ICICI Bank Limited
Earnings Conference Call – Quarter ended September 30, 2016 (Q2-2017)
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Moderator Ladies and Gentlemen, Good Day and Welcome to ICICI Bank's Q2 2017 Earnings Conference Call. As a remainder, all participant lines are in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mrs. Chanda Kochhar – Managing Director and CEO of ICICI Bank. Thank you and over to you, ma'am.

Chanda Kochhar: Good evening to all of you. I will make brief opening remarks and then Kannan will take you through the details of the results. On the previous analyst calls, I had summarised the Bank's strategic priorities for FY2017 in the 4 x 4 Agenda covering Portfolio Quality and Enhancing Franchise.

On Portfolio Quality

1. Proactive monitoring of loan portfolios across businesses;
2. Improvement in credit mix driven by focus on retail lending and lending to higher rated corporates;

3. Concentration risk reduction; and
4. Resolution of stress cases through measures like asset sales by borrowers and change in management; and working with various stakeholders to ensure that the companies are able to operate at an optimal level and generate cash flows.

On Enhancing Franchise

1. Sustaining the robust funding profile;
2. Maintaining digital leadership and a strong customer franchise;
3. Continued focus on cost efficiency; and
4. Focus on capital efficiency and further unlocking of value in subsidiaries.

We continue to focus on this agenda.

I would like to highlight four key areas of progress:

1. During Q2 of 2017, we saw the first IPO from the Indian insurance sector, by ICICI Prudential Life Insurance Company. The Bank sold 12.63% shareholding in the company in the IPO which resulted in gains of 56.82 billion Rupees during the quarter. ICICI Life is well-positioned to participate in the growth of insurance sector in the coming years. The Bank continues to have 54.9% shareholding in ICICI Life. The transaction demonstrates the significant value created in our non-banking subsidiaries. Our non-banking subsidiaries continue to maintain a strong market position in their respective businesses and have reported robust profits in Q2 of 2017.

2. We are focused on re-orienting our balance sheet towards lower risk and a more granular portfolio. The retail portfolio grew by

21.1% year-on-year and constituted 47.9% of total loans at September 30, 2016 compared to 44.0% at September 30, 2015. The robust growth in the retail portfolio is in line with our strategic priorities. In the corporate segment, we continue to focus on lending to better rated clients and work towards reducing exposures in sectors impacted by the challenging operating environment. The Bank's aggregate exposure to the power, iron & steel, mining, cement and rigs sectors has decreased from 16.2% of its total exposure at March 31, 2012 to 13.3% of its total exposure at March 31, 2016 and further decreased to 11.9% of total exposure at September 30, 2016.

3. We are making encouraging progress on resolution & exposure reduction in identified areas. We had reported the Bank's exposure at March 31, 2016 and June 30, 2016, comprising both fund based limits and non-fund based outstanding to companies that were internally rated below investment grade in key sectors - i.e. power, iron & steel, mining, cement and rigs; and to promoter entities internally rated below investment grade where the underlying partly relates to the key sectors. While slide 33 to slide 35 of the presentation have an update on these exposures and Kannan would explain the movement in detail, I would like to highlight that the Bank saw a net reduction in exposure and rating upgrades of 24.61 billion Rupees out of this portfolio during the six months ended September 30, 2016. Further, based on the transactions announced and in the public domain, we expect a significant further reduction in this portfolio over the next six to nine months subject to necessary approvals and completion of the transactions. A part of the planned repayment has been received in October 2016. We continue to work on the balance exposures.

4. We have further strengthened our balance sheet with additional provisions of 35.88 billion Rupees, comprising:

- Provisions of 16.78 billion Rupees for standard loans;
- Entire loss of 3.95 billion Rupees on sale of NPA during the six months ended September 30, 2016, which is permitted to be amortised as per RBI guidelines, recognized upfront; and
- Floating provision of 15.15 billion Rupees.

Coming to operating highlights for the quarter, the Bank achieved robust growth in its loan portfolio and maintained its strong funding profile during Q2 of 2017. The overall domestic loan growth was 15.9% year-on-year. Savings account deposits increased by 21.7% year-on-year. The CASA ratio was 45.7%, and retail deposits were about 76% of our total deposits at September 30, 2016.

We continue to make investments to strengthen our retail franchise. We have a network of 4,468 branches and 14,295 ATMs, and best-in-class digital and mobile platforms. During the quarter, we saw the launch of the Unified Payments Interface, or UPI and enabled UPI based transactions on our mobile banking applications - 'iMobile' and 'Pockets'. We now have over 200,000 Virtual Payment Addresses on UPI. We are also working on tie-ups with several merchants to enable UPI based 'person-to-merchant' transactions. The Bank recently became the first bank in India to successfully exchange and authenticate remittance transaction messages and original international trade documents using blockchain technology. We will continue to make investments to further strengthen our franchise.

We believe that we are well positioned to leverage on growth opportunities in the coming years given our strong deposit franchise, robust capital levels and potential for value unlocking in our subsidiaries. We will continue to make investments to further strengthen our franchise and work towards resolution and reduction of stressed exposures.

I will now hand the call over to Kannan.

Mr. Kannan's remarks

I will talk about our performance on: Growth; Credit Quality; P&L Details; Subsidiaries; and Capital.

A. Growth

Within the overall retail growth of 21%, the mortgage and auto loan portfolios grew by 19% and 14% year-on-year respectively. Growth in the business banking and rural lending segments was 26% and 30% year-on-year respectively. We used to earlier include dealer funding in business banking loans. From this quarter, we have reported dealer funding as part of other retail loans. Commercial vehicle and equipment loans grew by 17% year-on-year. The unsecured credit card and personal loan portfolio grew by 40% year-on-year to 179.66 billion Rupees and was about 4.0% of the overall loan book as of September 30, 2016. The Bank continues to grow the unsecured credit card and personal loan portfolio primarily driven by a focus on cross-sell.

Growth in the domestic corporate portfolio was 8.4% year-on-year as of September 30, 2016 compared to 11.2% year-on-year as of June 30, 2016. The Bank has been focusing on reducing exposures to the key sectors and borrowers that are impacted by the challenging operating environment. If we exclude NPAs, restructured loans and loans to companies included in drilldown exposures, growth in the domestic corporate portfolio was significantly higher. The SME portfolio grew by 12.0% year-on-year and constitutes 4.3% of total loans.

In rupee terms, the net advances of the overseas branches decreased by 4.0% year-on-year as of September 30, 2016. In US dollar terms, the net advances of overseas branches decreased by 5.5% year-on-year as of September 30, 2016.

Coming to the funding side: on a period-end basis, we saw an addition of 86.84 billion Rupees to savings account deposits and 52.24 billion Rupees to current account deposits during the quarter. Current and savings account deposits grew by 18.3% year-on-year. The Bank continued to maintain healthy CASA ratios on a period-end basis as well as daily average basis. On a daily average basis, the CASA ratio was 41.5% in Q2 of 2017. Total deposits grew by 16.8% year-on-year to 4.49 trillion Rupees as of September 30, 2016.

B. Credit Quality

During the second quarter, the gross additions to NPAs were 80.29 billion Rupees compared to 82.49 billion Rupees in the preceding quarter. The gross additions to NPAs in Q2 of 2017 included slippages from restructured loans of 12.31 billion Rupees and slippages out of loans to companies internally rated below investment grade in key sectors of 45.55 billion Rupees. The retail portfolio had gross NPA additions of 6.40 billion Rupees and recoveries & upgrades of 4.50 billion Rupees during Q2 of 2017 which is in line with normal business trends. About 80% of the additions to NPAs for the wholesale and SME businesses were on account of slippages relating to companies internally rated below investment grade in key sectors, the restructured portfolio and accounts that were non-performing as of June 30, 2016.

During the quarter, aggregate deletions from NPA due to recoveries and upgrades were 8.00 billion Rupees. The Bank sold gross NPAs amounting to 17.87 billion Rupees during the quarter. The net NPAs sold to ARCs amounted to 8.82 billion Rupees.

The Bank's net non-performing asset ratio was 3.21% as of September 30, 2016 compared to 3.01% as of June 30, 2016. The gross non-performing asset ratio was 6.12% as of September 30, 2016 compared to 5.28% as of June 30, 2016.

The net restructured loans reduced to 63.36 billion Rupees as of September 30, 2016 from 72.41 billion Rupees as of June 30, 2016.

The aggregate net NPAs and net restructured loans were 228.19 billion Rupees as of September 30, 2016 compared to 225.49 billion Rupees as of June 30, 2016.

While announcing our results for the quarter ended March 31, 2016, we had stated that there were continued uncertainties in respect of certain sectors due to the weak global economic environment, sharp downturn in the commodity cycle, gradual nature of the domestic economic recovery and high leverage. The key sectors identified in this context were power, iron & steel, mining, cement and rigs.

The Bank had reported its exposure, comprising both fund based limits and non-fund based outstanding at March 31, 2016 and June 30, 2016 to companies in these sectors that were internally rated below investment grade across the domestic corporate, SME and international branches portfolios; and to promoter entities internally rated below investment grade where the underlying partly relates to these sectors. On slide 35 of the presentation, we have provided the movement in these exposures between June 30, 2016 and

September 30, 2016. The aggregate fund based limits and non-fund based outstanding to companies that were internally rated below investment grade in these sectors and promoter entities, decreased from 387.23 billion Rupees as of June 30, 2016 to 324.90 billion Rupees as of September 30, 2016 reflecting the following:

- There was a net reduction in exposure of 16.77 billion Rupees
- Loans classified as non-performing during the quarter were 45.55 billion Rupees. Please refer slide 35 for further details.

Based on the transactions announced and in the public domain, we expect a significant further reduction in above exposure as of September 30, 2016 over the next six to nine months subject to necessary approvals and completion of the transactions. A part of the planned repayment has been received in October 2016. The Bank continues to work on the balance exposures. However, it may take time for these resolutions given the challenges in the operating and recovery environment. Our focus will be on maximising the Bank's economic recovery and finding optimal solutions.

The exposure to companies internally rated below investment grade in key sectors and promoter entities of 324.90 billion Rupees includes non-fund based outstanding in respect of accounts included in this portfolio where the fund based outstanding has been classified as non-performing. Apart from this, the non-fund based outstanding to borrowers classified as non-performing was 33 billion Rupees at September 30, 2016 as disclosed in slide 35.

As of September 30, 2016, the Bank had outstanding loans of 29 billion Rupees where Strategic Debt Restructuring - SDR - was implemented, primarily comprising loans either already classified as non-performing or restructured or to companies that were internally rated below investment grade in key sectors - i.e. power, iron & steel, mining, cement and rigs.

The outstanding portfolio of performing loans for which refinancing under the 5/25 scheme has been implemented was 27 billion Rupees as of September 30, 2016, primarily comprising loans to companies internally rated below investment grade in the key sectors mentioned above.

Coming to provisions: As mentioned earlier, in Q2 of 2017, the Bank further strengthened its balance sheet by making additional provisions of 35.88 billion Rupees. The additional provision comprises the following:

1. The Bank has made provisions of 16.78 billion Rupees for standard loans;
2. Entire loss of 3.95 billion Rupees on sale of NPAs during the six months ended September 30, 2016, which is permitted to be amortised as per RBI guidelines, recognised upfront; and
3. The Bank has made a floating provision of 15.15 billion Rupees as permitted by the RBI guidelines. This floating provision has been deducted from the gross non-performing loans while computing the net non-performing loans.

Other provisions were 34.95 billion Rupees in Q2 of 2017 compared to 25.15 billion Rupees in the preceding quarter and 9.42 billion Rupees in the corresponding quarter last year.

For the quarter, there was a drawdown of 6.80 billion Rupees from the collective contingency and related reserve.

The provisioning coverage ratio on non-performing loans, including cumulative technical/prudential write-offs and floating provisions made during the quarter, was 59.6%.

We expect NPA additions to remain elevated for the next two quarters.

C. P&L Details

Net interest income was 52.53 billion Rupees in Q2 of 2017. The net interest margin was at 3.13% in Q2 of 2017 compared to 3.16% in the preceding quarter. The domestic NIM was at 3.41% in Q2 of 2017 compared to 3.45% in the preceding quarter. International margins were at 1.65% in Q2 of 2017, at the same level as in the preceding quarter. There was interest on income tax refund of 1.11 billion Rupees in Q2 of 2017, unlike in the preceding quarter. This had a positive impact of about 7 basis points on the net interest margin for the quarter.

Going forward, the yield on advances would continue to be impacted by non-accrual of income on non-performing assets and implementation of resolution plans for stressed borrowers.

Total non-interest income was 91.20 billion Rupees in Q2 of 2017 compared to 30.07 billion Rupees in Q2 of 2016. Non-interest income for the quarter included gains of 56.82 billion Rupees relating to sale of shares of ICICI Life in the IPO. Excluding these gains, non-interest income grew by 14.3% year-on-year.

- Fee income was 23.56 billion Rupees. Retail fees grew by 10% year-on-year and constituted about 68% of overall fees in Q2 of 2017.
- Treasury recorded a profit of 7.30 billion Rupees compared to 2.22 billion Rupees in the corresponding quarter last year. The yield on the 10-year government securities eased during Q2 of 2017.
- Other income was 3.52 billion Rupees. The dividend from subsidiaries was 3.27 billion Rupees. The Bank had no exchange rate gains relating to overseas operations in Q2 of 2017 compared to gains of 1.90 billion Rupees in the corresponding quarter last year.

On Costs: The Bank's cost-to-income ratio was at 26.0% in Q2 of 2017 and 31.0% in H1 of 2017. Excluding gain on sale of shares of ICICI Life, the cost-to-income would have been 43.0% and 41.1% respectively in Q2 of 2017 and H1 of 2017 respectively. Operating expenses increased by 20.5% year-on-year in Q2 of 2017. The increase was mainly due to a 28.3% increase in employee expenses which among other factors includes the impact of decline in yields on provisions for retirement benefits in Q2 of 2017. The Bank has added 6,379 employees in H1 of 2017 and had 80,475 employees as of September 30, 2016. For H1 of 2017, operating expenses increased by 15.3% year-on-year which is broadly in line with our expectation for the full year. Non-employee expenses increased by 15.5% year-on-year in Q2 of 2017 and 15.6% year-on-year in H1 of 2017. We would continue to focus on cost efficiency, while investing in the franchise as required.

The Bank's standalone profit before provisions and tax was 106.36 billion Rupees in Q2 of 2017 compared to 51.58 billion Rupees in the corresponding quarter last year and 52.15 billion Rupees in preceding quarter.

I have already discussed the provisions for the quarter.

After taking in to account additional provisions made during the quarter, the Bank's standalone profit before tax was 35.53 billion Rupees in Q2 of 2017 compared to 27.00 billion Rupees in the preceding quarter and 42.16 billion Rupees in the corresponding quarter last year.

The Bank's standalone profit after tax was 31.02 billion Rupees in Q2 of 2017 compared to 22.32 billion Rupees in the preceding quarter and 30.30 billion Rupees in the corresponding quarter last year.

D. Subsidiaries

The profit after tax for ICICI Life for Q2 of 2017 was 4.19 billion Rupees compared to 4.15 billion Rupees in Q2 of 2016. The new business margin on actual cost based on Indian Embedded Value, or IEV, methodology was at 9.4% in H1 of 2017 compared to 8.0% in FY2016 and 5.7% in FY2015. The improvement in margins was driven by increase in proportion of protection business from 1.6% in FY2015 and 2.7% in FY2016 to 4.4% in H1 of 2017. The company continues to retain its market leadership among the private players with a market share of about 12.4% in H1 of 2017. The Embedded Value, based on Indian Embedded Value methodology, was 148.38 billion Rupees as of September 30, 2016 compared to 139.39 Rupees billion as of March 31, 2016.

The profit after tax of ICICI General increased by 19.6% from 1.43 billion Rupees in Q2 of 2016 to 1.71 billion Rupees in Q2 of 2017. The profit before tax grew by 22.6% year-on-year. The gross written premium of ICICI General grew by 38.9% on a year-on-year basis to 57.07 billion Rupees in H1 of 2017 compared to about 29.4% year-on-year growth for the industry. The company continues to retain its market leadership among the private sector players and had a market share of about 9.2% in H1 of 2017.

The profit after tax of ICICI AMC increased by 54.8% year-on-year from 0.84 billion Rupees in Q2 of 2016 to 1.30 billion Rupees in Q2 of 2017. With average assets under management of about 2.2 trillion Rupees for the quarter, ICICI AMC continues to be the largest mutual fund in India.

The profit after tax of ICICI Securities was at 0.99 billion Rupees in Q2 of 2017 compared to 0.60 billion Rupees in Q2 of 2016. The profit after tax of ICICI Securities Primary Dealership was 1.71 billion Rupees in Q2 of 2017 compared to 0.88 billion Rupees in the corresponding quarter last year.

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 4.4% at September 30, 2016.

ICICI Bank Canada's total assets were 6.69 billion Canadian Dollars as of September 30, 2016 and loans and advances were 5.74 billion Canadian Dollars as of September 30, 2016. ICICI Bank Canada reported a net loss of 5.4 million Canadian Dollars in Q2 of 2017 compared to a net profit of 6.6 million Canadian Dollars in Q2 of 2016 on account of higher provisions on existing impaired loans, primarily India-linked loans. The capital adequacy ratio of ICICI Bank Canada was 24.9% at September 30, 2016.

ICICI Bank UK's total assets were 3.63 billion US Dollars as of September 30, 2016. Loans and advances were 2.51 billion US Dollars as of September 30, 2016. The sequential decrease in loans and advances of about 175 million US Dollars was on account of lower disbursements in Q2 of 2017 given the uncertainties in the operating environment and limited lending opportunities. Profit after tax in Q2 of 2017 was 2.3 million US Dollars compared to 0.6 million US Dollars in Q2 of 2016. The capital adequacy ratio was 18.7% as of September 30, 2016.

The consolidated profit after tax was 29.79 billion Rupees in Q2 of 2017 compared to 34.19 billion Rupees in the corresponding quarter last year and 25.16 billion Rupees in the preceding quarter.

E. Capital

The Bank had a Tier 1 capital adequacy ratio of 13.26% and total standalone capital adequacy ratio of 16.67%, including profits for H1 of 2017. The Bank's consolidated Tier 1 capital adequacy ratio and the total consolidated capital adequacy ratio, including profits for H1 of 2017, were 13.41% and 16.75 % respectively. The capital ratios are significantly higher than regulatory requirements.

The Bank's pre-provisioning earnings, strong capital position and value created in its subsidiaries give the Bank the ability to absorb the impact of a challenging environment while driving growth in identified areas of opportunity.

To sum up, during Q2 of 2017, we have

1. demonstrated value unlocking with the completion of IPO of ICICI Life;
2. focused on resolution and recovery in the corporate segment and seen progress in deleveraging by some borrowers;
3. further strengthened our balance sheet with additional provisions;
4. achieved continued healthy loan growth driven by the retail portfolio, and maintained focus on incremental portfolio quality;
5. sustained our robust funding profile; and
6. continued to maintain healthy capital adequacy ratios.

We will now 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 first question from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: I just wanted to know how many accounts would have slipped from the watchlist?

N.S. Kannan: We do not disclose that, Mahrukh. We have been asked in the past as to how many cases are there in the drilldown exposures, such granular details we do not give. As we have said, we will give the amounts and the movement for the drilldown exposures.

Mahrukh Adajania: The slippages outside the watchlist in the corporate, that is non-retail, non-watchlist, non-restructured still remains quite high, it was ₹ 17 billion last quarter and it is probably ₹ 15 billion in Q2-2017. How long would this continue? Which are the sectors from where these slippages are coming? Should we continue to build in ₹ 14- 15 billion of slippages outside the watchlist in the quarters ahead?

N.S. Kannan: We had said that the bulk of the NPL slippages will come from the drilldown list and the restructured portfolio. This quarter also, about 80% of the NPL slippages for the wholesale and SME businesses were on account of slippages relating to companies internally rated below investment grade in key sectors, the restructured portfolio and accounts that were non-performing as of June 30, 2016. For the balance slippages, there is no real pattern really of a particular sector. It would be a function of the operating environment. We will continue to watch those slippages as well going forward.

Mahrukh Adajania: You mentioned that you have already received some payment from the deal in October, would that already be reflected in your watchlist?

N.S. Kannan: No, it is not reflected because the drilldown list is as of September 30, it will get reflected in the next quarter disclosures.

Mahrukh Adajania: The promoter entity figure has come down and that does not still include any repayment, is it?

N.S. Kannan: Yes. The payment received prior to September 30 is indeed reflected in the drilldown but since you mentioned October payment, I am saying that it will come only in the future.

Chanda Kochhar: We did receive some payments before September 30, those are included but payments received in October are not.

Mahrukh Adajania: And just two more small questions, firstly, you mentioned in the press meet as well that there are some pending deals which will help reduce the watchlist even further. Would there be any size to the reduction, would it be fair to put it at ₹ 60 - ₹ 70 billion or any such rough number?

N.S. Kannan: We have not disclosed a number, Mahrukh, but we have very clearly said that there would be a significant reduction in the next six to nine months as and when these deals fully consummate.

Mahrukh Adajania: And was there any increase in international NPLs or just higher provisions on already impaired loans in UK and Canada?

N.S. Kannan: In case of ICICI Bank Canada, the increase was due to additional provisions on existing impaired assets which were India linked.

Mahrukh Adajania: And UK, there is no increase in impaired loans as such, sequentially?

Rakesh Jha: Yes, net impaired loans were broadly stable.

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

Vishal Goyal: My question actually is about drilldown. We have seen a ₹ 16.77 billion reduction in exposure. Can you throw some color on it? I think it may be coming from the power sector. What is the nature of these upgrades?

Chanda Kochhar: These are actually reductions, upgrade is about ₹ 4 billion.

Vishal Goyal: So basically you have got money back, is that what it means, like a complete repayment?

N.S. Kannan: If you see the data that we have given for the first half of the year, there is about ₹ 20 billion of reduction in exposure on account of repayment and about ₹ 4 billion of upgrades where companies, based on their performance or any events that we have taken place in the company, would have got upgraded.

Anindya Banerjee: ₹ 16.77 billion includes complete as well as part payments in respect of some assets.

Vishal Goyal: What is the nature of the standard loan provision of ₹ 16.78 billion? How is it different from the contingent provisions we made earlier?

Rakesh Jha: This is additional provision that we have done during the quarter for some of the standard loans which includes some cases where SDR has been implemented or invoked by the Bank and some of the restructured loans. The Bank on a prudent basis has made additional provisions for some of these cases to strengthen the balance sheet.

Vishal Goyal: But why are you calling it standard and not contingent, now? How is it different, because there is a drawdown in contingent provisions while you are creating additional provisions in a separate category?

Rakesh Jha: The standard provisions, for example, includes provisions on loans where SDR has already been implemented or invoked. RBI requires banks to make a 15% provision over a period of 18 months. So that is what we have tried to do this quarter.

Vishal Goyal: So, effectively you up-fronted that?

N.S. Kannan: Yes.

Vishal Goyal: One last question, I think Mahrukh also tried asking about the significant reduction. Significant can be anything between 40% to 80%, the point we are trying to get is what is the pipeline you are working on, I am not saying 100% will be complete in next six to nine months, but if you can give some sense on that? Or is it that the entire drilldown is being worked upon for the next six to nine months?

N.S. Kannan: In terms of trying to resolve and find solutions, I want to assure you that the entire drilldown list is being worked upon. But what we meant by saying significant reduction, is on the basis of things which are progressed to a decent extent, and those deals are already in the public domain. We thought that since there is significant progress in those cases, we could give some sense saying that going forward it shall lead to a significant reduction. But our endeavour is to find solutions for all the assets which are in the drilldown list. In the last two quarters, we have desisted from talking about a particular number given the operating environment and the time it takes for these things to materialise. Likewise, any indication of a particular percentage would not be appropriate at this juncture. So, we wanted to tell you that we are working on each of those assets and significant progress has been seen in a few cases, some of which are already in the public domain, and based on that there could be a significant reduction in the next six to nine months. Those are the only statements we are able to make now. We would still like to stay away from talking of a particular percentage of slippages on that list.

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

Amit Premchandani: Can you just explain what all you have adjusted in the net NPL number; the contingent provisions, standard asset provisions, and floating provisions?

N.S. Kannan: The net NPL has been adjusted for the ₹ 15.15 billion of floating provisions we made during the quarter. Other than that the normal NPL provisions have been deducted in computing the net NPL ratio. None of the other provisions we talked about, standard asset provisions or the CCRR and the other provisions have been deducted.

Amit Premchandani: What is the outstanding contingent provision now?

Rakesh Jha: The outstanding collective contingency and related reserve is about ₹ 20 billion.

Amit Premchandani: And Sir, there has been a significant reduction in power, rigs and promoter holding, which are the sectors which contributed to the slippage and upgrades?

Rakesh Jha: Given the size of the slippage and the reduction in exposure in key sectors one can make out that indeed we have seen slippage in the power and the rigs sectors.

Amit Premchandani: And Sir, this current run rate of almost ₹ 80 billion of slippages, do you think this is more or less the peak? Will we see a gradual reduction or will this run rate continue?

Rakesh Jha: I think as Kannan mentioned that for the next two quarters, the NPL additions could remain elevated and thereafter, of course, we would see reduction.

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

Nilesh Parekh: The question is on asset quality. Slippages outside the watchlist has been sticky in the range of about ₹ 20-25 billion, including retail. Can we expect the number to reduce over the next couple of quarters?

Rakesh Jha: One is that on the retail business, clearly, the numbers have been pretty stable in terms of both delinquencies and credit costs and absolutely in line with our expectation. Indeed, slippages other than those coming from restructured loans, existing NPAs or the drilldown list have been about ₹ 17 billion in the first quarter and about ₹ 15 billion in the current quarter. As we had mentioned in the first quarter also, these slippages are kind of spread across a few sectors. Given that we do expect NPA additions to remain elevated for the next couple of quarters, one can assume that the trends we see on the non-drilldown, non-restructured, non-NPA related addition to NPAs will continue.

Nilesh Parekh: But, Rakesh, last time, you all mentioned that 30% of such slippages could actually get upgraded over the next couple of quarters. We have refrained from making that similar statement. So, can we assume that this is now a steady state for us for the next couple of quarters or maybe slightly longer?

Rakesh Jha: Indeed, we had mentioned that we would expect about 30% of the slippages outside the drilldown and restructured assets to get upgraded during the financial year. We are working on that and are hopeful that it happens during the year. It is very difficult to comment on the run rate as depending on the size of the exposure, the numbers can be high or low. However, it is fair to say that over the next couple of quarters the level of NPA additions would remain elevated and that would be true for the portfolio outside of restructured or existing NPA related or from the drilldown list.

Nilesh Parekh: The other question is on fees. The line item has been very soft for quite a few years now. While underlying trends in retail fees are improving overall fees seems to be sticky around a single-digit number. When do we expect that to break out and if you can talk about some underlying trends?

Rakesh Jha: At the end of the first quarter we had said that we expect some improvement in the trend on the fee income growth through the year. We have seen some improvement in this quarter, but clearly there is a long way to go in terms of getting that growth into double-digits. On the retail side some of the businesses are doing pretty well. While most banks have seen some kind of a reduction or a lower growth on business like remittances, other areas like third party distribution, credit cards are growing well. We continue to expect that growth numbers for retail fees could improve from the current levels in the second half of the year.

On the corporate side, given the reorientation of the business towards higher rated clients and fund based businesses, lending link fees have come off. On a run rate basis, a lot of the decline has already kind of happened. In the current financial year, it will be in a phase where it is getting rebuilt. I do agree that it has been for quite some time that fee growth has been sluggish, however we are quite hopeful of better trends on fee income on an overall basis given the growth we expect on the retail side in the second half of the year. Of course, the proportion of retail fees has been increasing during this period with retail fees now constituting about 68% of the total fees.

Moderator: Thank you. Next question is from the line of Manish Otswal from Nirmal Bang. Please go ahead.

Manish Otswal: Sir, I have a question on the credit cost side. In the first half you made additional provision and regular provision in the P&L. Given the run rate of stress formation for the next couple of quarters, what kind of credit cost can we see in the P&L?

N. S. Kannan: Since the beginning of the year we have been saying that our focus in the current year will be on resolution of NPAs and restructured loans as well as the drilldown list and that we expect NPA additions and credit cost to remain elevated. We have not given a more precise estimate on NPA additions or credit cost. Given that there are a number of variables in terms of resolution of assets and the size of the exposures all we can say is that the credit cost would remain elevated for the current financial year.

Manish Otswal: And secondly, one small question, it maybe repetitive. There is an increase in the employee cost from quarter-to-quarter, could you explain the reason for the same?

Rakesh Jha: Are you comparing it with the June quarter?

Manish Otswal: Right.

Rakesh Jha: Vis-à-vis the June quarter, one of the key impacts is the decrease in yield on government securities during the quarter, which is reflected partly in our treasury income and the retirals, pension and gratuity provisions. As Kannan mentioned the first half trend of the operating expenses growth would give a better reflection for the full year because there is some volatility on a quarter-on-quarter basis.

Moderator: Thank you. Next question is from the line of Vikesh Mehta from Religare Capital. Please go ahead.

Parag Jariwala: Hi Kannan, this is Parag here from Religare. When you said that contingent provision is now down to ₹ 20 billion, you are not including ₹ 15 billion which you have created and now accounting in the NPA provisions, right?

Rakesh Jha: Yes. So, just to be clear, we had made this collective contingency and related reserve in the March quarter and that was the question to which we were responding that given the utilisation that we have done in the June and the September quarters, the amount outstanding of CCRR would be about ₹ 20 billion. In addition, we hold floating provision of about ₹ 15 billion and about ₹ 16 billion of additional provision against standard loans made during the current quarter. This is in addition to the general provision we hold against standard loans which is 0.4% or other specified percentages as per RBI requirements. So, these are the provisions that we hold on the balance sheet.

Parag Jariwala: Is the ₹ 15 billion accounted as a part of your coverage?

Rakesh Jha: Yes. RBI guidelines basically require banks to consider the floating provision in one of two ways. It can either be counted as Tier-II capital or it can be deducted from the gross NPLs to arrive at the net NPL and considered in the coverage ratio. We have chosen to deduct it from the gross NPLs and taken it in the coverage ratio.

Parag Jariwala: And one more thing, do we do loan against property? We do not disclose that line item separately anywhere while most of your competition do disclose that.

N.S. Kannan: Yes, we also do loan against property. We have been quite careful in terms of the growth in that particular line item. It accounts for about 20% of our mortgage book. The proportion has been hovering around that level and we are quite comfortable with that.

Parag Jariwala: Has the 20% by and large remained the same in the last year or so?

N. S. Kannan: Broadly, yes. It has been at about 20% level for last several quarters.

Moderator: Thank you. We take the next question from the line of Shree Shankar from Prabhudas Lilladher. Please go ahead.

Shree Shankar: We are seeing significant amount of slippages out of the restructured book. How much of the total watchlist that you have given is actually present in the restructured book?

Rakesh Jha: The drilldown list that we had given in April excluded the NPAs and restructured loans. The drilldown list of exposures is basically an aggregation of our exposures which are internally rated BB or below to these identified sectors.

Shree Shankar: So, does it mean that the watchlist that you gave is already present in SMA-1 and SMA-2?

Rakesh Jha: It could possibly be in any of the categories, it could be SMA-0, SMA-1, SMA-2 or it could be current also, because that is not the criteria that has been used.

Shree Shankar: Can we get a color on how much are the SMA-1 and SMA-2 loans at June and September?

Rakesh Jha: We do not make any separate quarterly disclosures on SMA-1, SMA-2.

Shree Shankar: But at least you can give us a color, if you cannot disclose the exact number, you can at least give us an indication of how it is moving.

Rakesh Jha: Some of the exposures in the drilldown portfolio are lumpy. Hence, depending on which date are you are looking at, the exposure could be in any of the buckets and the movement could also be volatile. Overall, it will be fair to assume that given the current environment, the level of SMA-1 and SMA-2 assets for us also would be on a higher side than the normalised level. We have not given any trends on that.

Moderator: Thank you. Next question is from the line of Dhiraj Dave from Samvad Financial. Please go ahead.

Dhiraj Dave: Why is the gross NPA to the total assets ratio given in the press release different from that in the presentation? What do we include in the press release which we give to BSE? For example, in the current quarter as per slide 35, gross NPA are ₹ 32,548 crores while in the press release submitted to BSE it is ₹ 32,178.6 crores.

N.S. Kannan: Yes, the reason for the percentages being different is in the stock exchange format the numbers reported are non-performing loan as a percentage of advances, whereas the presentation mentions the non-performing assets as a percentage of customer assets. We believe it is more appropriate in terms of reporting, as customer assets give a better picture of the NPLs.

Dhiraj Dave: What is added besides the loans in customer assets? Is it investment or something?

N.S. Kannan: Yes, it would also include credit substitutes like bonds or some other instruments. And if it becomes NPA, they are included in the disclosures we give in our presentation.

Dhiraj Dave: The reason why I am asking is that if one were to compare across banks, the stock exchange disclosure is something which is standard. I appreciate you are presenting it in better way but the point is, at times it becomes very difficult when you have to compare among all the banks.

N. S. Kannan: That is exactly why we have given both the numbers. And I do believe that a couple of other banks also give the numbers on the basis of customer assets.

Dhiraj Dave: The second question is, when we say gross non-performing advances, net of write-offs, in the stock exchange release are we excluding the technical write-off? What would the amount be? Is it ₹ 7,000 - ₹ 8,000 crores? Can you disclose that or if that's something which you do not want to share that is perfectly fine.

Rakesh Jha: That will basically be all the write-offs that we do, so it will include technical and all other write-offs. We do not disclose that but it will be all write-offs, it is more of just a statement to say it is net of write-offs.

Dhiraj Dave: And last question, how do we treat the recovery from this write-off? Typically it is shown as other income in public sector banks but not in private sector bank. What is the quantum of recovery?

Rakesh Jha: We have not disclosed that number.

Dhiraj Dave: Because it comes somewhere in your Basel disclosures.

Rakesh Jha: In our case we do not show it as a separate line item in other income, it is a part of our overall provision and write-off line item itself. More recently, as you know, the level of overall recoveries has been pretty low for banks, including us. It is not a very high number. But going forward we may look at disclosing that separately.

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

Adarsh P: Just a couple of questions, one on margins. In Q4-2016 you had indicated a 20 bps fall in margins is expected from 4Q levels in FY2017. We are already there or probably lower. You have now indicated further weakness. In the context of NPA formation, competition from bonds, restructuring leading to lower yields and transfer of loans to better rated corporates, would you want to revise your guidance? How should we look at that?

Rakesh Jha: I think as Kannan mentioned, the yield on advances would have some impact of the non-accrual of interest income on the non-performing assets or as we work on resolving some assets where the yields could go down from the current level. However, to an extent, this would get offset by a decline in funding cost. In Q2-2017, the Bank had realised cash from sale of shares of ICICI Prudential Life which will also get added to the free float for the Bank. We have not given any separate guidance on NIM or a change from what we talked about at the beginning of the year. The yield on advances would definitely be impacted by non-accrual of interest income but there could be some offset due to lower funding cost and other elements. We will see how it progresses in the second half of the year.

Adarsh P: And when you talk about impact of resolutions on margins, is it only the refinancing part where one loan is moving from a stressed corporate to a better rated corporate resulting in a yield reduction or even on parts where you will take a write-off and will be working with lower interest rates on the balance?

Rakesh Jha: It is a mix of that, reduction in yield could happen when a loan is moving to a better rated client and in cases where SDR is being implemented and the accounts are still standard because we do not accrue income on SDR cases.

Adarsh P: The second question is on the mining exposure in your drilldown list. Most of us are aware there are two large accounts sitting there which have still not slipped to NPAs. I just wanted to understand the status, because it seems that these exposures kind of require very large write-offs. So I just wanted to understand any movement there or what's happening on those two assets?

N.S. Kannan: Without talking about specific names, I just wanted to tell you, yes, those assets are indeed a part of the drilldown list and as we have articulated earlier, we have recourses available to us beyond the mine also. We will take all possible steps to maximise economic recovery. The coal prices have also gone up in the recent past. A solution will be worked out in those cases and the solution will be a combination of keeping the assets running, hoping for the coal price to increase and at the same time relying on group recourses available to us and see how best we can maximise recovery for the Bank.

Adarsh P: And do you have recourse on both the groups or it's just on one of the groups?

N.S. Kannan: I do not want to get too specific beyond that. But as I mentioned, I will just repeat saying that the group recourses are indeed available and we will continue to work on them.

Moderator: Thank you. Next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, I had a query on the slippages which are happening from the non-watchlist accounts. You have mentioned that close to 30% of the slippages may get upgraded. What is outlook on the remaining

70%? Do we expect upgrades or recoveries? What is your estimated default on that?

Rakesh Jha: These are very recent additions to NPAs. We had much more clarity on two of the cases in terms of the progress that we are making and on that basis we have talked about those accounts getting deleted from NPA in the coming quarters. Recovery, in general, either for slippages from the restructured loans or from the drill down list or from outside of both these lists, has been slow for all banks, including us. It will require some time for the recoveries to pick up. In the near term while we would work on resolving some of these assets through either a sale of assets, change in management or other approaches, that kind of slippage trend could continue in the next couple of quarters as well.

Rohan Mandola: And Sir, wouldn't these accounts largely be mid-corporate or SME kind of exposures?

Rakesh Jha: In terms of the size of the exposure, it would be much less compared to the ones in the drilldown list. It is very difficult to classify it as mid-corporate or SME because the definition of mid-corporate and SME varies across banks. But in terms of the exposure size, these are generally small compared to the larger corporate exposure that we have in the drilldown list. Having said that, possible additions to NPAs from outside the drilldown list, restructured loans or existing NPA, could be on the lumpier side because these are all corporate exposures.

Rohan Mandola: And then just one data point question, I missed out on the slippages from retail during the quarter?

Rakesh Jha: About ₹ 6.5 billion.

Moderator: Thank you. Next question is from the line of Kaitav Shah from SBICAP Securities. Please go ahead.

Kaitav Shah: Sir, this is more to do with resolution. So, the pace is clearly not as fast as we would have estimated at the start of the year. What is it that the system can do, what should we watch out for that could make resolutions faster?

Chanda Kochhar: Actually we have seen very encouraging progress on resolutions in this quarter. So, I would just say that the system as a whole is getting geared up for resolution. In terms of how the ecosystem is moving, we are seeing promoters now willing to sell not just their stressed assets but also better assets, RBI has given more and more tools in terms of SDR and S4A; they have also said that they will give bring some more changes in the S4A guidelines. Banks are very focused and working with the promoters on arriving at resolutions. And with respect to the legal framework and judiciary, the Insolvency and Bankruptcy Code has been enacted, steps have been taken to make the arbitration process tighter, on capacitizing the DRTs, the DRATs and so on. So, I think ecosystem wise we are moving in the right direction. It is very important now to focus on resolution. And these do take time, especially some of the larger deals. The progress being made is sometimes not visible to the outside world but we believe that a lot of progress is being made. Albeit, it takes hard work, it takes lots of entities to work together and it sometime takes time.

Kaitav Shah: And just one small bookkeeping question, what would be the interest income reversals during the quarter?

Rakesh Jha: We have not given that number separately.

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

Manish Karwa: I just had one question on floating provision. What is the thought behind making a floating provision when we are likely to see more slippages in the next two, three quarters? Wouldn't it would have been better to make a contingent provision because floating provisions cannot be written back or is it just that you had a one-off big gain and you are using it to build up floating provisions?

Rakesh Jha: Floating provision is something that RBI allows banks to make on a prudent basis. Floating provisions would improve the coverage ratio on NPL also for us, and that would have been one of the key considerations behind making the floating provision. Of course, over the next couple of quarters, the NPA additions or credit costs would be elevated, but that is something which we will have to kind of see in terms of profitability itself.

Manish Karwa: And just one or two things. All your SDRs and 5/25 are actually a part of the watchlist, is that right or it is a NPA already?

Rakesh Jha: It would not be all, but predominately all of it. There would be one or two cases of smaller size which would not be NPA, restructured or a part of the drilldown list.

Manish Karwa: And lastly, on your tax rate. The tax rate is low, is it because of the gains that you made from ICICI Prudential? Is it that tax rate on that is zero or do you have long-term capital gains tax there?

N.S. Kannan: No. Since it is a sale through IPO, the tax is zero. Only the security transaction tax is applicable on that, no capital gains tax applicable.

Manish Karwa: So, the low tax rate this quarter is only for this quarter and next quarter onwards you would probably revert back to normal tax rates?

Rakesh Jha: The tax rate is based on an estimation of profits for the full year. The effective tax rate for the first half is based on the estimate of profits that we would have for the full year. So, for the full year this is a best estimate of tax rate which is there. Of course things can change between now and the next couple of quarters and tax rate could go up or down a bit from the H1 level but in general that is the best estimate for the full year.

Manish Karwa: So, are you saying that you are expecting full year tax rate to be similar to the H1-2017 tax rate?

Rakesh Jha: Yes. That is correct.

Moderator: Thank you. Next question is from the line of Dhawal Gada from Sundaram Mutual Fund. Please go ahead.

Dhawal Gada: Sir, over the last three-four quarters, we have been seeing retail loan growth gradually trending to 20%-21% level; just wanted to check if this is a new normal growth rate for retail segment given the base that we have reached?

N.S. Kannan: Yes, given the overall credit growth and the economy, I think 20%-21% is a very robust growth and we expect that this kind of growth will continue. And we have said that within the retail portfolio, credit card and personal loans could show up as a higher number given the lower base.

Dhawal Gada: Secondly, on margins. If you exclude the benefit of interest on income tax refund, it's a multi-quarter low. Although there would be a part of interest income reversal but broadly how do you see margins trending for us second half and beyond second half of this year?

Rakesh Jha: I think there will be some pressure on the margin because of the yield on advances getting impacted by non-accrual of interest income on NPAs but there would be some offset on account of improving funding cost and some benefit of free float with the cash that we realised from the sale of stake in ICICI Life. So, the kind of sharp drop quarter-on-quarter that we saw, for example in Q1 over Q4, that should not be there going forward. But it will definitely be a function of the NPA additions and non-accrual. We will have to see that.

Dhawal Gada: And Sir, on this significant reduction in watchlist over ensuing quarters, just wanted to understand apart from the large cement, and oil and gas deals which are in the public domain, is there anything else which gives you that confidence that we will see even more reduction apart from these transactions? Just wanted to get sense of how big this could be, qualitative comment is useful. Thanks.

Chanda Kochhar: We are working on some others as well, but of course these two are in the public domain which by themselves will lead to a significant reduction. And as and when more deals happen, there will be more reduction. We have always desisted from giving an amount as these deals take time. We just count them as and when they are done. Thus, even though the deals were announced and money was received in October, we have counted only what we have received as on September 30, 2016.

N.S. Kannan: And the statement you have made that drilldown exposure would reduce significantly is based on the two transactions we have talked about.

Dhawal Gada: So, just one last data keeping question. I missed the stock of 5/25, SDR and S4A, if you could repeat? Thanks.

Anindya Banerjee: Stock of 5/25 is about ₹ 27 billion of performing loans, SDR is about ₹ 29 billion and S4A, there is nothing which has so far been implemented as of September 30.

Moderator: Thank you. Next question is from the line Seshadri Sen from JPMorgan. Please go ahead.

Seshadri Sen: My first question is on provisions. If you see the breakup of NPAs into sub-standard and doubtful, the doubtful book has actually contracted and the sub-standard book in rupee terms has expanded over the quarter. Yet, provisions as a percentage of incremental slippages or incremental gross NPAs is quite high. I am excluding the special provisions and considering just the ongoing ₹ 35 billion odd provisions that you made. Has there been a significant ageing provision because the bucket movement does not seem to indicate it, could you throw some color?

Rakesh Jha: Seshadri, there are a lot of moving parts in terms of the provision requirement on NPAs. One, of course is the bucket in which the NPA is, sub-standard or doubtful and then if loans shift from sub-standard to doubtful, the level of security value also becomes a factor. And then, the time when some of the restructured loans slipping into NPA were restructured there would be some impact of that also. That is the reason why it is always difficult to estimate the provision cost based on just the sub-standard and doubtful breakup.

Seshadri Sen: I appreciate that. The broader question is you stuck strictly to the IRAC norms when provisioning and have not accelerated provisioning on a prudential basis within an asset. It is strictly the IRAC norms and the bucket movements have warranted ₹ 34 billion of provisions. Am I reading it right?

Rakesh Jha: Yes. The provision that we make for NPAs broadly follows the IRAC norms, of course, for some of the retail loans as we have said in the past, the provision policy is more conservative than the RBI guidelines. And then on the corporate loan side, it largely follows the RBI requirement.

Seshadri Sen: And the second question is the use of the special provisions, someone else asked that also, but just to clarify you would need specific RBI permission to utilise the floating provision in the future. And the general provisions that you have created on assets would be drawn as and when those assets slip into NPAs. Have I got that right?

Rakesh Jha: Yes. The additional provision for standard loans includes provisions to reach 15% provision on the loans where SDR has been implemented or has been invoked. RBI basically says that it in order to avoid the cliff effect of an SDR loan slipping into NPA after 18 months standstill period, banks are required to make a 15% provision over a period of 18 months or four quarters from the date of implementation. And the rationale for that provision indeed is that if such an account would slip into NPA, the same can be drawn down at that stage.

N.S. Kannan: And the floating provision utilization has to be with the explicit approval of RBI.

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

Nilanjan Karfa: If I look at the underlying bottom-line for the Bank, given how the QoQ growth has been we could have easily taken another ₹ 1,000 crore more into provisions. Just wanted to get some thoughts, why did we not do so?

Rakesh Jha: We can tell you the rationale for the provisions that we have made which we have explained saying that the provisions for NPAs were broadly in line with the RBI requirements. And then, we have made these additional provisions during the quarter. There can always be a debate that the additional provisions could be higher or lower. On the floating provision for example, RBI does give leeway to banks to create provisions on a prudent basis and the level of provisions can vary across banks. So that is what we have determined that we would want to make in the current quarter.

Nilanjan Karfa: And part of this question, have we started guiding on the credit costs?

Rakesh Jha: We had said at the beginning of the year that our NPA additions and credit costs would continue to be elevated in the current year, given the significant uncertainty around some of the resolutions and recoveries, and the overall environment. We would rather focus on the resolution and not talk about specific numbers on credit cost and NPA additions. We're not giving any guidance for the current year.

Nilanjan Karfa: I think there was a question on tax rate, but was this significantly lower because of dividends, as well as the sale of the stake in the life insurance subsidiary which was probably taxed at less than 20%. And I think you guided for a similar kind of run rate. Does that mean we are expecting more such deals to go through for the Bank?

N.S. Kannan: No. We said two things, one with respect to the sale of stake in the life company, where there was zero capital gain tax, because the sale was done through an IPO. Securities transaction tax was applicable, which is a smaller amount. So that reduced the tax incidence. And we also said that in computing the tax for a particular quarter, we always do the projection for the full year and then take a likely percentage. What we mentioned was that if you look at the H1 tax rate, same thing can be assumed as of now to be there on the full year basis as well unless some composition of income and the level of profit and various things change going forward. So, those are the two statements we have made on the tax side.

Nilanjan Karfa: Part B of my question. So, ₹ 27 billion of 5/25, is assumed to be standard asset, right?

Anindya Banerjee: That is the performing portfolio.

Nilanjan Karfa: And barring a ₹ 1 billion or ₹ 2 billion, this is probably included in the watch list?

Anindya Banerjee: It would largely be part of the drilldown.

Nilanjan Karfa: And what did we say about the SDR, which is ₹ 29 billion, is it also standard?

Anindya Banerjee: That would be a mix of NPAs, restructured assets and standard loans, which would largely be in the drilldown.

Nilanjan Karfa: Sorry, can I get just standard SDR non-restructured?

Anindya Banerjee: As I said, total loans where SDR has been implemented would substantially be in one of these three categories.

Nilanjan Karfa: Right. And last question, when we look at the standard asset provision or the general provision, could we get a sense how much is on performing assets, SDR, UFCE and restructured assets? Is it possible to get a breakdown?

Rakesh Jha: Are you talking of the ₹ 16.78 billion?

Nilanjan Karfa: No, the ₹ 25.65 billion of general provision?

Rakesh Jha: We have not given that breakup. Provisions on UFCE has not really moved much during the half year. So, a bulk of this incremental provision in H1-2017 would be on account of the movement in the portfolio. And of course, we also make this provision on the basis of higher of the provision requirement as per the RBI guidelines or the requirement in the overseas branches. But this is largely for standard loans.

Nilanjan Karfa: Let's say if I exclude the NPA portion from the SDR, then can I say that the 15% provision on SDR and restructured assets is a part of this ₹ 25.65 billion?

Rakesh Jha: A large part of the additional provisions made during the quarter is towards meeting the 15% requirement on loans where SDR has been invoked or has been implemented, which RBI would otherwise give time to create.

Nilanjan Karfa: And last question, if I look at Note 7 and Note 8 in the stock exchange release, I am not able to reconcile the ₹ 395.41 crore of provision that we made?

Rakesh Jha: There are actually a few things which have to be considered there. So, the ₹ 3.95 billion is the difference between amortising the loss on the sale of NPAs that we have done in the June and the September quarter versus having taking it upfront. The ₹ 3.95 billion is a part of the additional provisions. The other detailed note talks about the fact that in the first quarter we had actually amortized the loss, so the deferred loss on that was taken entirely in the September quarter. And then the Q2-2017 sales were also there where we took the loss upfront. And of course, the gains, unless they are in cash have to be ignored and kept aside. Those are the numbers given in that other footnote.

Nilanjan Karfa: So basically, what you are saying is this ₹ 1.88 billion of gains is not netted out of ₹ 3.95 billion?

Rakesh Jha: Yes. That has to be set aside towards the SRs received on such sale and cannot be netted against the loss.

Nilanjan Karfa: So, you are still carrying that gain in the balance sheet?

Rakesh Jha: Yes, that's right.

Moderator: Thank you. Next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Just a couple of clarifications. One is, this entire deal that you had with the Tatas, the deal which you had with Apollo and SBI's fund that they have launched with Brookfield when is the earliest that we could see any action coming through from that area? Also, construction sector had seen some repayments relief from the government, have you started seeing anything coming through that? As well as S4A, when should we start hearing on this with a little bit more traction than what we have seen so far?

N.S. Kannan: On the first question on our joint venture with Apollo for setting up an asset reconstruction company, we are in the process of getting the regulatory approvals. As and when the regulatory approvals are received, the asset reconstruction company will be established, so that is work-in-progress.

On the construction sector, yes, the government has given an approval to release dues which have been settled in favor of the company in the first level of arbitration, provided a bank guarantee was given. But at the same time a few of the government-owned enterprises, we understand, have been looking at changing those policies. While it is a positive but the implementation will take some time.

On your third question on S4A, the RBI had talked about some changes to the S4A guidelines which are expected and likely to be positive at the margin. But as you would have seen the media report, the whole Overseeing Committee process and the S4A, the process stipulated by RBI is well under way. And as the media reports would suggest, one large case has been approved under S4A. I think that you will see some progress going forward on the S4A.

MB Mahesh: Second part is on the reduction. You have indicated that slippages would be high and will continue to remain high. Does that mean that a large part of the watchlist where the resolution is still on in the process, could still potentially move into an NPA before you see a resolution or in general you are seeing some pain coming through the portfolio? Second is, if you see a reduction, and if an exposure moves from company A to company B, does the existing investment grade hold in the portfolio or do you get a new investment rating out there?

Rakesh Jha: So, on the second one, the rating will be of the new company, if that was the question, Mahesh.

MB Mahesh: Yes, sure.

Chanda Kochhar: So on transfer, the rating will be of the new company. As we have been saying some of the deals have been announced but not yet closed or completed. As of now, they appear at the same rating but once the deal is completed and the loan is transferred, it will get the new rating.

MB Mahesh: And the slippages from the watchlist, the elevated slippages that you have indicated for the next few quarters, does it reflect temporary slippages or is there something that we need to watch?

Rakesh Jha: I think that the statement that we have made is the same as the one we made at the beginning of the year and in the last quarter. We mentioned that the exposures which are there in the drilldown list are lumpy exposures and it is possible that some of them could slip into NPAs on payment default. Also in some cases while a resolution is being worked on, it is possible that the account could slip into NPL in the interim. We do not have any specific list of cases that we are certain would slip into NPAs in the next quarter or the quarter thereafter. It is just that given the current overall environment and the existing portfolio, we have talked about the amount of additions being elevated in the next couple of quarters. There is nothing specific that we have in mind in terms of whether there will be an interim slippage or a permanent slippage as part of that.

MB Mahesh: Sure. And my last question, can we have below investment grade portfolio for the entire book or directionally if you could highlight how it has changed from the March quarter?

Rakesh Jha: We have not given that number separately. But if you look on an overall basis, I do not think there have been too many downgrades since the March quarter in general. And in our portfolio also the level of downgrades may not have been much. We have not given any specific numbers on that.

Moderator: Thank you. Ladies and Gentlemen, this was the last question for today. I would now like to handover the floor to Ms. Chanda Kochhar for her closing comments. Over to you, Ma'am.

Chanda Kochhar: I would just sum up by saying that we are moving quite well on our 4 x 4 agenda. The progress we have made on resolution and recovery will actually start showing as we go forward. We have unlocked value in our life insurance subsidiary through the IPO. But also in addition to that, we have grown our funding profile and have continued to maintain the strong franchise around it. Our growth has been quite substantial and healthy. As we said, retail has grown by 21% but even on the corporate side, while we reduced exposures in certain categories we increased exposures in better rated clients. If we look at non-NPA, non-drill down list, non-restructured portfolio, the growth in the corporate side is also almost around 20%. But, on a net basis, it shows a growth of about 8.4%. Also, we have further strengthened our balance sheet during the quarter. Given our capital adequacy ratio, our funding profile and our strong balance sheet, we are quite focused on growth, at the same time quite focused on achieving resolution.

Moderator: Thank you very much, ma'am. Thank you. 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.