ICICI Bank Limited
Earnings Conference Call – Quarter ended March 31, 2014 (Q4-2014)
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Moderator: Ladies and Gentlemen, good Day and welcome to the Q4-2014 Earnings Conference Call of ICICI Bank. As a reminder, all participants' line 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 the conference call, please signal an operator by pressing '*' and then '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 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 March 31, 2014, which is the fourth quarter of the current financial year 2014.

In my remarks this evening, I will cover the following areas:

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

- then, our consolidated results;
- and finally, the outlook for the full financial year 2015.

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

During fiscal 2014, we saw significant volatility in the currency markets following global developments as well as certain structural domestic concerns. However, through the year, developments such as the improvement in the country's current account deficit due to curbs on gold import, measures to attract NRI deposit flows and the strong FII flows in Q4-2014, have resulted in strengthening of the exchange rate in the fourth quarter. The rupee outperformed other emerging market currencies during the fourth quarter. The improvement in FII flows also resulted in an improvement in equity markets with the BSE Sensex increasing by 6% during Q4-2014.

However, real economic activity continued to remain weak with sustained slowdown in the industrial sector. With respect to inflation, while there has been some moderation in the inflation based on the headline Wholesale Price Index, WPI, and Consumer Price Index, CPI, the core CPI inflation continued to remain elevated at about 8%. The Reserve Bank of India has reiterated its focus on maintaining a disinflationary path and has indicated targets of 8% CPI inflation by January 2015 and 6.0% CPI inflation by January 2016. RBI has also mentioned that it will look through transient effects on inflation while deciding policy rate changes. The current monetary policy stance as articulated by RBI, may result in policy rates remaining elevated with corresponding implications for market rates. The yield on government securities remained at about 8.8%-9.0% levels, similar to that at the beginning of Q4-2014.

Non-food credit growth for banks continued to remain moderate at 14.2% at April 4, 2014. Growth in total deposits was 15.0% on a year-on-year basis at April 4, 2014, including the impact of increased NRI deposit flows during the year. Banking sector asset quality challenges also persisted with about 44% increase in CDR referrals in FY2014 along with elevated levels of additions to non-performing loans.

With this background, let me now move to our performance during the quarter, including our progress on our 5Cs strategy:

- **First, with respect to Credit growth:** The Bank continued to adopt a calibrated approach to growth given the developments in the environment. Accordingly, the Bank's domestic loan portfolio grew by 14.8% on a year-on-year basis at March 31, 2014, driven primarily by the retail business. Growth in the retail portfolio continued to be strong and improved to 23.0% year-on-year at March 31, 2014 compared to 11.4% at March 31, 2013. This has been driven by growth in secured products with the outstanding mortgage and auto loan portfolios growing by 23% and 38% respectively on a year-on-year basis at March 31, 2014. Commercial business loans declined by 17% on a year-on-year basis at March 31, 2014, reflecting both a slowdown in this segment as well as run-down of the bought out portfolio in this segment. Growth in the business banking and rural lending segments continued to be healthy, off low bases, at 25% and 42% respectively. The unsecured credit card and personal loan portfolio at 72.70 billion Rupees at March 31, 2014 continued to remain a small portion, about 2.1%, of the overall loan book though the growth rate is high due to the low base.

  In view of the weak operating environment, the Bank continued to adopt a cautious approach to growth in the corporate and SME segments. Growth in the domestic corporate portfolio was at 8.1% on a year-on-year basis at March 31, 2014. The SME portfolio declined by 1.0% on a year-on-year basis at March 31, 2014.

Growth in net advances of the overseas branches, in US dollar terms, was at 10.8% on a year-on-year basis at March 31, 2014, reflecting primarily an increase on account of lending against FCNR deposits during the year. In rupee terms, the net advances of the overseas branches increased by 22.3% on a year-on-year basis due to the movement in the exchange rate.

As a result of the above, total advances of the Bank increased by 16.7% on a year-on-year basis from 2.90 trillion Rupees at March 31, 2013 to 3.39 trillion Rupees at March 31, 2014.

- Moving on to the second C on ***CASA deposits***: The Bank continued to see healthy momentum in its CASA deposit mobilisation. During Q4-2014, we saw an addition of 34.08 billion Rupees to our savings deposits and an addition of 18.04 billion Rupees to current account deposits. For the full year, the Bank has seen net addition of 134.82 billion Rupees to its savings account deposits and 63.19 billion Rupees to its current account deposits, reflecting a year-on-year growth of 16.2% growth in overall CASA deposits at March 31, 2014. As a result of the above, the period end CASA ratio improved to 42.9% at March 31, 2014 compared to 41.9% at March 31, 2013. The average CASA ratio for the Bank for FY2014 was 39.4% compared to 38.0% for FY2013.

- On the third C on ***Costs***: For the fourth quarter, operating costs, including DMA expenses, increased by 19.6% on a year-on-year basis. On a sequential basis, the increase in operating expenses was primarily due to higher employee expenses on account of higher provision for variable pay in Q4 of 2014 as well as normalisation of retirement benefit provisions compared to earlier quarters. The Bank's cost-to-income ratio was 39.2% in the fourth quarter of fiscal 2014. For the full year FY2014, the cost-to-income ratio for the Bank was 38.2% compared to 40.5% in FY2013.

- Let me move on to the fourth C on **Credit quality:** During the fourth quarter, the Bank saw gross NPA additions of 12.41 billion Rupees, primarily driven by slippages in the SME and mid-sized corporate loan portfolios. Deletions in the fourth quarter were 4.16 billion Rupees. The Bank has also written-off 7.19 billion Rupees of NPAs. The net NPA ratio was 82 basis points at March 31, 2014 compared to 81 basis points at December 31, 2013.

  During the quarter, the Bank had gross additions of 21.56 billion Rupees to its restructured loans. After taking into account deletions and the required specific provisioning, the net restructured loans for the Bank increased to 105.58 billion Rupees at March 31, 2014 compared to 86.02 billion Rupees at December 31, 2013. We currently have loans aggregating around 15.00 billion Rupees to companies referred to CDR.

  Provisions for Q4 of 2014 were at 7.14 billion Rupees as compared to 4.60 billion Rupees in Q4 of 2013 and 6.95 billion Rupees in Q3 of 2014. As a result, credit costs as a percentage of average advances were at 86 basis points on an annualised basis for Q4 of 2014. For the full year FY2014, the credit costs as a percentage of average advances were at 84 basis points. The provisioning coverage ratio on non-performing loans was 68.6% at March 31, 2014. The provision coverage ratio includes the impact of write-offs done by the Bank during FY2014, which is estimated to have resulted in an impact of about 6 percentage points on the provision coverage ratio compared to March 31, 2013. While in the near term, the provision coverage ratio will continue to be impacted by the pace of fresh NPL additions and write-offs by the Bank, over the medium term, we expect the provision coverage ratio to improve as ageing based NPL provisions are made and additions to non-performing assets normalise.

- 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 165 branches and 100 ATMs to its network. With this, the Bank has a branch network of 3,753 branches and 11,315 ATMs at March 31, 2014. The Bank also continues to strengthen its technology channels for increasing customer convenience. The Bank's Facebook page continues to be appreciated by customers with about 2.9 million fans. ICICI Bank continues to have the largest fan base on Facebook among the Indian banks. The Bank has also continued to focus on technology based delivery channels with continued scale up in branch automation, focus on driving tab banking, enhancing its internet banking platforms, mobility solutions across corporate and retail internet banking applications and driving government and corporate banking solutions through technology initiatives.

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 by 14.6% year-on-year from 38.03 billion Rupees in Q4 of 2013 to 43.57 billion Rupees in Q4 of 2014. The net interest margin in Q4 of 2014 was 3.35%. The

domestic NIM was marginally higher at 3.72% in Q4 of 2014 compared to 3.67% in Q3 of 2014. International margins were at 1.71% in Q4 of 2014 compared to 1.70% in Q3 of 2014 and 1.26% in Q4 of 2013.

2. Total non-interest income increased by 34.7% from 22.09 billion Rupees in Q4 of 2013 to 29.76 billion Rupees in Q4 of 2014. If we look at the components,

   - Fee income grew by 11.2% from 17.75 billion Rupees in Q4 of 2013 to 19.74 billion Rupees in Q4 of 2014, driven by healthy growth in retail fees. The Bank's retail fees, including remittances, contribute about 55% to 60% of its overall fees.

   - Other income was 7.57 billion Rupees in Q4 of 2014, compared to 3.41 billion Rupees in Q4 of 2013 and 3.57 billion Rupees in Q3 of 2014. On a year-on-year basis, during Q4-2014, the Bank received higher dividends from ICICI Life, based on the increased payout levels approved by the company's board as we had mentioned on our earlier call. Further, the Bank also received dividends from ICICI Bank UK and ICICI Bank Canada of about USD 25 million each, in Q4-2014. During the quarter, based on the significant reserves & surplus position built up in the overseas branches and the muted growth outlook in the near term, the Bank repatriated profits from its overseas branches resulting in exchange rate gains of 2.22 billion Rupees.

   - During the fourth quarter, treasury recorded a profit of 2.45 billion Rupees compared to a profit of 0.93 billion Rupees in Q4 of 2013 and 4.47 billion Rupees in Q3 of

2014. The year-on-year improvement in treasury income was primarily on account of gains on the equity portfolio.

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

4. As a result of these trends, the Bank's standalone profit before tax increased by 19.0% from 31.44 billion Rupees in Q4 of 2013 to 37.40 billion Rupees in Q4 of 2014.

5. As I had mentioned on my earlier call, during the year the Bank created deferred tax liability on Special Reserve in accordance with Reserve Bank of India guidelines. As a result, the Bank's tax expense was higher by 3.04 billion Rupees in FY2014.

6. The Bank's standalone profit after tax increased by 15.1% from 23.04 billion Rupees in Q4 of 2013 to 26.52 billion Rupees in Q4 of 2014. For the full year FY2014, the profit after tax increased by 17.8% to 98.10 billion Rupees in FY2014 from 83.25 billion Rupees in FY2013. The return on average assets improved from 1.66% in FY2013 to 1.76% in FY2014.

   The Bank's capital adequacy as per Reserve Bank of India's guidelines on Basel III norms continues to remain strong at 17.70% overall CAR and 12.78% Tier I ratio at March 31, 2014.

   Based on the performance of the Bank in FY2014, the Board of Directors has recommended a dividend of 23 Rupees per share to shareholders, compared to 20 Rupees per share for the previous year.

I now move on to the consolidated results.

On a full year basis, the profit after tax for the life insurance company was 15.67 billion Rupees in FY2014 compared to 14.96 billion Rupees in FY2013. The profit after tax for the life insurance company in Q4 of 2014 was 3.88 billion Rupees as compared to 3.54 billion Rupees in Q4 of 2013. The new business annualised premium equivalent for ICICI Life was 10.81 billion Rupees in Q4-2014. The retail weighted received premium for ICICI Life was broadly stable in FY2014. Renewal premiums for the company have increased in Q4-2014 after declining for 2 years. The company maintained its leadership position in the private sector with overall market share of 6.7% during April-December 2013. The new business margins for the company were at 10.9% in Q4 of 2014. We will continue to assess how the business evolves and take steps to optimise margins and profits.

On a full year basis, ICICI General has seen a significant improvement in profitability with a 67.0% increase in profit after tax from 3.06 billion Rupees in FY2013 to 5.11 billion Rupees in FY2014. The profit after tax for Q4 of 2014 was 0.76 billion Rupees as compared to 0.27 billion Rupees in Q4 of 2013 and 0.76 billion Rupees in Q3 of 2014. The company maintained its leadership position in the private sector with overall market share of 9.6% during April-February 2014.

Let me move on to the performance of our overseas banking subsidiaries. Over the last four years, given the local business environment and regulatory developments and our strategy of optimizing the capital in the overseas banking subsidiaries, the Bank's total equity investment in ICICI Bank UK and ICICI Bank Canada has reduced from about 11% of its net worth at March 31, 2010 to about 7% at March 31, 2014.

With respect to the financial performance, as per IFRS financials, ICICI Bank Canada's profit after tax for Q4 of 2014 was 11.0 million

Canadian Dollars as compared to 11.2 million CAD for Q4 of 2013. For the full year FY2014, profit after tax was CAD 48.3 million compared to CAD 43.6 million in FY2013. Total assets for ICICI Bank Canada were 5.45 billion CAD at March 31, 2014 compared to 5.28 billion CAD at December 31, 2013. Loans and advances were at 4.78 billion CAD at March 31, 2014. The capital adequacy ratio for ICICI Bank Canada was healthy at 29.7% at March 31, 2014. We have continued to focus on optimising the capital at ICICI Bank Canada. Accordingly, during FY2014, ICICI Bank Canada repatriated CAD 75 million of capital and has paid two dividends aggregating about CAD 45 million.

ICICI Bank UK's total assets were 4.47 billion US$ at March 31, 2014 compared to 4.37 billion US$ at December 31, 2013. Loans and advances were at 2.77 billion US$ at March 31, 2014. The profit after tax for ICICI Bank UK for Q4 of 2014 was 5.2 million US$ compared to 0.3 million US$ in Q4 of 2013. For the full year FY2014, profit after tax was at 25.2 million US$ compared to US$ 14.4 million in FY2013. The capital adequacy ratio was 21.8% at March 31, 2014.

Going forward, ICICI Bank UK and ICICI Bank Canada will continue to focus on short term loans, working capital lines, trade & transaction banking products to multinational corporations, select local market corporates and subsidiaries & joint ventures of Indian companies, including through participation in syndication transactions. Additionally ICICI Bank Canada would also continue to grow its securitised mortgages portfolio. We expect that the approach to lending in ICICI Bank UK and ICICI Bank Canada will also yield synergies for the local Indian banking requirements.

Let me now talk about the overall consolidated profits.

The consolidated profits for Q4 of 2014 increased by 9.3% to 27.24 billion Rupees compared to 24.92 billion Rupees in Q4 of 2013. The growth in consolidated profits was lower mainly on account of higher dividends from subsidiaries in Q4-2014. For the full year FY2014, consolidated profits increased by 15.0% from 96.04 billion Rupees in FY2013 to 110.41 billion Rupees in FY2014. The consolidated return on average equity was at 14.9% in FY2014 compared to 14.7% in FY2013.

Our performance in FY2014 is a continuation of our focus on delivering against our stated objectives. At the beginning of the year, we had communicated certain expectations for our key operating parameters and return ratios. During the course of the year, the underlying assumptions behind these expectations were challenged given the continued weakness in the operating environment as well as several regulatory changes. Despite this, I am happy to report that we have substantially delivered against our initial expectations. In a challenging environment, our focus continued to be on monitoring and containing corporate asset quality issues and recalibrating growth in the segment while further strengthening our core operating parameters. During FY2014, we have seen a more than 20 basis points improvement in full year margins in FY2014, a pickup in fee income growth, continued healthy dividend from subsidiaries and sustained improvement in our operating efficiency. Our deposit franchise has remained a key area of focus and we have seen healthy trends in CASA mobilisation in FY2014, resulting in an increase in the average and period end CASA ratios. With respect to loan growth, we have successfully scaled up growth in the retail segment while calibrating growth in the corporate and SME segments in view of the environment. As a result of the above, we have been able to mitigate the impact of increased corporate asset quality challenges as well as change in regulations, particularly on taxation, and have seen an improvement in the return on assets in FY2014.

Let me now come to our outlook for FY2015. We believe that the operating environment is likely to be better in FY2015 with some recovery in growth and stability in interest rates, although elevated. Our outlook for full year fiscal 2015 is in this overall context.

- On the loan growth front, we expect our domestic loan growth to be 2%-4% higher than the system, driven by more than 20% growth in the retail segment. Growth in the loan portfolio of overseas branches will continue to be calibrated to conditions in the funding markets. However, the focus in the overseas branches would shift from term lending to commercial banking, including working capital and non-fund based facilities for Indian companies, subsidiaries & joint ventures of Indian companies abroad and foreign companies engaged in trade with India.

- With respect to our deposit franchise, our focus would be on maintaining stable average CASA ratio in the range of 38-40%.

- With respect to margins, for FY2015, we would target to maintain overall NIM at a similar level to that in FY2014.

- On fee income, we would focus on sustaining and improving on the growth that we have seen in FY2014.

- Operating efficiency continues to be a key area of focus for the Bank. Our endeavor will be to further improve the cost-to-income ratio in FY2015.

- As per an assessment of our portfolio, based on the current macroeconomic environment and regulatory requirements, we believe that the quarterly additions to non-performing and restructured loans have peaked in Q4-2014. We expect the full year additions to non-performing and restructured loans in FY2015 to be lower than FY2014. In addition to this assessment, regulatory changes such as provisioning for unhedged foreign currency exposure, or UFCE, applicable from the first quarter of fiscal 2015, may have an impact on provisioning requirements. Despite the same, our endeavor will be to maintain provisions at around 90 basis points of average loans in FY2015.

- Through these measures, our focus in FY2015 would be to sustain the return on assets. We believe that our strong and diversified franchise, large distribution network and strong capital position gives us the ability to leverage opportunities for profitable growth as and when there are improvements in the operating environment.

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

Mahrukh Adajania: With respect to fees, what would be the broad breakup of corporate versus retail? Also, what would be the composition of corporate fees?

Anindya Banerjee: Retail fees, including remittances contribute about 55-60% of the total fees, broadly in line with the past trends. Corporate lending linked fees are about 15-16% of total fees.

Mahrukh Adajania: In Q4-2013, of the corporate fees, 70% was forex and transaction banking and around 30% was lending-related. Currently, some of the emerging banks are garnering a lot of fees through investment banking i.e. debt and loan syndication. Would investment banking be a driver for your fee income?

Rakesh Jha: On investment banking or debt or loan syndication, we are not finding those opportunities in the market, especially given the corporate lending environment over the last couple of years. For us the composition of the corporate fees remains one where we have lower proportion of lending fees compared to what we used to have a couple of years ago, and our focus is on further increasing the granular fees like forex and transaction banking fees.

Mahrukh Adajania: Ok. Savings deposits for ICICI have been growing at a steady and healthy pace. However, in the last two quarters, some of the other larger banks have seen higher growth. Any comments on that?

Rakesh Jha: Actually we have been quite happy with the granular increase every quarter, both in terms of the period end numbers as well as the average balances.

N.S. Kannan: We are completely focused on granular deposits. All the metrics we have down the line are based on daily average CASA. We are quite happy that during the year we could improve the CASA on a daily average basis from 38% to 39%. The focus would be to continue that approach and stabilise that number between 38% to 40% even as we grow the total balance sheet.

Mahrukh Adajania: Do you pay any differentiated interest rate on savings deposits?

N.S. Kannan: No.

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

Vishal Goyal: What is your assumption on the growth rate for an outlook of 90 bps on credit cost or when you say that your additions to NPLs and restructured assets have peaked?

Anindya Banerjee: On the domestic side, our aim would be to grow our loan book at 2-4% higher than the banking system, while we expect the banking system itself to grow around 16-17%. On the international side, in dollar terms we are looking at single digit growth.

N.S. Kannan: We have estimated the numbers and believe that we will be able to contain the provisions at around 90 basis points of average loans. As far as the incremental additions are concerned, our expectation is based on an assessment of the current portfolio in a granular fashion.

Vishal Goyal: My question was also on the GDP growth you are expecting. So for example, if GDP growth was at 5.5%+, then would the outlook on credit cost be lower than 90 basis points or would it not change much?

N.S. Kannan: For FY2015, we believe that the current assessment would be fair. I expect that the impact of changes in the investment climate, if any, will be rear-ended as far as FY2015 is concerned. These benefits will likely impact FY2016. For FY2015 we should go by the numbers we have spoken of.

Vishal Goyal: Ok. Have banks started complying with RBI's guidelines on early recognition of NPL?

Rakesh Jha: The RBI guidelines on early recognition of NPL have been effective since April 1, 2014. Banks have started the process of reporting cases classified as SMA-2. The complete process involving reporting and setting up of Joint Lenders Forums (JLF) and thereafter coming up with a corrective action plan is slowly falling in place.

Vishal Goyal: Given that the process has begun, would we see JLFs in the next one or two months?

Rakesh Jha: Yes, we would see it earlier than that.

Vishal Goyal: And what kind of impact could we see out of this?

N.S. Kannan: My sense is that the system will adjust itself to the framework. We believe that while there may be some impact in the initial quarters it should normalise over the course of the year.

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

Amit Premchandani: Recently, RBI has come out with a notification regarding banks using the window of giving guarantees/SBLCs to domestic corporates that were being used to raise money overseas. Have you used this window at all over the last one year, and is there any pipeline which gets impacted because this window is getting closed?

Rakesh Jha: Banks in general would have used this particular window in the past. Now that RBI has taken this step, it is something that banks would not be doing going forward. I do not think it will have any significant impact on any of the banks per se.

N.S. Kannan: We do not start with any pipeline for doing this. A few cases would have been done by the banking system in general. Since RBI has stopped this, such structures will not be done by the entire banking system, which is a good thing.

Amit Premchandani: Can you share any number for this that you had done in last year resulting in some of exposure shifting from fund to non-fund?

N.S. Kannan: We do not disclose such specific numbers. This will be limited to a sporadic few cases and not something which will have a significant impact.

Amit Premchandani: You mentioned that the unhedged foreign currency (UFCE) provision impact will be seen in FY2015. But, will you not charge this to the customers, because ultimately they should bear the cost? Will it impact the RoE of the Bank?

N.S. Kannan: Our endeavour would be to make borrowers hedge so that we can reduce the impact of UFCE itself and in some cases to pass on the impact through the pricing. However, there will be some residual charge which will be borne by the banks. We are budgeting for this in our expectations and inclusive of this the overall provision charge is still expected to be around 90 basis points.

Rakesh Jha: In any case, banks may not be able to charge the entire amount since this is not a specific provision. This is a general provision requirement for UFCE.

Amit Premchandani: Ok. Have you sold anything to ARCs in FY2014?

N.S. Kannan: Yes, we had sold a few assets in the second quarter of the financial year. We have not sold anything in the fourth quarter.

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

Manish Karwa: The risk weighted assets for the Bank have declined in the year. Where is the saving coming from?

Rakesh Jha: The off-balance sheet risk weighted assets have decreased on account of run-off of securitization exposures. These are risk weighted at over 1000% so that is where we have got the savings this year. We have seen some increase in the funded risk weighted assets.

Manish Karwa: But even the funded risk weighted asset growth is much lower than your loan growth?

Rakesh Jha: Part of loan growth this financial year was on account of the loan against the FCNR(B) deposits, which is completely cash collateralised and hence has no capital requirement. Also, the growth of the retail loan book was primarily driven by mortgages, which have a lower risk weight. There is no one-off benefit on the fund-based risk weighted assets.

Manish Karwa: Are more savings possible in the next year?

Rakesh Jha: On the off-balance sheet items actually we do not expect significant savings. On the funded side, there is still some saving which would come over the next couple of years.

Manish Karwa: Your UK subsidiary's Tier-1 ratio has declined sharply. Is it because of a higher dividend payout?

Rakesh Jha: The Tier-I ratio for the UK subsidiary decreased due to the annual dividend paid by the company in Q4-2014. Further, on account of Basel III implementation in UK, there has been reduction in the amount of certain Tier II instruments considered in capital funds which has resulted in a decrease in the total capital adequacy ratio.

Manish Karwa: Out of UK, how much total dividend would you have received this year?

N.S. Kannan: About US$ 25 million.

Manish Karwa: Only in the fourth quarter?

N.S. Kannan: Yes.

Manish Karwa: Ok. What is the domestic and international NIM?

N.S. Kannan: For Q4-2014, the domestic NIM was at 3.72%, and international NIM was at 1.71%.

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

Saikiran Pulavarthi: You mentioned about increased dividend payout in the life insurance subsidiary. Could you elaborate and quantify the change, and how it would look like for the next year?

N.S. Kannan: The life insurance company has paid higher dividends in the last two quarters of this financial year based on its high solvency position. We used to receive ₹ 90-100 crore of dividend per quarter i.e. about ₹ 400 crore annually. This financial year we received ₹ 275-300 crore additional dividend from the life insurance subsidiary.

Saikiran Pulavarthi: Sorry, could you repeat that?

N.S. Kannan: ₹ 690 crore is the total dividend from ICICI Life. Typically, we receive about ₹ 100 crore per quarter. The difference between ₹ 690 crore and ₹ 400 crore is the additional dividend we got in a couple of tranches.

Saikiran Pulavarthi: And, including all the subsidiaries what is the dividend number this quarter?

Rakesh Jha: The total dividend received this quarter is about ₹ 541 crore which has come mainly from ICICI Life, ICICI Bank UK and ICICI Bank Canada.

Saikiran Pulavarthi: Ok. Could you give us the provision breakup for this quarter?

N.S. Kannan: The provisions are primarily to loans, both specific provisioning on NPLs and restructured loans and the general provisioning on standard assets.

Saikiran Pulavarthi: In terms of the SLR investments, if I look at them as a proportion of the interest-bearing liabilities, there has been a sharp decline sequentially, which is unlike historic trends. What explains this decline and how do you look at it?

Rakesh Jha: We would have in the normal course reduced some of the excess SLR that we were holding.

Saikiran Pulavarthi: Ok. How do you see the tax rate going forward considering the impact of DTL on special reserve?

N.S. Kannan: We think it will stabilize at about 30%.

Moderator: Thank you. The next question is from the line of Jatinder Agarwal from CIMB. Please go ahead.

Jatinder Agarwal: On the foreign currency gains on retained earnings of overseas branches, how much of that pool is left after this and how much would you look to book as you go forward?

Rakesh Jha: Given that we have very large operations in our overseas branches, the total retained earnings in the overseas branches for us would be a large number. If you look at the foreign currency translation reserve, it will be close to about ₹ 22 billion at March 31, 2014. This largely reflects the exchange movement on the retained earnings of the overseas branches. The retained earnings themselves would be held at the historical exchange rate and as and when we transfer or remit back the retained earnings, it would be done at the current exchange rate and the difference would get recorded as an exchange gain. We will look at it on an economic basis, depending on where the exchange rates are and what is our view, in general, on remitting the retained earnings. One key factor for us has been that over the last two or three years, as you have seen, the growth in our overseas branches has been running at a lower pace than what it was doing in the past. Based on that we would prefer to remit back some of the retained earnings and deploy that into rupee assets at a higher yield.

Jatinder Agarwal: If I am not wrong, the FCTR balance last year was ₹ 13.82 billion?

Rakesh Jha: Correct.

Jatinder Agarwal: Ok. What would be the full year dividend from subsidiaries?

N.S. Kannan: It was about ₹ 13 billion.

Jatinder Agarwal: This number last year was ₹ 9 billion?

N.S. Kannan: That is correct.

Jatinder Agarwal: Ok. The provision coverage ratio has been declining sequentially for the last four quarters. What is the outlook for the same?

Rakesh Jha: The provision coverage ratio is a function of two things: the level of gross NPL additions and the write-offs that we make. As we have said in the past, we do not have a specific number in mind in terms of a target for the provision coverage ratio. We have a consistent provisioning methodology for each of the loan categories and depending on the additions and the write-offs, the coverage ratio moves. If you look at the current year, we have done a fair bit of write-offs including in the current quarter which together with somewhat higher NPL additions has resulted in the coverage ratio coming down. As Kannan mentioned earlier, we expect NPL additions to come off going forward, and that is when we would see the coverage ratio stabilizing and improving. As long as we see NPL additions at a higher level, the coverage ratio would tend to come down because at the time of a loan getting classified as NPL, the provisions are indeed much lower than on the outstanding book.

Jatinder Agarwal: Ok. CASA has been increasing for quite some time now. Given that what is your outlook on your competitiveness on the domestic cost of funds and how would it translate into asset yields?

Rakesh Jha: HDFC Bank does have a lower cost of fund compared to us but compared to all other banks we are very competitive. With respect to lending, we would be competitive across our key focus segments.

N.S. Kannan: Over the last 12-18 months, because of better competitiveness on the cost of funds, we have entered into fund based working capital lending consortiums etc. Over a three-year period, the Bank's position has improved structurally in terms of corporate working capital lending. Our cost of funds is at par or better compared to most banks.

Jatinder Agarwal: Ok. How much of the loan book would be working capital lending and how much would be term?

Rakesh Jha: Of the corporate loans, about 30% would be working capital lending.

Jatinder Agarwal: About the same as what it was last year?

N.S. Kannan: Yes.

Moderator: Thank you. The next question is from the line of Jignesh Shial from IDBI Capital. Please go ahead.

Jignesh Shial: With respect to your restructuring book how much was the gross and net additions during this quarter and for the full year?

N.S. Kannan: The gross additions to restructured loans during the quarter were ₹ 21.56 billion and for the full year about ₹ 66 billion.

Jignesh Shial: What would be the total outstanding restructured loans as at year-end?

N.S. Kannan: Net restructured loans at year-end were ₹ 105.58 billion and current restructuring pipeline is around ₹ 15 billion.

Jignesh Shial: Ok. Could you provide the NPA movement breakup for the full year?

Rakesh Jha: For the full year, the additions were about ₹ 45 billion, gross deletions were about ₹ 12 billion, and write-off and other items were about ₹ 24 billion.

Jignesh Shial: Ok. Where are you expecting the credit growth to come from in the next 6 to 12 months? With respect to corporate lending, is most of the growth driven by working capital lending?

Anindya Banerjee: Firstly, the overall corporate loan growth itself has moderated. The year-on-year growth was about 11% as of September 2013, about 7% as of December 2013 and is about 8% as of March 2014. To the extent that we are seeing growth in the portfolio, it is increasingly based on working capital and short-term disbursements. As far as retail is concerned, we are now growing at over 20% and expect this pattern to continue into the next year as well.

Moderator: Thank you. The next question is from the line of Amit Ganatra from Religare Invesco Asset Management. Please go ahead.

Amit Ganatra: In the past, you used to talk about your consolidated ROE target. Do you not have any such guidance on consolidated ROE now?

N.S. Kannan: The consolidated ROE for FY2014 was 14.9% and our long-term target continues to be around 17-18%. The time over which we achieve this will depend to a great extent on the improvements in the operating environment.

Amit Ganatra: Ok. If not for the provisions on UFCE, would the credit cost guidance been lower for FY2015?

Anindya Banerjee: For FY2014 we are at about 85 basis points or so for credit costs. For FY2015 we expect to be at about 90 basis points of which about 10 basis points could be due to the unhedged foreign currency exposure. Excluding for this, the credit cost could have been marginally lower.

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

Adarsh P: With respect to employee cost, you mentioned that there was the impact of normalization of valuation of retiral benefits in Q4-2014. How large was this impact, because that is probably not going to recur?

Rakesh Jha: Actuarial valuations are done for retiral provisions on a quarter-on-quarter basis. Going forward also the number would continue to vary. With respect to employee expenses, one should look at the full year number because as Kannan mentioned earlier, this quarter we did have some higher impact due to the retiral provisions and the year-end variable pay.

Adarsh P: What is the outlook on corporate fees given the muted growth in this segment?

Rakesh Jha: In the corporate fees segment, the Bank would continue to focus on the transaction banking and forex fees while hopefully there could be growth opportunities in lending linked fees in the second half if there is any economic recovery. Overall fee income would continue to be driven by retail fees.

Adarsh P: Would corporate fee remain flat next year or would we see some traction in transaction banking fees?

Rakesh Jha: While the corporate fee is expected to increase, the growth could be lesser than what we see on the retail side.

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

Anish Tawakley: The additions to restructured loans are lesser than what the pipeline was at the end of the previous quarter, and the pipeline for the next quarter is even smaller. What has changed and is the Bank less concerned about this than say three months back?

N.S. Kannan: The Bank is indeed a little less concerned compared to 3-6 months back as reflected in our outlook of NPA and restructured additions having peaked. Of the restructuring pipeline at the beginning of any quarter, some of it gets restructured within the quarter while some of it may spill over to the next quarter. With the current pipeline of about ₹ 15 billion we believe that restructuring additions have peaked.

Anish Tawakley: You have seen strong current account growth off a low base last year. What is your outlook next year?

N.S. Kannan: The Bank will be targeting similar trends in the current account growth. The overall domestic loan growth of about 20% would largely be funded through deposits growth with 38-40% daily average CASA ratio. We are thus expecting the current account performance to be at least as robust as the last financial year.

Anish Tawakley: Coming back to restructuring, is the lower restructuring pipeline on account of improved operating cash flows for companies or their ability to raise capital through asset sales?

Anindya Banerjee: Firstly, our restructuring pipeline has shrunk of a fairly large base. A lot of what had to be restructured has now happened and therefore going forward, the volumes would be less. Incremental additions to restructured assets would be lower as economic growth has pretty much bottomed out and we are expecting some improvement in growth.

N.S. Kannan: For the system also, at the end of the last quarter the pipeline of CDR referrals for was about ₹ 700 billion which is currently about ₹ 420 billion. Secondly, in our pipeline in the past, there were a couple of large cases. With restructuring of these cases done, the current pipeline has become a bit lighter.

Moderator: Thank you. The next question is from the line of Denil Savla from Athena Investments. Please go ahead.

Denil Savla: You mentioned that going forward NPA additions would be lower. Is it to fair to assume that it could again come down to FY2012 or FY2013 levels?

N.S. Kannan: We believe that our additions to NPLs have peaked in the fourth quarter. Whether the number would go down to the FY2012/FY2013 level is dependent on how the system and the investment climate revive and how the receivables situation improves. However, directionally, I believe we should be headed in that direction but the pace of improvement would depend on the external environment.

Denil Savla: Ok. On a sequential basis the interest expense has come down, whereas your deposits have increased significantly. What could be the reason?

N.S. Kannan: The sequential decrease in interest expense would be primarily due to the lower number of days during the quarter.

Denil Savla: Ok. Can you give the break-up of provisions?

Rakesh Jha: Provisions are mainly on account of restructuring and NPA.

Denil Savla: The provisions for Q4-2014 are the highest compared to the last three quarters. Any views?

N.S. Kannan: We restructured about ₹ 2,100 crore of gross loans during Q4-2014. Incremental restructuring entails a standard asset provision of 5% and the further PV loss provisioning. We are happy that the for the full year we were able to contain provisions to about 85 basis points compared to 90-100 basis points that we had talked about earlier.

Denil Savla: What is the outlook on credit costs given the lower incremental restructuring going forward?

N.S. Kannan: Going forward, while incremental restructuring will be less than the last financial year, we have to bring up the entire stock of restructured loans to a higher standard asset provisioning level, as stipulated by RBI for the banking system. There would also be provisioning requirements for unhedged foreign currency exposure. Given the two, we would target to contain provisions at around 90 basis points of average loans for the next financial year as well.

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

Nilanjan Karfa: You have given out details on the consolidated balance sheet and P&L. Is it something that you want to continue? And if so, could you provide some guidance as to how these numbers could look going forward? What percentage could be the contribution from the bank?

Rakesh Jha: We have given out these details based on feedback from some investors that they would like to see the consolidated financials on a quarterly basis. So this is something that we will do on a quarterly basis. However, analysts cover us on a standalone basis and indeed it will be difficult for us to give guidance on the consolidated numbers because these would get into aggregation of estimates across very different businesses.

Nilanjan Karfa: So you would not be able to give out guidance on a consolidated basis?

Rakesh Jha: It would be difficult to do across individual line items because of the aggregation across businesses. Overall, on a longer-term basis the target for us in terms of RoE on a consolidated basis is to get to about 17-18%.

Nilanjan Karfa: Ok. The outstanding restructured assets were at ₹ 105 billion at March 31, 2014 compared to ₹ 58 billion at March 31, 2013. You mentioned that the gross additions in FY2014 were about ₹ 66 billion. What was the amount of slippages during the year?

N.S. Kannan: ₹ 105 billion is the number for net restructured assets. The Bank would also have made provisions during the year. Also, some restructured companies would have repaid or got upgraded to standard category on satisfactory payment performance.

Rakesh Jha: In terms of the numbers, ₹ 58 billion was the outstanding gross restructured loans at March 31, 2013 while the net restructured loans were about ₹ 53 billion. The slippages from restructured assets for FY2014 on a net basis have been about ₹ 6.5 billion.

Nilanjan Karfa: Any specific sector from where this slippage has come?

Rakesh Jha: This will be across two or three cases. So, there is no sector concentration as such.

Moderator: Thank you. The next question is from the line of Kunal Mehra from Visium. Please go ahead.

Kunal Mehra: Last quarter you mentioned that the restructuring pipeline was expected to increase significantly because there were certain cases that had not been registered through the CDR. Since then, have those cases either been through CDR, and therefore give you comfort regarding your guidance, or has there been an improvement in their condition whereby they do not require restructuring anymore?

Rakesh Jha: The CDR pipeline last quarter was about ₹ 30 billion. During Q4-2014, the Bank restructured about ₹ 21.56 billion of loans and there is a further pipeline of about ₹ 15 billion. Cases referred to CDR take some time before they are accepted and implemented across banks. Going forward, it is expected that the pace of additions to restructured loans would be lower compared to Q4-2014.

Kunal Mehra: How long before you can get back to the 75% mark for provision coverage ratio considering that the Bank would see strong retail growth and lower corporate growth? What will be the efforts on the part of management to increase that coverage?

Rakesh Jha: We have a consistent policy for provisioning against NPL and we would not be changing that in order to achieve any specific coverage ratio. The coverage ratio as we mentioned is also impacted by the write-offs which although give some tax benefit also impact the provision coverage ratio negatively. As mentioned earlier, the coverage ratio would be a function of the fresh NPL additions and write-offs and we do not expect a very significant improvement in the immediate quarters as such.

Kunal Mehra: While your norms for provision have remained constant, is the decline in coverage because of the nature of the assets slipping or is it on account of the write-offs?

Rakesh Jha: For new NPLs, we would not be making a 70% or 80% provision at the time of slippage itself, because for example, we would have secured NPLs and in the first year the provision that is made on them is clearly much lower than the outstanding coverage level. So when the additions to NPA are higher, the coverage tends to reduce. Further, for us there is an additional impact on account of the write-offs.

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

Manish Chowdhary: What would be the gross outstanding restructured book size?

Anindya Banerjee: ₹ 116.5 billion.

Manish Chowdhary: Ok. The cost-to-income ratio has improved sharply over the last couple of years. With the current cost-to-income ratio at about 38%, amongst the lowest in the peer group, how much do you expect the cost-income ratio to improve further?

Rakesh Jha: The improvement in the cost-to-income ratio has been a couple of percentage points and comes from growing revenue and expanding margins even as we have expanded our branch network and retail lending business. Going forward, the improvement would come from increased productivity of the new branches and increased employee base. This year itself we added about 10,000 employees and would not need to add any similar magnitude over the next couple of years. Thus, on the cost side, in absolute terms, we would expect the growth to be muted compared to the overall balance sheet growth. In addition, we should be able to sustain our margins and grow our fee income as well. So revenue growth would also help in reducing the cost-to-income ratio from the current level.

Manish Chowdhary: What is your outlook on branch additions for the next few quarters?

Rakesh Jha: We would be looking at adding about 400 branches.

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

M.B. Mahesh: What would be the concentration of two to three large sectors to the outstanding restructured book? How much would that be as a percentage of your overall loan book?

Anindya Banerjee: As we have said in the past there is no specific sector concentration. These are more medium sized companies across a range of sectors. The only sectoral concentration, if at all, is in areas like the construction/EPC sector, where most of the companies have faced stress over the last couple of years.

M.B. Mahesh: Considering that NPLs have peaked and the restructured book is also showing a similar trend, is it fair to assume that the recoveries will start picking up a lot faster than what we are currently anticipating, or do you expect that to take some more time?

N.S. Kannan: First of all, just to clarify, we are not saying that the outstanding NPLs and restructured assets have peaked, we are saying that the quarterly additions to NPLs and restructured assets have peaked. Based on a granular analysis of our portfolio we believe that the pace of additions will come down. On the restructured loans, given the repayment schedules and RBI's stipulation on upgradations, it will take time to see any significant amount of upgrade.

M.B. Mahesh: Ok. The auto loan book has seen a substantial increase in this quarter. Are there any buyouts in Q4-2014?

N.S. Kannan: No. The growth is organic.

M.B. Mahesh: The cost of funds has declined in the last quarter. What is driving this given that deposit rates have not changed for nearly 6-7 months now?

N.S. Kannan: The decline very marginal, about a basis point or so. We have been able to maintain stable cost of funds because of the average CASA ratio being sustained on a sequential basis, even as on a year-on-year basis there has been an improvement. On the term deposits side, there could be some marginal benefit if some of the term deposits renew at the slightly lower rate compared to original contractual rates.

Moderator: Thank you. I now hand the floor back to Mr. N. S. Kannan for closing comments. Thank you. Over to you, sir.

N.S. Kannan: Thank you for participating in the call. I hope that we have comprehensively answered your questions. Thank you very much.

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