ICICI Bank Limited
Earnings Conference Call- Quarter Ended December 31, 2018 (Q3-2019)
January 30, 2019

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Moderator: Good day, ladies and gentlemen and welcome to the ICICI Bank Q3-2019 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Bakhshi – Managing Director and Chief Executive Officer of ICICI Bank. Thank you and over to you, sir.

Sandeep Bakhshi: Good evening to all of you and welcome to the ICICI Bank Earnings Call to discuss the Q3-2019 results. Joining us today on this call are our Executive Directors – Vishakha, Anup and Vijay; President Corporate Centre – Sandeep Batra; CFO – Rakesh and our Head of Investor Relations - Anindya.

As you are aware, the Bank has issued a separate press release regarding the matter of the former CEO. With the former CEO having separated from the Bank and the completion of the enquiry, the Bank's role in the matter is now limited to cooperating with regulatory and government authorities in their processes, and we would move forward with sharp focus on our business.

Coming to our financial results, as we mentioned in our earlier earnings call, our objective is

a. To grow core operating profit in a granular and risk calibrated manner; and
b. To improve the provision coverage ratio and minimise the impact of NPAs of the earlier years on the Bank's financial performance going forward

Our core operating profit increased by 14% year-on-year to 56.67 billion Rupees in Q3 of 2019. Excluding dividend from subsidiaries, the core operating profit increased by 18% year-on-year to 53.43 billion Rupees.

The period-end CASA deposits increased by 14.9% year-on-year, from 2.61 trillion Rupees to 2.99 trillion Rupees at December 31, 2018. The term deposits increased by 19.7% year-on-year, from 2.57 trillion Rupees to 3.07 trillion Rupees.

While we continue to grow our deposit franchise, our focus is also on deepening the penetration of retail asset products. The domestic loan book grew by 14.4% year-on-year driven by retail. The retail loan portfolio grew by 21.6% year-on-year.

We continue to focus on new initiatives to leverage the growth of digital ecosystems and improve the customer experience. Entering into relevant partnerships is an important element of our strategy. During Q3-2019, we launched a co-branded credit card in association with Amazon Pay, the online payment platform of Amazon. We also refreshed our Trade Online platform for corporate and SME customers, with enhanced digital capabilities.

Even as we focus on healthy growth in core operating profits, we remain equally focused on addressing the stress in the corporate and SME portfolio originated in earlier years. Our gross non-performing assets decreased from 544.89 billion Rupees as of September 30, 2018 to 515.91 billion Rupees as of December 31, 2018. The gross NPA additions during the quarter were 20.91 billion Rupees, in line with our expectation that additions to NPAs in FY2019 would be significantly lower than FY2018. The recoveries, upgrades and resolution of NPAs through sale were 40.63 billion Rupees in Q3 of 2019 of which about 7.20 billion Rupees represents the impact of rupee appreciation on existing foreign currency NPAs. The provision coverage ratio excluding technical write-offs increased by 950 basis points sequentially to 68.4% as of December 31, 2018. Including technical write-offs, the provision coverage ratio was 76.3%. The BB and below corporate and SME portfolio has decreased from 217.88 billion Rupees at September 30, 2018 to 188.12 billion Rupees at December 31, 2018.

Thus, the additions to NPA continue to be moderate, though we are closely monitoring the environment. There has been some pickup in resolutions, though the future pace and timing of the same is difficult to predict. The moderation in NPA additions, decline in corporate and SME BB and below portfolio and increase in provision coverage ratio gives us reasonable confidence that from April 2019 onwards we would be witnessing a more normalized provisioning level and profitability.

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

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

Rakesh Jha: Thank you, Sandeep. I will talk about our performance on growth and credit quality during Q3 of 2019. I will then talk about the P&L details and capital.

A. Growth

The domestic loan growth was 14.4% year-on-year as of December 31, 2018 driven by a 21.6% year-on-year growth in the retail business. In the current year, the Bank has bought retail loan portfolios, primarily home and vehicle loans, from NBFCs and HFCs of about 68 billion Rupees. Within the retail portfolio, the mortgage loan portfolio grew by 18%, auto loans by 10%, business banking by 41% and rural lending by 19% year-on-year. Commercial vehicle and equipment loans grew by 28% year-on-year. The unsecured credit card and personal loan portfolio grew by 42% year-on-year, off a relatively small base, to 392.04 billion Rupees and was 6.9% of the overall loan book as of December 31, 2018. We continue to grow the unsecured credit card and personal loan portfolio primarily driven by a focus on cross-sell to our existing customers, and select partnerships.

Growth in the SME portfolio was 12.7% year-on-year at December 31, 2018. The SME portfolio constituted 4.9% of total loans as of December 31, 2018.

We saw continued growth in domestic corporate loans. Excluding net NPAs and restructured loans at December 31, 2018, growth in the domestic corporate portfolio was about 10% year-on-year.

The net advances of the overseas branches decreased by 5.4% year-on-year in Rupee terms and 13.4% year-on-year in US dollar terms at December 31, 2018. The international loan portfolio was about 11.9% of the overall loan book as of December 31, 2018.

As a result of the above, the overall loan portfolio grew by 11.7% year-on-year at December 31, 2018.

Coming to the funding side: Total deposits grew by 17.3% year-on-year to 6.1 trillion Rupees as of December 31, 2018. CASA deposits grew by 14.9% year-on-year to 3.0 trillion Rupees at December 31, 2018. Term deposits grew by 19.7% year-on-year to 3.1 trillion Rupees at December 31, 2018. The outstanding CASA ratio was 49.3% at December 31, 2018. On a daily average basis, the CASA ratio was 46.0% in Q3 of 2019.

B. Credit Quality

The gross non-performing assets decreased from 544.89 billion Rupees at September 30, 2018 to 515.91 billion Rupees at December 31, 2018.

During Q3 of 2019, the gross NPA additions were 20.91 billion Rupees.

The retail portfolio had gross NPA additions of 10.71 billion Rupees and recoveries and upgrades of 5.80 billion Rupees. There were gross NPA additions of about 2 billion Rupees in the kisan credit card portfolio. This segment generally sees a spike in NPA additions in the first and third quarter of the year. We would expect the additions to be higher in June 2019. At December 31, 2018, the kisan credit card portfolio aggregated to about 180 billion Rupees, which was about 3% of the total loan portfolio.

Of the corporate and SME gross NPA additions of 10.20 billion Rupees, slippages of 9.51 billion Rupees were from the BB and below portfolio which we had disclosed during the previous quarter. These include slippages of 2.30 billion Rupees due to devolvement of non-fund based outstanding to existing NPAs and slippages of 7.21 billion Rupees from other loans rated BB and below. The additions to gross NPA in the corporate portfolio may fluctuate on a quarterly basis. NPA additions in FY2019 are expected to be significantly lower compared to FY2018.

The recoveries, upgrades and resolution of NPAs through sale were 40.63 billion Rupees in Q3 of 2019. The aggregate deletions from NPA due to recoveries and upgrades were 19.16 billion Rupees in Q3 of 2019 of which about 7.20 billion Rupees represent the impact of rupee appreciation on existing foreign currency NPAs. The resolution of NPAs through sale aggregated to 21.47 billion Rupees during the quarter for 100% cash consideration. These did not pertain to loans already referred to NCLT. The gross NPAs written-off during the quarter aggregated to 9.26 billion Rupees.

The provision coverage ratio on non-performing loans, excluding cumulative technical write-offs, increased by 950 bps sequentially to 68.4% as of December 31, 2018 compared to 58.9% as of September 30, 2018. Including cumulative technical write-offs, the provision coverage ratio on non-performing loans improved to 76.3% as of December 31, 2018 from 69.4% as of September 30, 2018.

The Bank's net non-performing asset ratio decreased from 3.65% as of September 30, 2018 to 2.58% as of December 31, 2018.

The proportion of the loan portfolio rated A- and above increased from 65.5% at September 30, 2018 to 66.3% at December 31, 2018.

As of December 31, 2018, the fund-based and non-fund based outstanding to standard borrowers rated BB and below was 188.12 billion Rupees compared to 217.88 billion Rupees as of September 30, 2018. As we had indicated in our last earnings call, we are no longer separately disclosing the drill down list, as it is already included in the above disclosure. The gross standard restructured loans, and non-fund based outstanding to non-performing and restructured accounts, were 39.77 billion Rupees as of December 31, 2018 compared to 46.17 billion Rupees as of September 30, 2018. The balance 148.35 billion Rupees of fund-based and non-fund based outstanding to borrowers rated BB and below at December 31, 2018 includes 97.40 billion Rupees related to cases with an outstanding greater than 1.00 billion Rupees and 50.95 billion Rupees related to cases with an outstanding of less than 1.00 billion Rupees. On slide 31 of the presentation, we have provided the movement in our BB and below portfolio during Q3 of 2019.

There were rating upgrades to the investment grade categories and a net decrease in outstanding of 30.33 billion Rupees. One standard restructured account was upgraded during the quarter

There were rating downgrades of 10.08 billion Rupees from the investment grade category during the quarter. This includes downgrades of one account in the power sector and a few other accounts.

Lastly, there was a reduction of 9.51 billion Rupees due to classification of certain borrowers as non-performing

Coming to our exposure to the power sector, our total exposure was 461.33 billion Rupees at December 31, 2018. Of the total power sector exposure, about 32% was either non-performing or part of the BB and below portfolio (including loans restructured or under a RBI resolution scheme). Of the balance 68% of the exposure, 55% was to private sector and 45% was to public sector companies. Our exposure to public sector companies included about 15.67 billion Rupees to state electricity boards. Also, of the balance 68% of the exposure, excluding state electricity boards, about 81% was internally rated A- & above.

During the previous quarter, concerns had emerged around a group engaged in infrastructure, infrastructure financing and EPC businesses. As we had mentioned earlier, our exposure to this group is primarily to an EPC company within the group, and is primarily non-fund in nature, comprising guarantees. Loans and non-fund based outstanding of this group were already a part of the corporate and SME BB and below portfolio at September 30, 2018. The borrower group is under moratorium. Therefore, our exposure to this group has been appropriately classified and provided for by the Bank.

The loan, investment and non-fund based outstanding to NBFCs was 256.19 billion Rupees at December 31, 2018 compared to 241.90 billion Rupees at September 30, 2018. The loan, investment and non-fund based outstanding to HFCs was 93.01 billion Rupees at December 31, 2018 compared to 125.44 billion Rupees at September 30, 2018. The loans to NBFCs and HFCs were about 4.6% of our total outstanding loans at December 31, 2018. The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was about 194 billion Rupees at December 31, 2018.

C. P&L Details

The core operating profit (profit before provisions and tax, excluding treasury income) grew by 13.5% to 56.67 billion Rupees in Q3 of 2019 from 49.92 billion Rupees in Q3 of 2018.

The net interest margin was at 3.40% in Q3 of 2019 compared to 3.33% in Q2 of 2019 and 3.14% in Q3 of 2018. The sequential increase in net interest margin in Q3 of 2019 was almost entirely due to interest collection on NPAs. The domestic NIM was at 3.72% in Q3 of 2019 compared to 3.71% in Q2 of 2019 and 3.53% in Q3 of 2018. International margins increased to 0.77% in Q3 of 2019 compared to 0.05% in Q2 of 2019. Overseas margins improved sequentially in Q3 of 2019 due to higher interest collection from non-performing loans.

Total non-interest income was 38.83 billion Rupees in Q3 of 2019 compared to 31.67 billion Rupees in Q3 of 2018.

Fee income grew by 16.0% year-on-year to 30.62 billion Rupees in Q3 of 2019. Retail fee income grew by 14.5% year-on-year and constituted about 73% of overall fees in Q3 of 2019. Retail fee income grew by 17.7% year-on-year in 9M of 2019.

Treasury recorded a profit of 4.79 billion Rupees in Q3 of 2019 compared to 0.66 billion Rupees in Q3 of 2018.

Dividend income from subsidiaries was 3.24 billion Rupees in Q3 of 2019 compared to 4.45 billion Rupees in Q3 of 2018. Other income excluding dividend income from subsidiaries was 0.18 billion Rupees in Q3 of 2019 compared to 0.17 billion Rupees in Q3 of 2018.

On Costs: The Bank's operating expenses increased by 20.9% year-on-year in Q3 of 2019. The cost-to-income ratio was 42.9% in Q3 of 2019 compared to 43.0% in Q3 of 2018. During the quarter, employee expenses increased by 27.3% year-on-year due to higher provisions on retirals. This reflected the decrease in yields on government securities in Q3-2019 compared to an increase in yields in Q3-2018. The Bank had 84,749 employees at December 31, 2018. The non-employee expenses increased by 17.4% year-on-year due to increase in sales promotion and advertisement expenses and expenses related to launch of new products. The growth in operating expenses was 13.6% year-on-year in 9M of 2019. 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 42.44 billion Rupees in Q3 of 2019 compared to 39.94 billion Rupees in Q2 of 2019 and 35.70 billion in Q3 of 2018.

The Bank's net profit decreased by 2.7% year-on-year to 16.05 billion Rupees in Q3 of 2019 from 16.50 billion Rupees in Q3 of 2018.

D. Subsidiaries

The performance of subsidiaries is covered in slides 40 to 47 in the investor presentation.

The consolidated profit after tax was 18.74 billion Rupees in Q3 of 2019 compared to 12.05 billion Rupees in Q2 of 2019 and 18.94 billion Rupees in Q3 of 2018.

E. Capital

The Bank had a standalone Tier 1 capital adequacy ratio of 15.14% and total standalone capital adequacy ratio of 17.15%. The Bank's consolidated Tier 1 capital adequacy ratio and the total consolidated capital adequacy ratio were 14.67% and 16.47% respectively.

We will now be happy to take your questions.

Moderator: 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: My first question is on growth. The retail loan growth has been consistent including mortgages. But given that HFCs were in a bad shape and given that your mortgage portfolio this time is inclusive of portfolio buyouts as well, so was not there a chance to have grown your mortgage and other retail segments faster? Or is it now a planned strategy to really grow the unsecured or the higher yielding loans faster?

Rakesh Jha: There is no change in strategy or approach in terms of growth of the retail portfolio. So, as you would have seen mortgage is a very important product for us. It continues to be more than half of our total retail portfolio. The higher growth that we have seen across the unsecured portfolio is primarily because we have been under penetrated on that portfolio and the growth is coming off a smaller base. Otherwise we are pretty happy with the growth that we have seen across all segments and as long as our risk and return expectations are met, we are happy to grow the portfolio as much as possible within the market opportunities.

Mahrukh Adajania: You just had made a comment that corporate slippage can be volatile. We should just take it as a disclosure or are there some stress accounts which could slip in this quarter or next?

Rakesh Jha: This is a completely generic statement made to the effect that the corporate portfolio has individual accounts which can be somewhat higher than Rs. 4 or 5 billion. So in a particular quarter the number can be higher. There is nothing specific that we have in our mind on making that statement.

Mahrukh Adajania: And just one last question. Sir made a comment that from April, credit cost could start normalizing or coming off. But we have not already seen that, because last quarter the provisions were Rs. 38 billion and people thought it was at peak. Now it is over Rs. 40 billion. So how do we look at it at least for the next one to two quarters till FY2020 when it obviously normalizes?

Rakesh Jha: We only have one quarter left Mahrukh, the March quarter. Then we have talked that from April we should see a much more normalized performance in terms of credit cost and profitability. So, as you know there are some borrowers who are in various stages of resolution. So, we will see how that goes and from next financial year, from April onwards, the way things currently stand as you said we should be pretty much running on much more normalized level of credit cost.

Mahrukh Adajania: But any guidance on what the normalized level will be?

Rakesh Jha: There are no specific numbers that we have talked about per se but if you go back and see it has been in the region of 80 to 100 to 125 basis points depending on the portfolio mix which is there and at which stage of cycle we are in. So, once we kind of get over the current NPA levels, we will talk about the outlook in terms of more specific numbers.

Mahrukh Adajania: And divergence, have you received your final divergence report?

Rakesh Jha: We have not received the RBI report till date. So most likely we will get it in the March quarter and then report accordingly.

Moderator: The next question is from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal: I think the question is about the RoE and the targets that we already set on RoE and if you look at your competition with very similar margin profile, almost very similar asset quality and provision coverage levels, I think they are looking at 18% RoE now and your gross slippages were in fact half of theirs. So what are the issues which are holding us back in terms of enhancing our RoE targets?

Rakesh Jha: I think we have been pretty consistent in saying that in the near term we would want to set a target of 15% RoE and we have also said that at the end of current financial year once these provisions are kind of behind us, we will talk about a more medium term target. So, definitely 15% is a near term target and that is not a medium term or a long term target and at the end of this financial year we will talk about the outlook going forward as well.

Vishal Goyal: The other thing I want to talk about is the interest collection from NPLs. So what will be the amount in this quarter because that number is a little volatile?

Rakesh Jha: Yes. It is volatile. It was a higher number in the June quarter. It kind of came down a bit in the September quarter and has gone up again in the December quarter. So, it would be in the region of I would say 17 to 18 basis points kind of contribution to the margins for the December quarter.

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

Kunal Shah: On the growth front, when we particularly look at the corporate side, we highlighted that on the non-stressed segment we will still look towards the growth, but in terms of the buildup when should we actually start seeing it? If you look sequentially, actually it is still down on the corporate side, so how should we look at the overall corporate growth?

Rakesh Jha: Our approach is to look at how we can maximize the core operating profit at each of the businesses and loan growth is not the specific target per se. So indeed in the quarter we could have grown our corporate book at a faster pace. There were opportunities to grow. But as long as we get the right spread that we want we would be happy to do that. So, the growth is calibrated only to that extent. It also happened that the last year December was a bit stronger that is why the current number does not appear to be as strong. Some of that will correct going forward. But we do not have any specific loan growth targets as such. We would be happy to do lending as long as it meets our risk and return threshold. So that is the approach which is there. Further, you should always look at the fact that the domestic loan growth of 14.4% y-o-y, is after considering significantly high level of provision that we have taken over the last four quarters. That itself pulls down the reported headline growth by a couple of percentage points.

Kunal Shah: And when we look at it in terms of maybe the spreads, obviously the deposit profile would play a key role. In terms of CASA, looking at the way other players are also growing, 15% y-o-y growth is still lower as compared to that of other private banks. So how are we looking at in terms of shoring up this entire CASA franchise?

Rakesh Jha: In terms of CASA, if you look at the numbers of the banks which offer similar rates on the saving deposits, I think the growth that we have achieved over the last couple of years is quite consistent and in line with, if not better than the peers. So, we are quite happy with the way the franchise has worked out in terms of the CASA growth. The fact is that when interest rates go up as they have gone up currently, the growth, especially on the savings deposits and to the extent on the current account deposits, slows down because people would put more money into fixed deposits and we have also seen a similar trend. This is something that we are kind of planning and budgeting. We will see a high growth on the term deposits. We are driving retail term deposits to the extent that we can, but all of this goes into our overall cost of funding which is still the most competitive amongst all the banks. So, that is where we are. We continue to invest further in strengthening our franchise, both from a customer service point of view, and leveraging technology to offer new products. So that continues to be the case as well.

Kunal Shah: And lastly in terms of the provisioning breakup. Now that the coverage has gone up so much, in fact in this quarter also there was a substantial rise. Do we see any further inch up on the coverage now or it is more or less done, given where our GNPL stands?

Rakesh Jha: I think we have talked about it in the past, that around 70% kind of coverage ratio is where we would like to be. We are around that level. I think it will now depend more on couple of cases which are at various stages of resolution and hopefully in some time that gets concluded. It is very difficult to say whether it will get concluded in the March quarter or in the early part of next financial year. This will drive the coverage ratio to some extent, but the level at which we already are gives us a lot of comfort in the balance sheet.

Kunal Shah: And provisioning breakup?

Rakesh Jha: Bulk of the provisioning during the current quarter is for the non-performing loans. The general provision on standard loans will be a very small number.

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

Gurpreet Arora: My question is more pertaining to the regulatory changes such as the RBI guideline with respect to working capital loan for more than Rs. 1.50 billion, which kicks in from April 1. Now as I see cash credit and overdraft and working capital loan receivable on demand are pretty high at around 25% of total loans and around 60% of non-retail loans. So how will this impact our provisioning requirement, the capital allocation requirement and NIM is my first question.

Rakesh Jha: In terms of what the RBI is trying to achieve here is that the onus of liquidity management shifts to the borrower and the lines which are made available by banks are limited to that extent. We have to see how the capital requirement kind of plays out. There will be some impact on the capital requirement for the banks but our own assessment is that it will not be something which will change the position of the Bank materially. On the margin, it is very difficult to say what is the right correlation to this. But from a liquidity point of view, I assume that many of the corporates will take a lot more of shorter term demand loans to meet that 60-40 criteria which is there and the minimum maturity of that would be seven days. So, we have to see how it plays out.

Gurpreet Arora: So, to follow up on this, I mean today what will be the difference between the yields on cash credit/overdraft and the working capital term loan?

Rakesh Jha: It will absolutely vary across borrowers. It is very difficult to give any indicative number. It will have to evolve and of course as banks will start keeping capital aside, I am sure at some stage they will seek compensation for that in terms of charges or a slightly higher yield.

Gurpreet Arora: My second question pertains to the mix of your advances with respect to fixed and floating rates. Over last three years what I have seen is that the composition of fixed as a percentage of retail and as the percentage of domestic loans altogether has been gradually moving up. Is it a conscious strategy to have a higher portion of fixed yield loan book or you are not looking it that way?

Rakesh Jha: We are not looking it that way because we manage the ALM accordingly. For example, on the retail side, the non-mortgage business is all fixed rate, mortgages are all floating rate and on the corporate side, it is entirely floating rate. About 70% of our domestic loans have floating rates and 30% have fixed rate. It could change depending on the growth that we see in each of the segments going forward.

Gurpreet Arora: My third question pertains to the impending guideline regarding the cost of savings account being linked to external benchmark. I mean have we done any internal study or ballpark estimate as to how it is going to impact our cost of savings account deposits?

Rakesh Jha: The lending rate will have to get linked to an external benchmark which could be a repo rate or T-bill rate. The challenge for the banks, not just for us but all the banks, will be how closely correlated the benchmark will be with our actual funding cost. The good thing is that we have to do it on the mortgage portfolio and the MSME portfolio to start with. So, it is not that the entire portfolio will move to this benchmark. The rest of the portfolio will continue be linked to the MCLR. Again we will have to see how it plays out.

Gurpreet Arora: To follow up on this, what percentage of loans would be linked to one-year MCLR today?

Rakesh Jha: I do not have the data for one-year MCLR, but of our floating rate loans, 80% now is linked to MCLR.

Gurpreet Arora: In last one year has our technical/prudential write-off policy changed and what would be the cumulative amount for current fiscal?

Rakesh Jha: There is no specific change in the policy on technical/prudential write-offs. As you would know on the corporate side it is more of a borrower specific evaluation which happens for determining whether prudential write-off is to be made or not.

Gurpreet Arora: Sir, what would be the cumulative technical/prudential write-off for 9-months in this fiscal year?

Rakesh Jha: We do not disclose that quarterly. The total stock at March 31, 2018 was about Rs. 172 billion.

Moderator: We move to the next question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question is on the operating expenses growth during the quarter which is at 20% y-o-y. We have a strong branch network and we are also investing on the digital side. So, given the balance sheet growth of 14-15% what kind of operating expenses growth will you expect?

Rakesh Jha: As I said, this quarter had quite a significant impact of the provision that we have to make on the pension obligations which are there for certain set of our employees because the yields declined by a fair bit and on a like-to-like basis last year actually the yields had gone up so the provisions were virtually zero for Q3-2018. As a result, the employee expenses have gone up by 27%. You have seen in the past run rate there is more like a 12-14%. So, if you look at the 9-month period which kind of averages out some of this movement in the yield and impact on the retirals, the expense growth is about 13.6% y-o-y for the 9-month period. So, that may reflect somewhat better in terms of the expectation. But as I said, our focus is on the growing core operating profits and whatever investments that we need to make for growing our retail or SME franchise, expanding our portfolio and enhancing our technological capabilities, we would make those investments.

Manish Ostwal: The second question is on the overseas margin during this quarter. There is some recovery in the overseas market so what is the sustainable margin in our overseas business?

Rakesh Jha: I think in the last quarter also we have said that the margin that you are seeing currently, is entirely coming from some of the collections that we have got from the non-performing loans and if that collection was not there the margin was closer to the previous quarter margin. So, the margin there has been significantly impacted by the NPL numbers that have been high and as you know the book itself has actually has come down and when that happens with high NPLs the margins clearly get impacted. I think in the next couple of quarters the situation will be very similar and if the NPL interest collections are lower, then the margin would actually be lower than what we have seen in the December quarter for the overseas business. But on an overall basis, the proportion of the domestic business is increasing. So, at an overall level the margin will have that benefit.

Moderator: The next question is from the line of Nitin Agarwal from Motilal Ostwal Securities. Please go ahead.

Nitin Agarwal: My question is again on the RoE. If I do some back of the hand calculation, then adjusted RoA assuming stable coverage ratio, stands closer to 1.3% which at our leverage implies that we are already at a striking distance of the 15% of RoE target. So, do you think we can do better on this metric versus our guidance?

Rakesh Jha: I think the last guidance that we gave was at the beginning of financial year to say that by June 2020 we are looking at achieving a 15% RoE and we have said that at the end of this financial year, we will relook what the near-term and the medium-term targets. Till then, the trend in the core operating profit is the key metric that we are tracking and highlighting to you. The trends there have been quite healthy for the 9 months of the financial year and for the quarter.

Nitin Agarwal: Is there any specific composition of BB and below loans that we will like to have as the same has now declined to 5% of loans? What has been our rating mix in terms of incremental sanctions over the past few quarters?

Rakesh Jha: I do not think there is any desired mix that we have of BB and below portfolio. But we clearly acknowledge that as a Bank with a large business across various portfolios, there will be a certain set of portfolios which will at any point of time be below investment grade. Most of these loans may not have been below investment grade at the time of origination. Though there may be some product segments below investment grade on the starting point itself, but that would be a very small part. So, there is no specific number that we have in our mind and I think the number has been normalizing as you said quite rapidly and the current level itself is now a much lower number than where we were a year back on this. Sorry, what was your second part of the question?

Nitin Agarwal: The ratings mix of corporate loans in terms of incremental sanction?

Rakesh Jha: We have not disclosed that separately. But we did disclose this a couple of quarters back and the number was upwards of 80% in terms of A minus and above on the corporate side and that may not have changed much.

Nitin Agarwal: And lastly like this quarter we had some tax write-back from DTA. So what is the normalized tax rate that we can look at over the next fiscal?

Rakesh Jha: As you know, the tax provision that we take in any period is based on the estimate of the effective tax rate for the full financial year. So, at any point of time we have to estimate what our profits will be for the year, the composition of that profit and then compute the effective tax rate and apply the same rate for the 9-month period. That is why on a 6-month to a 9-month period the tax rate changes. This year we have had the benefit in the first quarter as we sold 2% in ICICI Prudential Life Insurance and that will be at a lower tax rate and then some other items like dividend income are at a lower tax rate. But on a normalized basis, I think 28% to 30% would be where the tax rate you should assume for us.

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

Rahul Jain: Two-three questions. Would you be able to share what kind of spreads we would be earning on the portfolio buyouts?

Rakesh Jha: We would be earning adequate to meet our hurdle rate. We would not want to discuss specific spreads on these portfolios. We have ensured that the portfolio that we have bought is a granular retail portfolio. It meets our risk filter and it definitely meets our return thresholds.

Rahul Jain: Would it also be covering for any possibility of any higher loss ratios also?

Rakesh Jha: We would have done a detailed analysis of the portfolio that we bought. It is not that we have bought the portfolio only this quarter. In the past also we have bought portfolios. We do stress testing and then determine what is the right level at which we should purchase our portfolio to give us a normal return.

Rahul Jain: Second question is given that the upgradations in the BB and below for the last two quarters have been quite healthy, what really is driving that and if this is the kind of run rate then perhaps the next couple of quarters this number should meaningfully come down. So is this a way to think about it and what really is causing such lumpy upgrades which just causes a positive news? What is really driving that?

Rakesh Jha: Actually, there would be specific cases which got upgraded in the September and December quarter. As we have said, and you would have seen our disclosures, one of the restructured loans which was there for quite some time with us and has been now been making payment after the moratorium has been upgraded during the quarter, that was a large number. Similarly, in the last quarter there was one particular case which got upgraded. Again, it is like virtually impossible for us to kind of comment on what would be the upgrades and downgrades from the BB and above portfolios. But yes, in the last two quarters there have been couple of larger corporate exposures that have got upgraded and that may not repeat going forward. I do not think one should take it as a run rate at all.

Rahul Jain: Last question. How has been your experience on the early delinquencies in your mortgage portfolio, lap portfolio and SME loans? Would you be able to share some color on 30-day past due, 60-day past due etc.?

Rakesh Jha: We do not really share the 30-day, 60-day past due portfolio details. But I can tell you at an overall level, on the specific portfolios that you have mentioned we have not seen any signs which would kind of tell us any trouble at all on that portfolio. In addition, when we look at any of these parameters, we continue to be clearly better than the system in terms of the trends that we are seeing in these portfolios. And like we have said in the past across the retail portfolio, currently the numbers that we are running are clearly below any kind of a normalized trend that we would expect. So, you should expect that there will be some normal increase in NPA additions and credit cost on the retail portfolio going forward. But nothing amiss on the portfolio that you mentioned at all.

Rahul Jain: Just one last question. Sorry. On the agri slippages side, would you be able to share how much actually came through in this quarter and was it because of farm loan waiver or those were normal delinquencies?

Rakesh Jha: As we mentioned in the opening remarks, Rs. 2 billion is what got added on the rural portfolio. That would largely be these farm loans linked to KCC. Whether they are directly linked to a farm loan waiver or not, that is difficult to say but yes farm loan waiver does create an environment where some of the delinquencies go up and the way these loans are structured is that the payments are on a six monthly basis. So, you will see spike in these additions in the June and the December quarter. Again, as I said in the call earlier that in June 2019 we would expect this number to be higher. This year in June it was upwards of Rs. 3 billion, in June 2019 as well it will be higher given the current environment around this.

Moderator: Thank you. We move to the next question from the line of Mohit Bansal from Ajinkya Private Limited. Please go ahead.

Mohit Bansal: I just wanted some colour on how you are treating the NBFC portfolio and the relationship with NBFCs going forward, considering what has happened with IL&FS and the news flows yesterday. Thank you.

Rakesh Jha: On our exposure or incremental lending to NBFC and HFCs, as we said on the last call, we are pretty open to lend to NBFCs and HFCs as long as our risk and return thresholds are met. We have done incremental business with NBFCs and HFCs and we have talked about some of our numbers in terms of the outstanding that we have. There is nothing specific that that we really have to add and of course we have also looked at opportunities to buy retail portfolios from some of the NBFCs and HFCs as and when those pools where available during the December quarter. We have also been talking to some of them to see if any kind of partnerships can be worked upon in terms of origination of loans. So, there are lots of areas where we are looking at working together with them as well.

Mohit Bansal: But would you be able to throw some light on the total exposure versus how it is panning out right now in terms of repayment.

Rakesh Jha: As we mentioned in the opening remarks, our total loans investments and non-fund based outstanding to NBFCs was Rs 256 billion at December 31 and to HFCs was Rs. 93 billion at December 31. So, those are the two numbers which are there. In aggregate the loans are about 4.6% of our total outstanding loans.

Mohit Bansal: And in terms of repayments? How is the repayment as of now? So as of now you are seeing there is no pressure in terms of repayment.

Rakesh Jha: We are quite comfortable with this portfolio and we are not seeing as of now, any worries on this portfolio in terms of performance.

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

Jai Mundra: Sir, just wanted to know one clarification on our retail slippages. So, are we on a daily marking and a daily reporting basis or this is done at the end of the month or the quarter end?

Rakesh Jha: On the NPLs we follow a certain policy. It is not on a daily basis for the retail portfolio.

Jay Mundra: And secondly sir, if you can just mention the sector of the loan which was upgraded from restructured book and where you have managed to sell those loans for cash. Thanks.

Rakesh Jha: Yes, so, on the first one we have not disclosed the sectors per se. On the second question, the mode of resolution for that loan was through a sale. There was no haircut that we took. It was kind of because the mode of resolution was sale, it gets reported as a sale. But otherwise it was pretty much like a settlement in other cases.

Jai Mundra: In this case let us say, you have got 100% of your dues back. Is that the correct understanding?

Rakesh Jha: Yes, that is the correct understanding.

Jai Mundra: So, that will not get reported in your other income, right?

Rakesh Jha: We report all the incremental provisions or write-backs in the provision line item.

Jai Mundra: Even if it is 100%, I mean even if it is, let us say technically written-off.

Rakesh Jha: Yes.

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

Adarsh P: Question is regarding margins, again you mentioned the interest collections impact was about 17-18 bps. Just wanted to understand this a little bit more. Sometimes you have a large repayment from a very large account. You can account some of it in interest income as well and I would believe that as you get into relatively higher LGD cases, NCLT - 2 and other NPAs, the interest accounting of that will not be as high as some of the accounts where the LGDs have been relatively low as you see the NCLT resolutions happen. So I am just trying to understand when I try and look firstly is the understanding fair that the one-offs are materially large and as you get into higher LGD cases it will not be this high?

Rakesh Jha: That is a correct statement per se generally. But I guess what happens is that in these loans, for example in one of the larger loans in this quarter that got settled, we got the entire principal and interest and then the interest shows up as interest income from NPL. And that will of course not repeat every quarter. For example, in the June quarter one of the cases that got settled, the steel case under NCLT, the resolution was such that again a part of the collection came in as interest income for all the banks including for us. So, it is going to be a number which will be up and down on a quarter-on-quarter basis. So as I said for the current quarter it is about 17-18 basis points and as I mentioned that increase in the margin in the current quarter compared to September quarter was kind of entirely because of this reason. So, last quarter the interest collection would have been a lower number say 9-10 basis points. But this will be variable and there is no way that one can really estimate it. The good thing is that the money which comes back to us can get deployed into lending and on that we get interest income, that is the more important part.

Adarsh P: And just to simplify this on 9-month basis vis-à-vis last year if you exclude these interest collections what would be the margins on a more clean steady state basis?

Rakesh Jha: So, I think I gave you the number for the December quarter that is about 17 to 18 basis point lower. That is the core margin if you exclude NPL interest collections. Of course, the NPL interest collection will not be zero in any particular quarter, also it may not be 20 basis points in a particular quarter.

Adarsh P: And second question is that we had the enquiry report coming out on the ex-MD and CEO. What I wanted to just understand is that the current management team and the various enquiries which relate to the current set of top management of the bank if you think this kind of highlight. Many times, it relates to specific people, board, the bank but as of now the top management team of the bank which enquiries, whether CBI or any other internal, external inquiries relate to the current top management team of the bank.

Sandeep Batra: This is Sandeep Batra. As far as the ex-CEO is concerned we have put out a press release and we believe the matter is over. As far as CBI is concerned, there the Bank has been named a victim. But it has also named certain officials clearly because they were part of the sanctioning committees. In the past, we have been cooperating with CBI and will continue to do in the future. I mean whoever has been named will certainly cooperate with CBI. Our understanding is that there is neither any allegation nor any material to suggest any fault of any other member or individuals which have been named and it is really not appropriate for the Bank to undertake any further investigation on the matter. But we will certainly co-operate with any regulatory authorities.

Adarsh P: And last question relating to this same press release put out this relates more to disclosures not being made. Is there any conclusion in the report about wrong doing or that was not the domain of that report itself?

Sandeep Batra: We have given the complete details. The relevant summary of the report is part of the press release.

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

Nilanjan Karfa: Quick question on the prudential write-offs. It looks like on a sequential basis, the numbers are down probably about 13 odd billion Rupees. Would that be a fair number? Therefore, did we earn anything out of it or a part of it is coming in other income, any clarity there? Second is, when is the right time to think about our investments in foreign subsidiaries because I believe of the multiple questions raised about the RoE profile, is the significant amount of drag which comes from the foreign subsidiaries as well as foreign loans. What is commentary both on subsidiaries as well as the branches of the Bank there? And final question, any understanding of the total fee income. What percentage is retail, SME and corporate? And within retail, if you can just give some color on how much is coming from the debit and credit cards acquirer and issuer included. Those are the 3 questions, thanks.

Rakesh Jha: So, the first one was on the, you said on the prudential write-offs. As I said earlier, any recovery that we make from such amounts, we take it as a matter of practice to the provision line item itself. So, it will all be reflected in the net provision that you see for the current quarter. That maybe net off, write backs either from technical or prudential write-offs or write backs from earlier provisions made on certain loans.

Nilanjan Karfa: So, if I get it right, in this quarter we actually reversed the results and passed about I think 120 to 130 crore Rupees, right through the P&L as well.

Rakesh Jha: But you are talking about the reserves, is it?

Nilanjan Karfa: No, sir 2 things. You mentioned that the delta in the prudential write-off is broadly 13 billion Rupees. You say whatever has been recovered has gone through the provisions line?

Rakesh Jha: Yes.

Nilanjan Karfa: On top, I think there is about 1.2 billion Rupees which are reversed from reserves and again passed through the provisions.

Rakesh Jha: Yes, that is something that was relating to the provisions that we had taken through the reserves for the fraud case. These provisions can be taken through reserves and then in the next four quarters have to be reversed through the P&L. Are you talking about that?

Nilanjan Karfa: Yes. So, my intention is to get what was the clean provisions on NPLs, ignoring what has happened in the past and ignoring let us say whatever you have passed because of the prudential write-off decline. What is the clean provision number out here?

Rakesh Jha: Provision number is the net number of all of this. We could take it offline.

Nilanjan Karfa: Sure. We will take it offline Rakesh.

Rakesh Jha: Net provision is what we disclose net of all these items. Coming to your second question on foreign subsidiaries, as we have said in the past, say 5-6 years back, our total investment in the equity of these subsidiaries was close to 10% of our net worth, actually at the peak it was about 12% of our net worth. That has now come down to less than 4%. So, the drag on this account is of course there, but it is now less than a percentage, may be half a percentage. So, that is not really as much of a key, but of course separately, we are completely focused on how we can improve the profitability there because the rationalization of capital has already happened in terms of the capital repatriation and the dividends that these two subsidiaries have paid. On fee income, we have said that about 73% of our fee is coming from the retail business. We have not given further breakup of that in terms of the credit cards and debit cards. We will consider disclosing that in future.

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

Sandeep Bakhshi: Thank you very much. As we mentioned our focus will continue on growing risk calibrated core operating profit. We believe that the overall ecosystem provides tailwinds to the banking system and we will follow this strategy in the coming quarters and we stay committed to our guidance on 15% consolidated RoE by June of 2020. Thank you very much.

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