ICICI Bank Limited
Earnings Conference Call – Quarter ended June 30, 2014 (Q1-2015)
July 31, 2014

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Moderator: Ladies and gentlemen good day and welcome to the Q1-2015 Earnings Conference call of ICICI Bank. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during the conference call, please signal an operator by pressing '*' 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 at ICICI Bank. Thank you and over to you, Sir.

N S Kannan: Good evening to all of you. Welcome to the conference call on the financial results of the ICICI Bank for the quarter ended June 30, 2014 which was the first quarter of this current Fiscal year 2015.

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 first quarter.

During the first quarter, there were some initial signs of improvement in growth. Industrial activity, as measured by the index of industrial production - IIP - recorded a year-on-year growth of 3.4% in April and 4.7% in May, compared to a decline of 0.1% for fiscal 2014. Car sales also recorded a year-on-year growth rate of 14.8% in June 2014. The services sector purchasing managers' index – PMI - was at a 17 month high of 54.4 in June 2014. These are early positive signs. The sustainability of such indicators would be key to a revival in growth.

Headline Consumer Price Index, or CPI, based inflation moderated from 8.6% in April to 7.3% in June. However, upside risks to inflation remain on account of two key factors: one, monsoon trends and two, volatility in international crude oil prices. Keeping in view the targeted inflation levels, the Reserve Bank of India maintained stable policy rates during the quarter. However, to ensure adequate credit flow to the productive sectors of the economy, the statutory liquidity ratio was reduced by 50 basis points to 22.5% in June 2014.

During the quarter, financial markets saw significant improvement. FII flows were strong at USD 10.6 billion during the quarter. As a result, the BSE Sensex rose by 13% during Q1 of 2015. The Rupee strengthened to 58.4 Rupees per US Dollar in mid-May before stabilizing at 60.1 Rupees per US Dollar at June 30, 2014. The yield on government securities eased to about 8.7% levels at quarter end, compared to about 9.0% levels at the beginning of the quarter.

With respect to the banking sector, non-food credit growth for banks was 13.5% year-on-year at end-June 2014. Growth in total deposits moderated to about 12% on a year-on-year basis at end-June 2014 from about 15% at end-March 2014. Demand deposits saw a year-on-year growth of about 10% at end-June 2014.

During Q1 of 2015, there were several regulatory developments. Effective March 31, 2014, RBI has allowed banks to include their outstanding investments in rural infrastructure development funds - RIDF - within the indirect agriculture lending portfolio, while also mandating inclusion of the same within the adjusted net bank credit - ANBC - for the computation of priority sector lending targets. In addition, effective Q1 of 2015, banks were required to recognise higher standard asset provisions and capital charge on account of

a) Borrowers' unhedged foreign currency exposure,
b) Implementation of framework for early recognition of distress in borrowers and
c) Recognition of capital charge for credit value adjustment for derivative exposures.

Further, several guidelines have been issued by RBI during the quarter, including

a) Final guidelines on liquidity coverage ratio,
b) Framework for dealing with D-SIBs in India,
c) Report of the working group on counter cyclical capital buffer and
d) Draft guidelines on licensing of payment and small banks.

RBI has also issued guidelines on issuance of long term bonds by banks and flexible structuring of loans to infrastructure and core industries, in line with announcements in the Union Budget.

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's domestic loan portfolio grew by 17.1% on a year-on-year basis at June 30, 2014, compared to 13.5% growth in non-food credit growth for the system at June 27, 2014. Loan growth for the Bank continues to be driven by the retail segment which grew by 26.4% year-on-year at June 30, 2014. The growth in our retail portfolio continues to be driven by growth in secured products with the outstanding mortgage and auto loan portfolios growing by 25% and 46% respectively on a year-on-year basis at June 30, 2014. Growth in the business banking and rural lending segments continued to be healthy, of course off low bases, at 24% and 46% respectively. Commercial business loans declined by 14% on a year-on-year basis at June 30, 2014, reflecting both a slowdown in this segment as well as run-down of the bought out portfolio in this segment. The unsecured credit card and personal loan portfolio at 81.96 billion Rupees at June 30, 2014 continued to remain a small portion, about 2.4%, of the overall loan book though the growth rate is high due to the low base.

  In view of the operating environment, the Bank continued to adopt a cautious approach to growth in the corporate and SME segments. The domestic corporate portfolio growth was 7.7% on a year-on-year basis at June 30, 2014, at a similar level compared to March 31, 2014. The SME portfolio increased marginally on a sequential basis to 154.33 billion Rupees at June 30, 2014.

  Growth in net advances of the overseas branches, in US dollar terms, was 8.4% on a year-on-year basis at June 30, 2014, reflecting primarily the lending against FCNR deposits during the third quarter of fiscal 2014. On a sequential basis, the overseas branches loan book remained broadly flat. In rupee terms, the net advances of the overseas branches increased by 9.8% 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 15.2% on a year-on-year basis from 3.01 trillion Rupees at June 30, 2013 to 3.47 trillion Rupees at June 30, 2014.

- Moving on to the second C on ***CASA deposits***: The Bank continued to see healthy momentum in its CASA deposit mobilisation. On a period-end basis, we saw an addition of 36.03 billion Rupees to our savings deposits but the current account deposits declined by 15.67 billion rupees during the quarter. However, on a daily average basis, current account deposits remained broadly stable and savings deposits increased by about 48 billion rupees in Q1 of 2015 over Q4 of 2014. As a result of above trends, the period end CASA ratio marginally improved to 43.0% at June 30, 2014 compared to 42.9% at March 31, 2014. The daily average CASA ratio for the Bank for Q1 of 2015 improved to 39.5% compared to 39.1% for Q4 of 2014.

- On the third C on ***Costs***: For the first quarter, operating expenses increased by 13.4% on a year-on-year basis. The increase in operating costs was on account of higher employee expenses given the full impact of the increase in employee base in fiscal 2014 and annual wage increases affected in April 2014, as well as the larger distribution network and higher retail lending volumes. The Bank's cost-to-income ratio declined to 38.4% in the first quarter of fiscal 2015 compared to 39.4% in the first quarter of fiscal 2014.

- Let me move on to the fourth C on ***Credit quality:*** During the first quarter, the Bank saw gross NPA additions of 11.95 billion Rupees, primarily driven by slippages in the SME and mid-sized corporate loan portfolios. Deletions were 3.56 billion Rupees. The Bank has also written-off 3.92 billion Rupees of NPAs. The net NPA ratio was 87 basis points at June 30, 2014 compared to 82 basis points at March 31, 2014.

During the quarter, the Bank had gross additions of 13.94 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 112.65 billion Rupees at June 30, 2014 compared to 105.58 billion Rupees at March 31, 2014. Our current restructuring pipeline is around 15.00 billion Rupees.

Provisions for Q1 of 2015 were at 7.26 billion Rupees as compared to 5.93 billion Rupees in Q1 of 2014 and 7.14 billion Rupees in Q4 of 2014. As a result, credit costs as a percentage of average advances were at 86 basis points on an annualised basis for Q1 of 2015. Effective Q1 of 2015, banks are required to make additional standard asset provisions in respect of borrowers having unhedged foreign currency exposures, or UFCE, and are permitted to recognise these provisions over four quarters. Accordingly, the Bank has made standard asset provisions of about 550 million Rupees on account of exposure to clients having unhedged foreign currency exposure. This added about 6 basis points to our annualised provisions to average advances for Q1 of 2015.

The provisioning coverage ratio on non-performing loans was 68.4% at June 30, 2014.

- 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. As of June 30, 2014, the Bank has a branch network of 3,763 branches and 11,447 ATMs. We also continued to strengthen our technology channels for increasing customer convenience. Our Facebook page continues to be appreciated by customers with about 3.0 million fans, the largest fan base on Facebook among Indian banks. During the quarter, we have launched our redesigned website. The new website has a responsive design to offer a seamless and customised experience across multiple devices, based on user behavior and location. Customers can now receive location specific information and offers, rate and review products and share their opinions on social media through the new website.

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 17.6% year-on-year from 38.20 billion Rupees in Q1 of 2014 to 44.92 billion Rupees in Q1 of 2015. The net interest margin in Q1 of 2015 was 3.40% compared to 3.27% in the corresponding quarter last year and 3.35% in the previous quarter. The domestic NIM was higher at 3.80% in Q1 of 2015 compared to 3.63% in the corresponding quarter last year and 3.72% in the previous quarter. International margins were at 1.63% in Q1 of 2015, at a similar level compared to the corresponding quarter last year.

2. Total non-interest income increased by 14.7% from 24.84 billion Rupees in Q1 of 2014 to 28.50 billion Rupees in Q1 of 2015. If we look at the components,
   - Fee income grew by 8.0% from 17.93 billion Rupees in Q1 of 2014 to 19.36 billion Rupees in Q1 of 2015. The lower growth is mainly due to subdued corporate activity and lower foreign exchange transaction volumes. However, the growth is in line with the trends seen in other banks in Q1 of 2015. Retail fees for the Bank continue to grow at a healthy rate and contribute about 55% to 60% of overall fees. Our endeavour will be to increase the growth rate in overall fee income over the course of the year, subject to market opportunities.

- Other income was 5.26 billion Rupees in Q1 of 2015, compared to 2.88 billion Rupees in Q1 of 2014. On a year-on-year basis, during Q1 of 2015, the Bank received higher dividend from ICICI Life, based on the increased payout levels approved by the company's board. Further, 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 1.03 billion Rupees.

- During the first quarter, treasury recorded a profit of 3.88 billion Rupees compared to a profit of 4.03 billion Rupees in the corresponding quarter last year and 2.45 billion Rupees in the previous quarter. The treasury income for Q1 of 2015 was primarily driven by gains on the fixed income, equity & mutual fund portfolios.

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 17.7% from 32.21 billion Rupees in Q1 of 2014 to 37.91 billion Rupees in Q1 of 2015.

5. The Bank's standalone profit after tax increased by 16.8% from 22.74 billion Rupees in Q1 of 2014 to 26.55 billion Rupees in Q1 of 2015. In accordance with the RBI circular dated December 20, 2013, the Bank created deferred tax liability on Special Reserve by charging it to the profit and loss account. Accordingly, a charge of 0.95 billion Rupees was recognised in Q1 of 2015 while there was no such impact in Q1 of 2014. The return on average assets was 1.82% in Q1 of 2015, about 7 basis points higher compared to Q1 of 2014.

The Bank's capital adequacy as per Reserve Bank of India's guidelines on Basel III norms continues to remain strong at 17.00% overall CAR and 12.23% Tier I ratio at June 30, 2014. In accordance with guidelines, the profits for the quarter are not considered in the reported capital adequacy ratios. Including the profits for the quarter, the Bank's overall capital adequacy ratio was 17.39% and the Tier 1 ratio was 12.62%. At June 30, 2014, the Bank, in accordance with RBI guidelines, has accounted for credit value adjustment, or CVA, on its derivative exposure resulting in an impact of about 35 basis points on the Tier-1 ratio. The Tier-1 ratio also included an impact of about 10 basis points on account of the capital charge required on unhedged foreign currency exposures, in accordance with the Reserve Bank of India guidelines.

I now move on to the consolidated results.

The profit after tax for the life insurance company in Q1 of 2015 was 3.82 billion Rupees as compared to 3.64 billion Rupees in Q1 of 2014. The new business annualised premium equivalent increased from 5.41 billion Rupees in Q1 of 2014 to 6.59 billion Rupees in Q1 of 2015. The retail weighted received premium for ICICI Life grew by a healthy 35.6% on a year-on-year basis in Q1 of 2015 compared to 1.7% decrease in FY2014. The new business margin for the company was 10.9% in Q1 of 2015, same as for Q4. While the IRDA numbers for the industry are not available, we understand that the company has seen an increase in its market share to over 8% in Q1-2015.

The profit after tax for ICICI General was 0.72 billion Rupees in Q1 of 2015 compared to 2.03 billion Rupees in Q1 of 2014 and 0.76 billion Rupees in Q4 of 2014. The year-on-year decrease in profits was primarily on account of higher investment income in Q1 of 2014. The investment portfolio of the company has performed well and the company had unrealised gains on the investment portfolio of over 2 billion rupees. The company continues to retain its market leadership among the private players.

ICICI Securities and ICICI AMC have continued to see improvement in their performance. The profit after tax for ICICI Securities increased from 0.13 billion Rupees in Q1 of 2014 to 0.61 billion Rupees in Q1 of 2015. The profit after tax for ICICI AMC increased by 64.9% from 0.37 billion Rupees in Q1 of 2014 to 0.61 billion Rupees in Q1 of 2015.

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 of 2015 was 14.0 million Canadian Dollars as compared to 14.4 million CAD for Q1 of 2014. Total assets for ICICI Bank Canada were 5.63 billion CAD at June 30, 2014 compared to 5.45 billion CAD at March 31, 2014. Loans and advances were 4.65 billion CAD at June 30, 2014 compared to 4.78 billion CAD at March 31, 2014. The capital adequacy ratio for ICICI Bank Canada was healthy at 30.6% at June 30, 2014.

ICICI Bank UK's total assets were 4.12 billion US$ at June 30, 2014 compared to 4.47 billion US$ at March 31, 2014. Loans and advances were 2.75 billion US$ at June 30, 2014 compared to 2.77 billion US$ at March 31, 2014. The profit after tax for ICICI Bank UK for Q1 of 2015 was 6.3 million US$ compared to 5.4 million US$ in Q1 of 2014. The capital adequacy ratio was 23.3% at June 30, 2014.

Let me now talk about the overall consolidated profits.

The consolidated profit after tax for Q1-2015 was 28.32 billion Rupees compared to 27.47 billion Rupees in Q1-2014. The growth in consolidated profits was lower mainly due to year-on-year decrease in profits for ICICI General and ICICI Securities PD. In Q1 of 2014, ICICI General and ICICI Securities PD had higher investment income and trading gains due to favourable fixed income market movement. Further, since Q3 of 2014, the Bank has received higher dividends from ICICI Life, based on the increased payout levels approved by the company's board based on an assessment of its capital requirements and high solvency levels. The annualised consolidated return on average equity was at 14.6% in Q1-2015.

In summary, we believe our performance in Q1 of 2015 is a result of our continued focus on delivering against our stated objectives. In line with our expectations, we have,

1. Sustained the improvement in net interest margins,
2. Maintained healthy non-interest income,
3. Sustained improvement in our operating efficiency,
4. Our deposit franchise has remained a key area of focus and we have seen continued healthy trends in CASA mobilisation in Q1 of 2015, resulting in an increase in the average and period end CASA ratios.
5. With respect to loan growth, we have continued to scale up growth in the retail segment while calibrating growth in the corporate and SME segments in view of the environment.

While we would have liked the fee income growth to have been higher, it needs to be viewed in the context of the operating environment for corporate banking and the overall growth in fee income for the banking sector. Retail fees for us, however, continue to grow at a healthy rate.

Moving on to the outlook for the financial year, our outlook remains similar to what we had articulated in April 2014 when we announced our fourth quarter results.

- 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.

- 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, we would target overall margins of 3.30% to 3.40% in financial year 2015.

- Fee income growth would depend on market conditions, particularly activity in the corporate sector, as well as regulatory measures with respect to various components of fee income. Our endeavour would be to continue to grow the retail fee streams, while capitalising on opportunities that emerge in the corporate segment within our risk management criteria.

- 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.

- We expect the full year additions to non-performing and restructured loans in this fiscal year to be lower than that in the last fiscal year. However, provisioning for unhedged foreign currency exposure, or UFCE, applicable from the first quarter of fiscal 2015, will have an impact on provisioning requirements. Despite the same, we estimate the provisions to be 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 and large distribution network give us the ability to leverage opportunities for profitable growth. We are well-placed with regard to the capital required to support this growth, and given our current capital position, we believe that we do not need to raise capital for the next three years.

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

Moderator: Thank you very much, sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Nikhil Rungta from Standard Chartered Securities. Please go ahead.

Mahrukh: This is Mahrukh. I have a couple of questions. In terms of the unhedged foreign currency exposure of borrowers, how much was the provisioning requirement and the capital charge? Likewise for CVA norms, what was the impact?

N. S. Kannan: The provisioning for unhedged foreign currency exposure was six basis points on an annualized basis, or ~₹ 550 million in the first quarter. For the year as a whole the impact will be roughly ₹ 2.2 billion. The capital impact on account of UFCE was about 10 basis points on Tier I.

Rakesh Jha: The CVA impact was about 35 basis points on the Tier-I ratio.

Mahrukh: Ok. With respect to infrastructure and affordable housing linked bonds, we have seen the news flow on the issuance that you are planning. Do you think these norms are attractive even for affordable housing?

Rakesh Jha: Yes, issuing bonds are attractive for both the portfolios because of RBI exemptions on SLR, CRR and priority sector requirements. We have launched the maiden issuance of long term bonds for ₹ 5.00

billion. The market appetite for such bonds will have to be seen for further issuances.

Mahrukh: For affordable housing are you benchmarking the cost of these bonds to the cost of five year deposits? Is that the correct way to look at it?

N. S. Kannan: We would look at the funding raised through such bonds as a part of the pool of funding available to the Bank. As long as there are eligible assets in the form of infrastructure assets and affordable housing loans, we can issue long term bonds. We believe, the constraint would be the market appetite and not the size of our portfolio.

Mahrukh: Given that the yields on affordable housing loans are relatively lower, the risk adjusted returns should improve given the exemptions on CRR, SLR and PSL. Hence would you incrementally look to grow the affordable housing book faster?

N. S. Kannan: As I mentioned the bonds are going to be a part of the Bank's overall pool of funds. Accordingly, incrementally the choice is between wholesale deposits at an incremental cost or these bonds factoring in SLR, CRR and priority sector exemptions. We indeed find the infrastructure bond to be attractive. It will not be looked at on a one-to-one basis of which portfolio would get financed through these bonds. Only eligibility will be computed based on the portfolio size in the affordable housing and infrastructure segments.

Moderator: Thank you. Our next question is from the line of Manish Oswal from K R Choksey. Please go ahead.

Manish Oswal: My question is on the insurance business. In Q1-2015, NBP margin has decreased and expense ratio has increased. What is the reason for the same? And secondly, post the 49% increase in foreign limit being proposed, what is your plan on listing of the insurance businesses?

N. S. Kannan: The NBP margins have remained stable sequentially at 10.9%. Our endeavor as articulated last time as well is to increase the margins over the medium term. The expense ratio has increased in the first quarter on account of seasonality in the business. On a year-on-year basis the expense ratio is actually lower as steps have been taken for expense reduction.

Manish Oswal: Ok. And post the foreign limit increase what is your plan for the insurance business?

N. S. Kannan: We will wait and watch how and in what form the 49% foreign ownership limit is approved. We will take an appropriate call when the bill gets approved.

Anindya Banerjee: We do intend to monetize part of our holding in the insurance subsidiaries at some point. Currently, both our insurance subsidiaries are adequately capitalised and are generating healthy returns on the invested capital. Further, the capital position of the Bank also continues to be strong and there is no immediate need for capital. We will look at these options at an appropriate time and in a manner such that the valuations are optimal.

Manish Oswal: Ok. During this quarter we have restructured loans of ₹ 13.94 billion. Which segments contribute to the restructuring and what is your cumulative slippage from the restructured asset book?

Rakesh Jha: The incremental restructurings over the last few quarters have been spread across sectors. In terms of concentration, construction is one segment where there have been higher restructurings. Otherwise, the increase in restructured loans is due to stress in the SME and mid-sized corporate segments. In terms of slippages, the cumulative slippages from the restructured portfolio over the last few years are about 12.5%. Some of the loans have indeed been restructured recently and have not seen enough ageing.

Manish Oswal: Ok. What is your outstanding provision of restructured assets and secondly, what is your AFS book size and modified duration?

Rakesh Jha: The outstanding provision on restructured loans is about ₹ 10 billion. Duration on the G-Sec portfolio would be about 4 years.

Manish Oswal: What is the size and modified duration of your AFS book?

Rakesh Jha: AFS portfolio would be about 20% of our total portfolio. The duration of that portfolio varies on a regular basis.

Moderator: Thank you. Our next question is from the line of Nilesh Parikh from Edelweiss Securities. Please go ahead.

Nilesh Parikh: My question is on the retail business. We have seen strong growth in the retail segment for the last couple of quarters. This segment has seen some moderation in growth for a few private sector banks. What are your thoughts on the competitive intensity in this business specifically the secured assets? What are the changes that we would have done on our distribution and how sustainable would the growth be going forward?

N. S. Kannan: On the distribution side, there has been continued effort on expanding the sourcing through increased number of branches. We have done it both for the mortgage portfolio and the passenger car portfolio. Branch sourcing for retail has been very good and is an important driver for us. Competitive intensity continues to be strong in all the retail segments but incrementally we have not seen a change. The asset quality of the retail portfolio has been quite good and we are very happy to grow this portfolio.

Nilesh Parikh: Growth continues to come from secured assets on the retail side. When would we start looking to expand the personal loans and the credit card portfolio?

N. S. Kannan: We have seen growth in the unsecured retail portfolio as well. Unsecured retail lending is predominantly to existing customers of the Bank post several checks including CIBIL score, customer income level, KYC checks etc. So far the credit experience has been good. Given our small base, while the growth rates look very high, unsecured retail lending has inched up from under 2% levels to about 2.5% levels currently. We will continue to grow the book but we do not see it becoming of disproportionate size compared to the total loan book.

Nilesh Parikh: Is it fair to assume that it would be less than 5% of the total loan book?

N. S. Kannan: Yes, it is fair to assume that as the overall domestic book would also continue to grow.

Nilesh Parikh: On the life insurance business you mentioned that there is a Board approval for the enhanced dividend payout. What percentage of the Bank's quarterly profits would come from dividends?

Rakesh Jha: The dividend level increased during last year itself. ICICI Life's Board had approved increased payout levels based on an assessment of the capital position and high solvency levels. Dividend received in Q1-2015 is based on the previous quarter's profits.

Nilesh Parikh: So from a cash receipt basis the dividend will recognised by the Bank in the subsequent quarter?

Rakesh Jha: Yes.

Nilesh Parikh: What is the total dividend that we have received in this quarter?

N. S. Kannan: Overall dividend received in this quarter would be a little more than ₹ 4 billion.

Nilesh Parikh: And this is outside of the ₹ 1 billion of the exchange rate gains on repatriation of retained earnings from overseas branches?

N. S. Kannan: Yes.

Moderator: Thank you. Our next question is from the line of Abhishek Kothari from Networth Stock Broking. Please go ahead.

Abhishek Kothari: Sir, in the ₹ 11.95 million of slippages that you have seen during the quarter, has there been any slippage from the restructured accounts?

N. S. Kannan: There would be some slippage from restructured accounts but as Rakesh mentioned the cumulative slippage ratio from restructured loans over the last few years is about 12.5%.

Abhishek Kothari: Ok. What is the breakup of slippages in terms of fresh addition and slippages from the restructured book for Q1-2015?

Rakesh Jha: While we do not give a separate breakup every quarter there would be some slippages from the restructured category into NPLs. Similar would be the case for this quarter as well.

Abhishek Kothari: Which are the top five accounts which slipped into NPLs and how much did they contribute to slippages?

Rakesh Jha: We have not given any specific size wise distribution of slippages. The additions to NPLs have mainly been from the mid-sized corporate and SME loan portfolios.

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

Jatinder Agarwal: Can we have the number of employees as of the quarter end?

Rakesh Jha: The number of employees has gone up by about 600 compared to March. We will now be at about 72,800.

Jatinder Agarwal: What is your outlook on the absolute percentage staff cost increase for FY2015?

Rakesh Jha: Staff cost is a function of a lot of variables. Every April there is an increase in salaries for our employees. This was about 10% for the current year. The other component is the performance bonus which is a function of the Bank's performance. In the last couple of quarters we had also seen some movement on the retrials which is a function of how the interest rates move.

Overall, in terms of cost-to-income ratio we are targeting to be at the current level. Going forward we would not expect the employee count to increase further in the rest of the financial year but some impact like the 10% increase in salaries will come through.

Jatinder Agarwal: Ok. Some of the high leveraged corporates have raised capital recently. Are these corporates repaying debt? Could you also give us an update on the Dabhol exposure?

Rakesh Jha: Corporates which are raising equity are either repaying debt or using some of the funds for their own business and reducing debt over a period of time. We are happy that some of the corporates have been proactively raising equity. Banks are pushing corporates towards either raising equity or looking at other measures of reducing their leverage levels. Hopefully things will move in a positive direction in the rest of the financial year.

While we do not comment on specific cases, with respect to Dabhol i.e. Ratnagiri Gas & Power, in the past we have said that there is a challenge given the lack of availability of gas. Discussions are ongoing between banks and the government. We are hopeful that there should be some solution that gets worked out.

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

Manish Karwa: What is the margin for the domestic and overseas business?

N. S. Kannan: Domestic margin is 3.80% and overseas NIM is 1.63%.

Manish Karwa: What is your outlook on margins going forward?

N. S. Kannan: For the full year 2015 we would like to keep the margins between 3.30% and 3.40%.

Manish Karwa: Ok. Other assets have declined on a sequential basis and similarly borrowings have also reduced. What is the reason for the same?

Rakesh Jha: Domestic borrowings have decreased mainly on account of lower repo against government securities. We maintained more liquidity in the form of government securities compared to other investments.

Manish Karwa: Why have other assets decreased 25% on a sequential basis?

Rakesh Jha: Decrease in other assets would include the decrease in mark-to-market on derivatives. Also, there were some receivables on sales done on the last day of March which would not have been there on June 30, 2014. There is no structural change which has happened.

Manish Karwa: Is this impacting the P&L?

Rakesh Jha: No, there is no impact on the P&L. While the margin improvement is because of higher increase in the proportion of interest earning assets compared to liabilities, it is not linked to the other assets.

Manish Karwa: And lastly, what is the gain that you have in your overseas subsidiaries which is yet to be repatriated at June 30, 2014?

Rakesh Jha: This is with respect to the overseas branches. The foreign currency translation reserve balance was about ₹ 20 billion at June 30, 2014.

Manish Karwa: Will the Bank continue to repatriate profits from overseas branches going forward?

Rakesh Jha: It is a function of what our view at any point of time is on exchange rate and our view in terms of the growth that we would see in each of the individual branches. While this may not be a quarterly phenomenon, we will look at it based on the factors I mentioned. While the repatriation results in an immediate translation gain in the P&L, there is an additional benefit as we can earn higher return on the amount repatriated in the domestic market as compared to maintaining it overseas.

Manish Karwa: Of the provisions, ₹ 55 crore was for unhedged foreign currency exposure of borrowers. Is the balance provision towards NPLs?

N. S. Kannan: Provisions are mainly on account of NPLs and restructured assets.

Rakesh Jha: Total standard asset provision was about ₹ 1 billion and rest was largely towards NPAs and restructured assets.

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

Nitin Kumar: Sir, my question is on the deposit profile. As per the annual report, the proportion of long tenor deposits i.e. greater than three years has been on a constant rise every year. From single digit it has now increased to about 48%. Initially I understood this could be to address the ALM mismatch but now the proportion of deposits is running far ahead of the corresponding proportion of advances. What is the reason for this increase?

Rakesh Jha: Total deposits are a combination of CASA deposits and term deposits. Based on the behavior analysis of CASA deposits, they get bucketed into the respective maturity buckets. Bulk of the term deposits for private sector banks would still be in the one year bucket but behaviorally bulk of the CASA deposits, especially the savings account deposits are of a longer tenure.

Nitin Kumar: Why has there been a substantial change for us?

Rakesh Jha: This would be because the bucketing would be based on the behaviour which also keeps adjusting.

N. S. Kannan: Over the years CASA itself has gone up and in addition the behavioural pattern would have got established.

Rakesh Jha: The FCNR (B) deposits also would have come in the more than three year period bucket. We had mobilized FCNR (B) deposits of a couple of billion dollars last year.

Nitin Kumar: Ok. What are the branch expansion plans for us?

Anindya Banerjee: The branch additions could vary between 350 and 450 but will be in that range.

Nitin Kumar: Ok. Would it be possible to get the rating distribution of the large corporates and SME borrowers going forward?

Rakesh Jha: We will look at that but we do not disclose that currently.

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

Amit Premchandani: I had a question on the long term bonds that have been recently permitted. Is there any demand side issue in terms of types of investors that are eligible to invest? Are there any regulatory changes required by IRDA or PFRDA to make insurers and PFs eligible to invest in these bonds? Also, what will be your preference in terms of fixed or floating rate bonds? Finally, what is your estimate of the overall pool of funds that can be tapped by the system through these bonds?

Rakesh Jha: In terms of the investor appetite, key investors in these bonds will be the insurance companies and pension funds. As per our understanding, there is no restriction for such investors for investing in these bonds. As Kannan mentioned earlier, we are doing an issuance of about ₹ 5 billion to test the market. In terms of the overall appetite for the banking system, in the past we have seen that banks used to issue Basel II compliant Tier-II bonds of about ₹ 250 billion to ₹ 300 billion on an annual basis. Recently, with the Basel III clauses the Tier-II issuances have come down substantially. So that can get replaced by the demand for these long-term bonds and beyond that we will have to see how the market develops. From an investor perspective, the preference has typically been for fixed return instruments in the past, while the lending by banks is largely floating in nature. Accordingly, we will have to look at the overall duration for the Bank and manage it in the overall scheme of things. However, the funding from infra bonds is not expected to become a very large proportion of overall funding in the near term and hence it should not be a challenge. On an overall basis, we may need to manage this through the duration of the SLR book.

Amit Premchandani: And generally in terms of housing finance dynamics, does this product make sense to reduce housing finance loan rates given that they are already at around base rate levels. Do you expect any further competition in the housing finance segment due to this?

Rakesh Jha: As I mentioned earlier, bulk of the funding for banks will still come from deposits. Accordingly, funding through these bonds is not likely to become a very large proportion of funding for all banks put together. While there could be some benefit for lending to the sectors which increase the eligible amount for infra bonds, I do not think it will drive material changes in the overall context.

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

Saikiran: What is the total number of Gramin branches you have as of June 30, 2014?

Rakesh Jha: About 450.

Saikiran: So not much of a change from March 2014 onwards?

Rakesh Jha: Yes

Saikiran: If I have to look at your branch network and the number of retail products which you would offer, what is the kind of leverage you can expect because you had pulled out some of products from the market and then you restarted some of those businesses few quarters back. What is the kind of leverage you can expect from hereon from the existing branch network?

Rakesh Jha: In most of the cases we have been offering the retail products for more than a year. For example, in the auto loan segment, we significantly expanded our location coverage in fiscal 2013 which has given us the results from fiscal 2014 onwards.

We are looking at branches not only in terms of asset sales but on an overall basis. The fact that we have added so many branches in the last two years should improve our overall sales throughput in terms of deposits, fees and assets in the coming year. In that sense, we do believe there is some amount of operating leverage that we have and hence we are planning towards maintaining or reducing the cost-to-income ratio even while growing the retail book at 20% plus on a year-on-year basis.

Saikiran: Ok. How do you see the profitability and competition in the auto loans segment? Further, if you can give your outlook on the commercial vehicle financing business going forward?

Rakesh Jha: On the commercial vehicle financing business, we continue to see fairly weak trends. Our book size in this segment has decreased, as Kannan mentioned earlier. The commercial vehicle financing business is linked to the economic activity and as the demand recovers we will participate in it.

As far as auto is concerned, we have brought our business back to a certain scale and now we are comfortable with the level of disbursements that we are doing. We are not aiming for a significant increase in market share or disbursement volumes from current levels. But given the base effect, even if we sustain the current run rate of disbursements, it will still give us fairly high growth on the book.

Saikiran: Ok. What is the quantum which you would have sold to ARCs during the current quarter?

Anindya Banerjee: We have sold one asset of quite small value. As you would have seen, our net investment in security receipts has increased by about ₹ 0.40 billion during the quarter.

Moderator: Thank you. Our next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: In your outlook we could not get the clear number for what growth we are looking at on the fee income for this year. Can you give some sense on that? Further, how much growth are we seeing currently in the retail segment and the corporate segment for the fee income?

Anindya Banerjee: On fee income trends, our growth for the last financial year was about 13% and we had spoken of sustaining and further improving the same. However, if you look at the first quarter results for all banks, the fee income trends have been quite weak, particularly if you take the forex income also into account. I think the issue really is that the forex income trends on the wholesale side have been weak given lower activity in Q1-2015. Further, for the wholesale commercial banking products like the letters of credit and bank guarantees, the growth has moderated due to slowdown in corporate activity and given the Bank's risk appetite. The pricing is also competitive in those businesses. Hence, broadly the corporate side of the fee income continues to be quite muted.

On the retail side, growth for fees related to retail assets, credit cards and third party distribution continues to be quite strong. On an overall basis, retail fees have grown by about 20% on a y-o-y basis.

Rakesh Kumar: Ok. Looking at the annual numbers for last six to seven years, the margins have been moving up consistently. The degree could be different for different years but it has been moving up. If you look at the CASA ratio, that has been the range of 40% for some time now. So have we done some credit composition change which has brought us some margin? From here on do we see the margin flattening out or still there is a chance that in the next two quarters margin will go up?

Rakesh Jha: For FY2015, as Kannan said, we would expect the margins to be around the level of 3.3% to 3.4%. In terms of the last five years actually our CASA ratio would have improved significantly. The average CASA ratio was in late 20s five years ago which has improved to nearly 40% now. Also, margins for the overseas business had gone down to as low as 50 basis points five years ago. We have substantially improved the margins for overseas business since then. We have also improved the yield on investments over the last five years. So there are various things that we have done and also on the funding side the proportion of retail deposits has improved significantly and hence even in the last financial year when we saw a sharp increase in rates in the market, we were not impacted as much.

Going forward, we will endeavour to improve the margins over the medium term but it is not going to be of the same magnitude as we have seen in the past. Further, it is going to be more a function of the market.

Rakesh Kumar: Ok. Given the amount of core capital I think it would be good that we ramp up growth given the circumstances. So is the Bank planning to issue long term bonds and increase the credit growth from the corporate side, so that the consumption of capital could take place?

Rakesh Jha: No, as you would have seen in the last few years we have really not been too worried about having a high capital ratio. We look at growth in terms of whether it is profitable and at the risk that we are comfortable with. For this year, we have said that we should be able to grow the domestic book by about 2% to 4% higher than the system mainly driven by the growth in the retail portfolio. Corporate loan growth would continue to be a muted and we will see if we get some opportunities on the higher rated clients. For the overseas business, we are looking at about 10% growth.

Moderator: Thank you. Our next question is from the line of Aakanksha from Allianz Global Investors. Please go ahead.

Aakanksha: With respect to your Canada and UK book, I understand that the gross NPAs are actually quite high. What is the reason for that and what is being done to address the problem?

Anindya Banerjee: In both Canada and UK, as you would know the balance sheets have been flat to declining over the last five years. Balance sheet size for both subsidiaries would have decreased by more than 30% over the last five years and to the extent those banks have India linked loans in their book, these loans would have also seen a credit experience similar to the overall Indian corporate credit. Combined with the fact that the balance sheets have not been growing, this has led to a certain level of impaired loans but on an overall basis, the banks continue to be profitable and continue to have excess capital. As they start growing again, these levels will also adjust.

Aakanksha: Is there no plan to write off?

Anindya Banerjee: No.

Aakanksha: My second question is on your restructured book. Would it be possible for you to give us a sense of how many accounts are relatively large in size, say for example more than ₹ 10 billion?

Rakesh Jha: Currently we do not give such details. We will see in the future if we can disclose that.

Anindya Banerjee: The number of accounts restructured is disclosed on an annual basis.

Rakesh Jha: In the annual report the number of accounts is there but there is no size-wise disclosure. However, most of the restructuring, as we have said, is for the mid-sized corporates and SMEs. Accordingly, there would not be too many accounts more than ₹ 10 billion.

Aakanksha: Even within your watch list of accounts that you closely monitor are there any big accounts?

Rakesh Jha: We do not discuss the accounts under watch. We have a large corporate portfolio and typically corporate lending will include large sized loans as well.

Moderator: Thank you. Our next question is from the line of John from Standard Chartered Bank. Please go ahead.

John: I just had questions in two broad areas. The first is while I understand that you are very liquid because of the local regulations, what is your sense on how liquidity would look like on Basel III standards, primarily the liquidity coverage ratio? Will you modify your behavior in light of the coming LCR requirements? Further, has the NSFR regime entered into your thinking at all?

The second area is around RWA growth. What will your RWA growth look like and are you seeing any changes in your RWA density due to regulation or changes in your portfolio mix?

Rakesh Jha: On Basel III liquidity standards, RBI has put out final guidelines on liquidity coverage ratio which are applicable from January 1, 2015. Banks have to start with maintaining 60% LCR for their domestic business. For, overseas business they have not yet specified any requirement. Banks have given some feedback to RBI on these guidelines. Some of the things which banks have talked about include the fact that currently in India we have a very high SLR requirement of 22.5%. In addition, we have a 4% cash reserve ratio requirement. Accordingly, about 26.5% of liabilities are always maintained as liquid assets. This is currently not being considered in the liquidity coverage ratio. Accordingly, by definition banks would need to maintain a much higher liquidity to meet the LCR requirements if it comes on top of the SLR and CRR requirements as it has been stipulated currently. I think RBI will also look at the data which banks submit on this because if you factor in even a part of SLR investments, banks would be able to meet a large part of the LCR requirements. However, if we completely exclude SLR and CRR then I think all banks including us will need to maintain higher liquidity starting January 2015. The requirements may not be significant initially given the phased implementation. Further, as you rightly said, I think banks will also look at their funding mix and funding profile in a slightly different way because any funding that is raised from other institutions or banks that will have a 100% weight in the denominator. In addition, in India, typically the deposits that are raised by banks currently can be withdrawn prematurely by depositors. Again for such type of deposits the outflow that is considered in LCR is very high and accordingly banks will have to relook at that as well. So I think there would be some further developments in this regard over the next few months. The good thing is that the implementation is phased over the next few years.

John: Just to be clear, the liquid assets included in the SLR and CRR frameworks are explicitly excluded from being considered as liquid assets under the LCR framework?

Rakesh Jha: Yes, only the excess CRR and SLR investments would be considered for LCR computations. Further, RBI does allow banks to utilise up to 2% of their SLR investments for the marginal standing facility, which would be considered for LCR computations. However, as per the current guidelines, the remaining SLR investments will not be considered for LCR computations.

John: Ok. Do you expect a lot of pressure on your funding model as a consequence?

Anindya Banerjee: There would be pressure on the funding model of all Indian banks if the requirements were to apply in their current form. However, the expectation would be that the regulators will review the existing liquidity ratios while introducing the new ones. For instance, RBI reduced the SLR requirement slightly in the first quarter and the guidelines on long term bonds also gives bank access to a liability source to which the SLR requirement does not apply. So there can be a case that through a variety of mechanisms, the SLR requirements will get reduced which will offset the new LCR requirements.

John: And, on NSFR, what is the thinking right now?

N. S. Kannan: RBI has not issued guidelines on NSFR requirements till date.

John: Ok. What are your thoughts regarding RWA growth?

Rakesh Jha: This quarter all banks will have the impact of the CVA on derivative exposure. We mentioned earlier that for us it has an impact of about 35 basis point on our Tier-I capital ratio. Other than that there is nothing in the immediate future which would have a direct impact on RWA. With respect to our portfolio, we have seen much lower growth for non-fund based businesses. As a result of that our growth in RWA has not been significant in the last year or so.

John: Do you disclose your RWA numbers?

Rakesh Jha: Yes, we have disclosed the RWA numbers in the investor presentation. RWA increased from ₹ 4.98 trillion on March 31, 2014 to ₹ 5.18 trillion on June 30, 2014 primarily on account of the impact of CVA on derivative exposures. Further, the requirements of higher risk weighted assets for borrowers' unhedged foreign currency exposure also got implemented during the quarter.

Moderator: Thank you. We have the last question from the line of Sachin Seth from HSBC. Please go ahead.

Sachin Seth: With respect to the long-term bond, wanted to get an idea of how much of your existing book is eligible in the first year with maturity of seven years or more, under these guidelines?

Anindya Banerjee: The guidelines say that 16% of the existing book is eligible.

Rakesh Jha: In terms of our book, it will be a pretty large number. We will not have constraint from the lending book size perspective.

N. S. Kannan: The key constraint would be on the funding side and we will have to see how the market for these bonds develops.

Rakesh Jha: The existing eligible loans will be more than, 10% of our loans and that would generally be true for the system as well.

Moderator: Thank you. Sir, would you like add any closing comments before we conclude?

N. S. Kannan: Thank you for participating on the call. In case you have any further queries you can always contact us. Thank you very much.

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