ICICI Bank Limited
Earnings Conference Call – Quarter ended December 31, 2016 (Q3-2017)
January 31, 2017

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Moderator Ladies and Gentlemen, Good Day and Welcome to ICICI Bank's Q3 2017 Earnings Conference Call. As a reminder, 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. Just to reiterate,

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. Reduction in concentration risk; 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 unlocking of value in subsidiaries.

We continue to focus on this agenda.

A key development after our previous call was the withdrawal of ₹ 500 and ₹ 1,000 currency notes, that is, Specified Bank Notes or SBNs, as legal tender. This move has resulted in an increase in formal financial savings and has given a strong impetus to digital payments. The growth in total deposits for the banking system increased from 12.0% year-on-year at September 30, 2016 to 15.2% year-on-year at December 23, 2016.

I would like to highlight a few key trends for ICICI Bank in this context:

1. **CASA deposits:** There was an accretion of 267.04 billion to current and savings account deposits during Q3 of 2017. The year-on-year growth in savings deposits was 30.3%.The Bank's CASA ratio increased from 45.7% at September 30, 2016 to 49.9% at December 31, 2016.

The Bank took a number of initiatives with a focus on servicing customers after the announcement of demonetisation of specified bank notes.

2. **Usage of alternate channels:** We continue to be at the forefront of offering technology-enabled services to our customers.

   During the quarter, the Bank continued to enhance its focus on the launch of new technology based offerings as well as increasing customer communication and activation of digital channels for customer accounts. We launched 'Eazypay' which is India's first mobile app for merchants to accept payments on mobile phones through multiple modes - UPI, credit or debit cards, internet banking, and our digital wallet 'Pockets'. We are seeing robust trends in merchant additions through point-of-sale terminals and 'Eazypay'.

   During Q3 of 2017 we witnessed robust trends in digital transactions. The activation rate for the Bank's flagship mobile banking application, iMobile, was higher by 84% in December 2016 compared to October 2016. The volume and value of mobile banking transactions in December 2016 were 52% higher and 34% higher respectively compared to October 2016. The activation of internet banking by customers in December 2016 almost doubled compared to October 2016. Our digital wallet offering – Pockets – also witnessed an increase in activation rates and usage during the quarter. These growth trends, coming on an existing large base of digital transactions even prior to demonetisation, underscore the strength of the Bank's digital offerings.

   The Bank has seen robust trends in use of the Unified Payments Interface, or UPI, by customers. Over 2.4 million accounts now have virtual payment addresses created using the Bank's applications - which is among the highest for banks.

The volume and value of debit card transactions in December 2016 were 128% higher and 100% higher respectively compared to October 2016. The volume and value of credit card transactions in December 2016 were 36% higher and 5% higher respectively compared to October 2016.

The Bank was India's first bank to implement interoperable electronic toll collection. We are the largest player based on number of tags issued for electronic toll collection.

In the nine months ended December 31, 2016, non-branch channels accounted for close to 95% of all savings account transactions. Digital channels like internet, mobile banking, POS and call centre accounted for about 73% of the savings account transactions

Coming to loan growth, non-food credit growth for the banking system decreased from 10.6% year-on-year at September 30, 2016 to 5.3% year-on-year at December 23, 2016. Within this, growth in retail credit decreased from 19.7% year-on-year at September 30, 2016 to 15.2% year-on-year at November 25, 2016, based on the latest available RBI data. The overall domestic loan growth for the Bank at 12.0% year-on-year was more than double the rate of growth in non-food credit for the banking system. Growth for the Bank continues to be driven by the retail business and the retail portfolio grew by 17.8% year-on-year.

We continue to focus on re-orienting our balance sheet towards lower risk and a more granular portfolio. The share of retail loans in total loans increased from 43.8% at December 31, 2015 to 48.9% at December 30, 2016. In addition, 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 total exposure at March 31, 2016 and further decreased to 12.4% of total exposure at December 31, 2016.

We continue to focus on resolution & exposure reduction in identified areas. 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. On our previous call, we had shared the reduction achieved in these exposures, and mentioned that based on the transactions announced and in the public domain, we expected a further resolution in this portfolio subject to necessary approvals and completion of the transactions. During Q3 of 2017, we saw a further net exposure reduction and rating movement of 20.12 billion Rupees, taking the total net reduction in exposure and rating movement during April to December 2016 to 44.73 billion Rupees. We expect significant further resolution in this portfolio going forward, subject to necessary approvals and completion of the announced transactions.

With respect to the P&L, I would like to mention that the domestic net interest margins increased compared to Q2 of 2017 and were at 3.51% in Q3 of 2017. Growth in fee income improved from 3.8% year-on-year in H1 of 2017 to 10.3% year-on-year in Q3 of 2017. The profit before provisions & tax, excluding gains on sale of shareholding in ICICI Life in Q3 of 2016 & Q2 of 2017, increased by 3.9% on a year-on-year basis and 11.1% on a sequential basis.

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.

Mr. Kannan's remarks

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

The retail portfolio grew by 17.8% year-on-year. The mortgage and auto loan portfolios grew by 17.0% and 13.1% year-on-year respectively. Growth in the business banking and rural lending segments was 11.7% and 20.0% year-on-year respectively. Commercial vehicle and equipment loans grew by 15.1% year-on-year. The unsecured credit card and personal loan portfolio grew by 39.8% year-on-year to 199.16 billion Rupees and was about 4.4% of the overall loan book as of December 31, 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 4.0% year-on-year. We continue to focus on lending to better rated clients and 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 higher. The SME portfolio grew by 6.6% year-on-year and constitutes 4.6% of total loans.

In rupee terms, the net advances of the overseas branches decreased by 16.1% year-on-year as of December 31, 2016. In US dollar terms, the net advances of overseas branches decreased by 18.3% year-on-year as of December 31, 2016. In the overseas branches, loans against FCNR deposits of about US$ 870 million matured in Q3 of 2017.

Coming to the funding side: total deposits grew by 14.2% year-on-year to 4.65 trillion Rupees as of December 31, 2016. Of the FCNR deposits mobilised in Q3 of 2014, deposits aggregating to about USD 1.75 billion matured during the quarter.

There was an accretion of 185.12 billion Rupees to savings account deposits and 81.93 billion Rupees to current account deposits in Q3 of 2017. On a period-end basis, current and savings account deposits grew by 26.0% year-on-year. On a daily average basis, current and savings account deposits grew higher by 29.2% year-on-year. On a daily average basis, the CASA ratio improved significantly from 41.5% in Q2 of 2017 to 44.8% in Q3 of 2017.

B. Credit Quality

During the third quarter, the gross additions to NPAs reduced to 70.37 billion Rupees from 80.29 billion Rupees in the preceding quarter. The gross additions to NPAs in Q3 of 2017 included slippages of 2.39 billion Rupees from restructured loans; slippages of 29.43 billion Rupees out of exposures to companies internally rated below investment grade in key sectors; and devolvement of non-fund based exposure of 17.99 billion Rupees relating to accounts classified as non-performing in prior periods, that we have been disclosing for the past few quarters. Thus about 75% of the corporate & SME NPA additions comprised these categories.

The retail portfolio had gross NPA additions of 4.29 billion Rupees and recoveries & upgrades of 4.34 billion Rupees during Q3 of 2017.

During the quarter, aggregate deletions from NPA due to recoveries and upgrades were 6.25 billion Rupees. The Bank sold gross NPAs aggregating to 0.87 billion Rupees during the quarter.

The Bank's net non-performing asset ratio was 3.96% as of December 31, 2016 compared to 3.21% as of September 30, 2016.

The net restructured loans were at 64.07 billion Rupees as of December 31, 2016 compared to 63.36 billion Rupees as of September 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 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 32 of the presentation, we have provided the movement in these exposures between September 30, 2016 and December 31, 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 324.90 billion Rupees as of September 30, 2016 to 275.36 billion Rupees as of December 31, 2016 reflecting the following:

- There was a net reduction in exposure of 21.23 billion Rupees
- There were net rating downgrades of exposures aggregating to 1.11 billion Rupees to ‘below investment grade’ during the quarter
- Loans classified as non-performing during the quarter were 29.43 billion Rupees. Please refer slide 32 for further details.

Based on the transactions announced and in the public domain, we expect a further resolution in the above exposures going forward subject to necessary approvals and completion of the transactions. 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 on maximising the Bank's economic recovery and finding optimal solutions will continue.

The exposure to companies internally rated below investment grade in key sectors and promoter entities, of 275.36 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 15.84 billion Rupees at December 31, 2016 compared to 32.86 billion Rupees at September 30, 2016. Further, the exposure to companies internally rated below investment grade in key sectors and promoter entities of 275.36 billion Rupees excludes net exposure of ₹ 5.31 bn to a central public sector owned undertaking engaged in gas-based power generation. These are disclosed below the table in slide 32.

As of December 31, 2016, the Bank had outstanding loans of 34 billion Rupees where Strategic Debt Restructuring - SDR - had been implemented, of which about 28 billion Rupees were loans 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 about 33 billion Rupees as of December 31, 2016, of which about 24 billion Rupees were loans to companies internally rated below investment grade in the key sectors mentioned above.

The Bank had not implemented the scheme for sustainable structuring of stressed assets, or S4A, for any account as of December 31, 2016.

Provisions were 27.13 billion Rupees in Q3 of 2017 compared to 70.83 billion Rupees in the preceding quarter which had included additional provisions of 35.88 billion Rupees. Provisions were 28.44 billion Rupees in the corresponding quarter last year. For the quarter, there was a drawdown of 5.27 billion Rupees from the collective contingency and related reserve. There was no drawdown or addition to floating provisions during the quarter.

The provisioning coverage ratio on non-performing loans, including cumulative technical/prudential write-offs and floating provisions, was 57.1%.

As we had mentioned earlier, we expect NPA additions to remain elevated for the next quarter.

C. P&L Details

Net interest income was 53.63 billion Rupees in Q3 of 2017. The net interest margin was at 3.12% in Q3 of 2017 compared to 3.13% in the preceding quarter. The domestic NIM was at 3.51% in Q3 of 2017 compared to 3.41% in the preceding quarter. International margins were at 0.83% in Q3 of 2017 compared to 1.65% in the preceding quarter. International margins were impacted by higher non-accrual of interest income on NPAs in Q3 of 2017.

There was interest on income tax refund of 1.39 billion Rupees in Q3 of 2017 compared to 1.11 billion Rupees in the preceding quarter and 1.23 billion Rupees in the corresponding quarter last year.

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. There has also been some moderation in loan growth in the banking system. Incrementally, there would be some impact of reduction of MCLR in January 2017 which will be partly offset by the decline in funding costs.

Total non-interest income was 39.39 billion Rupees in Q3 of 2017 compared to 42.16 billion Rupees in Q3 of 2016.

- Improvement in fee income growth was driven by a pickup in retail fees which grew by 18% year-on-year. Growth in retail fees was driven by higher transaction banking fees from liability customers, increase in credit card fees & fees relating to distribution of third-party products and higher forex fees. Retail fees constituted about 71% of overall fees in Q3 of 2017.

- Treasury recorded a profit of 8.93 billion Rupees in Q3 of 2017. In the corresponding quarter last year, treasury had recorded a profit of 1.98 billion Rupees, excluding gains of 12.43 billion Rupees relating to sale of shareholding in ICICI Life.

- Other income was 5.51 billion Rupees. The dividend from subsidiaries was 4.56 billion Rupees including 1.38 billion Rupees from ICICI Life. The Bank had net exchange rate gains of 0.82 billion Rupees relating to overseas operations in Q3 of 2017 compared to gains of 1.42 billion Rupees in the corresponding quarter last year. ICICI Life along with its results for Q2 of 2017 had announced that the company's board will consider dividend proposals on a half-yearly basis going forward. Accordingly, the Bank will not receive dividend from ICICI Life in Q4 of 2017.

On Costs: the Bank's cost-to-income ratio was at 40.6% in Q3 of 2017 and 33.7% in 9M of 2017. Excluding the gain on sale of shares of ICICI Life, the cost-to-income ratio would have been 41.0% in 9M of 2017. Operating expenses increased by 21.5% year-on-year in Q3 of 2017. The increase was mainly due to a 23.4% year-on-year increase in employee expenses which among other factors includes the impact of decline in yields on provisions for retirement benefits in Q3 of 2017. The Bank added 6,803 employees in 9M of 2017 and had 80,899 employees as of December 31, 2016. Non-employee expenses increased by 20.4% year-on-year in Q3 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 55.24 billion Rupees in Q3 of 2017.

I have already discussed the provisions for the quarter.

The Bank's standalone profit after tax was 24.42 billion Rupees in Q3 of 2017 compared to 31.02 billion Rupees in the preceding quarter and 30.18 billion Rupees in the corresponding quarter last year.

D. Subsidiaries

The profit after tax of ICICI Life for Q3 of 2017 was 4.50 billion Rupees compared to 4.35 billion Rupees in Q3 of 2016. The new business margin on actual cost based on Indian Embedded Value, or IEV, methodology was at 9.4% in 9M of 2017 compared to 8.0% in FY2016 and 5.7% in FY2015. The improvement in margins was driven by an increase in the proportion of protection business from 1.6% in FY2015 and 2.7% in FY2016 to 3.9% in 9M of 2017. The company continues to retain its market leadership among the private players with a new business market share of about 13.0% in 9M of 2017.

The profit after tax of ICICI General increased from 1.30 billion Rupees in Q3 of 2016 to 2.20 billion Rupees in Q3 of 2017. The gross written premium of ICICI General grew by 33.5% on a year-on-year basis to 82.50 billion Rupees in 9M of 2017 compared to about 31.0% 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 8.8% in 9M of 2017.

The profit after tax of ICICI AMC increased by 61.0% year-on-year from 0.82 billion Rupees in Q3 of 2016 to 1.32 billion Rupees in Q3 of 2017. With average assets under management of about 2.3 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 0.88 billion Rupees in Q3 of 2017 compared to 0.55 billion Rupees in Q3 of 2016. The profit after tax of ICICI Securities Primary Dealership was 1.82 billion Rupees in Q3 of 2017 compared to 0.63 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 December 31, 2016.

ICICI Bank Canada's total assets were 6.45 billion Canadian Dollars as of December 31, 2016 and loans and advances were 5.75 billion Canadian Dollars as of December 31, 2016. ICICI Bank Canada reported a net loss of 34.6 million Canadian Dollars in Q3 of 2017 compared to a net profit of 5.4 million Canadian Dollars in Q3 of 2016 on account of higher provisions on existing impaired loans, primarily India-linked loans. The net NPA ratio for ICICI Bank Canada had decreased from 2.29% as of December 31, 2015 to 1.22% at September 30, 2016 and further decreased to 0.40% as of December 31, 2016. The capital adequacy ratio of ICICI Bank Canada was 24.7% at December 31, 2016.

ICICI Bank UK's total assets were 3.42 billion US Dollars as of December 31, 2016. Loans and advances were 2.34 billion US Dollars as of December 31, 2016 compared to 2.51 billion US Dollars as of September 30, 2016. The decrease in loans and advances in Q3 of 2017 was on account of repayment of loans against FCNR deposits during the quarter. Profit after tax in Q3 of 2017 was 1.7 million US Dollars compared to 0.6 million US Dollars in Q3 of 2016. The capital adequacy ratio was 19.8% as of December 31, 2016.

The consolidated profit after tax was 26.11 billion Rupees in Q3 of 2017 compared to 31.22 billion Rupees in the corresponding quarter last year and 29.79 billion Rupees in the preceding quarter.

E. Capital

The Bank had a standalone Tier 1 capital adequacy ratio of 13.33% and total capital adequacy ratio of 16.73%, including profits for 9M of 2017. The Bank's consolidated Tier 1 capital adequacy ratio and the total capital adequacy ratio, including profits for 9M of 2017, were 13.51% and 16.82% respectively. The capital ratios are significantly higher than the 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 challenges in the operating and recovery environment for the corporate business while driving growth in identified areas of opportunities.

To sum up, during Q3 of 2017,

1. there was further improvement in our funding profile driven by deposit flows after announcement of demonetisation of specified bank notes;
2. there was further strong momentum in usage of our digital offerings;
3. we selectively grew our loan portfolio;
4. we continued to focus on resolution and recovery in the corporate segment; and
5. we continued to maintain healthy capital adequacy ratios.

We will now be happy to take your questions.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: Just a couple of questions; firstly, what was the slippage from restructured loans this quarter?

N.S. Kannan: The slippage from restructured loans was about Rs. 2.4 billion during the quarter.

Mahrukh Adajania: From the watch list it was around 29?

N.S. Kannan: That is right.

Mahrukh Adajania: What was the slippage outside the watch list?

N.S. Kannan: So, as I mentioned, Mahrukh, there is another big component which is the non-fund-based outstanding in respect of NPLs classified in prior periods devolving and becoming fund-based where the amount was about Rs.18 billion. So that is why I referred to Slide 32; we have the drill down list and below that we have some notes. We have mentioned in the notes about Rs. 5 billion of net exposure to the central PSU-owned entity in the power generation sector, and in the last bullet point there, we have talked about the net non-fund-based outstanding to borrowers classified as non-performing, apart from what is included in below investment grade rated exposure to key sectors and promoter entities, as of December of about Rs.15.8 billion. This number was close to about Rs.33 billion as of the previous quarter.

Mahrukh Adajania: Just if you look at your watch list, it is in public resolutions of two accounts that are in public domain, so can we expect that by March around 80 billion to 90 billion of the watch list will anyway go away as in get upgraded?

N.S. Kannan: We have not given a particular amount or time period. I can only say that the resolutions which are in the public domain are well underway and we hope to complete these resolutions as we go along. Again, as I said, the resolutions can lead to a significant reduction in the drilldown list. We have stopped there in terms of our disclosure approach. But rest assured we are working on not just those cases, which are being quoted in the public domain, we are also working on the rest of the cases in the drill down list.

Mahrukh Adajania: Also, if you read the recent press articles, there are many papers who talk about some resolution in Essar Steel and then Bhushan Steel. JSW has also made a public statement, so that is in the press and then if you talk to banks they are not too confident of these resolutions happening anytime soon, whereas if you read the press article or if you read what JSW is saying, you get a different picture. So where do we stand on this… do we expect resolution in some of these accounts in the next 5-6-months or because of the Kingfisher case and state-owned banks probably now going slower it will take longer?

N.S. Kannan: We have always said that the recovery as well as the decisioning environment has been quite challenging, not just now, even over the last year or so, we have made that statement. We continue to navigate the environment and we continue to press forward on all the resolutions. So the challenges in the decisioning and the recovery environment are the key reason why we are not specifically giving you a timeframe or the amounts. But again, I can only reiterate that in each of these cases in the public domain as well as not in the public domain we press forward in terms of our recovery efforts. But we keep talking to other bankers, we keep looking at various ways including the several tools which have been given by RBI to arrive at case-specific resolutions. That effort is on.

Mahrukh Adajania: Just one more follow up question on that, because in between there were articles on IBA meets of bankers to hasten up the whole resolution process, because it was going quite slowly through the JLF, banks were taking longer time to reach resolutions. So has that changed and do you think that relative to say last quarter things have improved in terms of cutting short the timelines on resolution or they have not?

N.S. Kannan: My sense is that the effort has started, few meetings have been held, clearly that has helped in arriving at a common understanding among the top management of the relevant institutions involved. But it is too early to say that it will yield much faster results. I can just say that that has helped in arriving at a common understanding on key large cases.

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

Pavan Ahluwalia: My question relates to net interest margin going forward. So you had said a couple of quarters ago that you expect to be able to keep the net interest margin north of 3. Is that still an aspiration that you are sticking to? Obviously, this quarter's net interest margin looks pretty elevated and I do not think anyone expects that will be maintained. But what is a safe range where you feel comfortable you could maintain net interest margin factoring in the likely base of interest reversals and the various other factors that you talked about?

Rakesh Jha: As we have been saying through the year, the key impact for us in the current financial year is coming from the non-accrual of income on the NPAs and cases where SDR has been invoked. So that impact will definitely continue in the current year and may be a couple of quarters into the next financial year. But we have been doing pretty well in terms of the funding costs. That is providing us some buffer. Of course, with the developments in the December quarter, our CASA went up a fair bit and we have to see going forward how much of the CASA is retained and how much of it drains out over time. The other key thing which has happened is the sharp reduction in lending rates that we are seeing because of the much lower loan growth in the systems, indeed the competition has increased in terms of the pricing of loans. So there are quite a few moving parts which are there. What we can say is that in terms of the funding cost and the incremental lending that we are doing, we are ensuring that the margins are pretty healthy for us. So the only impact which will come in is from the non-accrual. At some stage, the negative impact should start reducing into the next financial year.

Pavan Ahluwalia: So does that mean you would be confident of maintaining medium-term at least 3% NIM?

Rakesh Jha: We have not talked about any specific number, but yes, definitely that is something that will be our endeavour.

N.S. Kannan: Just to supplement what Rakesh said, if you just look at our presentation Slide 36, the rate at which the cost of deposits has been coming down, that has been quite nice and we are at 5.3%. So that has really helped us in terms of withstanding the pressures both on account of non-accruals as well as the pricing pressures in the market.

Pavan Ahluwalia: We are seeing an increasing number of larger corporates accessing the bond market directly and basically bypassing banks. Lot of these corporates have historically been anchor, clients, customers, core clients of ICICI Bank. As you see that portion of credit move away, how should we think about, what your corporate book is likely to look like… is it likely to be more mid-corporate, smaller companies that cannot go and access the bond market as easily? Given that you will see the headwind of the larger corporate credits moving away, what kind of growth rate can we expect on the corporate side?

N.S. Kannan: If I first look at the environment, you are absolutely right that some of the larger corporates who have the ability to access the bond market have been moving towards the bond market. Our approach to tap this part of the business has been to run an active treasury which we have been doing. If you look at the ICICI Group, there are two entities who are extremely active in the origination and syndication in sell down market, which is ICICI Bank itself as well as ICICI Securities Primary Dealership. If you look at ICICI Bank alone, in the league table rankings, we will be in the top two or three depending on which area you look at and both ICICI Bank and ISEC PD will be in the top 5 in the market. So our approach here has been that be careful about which credit we pick up, but play a very active role in retaining these clients through participating in the bond market. Now, if we come to the loan markets, even in this quarter our corporate growth has been robust and met with our expectations. The total corporate book includes various types of assets not just the desirable segment of the corporates which you would like to grow but also non-performing loans, the restructured portfolio and so on. If you really knock it off, we do believe that we have a very good play across the segments of the mid corporate as well as large corporate. I think that effort will continue subject to our concentration risk management framework which we have talked about in the previous calls. So my sense is that whether it is a loan market or the bond market, we believe that we are ideally positioned to tap this market which we are doing in good measure already. So that is what I want to assure you. If we really look at the kind of growth we have seen in the desirable segment of corporate, it is actually in mid-teens even now. So we do believe that approach we will continue.

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

Vishal Goyal: Pretty strong fee income in this quarter despite disruptions and waivers on a lot of things. So it seems that this looks sustainable, but do you think, there was anything one-time, or anything which may not occur in the next quarter?

N.S. Kannan: If we look at the fee income, I talked about the bigger component of growth being retail and retail has grown at 18% levels on a YoY basis and within retail if you look at it, as you said, despite the pressures we have seen in terms of MDR fees or ATM fees because of demonetisation, net-net we still could put out 18% growth. This has also been made partly because of the third-party distribution fees, which had grown quite strongly. In terms of the forex fees, we have been able to activate a larger number of branches over the past few years now. So it is just that we are getting into situation, that we have talked in the past about growth in the fee income and from here we feel that the growth can be sustained. Of course, we will have to wait and see how it moves. But just to assure you, there is no big one-time thing here which has changed the numbers, it has been granular.

Vishal Goyal: So basically a double-digit growth we can expect, I was just trying to…?

N.S. Kannan: We have said that before that has always been our aspiration. So we are getting closer there now. That is what I would say, but I want to assure you that there is no one-time here and hopefully we will see it moving from here.

Vishal Goyal: Another question actually is on the watch list and outside watch list. It seems a lot of things are in pipeline right now within watch list. But what is outside watch list, the portfolio, we are seeing around 20-25% kind of NPA formation from that watch list. So apart from NPA, how is that watch list moving? Do you think in last one year there is incremental deterioration or you think that portfolio is improving only?

Rakesh Jha: Outside of the drilldown list, the stress which is there is more company-specific and it is not really anything, which is sector-specific maybe aside from say something like construction where the reason for us not including it into the key sectors was that a larger part of that portfolio already was either non-performing or restructured. Other than that it is a set of companies, which is across sectors. The other key difference compared to the drilldown exposure is that these exposures outside the drilldown list are less lumpy than the exposures that we have in the drilldown list. Of course, given that it is corporate exposure, there are I would say a few cases which are reasonably lumpy outside of the key sectors also. That is what we are monitoring closely. So as we have said from the beginning of the year, we expect higher part of the incremental NPA additions to come from the drilldown list or the restructured portfolio or linked to the existing NPA book. So, I think going forward, for the next couple of quarters also, we will see some pressure coming in from the outside of the drilldown list.

Vishal Goyal: Last quarter I think somewhere we said that NPAs should peak like by Q4. I am assuming, you will continue to believe that?

Rakesh Jha: I think we have said that for the year as a whole in FY2017, the NPA additions will continue to be elevated and so will the credit cost be. I think that is how it has turned out to be. There is no real change in that expectation. These exposures are indeed lumpy. So on a quarterly basis, it is very difficult to kind of say as to when it would peak.

Moderator: Thank you. The next question is from the line of Veekesh Gandhi from Bank of America. Please go ahead.

Veekesh Gandhi: So if I look at your SME book and business banking which probably make up for more or less the same, I mean the size might be different, but they add up to like 8%, 9% of your total loan book. If I look at your few other competition banks, they will be like close to 15%, 17%. So just wanted to get your thoughts on how are you looking to grow this book or probably it will be in this range for some time because I would like to believe that obviously the risk adjusted margin in these books are far better than let us say your AAA Corporate lending?

N.S. Kannan: If I look at the SME book, the growth was somewhat muted during the quarter because we had some repayments happening in this portfolio. Otherwise, in terms of our strategy, we have been incrementally doing more disbursements in this portfolio. The approach to this portfolio has been to further granulize the book in terms of ticket sizes. That is why it is taking a little longer. But both business banking and SME are growth segments for us. I agree with you on risk adjusted basis from here on they do present us a good opportunity. It is just that it is coming up because we are granulizing the portfolio in terms of ticket sizes further as we go along.

Veekesh Gandhi: So aside of the repayments that you would have seen, SME grew by some 6.5% and business banking by 12%. But on let us say medium to longer-term basis, can we expect like 15%, 20% growth combined?

Rakesh Jha: Yes, it should be there. Even if you look at the SME portfolio, actually if you look at the last couple of quarters on sequential basis the portfolio has been growing well. As Kannan mentioned, there were some exposures overall, which we had brought down in the portfolio. If you look at from last December 2015 till June 2016, the portfolio had declined actually, and from there on it has been growing and it will definitely be growing in the region of 15-20% going forward. Of course, if there are some disruptions overall in the economy, that I am keeping aside. Similarly, on the business banking side, the reason that the growth slowed down this year was because of the overall environment. Otherwise, again, there the growth should be closer to 15-20% and that is what our plan is.

Veekesh Gandhi: Just one small data point; your 55% of your retail book is home loans. In this how much will be LAP?

N.S. Kannan: Yes, Veekesh, within the home loan portfolio, LAP is around 17%.

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

Nilesh Parikh: Kannan, you mentioned that the Q4 also will see elevated slippages. Now, just wanted to kind of two months to get into the new financial year. Just wanted some color in terms of we still have about Rs.27,000 crores odd of these drilldown list still remaining to be resolved. On top of that, there is obviously about 1,500 of the non-fund based limits which are still standing there. I just wanted to get a sense when we talk about that Q4 being elevated and from there on, do we expect higher pace of resolutions coming through or we may have to look at something similar in terms of these slippages going forward, given that we still have about Rs. 27,000 crores of the drilldown list which needs to be resolved?

Rakesh Jha: Resolutions is something which we of course are working along with all other banks. As Kannan described in detail earlier that there are challenges there and the progress has been slow. So, we would be hoping that in the next financial year that pace of recovery should improve, but it is very difficult to be sure of that given the trend that we have seen in the last year or so. So while in a couple of larger exposures we have been able to make significant progress, but there are other exposures where similar progress has not been made. So the effort will definitely be there to improve recoveries and we are hopeful of that happening, but we cannot be certain on that. Of course, we will give a much better sense of the FY2018 numbers in terms of our expectations of slippages when we come out with our full year results. Overall I think from a year as a whole, again, as we have said earlier, given the numbers which we are running in the current financial year, the overall additions in FY2018 will definitely be lower, but how much that reduction is, is something that we can talk about once we announce our March quarter results.

Nilesh Parikh: These non-fund based limits are part of the NPLs, bulk of that has already flown through in terms of the NPLs. What were the balance like given that are we seeing any kind of positive movement on the balance or it is just a matter of time that slips into NPLs there?

Rakesh Jha: It is actually a mix. Some of it would be something like a financial guarantee, which more likely would get invoked at some stage, some of it could be the performance kind of guarantee which may not get invoked. So I can say that it would not be as lumpy as what we have seen in the current quarter, but there would be some of this which gets converted into fund-based going forward on QoQ basis.

Nilesh Parikh: So just these are from the existing NPLs right?

Rakesh Jha: Yes, the non-fund exposure that we have in the drilldown list, in addition to that we have Rs.15.84 billion of non-fund based exposure to NPAs.

N.S. Kannan: So this we have been disclosing for the last 2-3-quarters. In slide 32 if you see the 5th footnote, it talks about the non-fund based outstanding of borrowers classified as non-performing at Rs.15.84

billion, this number was close to Rs. 32-33 billion in the previous quarter. So that is where you have seen the slippage happening in this quarter. As Rakesh mentioned, this will be a combination of performance guarantees and financial guarantees. Financial guarantees are more likely to get invoked. Performance guarantee, as long as the company is running and then they are performing on the contract, they may not get invoked, so that will be the difference. It will be a mix of those two in the balance.

Moderator: Thank you. The next question is from the line of Parag Zariwala from Religare Capital Markets. Please go ahead.

Parag Zariwala: What is your non-fund-based outstanding to the restructured assets and is that a part of a watch list number, or how do you classify that?

Rakesh Jha: We would have non-fund-based limits to restructured loans, it will be approximately Rs.20 billion.

Parag Zariwala: It has not been included in the below investment grade category, right. So that can potentially also once funded or something that is devolved, to NPAs, it can also flow into the addition numbers, right?

Rakesh Jha: Loan outstanding number that we have, it can flow into that. These are standard restructured loans, which have the non-fund-based limits like any other borrower. That is about Rs.20 billion.

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

Manish Karwa: I just wanted to understand on the NPLs which have happened, what is the quantum of NPLs on which you are still getting some cash interest, and has that trend changing for the better in this quarter versus the previous quarters? Are you seeing better things like steel companies in this environment are doing reasonably well.

So I would assume that a lot of steel NPLs that you would have, they would be paying you some cash interest?

N.S. Kannan: Yes, that is true, it is really a case-to-case basis and with respect to steel, yes, we are getting interest because EBITDA is being generated. But it is really case-by-case Manish.

Manish Karwa: But would you say that it is only for the steel sector and hence not happening for other sectors on the NPLs. I am trying to gauge, what kind of recovery that you could potentially get if things get better in some of these sectors especially in steel as we are seeing?

N.S. Kannan: During the quarter if you look at our NPL collection, we have been getting in some smaller cases, not just steel.

Manish Karwa: But that trend apart from steel probably has not changed in any other sector?

N.S. Kannan: That is right.

Manish Karwa: In your drilldown list that you give, what will make you upgrade sectors like say as cement, promoter entities, where we know that deals have almost consummated and at some stage you probably will upgrade it, but what is the trigger that you are looking for?

Chanda Kochhar: It should be completed.

N.S. Kannan: So in those cases, I think effectively the whole deal will have to get completed in cases where it is being sold off, those assets are being sold off to another better entity, it will get upgraded when it really becomes exposure to that entity. That has to be consummated. So that is why the exposure continues to be in the list.

Manish Karwa: Rakesh, I just wanted to reconcile the standalone with the consolidated number. If I just add all the profits that you have for all the subsidiaries and just subtract the minority interest, it does not work that way. Is it something which I am missing in between?

N.S. Kannan: Have you looked at the dividend? I think the two big items are dividend from subsidiaries and the minority interest.

Manish Karwa: But in this quarter, there was not any dividend, right?

N.S. Kannan: As I mentioned in my remarks, there was about Rs. 4.5 billion of dividend from the subsidiaries during the quarter.

Manish Karwa: So that would be the main thing?

N.S. Kannan: Yes. Also, we will have to look at the Bank's current holding in those companies, where we have had some stake sale in subsidiaries, we will have to adjust for that in terms of the current stake. So those would be the two reasons.

Rakesh Jha: If you are looking at the 9M-2017 number, one additional reason will be that inQ2-2017 when we sold part of our shareholding in ICICI Life, in the consolidated financials, the cost would be different from the standalone financials. We had disclosed at that time that the gains were lower by about Rs.5.5 billion in the consolidated financials.

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

Adarsh P: I had a question on margin. So you mentioned the overseas margin fell to 0.8%, was it right?

N.S. Kannan: Yes, it is correct, and I also mentioned that it is primarily on account of stopping of accruals on the slippages into NPL of foreign currency loans.

Adarsh P: Sorry if I missed that, but what is the NPA percentages or what has been the movement in the overseas book?

N.S. Kannan: When we disclosed the overall number of Rs.70 billion of slippages, that includes both domestic as well as overseas branches if it is lent in the form of foreign currency loans to those borrowers.

Adarsh P: Is it safe to say that some part of this will mean revert, because it will be more interest reversals rather than just an NPA increase, so you will see some of it come back, what is the more sustainable overseas margin number now?

Rakesh Jha: So, it will definitely mean revert, but in the near-term because the NPA additions would still be there, there would be some more incremental impact which would be there. So to that extent it would not go back to the earlier level immediately. So the sustainable margin on the overseas book should be closer to 1.4-1.5%. But given the level of NPAs which have happened over the last year or so, it will take some time to get back to those levels.

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

Rakesh Kumar: So the first question is related to the watch list thing. So in the starting of the year, we had Rs. 525 billion of watch list and restructured loans and in the nine months we have seen slippage of close to Rs.233 billion, out of which Rs.121 billion is from the watch list and remaining from restructured and non-funded devolvement. But all the remaining slippage has actually come from non-watch list, that is close to around 30%. So going ahead from here like how do we see that how much slippage would come from the non-watch list, because the percentage number 30% of the total slippage is coming from the other areas is a large number actually.

Rakesh Jha: To be more precise, it is something in the region of around 24-25%, because part of the NPAs have come from the retail portfolio as a normal run rate which is there. So I think one thing is that from the beginning of the year when we said that large part of NPAs will come from the identified sectors, it is around these kinds of levels, which we talked about. So even going forward there will be additions which will come from outside of this drilldown list and the restructured loans and the NPA-related portfolio. Overall, there is clearly still some stress in the economy which is there, and these are borrower-specific, company specific issues. These are not a single sector specific thing which we have covered in the drill down exposure list.

Chanda Kochhar: We had always said that we are giving a drill down of the below investment grade companies in these specific sectors. There could be stress outside these sectors as well.

Rakesh Kumar: Secondly, the recognition of the NPL in the Canadian subsidiary, was that related to the Indian steel company, the loan given in the US?

Rakesh Jha: In the current quarter, there was no significant addition to NPAs in the Canadian subsidiary, this was more provisions taken on the existing NPAs in the Canadian subsidiary.

N.S. Kannan: Yes, it is Indian borrower group linked and not a steel company and it had already become NPL in the past. The good news there is that, the net NPA ratio has come down to 0.4% now as of December. So it is more like providing for something which has been already recognized that has happened in the Canadian book.

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

Suresh Ganapathy: Have you used the RBI dispensation for small value accounts?

N.S. Kannan: Yes, we have gone by the circular and we have availed of that dispensation for loans aggregating to approximately Rs. 1 billion. It was not a big number in the overall context of the bank.

Suresh Ganapathy: Any qualitative feedback on how SMEs are doing because we are hearing a lot of negative development even ahead of GST and also because of demonetisation, quite a lot of stress in that sector. So do you think there can be some negative surprises from that segment?

N.S. Kannan: So, as we had discussed earlier, that SME portfolio itself as a percentage, it has come down to about 4.6% of loans and is a much more granular book now. We do not see any disproportionate stress going forward. Some of the very small cases, we also got some prepayments. So we do not see any significant negative impact going forward due to demonetization or otherwise.

Suresh Ganapathy: Finally, the growth of course in ICICI Prudential premiums have been pretty good. What explains this because it is quite surprising in demonetisation quarter you have got such a large premium flow… had there been cash deposits which have been accepted at the life insurance company and therefore the premium sales have been strong, what explains this dichotomy which has happened?

N.S. Kannan: It is completely based on the company's strategy and the bank distribution which has worked very well. If you look at the company itself they stopped accepting cash premiums two years back. So that is probably one of the few companies which has stopped accepting premium by cash. So I do not think that would have made any difference. It is overall distribution working well and the company has set up customer-friendly products, doing well during this period. So I do not see any other factor really coming in which has led to the growth.

Anindya Banerjee: Also while indeed ICICI Bank is a large distributor, the bancassurance mix of the company has ranged around about 60%, lower in some quarters, maybe little higher in others. All the channels have grown.

Suresh Ganapathy: What about the company's view on the open architecture model? Will you guys be receptive towards it or is the Board thinking of considering such a case in future, any such feedback on that?

Anindya Banerhee: The option of open architecture is already there. The Bank has so far not exercised it.

Moderator: Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: Just two clarifications; in between the quarter, RBI had come out with the guideline related to SDR and S4A interest accounting. Any impact of that in the current quarter margins?

Rakesh Jha: That impact has not been there for us. We actually have been not accruing on these loans from the earlier quarters itself. So there was no one-off impact for the Bank.

Alpesh Mehta: We are not accruing interest on all these loans? In terms of overlap or for the watch list versus the SDR, S4A, I believe entire portfolio is largely there in the watch list, right?

Rakesh Jha: I think Kannan, gave the numbers of the total SDR that we have implemented of about Rs. 34 billion, Rs. 28 billion were loans already classified as NPA or restructured or were in the drill down list, so the balance Rs. 6 billion is outside of it. Similarly, the performing loans where we have implemented 5/25 refinancing aggregated to Rs.33 billion of which about Rs.24 billion is from the drilldown list and the balance Rs.9 billion is outside of it.

Alpesh Mehta: What is the share of retail fees in the overall fees?

Rakesh Jha: Slightly over 70%.

Alpesh Mehta: If you guys can send the PPT earlier because it was after the call started, we received after 15 minutes.

Rakesh Jha: Yes, I think we got delayed this time, we will ensure that in future.

N.S. Kannan: I am sorry, we will ensure that in the future.

Moderator: Thank you the next question is from the line of Srinivasan R from IDBI Federal Life. Please go ahead.

Srinivasan R: Just wanted to quickly check if we could get some sense in terms of what is the total proportion of MCLR-linked loans in your overall book and more specifically if you can talk about within the home loan segment what it is and some trends if you can throw some light?

Rakesh Jha: Of the domestic book, about 20% is linked to MCLR at December 31, 2016.

Srinivasan R: Within home loans, is there anything that you could comment on?

Rakesh Jha: Within home loans, it is largely floating and will be linked to the various benchmarks which are there.

Srinivasan R: Any sense in terms of how it has moved over the last two-three quarters, from what percentage it has increased to 20%?

Rakesh Jha: I do not have the numbers. It started off from April 1, 2016, so every quarter it has been increasing since incrementally all floating rate loans are MCLR-linked.

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

Nilanjan Karfa: With respect to the cost of funds, how low can we go because when I look at the gone quarter it looks like large part of net flow has been of the lower cost funds? So as we move towards the next few months and deposits kind of move out, should we expect MCLR to start going up or do we have the other four or five different variables that can be tweaked to keep the cost of funding lower, not just for you, but obviously the sense of how the banking system would be thinking about this?

Rakesh Jha: On the cost of funds actually there are not too many variables. One is the proportion of CASA Deposits; second is the interest rate on the CASA Deposits; and third is the interest rate on term deposits. In the near-term, given the amount of liquidity, which has come in the system and the overall general lack of credit demand, one would expect that on the deposit cost, the term deposit cost, banks should still have the ability to at some stage maybe lower interest rates further from the current level also. So that is something which could kind of keep the overall cost of funding on the lower side going forward. That is how we have to look at it. Of course, the overall CASA percentage, there will be a decline which will happen for the banking system as some of these deposits get withdrawn or deployed alternatively by the customers. We will have to see how gradual that decline is, but there is still some ability that the banking system would have in reducing the interest rate on term deposits.

Nilanjan Karfa: On the 5/25 and SDR, correct me if I am wrong, I think last quarter, did we said 5/25 outstanding was about Rs.27 billion and now it has gone up to Rs.33 billion, so what has gone up? Is it drawdown on existing sanctions?

Rakesh Jha: No, we implemented 5/25 additionally in those cases.

Nilanjan Karfa: Could we have that new additions please, the standard ones which are obviously not in watch list or restructured?

Rakesh Jha: So that is the number which you said. Rs. 27 billion of implemented 5/25 refinancing at September 30, 2016 went up to Rs.33 billion at December 31, 2016. Accordingly, Rs. 6 billion was implementation that we had in the current quarter.

Nilanjan Karfa: On the same basis, additions for SDR implemented would be about Rs. 5 billion?

N.S. Kannan: Yes.

Rakesh Jha: So that is the outstanding number on QoQ basis.

Nilanjan Karfa: Could we have the number of employees as of December quarter-end?

Rakesh Jha: The employee count was about 80,900 at December 31 compared to about 80,475 at September 30.

Nilanjan Karfa: What is the strategy of retaining the savings accounts? Current Account, I am sure will flow out to a very large extent. Or is it totally beyond any one's control?

N.S. Kannan: On the savings accounts, it is really continuing to enhance the franchise considering that it is a transaction account, the more and more we make it sticky in terms of giving all the benefits of transaction including through digital channels to the customers rather than paying additional interest. In the opening remarks that is what we had mentioned that even during this demonetization period, the customers franchise got further enhanced through our digital solutions. So I think the key for us is that to make sure that we give more and more transaction capabilities through the savings account to our customers. including through the digital payment channels, various utilities payments and whatever the day-to-day management of funds, if we can manage it through the facilities that we give the Savings Bank account, that is the way we believe that we can enhance the franchise. That has been our clear approach and that is what we have pushed over years.

Nilanjan Karfa: A couple of other banks have said they would be able to retain 30%? Do you think that is reasonable number to work with?

N.S. Kannan: I do not think we are in a position today to predict really how much will stay, but our endeavour would be to make sure that on an average basis not looking at the period end so much, we will continue to focus on growing CASA deposits. We will have to wait for a couple of months before we can really make a statement on how much of the deposit flows in the demonetisation period could be retained.

Nilanjan Karfa: When I look at the loan book, substantial increases happened in the personal loans and credit cards, it also looks like the proportion of financing in vehicle loans has gone up, I think probably in a historical sense as well. Should we be worried about it? Given demonetization and obviously we are still not sure how this is going to pan out, do you think the CIBIL score itself are sacrosanct?

N.S. Kannan: So far as our experience is concerned, the scores have been indeed sacrosanct. If we look at our own month on book scores compared to the vintage, we are well within our own estimates of any asset quality pressures in these books. With respect to unsecured retail loans, our focus has been to cross-sell to our existing customers through our branches. I think as long as our focus is there including usage of CIBIL scores, we do believe that this would be a robust portfolio. At this level of only about 4.4% of the overall loan book as of December, we do not have any concerns on this portfolio.

Moderator: Thank you. The next question is from the line of Manish Agarwalla from Phillip Capital. Please go ahead.

Manish Agarwalla: We understand that a lot of large accounts are on the verge of resolution, where we have to take some kind of haircut. So what kind of coverage ratio do you think is a comfortable one for you?

Rakesh Jha: We have said in the past that around the existing coverage ratio. Based on our past experience through the last cycle, we are quite comfortable at the current levels. It is just that mathematically that number will change depending on the incremental slippages and you would see it going up only when there is some abatement on the incremental slippages for the quarter, because we do provide based on the income recognition and asset classification norms of

RBI. So we will have to really wait for it to happen before the ratio can be taken up. But to answer your question specifically, we are okay with the existing provision coverage ratio for NPLs.

Manish Agarwalla: Can you share what is the non-funded exposure for Rs. 275 billion of balance drilldown list?

N.S. Kannan: Just to clarify, the Rs.275 billion includes the non-fund-based exposure in respect of those assets, these are all non NPLs. The other one we talked about relates to NPAs because NPA ratios are calculated based on the fund-based outstanding and accordingly, we have separately disclosed the non-fund based outstanding relating to fund-based exposures which have been classified as non-performing. So that number was about Rs. 33 billion as of September and has come down to about Rs. 16 billion as of December.

Manish Agarwalla: So the Rs.275 billion includes total exposure?

Chanda Kochhar: Yes, for the drill down it is both non-fund and fund included together.

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

Nitin Agarwal: Sir, if I look at the equity investment in subsidiaries, there is an increase in the equity investment in the Canadian subsidiary. So what has actually driven that because I believe in the past we have been looking to repatriate capital back?

N.S. Kannan: We have not infused any further capital in ICICI Bank Canada and there is no increase in our investment.

Nitin Agarwal: If you can quantify the interest reversal that you have done on the overseas assets this quarter?

Rakesh Jha: We do not disclose separately the interest reversals on accounts.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Can you share some details on how your retail loan disbursements are looking like in the month of January? How do the disbursement compare with December levels?

Rakesh Jha: In the month of November the disbursements came down and we saw some of that going back to a higher level in the month of December. For the current March quarter, we will talk about it once the quarter ends, it is just too early to kind of talk about that, but overall we do expect that from the much lower levels of disbursements that the industry and we saw in the month of November, there would be an improvement which we will continue to see.

Pankaj Agarwal: But do you think that overall disbursements in March quarter would be at the level of pre-demonetization levels or it would take more time before you reach those levels?

Rakesh Jha: Difficult to say because interest rates have come down, so that should be good for the customers. We have said that by the month of March, we will expect things to go back to the earlier levels, now whether for the full quarter it is there or not, we will have to see.

Pankaj Agarwal: Out of your total loan book, how much is floating rate loan book?

Rakesh Jha: About 76% of the domestic book is floating rate.

Pankaj Agarwal: Out of that about 20% will be MCLR and 55% would be base rate, right, that is the right interpretation?

Rakesh Jha: Yes.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from JM Financial. Please go ahead.

Abhishek Murarka: So just one data keeping question. What is the outstanding SRs with you right now?

Rakesh Jha: It is about Rs.28 billion

Abhishek Murarka: So it is the same as the last quarter?

N.S. Kannan: Yes, we did not sell much.

Abhishek Murarka: S4A I believe is nil anyways?

Rakesh Jha: Yes, we had not implemented S4A for any asset as of December 31.

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

MB Mahesh: One, on the CASA ratio side for the month of Jan, is this number on an average basis up or down, just a qualitative feedback on how sticky the CASA ratio is as we speak today? The second question is on the resolution that you are kind of discussing with various parties, what kind of haircuts are being kind of discussed out here and do you have sufficient coverage based on these numbers? Specifically, if you can discuss on the power sector side the reduction that you have seen this quarter, is it more driven by better performance of the company, and if you could give your overall sense on the power portfolio as well?

Rakesh Jha: On the CASA side, I think we would not want to comment on the trends in January. As we said earlier, we will have to see the overall trend in terms of withdrawals or reduction on the CASA Deposits during this quarter. It is too early for us to kind of have a sense on that. On the drill down exposure, the movement which was there on the power sector was not really to do with an improvement in the company's performance. So that is not the scenario there. Overall, I think as Kannan mentioned, in terms of the coverage ratio that we have on the NPAs, we believe that given the past trends in the portfolio that is something which would be adequate. Of course it is lower than the coverage ratio that we used to have till a few quarters back and that reduction has happened because of the increase in the NPAs. But overall, given the past experience, we would still be fine with the kind of coverage that we have. In terms of the various resolutions that we are working upon, the amount of sacrifice involved would vary from case-to-case and the case itself could be an NPA, restructured loan, or in the drilldown list. It is very difficult to kind of give an overall comment on that. From our perspective, we would want to look at resolutions, and we believe that we hold adequate provisions for working on a progressive resolution as long as all the banks are also doing that.

MB Mahesh: Just one question on that, on the power side, in your overall portfolio, given that this particular portfolio has not seen too much of impairment so far. Where are you seeing this going in the next one year or so?

Rakesh Jha: I think in terms of the overall power sector, if you look at the portfolio which is there in the drilldown list itself when we started the year, that is the portfolio which is the below investment grade portfolio and reflects the stressed part of the power portfolio. In addition to that there is just this one exposure that we have which is that the gas-based power plant which is there, which we have given as a part of footnote on Slide 32. In terms of the overall stress, it is captured in the drilldown list. Beyond that I do not think we have really any concerns.

MB Mahesh: Just one clarification; you are not seeing any additions at all in the sub-investment grade is it, in these portfolios?

Rakesh Jha: In these portfolios, again, as we had mentioned in the month of April that a very comprehensive exercise has been done by the risk team over the last couple of years to ensure that the internal credit ratings reflect the risk in the portfolio. So that is why we were pretty confident that we would not really be seeing any significant downgrades. We had seen some downgrades of a small amount in the last quarter. We have seen, for example, some downgrades outside of these sectors also. However, in these sectors we have not seen any lumpy downgrades at all.

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

Rohan Mandora: Sir, if you could just share how is the fresh sanctioning pipeline for home loans as well as other retail products post-demonetization? How is the trend there and what is the outlook going ahead?

Rakesh Jha: After the slowdown in the month of November, we have seen an improvement which has happened in the month of December. As I said earlier, we will see this quarter how it goes, the lowering of interest rate should definitely help, but there is of course an overhang of the expectation of customers on the property prices. We would expect under the normal circumstances over the next two-three months things should get back to normal levels.

Rohan Mandora: Are there sufficient number of inquiries that are coming in, may be geographically if there is some trend that you could share?

Chanda Kochhar: There is an overall increase in December and further an overall increase in January, actually it is not geographically very different.

Moderator: Thank you. The next question is from the line of Jinal Fofalia from Alfa Advisors. Please go ahead.

Jinal Fofalia: Sir, could you just tell us the disbursement growth for the previous quarter?

N.S. Kannan: We actually do not disclose the disbursement numbers.

Moderator: Thank you. The next question is from the line of Karthik V from Investec. Please go ahead.

Karthik V: Can you explain the increase in our restructured book despite the slippage of Rs. 2.39 billion? And the increase in our NPAs for the home finance subsidiary?

Rakesh Jha: On the restructured loans space, there were a couple of small cases which got restructured during the quarter which were projects on implementation. The amount of outstanding net restructured loans was just marginally higher compared to the September levels. With respect to your second question, in the ICICI Home Finance Company there was one mid-sized real estate exposure which slipped into the NPA bucket during the quarter, and that is the reason why the NPA ratio went up for the company.

Karthik V: Does the overall economy or the Bank's performance give you confidence to come out with guidance in terms of metrics like credit costs or margins?

Chanda Kochhar: Actually, the whole impact on credit costs and margins will depend on a lot of factors around the ecosystem including not just what changes happen in the economy or the specific industries, but how the ecosystems move around decision making of banks, around the legal processes and so on. So I think it is not very prudent to give quarter wise forward-looking statements.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Ms. Chanda Kochhar for closing comments.

Chanda Kochhar: I think we had extensive comprehensive set of questions and discussion. So thank you all for sparing the time.

Moderator: Thank you. On behalf of ICICI Bank, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

Note: The following corrections have been made in "ICICI Bank: Investor Presentation on Performance Review –9M-2017" dated January 31, 2017:

1. Slide 63: the proportion of loans & advances in total assets for ICICI Bank UK has been changed from 78.4% to 68.6%. Similarly, the proportion of cash & liquid securities has been changed from 1.8% to 11.6%.
2. Slide 66: risk weighted assets have been changed from ₹ 6,277.40 billion to ₹ 6,227.40 billion

The revised presentation is available on the following link:

https://www.icicibank.com/managed-assets/docs/investor/quarterly-financial-results/2017/2016_Q3-2017_Investor_presentation.pdf