ICICI Bank Limited
Earnings Conference Call – Quarter ended March 31, 2018 (Q4-2018)
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Moderator: Ladies and gentlemen, good day and welcome to the ICICI Bank Q4-2018 Earnings 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 now hand the conference over to Ms. 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. Our Board has today approved the financial results of ICICI Bank for the year ended March 31, 2018. We have been working on the strategic priorities in our 4x4 Agenda, covering Portfolio Quality and Enhancing Franchise. I am happy to say that we have made significant progress in executing this strategy. I will make brief opening remarks in this context and then Kannan will take you through the details of the results

1. Over the years, we have been able to build a very granular, robust and low cost deposit base. The Bank's average CASA ratio improved from 39.5% in FY2015 to 45.6% in FY2018. The cost of deposits in FY2018 was less than 5%, which is the lowest in the last decade

2. We have de-risked our balance sheet quite substantially
3. The proportion of retail loans in total loans increased from 39.0% at March 31, 2014 to 56.6% at March 31, 2018, and the proportion of overseas loans in total loans reduced from 26.5% to 12.6%
4. The rating mix of our disbursements has changed significantly. About 87% of the disbursements in FY2018 in the domestic and international corporate portfolio were to corporates rated A- and above
5. We saw significant improvement in our concentration risk ratios. Our exposure to the top 10 borrower groups as a percentage of total exposure reduced from 20.3% at March 31, 2014 to 14.3% at March 31, 2018
6. Talking about our exposure to the top 20 borrowers - 96.0% of that exposure is to the A- and above internal rating category compared to 68.7% at March 2014
7. The Bank's aggregate exposure to power, iron & steel, mining, cement and rigs, which were identified as key sectors in the context of the challenging operating environment, reduced from 14.8% of total exposure at March 31, 2014 to 10.1% of total exposure at March 31, 2018
8. The Bank has played a key role in some of the large asset resolutions in the country. Recoveries and upgrades from non-performing loans increased from 25.38 billion Rupees in FY2017 to 81.07 billion Rupees in FY2018
9. We continue to be at the forefront of offering technology-enabled services to our customers. The share of digital channels like internet & mobile banking, POS and call centre in total savings account transactions increased to 82% in FY2018. In another significant initiative, we have on-boarded 250 corporates on our blockchain platform for domestic and international trade finance.
10. Since 2016, the Bank has unlocked more than 100.00 billion Rupees of capital in its subsidiaries and has successfully demonstrated the value created in these subsidiaries. The market capitalisation of our listed subsidiaries, today, is in excess of

1,000.00 billion Rupees and our residual stake is valued in excess of 600.00 billion Rupees

11. The Bank's capital position is strong with a Tier 1 capital adequacy ratio of 15.92% at March 31, 2018

As you can see from the above, we have made significant progress in de-risking the balance sheet. The steps we have taken in the past few years are expected to impart stability to asset quality as the current cycle abates. The Bank has continued to enhance its franchise, and this will enable us to achieve growth in business and core operating profits. We believe we are well-positioned to grow our core operating profits while reducing the credit costs.

As we look ahead, the Bank's strategy would be anchored around three key anchors: Preserve, Change, Grow.

1. Firstly, we will focus on Preserving our robust funding franchise and digital leadership
    a. Our target is to maintain our average CASA ratio at 45% and the proportion of retail to total deposits at over 70%
    b. We will also continue to offer best in-class digital offerings for customers and automate internal processes for increased efficiency
2. Under our 'Change' anchor:
    a. We have adopted a new approach to corporate lending. We have set up hard limits for group and borrower exposures, based on internal rating and track record. The group exposure limits (other than selected highly rated Indian and global conglomerates) are substantially lower than the regulatory limits
    b. We will also continue to change our loan portfolio mix. We have set a target that by March 2020, retail loans as a proportion of the total loans would be over 60.0% and the proportion of the overseas loan portfolio in total loans would reduce to below 10.0%

   c. We will focus on recoveries and resolutions. By March 2020, we target to bring down the net NPA ratio to below 1.5%
   d. We will increase our provision coverage ratio to over 70% by March 2020

3. Our third anchor 'Grow' will focus on driving growth in core operating profits & loan portfolio, and leveraging the synergy across our group companies
   a. We will grow domestic loans at above 15% with retail loan growth of above 20%
   b. Within retail, we will target a growth of 35% in business banking, over 40% in personal loans & credit cards and 15% in mortgages
   c. As a Group, we have created certain strengths that are unique to us in the form of a financial conglomerate. Our insurance, asset management & securities businesses would focus on the savings and protection opportunities along with market leadership and value creation

In summary, through our three anchor strategy of Preserve, Change and Grow, we will target growth with quality and sustainability. We aim to achieve a consolidated return on equity of 15% by June 2020.

I will now hand over to Kannan

N.S. Kannan: I will talk about our performance on growth and credit quality during Q4 of 2018. I will then talk about the P&L details and capital.

A. Growth

The domestic loan growth was 15.1% year-on-year as of March 31, 2018 driven by a 20.6% year-on-year growth in the retail business. Within the retail portfolio, the mortgage and vehicle loan portfolios grew by 17% and 15% year-on-year respectively. Growth in the business banking and rural lending segments was 40% and 20% year-on-year respectively. Commercial vehicle and equipment loans grew by 16% year-on-year. The unsecured credit card and personal loan portfolio grew by 41% year-on-year, off a relatively small base, to 302.46 billion Rupees and was about 5.9% of the overall loan book as of March 31, 2018. We continue to grow the unsecured credit card and personal loan portfolio primarily driven by a focus on cross-sell to our existing customers.

Growth in the SME portfolio remained steady compared to the last quarter, at 14.7% year-on-year at March 31, 2018. The SME portfolio constituted 5.0% of total loans as of March 31, 2018.

We saw continued growth in domestic corporate loans. Excluding net NPAs, restructured loans and loans internally rated below investment grade in key sectors at the period-end, growth in the domestic corporate portfolio was 17%.

At the same time, there was a reduction in some parts of the balance sheet. Net NPAs, restructured loans and loans to companies internally rated below investment grade in key sectors at March 31, 2018, declined by 42% year-on-year.

The net advances of the overseas branches decreased by 14.1%.

As a result of the above, the overall loan portfolio grew by 10.4% at March 31, 2018.

Coming to the funding side: we saw a very healthy growth in CASA deposits of 292.90 billion Rupees in Q4 of 2018 and 431.04 billion Rupees in FY2018. CASA deposits grew by 17.5% year-on-year and the CASA ratio was 51.7% at March 31, 2018. On a daily average basis, the CASA ratio was 45.9% in Q4 of 2018. Total deposits grew by 14.5% year-on-year to 5.61 trillion Rupees as of March 31, 2018.

B. Credit Quality

Gross NPA additions had declined sequentially during the first three quarters of fiscal 2018. However, during Q4 of 2018, gross additions to NPA were elevated at 157.37 billion Rupees. This included 99.68 billion Rupees of loans which were under RBI schemes and were classified as standard as on December 31, 2017. The Revised Framework for Resolution of Stressed Assets issued in February 2018 discontinued these schemes.

The retail portfolio had gross NPA additions of 7.05 billion Rupees and recoveries & upgrades of 5.59 billion Rupees during Q4 of 2018.

Of the corporate and SME gross NPA additions of 150.32 billion Rupees, 136.35 billion Rupees or about 90% were from: restructured loans; the drilldown list; accounts under RBI schemes; devolvement of non-fund based exposure; and increase in outstanding due to exchange rate movement in accounts classified as non-performing in prior periods. The balance included exposure to a borrower group in the gems and jewellery sector, rated BB, which was classified as fraud.

The aggregate deletions from NPA due to recoveries and upgrades increased to 42.34 billion Rupees in Q4 of 2018 compared to 11.08 billion Rupees in the preceding quarter. The gross NPAs written-off during the quarter aggregated 29.95 billion Rupees. The Bank sold gross NPAs aggregating to 4.84 billion Rupees during the quarter for 100% cash consideration.

The provision coverage ratio on non-performing loans, including cumulative technical/ prudential write-offs, was 60.5% at March 31, 2018 compared to 53.6% at March 31, 2017.

The Bank's net non-performing asset ratio was 4.77% as of March 31, 2018.

The net standard restructured loans were at 15.53 billion Rupees, about 0.3% of net advances. The non-fund based outstanding to companies in the restructured portfolio was 3.96 billion Rupees as of March 31, 2018.

Loans under the remaining RBI schemes (change in management for project under implementation, 5/25, S4A), which have been fully implemented, were 30.15 billion Rupees, as of March 31, 2018. In addition, non-fund based outstanding to borrowers under S4A, other than standard restructured cases, aggregated 14.97 billion Rupees as of March 31, 2018.

Moving on to the drilldown list now, the aggregate fund based limits and non-fund based outstanding to companies that were internally rated below investment grade in the key sectors and promoter entities, that is, the drilldown list, decreased from 190.62 billion Rupees as of December 31, 2017 to 47.28 billion as of March 31, 2018. On slide 31 of the presentation, we have provided the movement in these exposures between December 31, 2017 and March 31, 2018.

- There was a net decrease in exposure of 8.39 billion Rupees
- There were rating upgrades of exposures of 0.09 billion Rupees during the quarter
- There was a reduction of 122.52 billion Rupees due to classification of certain borrowers as non-performing including accounts under RBI schemes that were classified as standard at December 31

Till December 2017 we were including the non-fund based outstanding in respect of accounts in the drilldown list where the fund based portion had been classified as non-performing in earlier periods. At the year end, we have excluded the same from the drilldown. The same is reflected in the movement in the drilldown list for Q4 of 2018. The total non-fund based outstanding to borrowers classified as non-performing, including the above, was 29.80 billion Rupees as of March 31, 2018.

To summarise, as of March 31, 2018, the aggregate gross standard restructured loans, the drilldown list, fund based and non-fund based outstanding of borrowers under fully implemented RBI schemes, and non-fund based outstanding to non-performing and restructured accounts, excluding overlaps, were 133.65 billion Rupees.

At March 31, 2018, excluding NPAs, restructured loans, loans under RBI schemes and the drilldown list, the maximum single party BB and below rated outstanding was below Rs. 6 billion. This does not consider one sugar borrower which was classified as non-performing in Q3 of 2018 and subsequently resolved and upgraded to the standard category during the fourth quarter.

During FY2019, NPA additions are expected to be significantly lower than FY2018. The impact of the Revised Framework for Resolution of Stressed Assets will need to be closely monitored.

During Q1 of 2018, RBI had directed banks to initiate insolvency resolution process for 12 accounts. At March 31, 2018, the Bank had outstanding loans & non-fund facilities amounting to 60.42 billion Rupees & 1.94 billion Rupees respectively to such accounts. The provisions held against the outstanding loans were 52.6% at March 31, 2018.

Further, during Q2 of 2018, RBI had directed banks to initiate the insolvency resolution process for certain accounts under the provisions of IBC by December 31, 2017, if a resolution plan where the residual debt is rated investment grade by two external credit rating agencies was not implemented by December 13, 2017. At March 31, 2018, the Bank had outstanding loans & non-fund facilities amounting to 91.87 billion Rupees & 8.38 billion Rupees respectively to such accounts. The provisions held against the outstanding loans increased from 36.4% at December 31, 2017 to 47.8% at March 31, 2018.

All of the above loans are classified as non-performing. As of March 31, 2018, banks were required to make a provision of 40% on secured loans, or provision as per extant RBI guidelines on asset classification norms, whichever was higher. The Bank holds 100% provision on unsecured loans. Additional provisions of about 10.00 billion Rupees would be required to be made, over and above the ageing based provisions, against both list 1 and list 2 accounts in Q1 of 2019. The provision requirement is in line with the RBI requirement of reaching 50% provision on the secured portion of debt by June 30, 2018.

C. P&L Details:

The net interest margin improved to 3.24% in Q4 of 2018 compared to 3.14% in Q3 of 2018. The domestic NIM improved to 3.67% in Q4 of 2018 compared to 3.53% in Q3 of 2018. International margins were muted at 0.04% in Q4 of 2018, due to non-accrual of interest income on NPAs.

There will be a near term pressure on net interest margin relative to the Q4-2018 level due to the shift of loans to the MCLR benchmark from the base rate benchmark, reductions in the base rate and non-accrual of interest income on non-performing assets. Thereafter, as these factors abate and resolutions come through, we should see an improvement in margins in the later part of the current financial year.

Total non-interest income was 56.78 billion Rupees in Q4 of 2018 compared to 30.17 billion Rupees in Q4 of 2017

- Fee income grew by 12.6% in Q4 of 2018 to 27.55 billion Rupees. For the full year, fee income grew by 9.4% to 103.41 billion Rupees. Retail fee income grew by 15.7% and 14.1% in Q4 of 2018 and FY2018 respectively. It constituted about 73% of overall fees in FY2018

  We would target double digit fee income in FY2019. The growth in fee income would continue to be driven by retail businesses.

- Treasury income was 26.85 billion Rupees in Q4 of 2018 compared to 5.03 billion Rupees in Q4 of 2017. Q4 of 2018 included gains related to sale of shareholding in ICICI Securities aggregating 33.20 billion Rupees.
- Other income was 2.38 billion Rupees in Q4 of 2018 compared to 0.68 billion Rupees in Q4 of 2017. There was a reversal of 2.88 billion Rupees of exchange rate gains related to overseas operations in Q4 of previous year, which was recognised earlier as other income in 9M of 2017. Other income included dividend income of 2.23 billion Rupees in Q4 of 2018.

On Costs: Operating expenses increased by 8.2% year-on-year in Q4 of 2018 and 6.4% for the full year 2018. The Bank had 82,724 employees at March 31, 2018.

The Bank has made significant investments in human resources and distribution in recent years. Going forward, the Bank would continue to focus on fully leveraging existing resources and infrastructure. Accordingly, the Bank would target to contain the growth in operating expenses to low double digits year-on-year. The growth would mainly be towards the retail franchise and technology capabilities.

The core operating profit (profit before provisions and tax, excluding treasury income) was 48.29 billion Rupees in Q4 of 2018 compared to 46.09 billion Rupees in Q4 of 2017. For fiscal 2018, the core operating profit was 189.40 billion Rupees compared to 179.10 billion Rupees in FY2017.

Provisions were 66.26 billion Rupees in Q4 of 2018 compared to 28.98 billion Rupees in the corresponding quarter last year. For FY2018, provisions were 173.07 billion Rupees compared to 152.08 billion Rupees in FY2017. During fiscal 2019, provisions are expected to remain elevated, although lower than FY2018.

The tax rate for FY2018 was 8.8%. The tax rate for FY2019 is expected to normalise upwards.

The Bank's standalone profit after tax was 10.20 billion Rupees in Q4 of 2018 compared to 16.50 billion in the preceding quarter and 20.25 billion Rupees in Q4 of 2017. For the full year 2018, profit after tax was 67.77 billion Rupees compared to 98.01 billion Rupees in fiscal 2017.

The Board has recommended a dividend of 1.50 Rupees per share. The declaration and payment of dividend is subject to requisite approvals. The record/book closure dates will be announced in due course.

D. Subsidiaries:

The performance of subsidiaries is covered in slides 33-38 in the investor presentation.

The consolidated profit after tax was 11.42 billion Rupees in Q4 of 2018 compared to 20.83 billion Rupees in the corresponding quarter last year and 18.94 billion Rupees in the preceding quarter. For the full year, consolidated profit after tax was 77.12 billion Rupees compared to 101.88 billion Rupees in FY2017.

In line with its strategy of rationalising capital, ICICI Bank Canada repatriated 100 million Canadian Dollars of equity 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 3.5% at March 31, 2018.

E. Capital:

The Bank had a standalone Tier 1 capital adequacy ratio of 15.92% and total standalone capital adequacy ratio of 18.42%, after reducing the proposed dividend for FY2018. The Bank's consolidated Tier 1 capital adequacy ratio and the total consolidated capital adequacy ratio were 15.56% and 17.90% respectively. The capital ratios are significantly higher than regulatory requirements. During Q4 of 2018, the Bank raised 40.00 billion Rupees by way of issuance of Additional Tier 1 bonds.

With this, we will now be happy to take your questions. Thanks you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: My first question is on the recoveries and upgrades. Is the significant jump just on account of the sugar account?

N. S. Kannan: The significant increase is due to a couple of accounts. The first one is the sugar account you mentioned, which has been sold off to an international company. Then there is a gas-based power plant, for which a demerger approval was received during the quarter. As a result, the company was demerged into a power block and an LNG terminal. These would be the two significant items for the quarter. As you know, in the initial part of the year, the cement unit of a large borrower was sold. So, that is reflected in the overall recovery for the full year.

Mahrukh Adajania: My other question is on the UK subsidiary. Any colour on why there was a loss?

N. S. Kannan: This is essentially because of the increased level of provisioning on impaired loans which are largely India-linked loans. So it pretty much reflects the local conditions here.

Mahrukh Adajania: So it is largely ageing?

N. S. Kannan: Additional provisions.

Mahrukh Adajania: The improvement in yields on advances during the quarter would largely be because of the upgrades. Is that the way to look at it?

Rakesh Jha: Interest collections on some of the non-accruing loans would also have had a positive impact on yields.

Moderator: Thank you. We will take the next question from the line of Ravikant Bhatt from Emkay Global. Please go ahead.

Ravikant Bhatt: One question on an asset that you would have acquired in lieu of your claims a couple of years back. I think that sits in Schedule 11, other assets, which was about Rs. 16.7 billion and then you made another acquisition in FY2017. Cumulatively, you must still be carrying about Rs. 25 billion of freehold land which is waiting to be liquidated. Is this understanding correct?

N. S. Kannan: Yes.

Ravikant Bhatt: What is the roadmap for that? I think it is a couple of years now since you got the first land parcel. Any progress towards liquidating that?

Rakesh Jha: We have been exploring options to monetise the assets that we have. As of now we have not been able to monetize any material amount, but we will look at it over the next couple of years and see how it proceeds. On an annual basis, valuation is done for all the non-banking assets and if there is any impairment, it is taken as a charge.

Ravikant Bhatt: Just to understand its impact, if at all this goes through, will it come as a recovery? Your NPL would come down or will this hit the other income?

N. S. Kannan: This is a part of other assets and hence won’t have any impact on the NPL percentage.

Ravikant Bhatt: You are saying that it will also not have any impact on the income statement?

N. S. Kannan: We will be able to deploy the funds better but otherwise, the other assets go down as per accounting.

Moderator: Thank you. We will take the next question from the line of Sri Karthik from Investec. Please go ahead.

Sri Karthik: A couple of questions from my end. Do you have any guidance on the international margin?

Rakesh Jha: As we have said in the earlier quarter also, clearly there is a lot of pressure which has come because of additions to NPAs in the overseas branches book. In the current financial year, that is FY2019, clearly there will be pressure on the overseas margin, especially because we are not growing that book, so in that context any impact which is there becomes more material.

N. S. Kannan: As we mentioned earlier, it has already become about 12.5% of our loan book and our two year path is to bring it to 10% or below. Considering that it should not materially impact the overall NIM of the Bank going forward.

Sri Karthik: Any particular reason why this constant effort to bring down the international book, because some of the private peer banks have been growing this at a significantly fast pace. So we are clearly losing market share out here. Why is this capital allocation different?

N. S. Kannan: No, the growth in this book depends on the demand/supply for foreign currency loans arising out of an Indian entity and our own approach to this portfolio has been beefed up around our own overall concentration risk strategy. If we had a large exposure to a group which is having a presence internationally or wanting a foreign currency loan, obviously, we would like to reduce the existing exposure in line with own risk mitigation strategy.

Sri Karthik: One-off interest income on IT refund during the quarter is about Rs. 2.2 billion?

N. S. Kannan: The interest on income tax refund for the fourth quarter of 2018 fiscal is only Rs. 0.16 billion. The number of Rs. 2 billion that you talked about is for the corresponding quarter last year.

Sri Karthik: You have given specific guidance in terms of margins, for the first half it will continue to decline and then start to improve. If you could be a bit more specific in terms of numbers?

N.S. Kannan: As I mentioned in my remarks, there could be some immediate pressures given the migration of some of the loans to MCLR, possible reduction in the base rate, etc., but as I said that later part of the current fiscal it should improve, that is what we had explained.

Sri Karthik: Nothing specific in that case?

N. S. Kannan: Nothing specific beyond that.

Moderator: Thank you. We will take the next question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question is on this year's credit cost. You said the NPA provisioning will remain elevated for FY2019. Secondly, this year's NPA additions will be significantly lower than the FY2018 level. Could you quantify certain numbers on these lines?

N. S. Kannan: We have not really quantified the exact number for slippages, but as I mentioned that the amount will be significantly lower this year compared to last year. Also, MD mentioned in her opening remarks that we have laid out a path for ourselves and the two parameters that you will have to keep in mind- one is that net NPA ratio would be below 1.5% in two years' time, that is by FY2020 and the provisioning coverage ratio would improve to over 70%. Credit cost will really be a derivative of these two parameters.

Manish Ostwal: Secondly, what is happening in the overseas book? Overseas margins have almost collapsed in the last one year, has it bottomed out or will it decline further?

N. S. Kannan: Rakesh just clarified that overseas margins have been impacted on account of non-accruals and some repayment of higher yielding loans. The overall impact on the Bank's NIM will be mitigated somewhat by the declining proportion of international loans in total loans. Also, MD mentioned that we are targeting reduction of the overseas book to below 10% of the overall loan book. By that time this should sort of wash away, that is what we are expecting.

Manish Ostwal: Last question on the fee income side. When I compare to other large retail banks like HDFC, fee income growth, given our strong franchise and cross-selling opportunities across the group, is very weak. Can we improve fee income growth in FY2019 or this kind of growth rate will remain?

N. S. Kannan: Of course, we want it to improve, and we expect it to improve, but as we had mentioned earlier, one of the big drags for us has been the corporate fee income growth on Y-o-Y basis which has partly been offset by the increase in the retail fee income growth. During the last call, we specifically mentioned that the fee income in the fourth quarter is expected to be in double digits, that is what has happened. Having achieved double digit growth in fee income in a single quarter and about 9.5% growth for the fiscal year as a whole, our endeavour would be to increase the fee income growth rate to double digits in fiscal 2019 itself. Thanks to the relatively higher growth in the retail segment, retail fee income now constitutes about 73% of total fee income.

Moderator: Thank you. We will take the next question from the line of Kunal Shah from Edelweiss Securities. Please go ahead

Kunal Shah: In terms of the proportion of the loan book where we are not accruing any interest income till now, is it only GNPLs or even the watchlist?

Rakesh Jha: It is only the NPAs on which we are not accruing interest income. After the February 12 guidelines, there is no dispensation available and all those accounts have already been classified as NPA at March 31, 2018.

Kunal Shah: So incremental collections would only be positive in terms of the overall yields going forward?

Rakesh Jha: Yes, as and when recoveries come from this portfolio, that will be a positive overall.

Kunal Shah: Two things with respect to the NCLT cases. You have given your exposure to the two lists. But when we look at claims being filed by financial creditors, there is a significant difference. Our exposure to the first list maybe about Rs. 6,200 crores, but if we take the cumulative claims from ICICI Bank, it is about Rs.18,000-odd crores. Claims would be accrued interest and penalties etc. But how should when we look at the resolution of these cases and provisioning requirement? Should it be based on our exposure of about Rs. 6,200 crores or the total claim amount of about Rs. 18,000 crores.

N.S. Kannan: No, the gross and net amount of our exposure to cases in the two lists referred to NCLT is what I have already mentioned. You should go by that when it comes to recovery. On further provisioning requirements, I have mentioned that additional provisions of about Rs. 10.00 billion would be required to be made, over and above the ageing based provisions, against both list 1 and list 2 accounts in Q1 of 2019. With respect to your question on gross claims filed before the NCLT, you rightly mentioned that up to a cutoff date it includes the accruals etc. All the other charges as per the loan documentation will be included in that. In some cases, it is also possible that the borrower in question is also a guarantor to some other facilities of ours. Typically, we include those guarantees while filing our claims to NCLT. So I would say that from our decision making in terms of accepting a particular resolution or in terms of what should be provided in the future we will largely go by the gross and net numbers which I have talked about.

Kunal Shah: Any reason for considering this provision on gems and jewellery directly from the net worth? Was this because it was a fraud?

N. S. Kannan: We have gone by the RBI circular which clearly says that part of the provision can be taken through the P&L and balance can be knocked off from the reserve which will be reversed in the future. So that is the treatment we have used as per the RBI circular on the fraud cases.

Moderator: Thank you. We will take the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Sir, is there any communication from the regulator about the conflict of interest issue as reported by the media?

N. S. Kannan: No communication to us, that is what we can say now.

Amit Premchandani: What is the tenure of the current Chairperson and what is the process of re-appointment of the Chairperson?

N. S. Kannan: Typically, RBI gives an approval for the Chairperson for a period of three years and the same was mentioned in the resolutions which we had sent to the shareholders. That term ends on June 30th of 2018.

Moderator: Thank you. We will take the next question from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal: So one question actually is on those four, five sectors' below investment grade exposure. So what is the below investment grade exposure for the other sectors if you can give a number on that?

N. S. Kannan: We have not disclosed that number. We will keep evaluating for the future.

Moderator: Thank you. We will take the next question from the line of Manish Karwa from Deutsche Bank. Please go ahead.

Manish Karwa: So my question is on your guidance of 15% consolidated RoE. Roughly this will work to about 12% RoE on the standalone or the core Bank. Even after cleaning up everything and moving to a 70% coverage ratio, you are still saying that your RoE will only be about 11-12% by FY2020? That sounds like a very low number because at that point of time your credit cost would probably be in 60-70 basis points kind of a zone. Is there something which is missing or is just a broad number that you put out as of now?

Rakesh Jha: If you look at the difference between the standalone and the consolidated RoE, it may not be as high as you are assuming it to be as indeed the standalone profits of the Bank includes the dividends from our subsidiaries. The net difference between the standalone and the consolidated RoE will not be as much as 3%. The Bank's standalone RoE will also be closer to 15% rather than the 12% number that you mentioned once we reach the consolidated RoE of 15%.

Manish Karwa: Any reason why the dividend payout ratio is a bit low? Is it just to conserve capital or is there anything else?

N. S. Kannan: Payout is as per the RBI guidelines. The payout ratio is based on the capital adequacy and the NPA numbers.

Moderator: Thank you. We will take the next question from the line of Prashant Jain from HDFC Mutual Fund. Please go ahead.

Anand: This is Anand here. Historically we have guided for a mid-teen or an 18%-odd RoE. Even the peer private sector banks which announced their numbers have guided for an 18% RoE. Is it that we are getting extra conservative and guiding for a 15% RoE, despite the fact we believe provisions would normalise by 2020?

N. S. Kannan: As Ma'am mentioned we are targeting this number by June of 2020. It does not mean that it will not expand beyond that. We will first work towards this and then see how it goes from there.

Anand: Also, wanted to understand what could be the interest reversal on NPA this quarter?

Rakesh Jha: Anand, we do not give that number separately.

Moderator: Thank you. We will take the next question from the line of Dhaval Gala from Birla Sunlife Mutual Fund. Please go ahead.

Dhaval Gala: I just wanted to know on the asset quality piece. You have given about 133-odd billion pending assets. What is the management's expectation on how much of this could slip? Also, are there any other sectors, BB or below rated, which are not a part of our drilldown list, but could be part of your NPA recognition next financial year? Any guidance on credit cost or slippages for FY2019?

Rakesh Jha: Dhaval, we have not given any specific numbers in terms of guidance for next year but as Kannan mentioned earlier we do expect a significant decline in additions to NPA and we also expect that while the credit cost will continue to be elevated, it would be lower than what we have seen in FY2018.

Dhaval Gala: Basically we have not given the guidance I understand but it has been our common thought process to mention that it would be lower than the last financial year but that has not been the case for the last two financial years. So just wanted to understand how do you look at FY2019?

Rakesh Jha: In the March quarter of FY2018, there was an additional impact which came because of the February 12th guidelines of RBI. The amount of loans which are under stress has clearly come down substantially over the last 12 months and that is what gives us comfort that the levels of additions in FY2019 should be significantly lower than what we have seen in FY2018. Rs. 133 billion on slide 24 includes the non-fund outstanding as well. Of course, there will be cases which are below investment grade other than what is covered in this particular slide in the presentation and there would be additions which would happen from outside of the select sectors as well.

N. S. Kannan: We have also given a general sense about the below investment grade loans in other sectors by saying that excluding NPAs, restructured loans, loans under RBI schemes and the drilldown list, the maximum single party BB and below rated outstanding was below Rs. 6 billion. We have not seen any sectoral patterns there to include it in the drilldown list. One slippage which has happened during this fourth quarter is the gems and jewellery case which is a borrower-specific issue which we have already talked about.

Dhaval Gala: Have you considered the non-fund based limit when you talked about the single borrower outstanding less than Rs.6 billion?

Rakesh Jha: This Rs. 6 billion is the number that we talked about includes the fund and non-fund based outstanding to the borrower. In this particular quarter, as you are aware, there is one case which got upgraded in the sugar sector. That number would be higher than Rs. 6 billion. Otherwise, all the other loans which are below investment grade outside the select sectors are below Rs. 6 billion in terms of the outstanding loans and outstanding non-fund based.

N. S. Kannan: Just to complete that, and for the benefit of others, the breakup of Rs. 133 billion is given on Slide 24 of our presentation.

Dhaval Gala: Do you think all of these could slip?

N. S. Kannan: We are not saying that, we are saying that we are closely monitoring each of this and as Rakesh mentioned, part of this is also non-fund based exposure.

Dhaval Gala: When we look at consolidated RoE of 15% by FY2020, what is the likely expectations of credit cost we would be building in?

Rakesh Jha: RoE of 15% which we talked about for June 2020, would mean that credit cost would at a more normalised level. The normalised level could be in the region of 80-100 basis points of average loans but of course we will have to see how things develop from here. This is based on the RBI guidelines and current accounting standards but that would be the general expectation as we have talked about this number in the past.

Moderator: Thank you. We will take the next question from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just a quick data question; what is the outstanding specific provision on standard assets this quarter and 3Q'18?

Rakesh Jha: On Slide 21, we have given the outstanding general provision on standard assets which is Rs. 25.91 billion.

Sameer Bhise: Yes, but it also says that it excludes specific provisions against standard assets?

Rakesh Jha: We have not disclosed that separately, we can put that out separately later.

Sameer Bhise: If I look at the breakup of Rs.133 billion of various impaired assets, where exactly does Dabhol sit in that slide?

Rakesh Jha: The gas-based project has been upgraded and that would be a part of 5/25 refinancing which has happened. So that will be a part of the other loans under RBI schemes, not included above.

Sameer Bhise: Sugar account is a clear standard account?

N. S. Kannan: That is correct, because ownership change has been fully implemented.

Sameer Bhise: This time we have not received the pie chart on the breakup of the retail loans. If you could share that?

Rakesh Jha: Yes, we will do that.

Moderator: Thank you. We will take the next question from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: Just wanted some clarification again on the UK subsidiary? So there would have been a fair share of international NPLs even in 4Q, right, it would just not be ageing, is that a fair assessment?

Rakesh Jha: In UK, there would have been some additions which would have happened. But as Kannan mentioned, there were incremental provisions made on existing impaired loans.

Moderator: Thank you. We will take the next question from the line of Devraj, an individual investor. Please go ahead.

Devraj: Sir, we have not able to find the right person to contact for investor relations. We have sent so many emails which have been unanswered. If you can help us on this, that will be fine.

N. S. Kannan I am sorry about it. Can you send us your number so that we can put you on our mailing list as well? You can contact Mr. Anindya Banerjee on 26537131. This is a Mumbai number.

Moderator: Thank you. We will take the next question from the line of MB Mahesh from Kotak Securities. Please go ahead.

M B Mahesh: Just a couple of questions; one on the drilldown list that has been mentioned. On the steel exposure, just trying to see how comfortable are you today with this book compared to where you were probably a few quarters back and the possibility of a default here? Second, on the non-fund based limits, can you broadly indicate the probability of default in that particular book as well? Third, the guidance that you have given on RoE, have you considered the possibility that IFRS will be implemented from FY2020 in your number of 1.5% net NPL?

Rakesh Jha: Right now we are talking based on the current guidelines and accounting standards. So we have not factored in IndAS as of now. On the drilldown list and the steel sector exposure within that, because these are below investment grade loans we are disclosing it as a part of the drilldown list, so there is definitely a risk which is there to this portfolio. Given the performance of the steel sector more recently, we would assume that bulk of these exposures not slip into NPL going forward. On the non-fund based limits, if you are talking about the Rs. 29.80 billion number which we have given on that slide as the non-fund based outstanding to non-performing assets, that of course would be relatively at a higher risk because that is pertaining to accounts which are already classified as non-performing.

M B Mahesh: Is the retail at this point of time touching closer to 15% RoE?

Rakesh Jha: We do not disclose segmental RoE separately but if you look at the segmental numbers that we disclose in terms of profitability, retail has been doing well is reflected in the profits of the business.

Moderator: Thank you. We will take the next question from the line of Pallavi Deshpande from Smart Karma. Please go ahead.

Pallavi Deshpande: This is relating to the 28 accounts and the 12 accounts coverage that you provide. Is that gross of write-off or net?

Rakesh Jha: That is net of write-off.

Pallavi Deshpande: Sir, secondly, just wanted to understand given that the CV financing portfolio I has grown at about 16% y-o-y, would you have lost market share there?

Rakesh Jha: We believe we have been growing in line or slightly higher than the overall market in the CV business.

Moderator: Thank you. We will take the next question from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: On the June 2020 RoE expectations, what kind of cost-to-income ratio do you forecast?

Rakesh Jha: Cost-to-income ratio in the recent quarters has been impacted by the lower level of core income that we have had and of course it has also been positively impacted by the treasury gains, especially in the quarters in which there have been stake sale in subsidiaries. On a more sustainable basis, we will look at targeting a cost-income ratio of 40% or below.

Nilanjan Karfa: We are currently running at a little north of 44%-odd on a core basis, right?

Rakesh Jha: Over a two to three-year period, we would expect income growth to be better than what we have seen in the last couple of years, while continuing to have the control on cost that we have witnessed over the last couple of years.

Nilanjan Karfa: Rakesh, could we have comparable of the Slide 24 for the December quarter exactly line-by-line howsoever we have accounted?

Rakesh Jha: I do not have it right now but the aggregate number we had mentioned in the last quarter was about Rs. 250 billion. The big change which has happened here would be in the drill down list which has come down from Rs.190 billion to Rs. 47 billion.

Nilanjan Karfa: Why is there reluctance, if I may ask, in disclosing the 'BB' and below accounts? What are you worried about? If you believe this is what the total quantified NPLs are or the stresses are and this is where you expect the slippages from, I do not see why you should refrain from disclosing that number?

Rakesh Jha: There is no specific worry that we have on disclosing 'BB' and below for the other sectors. It is just that we have not disclosed that separately and the same thing has continued for this quarter. We could evaluate that and see if we need to disclose that separately.

Moderator: Thank you. Ladies and gentlemen, with this I now hand the conference over to the management for their closing comments. Over to you.

Chanda Kochhar: Thank you. I think we have covered most of the questions. As I mentioned in the beginning, we have made a lot of progress on de-risking the balance sheet and enhancing our franchise over the past four years and we would now focus on our strategy which is on three anchors of "Preserve, Change and Grow."

Moderator: Thank you, ma'am. 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.