ICICI Bank Limited
Earnings Conference Call- Quarter Ended September 30, 2018 (Q2-2019)
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Moderator: Good day, ladies and gentlemen and welcome to the ICICI Bank Q2-2019 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Bakhshi – Managing Director and Chief Executive Officer of ICICI Bank. Thank you and over to you, sir.

Sandeep Bakhshi: Good evening to all of you and welcome to the ICICI Bank Earnings Call to discuss the Q2-2019 results. Joining us today on this call are our Executive Directors – Vishakha, Anup and Vijay; President Corporate Centre – Sandeep Batra; CFO – Rakesh and our Head of Investor Relations - Anindya.

Team ICICI is excited about the opportunities that the financial landscape has to offer and the team is geared up to maximise the Bank's share of these opportunities. Our focus is on further growing our core operating profit through granular and risk-calibrated business growth. The core operating profit increased by 10% year-on-year to 52.85 billion Rupees in Q2 of 2019. The core operating profit, excluding dividend income from subsidiaries, increased by 17% year-on-year to 51.18 billion Rupees in Q2 of 2019. The domestic loan book grew by 15.7% year-on-year led by retail loan growth of 20.5% year-on-year. The proportion of the loan portfolio rated A- and above increased from 63.3% at June 30, 2018 to 65.5% at September 30, 2018. Our funding profile continues to be healthy. The outstanding CASA deposits increased by 14.9% year-on-year at September 30, 2018, from 2.47 trillion Rupees to 2.84 trillion Rupees. The average CASA ratio was maintained above 45% during Q2 of 2019. The team is taking a number of initiatives to expand the customer base and deepen the penetration of our products and

services among existing customers, through improving and expanding our product offerings and sharpening our focus on specific micro-markets. We are working on making our delivery more seamless and frictionless by decongesting our processes and appropriately empowering our teams.

Even as we focus on healthy growth in core operating profits, we remain equally focused on addressing the stress in the corporate and SME portfolio originated in earlier years. The NPA additions during the quarter have further moderated to 31.17 billion Rupees, of which 13.04 billion Rupees represents the impact of currency depreciation on existing foreign currency NPAs. The corporate and SME NPA additions were mainly from the portfolio rated BB and below at June 30, 2018. The additions to NPAs in FY2019 are expected to be significantly lower than FY2018. Our gross non-performing assets were 544.89 billion Rupees as of September 30, 2018. The provision coverage ratio excluding technical/prudential write-offs increased by 480 basis points sequentially to 58.9% as of September 30, 2018. Including technical/ prudential write-offs, the provision coverage ratio was 69.4%. Since the last quarter, we have been disclosing our BB and below corporate and SME portfolio. This has decreased from 246.29 billion Rupees at June 30, 2018 to 217.88 billion Rupees at September 30, 2018.

During the quarter, concerns emerged around a group engaged in infrastructure, infrastructure financing and EPC businesses. Our exposure to this group is primarily to an EPC company within the group, and is primarily non-fund in nature, comprising guarantees. This exposure has been broadly at the same level for several years. The internal rating of this company was downgraded to BB and below during Q2-2019 and the same is included in our corporate and SME BB and below portfolio at September 30, 2018. The exposure was standard as of September 30, 2018.

Recently, there have been concerns regarding the liquidity issues faced by certain NBFCs and HFCs. Our total loans, investment and non-fund based outstanding to NBFCs and HFCs were 367.34 billion Rupees at September 30, 2018. The loans to NBFCs and HFCs were about 5.4% of our total outstanding loans at September 30, 2018. Our lending has been focused on entities that are well rated, have long vintage and are in the public sector or owned by banks and well-established corporate groups. We continue to do business with them subject to appropriate risk assessment and pricing.

As we had mentioned on our previous earnings call, our objective is to collaborate and bring all our capabilities together to be the trusted partner in serving our customers and become their banker of choice. Our focus is on further growing our core operating profit through granular and risk-calibrated business growth. We expect the provisions in FY2019 to remain elevated and are closely monitoring the asset quality.

We look forward to building the business performance and shareholder value with support from all our stakeholders.

With these opening remarks, I will now hand the call over to Rakesh.

Rakesh Jha: Thank you, Sandeep. I will talk about our performance on growth and credit quality during Q2 of 2019. I will then talk about the P&L details and capital.

A. Growth

The domestic loan growth was 15.7% year-on-year as of September 30, 2018 driven by a 20.5% year-on-year growth in the retail business.

Within the retail portfolio, the mortgage loan portfolio grew by 16%, auto loans by 10%, business banking by 45% and rural lending by 19% year-on-year. Commercial vehicle and equipment loans grew by 20% year-on-year. The unsecured credit card and personal loan portfolio grew by 43% year-on-year, off a relatively small base, to 355.67 billion Rupees and was about 6.5% of the overall loan book as of September 30, 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 was 20.4% year-on-year at September 30, 2018. The SME portfolio constituted 4.6% of total loans as of September 30, 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 September 30, 2018, growth in the domestic corporate portfolio was 15% year-on-year.

The net advances of the overseas branches decreased by 3.8% year-on-year in Rupee terms and 13.3% year-on-year in US dollar terms at September 30, 2018. The international loan portfolio was about 12.7% of the overall loan book as of September 30, 2018.

As a result of the above, the overall loan portfolio grew by 12.8% year-on-year at September 30, 2018.

Coming to the funding side: Total deposits grew by 12.0% year-on-year to 5.6 trillion Rupees as of September 30, 2018. CASA deposits grew by 14.9% year-on-year to 2.8 trillion Rupees at September 30, 2018. The outstanding CASA ratio was 50.8% at September 30, 2018 compared to 49.5% at September 30, 2017.

B. Credit Quality

During Q2 of 2019, the gross NPA additions were 31.17 billion Rupees. The retail portfolio had gross NPA additions of 7.60 billion Rupees and recoveries & upgrades of 5.92 billion Rupees.

Of the corporate and SME gross NPA additions of 23.57 billion Rupees, about 13.04 billion Rupees represents the impact of rupee depreciation on existing foreign currency NPAs. The balance slippage of 10.53 billion Rupees was largely from the BB and below portfolio which we had disclosed during the previous quarter. It includes slippages of 0.54 billion Rupees from restructured loans, devolvement of non-fund based exposure of 1.32 billion Rupees and slippages of 8.28 billion Rupees from other loans rated BB and below. As the corporate portfolio is lumpy in nature, the additions to gross NPA may fluctuate on a quarterly basis. NPA additions in FY2019 are expected to be significantly lower compared to FY2018.

The aggregate deletions from NPA due to recoveries and upgrades were 10.06 billion Rupees in Q2 of 2019. The gross NPAs written-off during the quarter aggregated 3.89 billion Rupees. The Bank sold gross NPAs aggregating to 6.98 billion Rupees during the quarter for 100% cash consideration.

The Bank’s net non-performing asset ratio decreased from 4.19% as of June 30, 2018 to 3.65% as of September 30, 2018.

The provision coverage ratio on non-performing loans, excluding cumulative technical/ prudential write-offs, increased by 480 bps sequentially to 58.9% as of September 30, 2018 compared to 54.1% as of June 30, 2018. Including cumulative technical/ prudential write-offs, the provision coverage ratio on non-performing loans improved to 69.4% as of September 30, 2018 from 66.1% as of June 30, 2018.

During FY2018, RBI had directed banks to initiate insolvency resolution process for certain accounts. At September 30, 2018, the Bank had outstanding loans & non-fund facilities amounting to 38.81 billion Rupees & 1.47 billion Rupees respectively to accounts referred to NCLT in List 1. The provision coverage ratio on these loans was 89.7% as of September 30, 2018. The Bank had outstanding loans & non-fund facilities amounting to 93.68 billion Rupees & 7.82 billion Rupees respectively to accounts referred to NCLT in List 2. The provision coverage ratio on these loans was 62.1% as of September 30, 2018.

The total non-fund based outstanding to borrowers classified as non-performing was 30.47 billion Rupees as of September 30, 2018.

The net standard restructured loans were 14.13 billion Rupees at September 30, 2018. The non-fund based outstanding to companies in the restructured portfolio was 1.27 billion Rupees as of September 30, 2018.

Standards loans under the remaining RBI schemes, namely, 5/25 and S4A excluding overlaps from drilldown which have been fully implemented were 18.98 billion Rupees, as of September 30, 2018. In addition, non-fund based outstanding to borrowers under S4A, other than standard restructured cases, aggregated 15.07 billion Rupees as of September 30, 2018.

Moving on to the drilldown list, 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 44.01 billion as of June 30, 2018 to 32.83 billion Rupees as of September 30, 2018. There was a net decrease in exposure of 0.66 billion Rupees and net rating upgrades of 10.52 billion Rupees during the quarter.

The drilldown list has decreased from 440.65 billion Rupees at March 31, 2016 to 32.83 billion Rupees at September 30, 2018. Going forward, we will merge the drilldown list with other categories in the corporate and SME BB and below portfolio.

As of September 30, 2018, the fund-based and non-fund based outstanding to standard borrowers rated BB and below was 217.88 billion Rupees. This included 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, of 113.05 billion Rupees as of September 30, 2018 compared to 124.91 billion as of June 30, 2018. The balance 104.83 billion Rupees of fund-based and non-fund based outstanding to borrowers rated BB and below included 45.50 billion Rupees related to cases with an outstanding greater than 1.00 billion Rupees and 59.33 billion Rupees related to cases with an outstanding of less than 1.00 billion Rupees. On slide 31 of the presentation, we have provided the movement in our BB and below portfolio during Q2 of 2019.

- There were rating upgrades to the investment grade categories and a net decrease in outstanding, of 41.03 billion Rupees
- There were rating downgrades of 22.76 billion Rupees from the investment grade category during the quarter. This includes downgrades to drilldown list of about 8.21 billion Rupees, fund and non-fund outstanding to a group engaged in infrastructure, infrastructure financing and EPC businesses and some other accounts
- Lastly, there was a reduction of 10.14 billion Rupees due to classification of certain borrowers as non-performing.

Coming to our exposure to the power sector, our total exposure was about 481.50 billion Rupees at September 30, 2018. Of the total power sector exposure, about 30% was either non-performing,

restructured, part of the drilldown list or under a RBI resolution scheme. Of the balance 70% of the exposure, 53% was to private sector and 47% was to public sector companies. Our exposure to public sector companies included about 16.14 billion Rupees to state electricity boards. Also, of the balance 70% of the exposure, excluding state electricity boards, about 81% was internally rated A- & above.

The loan, investment and non-fund based outstanding to NBFCs was 241.90 billion Rupees at September 30, 2018 compared to 219.15 billion Rupees at September 30, 2017. The loan, investment and non-fund based outstanding to HFCs was 125.44 billion Rupees at September 30, 2018 compared to 101.74 billion Rupees at September 30, 2017. The loans to NBFCs and HFCs were about 5.4% of our total outstanding loans at September 30, 2018. The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was about 184 billion Rupees at September 30, 2018.

C. P&L Details

The core operating profit (profit before provisions and tax, excluding treasury income) grew by 10.3% to 52.85 billion Rupees in Q2 of 2019 from 47.93 billion Rupees in Q2 of 2018.

The net interest margin was at 3.33% in Q2 of 2019 compared to 3.19% in Q1 of 2019 and 3.27% in Q2 of 2018. The domestic NIM was at 3.71% in Q2 of 2019 compared to 3.54% in Q1 of 2019 and 3.57% in Q2 of 2018. International margins decreased to 0.05% in Q2 of 2019 compared to 0.30% in Q1 of 2019. Overseas margins reduced sequentially in Q2 of 2019 due to lower interest collection from non-performing loans.

There has been an increase in the incremental cost of term deposits for the banking system in September. While the Bank has been

passing on the increase in cost of deposits to borrowers by hiking the MCLR and the incremental lending rates, the impact of the same on margins would come with a lag due to the lower reset frequency of loans linked to MCLR.

Total non-interest income was 31.56 billion Rupees in Q2 of 2019 compared to 51.86 billion Rupees in Q2 of 2018.

- Fee income grew by 16.5% year-on-year to 29.95 billion Rupees in Q2 of 2019. Retail fee income grew by 20.6% and constituted about 72% of overall fees in Q2 of 2019.

- Dividend income from subsidiaries was 1.67 billion Rupees in Q2 of 2019 compared to 4.11 billion Rupees in Q2 of 2018. The dividend income in Q2 of 2018 included the final dividend of ICICI Life for FY2017. The final dividend of ICICI Life for FY2018 was received in Q1 of 2019. Other income excluding dividend income from subsidiaries was 0.30 billion Rupees in Q2 of 2019 compared to 0.12 billion Rupees in Q2 of 2018.

On Costs: The Bank's operating expenses increased by 10.6% year-on-year in Q2 of 2019. The cost-to-income ratio was 45.2% in Q2 of 2019 compared to 44.0% in Q2 of 2018 which excluded gains from stake sale in subsidiaries. The Bank had 83,927 employees at September 30, 2018.

There was a treasury loss of 0.35 billion Rupees in Q2 of 2019 compared to a profit of 21.93 billion Rupees in Q2 of 2018. Treasury income in Q2 of 2018 included gains of 20.12 billion Rupees from sale of stake in ICICI General.

Provisions were 39.94 billion Rupees in Q2 of 2019 compared to 59.71 billion Rupees in Q1 of 2019 and 45.03 billion in Q2 of 2018.

The Bank had a net profit of 9.09 billion Rupees in Q2 of 2019 compared to 20.58 billion Rupees in Q2 of 2018.

D. Subsidiaries

The performance of subsidiaries is covered in slides 41 to 47 in the investor presentation.

The consolidated profit after tax was 12.05 billion Rupees in Q2 of 2019 compared to 0.05 billion Rupees in Q1 of 2019 and 20.71 billion Rupees in Q2 of 2018.

E. Capital

The Bank had a standalone Tier 1 capital adequacy ratio of 15.38% and total standalone capital adequacy ratio of 17.84% as of September 30, 2018.

We will now be happy to take your questions.

Moderator: Thank you very much. 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 movement of the BB and portfolio. There have been very sharp upgrades. One of the upgrades is an iron and steel account. What are the others? Are these all because of internal ratings - upgrades are of ₹ 41 billion, of which around ₹ 19 billion is steel?

Rakesh Jha: The one large account in iron and steel sector which you are referring to got upgraded during the quarter. As you are aware, these are based on the internal ratings which are done by the risk team of the Bank. The other upgrades are spread across companies and include

one case in which there was a change in management which happened a few quarters back.

Mahrukh Adajania: In terms of downgrade to BB and below, other than the group that you mentioned, is it scattered across sectors or is it real estate because you had mentioned that as a concern last quarter?

Rakesh Jha: As we said, if you look at the drilldown list, the downgrades in the sectors covered there were about ₹ 8.21 billion and then we had this EPC company and some other accounts. On the builder finance portfolio, we are monitoring that portfolio closely. As of now we are comfortable with the portfolio.

Mahrukh Adajania: Just in terms of margins, again, you would have seen a lot of interest from NPLs. Is that the reason why margins grew?

Rakesh Jha: If you are looking at it sequentially, Mahrukh, we had interest collection from non-performing loans in the current quarter, but in absolute terms the quantum was lower than what we had in the June quarter because the June quarter had quite a big impact of the resolution of one of the steel accounts from the list-1 of the NCLT. So we did have interest collection in the September quarter, but the amount while being large was smaller than what we had in the June quarter.

Mahrukh Adajania: Then what explains the increase in margin?

Rakesh Jha: In terms of the margin, the funding cost has remained broadly at a similar level in the September quarter compared to June quarter and we have been able to improve the yields somewhat. The fact that we have deployed some of the surplus liquidity on to the lending side has also helped the margin. As I mentioned earlier there has been an increase in the funding cost that the system has seen from September onwards and then going forward that will result in the funding cost going up and we will be focused on trying to pass that on to the lending side as well.

Mahrukh Adajania: What about the overseas margin? They have been so volatile, so when do they stabilize?

Rakesh Jha: On the overseas margin, I think at the beginning of the year we did say that it is so volatile because it is being driven by the interest collection on the non-performing loans. Given the very high level of NPLs in the overseas book, the core margin is extremely low. So you will continue to see this volatility in the current financial year and even the September number that you see includes some benefit of interest collection from NPLs. I think as we get into the next financial year is when we should start seeing some stability there, otherwise you will indeed find that margin to be volatile during the rest of the current financial year.

Mahrukh Adajania: Lot of banks have kind of quantified what recoveries they would get in FY2019 from NCLT cases which are at very advanced stages of resolution. Would you have any such number for FY2019 and FY2020?

Rakesh Jha: We would report that number as the collections happen. There is no estimate that we have on that.

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

Kunal Shah: So particularly in the current operating environment, we had this entire strategy of congestion and decongestion with respect to the growth. So now do we see maybe more segments getting into the congestion category or maybe given the opportunity which is there, are there a few segments which get into the decongestion category?

Rakesh Jha: I think Sandeep had earlier mentioned about decongestion across the processes at the Bank to enable business across segments. So that was the focus area which we have continued at the Bank in the current quarter as well. In terms of opportunities, as you say, in the current environment on the lending side, the opportunity is there

across each and every segment on the retail side, on the corporate side and even on the SME side and you would have seen that the growth across each of these segments has been quite consistent in the current quarter and at a relatively high level. The opportunities are there in each of the segments and we will, as Sandeep has communicated, be focusing on risk calibrated profitable growth in each of these segments.

Kunal Shah: But overall maybe because of the market share gain, do we expect better growth and even pricing power, now returning to banks as such? Do we also see NIMs broadly bottoming out? Or maybe we could say it has already bottomed out and we should only see improvement hereon?

Rakesh Jha: As you are aware, the liquidity in the system is extremely tight and RBI also has a view on the liquidity. So it is fair to assume that in the second half of the current financial year, the funding cost will go up for all the banks including us. And as I said we will be focused on passing on the increase in funding cost on to the lending side but we will have to just see how that plays out. So, I would not want to say that margins have bottomed out for the system per se but our focus will definitely be to ensure that we pass on all the increase that we see onto the lending side.

Kunal Shah: Lastly, in terms of ₹ 8.21 billion downgrade, say to a group engaged in infrastructure. Of the downgrades which have been there, this is only with respect to the SPV or even if we have any exposure to the SPV level, we would have downgraded that as well as the entire group? How should we read into it? Is this only the exposure to few entities or this is the overall exposure to that group?

Rakesh Jha: I will repeat what I said, there were rating downgrades of ₹ 22.76 billion from the investment grade category during the quarter. ₹ 8.21 billion out of that was downgrade in the drilldown list which is the power, steel, rigs and those sectors. Then there was downgrade that

we had towards the group engaged in infrastructure as you mentioned and there were some other accounts. There is no specific number that we have given for any specific account. These are the aggregate numbers. ₹ 8.21 billion is not pertaining to the infrastructure company, it is pertaining to the drilldown list in aggregate, that is power, steel, rigs and these sectors which we have been disclosing separately.

Moderator: Thank you. We will take the next question from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: Firstly, what is the reason for the drop in the tier-1 capital by 60 bps for the consol entity?

Rakesh Jha: If you look at the standalone number also there is a decline in the tier-1 during the current quarter. It is in line with the growth that we have seen in the balance sheet for the quarter. Of course it does not include the profits for the quarter. In any case the profits have been on the lower side, but this is excluding the profit. So it is in line with the growth in the risk weighted assets that you will see at the Bank level.

Rakesh Kumar: But that number is looking like a fall of 50 to 60 bps during the quarter, which is slightly on the higher side.

Rakesh Jha: Because it is excluding the profit for the quarter and there has been a growth in the assets. We talked about the growth on the domestic and the overseas loan book. The overseas loan book has increased sequentially in this quarter because of the rupee depreciation.

Rakesh Kumar: The deposit cost is lower this quarter. So would this be only due to the average CASA being on the higher side or is there any other reason?

Rakesh Jha: It would be because the average CASA was higher in the September quarter and on the wholesale deposit side, we have not been

aggressive in fund raising. We had some opportunities on the borrowing side to raise refinancing. So you would have seen that our borrowings have gone up during the current quarter.

Moderator: Thank you. We will take the next question from the line of Pranav Gupta from Aditya Birla Sun Life Insurance. Please go ahead.

Pranav Gupta: My question is on the deposit side. So some banks are talking about good traction on the retail term deposit side and talking about shedding wholesale term deposits. What is the current trend that we are seeing here for our bank and how do you see it affecting the cost of deposits overall?

Rakesh Jha: We have also seen pretty good traction in retail term deposits over the last two or three quarters. As I mentioned earlier, you would find that the overall term deposit growth for the Bank is still relatively on the lower side because we kept away from some of the higher cost wholesale deposits as we had other opportunities of refinancing and the borrowings have gone up. But again as I said, I think in the second half of the year, the liquidity would get still tighter and I think banks would need to rely to some extent, on the wholesale deposits as well.

Pranav Gupta: Secondly, just a data question, could you help us with the absolute numbers for CA and SA separately?

Rakesh Jha: Yes, it is there in the presentation; savings deposits are ₹ 2,074.76 billion and current account deposits are ₹ 760.72 billion.

Moderator: Thank you. We will take the next question from the line of Nitin Agarwal from Motilal Oswal Securities. Please go ahead.

Nitin Agarwal: The growth in retail assets continue to be very strong for us but the share of unsecured loans has now increased to 6.5% of total loans. What is the level for these assets that we will want to maintain in our portfolio over the coming years?

Rakesh Jha: We do not have any specific number in mind at all in terms of the proportion of unsecured retail loans in total loans or for that matter retail loans in total loans. Depending on the opportunities that we see, we would calibrate that number. As of now, there is a lot of opportunity that we are seeing by just focusing on cross-selling to our existing customers. As we mentioned to an earlier query that is one of the areas where we believe that there is still a lot of work that we can do by decongesting some of the processes and making it easier for our customers to access these products. So as long as we are able to drive growth through this we would be comfortable increasing the portfolio and we are mindful of the fact that currently it is really not a large number per se, but the only focus for us is that in terms of the risk parameters we would ensure that we do not go beyond the boundary that we have set up and within that we will be happy to grow the portfolio.

Nitin Agarwal: Secondly, like we indicated in the opening remarks the provisioning will remain elevated over FY2019. So I see the provision coverage ratio including technical write-offs has already increased to 70%. The provision coverage ratio excluding technical write-offs has also increased sharply to around 60%. So why we are so conservative on the provisioning side because the slippages this quarter have been quite benign and the assets have been coming off and in the NCLT resolutions I think we may see good recoveries there, so where do we want to take the coverage?

Rakesh Jha: On the coverage, if you recollect we had earlier said that by March 2020 we would want it to be at 70%. Of course the way things have been moving the coverage has been increasing at a better pace than that. So on provisions, you are right that the write-backs can happen and provisions can be lower in a particular quarter but it is very difficult to kind of be sure of when that happens, and in the interim there will still be some amount of ageing based provision that will come in as the non-performing loans move into the deeper buckets

on the doubtful and the loss category. So that is the reason we are saying that in the second half also the provisions will be elevated. So compared to any kind of a normalized credit loss, it will definitely be a higher number in the second half of the year as well.

Nitin Agarwal: Can you share the SMA-2 number if possible?

Rakesh Jha: We do not disclose that separately, we are disclosing the BB and below portfolio as per our internal ratings, that is what we track internally as the accounts which have greater risk of default compared to the rest of the portfolio.

Moderator: Thank you. We will take the next question from the line of Gurpreet Arora from Quest Investment. Please go ahead.

Gurpreet Arora: A few quick questions: When you say that you are looking at a risk calibrated growth, what sort of credit cost are you envisaging for retail and non-retail going ahead? Second, the domestic credit-deposit ratio has been inching up for last one year. So any steps are you taking to shore up deposit growth versus the advances growth? Third and last question is there any retail loan mix that you have in mind?

Rakesh Jha: On credit cost, we have not disclosed any specific numbers in terms of each of the segments per se. In the normalized kind of terms, the numbers should of course be much closer to 100 basis points kind of a number compared to 300-400 basis points where we currently have been running. But beyond that for each segment, while of course, internally we have numbers that we track and monitor the portfolio against, we have not separately disclosed that for each of the segments. On the credit-deposit ratio, you are right that the numbers have increased for us. I think it would have increased for almost all the private banks. The way we look at this is not just purely from a credit-deposit ratio, we also look at the liquidity coverage ratio which we maintain comfortably higher than the minimum

requirement of RBI which is 90%. We are closer to 110% on that. We also look at some of the more stable and longer-term borrowing opportunities because compared to a wholesale deposit, they are much more stable and at points of time could even be of a similar cost or a lower cost. So we look at the overall liquidity by taking into consideration the credit-deposit ratio, the level of long-term borrowings that we have and the liquidity that we maintain which is reflected in the liquidity coverage ratio. So we are quite comfortable with the balance sheet position. Of course, we would want to grow our retail deposits at even faster pace and that is what we are focusing on. On the retail loan mix, actually to an earlier question, I mentioned that we do not have any specific mix in mind. Depending on the opportunities in the market and our own risk appetite we will see how that book grows and what proportion that is because it will also be a function of the growth that we see in the other segments where also there are attractive opportunities on the corporate and the SME side.

Gurpreet Arora: Is it fair to assume that the 100 basis points credit cost can be achieved over next two years, maybe FY2021?

Rakesh Jha: We have not set any specific target, but definitely we expect to get to a normalized credit cost by then. It also depends on the expected migration to IFRS or Ind AS. If that happens, it could happen earlier than that.

Gurpreet Arora: We had mentioned about some RoE targets a couple of presentations back. So we still hold on to those targets?

Rakesh Jha: We had talked about 15% consolidated RoE by June 2020. So that is something that we are kind of still focused on. Like we mentioned in the last quarter's call also that is an initial target and beyond that we would reassess and see where we would want to target our RoE. In the interim like we again mentioned in the last call, that our focus is

to increase the core operating profit for the Bank within the risk parameters.

Moderator: Thank you. We will take the next question from the line of Akhilesh Gupta from Reliance Nippon Life Insurance. Please go ahead.

Yathesh: This is Yathesh here from Reliance Nippon Life Insurance. Are we making our FCNR deposit competitive in line with currency depreciation?

Rakesh Jha: We always calibrate those deposit rates depending on where the market is and what is the all-in cost comparable with the domestic market. So, that is the calibration that we do on a regular basis.

Yathesh: Are you looking at any increase in FCNR deposit rates going forward? Any increase in the deposit amounts which you are getting right now?

Rakesh Jha: On FCNR in specific, it is very difficult to comment. As I said, depending on the opportunities and the market rates, we would see how that fits in, in terms of our cost.

Yathesh: What about domestic deposit rates – are we increasing the deposit rates in the light of tight liquidity conditions?

Rakesh Jha: I think you would have seen that almost all the banks have increased the bulk deposit rates over the last couple of months. On the retail deposit rates, we had increased it in September quarter once and we have increased the MCLR, the lending rate, also a couple of times in the last quarter. So these rates are calibrated based on the liquidity and competition. Our expectation, as I earlier said, is that there would be some increase in these rates in the second half of the year.

Moderator: Thank you. We will take the next question from the line of Adarsh Parasrampuria from Nomura Securities. Please go ahead.

Adarsh Parasrampuria: A question on liability. Can you just quantify the retail term deposits as a percentage of our total term deposits? For wholesale term deposits what have you seen rates go up by?

Rakesh Jha: The wholesale deposits rates, I think the best way for you to look at it is if we look at the CD rates. They are a good reflection generally where the wholesale deposit rates are. The wholesale deposit rates have really gone up above 8% and then it depends on everyday and every week in terms of where the rate is for the banks. We have not separately disclosed the breakup of term deposits into retail and wholesale, but a larger proportion of the term deposits would indeed be the retail deposits.

Adarsh Parasrampuria: It will help if you can quantify it given that it is so sensitive now that the wholesale funds have increased by a larger quantum, it will be great if you can just indicate broadly what is the mix would be?

Rakesh Jha: Sure, so going forward we would consider doing that.

Adarsh Parasrampuria: Rakesh, just again getting back to the margin question. When you say that margins may not have bottomed out for the industry, CASA cost is not moving up, retail is moving up slowly and the whole MCLR effect and the spread improvement effect will come through. So is it not very logical that the NIM improvement could end up being pretty sharp over the course of next two to four quarters for CASA heavy bank like ours?

Rakesh Jha: That is what the endeavour will be but as I said it will be a function of how sharply some of the wholesale rates go up because at some stage that may have an impact on the retail deposit rates as well. So it is very difficult to kind of commit on that. And given the current liquidity scenario as you see, the funding cost will go up. I think a sharp increase in margin for the banking system in the next couple of quarters may not be the way it will play out.

Adarsh Parasrampuria: I am just saying may not be two quarters, because wholesale will be short in nature in terms of duration, so it will go up very quickly maybe in the third quarter itself, if I take a little more longer once rates stabilize say even at levels where we are today, once that happens, I think it will seep into margins maybe after a couple of quarters right, because only like 25% of your funding would be wholesale and rest is retail which is not going up by the same quantum.

Rakesh Jha: That would be the endeavour. There are a lot of variables in this. At some stage, if the gap between the cost of retail and wholesale deposits is too high, banks may end up increasing the cost of retail deposits. So we will have to just see how it plays out.

Adarsh Parasrampuria: Second question is relating to the overseas margins. I know there is the NPA effect playing in, but when does this reversal in margin start maybe next year onwards? Would you infuse capital if that helps the margins or you have fully written off the bad loans? Just wanted to understand mathematically as to what the turning point would be there?

Rakesh Jha: Mathematically you are right that given the provisions which are there, there could be some amount of transfer of capital which may happen within the Bank itself. But I think more importantly, there are non-performing loans and we are indeed hoping to collect some of them. Timing is a very difficult thing to estimate there. The interest collections from NPLs are by definition going to be lumpy. For example, in this quarter we had interest collection on the overseas book and after that the margin is 5 basis points. So without that it actually would have meant that interest expense was higher than the interest income just given the level of NPLs which are there. Because we have not grown the book in the last two or three years, that kind of compounds it more from a margin perspective. So as I said, as we get into the next financial year, hopefully we should see more stability on the margin there.

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

Amit Premchandani: On the prevailing liquidity scare on the NBFC side, are we getting many opportunities to lend to NBFCs or buyout portfolios and how are we using that opportunity and what are the internal caps in terms of NBFC lending?

Rakesh Jha: As you yourself said in the current environment there will be opportunities for lending to NBFCs and HFCs and for buying portfolios from them for priority sector purposes or even otherwise. So these are options and opportunities that we are looking at. All of these of course have to be within our risk appetite. So we are open to lending to NBFCs and HFCs and even buying retail portfolios from them.

Amit Premchandani: Another question from a long-term point of view. We have been hearing over the last four to five years during the current credit cycle that a large part of the portfolio which is under stress is of accounts, relationships which were like going back to two decades and all that. How sure you are that similar kind of name lending will not be done in the next credit cycle?

Rakesh Jha: We have articulated our approach to corporate lending over the last two or three years and if you look at some of the slides that we have put in the presentations, that talk about the movement in the rating category of the loans. We are a lot more focused on the higher rated categories and we have seen that movement as well. We are focused on the concentration risk that we have talked about and we have given some of the numbers there as well and of course at an overall portfolio level, the proportion of retail loans going up itself increases the granularity of the portfolio. We are separately disclosing the BB and below portfolio as well because that is the early indication of how the portfolio is behaving. So we are completely focused on this and I think over time it will show up in the numbers as well.

Amit Premchandani: But just the approach towards lending to big names and assuming that all will be well because of the names that approach will change permanently for you?

Rakesh Jha: So the lending will be based on the risk appetite that we have and we are focusing clearly away from some of the project financing and M&A financing that we had done in the past. So you are right that in terms of the approach, it is going to be more granular and better rated exposure.

Moderator: Thank you. We will take the next question from the line of Mayank Bukrediwala from Goldman Sachs. Please go ahead.

Mayank Bukrediwala: Just two questions: First, in terms of the provision coverage that we have already built up on the NCLT-1 and 2 list, so that is already at 70%. It is even higher on NCLT-1, what is the extent of provisioning write-backs do you think that could come out from there specifically on NCLT-1 and by when do you think we could see some of that provisioning coming back?

Rakesh Jha: On the NCLT, there is one case which is currently ongoing and all of us are aware of the progress there, it is quite public, so as and when that concludes and banks recover on that, it will result in a write-back of provisions for banks including for us. As I mentioned earlier, there will be further provision that comes in because of ageing of some of these loans based on the RBI guidelines which are there. Overall it is very difficult to kind of comment on the quantity and timing of the write-back of provisions on the portfolio. We are hopeful that we should get reasonable amount of write-backs on some of these loans, but we will have to just wait and see when that happens.

Mayank Bukrediwala: So at an overall level on the entire NCLT, we do expect write-backs to come in, like we expect LGD to certainly be less than 70%?

Rakesh Jha: Given the way the entire process is; it is not something which is frankly within the hands of the Bank. It is the process under NCLT.

We have seen only one or two resolutions which have happened yet and bulk of the interest has been on sectors like steel and cement and a couple of other names. Especially in the list-2 that RBI had given out to banks, there is a lot more of exposure to power sector and some EPC companies where the recovery may not be that good. So we will have to just see how that plays out through the NCLT process.

Mayank Bukrediwala: Just wanted to get a sense on the loss we have recorded on the UK bank subsidiary. Just some color on that? Also in terms of asset quality, what are the NPLs in that at the moment?

Rakesh Jha: The loss we have talked about earlier that it is essentially because of some of the provisions that we have taken on the non-performing loans which we have in the UK subsidiary. Quite a bit of those loans are India-linked loans and have faced similar kind of stress that we have talked about on the domestic and the overseas branches book. So that is where we are in terms of the UK portfolio. So for the current year, we will have to closely monitor that and see how it plays out. In terms of the aggregate net NPL at the UK subsidiary, it was about $190 million as of September 30, 2018.

Moderator: Thank you. We will take the next question from the line of Sachin Kumar from Vashisht Capital. Please go ahead.

Sachin Kumar: Sorry, I missed the first 30-minutes. Could you share what is your exposure on the infrastructure company?

Rakesh Jha: We have not disclosed our exposure to any specific borrower. So, as you would appreciate, as a bank, we are not able to do that. Our exposure which is there, it is a part of the exposure that has got downgraded and it is a part of our overall 'BB and Below' portfolio that we disclose.

Moderator: Thank you. We will take the next question from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: I just wanted to ask you what are the risk parameters and risk frameworks that you are using to help your retail engine grow because I see that your retail engine has actually started working very well. So things like credit score, say things like how many common people are there in the retail liability side and asset side, are there pricing differentials for various things because those things will be important and those things will matter after sometime?

Anup Bagchi: Broadly if we break up the retail lending into two parts, there is secured and there is unsecured. So on the unsecured part, essentially our credit scoring model has inputs which are more than the CIBIL and credit bureau score because these scores are only lag indicators and not lead indicators. So you will see that upwards of two-thirds of all our lending is being done to our current customers. In the current customers, liability and the transaction behaviour is a very big input to the credit scoring that we finally do and particularly because as you know we are very strong on the salary side, we have a very high frequency book on the liability side. So that is a very big part on the unsecured loans. Now, on the secured loans. While we do income estimation that is one part, we have to be very careful on the collateral that you get. On the collateral that you get, the three big estimates that we do is the quality of the collateral and by quality we mean its value; the saleability of the collateral and its realizable value. We look at other parameters such as concentration within an area. On the valuation side, we do not rely much on external valuers. We have a very large team which does internal valuation because as you know the delta between the yields that you get on secured and unsecured is quite large. So the collateral value and its realizable value are big inputs. If you look at our credit cost, there are two things that we do. One is we routinely, in absolute sense, benchmark our credit cost. Second, what we also do is that all the cases that we are not able to do, which do not pass through a filter, with a lag of six months or one year if they have taken a loan outside, we are able to figure out whether our rejections are proper or improper. Proper

is if the credit cost was higher on that portfolio which we left out. I must share that internally we are quite satisfied with what we reject.

Pranav Tendulkar: Sir, what is the business banking sub-vertical in the retail?

Anup Bagchi: Business banking loans are of typical size of ₹ 10 to 10.5 million. They are small ticket business loans and all of them are collateralized.

Pranav Tendulkar: So the collateral will be the property or business cash flows?

Anup Bagchi: There are two collaterals. One collateral is the cash flows and the second collateral is definitely the self-occupied or commercial property.

Pranav Tendulkar: Are all these a sole-banker relationship?

Anup Bagchi: Yes. For ₹ 10 million loans there are generally no multiple banks.

Pranav Tendulkar: Because that portfolio is actually growing very fast and it will be very good RoE accretive if you can manage the risks.

Anup Bagchi: Yes, so far so good.

Moderator: Thank you. We will take the next question from the line of Krishnan ASV from SBICAP Securities. Please go ahead.

Krishnan ASV: My question was around the NCLT list provisioning and generally the fact that you have reached about 70% provisioning along with technical write-offs. How soon do you need to get to 100% on your NCLT list 1 purely from an ageing provision perspective because bulk of your NPAs would be residing in the D1 category or beyond D1 category. So just a sense of how soon will you need to hit 100% just because of the ageing related provisions?

Rakesh Jha: It will be spread across quarters, because that is a completely time-bound thing. When four years get completed, you have to move to 100%, so that will be distributed over the next several quarters in

terms of the portfolio moving from that 40% provision requirement bucket to 100% provision requirement. Lot of that would indeed come in the next financial year if we were to continue as per the RBI guidelines and Indian GAAP.

Krishnan ASV: Assuming we move to Ind AS at some point of time in FY2020, could you just give us a sense of how your internal ratings mirror the kind of loss given defaults that you are envisaging across the various rating buckets, a broad sense of what you rate AA and above versus what you rate just below that?

Rakesh Jha: For each of these internal ratings, based on the experience of the portfolio, we have probability of default estimates which are there and that is what will be considered under Ind AS for making the provisions on the stage-1 and stage-2 category. So beyond that I think once we kind of move over to IND AS is only when we can give more details on that.

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

Rakesh Jha: Thank you for your time this evening. Anindya and I will be available for any further questions that you may have.

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