ICICI Bank Limited
Earnings Conference Call – Quarter ended September 30, 2015 (Q2-2016)
October 30, 2015

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Moderator: Ladies and gentlemen good day and welcome to the ICICI Bank Q2-2016 Earnings Conference Call. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need 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 and welcome to the conference call on the financial results of ICICI Bank for the quarter ended September 30, 2015, that is the second quarter of the financial year 2016.

In my remarks today, I will cover:

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

- finally, the performance of our subsidiaries and the consolidated results.

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

Global macroeconomic conditions continued to remain volatile during the second quarter. Three key issues were in focus during the period:

1. The potential withdrawal of its accommodative monetary stance by the US Fed.

2. Economic slowdown and currency depreciation in China and the resultant market volatility.

3. Continued weak global commodity prices and currency depreciation in key commodity exporting economies.

The International Monetary Fund lowered its global growth forecast for 2015 from 3.3% to 3.1%, largely due to lowering of growth estimates for large emerging market economies.

Coming to trends in the domestic economy, the Indian economy is better positioned compared to other emerging market economies in weathering the impact of global volatility. Several positive trends continued in the domestic economy during the quarter.

- The country's external position continued to be strong with the current account deficit continuing at comfortable levels of below 1.5% of GDP, along with healthy inflow of foreign direct investments. The country's foreign exchange reserves improved to USD 353 billion covering 10 months of imports.
- There was broad-based easing in inflation during the quarter despite deficient monsoons; the consumer price index

decreased from 5.4% in June 2015 to 4.4% in September 2015.

- There was continued improvement in key domestic growth indicators. Industrial production, as measured by the index of industrial production, grew for the tenth consecutive month in August 2015, recording a growth of 6.4%; capital goods production also continued to record improvements; and sales of passenger cars and commercial vehicles remained strong reflecting gradual improvement in demand conditions in the economy
- The government's capital expenditure was 19% higher year-on-year during April-August 2015 compared to a decline of 1.4% in April-August 2014.

The Reserve Bank of India – RBI – reduced the repo rate by 50 basis points to 6.75% on September 29, 2015, following their earlier rate cuts of 25 basis points each in January 2015, March 2015 and June 2015. RBI mentioned that it had front-loaded the rate-cut in September considering the likelihood of achieving the inflation target of 6.0% by January 2016. The focus now shifts to bringing inflation down to 5.0% by the end of fiscal 2017.

Indian financial markets remained volatile during Q2-2016 largely due to global developments. The S&P BSE Sensex declined by 5.9% during the quarter. The yield on the benchmark government securities ended the quarter at 7.54% compared to 7.86% as of end-June 2015. The exchange rate depreciated by 3.1% during the quarter to 65.7 Rupees per US Dollar as of September 30, 2015. Short term interest rates eased by about 65-75 basis points during the quarter. Banks continued to reduce their lending and deposit rates.

With respect to banking sector trends, non-food credit growth remained moderate at 9.8% year-on-year as of October 2, 2015 compared to 10.6% year-on-year growth as of October 3, 2014. Growth in retail credit continued to remain strong, while growth in credit to industry and services sectors remained moderate. Including other sources of funding such as bonds and commercial paper, growth in total funding was higher by 2.7 percentage points compared to bank credit growth as of end-September 2015. Growth in total deposits was 11.3% on a year-on-year basis as of October 2, 2015. Demand deposit growth was 10.8% year-on-year as of October 2, 2015.

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

- First, with respect to **Credit growth:** The Bank's domestic loan portfolio grew by 17.0% on a year-on-year basis as of September 30, 2015, compared to a 9.8% growth in non-food credit for the system as of October 2, 2015. Loan growth for the Bank continues to be driven by the retail segment which grew by 25.0% year-on-year and constituted 44.0% of total loans as of September 30, 2015. The mortgage and auto loan portfolios grew by 25% and 23% respectively on a year-on-year basis. Growth in the business banking and rural lending segments was 22% and 30% year-on-year respectively. Commercial business loans grew by 5% on a year-on-year basis as of September 30, 2015 compared to a 6% year-on-year decline as of June 30, 2015. The improvement in growth in commercial business loans was primarily driven by pickup in sales activity for the segment. The unsecured credit card and personal loan portfolio at 128.25 billion Rupees as of September 30, 2015 was about 3.1% of the overall loan book. The Bank continues to grow the unsecured credit card and personal loan portfolio primarily driven by its focus on cross-sell.

The domestic corporate portfolio growth was 7.5% on a year-on-year basis as of September 30, 2015 compared to 8.8% growth as of June 30, 2015. The SME portfolio grew by 9.9% year-on-year to 176.85 billion Rupees driven by granular collateral-based lending.

For the full year FY2016, we expect domestic loan growth to be in the range of 18-20%, driven by about 25% growth in the retail segment.

In rupee terms, the net advances of the overseas branches increased by 2.4% on a year-on-year basis due to the movement in the exchange rate. In dollar terms, the net advances of the overseas branches decreased by 3.5% on a year-on-year basis as of September 30, 2015.

As a result of the above trends, total advances of the Bank increased by 13.3% on a year-on-year basis from 3.62 trillion Rupees as of September 30, 2014 to 4.10 trillion Rupees as of September 30, 2015.

- Moving on to the second C on **CASA deposits:** The Bank continued to maintain healthy CASA ratios on a period-end basis as well as daily average basis. Savings account deposits grew by 14.3% year-on-year to 1.21 trillion Rupees as of September 30, 2015. On a period-end basis, we saw an addition of 39.55 billion Rupees to savings deposits and 72.20 billion Rupees to current account deposits during the quarter. As a result, the period end CASA ratio increased to 45.1% as of September 30, 2015 compared to 44.1% as of June 30, 2015. The daily average CASA ratio was at 40.7% in Q2 of 2016 compared to 39.5% in Q2 of 2015.

- On the third C on **Costs:** The Bank's cost-to-income ratio was at 37.5% in the second quarter of fiscal 2016 compared to 36.5% in the second quarter of fiscal 2015. During the second quarter, operating expenses increased by 14.9% on a year-on-year basis.

The increase in employee expenses was on account of an aggregate addition of about 4,970 employees in the first six months of fiscal 2016, primarily in front-line roles in the retail banking business, and annual wage increases effected in April 2015. The year-on-year increase in non-employee expenses was primarily on account of the larger distribution network, higher retail lending volumes and advertisement campaign expenses in Q2 of 2016.

The Bank will focus on sustaining the gains made in operating efficiency to maintain the cost-to-income ratio for FY2016 at a similar level as in FY2015, driven by its efforts for enhancing the productivity and efficiency of its employee base as well as the expanded distribution network.

- Let me now move on to the fourth C on **Credit quality:** The Bank's net NPA ratio was at 1.47% as of September 30, 2015 compared to 1.40% as of June 30, 2015. The gross NPA ratio was at 3.36% as of September 30, 2015 compared to 3.26% as of June 30, 2015. During the second quarter, we saw gross NPA additions of 22.42 billion Rupees, including slippages of 9.31 billion Rupees from the standard restructured category to the non-performing asset category. Excluding slippages from restructured loans in both quarters, the gross NPA additions declined from 13.80 billion Rupees in Q1 of 2016 to 13.11 billion Rupees in Q2 of 2016. Deletions from NPA during the quarter were 7.09 billion Rupees and the Bank has also written-off 8.13 billion Rupees of NPAs. The Bank did not sell any NPAs to asset reconstruction companies during the quarter.

  The net restructured loans for the Bank were 118.68 billion Rupees as of September 30, 2015 compared to 126.04 billion Rupees as of June 30, 2015.

  Provisions for Q2 of 2016 were at 9.42 billion Rupees compared to 8.50 billion Rupees in Q2 of 2015 and 9.56 billion Rupees in Q1 of

2016. As a result, credit costs as a percentage of average advances were at 94 basis points on an annualised basis for Q2 of 2016. The provisioning coverage ratio on non-performing loans was 57.4% as of September 30, 2015. Including cumulative technical/prudential write-offs, the provisioning coverage ratio was 69.8%.

Asset quality trends in the retail segment continue to be healthy and stable. In the corporate sector, there continue to be challenges given the time taken for projects to generate cash flows and high leverage levels in some companies. Banks are working actively to resolve these through asset sales as well as working with various stakeholders to ensure that the companies are able to operate at an optimal level and generate cash flows.

For the full year FY2016, we continue to expect that the aggregate additions to restructured loans and NPAs will be lower than in fiscal 2015.

- 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 September 30, 2015, the Bank has a branch network of 4,054 branches and 12,964 ATMs.

  ICICI Bank has always been a pioneer in bringing technology-enabled products and services to the Indian customers. We have focused on leveraging three current transformational trends in technology – mobility, digitization and social media – to bring value to our customers.

  The Bank has received a number of awards for use of technology across areas in 2015, including 'Best Technology Bank of the Year' at the Indian Banks Association Technology Awards; award in the 'Best Internet Banking category' at the Asian Banker Excellence in Retail Financial Service Awards; winner in the categories of

'BI/Analytics', 'Enterprise Security', 'Virtualization', 'Social Media' and 'Social Cause' at the Dataquest Business Technology Awards; 'Sustainable Business award' for its digital village initiative in 'Akodara' at the EFMA-Accenture Innovation Awards; and winner in the category of 'Evangelising Technology Adoption' among large banks at the Institute of Development and Research in Banking Technology (IDRBT) Awards.

During Q1 of 2016, we had upgraded our mobile banking application - 'iMobile' - taking the total number of services available on the application to over 100. The new mobile application has been appreciated by customers and we have seen the activation of iMobile by customers increasing by about 140% year-on-year in the first six months of fiscal 2016. There has been a robust growth in mobile banking transactions and the Bank emerged as the market leader in this area with a market share of about 32%, based on value of mobile banking transactions in June and July 2015.

We continue to strengthen our technology channels for increasing customer convenience and improving the efficiency of our operations.

During the quarter, we launched 'Smart vault', a unique locker facility designed with state-of-the-art robotic technology and high-end security to provide customers the convenience of storing and accessing their valuables 24 hours a day, seven days a week.

We have launched a mobile app based 'mVisa' solution which enables customers to make electronic payments from their smartphones at physical stores, for e-commerce & other deliveries at home, and to radio taxis and utility billers, among others.

We are the largest provider of online remittance services to India, and the first to offer remittance services through mobile phones. We have recently launched 'Money2World', a fully online outward remittance service. Through this, even non-account holders of ICICI Bank can transfer money online from any bank account in India to any bank account overseas in 16 major currencies.

ICICI Bank was the first bank in India to offer banking services to customers on Twitter. Recently, we rolled out a new set of services on Twitter including creating a fixed deposit, paying postpaid mobile bills and receiving e-statements, among others.

Our digital mobile wallet - Pockets - has seen over 2.5 million downloads with significant interest from non-ICICI Bank customers. The e-wallet is amongst India's most comprehensive wallets which can be used to pay on all websites and mobile apps in the country.

Our Facebook page continues to be appreciated by customers with 4.0 million fans, the largest fan base on Facebook among Indian banks.

As a result of our constant focus on digital channels, currently about 61% of total transactions for our savings account customers are done through new age digital channels and less than 10% of the transactions are done through branches. Transactions of over 2 trillion Rupees are processed annually through the Bank's internet banking platform and the website sees about 15 million unique visitors every month.

In fiscal 2014, the Bank had started facilitating opening of savings accounts through its Tab banking platform. The Bank has opened over 3 million savings accounts through Tab Banking till date, resulting in improved customer experience, faster turnaround time and better efficiency of operations. Currently, about 85% of savings accounts opened for the household segment every month are through Tab Banking. The Bank has also introduced use of tablets and smartphone applications for employees & agents for certain retail loan products.

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

1. Net interest income increased by 12.8% year-on-year from 46.57 billion Rupees in Q2 of 2015 to 52.51 billion Rupees in Q2 of 2016. The net interest margin was at 3.52% in Q2 of 2016 compared to 3.42% in the corresponding quarter last year and 3.54% in the preceding quarter. The domestic NIM was at 3.84% in Q2 of 2016 compared to 3.84% in the corresponding quarter last year and 3.90% in the preceding quarter. The sequential decrease in domestic margins is primarily on account of lower tax related interest income of 0.51 billion Rupees in Q2 of 2016 compared to about 1 billion Rupees in Q1 of 2016; and the impact of reductions in the base rate in Q1 of 2016. We had reduced our base rate by 25 basis points in April 2015 and a further 5 basis points in June 2015. International margins were at 2.00% in Q2 of 2016 compared to 1.58% in the corresponding quarter last year and 1.88% in the preceding quarter. The year-on-year improvement in international margins is largely on account of decrease in cost of borrowings achieved through proactive refinancing.

   We reduced our base rate by further 35 basis points effective October 5, 2015. While the net interest margins in Q3 of 2016 could be lower due to this, we continue to target to maintain overall NIM in FY2016 at a similar level compared to FY2015, despite the declining interest rates.

2. Total non-interest income increased by 9.8% from 27.38 billion Rupees in Q2 of 2015 to 30.07 billion Rupees in Q2 of 2016. If we look at the different components of the non-interest income,

   - Fee income grew by 6.3% from 21.03 billion Rupees in Q2 of 2015 to 22.35 billion Rupees in Q2 of 2016. While retail fees continue to grow at a healthy rate, the growth in overall fees remains impacted by subdued corporate activity and consequent decline in corporate fee income. Retail fees for the Bank constitute about 65% of overall fees in Q2 of 2016.

- During the second quarter, treasury recorded a profit of 2.22 billion Rupees compared to 1.37 billion Rupees in the corresponding quarter last year and 2.07 billion Rupees in the preceding quarter.

- Other income was 5.50 billion Rupees in Q2 of 2016, compared to 4.98 billion Rupees in Q2 of 2015 and 6.73 billion Rupees in Q1 of 2016. The Bank received dividends from subsidiaries of 3.61 billion Rupees and had exchange rate gains relating to overseas operations of 1.90 billion during Q2 of 2016.

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 9.6% from 38.48 billion Rupees in Q2 of 2015 to 42.16 billion Rupees in Q2 of 2016.

5. The Bank's standalone profit after tax increased by 11.8% from 27.09 billion Rupees in Q2 of 2015 to 30.30 billion Rupees in Q2 of 2016. The return on average assets was at 1.89% in Q2 of 2016 compared to 1.82% in Q2 of 2015.

The Bank's capital adequacy as per Reserve Bank of India's guidelines on Basel III norms continues to remain very strong. Including profits for the half year, the total capital adequacy ratio at September 30, 2015 was 16.90% and the Tier 1 capital adequacy ratio was 12.84%. Excluding profits for the half year, the standalone total capital adequacy ratio was 16.15% and Tier-1 capital adequacy ratio was 12.09%.

I now move on to the performance of subsidiaries and the consolidated results.

The profit after tax for ICICI Life in Q2 of 2016 was 4.15 billion Rupees compared to 3.99 billion Rupees in Q2 of 2015. The retail weighted received premium for ICICI Life grew by 21.2% on a year-on-year basis in H1 of 2016 compared to a growth of 0.4% for the industry. The company continues to retain its market leadership among the private players and has seen an improvement in its market share to about 12.4% in H1 of 2016. The new business margin based on Indian Embedded Value, or IEV, methodology and target acquisition cost was at 13.8% in H1 of 2016 compared to 13.6% in FY2015.

During the quarter, the gross written premium of ICICI General grew by 22.0% on a year-on-year basis to 19.99 billion Rupees in Q2 of 2016 compared to about 11.7% year-on-year growth for the industry. The company continues to retain its market leadership among the private players and had a market share of about 9.0% in H1 of 2016. The profit after tax of ICICI General was at 1.43 billion Rupees in Q2 of 2016 compared to 1.58 billion Rupees in the corresponding quarter last year and 1.16 billion Rupees in the previous quarter. The year-on-year decrease in profits was primarily on account of higher operating expenses in Q2 of 2016 on account of increase in retail business for the company.

ICICI AMC and ICICI Securities have continued to see strong performance. The profit after tax for ICICI AMC increased by 35.5% from 0.62 billion Rupees in Q2 of 2015 to 0.84 billion Rupees in Q2 of 2016. With assets under management of over 1.5 trillion Rupees, ICICI AMC sustained its market position as the second largest mutual fund in India during H1 of 2016. The profit after tax for ICICI Securities was at 0.60 billion Rupees in Q2 of 2016 compared to 0.68 billion in Q2 of 2015.

Let me move on to the performance of our overseas banking subsidiaries.

The Bank's total equity investment in ICICI Bank UK and ICICI Bank Canada has reduced from 11.0% of its net worth at March 31, 2010 to 5.2% at September 30, 2015.

As per IFRS financials, ICICI Bank Canada's total assets were 6.47 billion Canadian Dollars as of September 30, 2015 compared to 5.90 billion Canadian Dollars as of June 30, 2015. Loans and advances were 5.61 billion Canadian Dollars as of September 30, 2015 compared to 5.21 billion Canadian Dollars as of June 30, 2015. The increase in loans and advances was on account of higher securitised insured mortgages as of September 30, 2015 compared to June 30, 2015 and the impact of movement in the exchange rate i.e. depreciation of the Canadian Dollar vis-à-vis the US Dollar. The profit after tax for Q2 of 2016 was 6.6 million Canadian Dollars compared to 9.2 million Canadian Dollars for Q2 of 2015 and 7.8 million Canadian Dollars in Q1 of 2016. The trends in profit of ICICI Bank Canada were similar to Q1 of 2016. The capital adequacy ratio for ICICI Bank Canada was 25.1% at September 30, 2015.

ICICI Bank UK's total assets were 4.64 billion US Dollars as of September 30, 2015 compared to 4.19 billion US Dollars as of June 30, 2015. Loans and advances were 3.20 billion US Dollars as of September 30, 2015 compared to 2.93 billion US Dollars as of June 30, 2015. The growth in loans and advances was primarily due to granular lending to well-rated multinational corporations, select local market corporates and subsidiaries & joint ventures of Indian companies. The profit after tax for ICICI Bank UK for Q2 of 2016 was 0.6 million US Dollars compared to 5.1 million US Dollars in Q2 of 2015 and 0.5 million US Dollars in Q1 of 2016. The lower profits in Q2 of 2016 were on account of higher provisions on existing impaired loans. The capital adequacy ratio was 16.3% as of September 30, 2015.

Let me now talk about the overall consolidated profits.

The consolidated profit after tax grew by 11.5% from 30.65 billion Rupees in Q2 of 2015 to 34.19 billion Rupees in Q2 of 2016. The annualised consolidated return on average equity was at 15.3% in Q2 of 2016 compared to 15.1% in Q2 of 2015 and 15.0% in Q1 of 2016. Consolidated assets grew 9.4% from 7.78 trillion Rupees as of September 30, 2014 to 8.51 trillion Rupees as of September 30, 2015.

The Bank's total capital adequacy ratio on a consolidated basis, including profits for the half year, was 16.87% and the Tier 1 capital adequacy ratio was 12.77% at September 30, 2015. Excluding profits for the half year, the consolidated total capital adequacy ratio was 16.17% and Tier-1 capital adequacy ratio was 12.07%.

In summary, we have continued to pursue our core operating strategy during the quarter. In line with our focus areas, we have:

1. Sustained the net interest margins;
2. Maintained healthy non-interest income;
3. Sustained the operating efficiency;
4. Maintained a robust funding profile; and
5. Continued to achieve strong retail portfolio growth.

We would continue to pursue these objectives, while closely monitoring corporate asset quality trends. We believe that our strong and diversified franchise and large distribution network give us the ability to leverage opportunities for profitable growth across our businesses. We are well-placed with regard to the capital required to support our growth, and given our current capital position, we believe that we do not need to raise capital till March 2018, based on current regulations.

The Board of Directors of the Bank, at its meeting held today, has approved the sale of 9.0% shareholding in ICICI General to our joint venture partner, Fairfax Financial Holdings Limited, subject to governmental and regulatory approvals. The proposed transaction values the company at 172.25 billion Rupees. Upon completion of the transaction, the share ownership in the Company of ICICI Bank and Fairfax will be approximately 64% and 35%, respectively. The transaction reflects the Company's franchise as the leading private sector general insurer in India, the substantial potential for profitable growth of the business and the strong relationship between the joint venture partners.

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

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: I had a few questions. Firstly on the corporate loan growth that seems to be very strong which is the case with most private banks, is it that state owned banks are just not being able to take this business? What explains such strong corporate growth?

Rakesh Jha: Domestic loan growth for the Bank was at 17%, within that the retail loan growth was about 25% year-over-year and corporate loan growth was about 8% year-on-year. As we have said earlier, for the full year we are looking at growing the corporate loan portfolio in double digits. Most of the growth that we are seeing is coming from working capital requirements and incremental lending to PSU companies & other higher rated companies. Overall the growth is still a bit sluggish on the corporate side.

Mahrukh Adajania: And in terms of 5/25, what is the pipeline and how much was refinanced during the quarter?

Rakesh Jha: About Rs. 20 billion of loans were refinanced under the 5/25 scheme.

Mahrukh Adajania: And any pipeline?

Rakesh Jha: Very difficult to talk about a pipeline here as unlike restructuring there is no CDR. As something comes up we will see that, there is no specific pipeline on 5/25 as such we can talk about.

Mahrukh Adajania: And how many accounts would this be?

Rakesh Jha: This would be three or four accounts, as you know these are completed projects where refinancing has been done by banks.

Mahrukh Adajania: And with respect to the general insurance announcement, it is a very good deal because the valuations seem to be quite steep, any thoughts on that?

N.S. Kannan: Thank you for that Mahrukh. Our belief is that this reflects the franchise, the growth potential and the way the company has performed over a period of time. It is still a hugely under penetrated market in the country with tremendous growth potential. The company has been a market leader among the private sector players in the various segments in which it is operating. And even in terms of the leadership depth, investment operations and segments of their businesses they have a very good franchise and a very good leadership, so our feeling is that the valuation is really reflective of all those trends.

Mahrukh Adajania: Since the stake is sold to your partner, anyway usually it would be at a discount to whatever is the fair value perceived right?

N.S. Kannan: No, we have always told you that in the case of the general insurance subsidiary there was no such optionality in the agreement. Even for the life insurance company we have always said that whenever the transaction happens it would always be at the current market price. The agreements do not have any specified value upfront or discount or a particular valuation, it is based on the prevailing fair value. The valuation for general insurance subsidiary reflects the current fair value of the company.

Moderator: Thank you. We move on to the next question that is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.

Gaurav Agarwal: Sir, want to get more clarity on 5/25 done during the quarter. Were these previously restructured accounts or were they standard accounts?

Rakesh Jha: These will be standard accounts. These are projects that have got completed and based on the economic life of the project, banks would have refinanced them under the 5/25 scheme.

Gaurav Agarwal: So they were not a part of your restructured book till the end of Q1-2016?

N.S Kannan: No. They would not be.

Gaurav Agarwal: And Sir just wanted to have some colour on the accounts which slipped from the restructured book. Was it only one account or couple of accounts?

N.S. Kannan: Couple of accounts.

Gaurav Agarwal: And can you give me some industry wise details of that?

N.S. Kannan: We have not talked about it specifically, but in the general context most of the slippages from restructured loans to the NPA category have been in the construction, EPC sector. The same trend has continued, beyond that there are no fresh trends to report at the moment.

Gaurav Agarwal: None of the accounts from the power sector which slipped into NPA, either from restructured or fresh slippages, right?

Rakesh Jha: Since these are only a couple of accounts, we cannot disclose anything specific on that. On the restructured portfolio, as we have said in the past, larger part of the restructured portfolio has come from construction related sectors while there are some power sector projects.

Gaurav Agarwal: Government has imposed import duty on steel imports from China. Are you seeing any positive development for the steel companies in India?

N.S. Kannan: Steel industry has solid assets on the ground. It has good long term prospects given the large economic scale and as seen through the various cycles in this sector. Of course, imposition of import duty is helpful for the industry but full revival with certainty can be only talked about when we get out of the current commodity cycle and overall prices improve.

Gaurav Agarwal: So according to you the prices have not improved yet, is it?

N.S. Kannan: Prices will have to still improve, yes.

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

Anish Tawakley: I had two questions, one on capital and the other on branch expansion. On capital, your Tier-I ratio has actually improved and from that it would look like the challenge is really deploying capital rather than raising capital. In that context what is the business rationale for sell-down of the general insurance stake? And related to that, you are also shrinking the off balance sheet exposures and the offshore book. Are these also not incrementally accretive? I understand the NIM might not be great but at least they would have been accretive to profit right?

N.S. Kannan: On the first question on capital, clearly this monetization that we have announced, which of course has to consummate post the necessary approvals has got nothing to do with our capital availability. We have always said that while we would want to keep the majority stake in these subsidiaries, that doesn't mean we have to maintain the current holding. We have always articulated that at some point in time we would like to monetize these investments. You should look at it from that perspective rather than looking at it from any capital related event. Also, I believe that some of the valuations of the overall financial services franchise that we have, would probably not be adequately understood unless there is a transaction at the subsidiary level. Hence, this transaction would go towards discovering the valuation of some of our subsidiaries. Of course deployment of capital is a separate matter. Given the operating environment, clearly we want to put more capital on the retail side in the near-term. And as Rakesh mentioned a little while earlier, on the corporate side we would look for more opportunities in the working capital space and lending to higher rated corporates including PSUs. From a risk weight perspective it may not be able to absorb too much capital but directionally that is how we would like to do it.

On the issue of off balance sheet exposure, one of the areas where we have been focusing on is a shift from non-fund based business to fund based business. Non-fund based business is extremely competitive and as our costs of funds is coming down as a result of our healthy CASA ratio, we are getting more opportunities to be a part of fund based consortium for better corporates. That is why you are seeing a strategic shift over the last two years towards fund based as against non-fund based business, which has also lead to the off-balance sheet numbers going down.

Overseas business is clearly a demand issue because these are largely India-linked corporates who do a cost benefit analysis of foreign currency borrowing as against a rupee borrowing while taking a foreign currency loan. We see this shift in demand when there is a declining interest rate environment domestically. The overseas book thus gets calibrated based on demand supply from a corporate perspective and our ability to raise funds from the liability perspective.

Anish Tawakley: The second question was on branch additions; this last six months basically there has been no branch addition in metro and urban areas. What is the plan for the rest of the year?

N.S. Kannan: We have said that every year for the next few years we would continue to do about 10% branch addition. The additions typically are in the second half and more so in the fourth quarter. You will see branch additions in the third quarter and fourth quarter. And we maintain that we will add 300 to 400 branches every year for a couple of years.

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

Manish Karwa: My question was on fees, after a long time we have seen better traction on the fee income front, I assume retail would generally be growing well but is corporate also starting to grow for us now?

Rakesh Jha: In terms of growth that we are seeing, retail is where the growth is coming from. On a year-on-year perspective, retail fees would have grown closer to 15% while the non-retail fees would still be down. Fee income has started to grow on a sequential basis also. For the last four quarters till Q1, fee income was roughly around the Rs. 21 billion mark, we have seen growth there now. Going forward, we believe we should continue to see sequential increase in fee revenues and year-on-year growth should also improve.

Manish Karwa: And when you say sequential revenues, you mean retail as well as corporate?

Rakesh Jha: Corporate is still sluggish and very competitive on the non-fund side.

N.S. Kannan: It is slowly coming up.

Moderator: Thank you. Our next question is from the line of Adarsh P from Nomura. Please go ahead.

Adarsh P: Just a couple of questions. First question is on Rs. 20 billion of refinancing in three-four accounts. What would be your total exposure in these accounts as a lot of these accounts are being part refinanced?

Rakesh Jha: This is the amount that has been refinanced. We have not separately disclosed any aggregate exposures.

N.S. Kannan: During the Q1-2016 call I had mentioned that we had done under Rs. 10 billion, now we have talked about Rs. 20 billion, these are the 5/25 refinancings that we have done.

Adarsh P: The system has exposure to companies which are highly leveraged but only 25% or 30% of the overall debt of these companies are getting refinanced. In that context if you could share what your overall exposure would be to the companies which you are refinancing?

Rakesh Jha: I don't think in all these cases only 25% or 30% of the amount is getting refinanced. The amounts that we have given are for the projects that have got refinanced under 5/25 and in many cases that is virtually the exposure to the company.

Adarsh P: Second question is on the UK subsidiary's profitability. We have been taking some impairments for the last three quarters. Is it a specific account where you are taking continuous write-downs? Is it likely to continue going forward?

Rakesh Jha: As you would have seen on the UK portfolio, we have had some impairment of the India linked loans. While we have not seen an increase in the impaired loans for the UK subsidiary in the last couple of quarters, it is more an increase in the provision levels against some of these loans that has lead to the overall profitability being weak for the subsidiary. For the year, yes, it will be fair to assume that the trends that we have seen in the first half would continue in the second half as well.

Adarsh P: So broadly impairments are not going up but you are kind of topping up the provision level there?

Rakesh Jha: Yes, I would say so yes.

Adarsh P: The last question is on the overseas margin which has improved by 10-15 bps. What is your outlook going forward? I understand that funding is improving but always thought it is LIBOR plus funding and lending as well so at some time should the yields also go down?

Rakesh Jha: If you look at it on a year-on-year basis, one is that the level of liquidity that we used to have a year back has come down significantly as we have optimized the balance sheet. Secondly, as Kannan mentioned, we have been able to refinance the borrowings at a lower rate. Those are the two benefits that we have got. As we have said in the past, on a normal run rate we would expect overseas margin to be in 1.8-1.9% range.

N.S. Kannan: And then given the base rate reductions we have seen on the domestic side, overseas margin at this level gives cushion for the short-term.

Adarsh P: So the way to understand is broadly your spread of funding over the benchmark has gone down and not the benchmark itself?

N.S. Kannan: That is correct, which is why I mentioned in my opening remarks that improvement in overseas margin is due to proactive refinancing. Effectively, it means that we have been able to negotiate the spreads downwards on the borrowing.

Moderator: Thank you. Our next question is from the line of Kaushal Patel from India Nivesh. Please go ahead.

Kaushal Patel: Given the recent revised guidelines on risk weight of home loans, what would be the impact on the capital adequacy ratio?

N.S. Kannan: The September results do not reflect the impact of reduction in risk weights on home loans because the circular itself makes it effective in the subsequent period. You would see the impact going forward. Based on our current assessment of the home loan portfolio the Tier-I impact would be about 15 basis points.

Kaushal Patel: Next question is on the digital side. We know that the Bank has been aggressive and doing many things, but what is your strategy on internal, operational side?

Anindya Banerjee: It is a three pronged approach. One of course is what you mentioned on the customer facing side where there are several things that we are doing on internet and mobile. Second, if we look at our internal processes there are a number of places where digitization is helping. One is our use of tablets for sales on the liability side which is now being extended to other products as well. This helps optimize the process, reduce paperwork & rework and have automated dataflow resulting in improved productivity and turnaround times. Second, in our back offices and operations shops we are able to manage higher volumes without really increasing the number of people through imaging solutions, workflow solutions and so on. The third part to the digital strategy is on the analytics side where the Bank is making some investment for use of credit analysis, cross sell etc. and we are seeing decent results but there is a lot more than can be done on that side.

Kaushal Patel: Going forward for the next couple of years, can we assume that given the improvement in productivity and efficiency, the increase in manpower will not be at the same pace as what we have seen.

N.S. Kannan: If you look at it from a manpower perspective, we may still add manpower because we are going to be in the branch addition mode for some time. The other way of looking at it is that the cost-to-income ratio is definitely expected to not go up but hopefully to come down from current levels.

Moderator: Thank you. Our next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: If I were to look at the restructured book and the slippages of Rs. 900 crores this quarter. Excluding the Rs. 5,000 crores of fresh restructuring done last year from the restructured book of Rs. 12,600 crores, would slippages from the restructured book come down going forward or would the same run rate be sustained? What is the outlook?

Rakesh Jha: On restructured loans, as we have said in the past we expect the amount of slippages to be lower this year compared to the last financial year. The number running in the first half of this fiscal is at a at much lower rate than what we saw in the last financial year when we had a very high addition in the fourth quarter. Our expectation is that we would end up with a lower amount of slippage from restructuring in the current financial year compared to the last year.

Anand Laddha: Slippages from the standard book was Rs. 13 billion this quarter. Would this run rate sustain? What is the outlook?

Rakesh Jha: It is a bit difficult to give outlook on a quarterly basis. As Kannan mentioned earlier on an overall basis, aggregate additions to NPL and restructured loans is expected to be lower than what we had in the last financial year. On a quarter-on-quarter basis it can be higher or lower because some of these are corporate exposures which can be lumpy.

Anand Laddha: But if I had to look at overall ground level things, do you believe second half FY2016 would be better than first half FY2016?

Rakesh Jha: In terms of?

Anand Laddha: In terms of stress asset formation or the large corporate or mid corporate pain. Do you believe that second half would be better for corporate India compared to first half or will the same level of pain sustain?

Rakesh Jha: In the current financial year, banks would continue to see some stress. There are some underlying improvements happening but it will take some time to show up in cash flows. Progress is happening with respect to deleveraging of some of these corporates and some asset sales, it will take some time.

Anand Laddha: Second on the retail side, this could be the eighth or ninth quarter for us for when we have seen a 25% growth of the retail book. The mortgage book has always been growing very well. Can you give some colour on how much of the book is originated from the branch and what is the growth that can sustain going forward?

Rakesh Jha: In the near-term we believe that we should be able to sustain the 25% growth fuelled by mortgages, car loans and also unsecured loans which are growing pretty well off a lower base. The rural portfolio has also been growing quite well. In the next few quarters we believe we should be able to sustain this level of growth. In terms of the proportion of business originating from branches, it varies from about 20% for car loans to about 30% for mortgages. On the rural side it is much higher but the proportion across retail products has been increasing on a continuous basis.

Anand Laddha: We have seen banks offering various incentive schemes like 10% cash back on the credit cards side but we have not seen ICICI Bank anywhere. Is it a strategy not to participate?

Rakesh Jha: I do not think there is any strategy not to participate. I am sure going forward you will also see us participating, just that we are selective about where we want to spend money based on the return that we would get. But as we grow the credit card and debit card portfolio you will see us also participating in some of this.

N.S. Kannan: You would have seen the recent announcement and campaign for the festive season where from a customer loyalty perspective several gifts have been announced based on spends. We would definitely be there to take advantage of this.

Anand Laddha: My question was more with respect to ecommerce companies where we didn't see ICICI Bank participating in the recent Flipkart and Amazon sale.

N.S. Kannan: Sure. But we do that, whatever makes sense for us we will definitely do.

Moderator: Thank you. Our next question is from the line of Seshadri Sen from J.P. Morgan. Please go ahead.

Seshadri Sen: I had a question on fees. I am noticing this interesting pattern over the last two, three years where your fees has sort of jumped up in the second quarter and then flat lined for another four quarters then jumped up again. Is there any seasonality to it as it has happened for a third year in a row?

Rakesh Jha: More of a coincidence rather.

N.S. Kannan: There is no specific driver.

Rakesh Jha: Hopefully that will get corrected this time.

Seshadri Sen: Do you think the 6% quarter-on-quarter growth this quarter as being more sustainable? Are you seeing incremental sequential growth from here?

Rakesh Jha: Yes, we would expect sequential growth from this level, at what percentage we will have to see. There is nothing specific in the second quarter for us.

Seshadri Sen: And secondly on the corporate growth, in terms of incremental accretion to corporate loans, you are lagging behind many of the larger banks. Have there been any large run downs that you have seen in this quarter from your corporate book? Your pace of gross addition is similar to the other private banks, is it just that the run downs are dragging the headline numbers or just that you are a bit more cautious than other on acquisition of new loans?

Rakesh Jha: We have had some prepayments coming in from some of the larger borrower groups in the first half of the year, especially in the second quarter. Incrementally we have been originating loans. Over the second half of the year we would expect corporate loan growth to pick up, again the sectors or the segments as Kannan mentioned, would be working capital, lending to some of the higher rated companies in the private sector and some of the PSUs.

Seshadri Sen: On the loans that have been prepaid, are they lower rated corporates or high rated corporate project loans?

Rakesh Jha: In this current quarter, prepayments would have been from some of the lower rated clients also as some asset sales have happened.

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

M B Mahesh: Sir, couple of questions from my end. One is on the general insurance business sale that you have done. Kannan you mentioned that one of the key point was to establish a pricing around the entire insurance business itself. Just wanted to understand why you did this entire transaction because there was no requirement from a capital standpoint and you could have actually waited for some more time to see the entire movement. Correspondingly on this itself how are you going to utilize the entire gains and if you could also quantify what the gains look like for this particular transaction?

N.S. Kannan: First of all I would just repeat what I said that this event is not triggered by any of the capital requirements from the parent side. We have always said that we would like to monetize these investments at an appropriate point in time which will help in setting a benchmark for the value created in the subsidiaries. Even after the sale we will continue to hold a very significant percentage of the share capital, approximately 65%.

M B Mahesh: Sorry, we are asking the reverse, we know that the capital is not required then why do a transaction in the first place?

N.S. Kannan: As we said we got a good valuation for this and it helps discover valuation for the subsidiaries. We have been articulating it as our strategy that we will monetize stake while continuing to hold the majority. You should just look at it in line with that strategy and the constant communication we have done in this context. And the pre-tax gains will be pretty much around Rs. 15 billion.

M B Mahesh: And utilization?

N.S. Kannan: It will go through the income statement but we will have to wait for the approvals to happen before the transaction can be completed.

M B Mahesh: By utilization what we meant was would you move it through the provisions to improve your coverage levels or do you think it can move to the ROEs?

N.S. Kannan: It will go through the P&L as a profit and then Board will decide what is appropriate when the transaction gets completed.

M B Mahesh: The second question is on restructuring. What was the fresh restructuring during the quarter and how do we read the SDR news that we seem to be getting recently? How does that affect your entire portfolio?

N.S. Kannan: The incremental restructuring is insignificant. We talked about the 5/25 refinancing but incremental restructuring has been quite insignificant, in fact the outstanding restructured loan net of provisions has come down to about Rs. 120 billion.

M B Mahesh: If we consider the Rs. 126 billion of outstanding restructured book last quarter and deletions of Rs. 9.30 billion, the outstanding number this quarter comes close to about Rs. 116 whereas we have closed the quarter at Rs. 119 billion.

N.S. Kannan: Yes, that's just a little bit of movement here and there. Other than that the restructuring was not significant to report.

M B Mahesh: There was no repayment, upgradations as well?

N.S. Kannan: It will take some time.

Rakesh Jha: And in terms of new additions as Kannan was saying it would be about Rs.1 billion or so as you can see from the movement itself.

N.S. Kannan: Nothing significant to report really. On SDR, the way you should look at it is that SDR bucket will really come from primarily from the restructured outstanding. It will be used selectively for cases where we believe that lenders together can take a significant equity and affect the change of management. The positive thing for the Bank is that it gives us some time for us to stabilize the operations and get a new buyer so that the management can be revived.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of ICICI Bank that concludes this conference call. Thank you for joining us and you may now disconnect your lines.