

With these opening comments, my team and I will be happy to take your questions.

Moderator: Thank you. 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 Bank. Please go ahead.

Mahrukh Adajania: In terms of retail NPLs, have they increased from the earlier March reported levels because of the change in classification of the loan portfolio?

N.S. Kannan: That is right Mahrukh. The numbers that we had given in our presentation for Q4-2013 were excluding rural loans, business banking loans, etc which are now included in the reported numbers for the current quarter.

Mahrukh Adajania: So most of the increase would be on account of the portfolios that have been included in the retail segment?

Anindya: There is no increase. It is just that the underlying portfolio is now being reported on a different basis.

Mahrukh Adajania: Ok. You mentioned that most of the slippages were SME and mid-sized corporates. In terms of SME, is there any geographic bias?

N.S. Kannan: What we have seen are largely company specific issues and there is no specific geographic pattern. Typically the impact has been in cases where the gearing is a little high and there is an increase in receivables. However, in our case, SME loans as a percentage of total loans has reduced to 4.6% at June 2013.

Mahrukh Adajania: Ok. Why is there such a sharp growth in personal loans and credit cards during this quarter. I understand that the base is low, but is there now focus on these segments?

N.S. Kannan: It is just the base effect. As I had mentioned earlier also the Bank will see growth in the unsecured credit card and personal loans portfolio off the current low base, but as a percentage of the overall loan book this portfolio is still not significant at about 1.6% of total loans. In term of our strategy, we continue to target our liability customers to sell more cards and other unsecured products.

Mahrukh Adajania: Ok. Were there no buyouts during the quarter?

Rakesh Jha: We would have done some buyouts through the PTC route in the investment book. However, in the loan book, the buyouts were close to zero.

Mahrukh Adajania: What is the amount of buyouts through the PTC route?

Rakesh Jha: The amount is not material. These are primarily for priority sector requirements.

Mahrukh Adajania: Will the 18% to 20% retail loan growth that you spoke about happen despite including the impact of lower buyouts during the year?

N.S. Kannan: Yes, that is right. We are targeting a growth in the reported retail loan book, including buyouts at 18% to 20% for the year.

Mahrukh Adajania: Ok. Can you again tell me your current restructuring pipeline?

N.S. Kannan: We have a pipeline of Rs. 10-11 billion of loans referred to CDR. In addition, the Bank may also undertake some bilateral restructurings.

Mahrukh Adajania: The concern is for companies like Lanco, which are being talked about and may not have been referred to the CDR yet.

N.S. Kannan: The number which I mentioned takes into account what is in the pipeline including the name you mentioned. Of course, we will continue to monitor the developments very closely.

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

Vishal Goyal: My question is on credit quality. We are still maintaining 75 bps of credit cost guidance, while in last three months a lot of things have changed. Do you think there is a need to change the credit cost guidance?

N.S. Kannan: Not at this point of time. We have looked at the numbers on a granular basis. For the current quarter, as I have mentioned, we have already taken specific provisions in excess of RBI requirements of about Rs. 2 billion and mainly because of that the credit costs increased to 82 basis points on an annualised basis. For the full year, we continue to target provisions of about 75 basis points of average loans.

Vishal Goyal: Can you give some break up of provisions of Rs. 5.93 billion for the quarter? You mentioned that Rs. 2 billion is specific in that.

N.S. Kannan: I mentioned that about Rs. 2 billion were specific provisions over and above what is required by RBI guidelines. Apart from that the provisions would also include normal run rate provisions on a specific basis as per RBI guidelines. It will also reflect the impact of higher general provisioning requirement on restructured loans.

Vishal Goyal: Ok. Can you give us some details of the AFS book with the duration, if possible?

Rakesh Jha: In our SLR portfolio, typically we have about 25% of the portfolio in the AFS category and about 75% in the HTM category. The duration on the AFS portfolio would be less than one year. In addition to that we will have some other fixed income investments like corporate bonds which would be in the AFS portfolio.

Vishal Goyal: How much would the corporate bond portfolio be? You have reported RIDF and related investments of about Rs. 198 billion.

Rakesh Jha: The RIDF and related investments do not include corporate bonds. Those are investments for shortfall against priority sector lending targets and are in the nature of deposits with SIDBI, NHB or NABARD where there is no marked-to market impact.

N.S. Kannan: The good news there is that with the bank rate going up, the incremental RIDF deposits will fetch a higher return of 7.25% as against 4% to 5% which we get currently.

Vishal Goyal: That will be for the incremental contributions?

N.S. Kannan: Yes.

Vishal Goyal: Ok. And my other question on the size of the corporate bond book.

Rakesh Jha: Our corporate bond portfolio will be about Rs. 150 billion. The book has decreased on a sequential basis as we booked some gains during the quarter.

Moderator: Thank you. The next question is from the line of Nilesh Parekh from Edelweiss. Please go ahead.

Nilesh Parekh: Are the specific provisions in excess of RBI norms of about Rs. 2 billion the first time we have made excess provisions?

Rakesh Jha: As a policy, against retail loans we indeed make additional provisioning in excess of the requirements under RBI guidelines. On the rest of the portfolio, we typically make provisions in line with the RBI guidelines. So the provision that we have made in excess this quarter would typically not have been made in the past in this manner.

Nilesh Parikh: Can you explain what these provisions are?

Rakesh Jha: These are provisions against specific identified NPLs and are netted out while computing the net NPL number.

Nilesh Parikh: Ok. On the fee income trends, we have seen some improvement but have still not achieved the double –digit growth target. Could you explain the trends in this regard?

N.S. Kannan: Currently we are satisfied with having increased it from 3% growth levels to 9% in the current quarter. We continue to target double digit percentage growth for fee income for the full year. In terms of the various segments, the retail fees would have grown in the teens on a year-on-year basis while the corporate fees especially project related would have been flattish. There is some growth that we have seen in the forex and derivative fees and commercial banking fees during the quarter.

Nilesh Parikh: Ok. With respect to the write-offs of about Rs. 4 billion in the quarter, are these largely from the retail book?

Rakesh Jha: Yes.

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

Kashyap Jhaveri: On priority sector lending, we have given number for agri loans, weaker section loans and home loans in the annual report. Will the residual number be largely lending to micro, small and medium enterprises?

Rakesh Jha: Yes.

Kashyap Jhaveri: Of the 35% of adjusted net bank credit priority sector lending that we had achieved in FY2013, about 10% are agri loans, about 2.5% are weaker section loans and about 8.5% will be home loans. So the residual 14% will be MSME loans?

Rakesh Jha: It will largely be MSME loans but will also include part of the commercial vehicles portfolio which qualifies for priority sector. The outstanding number can also include some of the categories of loans eligible for priority sector under the earlier RBI guidelines, including, for example, loans to NBFCs for on-lending.

Kashyap Jhaveri: Ok. If I look at annual report of FY2012 and FY2013, this segment has grown at about 25%, higher than the overall growth rate. Has this segment been the main contributor to the additions to NPLs?

N.S. Kannan: No the NPLs are largely not from this category.

Kashyap Jhaveri: The second question is on borrowing from RBI which was at about 4% of NDTL at March 2013. Is this a year end phenomenon or would such borrowings from RBI be on a regular basis?

N.S. Kannan: Some part of the borrowings would indeed be year end phenomenon. However, the Bank also does borrowings from RBI on a regular basis. With respect to overall funding, there has been a structural improvement for us with retail deposits at more than 70% of total deposits now. Repo borrowings are not a significant proportion of the total funding for the Bank.

Kashyap Jhaveri: Ok. Compared to the recent RBI cap for LAF borrowings at 0.5% of NDTL, what would be the position for the Bank?

Rakesh Jha: The banking system was borrowing much higher than 0.5% of NDTL, which would be true for us as well.

N.S. Kannan: But given our higher share of retail in total deposits, we believe that we can adjust to the prevailing regulatory and the monetary environment.

Kashyap Jhaveri: During the call at the time of Q4-2013 results, you had mentioned a CDR pipeline of about Rs. 7 billion. Of the loans restructured of Rs. 8.23 billion in Q1-2014, is the residual number above Rs. 7 billion largely due to bilateral restructurings?

N.S. Kannan: The pipeline we had mentioned during our Q4-2013 results call has been broadly been restructured during the first quarter.

Anindya Banerjee: Also, the pipeline we mention is at a point in time. Cases also do get added to CDR pipeline over the quarter.

Kashyap Jhaveri: So the Rs. 8.23 billion is largely from restructurings under the CDR mechanism and there is no bilateral restructuring?

Anindya Banerjee: There will be some bilateral restructurings as well.

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

Amit Premchandani: On the Basel II and Basel III reported numbers, there is a gap of about 100 basis points in the Tier I ratio. Can you explain the difference?

N.S. Kannan: In the Tier-1 ratio the gap would be about 75-80 basis points. There are two primary reasons for this difference. One is on account of the securitisation transactions we had done in the past, where the risk weights and the capital requirement are more punitive under Basel III than under Basel II. The impact due to the securitisation exposures accounted for about 40 basis points of difference between Tier-1 ratio reported under Basel III and what would have been under Basel II. The second reason is our investment in the subsidiaries where under the Basel II framework, we deducted 50% of investment from Tier-1 and balance 50% from Tier-2 while under the Basel III framework on a fully implemented basis we will have to deduct the entire 100% from Tier-1 capital. However, this will happen in a phased manner, and currently as per RBI phase in arrangements on Basel III, we have to deduct 60% of the investment in subsidiaries from Tier-1 capital. The difference of 75-80 basis points in the Tier 1 ratio was broadly in line with our expectations and is primarily due to the two reasons I have mentioned. Further, the securitization exposures are expected to run down substantially over the medium term.

Amit Premchandani: Are the numbers for risk weighted assets that you have reported based on Basel II or III?

Rakesh Jha: They are based on Basel III.

Amit Premchandani: On the retail NPLs that have been reclassified, can you give us a number for the last year same quarter and last quarter?

Rakesh Jha: The gross retail NPLs were at about Rs. 58 billion at March 2013 which decreased to about Rs. 54 billion at June 2013.

Amit Premchandani: Ok. RBI had come out with a draft guideline on unhedged foreign currency exposure of borrowers. Since you have funded a lot of acquisitions of Indian companies overseas, how are you placed in case the draft guidelines are actually implemented?

Rakesh Jha: In this case, the overseas funding that we have done to companies for USD dollar requirements overseas will not really be impacted. The impact will be more for ECBs to corporates for use in India. However, the draft guideline is not linked only to dollar loans. Even if you have made rupee loans to the corporate, what RBI seems to be saying is that you have to look at whether their unhedged foreign currency exposures will impact their EBITDA above a certain level due to exchange rate fluctuation. In this case, banks will have to maintain higher general provisioning and higher risk weights. So, whether banks have dollar denominated exposures to the company or rupee exposures will not really matter. Having said that, it is quite difficult for banks to be able to work out those numbers, unless as the guideline suggests, auditors of these companies work out the exact unhedged positions. We believe banks would have given some comments on these draft guidelines to RBI and we will await further clarity.

Amit Premchandani: So for example, if a company buys a mine in Australia and borrows for funding that acquisition, the exposure for banks will not be considered as unhedged?

Rakesh Jha: For each company, one will have to see what are their foreign currency assets and liabilities and whether they have a cover or not.

N.S. Kannan: I think these are early days and it will take time for framework to evolve.

Amit Premchandani: Ok. What is your view on the recent monetary policy measures and the decision of some banks to actually increase deposit and lending rates? Are you also thinking on those lines?

N.S. Kannan: We are very closely monitoring the situation, and as I mentioned earlier, we are quite confident that all necessary steps would be taken to expand the NIMs for a year as a whole by 10 basis points. I would again like to mention that we have strengthened our retail deposit franchise over the last few years and that would help in this situation.

Moderator: Thank you. The next question is from the line of Abhishek Kothari from Violet Arch Securities. Please go ahead.

Abhishek Kothari: How confident are you of the deposit growth matching up with the credit growth in the current environment?

N.S. Kannan: Given the systemic credit growth environment, we believe that there should not be any structural liquidity mismatches arising out of the difference in growth rates in credit and deposit. Further, going forward, I think moderation in inflation and probably lesser diversion of savings to physical assets such as gold and real estate will be good for deposit growth in the long term. In any case, as you know, the relative base of credit and deposit in the system is different with total credit of about Rs. 40-50 trillion and a deposit base of about Rs. 70 trillion. So a difference of couple of percentage points can be managed. The banking system, as you know, is also holding excess SLR investments.

Abhishek Kothari: Ok. What is the total cumulative NPA from the restructured book? And if possible, can you give a sectoral break-up of your gross NPAs?

Rakesh Jha: We report the sectoral break-up of NPLs in our annual report not on a quarterly basis. We have disclosed the retail NPL numbers separately. On the restructurings that we have done over the last five years, the cumulative slippages will be about 8%.

Moderator: Thank you. The next question is from the line of Nitin Kumar from Quant Capital. Please go ahead.

Nitin Kumar: We have seen two rounds of capital repatriation from the overseas banking subsidiaries. What is the outlook for further repatriation of capital?

N.S. Kannan: We are focused on improving the ROEs in both the UK and Canadian subsidiaries. The dialogue for rationalising the capital level continues with the regulators in both these geographies. It is very difficult to predict the timeframe in this regard, as it will be based on regulatory approvals.

Nitin Kumar: Ok. During this quarter our off balance sheet risk weighted assets have grown very sharply. What has driven this growth?

Rakesh Jha: The reporting for the June 2013 is as per the Basel III framework compared to numbers based on the Basel II framework for March 2013. The difference in the numbers you mentioned is primarily on account of securitisation exposures, which attract a high risk weight under the Basel III requirements.

N.S. Kannan: As I mentioned earlier, these exposures are expected to substantially run down going forward.

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

Surendra Chetty: My question is regarding the news that ICICI Bank UK is in the process of closing two branches. Is this a part of capital repatriation plan?

N.S. Kannan: This has nothing to do with the capital repatriation plan. Those two branches accounted for less than 2% of the deposits of ICICI Bank UK. Hence from an overall productivity and cost management perspective, we decided not to continue with those branches. We have mapped the customers of these branches into other branches.

Surendra Chetty: I missed the guidance on the credit growth. Can you please elaborate on that?

N.S. Kannan: We target to grow the domestic loan book at 2% to 3% higher than the system credit growth. On international side, we will calibrate the growth depending on the overseas funding markets.

Moderator: Thank you. The next question is from the line of Adarsh from Prabhudas Lilladhar. Please go ahead.

Adarsh: My question was on the international margins. How sustainable is the improvement that you have seen in international margins in Q1-2014?

N.S. Kannan: We believe that we should be able to sustainability is not a problem, because on our incremental lending we are seeing margins of 1.5% to 1.6%.

Adarsh: That there would be some increase in hedging cost for your borrowers who are mainly India linked. Would you trade off with lower margins for some of your customers given the increase in hedging costs now?

N.S. Kannan: I don't believe that this is required at all. Our approach has been to focus on 1.5% to 1.6% margins for international book. As I mentioned earlier, we do not target any particular level of growth for this book and will calibrate the growth to developments in global funding markets.

Adarsh: Ok. Profitability of the general insurance subsidiary has improved quite dramatically. I wanted to understand whether such profits are sustainable.

Anindya Banerjee: There are two reasons for the increase in profits. One is that the motor pool losses which they had to take during the last year are not expected in the current year. Further, profits for Q1-2014 are driven by growth in business and investment gains. We believe that the general insurance business can deliver an RoE of about 20% on a steady state basis.

Adarsh: Given the recent liquidity tightening, what comfort do you have with respect to your infrastructure lending exposures, especially as asset sales have not happened in this segment at the pace expected?

N.S. Kannan: We are monitoring the assets on a continuous basis, and in some cases, we have reduced our exposures compared to the last year. We have been engaging with the companies and are focused on protecting the interests of the Bank.

Moderator: Thank you. The next question is from the line of Manish Karwa from Deutsche bank. Please go ahead.

Manish Karwa: Sequentially term deposits have declined. Is it because of a decline in wholesale deposits?

N.S. Kannan: Yes.

Manish Karwa: Of your total term deposits, how much would be retail?

N.S. Kannan: Of the total term deposits, retail will be about 60%. Of the total deposits about 70% would be from the retail segment.

Manish Karwa: What would the proportion of retail term deposits have been a year ago?

N.S. Kannan: Around 50%.

Manish Karwa: Ok. Also, borrowings have increased substantially. Is it also because of the rupee depreciation?

N.S. Kannan: Yes, that would be one of the reasons on account of the foreign currency borrowings of the Bank.

Manish Karwa: If I am not wrong you had raised foreign currency borrowings through a MTN issue sometime early during this calendar year and you were sitting on reasonably good liquidity in the international book which was supposed to get deployed this year. Despite that, you mentioned that the international loan book is not expected to grow significantly in fiscal 2014?

N.S. Kannan: Some of the liquidity has indeed been deployed and that is one of the reasons for the sequential improvement in the net interest margins. With respect to growth, as I mentioned earlier, we will calibrate it to the global funding markets and do not currently expect any significant growth for the year.

Manish Karwa: Ok. I had a question on the subsidiaries. The primary dealership subsidiary has reported good profits this quarter. Obviously, the environment was pretty good for a PD business, but will this get reversed significantly as we go forward?

N.S. Kannan: It really depends on what happens on September 30 in terms of the market rates. Any market-linked business in the fixed income will be subject to volatility, given the recent RBI measures. The focus would be on staying nimble. The PD subsidiary has the ability to stay much more nimble compared to a large balance sheet that typically banks would have. In the past also PD has been very nimble and they have an ability to play both sides of the market. I believe that their focus would be on limiting the losses. However, the current volatility will have an impact on that business.

Manish Karwa: Ok. Do you think that the profitability of the general insurance subsidiary be sustained and if the current quarter's profit is primarily business related income?

N.S. Kannan: We believe that the profit for ICICI General will be better than the last year and we think that the sustainable level of RoE for the business is about 20%. For Q1-2014, the profits for the subsidiary will have a component of investment income. However if we look at on a full year basis, last year, the provision for the motor pool losses was about Rs. 1.00 billion and after that for the full year the company made a profit of about Rs. 3 billion. Hence the company had a run rate profit of about Rs. 4.00 billion if we exclude the motor pool losses. Additionally the business is growing at about 20%. On this basis we are looking at a 20% plus RoE in that business on a normalised basis.

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

M.B. Mahesh: Mr. Kannan had indicated that the international margins can be maintained at about 1.5% to 1.6%. Is that the primary reason why you are still maintaining a guidance of 10 basis points overall improvement in margins for the full year?

N.S. Kannan: That is one of the primary reasons. In addition, except for the exchange rate fluctuation, the proportion of international loans as a percentage of total book is also expected to come down, which would have a benefit in terms of overall margins.

M.B. Mahesh: The reason why I am asking is that if we go with just the improvement in the international margins, we would see about 10 basis points improvement in the overall margins. Does that mean that you expect some decline in the domestic margins from the current levels? If yes, is it because it is driven by the shift in asset mix more towards retail?

Rakesh Jha: It is very difficult to give an estimate on margins on a quarter-on-quarter basis as there are leads and lags of the impact of any increase in deposit rates or base rates. On an overall basis, for the full year, a large part of the increase in overall margins that we are talking about is expected to come from the expansion of margin in the overseas business.

M.B. Mahesh: But do you expect the margins for the domestic business to see a decline?

Rakesh Jha: If you take the March quarter as a base then it is fair to say that the domestic margins will be lower. As I just mentioned, on a quarter-on-quarter basis margins can be higher or lower depending on how re-pricing happens. For example, the wholesale deposit rates were lower in the March quarter for fiscal 2013 compared to the previous year, which also contributed to the higher margins. Currently, the expectation is that the cost of funding for banks will increase in the near-term till RBI reverses the measures it has initiated. We will also, like all banks, look at our deposit and lending rates and try and assess what is the increase, if any, that we need to do. The impact of that will flow through for the rest of the quarters with some lead and lag. But, for the full year, we continue to target a 10 basis points increase in overall margins.

M.B. Mahesh: Ok. As large part of the project funding comes up for completion, are you facing pressure to cut rates aggressively to retain the underlying loan?

Rakesh Jha: In general, two or three months back, given the decline in the overall systemic loan growth, banks were indeed quite competitive on some of these corporate loans. Things have changed in the last couple of weeks and we have to see how things pan out.

N.S. Kannan: My sense is that for some of those corporates the ability to borrow in the short-term market, given the RBI measures and the increase in interest rates, has come down. Hence, in the near-term the bargaining power from the corporate will also come down.

M.B. Mahesh: Ok. On the retail portfolio, what is the underlying loan book excluding buyouts?

Rakesh Jha: The outstanding buyout portfolio was about Rs. 60 billion at June 30, 2013.

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

Nilanjan Karfa: Lanco is right now getting a lot of media attention with total debt of about Rs. 75 billion for the company. Is deterioration in this account something that you had considered when you talked about 75 basis points credit costs?

N.S. Kannan: I do not want to comment on a specific case. However, when I mentioned earlier that we have Rs. 10-11 billion of pipeline of loans referred to CDR, I have also considered the loans to the company you mentioned. As for credit costs, whenever we estimate the credit costs, we always keep some cushion, especially given the operating environment where there could always be one or two unforeseen events.

Nilanjan Karfa: The point I was trying to make is did this particular case come as a surprise for you?

N.S. Kannan: I will again not comment on specific cases, but would like to mention that we closely monitor our exposures.

Nilanjan Karfa: Just to take it forward, if you look at that particular EPC business, they have just got three other outside projects. One of them is a Moser Baer Power Plant which has not taken up, one is Mahagenco and probably one is in Iraq Power Plant that they have disclosed. Would you think that Rs. 75 billion that is there in the media is due to some problem on the SPV side?

Rakesh Jha: We would not want to discuss specific individual cases.

Nilanjan Karfa: Second question is on the international subsidiaries. Is there a Tier-1 ratio you are targeting at for each of the UK and Canadian subsidiaries?

N.S. Kannan: Our endeavor would be to focus on improvement of the ROE to a more respectable level. On Tier-I ratio there is no target, but the current Tier-I is significantly higher than what we would like to have. We are in continuous dialogue with the regulators.

Nilanjan Karfa: So what is your target ROE for these businesses?

N.S. Kannan: Over a period of three years, double-digit ROE is what we would target.

Nilanjan Karfa: Canada, I think is at a Tier-1 of about 26% - 27%?

N.S. Kannan: That is correct.

Nilanjan Karfa: So I think the ROEs will be compressed for quite some time out there.

N.S. Kannan: Yes. Hence, the improvement in ROEs will partly come from business growth and partly from capital repatriation.

Moderator: Thank you. The next question is from the line of Prashant Kumar from Credit Suisse. Please go ahead.

Prashant Kumar: Just an extension of a question asked earlier on the retail portfolio, adjusted for buyouts, what was the sequential growth in absolute terms. Also can you tell us the disbursement per month for home loans, auto loans, credit cards and personal loans?

Rakesh Jha: During the quarter, the buyout portfolio decreased by about Rs. 20 billion. With respect to disbursements, we do not disclose our monthly disbursements numbers in the retail businesses.

Moderator: Thank you. The next question is from the line of Sampath Kumar from India Infoline. Please go ahead.

Sampath Kumar: In the past you used to have variation in your margins because of priority sector obligations coming in the fourth quarter but recently we do not see that variation. Is there any specific reason?

Rakesh Jha: One reason is that there is a base rate floor which has come in. Further, some of the lending qualifying for priority sector used to be to corporates engaged in agriculture where the pricing pressure used to be much more. Such lending no longer qualifies for PSL which has also resulted in a higher shortfall for many of the banks. The impact on margins is still there but of a lesser magnitude.

Sampath Kumar: As far as your margin guidance of 10 basis points increase on a year-on-year basis for the full year, would you be confident given the current environment?

N.S. Kannan: As of now we are quite confident. However, we will have to keep on monitoring what happens to the rates.

Sampath Kumar: Do you think the current level of credit deposit ratio is sustainable in a domestic business which is almost at 80% now?

N.S. Kannan: I think it is sustainable and I do not see any issues there.

Moderator: Thank you. Participants that was the last question. I would now like to hand the floor back to Mr. N. S. Kannan for closing comments. Over to you, sir.

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 once again.

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