ICICI Bank Limited

Earnings conference call - Quarter Ended March 31, 2019 (Q4-2019)

May 6, 2019

Certain statements in this release relating to a future period of time (including inter alia concerning our future business plans or growth prospects) are forward-looking statements intended to qualify for the 'safe harbor' under applicable securities laws including the US Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. These risks and uncertainties include, but are not limited to statutory and regulatory changes, international economic and business conditions; political or economic instability in the jurisdictions where we have operations, increase in non-performing loans, unanticipated changes in interest rates, foreign exchange rates, equity prices or other rates or prices, our growth and expansion in business, the adequacy of our allowance for credit losses, the actual growth in demand for banking products and services, investment income, cash flow projections, our exposure to market risks, changes in India's sovereign rating, as well as other risks detailed in the reports filed by us with the United States Securities and Exchange Commission. Any forward-looking statements contained herein are based on assumptions that we believe to be reasonable as of the date of this release. ICICI Bank undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof. Additional risks that could affect our future operating results are more fully described in our filings with the United States Securities and Exchange Commission. These filings are available at www.sec.gov.

Moderator: Ladies and gentlemen, good day. And welcome to the ICICI Bank Q4-2019 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 this 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 Mr. Sandeep Bakhshi – Managing Director and Chief Executive Officer, 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 Q4-2019 results. Joining us today on this call are our Executive Directors – Vishakha, Anup and Vijay; Executive Director Designate – Sandeep Batra; CFO – Rakesh and our Head of Investor Relations - Anindya.

As communicated in our previous earnings calls, we are focusing on our objective of growing the core operating profit in a granular and risk calibrated manner. Our core operating profit increased by 25.8% year-on-year to 60.77 billion Rupees in Q4 of 2019. For FY2019, core operating profit grew by 16.5% to 220.72 billion Rupees. We believe that a strong liabilities franchise is the basis of our strategy and we have seen a healthy growth in our overall funding. The total deposits increased by 16.4% year-on-year from 5.61 trillion Rupees to 6.53 trillion Rupees at March 31, 2019. The term deposits increased by 21.4% year-on-year, from 2.71 trillion Rupees to 3.29 trillion Rupees. The average CASA deposits increased by 13.1% year-on-year in Q4 of 2019.

On the assets side, the domestic loan book grew by 16.9% year-on-year at March 31, 2019 driven by retail. The retail loan portfolio grew by 21.7% year-on-year. The overall loan growth was 14.5% year-on-year. Over 90% of the disbursements in

FY2019 in the domestic and international corporate portfolio was to corporates internally rated A- and above.

The Board has recommended a dividend of 1 Rupee per share. The declaration and payment of dividend is subject to requisite approvals.

While we continue to build resilient businesses to drive growth in core operating profits in a risk calibrated manner, we have maintained our focus on addressing the stress in the corporate and SME portfolio originated in earlier years. Our gross non-performing assets decreased from 540.63 billion Rupees as of March 31, 2018 to 462.92 billion Rupees as of March 31, 2019. The gross NPA additions during the quarter were 35.47 billion Rupees. The gross NPA additions in Q4-2019 include an account in the sugar sector where the payment obligations are being met, which has been classified as non-performing pursuant to a regulatory interpretation communicated to banks relating to change in management. For FY2019, gross additions to NPAs were 110.39 billion Rupees which was significantly lower than the additions of 287.30 billion Rupees in FY2018. The net NPAs decreased by over 50% from 278.86 billion Rupees at March 31, 2018 to 135.77 billion Rupees at March 31, 2019. The net NPA ratio declined from 4.77% at March 31, 2018 to 2.06% at March 31, 2019. The provision coverage ratio excluding technical write-offs increased from 47.7% as of March 31, 2018 to 70.6% as of March 31, 2019. Including technical write-offs, the provision coverage ratio was 80.7%. The BB and below corporate and SME portfolio has decreased from 188.12 billion Rupees at December 31, 2018 to 175.25 billion Rupees at March 31, 2019.

The annual supervision process of the Bank by RBI for FY2018 was concluded during Q4 of 2019. No disclosure on divergence in asset classification and provisioning for NPAs is required to be made in terms of the RBI guidelines.

Looking ahead, we will continue to maintain our focus on building scalable and resilient business to drive the growth of risk calibrated core operating profit. We will further strengthen our liabilities franchise and pursue growth in low capital consuming businesses. We will align our solutions to provide the full range of banking services and capture the opportunities concentrated around economic ecosystems.

We are focused on building our capabilities to understand the changing needs of customers. A driving force is our strong and talented teams that are responsive and adapt to the new evolving trends. We are continuously reviewing roles and responsibilities, providing opportunities to employees and adding to the talent pool for achieving our goals. We have recently reorganized ourselves to work together seamlessly across functional and departmental boundaries in order to maximize our share of market opportunities. We have moved to role-based designations from grade based structures and empowered our teams at the local level.

We have taken a number of initiatives on the digital front to expand the customer base, smoothen the onboarding process further, enhance the transacting experience and deepen the penetration of our products and services among existing customers. We are striving to make our delivery to the customer more seamless and frictionless by decongesting our processes. We see collaboration and agility in building solutions for customers, bringing to them all our products and services in a seamless manner, as the key differentiator for achieving our strategic objectives.

As we have mentioned on previous calls, we believe we are at the end of this asset quality cycle and the NPA additions are expected to broadly stabilize going forward. Of course, even over the last few quarters, the system has seen some stress emerging in new segments or specific corporates. We believe that the approach of granular exposures and focus on higher rated corporates that we have followed, is standing us in good stead in this environment, and we will continue with this approach.

Over the past four years, our provisions as a percentage of average advances, have been ranging between 2.8% and 3.7%. As a percentage of core operating profit the provisions have been between 60% and 90%. For FY2019, credit cost was 3.7% of average loans and 90% of the core operating profit. While the credit cost would be an outcome of our portfolio mix and the credit environment, given our focus on building a granular book and lending to higher rated corporates, we believe our provisions on a normalised basis should be around 20% of core operating profit or about 1% of the average advances. The credit costs in FY2020 are expected to reduce significantly compared to FY2019 and move towards a more normalized level. We expect the credit costs as a percentage of average advances in FY2020 to be in the range of 1.2% to 1.3%. Due to uncertainty in the timing of resolutions of NPAs, there could be variance in credit costs across quarters.

We continue to be committed to achieve a consolidated RoE of 15% by June 2020. We will articulate the medium term RoE target as we start delivering normalized profits during the current year.

We look forward to enhancing the 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 the P&L details, our performance on growth, credit quality, performance of subsidiaries and capital during Q4 of 2019.

A. P&L Details

The net interest margin was at 3.72% in Q4 of 2019 compared to 3.40% in Q3 of 2019 and 3.24% in Q4 of 2018. There was interest on income tax refund of 4.14 billion Rupees in Q4 of 2019 compared to 0.21 billion Rupees in Q3 of 2019 and 0.16 billion Rupees in Q4 of 2018. The impact of interest on income tax refund on net interest margin was about 20 basis points in Q4 of 2019. The impact of interest collection from NPAs was about 5 basis points in Q4 of 2019 compared to 17 basis points in Q3 of 2019.

The domestic NIM was at 4.12% in Q4 of 2019 compared to 3.72% in Q3 of 2019 and 3.67% in Q4 of 2018. International margins decreased to 0.03% in Q4 of 2019 compared to 0.77% in Q3 of 2019. Overseas margins in Q3 of 2019 included the benefit of interest collection from non-performing loans.

The NIM in the full year FY2019 was 3.42% compared to 3.23% in FY2018. We expect the NIM to further improve gradually from the FY2019 level going forward. Going forward, the NIM will be influenced by NPL recoveries, systemic liquidity, competitive environment and regulatory developments. The timing and quantum of recoveries and interest on income tax refund is uncertain.

Total non-interest income was 36.21 billion Rupees in Q4 of 2019 compared to 56.78 billion Rupees in Q4 of 2018.

- Fee income grew by 15.4% year-on-year to 31.78 billion Rupees in Q4 of 2019. Retail fee income grew by 15.3% year-on-year and constituted about 74% of overall fees in Q4 of 2019.
- Treasury recorded a profit of 1.56 billion Rupees in Q4 of 2019 compared to 26.85 billion Rupees in Q4 of 2018. Treasury income in Q4 of 2018 included the gains of 33.20 billion Rupees from sale of shareholding in ICICI Securities.
- Dividend income from subsidiaries was 2.69 billion Rupees in Q4 of 2019 compared to 2.23 billion Rupees in Q4 of 2018.

On Costs: The Bank's operating expenses increased by 19.6% year-on-year in Q4 of 2019. The cost-to-income ratio was 44.5% in Q4 of 2019 compared to 49.9% in Q4 of 2018, excluding gains from stake sale in subsidiaries. During the quarter, employee expenses increased by 24.4% year-on-year due to higher provisions on retirals. This reflected the higher decrease in yields on government securities in Q4 of 2019 compared to Q4 of 2018. The Bank had 86,763 employees at March 31, 2019. The non-employee expenses increased by 16.9% year-on-year due to increase in expenses related to sales promotion, advertisements, launch of new products and sourcing of retail assets.

The growth in operating expenses for the year fiscal 2019 was 15.2% year-on-year. There are significant opportunities in the market and we would look at making investments for growing the retail franchise, expanding our portfolio and enhancing technology capabilities.

Provisions were 54.51 billion Rupees in Q4 of 2019 compared to 42.44 billion Rupees in Q3 of 2019 and 66.26 billion in Q4 of 2018.

The Bank's net profit was 9.69 billion Rupees in Q4 of 2019 compared to 10.20 billion Rupees in Q4 of 2018. As mentioned earlier, the profit after tax in Q4 of 2018 included gains from sale of shareholding in subsidiaries. The profit after tax was 33.63 billion Rupees in fiscal 2019. The profit after tax in fiscal 2018 included gains of 53.32 billion Rupees from sale of shareholding in subsidiaries compared to 11.10 billion Rupees in fiscal 2019.

B. Growth

The domestic loan growth was 16.9% year-on-year as of March 31, 2019 driven by a 21.7% year-on-year growth in the retail business. Within the retail portfolio, the mortgage loan portfolio grew by 19%, auto loans by 8%, business banking by 39% and rural lending by 16% year-on-year. Commercial vehicle and equipment loans grew by 31% year-on-year. The unsecured credit card and personal loan portfolio grew by 43% year-on-year, off a relatively small base, to 433.20 billion Rupees and was 7.4% of the overall loan book as of March 31, 2019. We believe there are significant opportunities to grow our personal loan and credit card book by mining our customer base for cross-sell and leveraging on the technology partnerships that we have recently entered into. The credit quality of the personal loan and credit card book continues to remain stable.

Growth in the SME portfolio was 20.3% year-on-year at March 31, 2019. The SME portfolio constituted 5.2% of total loans as of March 31, 2019.

We saw continued growth in domestic corporate loans. Excluding net NPAs and restructured loans at March 31, 2019, growth in the domestic corporate portfolio was about 14% year-on-year.

The net advances of the overseas branches decreased by 2.2% year-on-year in Rupee terms and 7.8% year-on-year in US dollar terms at March 31, 2019. The international loan portfolio was 10.7% of the overall loan book as of March 31, 2019.

As a result of the above, the overall loan portfolio grew by 14.5% year-on-year at March 31, 2019.

The proportion of the loan portfolio rated A- and above increased from 66.3% at December 31, 2018 to 67.1% at March 31, 2019. Over 90% of the disbursements in FY2019 in the domestic and international corporate portfolio was to corporates internally rated A- and above.

Coming to the funding side: Total deposits grew by 16.4% year-on-year to 6.5 trillion Rupees as of March 31, 2019. CASA deposits grew by 11.7% year-on-year to 3.2 trillion Rupees at March 31, 2019. On a daily average basis, the CASA deposits grew by 14.2% year-on-year in FY2019. Term deposits grew by 21.4% year-on-year to 3.3 trillion Rupees at March 31, 2019. On a daily average basis, the CASA ratio was 44.6% in Q4 of 2019. Given the difference in interest rates on savings and term deposits, the growth in term deposits is expected to be higher for the system as well for us. As a result, the average CASA ratio is likely to decline for banks, including us. We will be focused on growing retail term deposits and our CASA deposits in absolute terms. Our endeavour would be to maintain a healthy and stable funding profile and our competitive advantage in cost of funds. We will continue to invest in strengthening our franchise further, both from a customer service point of view, and leveraging technology to offer new products.

C. Credit Quality

The gross non-performing assets decreased from 515.91 billion Rupees at December 31, 2018 to 462.92 billion Rupees at March 31, 2019.

During Q4 of 2019, the gross NPA additions were 35.47 billion Rupees.

The retail portfolio continued to be stable with gross NPA additions of 8.23 billion Rupees and recoveries and upgrades of 6.50 billion Rupees in Q4 of 2019. As we have mentioned in our previous earning calls, the gross retail NPA additions are expected to be higher in Q1 and Q3 of FY2020 due to the likely additions from the kisan credit card portfolio. At March 31, 2019, the kisan credit card portfolio was about 3% of our total loan portfolio.

Of the corporate and SME gross NPA additions of 27.24 billion Rupees, slippages of 18.77 billion Rupees were from the BB and below portfolio which we had disclosed during the previous quarter. These include slippages of 0.35 billion Rupees due to devolvement of non-fund based outstanding to existing NPAs and slippages of 18.42 billion Rupees from other loans rated BB and below. The balance corporate and SME slippages largely comprise one account in the sugar industry which was mentioned earlier.

The recoveries and upgrades were 15.22 billion Rupees in Q4 of 2019. The Bank did not sell any NPAs during Q4 of 2019. The gross NPAs written-off during the quarter aggregated to 73.24 billion Rupees.

The provision coverage ratio excluding technical write-offs increased to 70.6% as of March 31, 2019.

The Bank's net non-performing asset ratio decreased from 2.58% as of December 31, 2018 to 2.06% as of March 31, 2019.

As of March 31, 2019, the loans and non-fund based outstanding to borrowers rated BB and below (excluding NPAs) was 175.25 billion Rupees compared to 188.12 billion Rupees as of December 31, 2018. The gross fund-based and non-fund based outstanding to standard restructured borrowers was 5.64 billion Rupees as of March 31, 2019 compared to 5.69 billion Rupees as of December 31, 2018. The gross non-fund based outstanding to non-performing loans, was 42.20 billion Rupees as of March 31, 2019 compared to 34.08 billion Rupees as of December 31, 2018. The Bank holds provisions of 15.91 billion Rupees as of March 31, 2019 against this non-fund based outstanding. The balance 127.41 billion Rupees of fund-based and non-fund based outstanding to borrowers rated BB and below at March 31, 2019 includes 78.00 billion Rupees related to cases with an outstanding greater than 1.00 billion Rupees and 49.41 billion Rupees related to cases with an outstanding of less than 1.00 billion Rupees. On slide 19 of the presentation, we have provided the movement in our BB and below portfolio during Q4 of 2019.

- There were rating upgrades to the investment grade categories and a net decrease in outstanding of 5.63 billion Rupees.
- The rating downgrades from investment grade categories were 8.65 billion Rupees and upgrades from non-performing loans were 2.88 billion Rupees during the quarter. The downgrades from investment grade categories were granular in nature.
- Lastly, there was a reduction of 18.77 billion Rupees due to slippage of some borrowers into the non-performing category

Coming to our exposure to the power sector, our total exposure was 373.91 billion Rupees at March 31, 2019. Of the total power sector exposure, about 31% was either non-performing or part of the BB and below portfolio (including loans restructured or under a RBI resolution scheme). Of the balance 69% of the exposure, 31% was to public sector companies and 69% was to private sector. Our exposure to public sector companies included about 20.27 billion Rupees to state electricity boards. Also, of the balance 69% of the exposure, excluding state electricity boards, about 76% was internally rated A- & above.

During the quarter, concerns emerged around one of the major airline companies in India. The loans and non-fund based outstanding of this airline were already a part of the corporate and SME BB and below portfolio at December 31, 2018. The loans to this borrower have been appropriately classified and provided for by the Bank. There would be no further impact in the future quarters from this.

As required by RBI guidelines, we have disclosed our exposure to the IL&FS Group at March 31, 2019. Our entire fund based outstanding of 2.76 billion Rupees to the IL&FS Group has been classified as non-performing as of March 31, 2019 against which we hold a provision of 1.46 billion Rupees. Further, we have non-fund based outstanding of 5.45 billion Rupees at March 31, 2019 which is a part of our corporate and SME BB and below portfolio. We hold provisions of 4.68 billion Rupees against this non-fund based outstanding.

The loan, investment and non-fund based outstanding to NBFCs was 293.68 billion Rupees at March 31, 2019 compared to 256.19 billion Rupees at December 31, 2018. The loan, investment and non-fund based outstanding to HFCs was 138.58 billion Rupees at March 31, 2019 compared to 93.01 billion Rupees at December 31, 2018. The loans to NBFCs and HFCs were about 5% of our total outstanding loans at March 31, 2019. Among NBFCs and HFCs, we have focused on lending to well-rated entities with long vintage, PSUs, and entities owned by banks and well-established corporate groups. This is reflected in the increase in outstanding to NBFCs and HFCs during Q4 of 2019. The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was about 196.33 billion Rupees at March 31, 2019 compared to about 193.55 billion Rupees at December 31, 2018.

D. Subsidiaries

The details of the financial performance of subsidiaries is covered in slides 27 to 28 and 48 to 53 in the investor presentation. I will briefly talk about the major highlights. The financials of ICICI Securities, ICICI Securities Primary Dealership, ICICI AMC and ICICI HFC have been prepared as per Ind AS. The financial statements of these subsidiaries used for consolidated financials have been prepared as per Indian GAAP.

The profit after tax of ICICI Life for Q4 of 2019 was 2.61 billion Rupees compared to 3.41 billion Rupees in Q4 of 2018. The new business margin increased from 16.5% in FY2018 to 17.0% in FY2019. The Embedded Value, based on Indian Embedded Value methodology, was 216.23 billion Rupees at March 31, 2019 compared to 187.88 billion Rupees at March 31, 2018. The protection based annualised premium equivalent increased by 61.9% year-on-year to 7.22 billion Rupees and accounted for 9.3% of the total annualised premium equivalent in FY2019.

The profit after tax of ICICI General increased by 7.5% year-on-year to 2.28 billion Rupees in Q4 of 2019. The combined ratio improved to 98.0% in Q4 of 2019 from 99.5% in Q4 of 2018.

The profit after tax of ICICI AMC increased by 47.6% year-on-year to 2.17 billion Rupees in Q4 of 2019.

The profit after tax of ICICI Securities, on a consolidated basis, was 1.22 billion Rupees in Q4 of 2019 compared to 1.51 billion Rupees in Q4 of 2018.

ICICI Bank Canada had a profit after tax of 12.6 million Canadian dollars in Q4 of 2019 compared to 11.2 million Canadian dollars in Q4 of 2018.

ICICI Bank UK had a loss of 25.3 million US dollars in Q4 of 2019 compared to a loss of 31.7 million US dollars in Q4 of 2018. The net impaired loans of ICICI Bank UK were 63.1 million USD at March 31, 2019 compared to 174.1 million USD at December 31, 2018.

ICICI Home Finance had a loss of 0.03 billion Rupees in Q4 of 2019 compared to a profit after tax of 0.05 billion Rupees in Q4 of 2018. The loss in Q4 of 2019 was due to impairment provisions. The total advances were 133.33 billion Rupees as of March 31, 2019. As we have mentioned earlier, we intend to scale up the retail operations of this subsidiary with a focus on specific areas and customer segments.

The consolidated profit after tax was 11.70 billion Rupees in Q4 of 2019 compared to 18.74 billion Rupees in Q3 of 2019 and 11.42 billion Rupees in Q4 of 2018.

E. Capital

On a standalone basis, the Bank had a CET-1 ratio of 13.64%, Tier 1 capital adequacy ratio of 15.09% and total capital adequacy ratio of 16.89% at March 31, 2019. On a consolidated basis, the Bank's Tier 1 capital adequacy ratio was 14.73% and the total capital adequacy ratio was 16.47%. During Q4 of 2019, as required by RBI guidelines, we have transferred 12.69 billion Rupees from Tier 1 capital to the investment fluctuation reserve which is reckoned under Tier 2 capital.

With this, I conclude my opening remarks and we will now be happy to take your questions.

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

Mahrukh Adajania: I had a question on margins. So, you disclosed the lumpy income that you've been booking through margins in the last two quarters because of NPA recovery and interest on tax refund. So, would it be fair to say that your core margin is around 3.30%? And then, would you have enough visibility to ensure that you would be able to generate 30-40 basis points of that additional lumpy margins every quarter, given the state of resolution? So, that's my first question. And secondly, on overseas NIM, again they crashed. So, what is the reason for that?

Rakesh Jha: So on the first question in terms of margin, for Q4 we are at 3.72%, and that includes about 20 basis points of benefit of interest on income tax refund. So if you remove that, it's at around 3.5%. And if you look at it for the full year, we are at about 3.42%. So, what I would say is that, if you look at the full year margin of 3.42%, we would target actually to improve it further gradually in FY2020. But it will of course be subject to the market conditions. 3.4% is the margin that you can take as the base going forward.

On the overseas margins, I think every quarter we have been pretty clear in saying that the increase in margin that you saw, for example in Q3, was largely coming from specific interest collection that we had on a couple of large accounts. And without that, even in Q3, the margins would have been negligible. In Q4, the collections were not really there. So, the margin has come down to the low level that you see. And going forward, it will take some time for the overseas margin to improve, because we have not been growing that book as well. And as you know, if the NPAs are high and together with that the book is not growing, it is very difficult for the margins to recover.

Mahrukh Adajania: Got it. So whatever recovery of NPLs you had in your interest income in Q4 was largely domestic, it was not as huge as Q3, but it would have been largely domestic?

Rakesh Jha: Yes.

Mahrukh Adajania: Okay. And just one more question on write-offs. They were very high this quarter.

Rakesh Jha: So, on write-offs I would urge you to look at the full year trends which are there. So for the particular quarter in Q4, yes, the write-offs were more than Rs. 70.00 billion. But if you look at it for the full year, we have done write-offs of about Rs. 110.00 billion and last year we had done about Rs. 86.00 billion. So, it is pretty much in line with that. Also, if you look at our gross NPA book, we started the year with an opening book of Rs. 540.00 billion. So, it has to be seen in that context.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Thanks for the opportunity. I had a question on one of the peer bank which had disclosed that RBI had asked them to provide for the land bank they had got against the loan. And we understand that you also have that land bank. Just want to have a status update on that exposure that you have against that land bank. Have you already provided for that?

Rakesh Jha: We have that exposure as well. And we have taken provision on that, in line with what has been RBI's suggestion to us. This meant that even prior to the March quarter, we were already holding a provision of about 50% on the debt asset swap that we have done and we have made further provision during this quarter which we have disclosed. If you look at our presentation on slide 38, we have said that the non-banking assets acquired in satisfaction of claims were Rs. 10.04 billion at March 31, 2019 and December was Rs. 13.45 billion. So, the decline that you see is essentially the provision that we have taken against the debt asset swap. The balance remaining on the balance sheet is about Rs. 10 billion.

Amit Premchandani: And on the non-fund exposure of IL&FS, why is it still not an NPL? And the sugar asset that you have declared as NPL, when do you expect it to get upgraded? And you said that for Jet, you have no further losses for the airline which has defaulted, you have no further provision to be made. Is the interpretation right that 100% percent has been provided for that?

Rakesh Jha: On the IL&FS non-fund based exposure, the requirement is to disclose the non-performing advances. We and all other banks when they report their non-performing advances, it is only the fund based advances which get reported. Separately, we disclose to you the non-fund based outstanding that we have to the non-performing accounts. So, clearly, the IL&FS loan account is non-performing and the non-fund part also is a part of the NPA non-fund. It's just that the disclosure of non-performing advances is only for advances, and that's the reason for a separate disclosure on non-fund based outstanding. In terms of the sugar sector company where there was a change in management, as you would be aware, there was a restructuring as a part of the change in management within the RBI guidelines. The upgrade, which happens in such cases, is typically after a period of time, unless there is a refinancing on this case. We will have to see how that plays out. It may not be an immediate upgrade, but this has been classified as NPA in line with RBI's direction and their interpretation of the guideline. On the airline, first thing is that we never really had a very material exposure in the context of our balance sheet or our overall exposure. So, without getting into whether we hold 80%, 90% or 100%, because we don't disclose that on a company specific basis, I can assure you that going forward that it would really have no impact on the balance sheet or the P&L for the Bank, in terms of both, the fund based exposure that we have and any non-fund based exposure that also we may have.

Amit Premchandani: Any guidance on coverage? Are you comfortable with 70% as you have mentioned, you will provide 120 to 130 basis points next year? Something to do with increasing coverage or do you expect the slippage run rate to be around 2% and hence the 120-130 basis points credit cost guidance?

Rakesh Jha: In terms of the coverage at 70% without considering technical write-offs, one would really expect the recoveries to be there. Of course, the timing of recoveries can vary and can vary a lot as we have seen in the last couple of years. But the 70% is quite comforting for us in the sense that going forward the impact from this book should not be meaningful. So, the provisioning which we are talking about would largely come from the new NPA additions. Further, to some extent there would still be some ageing based provisions on the existing NPLs and that's why we have said that the provisioning in FY2020 would still be somewhat higher than the normalized level.

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

Kunal Shah: Yes. So firstly, in terms of the operating expenses and cost to income, that's slightly been up and we are seeing almost 20% growth in operating expenses. While there has not been significant branch additions or investment in the franchise as such, where do we see the overall cost to income settling down for us?

Rakesh Jha: So, on the expenses I would urge you to look at the full year trend, which is around 15% year-on-year growth. As we have been saying for the last two or three quarters, clearly we will continue to make investments, be it in people, technology, distribution or brand. We will aim to grow our revenues at a faster pace than the growth in expenses. The trend that you see in Q4, the employee expenses have grown by 24.4% on a year-on-year basis. The non-employee expenses have grown at about 16.9% year-on-year. A better trend to look at is the FY2019 growth which is around 15% both in terms of the employee as well as on the non-employee expenses. We should expect a mid-teens kind of growth in expenses. We would try and aim for a higher growth in revenues in terms of NII and the fee income.

Kunal Shah: So, are we looking at a cost to income ratio of around about 43% to 45% or maybe we could see further improvement from those levels of what we reported in the year?

Rakesh Jha: That will be an outcome. I think what we are looking at is that we have to make the expenses that we require to build our brand for the future. While doing that, we will try and ensure that the revenues grow at a faster pace than the expenses. So, the cost to income ratio will be a result of that. We don't have any specific target for cost to income ratio.

Kunal Shah: Okay. And secondly in terms of RoE, margins maybe there was some one-off out there, but otherwise settling at a better level growth has picked up during the quarter, credit cost would also tend to normalize. So, in terms of the RoE target, maybe do we want to revise it or we are still looking at only towards the fag end of this fiscal wherein we see it moving towards more than 15-16%?

Rakesh Jha: No, I think as Sandeep mentioned that we will articulate the medium RoE target as we start delivering normalized profits. Currently, we are at 3-4% RoE for the full year. So we would wait for the next two, three quarters to get to some kind of a normalized profit, and then articulate a medium-term RoE target. From the near-term, we continue to be committed to the consolidated RoE target of 15% by June of 2020.

Kunal Shah: Okay. And on the power sector side there is a decline in the exposure on a quarter on quarter basis to the extent of almost Rs. 90.00 billion. So, is this some major repayment which has happened in a particular account or what is actually leading to this?

Rakesh Jha: The decrease that you have seen is primarily coming from some prepayment and sell-downs, especially in a couple of highly rated PSU entities that we would have done in the normal course, the prepayments that we would have received or sell-down as a part of our portfolio management. Nothing specific to read into that. There is no large recovery which has come or anything of that on a stress loan.

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

Manish Karwa: My question is on margins, given the fact that this quarter had somewhat higher slippage compared to the last one or two quarters, were there interest reversals also which impacted NIMs on the negative side during this quarter?

Rakesh Jha: Nothing much per se. If you look at the NPA addition trend, the sugar account that we talked about is paying. There is nothing significant in terms of reversals, in terms of comparison to the earlier quarters and this quarter.

Manish Karwa: Okay. And the overseas NIM, what would be the steady state NIM assuming all these one-offs are not there, there is no NPA happening and there is no additional collection that happens on account?

Rakesh Jha: So, I think last quarter also, Manish, we said that it does not look good, it is virtually zero if we were not to consider any of the interest collections. That's where we are in the March quarter as well. But again, I would reiterate, it is because we have not been growing that book and we have had NPAs there, so that's how it turns out unless we grow that portfolio. But overall, the proportion of the overseas loan book in our total loans has also been coming down during this period. So, the impact on overall margins have been positive. And even on the overseas business, going forward we are reorienting it towards the NRI deposit and NRI remittance piece. Of course, we will still grow the loan portfolio, but the primary focus is more on the retail opportunity through the NRI segment for us.

Manish Karwa: Okay. And just two small questions on asset quality. On the sugar account how much provisions did we make?

Rakesh Jha: We have not disclosed that separately.

Manish Karwa: This would be like a two-year NPA going back in time?

Rakesh Jha: Under a change in management typically there is a restructuring which happens, which would have happened in this case also. At that point of time itself the Bank would have taken provisions as per the sacrifice which was there involved. So, we would already be carrying provisions on this. The incremental provision because of the account getting classified as NPA would be a smaller amount.

Manish Karwa: Okay. The negative tax rate, is it to do with the higher write-offs that we made during this quarter?

Rakesh Jha: The tax provision that we make is based on the estimated income and income composition that we have for the year in June, September and December quarters. At March, we do it based on the actual income and income composition. So indeed, even when we had looked at tax in September or

December, we would have considered an amount of write-off to be there. It's more just that the final numbers are somewhat different than what we had initially estimated. So, again, I would say nothing much to read into there.

Manish Karwa: And just lastly, the general provision you mentioned is about Rs. 29 billion, which is on our standard assets. So, what is the amount of the specific provision on standard assets that you hold?

Rakesh Jha: Specific provisions will not be much actually.

Manish Karwa: Okay. But there would be some provisions against restructured loans and all, are these small numbers?

Rakesh Jha: Restructured loans itself, Manish, are around Rs. 3.52 billion. So that is a small amount. The specific provision that we hold is not significant. We will have some provision maybe Rs. 4 to 5 billion, but nothing which is significant.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal: Sir, my first question is, if you can give some color on the granularity of your corporate and SME BB and below portfolio, in terms of the collective size of top three or five accounts? Barring the sugar account, have almost 100% of corporate slippages been from this portfolio? Why are we going so aggressive on provision coverage ratio improvement? Is there some unknown that we are still worried of and thus strengthening the coverage at such a rapid rate?

Rakesh Jha: So on the first one, we have not disclosed any top three or something. We have said is that we have Rs. 78 billion of outstanding to BB and below, which is individually more than Rs. 1 billion each. The rest of it is actually less than Rs. 1 billion, which is about Rs. 50 billion. We will have a few accounts, for example, which would be more than Rs. 6 billion, maybe three or four accounts that we have talked about in the past which will be there. We have not disclosed the size of those accounts together or individually. Yes, there will be three or four accounts which will be more than Rs. 6 billion rupees in the BB and below portfolio. What was your second question?

Nitin Agarwal: Second was on, why are we being so aggressive on provision coverage ratio improvement?

Rakesh Jha: On provision coverage ratio, actually, I think we had articulated earlier also that we are looking at 70% coverage ratio as something that we will want to reach. A lot of this is actually to do with just the ageing of the NPLs and then you have the security valuations which kind of depreciate over time as resolutions don't happen. So, a lot of this is to do with that as well. It's not that we have kind of gone out of our way and made lot more provisions. The other reason also is that we have seen some amount of resolutions also coming in FY2019. So, 70% provision coverage ratio, excluding technical write-offs, is something which gives us comfort and we have talked about it in the past. But it's not that we have taken some huge extra provisions to get there.

Nitin Agarwal: Right. And lastly, what is the outcome of the branch expansion plan? Because, while on deposit side we have introduced new products to spruce up that growth, but on branches we have been almost stable for the last two years now.

Anup Bagchi: On the branch expansion we have an open mind. Wherever there is economic activity we will set up a branch. The branches may not be of a very large format. It may be smaller at different places. So, our mind is open. We are also optimising the portfolio of the existing branches by shifting the branches to areas with better economic activity and making sure that branches are productive and profitable.

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

Pavan Ahluwalia: It was very helpful a couple of years ago when you mentioned the stress that the Bank had in terms of its exposure to certain key stress sectors in the economy. We are now seeing concerns around a new set of sectors such as NBFCs, HFCs, possibly builder finance, in some cases mortgage loans that may effectively end up being builder finance. Have you thought about potentially putting out more granular information, giving us a sense of what your exposure is within these categories so that in the event that we see stress developing in these categories, we have some sense of how the Bank's portfolio performs in these circumstances? So, if you take things like Reliance Home Finance, Reliance Commercial Finance, DHFL, lot of the names that have been in the news lately, it would be helpful to have some sense of how your exposure breaks down across different types of NBFCs, builders, etc.?

Rakesh Jha: So, what we do disclose, and that's what we had thought will be good is, from June quarter overall rating wise distribution of the portfolio, plus the corporate and SME BB and below rated portfolio, which would include any of the stress accounts in the sectors that you are referring to and it is based on internal rating which is dynamic, so we will see movements in and out of that portfolio. We talked about the airline for example, which moved in to that segment, maybe in the December quarter. That is the key disclosure that we make of Rs. 175 billion of corporate and SME BB and below portfolio. In addition to that, for all the sectors that you have mentioned, we have given our aggregate loans and non-fund based outstanding for NBFCs, HFCs, the builder portfolio and the kisan credit card portfolio. So, the aggregate for each of these sectors is given. Any stress which would be there gets reflected in our BB and below portfolio. Maybe going forward, we will see if we can do any further disclosure. But the only thing is that the stress sector at various points of time can keep on changing, people will have different interpretations of that. So, we believe on an overall basis, disclosing the BB and below portfolio, plus the movement in that portfolio on a quarter on quarter basis provides the best color on the portfolio.

Pavan Ahluwalia: And have you seen an increase in stress or increase in addition to the internally rated BB portfolio from the NBFC, HFC or the builder finance books?

Rakesh Jha: We had seen some slippages from the builder finance portfolio in the June quarter, nothing significant, those were granular accounts. But otherwise we would have seen accounts move into that, specifically on the NBFC, HFC side, I don't want to mention any numbers or names. But, as I said, if we have any downgrades by the internal risk team, it would be shown as part of the BB and below portfolio.

Moderator: Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.

Jai Mundra: Sir, in the opening remarks, MD mentioned that the NPAs should be stabilizing at around these levels. And if I were to look at the corporate slippages, ex of the sugar account, they are around Rs. 18 billion versus our disclosed BB and below book of around Rs. 175 billion. How should we read these two data points - NPAs stabilizing and the stress book still at Rs. 175 billion? Do you see maybe after four quarters part of this BB and below pool getting slipped or part of it getting upgraded? How do you see these two things?

Rakesh Jha: The BB and below book of about Rs. 175.00 billion is now about 3% or maybe a bit less of our total loans. As a part of any portfolio there will always be something which is BB and below and there will always be movements into the BB and below portfolio because of downgrades from investment grade category, upgrades from the NPA category and slippages from BB and below will also happen. It is more of an ongoing thing. The book is reasonably granular now compared to what it was a couple of years back. You have to look at this in that overall context, plus there are of course recoveries also that will come in. What we are saying is that the gross NPA additions in FY2019 itself have stabilized a lot, they are down from about Rs. 290 billion in FY2018 to Rs. 110.00 billion in FY2019. So, going forward, we will see some increase, for example, in the retail NPAs reflecting the growth in the retail portfolio and its composition. We will see some decline on the corporate and SME side as well. And it's not that our BB and below portfolio will at any point of time become zero or become even 1% of our portfolio, because there will be movement there. These are loans which are today performing, they are paying their dues, maybe in some cases with delays, but otherwise these are operating, performing companies which are there.

Jai Mundra: Sure. And second thing, if you can give some more color on the NBFC, HFC and builder portfolio in terms of the rating, I mean, rating within that sector or within the builder portfolio or the commercial real estate or any more details there? Thanks.

Rakesh Jha: On the builder portfolio, the comfort that we derive is that it is well spread across builders and largely restricted, any exposure that is slightly higher would be on very well-established builders. As I said, we have seen some slippages in the June quarter and we have been closely monitoring the portfolio. Since then, other than very small slippages here or there, the portfolio has been stable. But yes, overall there is a concern on the sector at a system level and we are monitoring it closely. On NBFC and HFC, very difficult to give further granularity. We give total outstanding on a quarterly basis. The increase that we have seen, for example, in the March quarter is largely to very well rated and established entities. Again, the larger exposure that we have will all be to very well rated, very well established NBFCs, HFCs with very strong backgrounds. Will we have exposure here or there which is marginal in nature and potentially under stress, that is always a possibility. But overall, we are very comfortable on the portfolio.

Jai Mundra: Sure. And just a clarification, you mentioned the recent rating action which has happened to one of the large NBFC, in one of the stress group, you feel that is already taken into your BB and below book and is being reflected in Rs. 175 billion?

Rakesh Jha: You are talking about which thing?

Jai Mundra: So, you said all the stress or the rating action that has happened off late, is now being reflected in the standard BB and below book. So, I was just checking if the rating action that has happened in the month of April and maybe there was concern earlier also. Is that a part of BB and below book now?

Rakesh Jha: We disclose our book on a quarterly basis. The book is as of March 31. I would not want to go into individual borrowers, how they are categorized. As and when there is any downgrade that we have internally, we put that in that portfolio and disclose it. So that is the way we are doing it. We will not be able to comment on individual exposures as to where they are placed. As I said, on an overall basis we are quite comfortable with the NBFC and HFC portfolio. If there are any downgrades we will show it as a part of the portfolio.

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

Anand Dama: Thanks a lot for the opportunity. Wanted to understand that our overseas book is now roughly about 10 to 10.5% of the book. Retail is growing pretty strong for us. I am sure the corporate will also pick up. That's why you are already saying that we want to grow a granular kind of a corporate book. So what kind of growth numbers should we expect going forward in FY2020 and FY2021?

Rakesh Jha: I think you should look at the FY2019 number of domestic loan growth, which was around 17% year-on-year. This is a growth in the net book. We have had a very high level of provisions in FY2019. If you look at it on a gross basis it is around 19%. So that is an indicator of where we have been growing. We don't have any specific targets on loan growth across segments or overall. We will calibrate our growth depending on what the market opportunity is, the competitive level in terms of pricing and profitability that we see. And of course, most importantly, how is the funding profile that we are able to get and maintain on CASA and retail term deposits, which will determine the growth. So it should be a healthy growth, we have not put out any specific number on that.

Anand Dama: So, do you think the rundown on the overseas corporate book should be now done?

Rakesh Jha: See, even if it is done, we don't really see that portfolio growing significantly, I guess it would still be flat or a marginal kind of a decrease.

Anand Dama: Sir, another thing on the asset quality. So, are you picking up any signs of stress, particularly in our unsecured loan portfolio or in our vehicle financing portfolio as such?

Rakesh Jha: On the overall retail portfolio, we are finding the trends to be quite stable in terms of the delinquencies across portfolios. In the past we have mentioned about the kisan credit card portfolio as one portfolio where we have seen some increase in delinquencies. Other than that, trends are quite stable. We, of course, are very closely monitoring the entire portfolio, including the unsecured personal loan and credit card portfolio. But, as I said earlier, our portfolio of unsecured and personal loans and credit cards is only 7-7.5% of our total portfolio. Our market share there is not very large. It is in no way commensurate to the liability franchise that we have.

Incrementally, what we are growing, a lot of it is coming from our existing customer franchise. So, you will have to look at our portfolio in that context. Nevertheless, we are very closely monitoring the portfolio and we are not seeing any meaningful change in trends in terms of delinquencies on static basis or on lag basis.

Anand Dama: Sure. The next question is to Mr. Bakhshi. Basically, he said that we have now actually implemented the role-based designations and there are other structural changes also which the Bank is actually undertaking. How is the response internally amongst the employees, particularly post the March performance appraisal?

Sandeep Bakhshi: I would be inclined to believe that it is positive, because what happens is that a large number of people get the opportunity to have a much wider participation in the roles and opportunities. So, I am optimistic about these role-based changes that we have made.

Anand Dama: Okay. So in that case, we shouldn't expect any big ticket changes happening into the top management?

Sandeep Bakhshi: This is the biggest change because at the end of the day this change actually goes across the length and breadth of the Bank. It is a deep structural change, as I said, from the standpoint of roles, designations and the way they function internally.

Moderator: Thank you. With this, I now hand the conference over to the management for their closing comments. Over to you, sir.

Rakesh Jha: Thank you. And if there are any residual queries, you can always reach out to me or Anindya.

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