ICICI Bank Limited
Earnings Conference Call – Quarter ended December 31, 2017 (Q3-2018)
January 31, 2018

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Moderator: Ladies and gentlemen, good day and welcome to the ICICI Bank's Q3 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 quarter ended December 31, 2017.

The Bank continues to make progress on the strategic priorities outlined in our 4 x 4 Agenda covering Portfolio Quality and Enhancing Franchise. I would like to highlight a few areas in this context:

1. During the quarter we saw accelerated growth in our loan book and the portfolio mix improved further.

   - The domestic loan growth increased to 15.6% year-on-year at December 31, 2017 aided by the strong growth in the retail loan portfolio.
   - Retail loans growth increased to 22.2% year-on-year at December 31, 2017.
   - We saw continued growth in domestic corporate loans. Excluding net NPAs, restructured loans and loans internally rated below investment grade in key sectors at December 31, 2017, growth in the domestic corporate portfolio picked up to about 15% at December 31, 2017. About 88% of the disbursements in the domestic corporate portfolio in 9M of 2018 were to corporates rated A- and above.
   - Growth in the SME portfolio accelerated to 15.2% year-on-year at December 31, 2017.
   - At the same time, there was a reduction in some parts of the balance sheet. Net NPAs, restructured loans and loans to internally rated below investment grade in key sectors at December 31, 2017, declined by 31.8% year-on-year.
   - The overseas branches portfolio decreased by 14.5% year-on-year.
   - However, despite the above, the strong growth in retail, SME & and higher rated domestic corporate loans resulted in an improvement in overall loan growth from 6.3% year-on-year at September 30, 2017 to 10.5% year-on-year at December 31, 2017.

2. Growth continued to be supported by an equally robust funding profile with a CASA ratio of 50.4% at December 31, 2017. CASA deposits grew by 12.4% year-on-year at December 31, 2017.

3. Gross additions to NPAs continued to decline and were 43.80 billion Rupees in Q3 of 2018 compared to 46.74 billion Rupees in Q2 of 2018

and 70.37 billion Rupees in Q3 of 2017. The net NPAs declined during the quarter in absolute terms from 241.30 billion Rupees at September 30, 2017 to 238.10 billion Rupees at December 31, 2017. The net NPA ratio declined to 4.20%. There was a sequential increase of 160 bps in the provision coverage ratio on non-performing loans to 60.9%, including cumulative technical/prudential write-offs, further strengthening the balance sheet.

4. The Bank also made significant recoveries from non-performing loans. Recoveries and upgrades from non-performing loans aggregated 11.08 billion Rupees in Q3 of 2018.

5. The core operating parameters of the Bank continued to improve. Domestic net interest margin was maintained above 3.5%. Core operating profit, excluding treasury income and exchange rate gains relating to overseas operations, grew by 9.7% from 45.49 billion Rupees in Q3 of 2017 to 49.92 billion Rupees in Q3 of 2018.

6. The Bank's capital position continues to be strong with a Core Tier 1 capital adequacy ratio of 14.19% and Tier 1 capital adequacy ratio of 15.04% at December 31, 2017, including profits for 9M of 2018.

7. We continue to be at the forefront of offering technology-enabled services to our customers. Debit and credit card transactions continued to grow at a healthy rate of about 40% year-on-year in 9M of 2018. Over 8.3 million Unified Payment Interface (UPI) Virtual Payment Addresses have been created using the Bank's and partners' platforms till December 31, 2017. During the quarter, the Bank entered into a new partnership for digital lending to launch a product that seamlessly offers interest-free digital credit instantly.

   We have continued to strengthen our franchise, with a focus on sustainable growth. We are well-placed to capitalise on the opportunities arising out of the financialisation of savings and the formalization and digitization of the Indian economy, across the Bank

as well as across the ICICI Group. This can be seen in the growth of all our retail-oriented businesses. In the corporate business, we continue to believe that additions to NPAs this year will be lower than last year and the focus is now on accelerated resolution. We will continue to focus on selective growth and pursue new opportunities in this space as they arise. We are continuously investing and innovating in technology and the use of digital to improve the customer experience as well as our own internal processes. With this strong franchise and focus on capital efficiency, we will work towards enhancing our return ratios as we move ahead in the coming years.

I will now hand the call over to Kannan.

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

A. Growth

The domestic loan growth was 15.6% year-on-year at December 31, 2017 driven by strong growth in the retail business. Within the retail portfolio, the mortgage and auto loan portfolios grew by 18% and 15% year-on-year respectively. Growth in the business banking and rural lending segments was 51% and 25% year-on-year respectively. Commercial vehicle and equipment loans grew by 20% year-on-year. The unsecured credit card and personal loan portfolio grew by 38% year-on-year, off a relatively small base, to 275.62 billion Rupees and was about 5.5% of the overall loan book as of December 31, 2017. We continue to grow the unsecured credit card and personal loan portfolio primarily driven by a focus on cross-sell to our existing customers.

The SME portfolio growth improved to 15.2% year-on-year at December 31, 2017 and constituted 4.9% of total loans as of December 31, 2017.

The net advances of the overseas branches decreased by 14.5% year-on-year in Rupee terms and 9.0% year-on-year in US dollar terms as at December 31, 2017. The international loan portfolio has now reduced to 14.0% of our total loans.

Coming to the funding side: total deposits grew by 11.2% year-on-year to 5.17 trillion Rupees as of December 31, 2017. On a daily average basis, current and savings account deposits for the quarter grew by 14.0% year-on-year. On a daily average basis, the CASA ratio was 45.7% in Q3 of 2018.

B. Credit Quality

Gross NPA additions were 43.80 billion Rupees in Q3 of 2018. The retail portfolio had gross NPA additions of 7.93 billion Rupees in Q3 of 2018. Of the gross corporate and SME NPA additions of 35.87 billion Rupees, about 29.79 billion Rupees came from loans under RBI dispensation schemes of 20.22 billion Rupees; loans to companies internally rated below investment grade in key sectors, or the drilldown list, of 6.14 billion Rupees; restructured loans of 1.97 billion Rupees; and devolvement of non-fund based exposure and increase in outstanding due to exchange rate movement related to accounts classified as non-performing in prior periods of 1.46 billion Rupees. The addition to NPAs includes an account in the sugar sector where a change in management outside SDR had been invoked and the promoters had entered into a binding agreement in Q2 of 2018. We believe that the process will be completed in the next few months. Meanwhile the account has been classified as non-performing in Q3 of 2018. The balance gross NPA additions outside the restructured loans; drilldown list; loans under RBI dispensation scheme were 6.08 billion Rupees in Q3 of 2018 compared to 21.25 billion Rupees in Q2 of 2018 and 19.84 billion Rupees in Q1 of 2018.

The net standard restructured loans were at 18.15 billion Rupees, about 0.4% of net advances, as of December 31, 2017 compared to 20.29 billion Rupees as of September 30, 2017.

The Bank has been reporting a further drilldown of its portfolio in key sectors. Our approach to the drilldown list has been explained in slide 32 of the investor presentation. 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, decreased from 195.90 billion Rupees as of September 30, 2017 to 190.62 billion Rupees as of December 31, 2017. On slide 34 of the presentation, we have provided the movement in these exposures between September 30, 2017 and December 31, 2017.

- There was a net decrease in exposure of 4.86 billion Rupees.
- There were net rating downgrades of exposures aggregating to 6.40 billion Rupees to 'below investment grade' during the quarter.
- There was a reduction of 6.83 billion Rupees due to classification of certain borrowers as non-performing.

The above amount of 190.62 billion Rupees includes the non-fund based outstanding in respect of accounts in this portfolio where the fund based outstanding has been classified as non-performing. Apart from this, the non-fund based outstanding to borrowers classified as non-performing was 22.02 billion Rupees as of December 31, 2017 compared to 21.19 billion Rupees as of September 30, 2017. The non-fund based outstanding to companies in the restructured portfolio was 4.10 billion Rupees as of December 31, 2017 compared to 4.15 billion Rupees as of September 30, 2017.

On slide 25 of the presentation, we have provided the details of loans under various RBI resolution schemes as of December 31, 2017, and have also indicated the amounts under each scheme which are also part of the drilldown list or the restructured portfolio. Comparative numbers as of September 30, 2017 have been provided on the linked slide 60. There is an overlap of about 17 billion Rupees noted on slide 25, between loans for which refinancing under the 5/25 scheme has been implemented and loans under SDR or change in management outside SDR. The amount of loans under various RBI resolution schemes, net of overlaps, has reduced from 135.04 billion Rupees at September 30, 2017 to 118.55 billion Rupees at December 31, 2017. Loans under the RBI resolution schemes that are not included in the drilldown list or in restructured loans has reduced from 31.54 billion Rupees at September 30, 2017 to 18.24 billion Rupees at December 31, 2017.

At December 31, 2017, the aggregate gross standard restructured loans, non-fund based outstanding to NPAs, non-fund based outstanding to restructured loans, the drilldown list and fund-based outstanding on standard loans under various RBI dispensation schemes not included in the above were 253.82 billion Rupees compared to 274.10 billion Rupees at September 30, 2017.

At December 31, 2017, excluding NPAs, restructured loans, the drilldown list and loans under RBI resolution schemes, the maximum single party BB and below rated outstanding was below 6 billion Rupees.

During Q2 of 2018, RBI had directed banks to initiate 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 is not implemented by December 13, 2017. At December 31, 2017, the Bank had outstanding loans & non-fund facilities amounting to 100.61 billion Rupees & 13.35 billion Rupees respectively. The provisions held against these outstanding loans increased from 31.5% at September 30, 2017 to 36.4% at December 31, 2017. Of the above 18 accounts, insolvency proceedings in respect of 16 accounts have been initiated under the provisions of the IBC.

C. P&L Details

The net interest margin was at 3.14% in Q3 of 2018 compared to 3.27% in Q2 of 2018 and 3.12% in Q3 of 2017. The domestic NIM was at 3.53% in Q3 of 2018 compared to 3.57% in Q2 of 2018 and 3.51% in Q3 of 2017. International margins were at 0.29% in Q3 of 2018 compared to 0.95% in Q2 of 2018 and 0.83% in Q3 of 2017. We had mentioned on our last call that margins in Q2 of 2018 were positively impacted by significant interest collection from non-performing and other non-accrual accounts. Further, during Q3 of 2018, international margins were impacted by higher non-accrual of interest income on NPAs.

Total non-interest income was 31.67 billion Rupees in Q3 of 2018 compared to 39.39 billion in Q3 of 2017.

- Fee income was 26.39 billion Rupees in Q3 of 2018 and 75.86 billion Rupees in 9M of 2018. Year-on-year growth in fee income was 8.3% in 9M of 2018. Retail fee income in 9M of 2018 grew by 13.5% and constituted about 72% of overall fees.
- Treasury recorded a profit of 0.66 billion Rupees in Q3 of 2018 compared to 8.93 billion Rupees in Q3 of 2017 and 1.81 billion Rupees, excluding gains on sale of shares in ICICI General, in Q2 of 2018.

- Other income was 4.62 billion Rupees in Q3 of 2018 compared to 5.51 billion Rupees in Q3 of 2017. The Bank had no exchange rate gains relating to overseas operations in Q3 of 2018 compared to gains of 0.82 billion Rupees in the corresponding quarter last year (subsequently reversed in Q4 of 2017). Other income included dividend income of 4.45 billion in Q3 of 2018.

On Costs: the Bank's cost-to-income ratio was at 43.0% in Q3 of 2018. Operating expenses increased by 1.0% year-on-year. During the quarter, employee expenses decreased by 3.1% y-o-y due to lower provisions on retirals during the quarter compared to the corresponding quarter last year. This reflected the increase in yields on government securities in Q3-2018 compared to decline in yields in Q3-2017. The Bank had 83,094 employees at December 31, 2017.

Provisions were 35.70 billion Rupees in Q3 of 2018 compared to 27.13 billion Rupees in the corresponding quarter last year. There was a sequential increase of 160 bps in provision coverage ratio on non-performing loans to 60.9%, including cumulative technical/prudential write-offs, further strengthening the balance sheet.

The Bank's standalone profit after tax was 16.50 billion Rupees in Q3 of 2018 compared to 20.58 billion Rupees in the preceding quarter and 24.42 billion Rupees in the corresponding quarter last year.

D. Subsidiaries

The profit after tax of ICICI Life for Q3 of 2018 was 4.52 billion Rupees compared to 4.50 billion Rupees in Q3 of 2017. The new business margin has been continuously improving from 8.0% in FY2016 to 10.1% in FY2017 and further to 13.7% in 9M of 2018.

The profit after tax of ICICI General for Q3 of 2018 was 2.32 billion Rupees compared to 2.20 billion Rupees in Q3 of 2017. The profit before tax grew by 43% to 3.22 billion Rupees in Q3 of 2018 compared to 2.25 billion Rupees in Q3 of 2017. The gross written premium of ICICI General grew by 18.1% on a year-on-year basis to 30.02 billion Rupees in Q3 of 2018.

The profit after tax of ICICI AMC increased by 22.0% year-on-year to 1.61 billion Rupees in Q3 of 2018. With average assets under management of about 2.9 trillion Rupees for the quarter, ICICI AMC continues to be the largest mutual fund in India based on average assets under management for Q3 of 2018.

The profit after tax of ICICI Securities, on a consolidated basis, was 1.53 billion Rupees in Q3 of 2018.

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 4.0% at December 31, 2017.

ICICI Bank Canada had a profit after tax of 8.4 million Canadian dollars in Q3 of 2018 compared to a loss of 34.6 million Canadian dollars in Q3 of 2017.

ICICI Bank UK had a profit after tax of 1.8 million US dollars in Q3 of 2018 compared to 1.7 million US dollars in Q3 of 2017.

The consolidated profit after tax was 18.94 billion Rupees in Q3 of 2018 compared to 26.11 billion Rupees in corresponding quarter last year and 20.71 billion Rupees in the preceding quarter.

E. Capital

The Bank had a Tier 1 capital adequacy ratio of 15.04% and total standalone capital adequacy ratio of 18.10%, including profits for 9M of 2018. The Bank's consolidated Tier 1 capital adequacy ratio and the total consolidated capital adequacy ratio, including profits for 9M of 2018, were 14.87% and 17.72% respectively. The capital ratios are significantly higher than regulatory requirements.

To sum up, during Q3 of 2018 the Bank:

1. Improved loan growth;
2. Maintained a healthy funding mix;
3. Continued to focus on further enhancing its digital offerings; and
4. Maintained focus on cost efficiency and capital efficiency.

The Bank's core operating earnings, capital position, leadership in technology and value created in its subsidiaries give the Bank the ability to absorb the impact of challenges in the operating and recovery environment for the corporate business while driving growth in identified areas of opportunity.

With this, I end my opening remarks. We will now be happy to take your questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: Could you quantify our divergence as the final divergence report is now with you?

Chanda Kochhar: The annual supervision process of the Bank by RBI for FY2017 has concluded during the quarter. The observations regarding asset classification and provisioning do not require any additional disclosures in terms of the RBI circular.

Mahrukh Adajania: Okay. But would it be possible to quantify so that we can compare with other banks because this is a much lower number than what other banks are reporting. So if you could have the number, we could actually compare it.

Chanda Kochhar: No, since it is less than the threshold, it is not required to quantify it.

Mahrukh Adajania: Okay. And the other question I had is on the steel watchlist. Over the years a lot of steel slippage has happened and yet the steel watchlist is a big enough number. Why would that be the case? The steel watchlist is still at about Rs. 44 billion.

Rakesh Jha: If you look at the overall steel exposure, there are indeed some cases which are below investment grade loans in our portfolio and there would not be enough reasons to upgrade these loans into the investment grade category. So in that sense, it is not that all these steel exposures are kind of out of the woods. These are assets which we closely monitor. It is not that we expect all of these loans to slip into NPA, it is just that these are below investment grade loans.

Mahrukh Adajania: Got it. And my last question is that if you see your provisions, you would be making your NCLT-List 2 provisions in the March quarter. Why were the provisions high at Rs. 38 billion in this quarter as there were no NCLT provisions, is it general ageing related provisions? I mean is that the normalised level of provisions now?

Rakesh Jha: As we have stated earlier, the level of provisions is a function of the NPA additions and the ageing of the existing NPAs, so to that extent it is very difficult to kind of talk about normalised provisions on a quarter-on quarter basis till the NPA additions come down more substantially. This quarter our coverage ratio also has gone up despite the write-offs that we have taken on some of the loans. So that is where the higher provisions are reflecting and you are right that, for the list 2 of the cases directed by RBI to be taken to NCLT,

the provisions will be taken by the Bank in the March quarter as required by RBI.

Mahrukh Adajania: Can we assume that the total level of provisioning in H2-2018 would be similar to H1-2018 or much higher, how do we think about it?

Rakesh Jha: Actually, only one quarter remains. In that sense, it is very difficult to guide on a specific number but indeed in the March quarter, there will be the additional provisions that will come in for list 2 of the NCLT cases.

Mahrukh Adajania: Okay. If I can just squeeze in one last question, a lot of banks have openly reported that there was one steel account which was upgraded and downgraded during the quarter for some and downgraded and upgraded for some in this quarter. What would be our status on this account, did it follow the same procedure of upgrade and downgrade?

Rakesh Jha: We will not be able to comment on what other banks have commented on a specific loan which is not named.

Mahrukh Adajania: Yes, but it is quite obvious. And they have given enough details.

Chanda Kochhar: We don’t comment on specific accounts.

N. S. Kannan: I can only supplement by saying that the recovery of about Rs. 11.08 billion during the quarter is broad based across several accounts and there is no lumpiness in terms of recovery, that I can confirm.

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

Kunal Shah: Coming back to the divergence, just one thing, even though it is difficult to quantify but in terms of the treatment, whatever would have been the divergence as of 31st of March, what would be the

treatment of that as of 31st of December? Are they already in classified as NPL or would they be outside of it?

Rakesh Jha: All the asset classifications which are required to be done would be fully reflected on December 31st.

Kunal Shah: And on IBC, excluding those accounts which have not been referred, what would be provisioning requirement on the balance cases? The additional provisioning might not be needed if we just exclude those two accounts because on the overall exposure, it seems to be 36% but if we exclude those two accounts, then it could be much higher.

Rakesh Jha: It would not change substantially.

Kunal Shah: Okay. And just one last thing in terms of the overseas operations. The NIMs have been quite lower, how was the profitability and what was the reason for this very low NIMs in case of the overseas book? Were there some reversals in the overseas operations?

Rakesh Jha: In the last quarter, we had talked about the fact that we had a high level of interest collections from some of the non-accrual accounts which would not have been there in the current quarter. We of course have had NPA additions in the overseas book which are all largely linked to the Indian corporates itself. So that is where the margins have come down. As you know, over the last 12 or 18 months, we have also not been growing the overseas book. What it does is that it kind of impacts the margin more than it would do if we were growing that portfolio at 20% and giving incremental loans at the normal margins. That is why it kind of shows up as a much sharper reduction than it would have otherwise. For the current quarter, we also had a fair bit of liquidity in the overseas branches as we had done a bond issuance. Some of the issuance cost of the bond also comes in upfront. All of these factors put together led to about 30 basis points of margin for the quarter. But indeed the biggest factor is the non-accrual of income on the NPAs and other loans

which are under an RBI dispensation scheme. To that extent it will take time for the overseas margin to recover. However, given that the book has actually not been growing, the aggregate margins for the Bank are not as impacted. Overall margins for the quarter were impacted as in the previous quarter we had interest collection on income tax refund which is absent in the current quarter.

Kunal Shah: But profitability would be much lower. Is it a loss in the overseas business or is it still a profitable operation post this kind of margins?

Rakesh Jha: If you look at our segmental numbers, you will see that currently the corporate portfolio on an aggregate basis is reflecting a loss given the level of provisions which is coming from the past book of non-accrual loans. In terms of incremental lending today, either on corporate side or to whatever limited extent we are growing the overseas book, the profitability continues to be healthy. But yes, the past book is impacting that and that is true for the entire corporate portfolio of all the banks which have been in these loans in the past.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Management Services. Please go ahead.

Prakash Kapadia: Two questions, on the retail side, were we extra conservative in cross selling unsecured portfolio and personal loans to our existing ICICI Bank customers because now we are seeing a very high growth in this portfolio? Also, if I could get some sense on your existing customer base, there are 40 million account holders, how many of them own a credit card internally? What is the room to grow and are we comfortable growing this book to say beyond single digits of overall advances in the near future?

Rakesh Jha: Overall, if you look at the last 2 or 3 years, the book has been growing at a pretty healthy pace. Before that we were not growing that book as much which indeed means that the amount of cross selling that we were doing across personal loans and credit cards was much

lower. Currently about 70% of the business that we are doing is with the existing customers of the Bank. We thus believe there is enough scope for us to cross sell and grow the portfolio. In terms of the overall numbers, it is still a smaller part of the portfolio, so a 30-40% kind of a growth rate has to be seen in that context.

Prakash Kapadia: Sure. I understand that. But is there sufficient room to grow given that we have 4 million credit cards out of say 4 crores savings account holders?

Rakesh Jha: Yes. If you look at that kind of a comparison, there will be more than sufficient room to grow. But I guess the issue is that we will not be able to sell to all the customers.

Prakash Kapadia: Yes. Absolutely. So would we able to double our addressable segment. Out of 40 million, is 8 million a relevant number which we think we can get towards? If you could give some sense directionally, not a specific number.

Rakesh Jha: We of course have those numbers and we have pre-qualified offers for our customers for credit cards, personal loans and actually for all the other secured retail products also. We have not disclosed any specific numbers on that per se because some of these customers may end up using other bank cards also. That is why it is difficult to give any particular number on that. But there is sufficient room for us to cross sell to our existing customers specifically because the proportion of these loans and penetration has been quite low in the past.

Prakash Kapadia: Directionally we think we can double from the current base? Can we double the number of credit cards in our risk reward framework?

Rakesh Jha: We could do that but we will of course have to keep evaluating how we go about it.

Prakash Kapadia: Sure. And if I look at the retail loan book, after few quarters it has grown by about 22%. So was it low base, what has changed? Is this kind of growth sustainable and is it on the back of your focus areas on specific SME or affordable housing? If you could give us some sense?

Rakesh Jha: We were anyway growing it close to 18-19%.

Prakash Kapadia: Yes, 17-19%.

Rakesh Jha: If you go back to December 2016, the growth would have been lower due to demonetisation. So there will be some impact of that. But we have always said that we should be able to grow the retail portfolio at around 20% and we are broadly in that range of 18% to 22%. Depending on the opportunities we expect to continue to grow at that level. There is nothing specific in that sense which happened differently in the current quarter. One book on which we have been focusing and has been growing quite well for us, though again it is a pretty small part of the portfolio, is the business banking portfolio. Other than that, rest of it is pretty at much similar trends to what we have been seeing in the past.

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

Manish Karwa: My question is on fee income. Like many successive previous quarters also, fee income is just not growing as fast as the loan book, the retail portfolio or the credit card book. Every line item which probably could generate fee income from a balance sheet perspective is doing extremely well. But it is not reflecting in fee income. In the past it used to be corporate fees that were declining. Is it still the case that corporate fees are declining pretty fast?

N. S. Kannan: Yes, Manish. Overall, if we have to give a color on the fee income, yes, the year-on-year growth in the fee income was lower at around 6% for this quarter. I would say that is primarily because of the base

effect because the corresponding quarter last year was probably the best quarter in the year for fee income due to demonetisation. So that is also acting a little bit against us in terms of the growth which is put out this time. The fee income had grown by 6% sequentially in the corresponding quarter last year. But more importantly if I look at the fee income growth on a 9-month basis, it is at 8.3% and we continue to expect that the fee income growth for the full year would be closer to double digits. The growth in fee income continues to be driven by the retail businesses. Of course there is some decline in corporate fees, but we expect that to be corrected in the subsequent quarters.

Manish Karwa: And what is the proportion of corporate fees now?

N. S. Kannan: Retail would be about 72% and the balance is largely corporate.

Manish Karwa: But was 70-30 not the proportion last year as well? Or it got lower?

N. S. Kannan: Somewhat lower in 60s.

Manish Karwa: And why is there such a fluctuation on the staff cost in this quarter versus the last 2 quarters?

N. S. Kannan: As I mentioned, it has been largely because of retirals where we do the actuarial evaluation and given that the kind of yield pick up we have seen in government securities obviously the liability requirements have decreased. There is a mild write-back of retirals during the quarter which resulted in lower staff expenses.

Manish Karwa: And next quarter, it should come back to normal trends right?

N. S. Kannan: It really depends on the yields at that time. Growth in operating expenses is pretty going as per the path laid out at the beginning of the year.

Rakesh Jha: You should look at the 9 months trend because for the quarter what is also happening is that if you go back to last year December quarter, the yields had actually come down quite a bit. There was an impact whereby the retiral cost was higher in last year's Q3 and is much lower this quarter. So that will certainly correct in the March quarter.

Manish Karwa: And lastly on your overseas margins, would this 30 basis points of margin sustain till the time recovery happens in the overseas book?

Rakesh Jha: Yes, in the near term, it would kind of tend to be around that level. As I mentioned earlier it is not that we are growing that book much and in that context, you are right in the near term it would be around this level.

Moderator: Thank you. The next question is from the line of Ravikant Bhat from Emkay Global. Please go ahead.

Ravikant Bhat: So you have stayed the course on asset quality, like you had said earlier that the slippages would be significantly lower this year, you seem to be on course to achieving the same. Are you at this point in time willing to comment how it could be going forward further into FY2019? What kind of asset quality trends would there be? Will you be able to repeat the same statement for FY2019? Also, if you could comment on the drilldown list, since it has been stable for the last three quarters now? What kind of behaviour have you seen qualitatively within those numbers?

Rakesh Jha: FY2019, it is difficult to comment. Most likely as per the current guidance from RBI which is available, banks would be migrating to IndAS for FY2019. So that would change things substantially. And even if that were not to happen, what we can say is that if we look at the pool of loans which we have talked about, the NPAs; the restructured loans: the drilldown list: non-fund exposures to these borrower;s plus the borrowers under the RBI resolution schemes – that aggregate pool we believe should not really increase

meaningfully from where we are currently and we would see that coming off, that is something we can say confidently. But in terms of slippages to NPA for example, some of the drilldown list loans which are there, they are under SDR, where there is a timeline by which the change in management has to be done. If that doesn't happen, then it would end up slipping into NPA. So it is still difficult to give a specific number on NPA per se, but we feel quite comfortable with the overall pool and like we have said in the last quarter, if we look at the below investment grade loans other than this entire pool that we talked about, then the maximum loan outstanding is less than Rs. 6 billion. That again kind of gives comfort that there should not be any single large slippage coming from outside of the overall pool.

Ravikant Bhat: And one quick question on NIMs. At the beginning of the year you had talked of the exit NIM which would be actually lower compared to where we are currently. While answering the previous question, you said that the overseas NIMs, where the maximum compression has happened during Q3, would possibly be table around the current level. If I have understood you correctly, then can we assume that the decline in NIMs has kind of bottomed out and they are likely to stay stable to maybe positive going forward?

Rakesh Jha: We will have to factor in the market conditions in the sense that as you are aware the LCR requirement for banks has gone up to 90% from January 1, 2018. This is turn implies that banks will have to maintain an additional amount of liquidity compared to the previous quarter. Further, liquidity overall has tightened somewhat. We would expect to maintain our margins at around the similar levels. There can always be some up or down, but we would expect to maintain at a similar kind of level. However, market conditions will be important to see, how things play out over the next few months.

Ravikant Bhat: Sure. So when you say similar, you are referring to Q3 blended NIMs, right?

Rakesh Jha: Yes, that is right.

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

Rakesh Kumar: So, first question is with regard to the credit composition. There has been a continuous rise in the retail loan portfolio, where would it be, maybe one year down the line?

Chanda Kochhar: We do not actually set any target of what retail or SME should be as a proportion of the overall loan. What we focus on is how each of the respective segments are growing and what we think is the right pace to grow at. Currently the way the industry is growing, our retail portfolio is definitely growing faster than the corporate portfolio. So I think this proportion will go up, but it is not as if we are trying to get to a target proportion there.

Rakesh Kumar: The context of the question is that in the recent PSU bank reform, which the government had come out, apart from 6-7 large banks, there would be a certain set of banks which would be doing retail, SME and agri kind of business predominantly. So the competitive advantage of the private banks in the retail segment may get slightly diluted to that extent. I am just thinking that if that is to happen maybe in the next 2-3 years, then what will be the strategy of the private banks for their retail loan portfolio?

Chanda Kochhar: I can only say that the market has always been very competitive. Even in the last few years, whether retail or corporate growth, the Indian banking industry has been pretty competitive.

Rakesh Kumar: And secondly the tax thing. Could you touch upon the lower tax rate, tax write back this quarter?

Rakesh Jha: Tax is based on the estimate for the full year effective tax rate. There is no specific tax rate for the quarter that we look at. We estimate the income for the year and the effective tax rate for the year is what we

apply for the 9 month period. So based on that, the rate was lower than what we had estimated earlier during the year. So there was a write back which you see and the overall lower effective tax rate is because of the higher amount of capital gains that we have got in the current year and what we are expecting in the balance period of the year.

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

Adarsh Parasrampuria: Question on risk weight, seeing that with the loan growth, there is no risk weight consumption. Off balance sheet risk weights are going down. Would we expect this to continue for the next couple of years where we continue to see significantly lower capital consumption?

Rakesh Jha: Again, I do not think we should take a particular quarter and extrapolate it going forward. Directionally, if you look at the off balance sheet exposure, in line with we have said over the last 2 or 3 years, the overall non-fund-based business is coming down as a proportion because as we see the risk asset returns, they have been lower. Our approach towards capital allocation is what is reflected in the current quarter as well. With respect to the on-balance sheet exposure, risk weighted asset growth compared to the past will be lower because on the corporate side we are doing a lot more of better rated exposures. We have given some data on our incremental disbursements also that you can see and the risk weights are lower for AAA or AA kind of loans. Even on the mortgage side, the risk weights are lower for the smaller ticket loans. So compared to the past when we used to do a lot more of project finance, BBB kind of lending, the capital consumption should be lower going forward, but we should not take the current quarter and extrapolate that.

Adarsh Parasrampuria: I was just looking at the last 6-7 quarters, cumulatively it seems to be pretty low capital consumption. So like 20,000 crores of risk weight asset on 70,000 crore loan growth?

Rakesh Jha: Directionally, that would be the case because we will continue to focus on better rated corporate clients and grow the mortgage book.

Adarsh Parasrampuria: And second question somewhat related although it was asked in various forms, NIMs, fees etc. Generally, if we look at the operating profit line to assets, it has continuously been sliding down. In other words it is a lower operating profit growth to the asset growth or the loan growth. Have you reached a point in terms of NPA accretion or in terms of corporate fees where the operating profit growth can now be in line with balance sheet? Or are there are still complications because of which that still will take some time?

Rakesh Jha: I do not think we will immediately get to that level because there is clearly some impact of that. However, if you go into the next financial year, I think in terms of fee income and overall translation of loan growth into NII, it would definitely be much better than what we have seen in the last couple of years because incrementally the business that we are writing is as comfortable as it was in the past adjusted for the risk. We should see an improvement; it is not that we will get to that immediately.

Adarsh Parasrampuria: The reason why I am asking this question is that even at the current level of operating profit you try and get to say a normalised credit cost maybe 3 to 5 quarters from now. The core RoEs will still be like 12-13%. So just trying to understand when or what will be the points where you would expect that to significantly move or what can be a long term RoE for the Bank?

Rakesh Jha: I think from a longer term RoE perspective, we believe we should be higher than that, but yes, if you look at a shorter timeframe and adjust the normalised credit cost, the numbers will be what you are talking about. We think that, for example, on the margins, as we seen some recovery from NPAs, and as we see the net NPA ratio coming down over time, the non-accruing part of the portfolio will decline and that will help in the overall margins for banks. We have already spoken

about fee income that in the current year we hope to get to a double digit growth on fee income compared to mid-single digit in the past. And from there, we should see better growth going forward into the next year as well. In the medium term, we would expect the RoEs to be better than the 12-13% which one can get to as and when the credit cost normalizes.

Adarsh Parasrampuria: Just squeezing in the last question. You mentioned that the non-NPA stress book is about Rs. 25,000 crores. What part of it is where you would not be accruing interest and where are you accruing interest, just to get some sense of what is left in terms of the NIM impact?

Rakesh Jha: There are various parts of the portfolio, we can just take it part by part. If you look at the restructured loans which are about Rs. 18 billion, on that as long as the borrower is paying interest as per the restructured terms, we would be accruing interest. On the drilldown list which is the larger part of the portfolio and to the extent that those loans are under any of the RBI resolution schemes i.e. where SDR has been implemented or a change in management has been done, we would not be accruing interest. You can actually see the overall numbers in the presentation and the loans which are under such RBI resolution schemes.

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

Nilanjan Karfa: Is it possible to get a sense of the total corporate book, how much is below investment grade, percentage number at this point?

Rakesh Jha: We have not disclosed that separately. What we have given, Nilanjan, is the same disclosure as we have given in the past quarters i.e. the identified 5 sectors and for the balance we have said that the loan outstanding is not greater than Rs. 6 billion for any single borrower.

Moderator: Thank you. The next question is from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.

Manisha Porwal: Actually my question has been partly answered, but then just the cost of repetition, I just wanted to understand, how are we looking at the loan growth on the corporate side given that the retail portfolio is already catching up pace? The question is on the basis of the fact that there are certain reform measures which were announced with the recap of PSU banks, where the number of banks in the consortium have been restricted and their exposure has been restricted to 10% in a consortium especially for big corporate loans. So just wanted to understand for a bank as big as ICICI, how important is the corporate growth now and what is the opportunity for you to grow that book?

Rakesh Jha: Clearly on an incremental basis, there are opportunities which are there in terms of lending to PSUs, increasing working capital requirements of some of the corporates plus there could be a fair bit of refinancing which happens as some of the stressed cases get resolved. So to that extent, there are a lot of opportunities. What we will do is that we look at the portfolio composition. We will try to keep it much more granular than in the past and to better rated clients and that is why we disclosed our disbursements to A- and above rated clients for the period which is close to 88-90%. As long as we are able to get good margins on this business which is a function of how competitive the market scenario is, we are happy to grow this portfolio and we believe that opportunities going forward will be there for us to not just to earn margins but also to make fee revenues from the corporate exposure. So it is something that we will continue to grow going forward as well.

Manisha Porwal: Okay. To that, if you can just specifically tell in case of a consortium with only 6-7 members, how does the viability of a lending change for a private banker if there is a restriction in the number of banks in a consortium or if the PSUs are restricted? Will it reduce the

opportunity or will it only improve it for private banks. Will this kind of restriction prevent risks to be spread across. Would that be a good thing or a bad thing?

Rakesh Jha: I guess there is enough opportunity for private banks. If it is a good rated client, where the working capital limits have to go up and some members of consortium are not able to lend then some of the other banks including private banks can pick up that share. Of course with respect to PSU banks, SBI is as active as ever. So that is the large part of the overall PSU bank share where we don't think there will be any change in the market dynamics. But yes, for some of the smaller PSU banks, there would be an impact and private banks will have some ability to benefit from that opportunity.

Manisha Porwal: Can I add one more question? These IBC accounts have time bound resolution to them. So of the 18 accounts in IBC for ICICI, how does the trajectory or the scenario build out? How far is the first resolution and what are the timelines by which we can see some big accounts actually getting resolved because resolution is the key thing.

Rakesh Jha: With respect to RBI's first list which banks had to file with NCLT, those cases got admitted sometime in July. The process allows for 180 days, which can be extended by 90 days. So effectively 270 days is within which one would ideally expect resolutions to come by. I guess end of March-April, we will start seeing the resolutions kind of getting concluded. Of course, thereafter they will have to get implemented as well. As of now in a few cases, the Committee of Creditors has started receiving the bids. For the second list, banks have filed with the NCLT only towards the end of December, early January. The admissions would be more in January. That will extend up to September-October based on the 270 days timeline.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I now hand over the floor back to the management for their closing comments. Over to you.

Chanda Kochhar: Well, thank you. As we summed up in our earlier presentation, we have been focusing on our 4x4 Agenda and during the quarter, we have improved the loan growth, maintained a healthy funding mix, continued to focus on our digital franchise and on capital efficiency. We will continue to focus on our 4x4 Agenda and keep moving on the same path. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of ICICI Bank that concludes this conference call. Thank you for joining us and you can now disconnect your lines.