ICICI Bank Limited
Earnings Conference Call – Quarter ended March 31, 2017 (Q4-2017)
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Moderator: Ladies and Gentlemen, Good Day and Welcome to the ICICI Bank's Q4 2017 Earning Conference Call. As a reminder, 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Chanda Kochhar – Managing Director & CEO of ICICI Bank. Thank you and over to you, ma'am.

Chanda Kochhar: Good Evening to all of you. First of all, my apologies for starting up little late, our media briefing was going on and went on a little late. I will just make brief opening remarks and then Kannan will take you through the details of the results.

To start with, I would say that the ICICI Group has a strong market position across banking, insurance, asset management & securities – thus, we are a leader in catering to the full spectrum of customer needs, be it savings & investment, payments & transactions, credit,

protection from risks or advisory services. We continuously invest in building our franchise. Our large size and capital base, robust funding profile, extensive distribution network, diversified portfolio and leadership in technology position us very well to take advantage of growth opportunities across the economy. During FY2017, we leveraged these strengths for robust growth across our businesses.

At the beginning of the year, I had summarised the Bank's strategic priorities in the 4 x 4 Agenda covering Portfolio Quality and Enhancing Franchise. The Bank maintained its focus on this agenda during the year and has made progress on each of its strategic priorities. I would like to highlight a few key trends in this context:

1. There was robust growth in the Bank's CASA deposits during FY2017. There was an accretion of 537.22 billion Rupees to current and savings account deposits. The year-on-year growth in CASA deposits was 27.8%. The Bank's CASA ratio increased from 45.8% at March 31, 2016 to 50.4% at March 31, 2017.

2. We undertook a number of technology initiatives during FY2017 including many more services on iMobile, Unified Payments Interface (UPI) based payments, the Eazypay mobile application for merchants for collecting payments and 'Mera iMobile' mobile application for rural customers.

   The number of mobile banking transactions doubled in FY2017 compared to FY2016 and the value of mobile banking transactions increased by 168%. The number and the value of debit card transactions at point-of-sale terminals increased by 75% and 66% respectively in FY2017.

   Over 3 million UPI Virtual Payment Addresses have been created using the Bank's mobile platforms and the Bank had acquired over 110,000 merchants till March 31, 2017 using 'Eazypay'.

Digital channels like internet, mobile banking, POS and call centre accounted for about 79% of the savings account transactions in H2 of 2017 compared to 71% in H1 of 2017.

3. The Bank maintained a strong focus on re-orienting its balance sheet towards lower risk and a more granular portfolio during FY2017.

   The overall domestic loan growth for the Bank at 14.0% year-on-year was about eight percentage points higher than the rate of growth of non-food credit for the banking system at March 31, 2017.

   Growth for the Bank continues to be driven by the retail business. The retail portfolio grew by 18.5% year-on-year. The share of retail loans in total loans increased from 46.6% at March 31, 2016 to 51.8% at March 31, 2017.

4. We continue to focus on resolution & exposure reduction in identified areas. At the beginning of the financial year, we had reported the Bank's exposure, 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. There has been a net reduction in exposure and rating upgrade of 56.29 billion Rupees out of this portfolio during FY2017.

   The additions to NPAs had been gradually declining from 82.49 billion Rupees in Q1-2017 to 80.29 billion Rupees in Q2-2017 and 70.37 billion Rupees in Q3-2017. During Q4-2017, the additions to NPAs have been elevated. Of the additions to NPA during the quarter, 53.78 billion Rupees was due to one

account in the cement sector. This account was included in the drill down exposures to key sectors disclosed by the Bank and an M&A transaction has been announced in respect of this company. While the transaction has received most of the requisite approvals, including the approval of the National Company Law Tribunal, it is awaiting certain last-mile approvals due to which the transaction could not be concluded by March 31, 2017. As a result, the Bank has classified the account as non-performing as per the Bank's application of the relevant RBI guidelines. Additions to NPAs in Q4-2017 excluding this cement account were 59.11 billion Rupees compared to 70.37 billion Rupees in Q3-2017. The Bank expects part of the loan to be upgraded on conclusion of the transaction.

5. The Bank continued to demonstrate and unlock the value created in its subsidiaries in FY2017 with the successful IPO of ICICI Life, in which the Bank divested 12.6% shareholding in in the company. ICICI Life had a market capitalisation of 575 billion Rupees at May 2, 2017, valuing the Bank's current 54.9% shareholding in ICICI Life at 316 billion Rupees.

With respect to the P&L for FY2017, I would like to mention a few points:

- The net interest margins for Q4 of 2017 were at 3.57% compared to 3.12% in Q3 of 2017;

- The net interest margins in FY2017 were only 12 basis points lower compared to Q4-2016, compared to the outlook of a 20 basis points reduction that we had indicated at the beginning of the year;

- Growth in fee income improved from 3.8% year-on-year in H1-2017 to 10.4% year-on-year in H2-2017;

- Pre-tax gains on the sale of shareholding in ICICI Life were 56.82 billion Rupees;

- The profit before provisions & tax increased by 11.0% year-on-year;

- The profit after tax remained stable year-on-year despite continued challenges in key sectors and the recovery environment;

- There was an increase in standalone profit after tax from 7.02 billion Rupees in Q4 of 2016 to 20.25 billion Rupees for Q4 of 2017.

The Bank's standalone earnings per share for FY2017 was 16.84 Rupees. The Board has recommended a dividend of 2.50 Rupees per share, and an issue of bonus shares in the ratio of one equity share for every 10 equity shares (including equity shares underlying ADS). The declaration and payment of dividend and issue of bonus shares are subject to requisite approvals. The record/book closure dates will be announced in due course.

We believe that we are well positioned to leverage the growth opportunities in the coming years given our strong deposit franchise, robust capital levels and significant value 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.

N. S. Kannan: I will talk about our performance on growth and credit quality. I will then talk about the P&L details, subsidiaries and capital.

A. Growth

Within the retail portfolio, the mortgage and auto loan portfolios grew by 17% and 14% year-on-year respectively. At the same time, the

Bank achieved robust growth in other segments of the portfolio. Growth in the business banking and rural lending segments was 23% and 19% year-on-year respectively. Commercial vehicle and equipment loans grew by 18% year-on-year. The unsecured credit card and personal loan portfolio grew by 39% year-on-year to 215.14 billion Rupees and was about 4.6% of the overall loan book as of March 31, 2017. 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 5.8% year-on-year. We continue to work towards reducing exposures in sectors 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 17.5% year-on-year and constituted 4.8% of total loans as of March 31, 2017.

The net advances of the overseas branches decreased by 20.1% year-on-year in rupee terms and 18.3% year-on-year in US dollar terms as of March 31, 2017.

Looking ahead at FY2018, we expect domestic loan growth at around 15 to 16%, driven by around 18 to 20% growth in the retail segment. We would closely monitor the system growth trends, particularly in mortgage lending, and calibrate our approach if required. In the corporate segment, we will continue with our approach of lending to higher rated clients, while reducing concentration risk and focusing on resolutions, leading to an expected net growth of around 5-7% in domestic corporate loans. The SME segment is expected to continue to grow by around 15-20%. The portfolio of overseas branches is expected to remain broadly stable in US dollar terms.

Coming to the funding side: total deposits grew by 16.3% year-on-year to 4.90 trillion Rupees as of March 31, 2017. On a period-end

basis, current and savings account deposits grew by 27.8% year-on-year, reflecting an accretion of 376.08 billion Rupees to savings account deposits and 161.14 billion Rupees to current account deposits. On a daily average basis, current and savings account deposits grew higher by 30.9% year-on-year in Q4 of 2017. There was an accretion of 64.27 billion Rupees to savings account deposits and 84.33 billion Rupees to current account deposits in Q4 of 2017. On a daily average basis, the CASA ratio improved from 44.8% in Q3 of 2017 to 46.5% in Q4 of 2017.

We would continue to focus on sustaining a strong funding profile with a high proportion of CASA deposits.

B. Credit Quality

During the fourth quarter, the gross additions to NPAs were 112.89 billion Rupees compared to 70.37 billion Rupees in the preceding quarter. The gross additions to NPAs in Q4 of 2017 included slippages from restructured loans of 18.03 billion Rupees and slippages out of loans to companies internally rated below investment grade in key sectors of 79.57 billion Rupees, including the cement account we talked about earlier. Thus about 90% of the corporate & SME NPA additions in Q4 of 2017 comprised the above categories.

The retail portfolio had gross NPA additions of 4.40 billion Rupees and recoveries & upgrades of 5.24 billion Rupees during Q4 of 2017. The amount of loans that were eligible for not getting classified as non-performing based on RBI dispensation was about 2.32 billion Rupees.

The aggregate deletions from NPA due to recoveries and upgrades increased to 14.13 billion Rupees in Q4 of 2017 from 6.25 billion Rupees in the preceding quarter. The Bank sold gross NPAs aggregating to 0.23 billion Rupees and SMA-2 loans aggregating to

5.83 billion Rupees to asset reconstruction companies during the quarter.

The Bank's net non-performing asset ratio was 4.89% as of Mach 31, 2017 compared to 3.96% as of December 31, 2016.

The net restructured loans were at 42.65 billion Rupees, less than 1% of net advances, as of March 31, 2017 compared to 64.07 billion Rupees as of December 31, 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 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 42 of the presentation, we have provided the movement in these exposures between March 31, 2016 and March 31, 2017. 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 440.65 billion Rupees as of March 31, 2016 to 190.39 billion Rupees as of March 31, 2017 reflecting the following:

- There was a net reduction in exposure of 47.58 billion Rupees
- There were rating downgrades of exposures aggregating to 6.36 billion Rupees to 'below investment grade' during the year

- There were rating upgrades of exposures aggregating to 8.71 billion Rupees to 'investment grade' during the year

- Aggregate loans and investment exposure to companies classified as non-performing during the year were 200.33 billion Rupees. Please refer slide 42 for further details.

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 continue to remain 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 190.39 billion Rupees excludes net exposure of ₹ 4.49 billion to a central public sector owned undertaking engaged in gas-based power generation.

The exposure to companies internally rated below investment grade in key sectors and promoter entities of 190.39 billion Rupees includes non-fund based outstanding in respect of accounts 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 19.32 billion Rupees at March 31, 2017 compared to 15.84 billion Rupees at December 31, 2016. The aggregate non-fund based outstanding to companies in the restructured portfolio was 16.87 billion Rupees as of March 31, 2017 compared to 21.29 billion Rupees as of December 31, 2016.

As of March 31, 2017, the Bank had outstanding performing loans of 52 billion Rupees where Strategic Debt Restructuring - SDR - had been implemented. In comparison, the Bank had implemented SDR for loans of 34 billion Rupees as of December 31, 2016. The increase in Q4 of 2017 mainly reflects implementation of SDR invoked earlier, in an account in the power sector during the quarter. Of the SDR

loans of 52 billion Rupees as of March 31, 2017, 82% or about 43 billion Rupees were loans already classified as restructured or to companies that were internally rated below investment grade in key sectors - i.e. power, iron & steel, mining, cement and rigs.

In addition, SDR had been invoked and was pending implementation for standard loans of 12 billion Rupees as of March 31, 2017, of which 55% or about 7 billion Rupees were loans already classified as restructured. The Bank did not invoke SDR for any account in Q4 of 2017.

The Bank is also implementing a change in management outside of the SDR scheme for loans of about 51 billion Rupees which are already part of the internally rated below investment grade exposures in the key sectors mentioned above.

The outstanding portfolio of standard loans for which refinancing under the 5/25 scheme has been implemented was about 27 billion Rupees as of March 31, 2017 compared to 33 billion Rupees as of December 31, 2016. The decrease was due to slippage of one account to the non-performing category. Of the loans of 27 billion Rupees as of March 31, 2017, 65% or about 17 billion Rupees were loans to companies internally rated below investment grade in the key sectors mentioned above.

The Bank implemented the scheme for sustainable structuring of stressed assets, or S4A, for loans of 3 billion Rupees in the construction sector during Q4 of 2017.

Provisions were 28.98 billion Rupees in Q4 of 2017 compared to 27.13 billion Rupees in the preceding quarter. For the quarter, there was a drawdown of 15.28 billion Rupees from the collective contingency and related reserve. During Q2 of 2017, the Bank had made floating provision of 15.15 billion Rupees which had been reduced from the gross NPAs while computing the net NPAs. The

Bank has utilised and allocated this amount for making specific provision for NPAs in Q4 of 2017.

For the full year FY2017, provisions, including additional provisions made in Q2-2017, were 152.08 billion Rupees. In comparison, provisions and collective contingency and related reserve aggregated to 116.68 billion Rupees in FY2016.

The provisioning coverage ratio on non-performing loans, including cumulative technical/prudential write-offs was 53.6%.

In terms of the Reserve Bank of India circular dated April 18, 2017, banks are required to disclose the divergences in asset classification and provisioning consequent to RBI's annual supervisory assessment process in their notes to accounts to the financial statements.

During the supervisory exercise for FY2016, which was conducted in FY2017, the incremental gross NPAs assessed by RBI amounted to 51.05 billion Rupees. The additional provisioning assessed by RBI was 10.71 billion Rupees, with a post-tax impact of 7.00 billion Rupees on the net profit after tax of the Bank. All these accounts have been classified as NPA by the Bank during FY2017. About 40% of the total amount was classified as NPA during the quarter ended June 30, 2016 as per the Bank's application of relevant RBI guidelines, prior to the annual supervisory assessment of RBI. Out of the incremental gross NPAs amounting to 51.05 billion Rupees assessed by RBI, about 84% related to accounts internally rated below investment grade in the key sectors disclosed by the Bank, and about 7% was from the restructured asset portfolio.

Coming to FY2018, we expect the NPA additions for the year to be significantly lower than FY2017. We also expect some of the resolutions to get completed and some upgrades from NPAs.

Given the uncertainties around the operating and recovery environment for the corporate sector, and the ageing-based

provisions on existing NPAs, provisions are expected to remain elevated in FY2018. We also need to assess the impact of the RBI guidelines requiring banks to consider making provisions for standard assets at rates higher than the regulatory minimum based on evaluation of risk and stress in various sectors. However, we expect the provisions as % of average advances in FY2018 to be lower compared to FY2017.

C. P&L Details

Net interest income was 59.62 billion Rupees in Q4 of 2017 compared to 53.63 billion Rupees in the preceding quarter. The net interest margin was at 3.57% in Q4 of 2017 compared to 3.12% in the preceding quarter. The domestic NIM was at 3.96% in Q4 of 2017 compared to 3.51% in the preceding quarter. International margins were at 1.01% in Q4 of 2017 compared to 0.83% in the preceding quarter.

There was interest on income tax refund of 2.00 billion Rupees in Q4 of 2017 compared to 1.39 billion Rupees in the preceding quarter and 0.73 billion Rupees in the corresponding quarter last year. Further, the cost of funds continued to benefit from the high average CASA ratio in Q4 of 2017.

The net interest income and net interest margins in FY2018 will be impacted by the competitive lending market due to the slowdown in credit growth, deposit rates, increasing shift of loans to the MCLR benchmark from the base rate benchmark, reductions in the base rate and non-accrual of income on non-performing assets and accounts where resolution schemes of RBI are being implemented. The timing and quantum of interest on income tax refund is uncertain. We will continue to focus on collecting interest from borrowers classified as NPA or under the SDR scheme however the quantum of the same is also variable. Overall, our endeavour will be

to limit the impact on margins and maintain net interest margins above 3% during FY2018.

Total non-interest income was 30.17 billion Rupees in Q4 of 2017 compared to 51.09 billion Rupees in Q4 of 2016.

- Fee income grew by 10.5% year-on-year in Q4 of 2017 and 7.2% year-on-year in FY2017. Retail fees grew by 15.8% year-on-year in FY2017. Growth in retail fees was driven by fees relating to debit and credit cards; and distribution of third-party products. Retail fees constituted about 70% of overall fees in FY2017.

  We would target double digit growth in fee income in FY2018, led by retail fees. The overall fee income growth would depend on market conditions, particularly activity in the corporate sector, as well as regulatory measures with respect to various components of fee income.

- Treasury recorded a profit of 5.03 billion Rupees in Q4 of 2017. In the corresponding quarter last year, treasury had recorded a profit of 0.59 billion Rupees, excluding gains of 21.31 billion Rupees relating to sale of shareholding in insurance subsidiaries.

  Going forward, treasury income would mainly depend on trends in financial markets. We will seek to optimize all opportunities in this context and will also look at further value unlocking in subsidiaries.

- Other income was 0.68 billion Rupees in Q4 of 2017 compared to 5.51 billion Rupees in the preceding quarter. As per the RBI circular on ‘Guidelines on compliance with Accounting Standard (AS) 11, The Effects of Changes in Foreign Exchange Rates, dated April 18, 2017, on repatriation of accumulated profits or retained earnings from overseas operations, the

banks shall not recognise the proportionate exchange gains or losses held in the foreign currency translation reserve in the profit and loss account. The Bank has therefore reversed foreign exchange gain amounting to 2.88 billion Rupees in Q4 of 2017, which was recognised as other income in 9M of 2017. As communicated on our previous analyst call in January 2017, the Bank did not receive dividend from ICICI Life in Q4 of 2017 compared to dividend of 1.38 billion Rupees in the preceding quarter and 2.10 billion Rupees in the corresponding quarter last year. This is in line with the decision of the company's Board to consider dividend proposals on a half-yearly basis.

On Costs: the Bank's cost-to-income ratio was at 43.1% in Q4 of 2017 and 35.8% in FY2017. Excluding gain on sale of shares of ICICI Life, the cost-to-income ratio would have been 45.2% in FY2017. Operating expenses increased by 13.5% year-on-year in Q4 of 2017 and 16.3% year-on-year in FY2017. The Bank added 8,745 employees in FY2017 and had 82,841 employees as of March 31, 2017.

The Bank has made significant investments in human resources and distribution in recent years. Going forward, the Bank would focus on fully leveraging existing resources and infrastructure. Further, the Bank would also look at implementing additional cost optimization measures during the year, while growing its retail franchise. Accordingly, the Bank would target to contain the growth in operating expenses to a significantly lower level than the 16% growth we had in FY2017.

The Bank's standalone profit before provisions and tax was 51.12 billion Rupees in Q4 of 2017 and 264.87 billion Rupees in FY2017.

I have already discussed the provisions for the quarter.

The tax rate for FY2017 was 13.1%. The tax rate for FY2018 would depend on the composition of income for the year but is likely to be higher compared to FY2017.

The Bank's standalone profit after tax was 20.25 billion Rupees in Q4 of 2017 compared to 24.42 billion Rupees in the preceding quarter and 7.02 billion Rupees in the corresponding quarter last year. For the full year FY2017, profit after tax was 98.01 billion Rupees compared to 97.26 billion Rupees in FY2016.

D. Subsidiaries

The new business margin of ICICI Life on actual cost based on Indian Embedded Value, or IEV, methodology improved from 5.7% in FY2015 and 8.0% in FY2016 to 10.1% in FY2017. The improvement in margins was driven by an increase in proportion of protection business from 1.6% in FY2015 and 2.7% in FY2016 to 3.9% in FY2017. The Indian Embedded Value increased from 139.39 billion Rupees at March 31, 2016 to 161.84 billion Rupees at March 31, 2017. The company continues to retain its market leadership among the private players with a new business market share of 12.0% in FY2017 compared to 11.3% in FY2016. The profit after tax for ICICI Life for FY2017 was 16.82 billion Rupees compared to 16.50 billion Rupees in FY2016.

The profit after tax of ICICI General increased from 5.07 billion Rupees in FY2016 to 7.02 billion Rupees in FY2017. The gross written premium of ICICI General grew by 32.1% on a year-on-year basis to 109.60 billion Rupees in FY2017 compared to about 32.3% 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 8.4% in FY2017.

The profit after tax of ICICI AMC increased by 47.2% year-on-year from 3.26 billion Rupees in FY2016 to 4.80 billion Rupees in FY2017.

With average assets under management of about 2.4 trillion Rupees for Q4 of 2017, ICICI AMC continues to be the largest mutual fund in India.

The profit after tax of ICICI Securities was at 3.39 billion Rupees in FY2017 compared to 2.39 billion Rupees in FY2016. The profit after tax of ICICI Securities Primary Dealership was 4.12 billion Rupees in FY2017 compared to 1.95 billion Rupees in FY2016.

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

In line with its strategy of rationalising capital, ICICI Bank Canada repatriated 65.0 million Canadian Dollars of equity share capital and redeemed 55.6 million Canadian Dollars of preference share capital. 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 4.1% at March 31, 2017.

ICICI Bank Canada reported profit after tax of 6.2 million Canadian dollars in Q4 of 2017. ICICI Bank Canada reported a loss of 33.0 million Canadian Dollars in FY2017 compared to a profit of 22.4 million Canadian Dollars in FY2016 on account of higher provisions on existing impaired loans, primarily India-linked loans. ICICI Bank Canada’s total assets were 6.34 billion Canadian Dollars and loans and advances were 5.59 billion Canadian Dollars as of March 31, 2017. The capital adequacy ratio of ICICI Bank Canada was 21.8% at March 31, 2017.

ICICI Bank UK’s total assets were 3.49 billion US Dollars as of March 31, 2017. Loans and advances were 2.36 billion US Dollars as of March 31, 2017 compared to 2.34 billion US Dollars as of December 31, 2016. ICICI Bank UK reported a loss of 16.1 million US Dollars in FY2017 compared to a profit of 0.5 million US Dollars in FY2016 due

to higher provisions on impaired loans. The capital adequacy ratio of ICICI Bank UK was 18.4% as of March 31, 2017.

The consolidated profit after tax was 20.83 billion Rupees in Q4 of 2017 compared to 4.07 billion Rupees in Q4 of 2016. For the full year FY2017, the consolidated profit after tax was 101.88 billion Rupees in FY2017 compared to 101.80 billion Rupees in FY2016.

E. Capital

The Bank had a standalone Tier 1 capital adequacy ratio of 14.36% and total standalone capital adequacy ratio of 17.39% at March 31, 2017, after reducing the proposed dividend for FY2017. The Bank's consolidated Tier 1 capital adequacy ratio and the total consolidated capital adequacy ratio were 14.39% and 17.26% respectively. The capital ratios are significantly higher than the regulatory requirements. During the quarter, the Bank raised ` 34.25 billion by way of issuance of Additional Tier-I bonds.

To sum up, the Bank maintained its focus on its strategic priorities covered in 4 x 4 agenda during FY2017 which resulted in:

1. Healthy portfolio growth driven by retail business;
2. Robust growth in CASA deposits;
3. Continued technology leadership with strong growth in usage of digital channels;
4. Reduction in exposure to 'below investment grade' rated companies in key sectors and promoter entities;
5. Demonstration of significant value in insurance subsidiaries; and
6. Continued cost efficiency and capital efficiency.

The Bank maintained stable profits in FY2017 as the elevated level of provisions and decline in net interest margins were offset by healthy domestic portfolio growth and increase in non-interest income driven by improvement in fee income growth and gains on sale of shareholding in ICICI Life. The Bank's pre-provisioning earnings, capital position and value created in its subsidiaries give the Bank the ability to absorb the impact of challenges in the operating and recovery environment for the corporate business while driving growth in identified areas of opportunity.

Overall, the Bank's retail business is granular and is growing at a healthy pace. The Bank is growing its wholesale business in a selective manner within its strategic priorities. While the Bank has diverse revenue streams across its businesses, the provisions on corporate loans, dividend from subsidiaries and capital gains may not be uniform over the year. Hence, there could be variations in the level of quarterly earnings during FY2018.

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. First question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: Just had a few questions; firstly, the Bank sold SMA2 loans of Rs.5.8 billion. What else was sold?

N. S. Kannan: That number you have talked about refers to the sale of the SMA portfolio. Apart from that from NPL amounting to Rs.0.23 billion was also sold during the quarter, not a significant amount at all .

Mahrukh Adajania: Why was the write-off so high in the quarter?

N. S. Kannan: For doing a write-off, we follow our write-off policy and if you see across the quarters, we have been having write-offs. The exact amount of write-off would depend on particular exposures being

written off during the quarter. If a larger case gets written off, the amount goes up and vice versa. So, it is more of a policy based write-off being done over the quarter and as you know that we get tax breaks if we write-off the loan. So that is also a factor.

Mahrukh Adajania: So these were earlier provided for loans, which were close to 100% provided for and was written-off during this quarter?

Rakesh Jha: Mostly yes.

Mahrukh Adajania: Is that why the tax expense is low?

N. S. Kannan: No, the reason for tax expenses being low is different. If we look at the year as a whole, there were a significant amount of gains due to the stake sale in ICICI Life through the IPO. These gains were effectively zero tax capital gains. So if we look at the composition of income, the effective tax rate was lower for financial year 2017 because of that. That is why I made a statement that the tax rate for financial year 2018 would be higher.

Mahrukh Adajania: There appears to be a big slippage in the power sector from the watch list. So would that be one lumpy account?

N. S. Kannan: Yes.

Mahrukh Adajania: What would be the retail slippages for the quarter, just wanted to know slippages outside the drilldown list?

N. S. Kannan: Retail slippages would be about Rs.4 billion.

Moderator: Thank you. Next question is from the line of Cyrus Dadabhoy from Anand Rathi. Please go ahead.

Cyrus Dadabhoy: I just wanted some guidance on the loan growth and what is your sense on the non-watch list slippages for the next year, you said it is going to remain elevated, but lower than this year.

N. S. Kannan: What we said on slippages was that for the year as a whole, the overall slippages will be significantly lower than last year. And as we have said earlier, bulk of the slippages would be from the drill down list. However, there could be a few accounts from outside the drilldown list which could slip during the year.

On loan growth, as I had mentioned in my remarks, the domestic loan growth for us would be at about 15-16%, and within that, retail would grow ahead of that rate at around 18-20%. The overseas loan book is expected to be flat in US dollar terms. Those are the three distinct thoughts we have in terms of the loan book.

Cyrus Dadabhoy: Corporate you said 5%, right, for next year?

N. S. Kannan: The corporate portfolio has got a base of some of these loans in the stressed sectors. If we look at the portfolio as a whole, the net growth would be about 5-7%. Incrementally, disbursements have largely been to A- and above rated companies. Thus, the desirable part of the corporate portfolio is expected to grow at a much higher rate.

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

Kunal: This is Kunal over here. Interest expense is actually down q-o-q in absolute terms, is that largely due to re-pricing of deposits or there is any extraordinary element there?

N. S. Kannan: As you have seen the average CASA ratio on accretion to deposits has been quite high and the funding cost has also come down. So no extraordinary items really there.

Kunal: So is this sustainable and is this what the run rate could be going forward based on the maintenance of the CASA ratio?

N.S. Kannan: No, as we have said, we will continue to maintain a robust funding profile with a higher proportion of CASA deposits. Our endeavour

would be to maintain this kind of CASA ratios on an average basis going forward.

Kunal: Secondly, when we look at the overall watch list, the way it has moved from say FY2016 to FY2017, a large part of it has slipped into NPL. With respect to the outstanding watch list of Rs.19,000-odd crores, what are the expectations in terms of positive developments? Will a large part of this also slip into NPL in FY2018?

N. S. Kannan: As we said, we are working on each of the cases in the drilldown list in terms of pushing for resolution and recovery. We have also mentioned in the past that the exact timing of the recovery cannot be determined and technically some of the assets may slip into NPA and recover subsequently. This is exactly what is happening in the case of the cement asset we talked about. So looking at the balance also, for some of the large cases, there are clear resolutions which we are pushing ahead. More specifically, there is a clear resolution under way for one of the larger cases which is talked about in the public domain. I continue to give the same outlook that while we will continue to focus on resolutions, some of them will get resolved and some could slip into NPL before it gets resolved. The good news is that we did not add to that pool and the number also has come down to Rs.190 billion from Rs.440 billion we started off with. So that way the progress has been quite okay.

Kunal: Lastly, in terms of any guidance on credit cost for FY2018, we highlighted it will be lower compared to that of FY2017?

N. S. Kannan: I do not think it will be proper to put a number because there are some moving parts in terms of resolution, having to make some provisions in the context of regulations. So all those things will really drive the credit cost. I would say that it will be lower and leave it there and then see how it goes. We will endeavour for lower credit cost than the previous year.

Moderator: Thank you. Next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: You mentioned that the cement account would likely get resolved. Could you give us a sense of what exactly is holding it up? What is the realistic time period that it will take for resolution, also, why only part of the account would be upgraded? The second question is in response to the RBI circular last month, I was not quite sure of the wording of what you said, you mentioned that all such cases have been recognized as NPAs. Should we take that to mean that there is not really anything that would be classified as an NPA under the RBI's norms, which you have not classified or that there is no divergence between the norms?

Chanda Kochhar: On the cement case, in fact, a lot of progress has been made. There are a whole lot of approvals that are required in India to complete a transaction. So after the definitive agreement from both the buyer and the seller both the boards approved the deals, after that the Competition Commission approval and the SEBI approval has been received, post which the creditors and shareholders' approval has also been received. After that actually it went to the High Court for approval, but it was during this time that everything was shifting from the High Court to NCLT. So NCLT Mumbai and NCLT Allahabad approved it. The only thing that is pending now is the transfer of mines in the name of the new buyer and there are about 18 mines for the company which needs approvals from four states. This is actually supposed to be quite technical in nature because once the shareholders and the creditors approve it, the states generally transfer the mines unless they have some other issues to be kind of settled with the buyer or the seller. Though the applications have been made, it is probably going to take its own time which is generally expected to be 90-days once an application is made.

Pavan Ahluwalia: So definitely within the next 2 to 3 quarters this will be completed?

Chanda Kochhar: Yes-yes, of course, we should actually think of two quarters, not even three.

Pavan Ahluwalia: Why would only part of it be upgraded if all of it was standard until recently?

Chanda Kochhar: Because as per the buyer and seller agreement, the buyer is going to take only part of the loan which belongs to the cement division.

Pavan Ahluwalia: Any idea what portion of would it be? Would it be half or more?

N. S. Kannan: About half will move with the cement asset.

Pavan Ahluwalia: The other half would be non-performing and that will be attached to other assets that the seller is not selling?

N. S. Kannan: That is correct and it will be secured as well as there could be cash flow servicing debt.

Pavan Ahluwalia: Could you let us know on that RBI circular?

N. S. Kannan: Let me just elaborate. For every financial year ending March, the RBI inspections typically happen in the next financial year. In this case for the position as of March 31, 2016, the RBI inspection took place during the financial year 2017 over several months. Post inspection, they gave us what according to them should have been the NPL as of March 31, 2016. The difference between what our assessment and RBI's assessment was Rs.5,100 crores or Rs.51 billion, what I had mentioned. All of these have been made NPL during the financial year 2017, starting actually in the first quarter even before their inspections started for the financial year. So to your question, I can confirm that all these assets which have been highlighted by RBI were classified as non-performing by the end of financial year 2017.

Pavan Ahluwalia: So going forward this should not really have any material impact?

N.S. Kannan: This particular number will not have any impact whatsoever. But every year, this inspection continues for the position of March 31 of the previous financial year. So we will have to wait and see.

Pavan Ahluwalia: So, is it possible that next year, the RBI could show up and say, look, we think these accounts you did not recognize as NPA in 2017, should be recognized and get you to recognize.

N. S. Kannan: This happens every time and typically gets adjusted in the subsequent financial year. This time RBI said, you put out that number in the public domain. That is the only difference.

Pavan Ahluwalia: It also says that you have to give out the divergence between your norms and the RBI's norms. Where can we find that?

N. S. Kannan: It is just that the RBI has got a circular on income recognition and asset classification which specifies norms such as the 90 day overdue policy and then there are some subjective interpretation of some of these guidelines. So on that basis, we apply the process, our own internal auditors and the statutory auditors check it before we put out our financials. The RBI inspectors then come over the next several months and the inspection could result in them telling banks that you should have probably classified a few more assets as NPL. The latter then results in a divergence.

Pavan Ahluwalia: But do they also not say that you have to disclose your norms and where they diverge from the RBI and include it in the notes to account, because that is what your release says?

N.S. Kannan: The circular dated April 18, 2017, on disclosure requirements is also there on their website. They have asked the banks to put out a table which gives what is the non-performing loans as per the bank's assessment, what it is as per RBI's assessment, the provisioning differences and the resultant PAT.

Pavan Ahluwalia: Where is that table?

N. S. Kannan: The table will be in our notes to accounts. But we have already summarized it in the disclosures we have made today.

Pavan Ahluwalia: Is notes that you released to the exchange?

Anindya Banerjee: No, it will come in the notes to the accounts. The divergence in gross NPA of about Rs.51 billion, divergence in provisioning and PAT is what we have put out on this call.

Pavan Ahluwalia: So that the rest we will get in the annual report basically?

N. S. Kannan: That is right.

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

Vishal Goel: Just a couple of questions. One, I think we had recovery and upgrade of Rs.14 billion and I am sure a lot of it will be corporate. Any color on the sector from where you see recovery/upgrade?

Rakesh Jha: Vishal, the recoveries are from some of the smaller exposures and it also would include impact of appreciation in the rupee. For some of the foreign currency loans, the outstanding amount would have come down and it typically shows up as a deletion or recovery. I would not say that there is any significant uptrend in the actual recovery numbers.

Vishal Goel: Rakesh, in 20F we give the below investment grade number for the overall Bank which was around Rs.900 billion or so. How does that number change now over a year?

Rakesh Jha: Giving that the 20F filing is on a consolidated basis, we would not be able to give that number now. But overall, there would not really be very significant downgrades into the below investment grade category, we do not have exact numbers now, we will put it out as a part of the 20F.

Vishal Goel: Does that mean there is no big change, is that what we should takeaway?

Rakesh Jha: No, it is a consolidated number, we have not yet put out that number. I was just saying in general there would not be significant downgrade into the below investment grade category.

Vishal Goel: How much provisions do we have against the 5/25, SDR loans, basically the non-NPL, non-restructuring loans?

Rakesh Jha: In September, we had made a 15% provision against our outstanding standard restructured and SDR loans. On the 5/25 loans, there is no additional provision that we hold. It will essentially be the general provision as per RBI guidelines which is typically 0.4%. Overall, if you look at the provisions that we hold in addition to whatever the minimum RBI requirements are there in terms of the percentage for restructured, SDR and other loans, it would roughly be about Rs.10-11 billion.

Moderator: Thank you. The next question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: Just a couple of questions; one is, right now the outstanding floating provisions, contingency provisions, everything is fully utilized and it is down to zero. Is that the right interpretation?

Rakesh Jha: The floating provision was always netted off against the gross NPAs. It has been utilized and allocated to specific non-performing accounts during the quarter. The CCRR which we were holding has also been utilized. So there is no outstanding. As I replied to an earlier query, we would still have some additional provisions that we hold over and above the RBI guidelines which were made in the September quarter. The residual amount would be about Rs.10-11 billion.

Suresh Ganapathy: That is on SDR and standard restructured assets?

Rakesh Jha: Yes, typically on those.

Suresh Ganapathy: Two questions; one is, there is a lot of confusion regarding IFRS and we would like you to give some guidance, we are not expecting what exactly is the impact going to be, but at least whether it would be significantly below the current reporting that you have been doing, what would be the change, whether provisions could materially alter? The second aspect is, I agree this Rs.190 billion is the drilldown list. But outside this Rs.190 billion, would there be groups, large enough and have not been recognized, which are technically not below investment grade, but could be problematic and you would not have necessarily included. Could that be some kind of a worry for you guys?

Rakesh Jha: On IFRS, I guess what banks are also waiting for is RBI to put out some guidelines around expected loss. As you said, the key impact of IFRS would be on the classification of accounts into the three categories which are – Stage-I, Stage-II and Stage-III; Stage-III being equivalent to the impaired loan on the expected loss basis. It will be fair to assume that loans classified as Stage-III will increase because the standstill benefit which all the restructured loans, the SDR loans today enjoy under the RBI guidelines, will not be available. In terms of the numbers which are being disclosed, I am sure we can add up and reach to those kind of numbers, but a lot of that will come in Stage-III of the classification and the expected loss provision will definitely be higher than what the current RBI guidelines require because that is what the IFRS requirement is. I think banks will have to rely a lot on their internal rating models and expected loss model which is something banks, including us are currently working on. It is a bit too early to kind of give a specific quantitative numbers around it, but we will see how we can give some details through the year. On the Rs.190 billion number, your assumption is fair that there would be below investment grade loans which are there outside of these sectors. The reason we had identified these sectors in our disclosure was because we had lumpier loans in

these sectors and these sectors were under stress. With respect to individual borrowers, some of them will be below investment grade in other sectors also and a couple of them could be lumpy and are names that are kind of talked. On an overall basis, as we have said on the earlier calls, there would be additions outside of this Rs.190 billion and a couple of them could be lumpy cases as well.

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

Rakesh Kumar: Firstly, if you can provide us with the movement of NPA provisions from end-December to end-March, outstanding provision has come down from Rs.179 billion to Rs.171 billion?

Rakesh Jha: Essentially the write-off which we have and which we talked about, would have reduced the outstanding stock of provisions against NPA, and then we made additional provisions of Rs.29 billion during the quarter from the P&L. That is where the movement would have happened between December and March.

Rakesh Kumar: The outstanding provision on standard assets has come down, would that basically be due to slippages from restructured loans?

Rakesh Jha: There will be some impact of exchange rate in terms of the stock of loans also, but largely, it will be due to the restructured loans as you said.

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from Antique Stock Broking. Please go ahead.

Nitin Aggarwal: Hi! Kannan. You indicated that overseas business will remain stable in dollar terms versus 18-20% decline this year. Does this also imply that you are not looking at any further capital repatriation over the next fiscal?

N.S. Kannan: The number I talked about in terms of flattish growth rate is in respect of our overseas branches, which are part of the parent bank. On capital repatriation, we will continue to talk to the regulators in Canada but the pace and amount will be difficult to predict now. It depends on regulatory discussions because they have given us approval for large capital repatriation in the past. So while we pursue the discussion, I cannot tell you how much and when it will come.

Nitin Aggarwal: Secondly, you talked about implementing management change outside SDR for loans almost Rs.51 billion. Any more color on this in respect to timelines and the potential recovery as this could significantly impact the slippage rate from the drilldown list?

N. S. Kannan: There is a little bit of time available for effecting the management change and improving the operations and so on. While we do have time, we will have to do a lot of work in terms of making sure it happens. Since we just started the process, we do have some time available for us to work it out.

Nitin Aggarwal: Are saying that we will formally need to invoke SDR on these accounts too?

N. S. Kannan: Invocation is in the form of management change in terms of transfer of shares from the existing promoter to the institution. That process is currently going on.

Nitin Aggarwal: Will this drilldown list be completely dissolved in FY2018 or is there a possibility that it may linger on next year also because we have certain lumpy assets which are below investment grade outside this also?

N. S. Kannan: Yes, that is true but as I said earlier, while the effort will be on in terms of resolution and recovery, it will be very difficult to predict given the recovery environment and so on. Whether it will get fully

dissolved and when it will get fully dissolved completely, we will have to really wait and see. Meanwhile our efforts will be on.

Nitin Aggarwal: What is the interest recovery amount from the NPLs which has led to this jump in interest income for us?

Anindya Banerjee: We do not give that number separately.

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

Manish Karwa: My question is on margins. In the fourth quarter, the one-off element was only the tax thing or was there something else also that led to such a sharp jump in NII?

Rakesh Jha: As Kannan mentioned, there were collections from some of the loans which are non-performing, that also was there.

Manish Karwa: But was that substantial enough?

Rakesh Jha: Yes, it was meaningful. That is why we mentioned it. In terms of the margin, Kannan talked about the outlook for the next year, I think we should look at margin more from a full year perspective. For the quarter, there was the benefit of interest on income tax refund, some higher collection from the NPAs, which is something which will not repeat on q-o-q basis.

Manish Karwa: If I adjust 10-20 bps of one off for this quarter from the 3.57% number you reported, we are still talking about of +3% margin which is a very sharp decline from Q4 levels. While I understand there will be a few reasons for that, but isn't 3% outlook on margins too conservative because the benefit of CASA deposits and all should probably hold on reasonably well in FY2018 as well?

Rakesh Jha: If you look at Q4, our daily average CASA ratio was 46% or so. Of course, we have to see whether that ratio is maintained through the year or not but there is definitely going to be an impact on the

lending yield as there is a significant re-pricing that is happening on the home loan portfolio. MCLR has declined and incremental rates are lower. We would expect that to kind of continue through the year given the kind of competition which would be there and the low level of credit growth in the system. There are quite a few variables in terms of how the CASA deposits move, how the deposit rates itself move, the intensity of competition on the lending side and the overall credit growth for the system may not pick up very sharply. As you said, current quarter number does include say about 12-13 bps of benefit of interest on income tax refund itself and plus some additional benefit on the collections from the NPAs. If you look at the full year margin, which was about 3.25% or so, against that we are saying that we would be above 3% for next year.

Manish Karva: On the watch list which is now remaining Rs.190 billion, you mentioned about Rs.51 billion of loans where change of management is happening, about Rs.17 billion of loans where the 5/25 has been implemented and there is an additional Rs.30 billion loans of promoter entity where the deal has already been announced. Is that the right reconciliation and probably these may see some resolutions faster and the remaining probably could see downgrades happening, is that the right way to look at it?

Rakesh Jha: I think you have got the numbers right, SDR will be the other.

Manish Karva: Would you also say that slippages outside the watch list will be substantially lower in FY2018 compared to FY2017?

N. S. Kannan: we have spoken of our outlook on total NPL addition. There are cases outside the drilldown as well which are lumpy and could potentially slip. We have not really broken it up but overall, we expect the NPL addition to be significantly lower.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you.

Chanda Kochhar: Thank you. Sorry for having kept all of you back till late. But thank you for all your questions. As I summarized earlier that given our current strengths, we are well positioned to take advantage of the growth opportunities that arise and we will continue to focus on our 4x4 agenda which is around continuing to enhance franchise and work on portfolio quality. Thank you.

Moderator: Thank you very much. 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.