**ICICI Bank Limited**

**Earnings conference call - Quarter Ended June 30, 2019 (Q1-2020)**

**July 27, 2019**

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**Moderator:** Ladies and gentlemen, good day and welcome to the ICICI Bank's Q1 2020 Earnings Conference call. As the 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 "*" and "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 Q1-2020 results. Joining us today on this call are our Executive Directors – Vishakha and Anup; Executive Director Designate – Sandeep Batra; Group Chief Financial Officer – Rakesh and our Head of Investor Relations - Anindya.

Our core operating profit increased by 21.2% year-on-year to 61.10 billion Rupees in Q1 of 2020. The core operating profit, excluding dividend income from subsidiaries, increased by 25.3% year-on-year to 59.19 billion Rupees in Q1 of 2020.

We continued to see healthy growth in our funding. As we had expected and indicated earlier, the growth in term deposits has outpaced the growth in CASA deposits reflecting the systemic trends and the growth opportunity on the credit side for well-capitalised banks with strong customer franchises. Total deposits grew by 20.8% year-on-year, from 5.5 trillion Rupees to 6.6 trillion Rupees as of June 30, 2019. The average CASA deposits increased by 12.3% year-on-year in Q1 of 2020.

On the assets side, the domestic loan book grew by 17.9% year-on-year at June 30, 2019 driven by retail loans, which grew by 22.4% year-on-year. The overall loan growth was 14.7% year-on-year.

The Bank continued its digital initiatives with the launch of 'Instabiz', designed specially for MSMEs and self-employed customers, to enable them to undertake their business banking transactions digitally. Customers can avail as many as over 115 products and services in a digital and secure manner on their mobile phone or through internet banking.

During the quarter, the Bank's iMobile app was named the top mobile banking app in India in a report published by Forrester.

With respect to asset quality, the gross NPA additions during the quarter were 27.79 billion Rupees.

We had mentioned on our previous call that credit costs in FY2020 are expected to reduce significantly compared to FY2019 and be in the range of 1.2% to 1.3% of average advances. There would be variance in credit costs across quarters based on the timing of ageing based provisions on existing NPAs and the resolution of NPAs. Provisions as a percentage of average advances reduced from 3.67% in FY2019 to 2.40% in Q1 of 2020. While the NPA additions and gross provisions for the quarter were in line with expectations, recoveries were lower especially due to delay in resolution of a steel account in NCLT. The provision coverage ratio excluding technical write-offs increased from 54.1% as of June 30, 2018 to 74.0% as of June 30, 2019. The net NPA ratio declined from 4.19% at June 30, 2018 to 1.77% at June 30, 2019. The corporate and SME BB and below portfolio was 153.55 billion Rupees compared to 246.29 billion Rupees as of June 30, 2018.

As we have mentioned in the past, we are not targeting any particular level of loan growth. Our focus is on growing the core operating profit in a risk calibrated manner. We are seeking to improve our share of profitable market opportunities by making our delivery to the customer more seamless and frictionless through digitization and process improvements.

In wholesale banking, we continue to focus on lending to higher rated corporates and maintaining limits on concentration risk. In Q1-2020, about 88.5% of the disbursements in the domestic and international corporate portfolio were to corporates rated A- and above. We are further refining our approach towards longer term exposures.

Our SME portfolio is relatively small and we have scope to increase penetration in this segment, covering both credit as well as deposits and transaction banking. We focus on granular and collateralized lending. We have recently reorganised our SME business, with the retail business group focusing on enterprises having a turnover of less than 2.5 billion Rupees, the mid-market group focusing on enterprises with turnover of 2.5 to 7.5 billion Rupees and enterprises with turnover greater than 7.5 billion Rupees being aligned with the corporate banking group.

Our business banking portfolio primarily comprises secured small ticket lending. We see this as a segment with high potential for growth, given our historically lower presence in this segment. The introduction of the Goods & Services Tax has given an impetus to formalization and the ability to assess credit in this segment. We are expanding our digital offerings for small business customers.

The home loan portfolio comprising mortgages and loan against property accounts for about 50% of our retail portfolio and 31% of our overall loan portfolio. This portfolio has performed well across cycles. We monitor the risk of construction delays in properties we have financed and also monitor builders across various micro-markets. The credit filters are re-calibrated regularly based on the results of this exercise. The loan-against-property portfolio is granular, with conservative loan-to-value and lending based on cash flows of business/individuals with limited reliance on the value of collateral.

Among the other non-mortgage retail products, the rural portfolio accounts for about 8% of the overall loan portfolio. Within this, gold loans comprise about 2% of the total portfolio and kisan credit cards comprise about 3% of the total loan portfolio. Auto loans and commercial business loans, which includes commercial vehicle financing, account for 5% and 4% of the overall portfolio respectively.

Personal loans and credit cards are about 8% of our overall portfolio. We have grown this portfolio from a low base primarily through cross-sell. The portfolio largely comprises salaried customers. We use multiple credit filters to assess the customer’s overall credit behaviour. These include models to identify and exclude customers who can potentially get over-leveraged. Based on portfolio analytics, we implement necessary mitigants such as revising target income segments and calibrating sourcing from identified segments or locations. The credit quality of the personal loan and credit card book continues to remain stable.

Our approach to retail credit is based on assessment of risk across customer segments and profiles, and product categories, in a granular and focused manner. Overall, the credit quality of the retail book has held up well. Based on credit bureau data, our delinquency levels across various products are below industry average. We expect the credit costs to remain within our tolerance levels and our overall outlook on credit costs.

We continue to be focused on achieving a consolidated return on equity of 15.0% by the quarter ended June 2020.

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 Q1 of 2020.

**A. P&L Details**

Net interest income increased by 26.8% to 77.37 billion Rupees, driven by both loan growth and an increase in margins. The net interest margin was at 3.61% this quarter compared to 3.72% in Q4 of 2019 and 3.19% in Q1 of 2019. There was interest on income tax refund of 1.84 billion Rupees this quarter compared to 4.14 billion Rupees in Q4 of 2019 and 0.08 billion Rupees in Q1 of 2019. The impact of interest on income tax refund on net interest margin was about 9 basis points this quarter compared to about 20 basis points in Q4 of 2019. The impact of interest collection from NPAs was about 8 basis points this quarter compared to 5 basis points in Q4 of 2019.

The domestic NIM was at 3.93% in Q1 of 2020 compared to 4.12% in Q4 of 2019 and 3.54% in Q1 of 2019. International margins were at 0.33% in Q1 of 2020 compared to 0.03% in Q4 of 2019 and 0.30% in Q1 of 2019. The Bank recently reduced its MCLR by 10 basis points across tenors.

Total non-interest income was 34.26 billion Rupees in Q1 of 2020 compared to 38.51 billion Rupees in Q1 of 2019.

- Fee income grew by 10.3% year-on-year to 30.39 billion Rupees in Q1 of 2020. Retail fee income grew by 6.6% year-on-year and constituted about 72% of overall fees in Q1 of 2020. The lower growth in retail fee income was due to decrease in fee income from distribution of third party products. Excluding income from distribution of mutual funds, fee income grew by 14.3% in Q1 of 2020.
- Treasury recorded a profit of 1.79 billion Rupees this quarter compared to 7.66 billion Rupees in Q1 of 2019. Treasury income in Q1 of 2019 last year included gains of 11.10 billion Rupees from sale of 2% stake in ICICI Life.
- Dividend income from subsidiaries was 1.91 billion Rupees in Q1 of 2020 compared to 3.17 billion Rupees in Q1 of 2019. Dividend income from subsidiaries in Q1 of 2019 included dividend from ICICI Prudential Life Insurance.

On Costs: The Bank's operating expenses increased by 17.6% year-on-year in Q1 of 2020. The cost-to-income ratio, excluding gains from stake sale in subsidiaries, was 43.7% in Q1 of 2020 compared to 46.9% in Q1 of 2019 and 44.8% in FY2019. During the quarter, employee expenses increased by 29.0% year-on-year. In addition to the annual increment in salaries and increase in number of employees this reflects the lower provisions on retirals in Q1 of 2019 due to increase in yields. Excluding the impact of the interest rate movement on retirals, growth in employee expenses would have been lower at 17.7% year-on-year. The Bank had 94,057 employees at June 30, 2019. The non-employee expenses increased by 11.0% year-on-year in Q1 of 2020.

Provisions were 34.96 billion Rupees in Q1 of 2020 compared to 59.71 billion Rupees in Q1 of 2019 and 54.51 billion Rupees in Q4 of 2019.

The growth in core operating profit and reduction in credit costs resulted in a net profit of 19.08 billion Rupees this quarter compared to a net loss of 1.20 billion Rupees in Q1 of 2019.

## B. Growth

The domestic loan growth was 17.9% year-on-year as of June 30, 2019 driven by a 22.4% year-on-year growth in the retail business. Within the retail portfolio, the mortgage loan portfolio grew by 19%, auto loans by 6%, business banking by 46% and rural lending by 17% year-on-year. Commercial vehicle and equipment loans grew by 31% year-on-year. The unsecured credit card and personal loan portfolio grew by 47% year-on-year, off a relatively small base, to 481.36 billion Rupees and was 8.1% of the overall loan book as of June 30, 2019.

Excluding net NPAs and restructured loans at June 30, 2019, growth in the domestic corporate portfolio was about 13.2% year-on-year.

The total SME portfolio grew by 23.5% year-on-year at June 30, 2019. It now comprises 4.9% of the loan portfolio.

The net advances of the overseas branches decreased by 7.5% year-on-year in Rupee terms and 8.2% year-on-year in US dollar terms at June 30, 2019.

As a result of the above, the overall loan portfolio grew by 14.7% year-on-year at June 30, 2019.

Retail loans as a proportion of total loans were 61.4% as of June 30, 2019. Including non-fund based outstanding, the share of the retail portfolio was 48.5% of the total portfolio as of June 30, 2019. The international loan portfolio was 10.1% of the overall loan book as of June 30, 2019.

Coming to the funding side: The term deposits increased by 33.7% year-on-year, from 2.71 trillion Rupees to 3.62 trillion Rupees. CASA deposits grew by 8.2% year-on-year to 3.0 trillion Rupees at June 30, 2019. On a daily average basis, the CASA ratio was 43.4% in Q1 of 2020. As we had mentioned in our previous earning call, the average CASA ratio is likely to decline for the banking system, 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. During the quarter, the peak interest rate on term deposits was reduced by 20 basis points to 7.3%.

### C. Credit Quality

The gross non-performing assets were 457.63 billion Rupees at June 30, 2019 compared to 534.65 billion Rupees at June 30, 2018.

During the quarter, the retail portfolio saw gross NPA additions of 15.11 billion Rupees and recoveries and upgrades of 5.09 billion Rupees. Gross retail NPA additions during the quarter included slippages of about 4.5 billion Rupees from the kisan credit card portfolio. We will continue to see higher NPA additions from this portfolio in Q3 of this year and in the first and third quarter next year.

Out of the corporate and SME gross NPA additions of 12.68 billion Rupees, 11.63 billion Rupees were from the BB and below portfolio as of March 31, 2019. These include 5.43 billion Rupees of devolvement of non-fund based outstanding to existing NPAs, slippages from restructured loans of 1.86 billion Rupees and 4.34 billion Rupees from other loans rated BB and below.

The recoveries and upgrades were 9.31 billion Rupees in Q1 of 2020. The Bank sold gross NPAs aggregating 1.77 billion Rupees for cash during Q1 of 2020. The gross NPAs written-off during the quarter aggregated to 22.00 billion Rupees.

The net non-performing assets were 118.57 billion Rupees at June 30, 2019 compared to 241.70 billion Rupees at June 30, 2018.

As of June 30, 2019, the loans and non-fund based outstanding to borrowers rated BB and below (excluding NPAs) decreased from 175.25 billion Rupees as of March 31, 2019 to 153.55 billion Rupees at June 30, 2019. The gross fund-based and non-fund based outstanding to standard restructured borrowers was 2.42 billion Rupees as of June 30, 2019 compared to 5.64 billion Rupees as of March 31, 2019. The gross non-fund based outstanding to non-performing loans, was 36.27 billion Rupees as of June 30, 2019 compared to 42.20 billion Rupees as of March 31, 2019. The Bank holds provisions of 13.51 billion Rupees as of June 30, 2019 against this non-fund based outstanding. The balance 114.86 billion Rupees of fund-based and non-fund based outstanding to borrowers rated BB and below at June 30, 2019 includes 71.89 billion Rupees related to cases with an outstanding greater than 1.00 billion Rupees and 42.97 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 Q1 of 2020.

- There were rating upgrades to the investment grade categories and a net decrease in outstanding of 16.18 billion Rupees. Upgrades include one account in the iron & steel sector.
- The rating downgrades from investment grade categories were 7.16 billion Rupees. The downgrades from investment grade categories were granular in nature.
- Lastly, there was a reduction of 12.68 billion Rupees due to slippage of some borrowers into the non-performing category. This includes cases which were downgraded from the investment grade category during the quarter.

The loan, investment and non-fund based outstanding to NBFCs was 264.85 billion Rupees at June 30, 2019 compared to 293.68 billion Rupees at March 31, 2019. The loan, investment and non-fund based outstanding to HFCs was 155.16 billion Rupees at June 30, 2019 compared to 138.58 billion Rupees at March 31, 2019. The loans to NBFCs and HFCs were about 5% of our total outstanding loans at June 30, 2019. The increase in outstanding to HFCs is to companies which are well rated and owned by well-established corporate groups.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was 202.49 billion Rupees at June 30, 2019 compared to 196.33 billion Rupees at March 31, 2019 and 169.90 billion Rupees at June 30, 2018.

**D. Subsidiaries**

The details of the financial performance of subsidiaries is covered in slides 27 to 28 and 50 to 55 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.

Value of new business of ICICI Life increased by 26.6% year-on-year to 3.09 billion Rupees in Q1 of 2020. The new business margin increased to 21.0% in Q1 of 2020 from 17.0% in FY2019. The protection based annualised premium equivalent increased by 87.7% year-on-year to 2.14 billion Rupees and accounted for 14.6% of the total annualised premium equivalent in Q1 of 2020.

The profit after tax of ICICI General increased by 7.1% year-on-year to 3.10 billion Rupees in Q1 of 2020. The company's combined ratio was 100.4% in Q1 of 2020 compared to 98.8% in Q1 of 2019. The return on equity on an annualized basis was 23.0% in Q1 of 2020.

The profit after tax of ICICI AMC increased from 0.76 billion Rupees in Q1 of 2019 to 2.19 billion Rupees in Q1 of 2020.

The profit after tax of ICICI Securities, on a consolidated basis, was 1.14 billion Rupees in Q1 of 2020 compared to 1.34 billion Rupees in Q1 of 2019.

ICICI Bank Canada had a profit after tax of 11.8 million Canadian dollars in Q1 of 2020 compared to 14.0 million Canadian dollars in Q1 of 2019.

ICICI Bank UK had a net profit of 10.1 million US dollars in Q1 of 2020 compared to 1.8 million US dollars in Q1 of 2019.

ICICI Home Finance had a loss of 0.06 billion Rupees in Q1 of 2020 compared to a loss of 0.03 billion Rupees in Q4 of 2019 and a profit after tax of 0.23 billion Rupees in Q1 of 2019. The loss in Q1 of 2020 was due to provisions on the non-mortgage portfolio and expenses on scaling up of business over the last few quarters.

The consolidated profit after tax was 25.14 billion Rupees in Q1 of 2020 compared to 11.70 billion Rupees in Q4 of 2019 and

0.05 billion Rupees in Q1 of 2019. The consolidated return on equity on an annualised basis was 8.7% in Q1 of 2020.

**E. Capital**

As per Basel III norms, including profits for the quarter, the Bank on a standalone basis had a CET-1 ratio of 13.21%, Tier 1 capital adequacy ratio of 14.60% and total capital adequacy ratio of 16.19% at June 30, 2019. On a consolidated basis, the Bank's Tier 1 capital adequacy ratio was 14.27% and the total capital adequacy ratio was 15.87%. As per RBI guidelines, from April 1, 2019 onwards, the unrated exposure of borrowers having banking system exposure greater than 200 crore Rupees is to be risk-weighted at 150% compared to 100% earlier. This has resulted in an impact of about 39 basis points on the CET-1 ratio of the Bank.

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

**Moderator**: Thank you very much sir. Ladies and 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**: Congratulations. My first question was on the BB portfolio. Would your entire exposure, including exposure to the operating companies, of ADAG, DHFL and Essel put together be a part of the BB portfolio? If not, how much of it would be outside it.

**Rakesh Jha:** Mahrukh, we do not comment on individual borrowers. Our rating-wise classification of loans is based on the internal ratings of the Bank. Wherever the risk department feels that there is an inadequate comfort in terms of repayment of dues on time, they would classify the account as below investment grade. That is what we disclose on a consistent basis every quarter.

**Mahrukh Adajania**: Is there any risk of the BB portfolio shooting up because these are the most stressed accounts?

**Rakesh Jha:** As we have mentioned in the past, over the last three to four years we have adopted a policy wherein we have not taken any lumpy exposures, especially on the lower rated corporates. If you look at the last few quarters as well, while we have had some exposures to the companies which have been under stress, we have not had any meaningful exposure or significant exposure to a single borrower. In some of the cases we have no exposure at all. That is something which gives us comfort and that is what we are looking at.

**Mahrukh Adajania**: Last quarter you had talked about an airline account has that slipped?

**Rakesh Jha:** That actually would have already slipped and we would have made provisions on that earlier itself.

**Mahrukh Adajania**: My last question is on today's Business Standard, there is an article, which has quoted some unnamed sources saying that ICICI Bank will raise Rs. 150 billion of equity capital in FY2020. Is there any truth to it at all?

**Rakesh Jha:** The Bank has made absolutely no announcement in this regard. You have seen our current level of capital adequacy as well and we have not made any announcement in this regard.

**Mahrukh Adajania**: Thank you.

**Moderator**: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

**Manish Ostwal**: Thanks for the opportunity. My question is on the agriculture portfolio quality; out of the total retail slippage of Rs. 15.11 billion during the quarter, the kisan credit card portfolio had slippages of Rs. 4.52 billion. One, what is our overall view on this portfolio, will these kind of slippages continue in the coming quarters and secondly what are the factors contributing to the stress in this portfolio?

**Rakesh Jha:** With respect to the kisan credit card portfolio, we have been saying for more than a year now that there has been stress mainly from the farm loan waiver schemes which have been announced in various states. Other banks have also talked about it. This is a product in which payment is made on a six monthly basis, which is why we see a higher addition to NPLs in this portfolio in the June and the December quarter. Even in the first quarter of last year, we had additions which were higher than normal for this portfolio. One thing is that the loans in this portfolio are priced reasonably well to account for credit losses over the cycle. But typically the way it happens is that those credit losses do get lumped up in a couple of years, that is what we are seeing currently. It is a base case that the additions will indeed be high in the December quarter.

**Manish Ostwal**: Secondly, in the opening remarks MD sir had commented that the Bank is not focusing on any particular level of loan growth. During the current quarter we have seen that the entire growth is coming from the retail book and in the retail book, about 98%

of growth is coming from housing loan, personal loan and credit card portfolio. Given the slowdown in the economy, especially consumer retail finance market, can we expect some slowdown in this book also or will we be able to maintain this kind of growth rate?

**Rakesh Jha:** I think, as we have mentioned that we are not looking at any specific loan growth or any particular segment where we want to grow. Depending on the opportunity which is there in the market and our risk and return threshold, we would be happy to grow the portfolio. The personal loans and credit cards is about 8% of our overall loan portfolio and the growth that we are seeing is coming from a low base, and a lot of the new business that we are doing here is with our existing customers through cross sell. This again gives us comfort. The current trends, as Sandeep mentioned earlier, are quite stable on the portfolio. Similarly, on the mortgages, if the industry sees a slowdown, then maybe we will also see that, but as of now the growth is there and we are happy to grow as long as our risk and return criteria are met. It is not just on the retail side, but also on the corporate side to some extent the growth is not as visible. If you exclude the NPAs and the restructured book, the growth there is running at about 13%. In additions, we also do a fair bit of loan syndications. The opportunity which is there on the corporate side is something that we are looking at. On the SME side the growth has been quite healthy and pretty well spread across the portfolio.

**Manish Ostwal**: Last question on the growth of NBFCs/HFCs portfolio. Some of your peer banks had given a cautious view towards the growth of that portfolio, while we have seen a de-growth in the NBFC book, there is a growth of housing finance and builder loan portfolio. Are we completely risk averse in that segment or are we are growing on a selective basis? What is the overall view on growth in this portfolio? Secondly are we seeing the risk levels increasing or abating?

**Rakesh Jha:** Again, we look at individual companies and where we are comfortable with the risk, we are happy to lend. It is not that, if it is an NBFC or HFC we will not lend at all. That is not the criteria we are looking at. We have seen some growth in the HFC portfolio between March and June and these would be names with whom you would be extremely comfortable. I do not see that as an issue. The NBFC portfolio did see some decline as there would have been some repayments that would have happened. On the builder finance portfolio, again if you look at the last two or three years the portfolio has not really grown much for us, it was about Rs. 180 billion two or three years back. Today, it is at about Rs 200 billion. We did see some increase between March and June of about Rs 5 to 6 billion. The focus is to limit ourselves generally to the top tier builders and keep the portfolio reasonably well spread within those builders as well. It is a very selective approach that we have on this portfolio.

**Manish Ostwal**: Thank you very much Sir. Thank you for answering my questions. Thank you.

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

**Kunal Shah**: Congratulations for a good set of numbers. Firstly, in terms of our retail, you said that in Q3 again and next year as well we could see higher slippages from the kisan credit card portfolio. So looking at the quantum, which has been there in this particular quarter, would it be fair to assume that it will be more or less in a similar kind of range or have we provided for most of it in Q1 and the trend should be relatively lower going forward?

**Rakesh Jha:** I think, we have seen some stress in this portfolio, we should assume that there could be some increase there, but again we have to keep in context that after all of this, we are talking about Rs. 4.5 billion slippage from this portfolio during the quarter. So, if you look at it in the context of that, it is not a very large number, it is just a number which is there on the portfolio, we highlighted out separately. Again in the base case you could assume that December quarter numbers could be somewhat higher than this also. Last year the December quarter number was a bit lower than June so we will see how it plays out.

**Kunal Shah**: On overall slippages we were guiding that it will be significantly lower than what we saw in FY2019, but this time again it was largely led by retail and the BB and below portfolio. If we annualize the current run rate of about Rs. 2800 odd crores, then slippages would be significantly lower, are we still maintaining our credit cost guidance of 1.2% to 1.3%? Mr. Bakhshi earlier highlighted that there could be volatility in-between quarters, but are we still continuing with the guidance.

**Rakesh Jha:** We have given a credit cost guidance of 1.2%-1.3% for FY2020. We have said that the provisions will come down significantly from FY2019 to FY2020. The NPA additions had come down significantly in FY2019 itself compared to the Rs. 250 to 300 billion range in FY2017 and FY2018. The number in FY2019 was already down to about Rs.110 billion. If you look at the slippage in this quarter on a gross level, it is slightly more than maybe around 2% of the opening portfolio. Of course, against these slippages of Rs. 27 billion, we also have recoveries which come in every quarter. Some of that is lumpy, it can vary, but some of it comes from the retail portfolio, which will come every quarter. We were never assuming NPL additions in FY2020 to be significantly lower than FY2019. NPA slippages are already running at 2%, I think, in a normal course also it would run around that pace. In terms of provisioning for the year, if you look the current quarter, the gross provisions were pretty much in-line with what we were expecting. There were really no major surprises here on the gross provisions. What did not happen was a couple of recoveries that we were expecting. Hopefully, that will happen sometime during the later part of the year. That is the reason why we are comfortable with that 1.2% to 1.3% credit cost for the year. However, the major variable would be the amount of recoveries that we are able to get compared to what we have planned for.

**Kunal Shah**: Lastly in terms of coverage, are we now comfortable at 70% since we have further improved it now. Should we assume that it will settle here? As recoveries are also anticipated, maybe this should be a comfortable level, because this coupled with the news of fund raising, I am not sure, at what level of capital adequacy we are looking to raise funds, but any plan in the next 12 to 18-odd months for fund raising?

**Rakesh Jha**: I do not think the two are linked at all. On the provisioning we anyway had 70% at March 31, 2019 which was quite a comfortable level. Now, the way RBI guidelines work, a couple of loans would have moved into the D3 bucket and that would have meant that we have to move the provisions to 100% level resulting in an increase in the coverage. We are not really looking at increasing the coverage from the current level. If it so happens as per the RBI guidelines that may happen, otherwise this level and in fact anything close to 70% is extremely comfortable. On capital, as we responded earlier, there is no announcement that we have made at all on capital raising. You are aware of our current level of capital position, the outstanding net NPAs have anyway come down substantially and the coverage is extremely high, so we do not require capital from that perspective at all. At a future date, if we require capital from a growth point of view, we will look at that. As of now we are focused on moving towards a target of getting to a 15% consolidated ROE by June 2020.

**Kunal Shah**: Thanks a lot. All the best.

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

**Suresh Ganapathy**: Maybe this question was answered, but I just want a bit of colour from Anup on this. Your competitors have been saying that there are some early warning signals coming in the unsecured portfolio or in general in the retail portfolio due to consumer leverage increasing or frequency of borrowing increasing. Any early warning signals that you have seen in your portfolio and what is your view on retail asset quality because the cycle has been too good to be true for all the players?

**Anup Bagchi**: Suresh, first of all let us break up the loan portfolio into secured and unsecured. Unlike many other people, we have seen many cycles in the secured portfolio and by and large everything had come back in the previous cycle. We had been through the cycle and it has been all okay. On the unsecured side, which is where largely the discussions are, our penetration is still very low. That is one. Second, we have been proactively looking at all cuts on a continuous basis. Wherever we have seen early warning signals we have been cutting those segments or geographies quite proactively. At this point of time, we are not seeing any stress on our portfolio. We have been also checking with the credit bureau and as of now our numbers look good. There is nothing that we see on the horizon. There are two things about this whole slowdown, one is whether we will be able to get growth and second what happens to the portfolio quality. If we are growing off a smaller base, I think, we will be able to capture the credit demand quite well, by various cuts. Secondly on the credit quality we have been sort of cutting the weaker profiles quite proactively, which is why we have these numbers on credit quality and we naturally monitor it very very proactively and regularly. At this point in time, we do not see any stress.

**Suresh Ganapathy**: Thanks Anup for that.

**Moderator**: Thank you. The next question is from the line of Gurpreet Arora from Quest. Please go ahead.

**Gurpreet Arora**: My first question is related to the cost of funds. I mean, we are around 13-basis points higher than what we had for the full year. If you can highlight what sort of cost of funds are you looking at for this entire year?

**Rakesh Jha**: The cost of funds will be a function of the systemic liquidity and the competitive pressure on the deposit rate. As I mentioned earlier, we have reduced our retail peak deposit rates by 20 basis points and then we also reduced our MCLR by 10 basis points. Depending on how the rates move in the rest of the year, we will see. We look at passing on any increase in cost of funding through MCLR or by increasing the pricing. Similarly, the funding cost has gone down and the liquidity in the system has increased a fair bit in the last couple of months and we have seen the wholesale deposit rates come down. Retail deposit rates, at times can be sticky when coming down, especially because right now all the private or most of the private banks are looking at growing the retail term deposits in a focused manner. We will see how the retail deposit rates behave. Otherwise, from our point of view, we are focused on the margins and ensuring that our funding costs remain competitive at all points of times. We will grow the CASA deposits also as much as we can while growing the term deposits.

**Gurpreet Arora**: The SA growth for the bank has been in single digit this quarter on a Y-o-Y basis. I mean, this is one of the very rare sights where the SA base of our Bank has been in single digit. I understand in the last quarter you had told about the differential rates between TD and SA and why the systemic SA growth is a reflection of that, but isn't branch additions affecting our SA accretions?

**Rakesh Jha**: On the savings deposits, like on the current deposits, we are focused on the daily average balance. If you look for the quarter, the growth which we saw was between 12% and

12.5% for both the current accounts and savings deposits. Yes, the period end number for savings deposits was lower than March, but we would always focus on the daily average balance per se. Other than that I think we have clearly planned for the fact that the growth in CASA deposits, the daily average CASA deposits would be lower than the overall deposit growth and have been factoring it in our base case for cost of funds and the lending rates. This is driven by the fact that there is some inclination from the customers to put money into fixed deposits. The current account balances are also not growing as much in the current scenario and I think the same will be seen across the banking system. We are looking at adding branches as well, not just in the context of CASA deposits but from an overall perspective of the business opportunity that we are seeing in various locations and that could also be helpful for the overall retail franchise growth.

**Gurpreet Arora**: My second question is related to the retail PCR. I mean it has been pretty stable for the last one year. Any thoughts on improving retail PCR?

**Rakesh Jha**: On retail PCR there is a consistent policy that we follow on the provisioning for retail loans and it is quite comfortable. It is in line with what we would expect to recover on these loans also. It is clearly more conservative compared to the RBI guidelines. We have recently made provisioning for the rural portfolio a bit more conservative than it was earlier. That way we are quite comfortable with the overall provisioning.

**Gurpreet Arora**: Last data keeping question if you could help us with the KCC slippages in Q1 FY2019?

**Rakesh Jha**: That was about Rs.3.3 billion or Rs.3.4 billion compared to Rs.4.5 billion this quarter.

**Gurpreet Arora**: That is it from my side. Thank you so much.

**Moderator**: Thank you. We will move on to the next question that is from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

**Nitin Agarwal**: I have a question; the National Housing Bank has recently advised housing finance companies to stop providing loans to finance subvention schemes. Now how do we read this for banks like us and how much is our exposure towards such loans? What has been the growth contribution of such loans in our overall home loan growth?

**Anup Bagchi**: This subvention guideline first of all it relates to HFCs. Our exposure has been very, very small. It is a negligible exposure. We have not been very active on the subventions at all. So, to that extent, it does not impact us.

**Nitin Agarwal**: On the treasury line, the gains look to be relatively muted versus how the yields have moderated. So, any MTM losses on corporate bonds that we have adjusted for in this quarter?

**Rakesh Jha**: Some mark-to-market losses would have been there on bonds which have been taken. It is not a very large number per se. The treasury gain that you see is largely from the proprietary trading position. We have not really made much sales from our HTM portfolio. But there were some mark-to-market losses, nothing which is very significant.

**Nitin Agarwal**: Lastly, the tax rate this quarter has increased to 32% which is the highest in the last many quarters. Has this normalized now and will this sustain at these levels?

**Rakesh Jha**: The quarter's tax rate is an estimate of the full year tax rate and that is as per the accounting standard requirement. It will be fair to assume that this is the full year tax rate that we are expecting. In the past few years, we had gains from some of the stake sales in subsidiaries which had kind of made the tax rate lower. Currently, other than the dividend income that we get from subsidiaries, most of the other income would be taxed at the marginal rate.

**Nitin Agarwal**: Thank you so much.

**Moderator**: Thank you. We will move on to the next question from the line of Saikiran Pulavarthi from Haitong. Please go ahead.

**Saikiran Pulavarthi**: Just two questions; we are saying that 70% coverage would be a comfortable level. Looking beyond FY2021, if I have to look at your business model what should be your sustainable credit cost going forward? Thanks.

**Rakesh Jha**: On the credit cost, we are currently targeting to get to a more normalized number from where we are. For the current year we have talked about credit cost in the range of 1.2% to 1.3%, otherwise, we are aspiring for credit cost to be about 20% of the core operating profit. It would roughly translate to around 1% of the loan portfolio. It will be a function of the business mix. As of now the unsecured part of the portfolio, for example is 8%, mortgages is a pretty high proportion of the portfolio. On the corporate side, we have been improving the rating profile and you are seeing the overall rating profile for the loan portfolio also improving. We will have to see how it plays out, but we would aspire to be at around 20% of the core operating profit, which should be equivalent to around 100 basis points of average loans.

**Saikiran Pulavarthi**: Thanks a lot. That is it from me.

**Moderator**: Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

**Rahul Jain**: Good evening everyone. Just wanted some texture on our builder finance portfolio; is it possible to get some more colour as to the breakup between LRD versus construction finance? And within construction finance what could be the exposure to the MMR and NCR regions?

**Rakesh Jha**: The key is that over the last three years, we have kind of continuously highlighted that this is a portfolio on which we are cautious. We would not have very high exposure to individual builders and more recently the lending that we have done, say over the last 12-18 months, would have a fair amount of LRD also in that. Prior to that it was not a meaningful proportion of this portfolio and the portfolio is pretty well spread. That is why we are relatively comfortable on this portfolio. There could be some slippages and we have seen that happen in the past. Last year in June quarter, we had some slippages from this portfolio, but again those slippages have been within our expectation and within what we price on these loans. More than that we have not disclosed in terms of exposure to individual geographies.

**Rahul Jain**: Is it possible to know the outstanding non-performing in this book, NPLs in this book?

**Rakesh Jha**: We have not disclosed that separately.

**Rahul Jain**: The second question is on the retail housing book, is it possible to get some colour as to how the 30-days past due is moving on this portfolio?

**Rakesh Jha**: That is something which we track on a regular basis. We have not been disclosing the SMA1, SMA2 or past dues, but as Sandeep and Anup mentioned earlier, our delinquency trends are clearly better than the industry average.

**Rahul Jain**: Just one last question, in terms of branches and employee additions throughout the year, how many branches, do you plan to add over the next nine months and similarly how many more employees do we plan to add?

**Rakesh Jha**: In terms of branches, about 400 to 450 branches is what we are looking at. Depending on how the opportunities and what the locations are, we will be in that kind of that a range. In terms of employees we have added, you would have seen the numbers in the current quarter. The employee count has gone up to about 94,000. Almost all the employees have been added in the frontline business and that is what we are focused on. There is no specific number that we have in mind for the rest of the year per se.

**Rahul Jain**: Thanks so much Rakesh.

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

**Rohan Mandora**: Sir, on the co-origination with NBFCs if you could give some colour, are we exploring that and what category of NBFCs we would be working with and what kind of a growth we expect there? That was one. Second, in terms of our lending to AAA and AA could you give some colour on how the wallet share in those accounts has moved in the last six to nine months?

**Rakesh Jha**: I will talk about the second one and then Anup will talk about the first one. As you know the capital requirement for a AAA or a AA rated borrower is much lower at 20% or 30% risk weight. Our funding cost has also become quite competitive over the last few years. In a combination of lending and other services that we provide, which could be FX or other payment and collections, we target to get to the hurdle on return on equity. The challenge is more in terms of getting absolute amount of return. Given the lower level of capital requirement, we are able to get ROE closer to our threshold, however, if we are starting a relationship of course, we could start off at a lower level, but will be quite focused on other opportunities rather than pure lending itself. The other thing that we have been doing is that in some of the non-fund products, the pricing is not as good in terms of the target ROEs, there we have been not growing as much and in fact we have been converting some of those non-fund exposures into fund based opportunities with better margins.

**Anup Bagchi**: On the co-origination model, we are quite agnostic between organic and inorganic book and look at co-origination as an extended distribution but with a controlled credit. We would monitor the credit norms and the credit filters and we would in a way share with them so that the loans originated by them could pass through our credit filter. We see them as an extension of our distribution network, net of operating expenses, and net of cost of origination. When we will look at it vis-à-vis the portfolio we originate then we have seen that in certain segments, their operating expenses is better than us and it is a win-win situation. That is our general origination strategy and in addition to the direct assignments.

**Rohan Mandora**: Sir, what will be the portfolio size of this co-origination book as of now?

**Anup Bagchi**: No, we do not have a target as such on the books, we are not moving with any target. We are moving with partnership, we are moving with opportunities, and it depends on how much we are able to originate through our credit filter.

**Rohan Mandora:** Sir, one of the larger banking peer has been highlighting the semi-urban and rural geographies as areas for new business. How do we look at that space right now and in terms of the pecking order vis-à-vis say the unsecured retail, SME, where would we place that business?

**Anup Bagchi**: For us also a large network is within the semi-urban and rural space. We are seeing that semi-urban and rural are good areas to do businesses in and we have decongested our processes, made the credit delivery very easy and to that extent we see that the pickup is quite good in those geographies also. But, credit flows in those geographies are lower and less competitive than the credit flows in many of the urban and metro areas. For us it is an important market, but if you look at the overall market from a current account and term deposit perspective, the semi-urban and rural have a lower proportion.

But from a savings deposit perspective, they have a very large weightage. So, 40% of the overall savings deposit, lies in semi-urban and rural. But it is much, much lesser as far as fixed deposit and current accounts are concerned. That is how we focus. Wherever there is economic activity we are there and we pickup those cases.

**Rohan Mandora**: Sir, I understand that our focus is mainly from a deposit perspective and not from an asset perspective. Would that understanding be fair?

**Anup Bagchi**: Asset perspective as well. Economic activity means assets and liabilities. In fact, in banking it is the assets which lead to liabilities in many cases.

**Rohan Mandora**: Thanks a lot.

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

**Rakesh Kumar**: Sir, just a couple of questions, firstly the overseas loan book composition has come down over the period of time and we are seeing good increase in retail loans portfolio. What is the target that we have for the overseas loan book, which is now 10%?

**Rakesh Jha**: As we said in the past we will be focused on growing the domestic loan portfolio. We do not have any specific target for the overseas book but in the past, we have said that as a proportion because it would come down for us as it is not likely to grow at the same pace as the domestic book.

**Rakesh Kumar**: The reason I was asking is because it has a direct and a strong correlation with margin enhancement.

**Rakesh Jha**: As I said, the proportion will come down because overtime the domestic loan book will grow at a faster pace. In the overseas business we will look at credit opportunities that we are comfortable with in terms of our risk and returns thresholds. Otherwise on the overseas business we have been repositioning to focus a lot more on the NRI deposits and remittances, trade finance linked to India, other foreign flows that come into India or go out of India and the MNCs which are there in India. These are the key areas on which we are focused compared to the earlier periods when we were focused a bit more on the term lending within the overseas branches. That is not a key focus area for us now, so it is right to expect that the proportion would come down. We do not have a specific number where we want it to be.

**Rakesh Kumar**: Just the second question and the last one, we have seen a strong retail term deposit growth in ICICI Bank UK subsidiary operations though the loan growth is a bit tepid. So, what is the plan there if we can know?

**Rakesh Jha**: On the growth again, if you look at the last couple of years, the UK subsidiary had made a loss mostly because of provisioning and a fair bit of that was on India linked loans per se, I think that is kind of somewhat now beyond us and it has made a profit for the quarter. Going forward we are looking at some segments of loans that we are comfortable growing and we would kind of look at getting to 8% to 10% ROE in the subsidiary and that is what we are focused on.

**Rakesh Kumar**: Thank you.

**Moderator**: Thank you very much. Ladies and gentlemen with this I now hand over the conference over to the management for their closing comments. Over to you Sir!

**Sandeep Bakhshi**: We would like to thank you all for attending the call on a Saturday evening. Thank you for your support for ICICI Bank.

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