ICICI Bank Limited

Earnings conference call - Quarter ended December 31, 2022 (Q3-2022)

January 22, 2022

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Moderator:

Ladies and gentlemen, good day and welcome to the ICICI Bank Q3 FY2022 Earnings Conference Call. As a reminder, all participant lines will be in 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 CEO 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 results for Q3 of FY2022. Joining us today on this call are Vishakha, Anup, Sandeep Batra, Rakesh and Anindya.

We hope that you are safe and in good health.

The Bank's Ultra Frequency Index, comprising several high frequency indicators tracked by our Economic Research Group rose from 110.3 in end-October to 117.6 in December, indicating a sustained improvement in economic activity. This was on the back of improvement in indicators such as power demand, rail freight revenues, e-way bill generation and labour force participation. While there has been a sharp rise in Covid-19 cases in recent weeks, the impact of the third wave has been mild so far. Vaccination coverage has continued to increase and the Government of India has recently expanded the vaccination programme to the age bracket of 15 to 18 and announced a precautionary third dose of vaccine for identified categories. While the trajectory of the pandemic is still evolving and the recent increase in cases has slowed the pace of economic activities in January, we expect the economy to regain momentum as this wave abates. We would like to thank the medical and health workers' fraternity for their tireless effort in this fight against Covid-19.

At ICICI Bank, we aim to create holistic value propositions for our customers through our 360-degree customer-centric approach and focus on opportunities across client and segment ecosystems. Our cross-functional teams seek to tap into key customer and market segments, enabling 360-degree coverage of customers and increase in wallet share. We aim to steadily grow our business within our strategic framework and strengthen our franchise, delivery, and servicing capabilities, backed by a range of digital initiatives.

Coming to the quarterly performance against this framework:

First- Growth in the core operating profit in a risk-calibrated manner through the focused pursuit of target market segments.

The core operating profit increased by 24.9% year-on-year to 100.60 billion Rupees in this quarter. The profit after tax grew by 25.4% year-on-year to 61.94 billion Rupees in this quarter.

Second-Further enhancing our strong deposit franchise

Growth in deposits was 16.4% year-on-year at December 31, 2021. During the quarter, average current account deposits increased by 33.7% year-on-year and average savings account deposits by 24.7% year-on-year. The liquidity coverage ratio for the quarter was 130%, reflecting continued surplus liquidity. Our cost of deposits continues to be among the lowest in the system.

Third-Growing our loan portfolio in a granular manner with a focus on risk and reward

The retail loan portfolio grew by 18.6% year-on-year and 5.1% sequentially at December 31, 2021. Disbursements across various retail products increased or were at a similar level compared to the previous quarter. The business banking portfolio grew by 38.5% year-on-year and 8.8% sequentially at December 31, 2021. The SME portfolio grew by 34.2% year-on-year and 9.7% sequentially.

The growth in the domestic corporate portfolio was 12.5% year-on-year and 9.0% sequentially at December 31, 2021. The growth was driven by disbursements to well-rated corporates and in line with our risk framework.

The domestic loan portfolio grew by 17.9% year-on-year and 6.5% sequentially. The overall loan portfolio grew by 16.4% year-on-year and 6.4% sequentially at December 31, 2021.

Fourth-Leveraging digital across our business

Our digital platforms are continuously evolving with the objective of creating end-to-end seamless digital journeys, offering personalised solutions and value added features to customers and enabling more effective data-driven cross-sell and up-sell. Our open architecture based mobile banking app, iMobile Pay, offers a wide variety of products, services and features and helps us to acquire new customers. The growth in our SME and business banking portfolios has been driven by our digital offerings and platforms like InstaBIZ and Merchant Stack. Our solutions for corporates comprising our various modular platforms, and our extensive client coverage have supported the growth in our average current account deposits. Process decongestion across products and customer segments is a key element of our strategy. We had made detailed presentations on these areas at our analyst day in December and have shared some details in slides 18 to 31 of the investor presentation.

Fifth - Protecting the balance sheet from potential risks

Net NPAs declined by 10.0% sequentially to 73.44 billion Rupees at December 31, 2021 from 81.61 billion Rupees at September 30, 2021. The net NPA ratio declined to 0.85% at December 31, 2021 from 0.99% at September 30, 2021. During the quarter, there were net deletions from gross NPAs of 1.91 billion Rupees, excluding write-offs and sale. The total provisions during the quarter were 20.07 billion Rupees or 20.0% of core operating profit and 1.01% of average advances. The provision coverage ratio on NPAs was 79.9% at December 31, 2021. In addition, the Bank continues to hold Covid-19 provisions of 64.25 billion Rupees or about 0.8% of total loans as of December 31, 2021.

Sixth- Maintaining a strong capital base

The capital position of the Bank continued to be strong with a CET-1 ratio of 17.64% at December 31, 2021, including profits for 9M of 2022. The Tier 1 ratio was 18.81% and the total capital adequacy ratio was 19.79% at December 31, 2021. Further, the market value of the Bank’s investments in listed entities of the Group is about 940 billion Rupees.

Looking ahead, we see many opportunities to grow our core operating profit in a risk-calibrated manner. We are reimagining customer journeys with personalised and omni-channel experiences. Our ecosystem-based approach helps our customers to manage their business across the value chain efficiently, and has created new opportunities for us across businesses. We are investing in analytics capabilities and technology to enhance our offerings to customers and to build a robust future-ready architecture. We continue to be guided by the twin principles of “One Bank, One RoE”, emphasising the goal of maximizing our share of target market across all products and services and “Fair to Customer, Fair to Bank”, emphasising the need to deliver fair value to customers while creating value for shareholders. We remain focused on delivering consistent and predictable returns to our shareholders. I now hand the call over to Rakesh.

Rakesh Jha:

Thank you, Sandeep. I will talk about balance sheet growth, credit quality, P&L details, growth in digital offerings, portfolio trends and performance of subsidiaries.

A. Balance sheet growth

Sandeep covered the loan growth across various segments. Coming to the growth across retail products, the mortgage portfolio grew by 23.3% year-on-year, rural loans by 9.4% and auto loans by 11.9%. The commercial vehicles and equipment portfolio declined by 2.8% year-on-year. Growth in the personal loan and credit card portfolio was 25.3% year-on-year. This portfolio was 797.63 billion Rupees or 9.8% of the overall loan book at December 31, 2021.

The overseas loan portfolio declined by 5.5% year-on-year and grew by 5.1% sequentially at December 31, 2021. The sequential increase in the overseas loan portfolio was primarily due to increase in the India-linked trade finance book. The overseas loan portfolio was 5.0% of the overall loan book at December 31, 2021. The non-India linked corporate portfolio reduced by 57.8% or about 941 million US Dollars year-on-year and 15.8% or about 129 million US Dollars sequentially, at December 31, 2021. We have provided the breakup of our overseas corporate portfolio on slide 16 of the investor presentation.

Coming to the funding side: average savings account deposits increased by 24.7% year-on-year and 5.2% sequentially. Average current account deposits increased by 33.7% year-on-year and 11.9% sequentially. This quarter the flows related to IPOs and capital markets were high and contributed to the average current account balances. Total term deposits grew by 12.1% year-on-year to 5.4 trillion Rupees at December 31, 2021.

B. Credit quality

During the quarter, there were net deletions from gross NPAs of 1.91 billion Rupees compared to net additions of 0.96 billion Rupees in the previous quarter. There were net additions of 1.26 billion Rupees to gross NPAs in the retail and business banking portfolios and net deletions of 3.17 billion Rupees to gross NPAs in the corporate and SME portfolios.

The gross NPA additions declined to 40.18 billion Rupees in the current quarter from 72.31 billion Rupees in Q1 and 55.78 billion Rupees in Q2 this year. The gross NPA additions from the retail and business banking portfolio were 38.53 billion Rupees and from the corporate and SME portfolio were 1.65 billion Rupees. There were gross NPA additions of about 6.14 billion Rupees from the kisan credit card portfolio in the current quarter. We typically see higher NPA additions from the kisan credit card portfolio in the first and third quarter of a fiscal year.

Recoveries and upgrades from NPAs, excluding write-offs and sale, were 42.09 billion Rupees. There were recoveries and upgrades of 37.27 billion Rupees from the retail and business banking portfolio and 4.82 billion Rupees from the corporate and SME portfolio. The gross NPAs written-off during the quarter were 40.88 billion Rupees. The Bank sold gross NPAs amounting to 1.05 billion Rupees in Q3 of 2022 on a cash basis.

The non-fund based outstanding to borrowers classified as non-performing was 36.38 billion Rupees as of December 31, 2021 compared to 37.14 billion Rupees at September 30, 2021. The Bank holds provisions amounting to 19.57 billion Rupees as of December 31, 2021 on this non-fund based outstanding.

The total fund based outstanding to all standard borrowers, under resolution as per various guidelines was 96.84 billion Rupees or about 1.2% of the total loan portfolio at December 31, 2021. Of the total fund based outstanding under resolution at December 31, 2021, 64.74 billion Rupees was from the retail and business banking portfolio and 32.10 billion Rupees was from the corporate and SME portfolio. The Bank holds provisions of 24.36 billion Rupees against these borrowers, which is higher than the requirement as per RBI guidelines. Over 95% of the loans under resolution in the retail and business banking portfolio are secured loans.

C. P&L Details

Net interest income increased by 23.4% year-on-year to 122.36 billion Rupees. Interest on income tax refund was 1.81 billion Rupees this quarter compared to 0.30 billion Rupees in the previous quarter and 1.96 billion Rupees in Q3 of last year. The net interest margin was at 3.96% in this quarter compared to 4.00% in the previous quarter and 3.67% in Q3 of last year. The impact of interest on income tax refund on net interest margin was 6 bps in Q3 of this year compared to 1 bps in the previous quarter and 7 bps in Q3 of last year. The domestic NIM was at 4.06% this quarter compared to 4.09% in previous quarter and 3.78% in Q3 last year. Overseas margins were at 0.28%. The cost of deposits was 3.47% in Q3 compared to 3.53% in Q2. The sequential decline in net interest margin during the quarter was mainly due to decline in yield on advances, partly offset by decline in cost of deposits and higher interest on income tax refund. Of the total domestic loans, interest rates on 38% are linked to repo rate and 7% to other external benchmarks.

Non-interest income, excluding treasury income, grew by 24.9% year-on-year to 48.99 billion Rupees in Q3 of 2022

- Fee income increased by 19.2% year-on-year to 42.91 billion Rupees in Q3 driven by growth across various segments. Fees from retail, business banking and SME customers grew by 16.3% year-on-year and constituted about 76% of the total fees in this quarter.
- Dividend income from subsidiaries and listed entities was 6.03 billion Rupees in this quarter compared to 3.56 billion Rupees in Q3 of last year. The dividend income this quarter includes interim dividend of ICICI General and higher interim dividend from ICICI Securities and ICICI AMC compared to Q3 of last year.

On Costs: The Bank's operating expenses increased by 22.4% year-on-year in Q3 partially reflecting the slightly lower base of Q3 last year. The employee expenses increased by 27.4% year-on-year. The Bank had about 102,000 employees at December 31, 2021. The employee count has increased by about 9,900 in the last 12 months. Employee expenses in Q3 include an impact of about 0.69 billion Rupees due to fair valuation of ESOPs granted to all employees post April 1, 2021 for the current quarter as required by RBI guidelines. Non-employee expenses increased by 19.9% year-on-year in this quarter primarily due to retail business and technology related expenses. We continue to invest in technology to enhance our offerings to customers as well as the scalability, flexibility and resilience of our technology architecture. The technology expenses were about 8.4% of our operating expenses in 9M of 2022.

The core operating profit increased by 24.9% year-on-year and 5.7% sequentially to 100.60 billion Rupees in this quarter.

There was a treasury gain of 0.88 billion Rupees in Q3 compared to 3.97 billion Rupees in Q2 and 7.66 billion Rupees in Q3 of the previous year. Treasury income in Q3 of last year included gains of 3.29 billion Rupees from sale of shares of ICICI Securities.

The total provisions during the quarter were 20.07 billion Rupees or 20.0% of core operating profit and 1.01% of average advances. The provisions this quarter include 4.65 billion Rupees of higher provision against security receipts and 4.47 billion Rupees of higher provision on loans under resolution on a prudent basis. There was no writeback of Covid-19 related provisions during the quarter. The provisioning coverage on NPAs continued to be robust at 79.9% as of December 31, 2021. In addition, we hold 24.36 billion Rupees of provisions on borrowers under resolution and Covid-19 related provisions of 64.25 billion Rupees. The Covid-19 provisions are about 0.8% of loans. At December 31, 2021, the total provisions, other than specific provisions on NPAs, were 160.26 billion Rupees or 2.0% of loans.

The profit before tax grew by 33.9% year-on-year to 81.41 billion Rupees in this quarter from 60.78 billion Rupees in Q3 of last year. The tax expense was 19.47 billion Rupees in this quarter compared to 11.38 billion Rupees in the corresponding quarter last year. The profit after tax grew by 25.4% year-on-year to 61.94 billion Rupees in this quarter compared to 49.40 billion Rupees in Q3 of last year.

The consolidated profit after tax was 65.36 billion Rupees this quarter compared to 54.98 billion Rupees in Q3 of last year.

D. Growth in digital offerings

Leveraging digital and technology across businesses is a key element of our strategy of growing the risk calibrated core operating profit. We have seen significant increase in the adoption of our mobile banking app, iMobile Pay. There have been 5.3 million activations of iMobile Pay by non-ICICI Bank account holders as of end-December. The value of transactions by non-ICICI Bank account holders grew by 73% sequentially in Q3 of 2022.

The value of credit card spends in Q3-2022 was 2.2 times the value of credit card spends in Q3-2021 and grew by 27% sequentially.

The value of financial transactions on InstaBIZ grew by about 68% year-on-year in the current quarter. The value of transactions on the supply chain platforms in the current quarter was 3.5 times the value of transactions in Q3 last year.

The proportion of end-to-end digital sanctions and disbursements across various products has been increasing steadily. About 33% of our mortgage sanctions and 43% of our personal loan disbursements, by volume, were end-to-end digital in 9M of 2022. About 95% of the overdraft facilities set up for business banking current account customers were end-to-end digital in 9M of 2022.

The Bank had launched ICICI STACK for corporates and has created more than 20 industry specific STACKs which provide bespoke and purpose-based digital solutions to corporate clients and their ecosystems. The volume of transactions through these solutions in Q3-2022 was 3.7 times the volume of tranasctions in Q3-2021.

The Bank recently launched TradeEmerge for importers and exporters across India, offering banking as well as value-added services. This initiative makes cross border trade hassle-free, quick and convenient, as it offers an array of services in one place.

E. Portfolio information

We have been growing our loan portfolio in a granular manner with a focus on risk and reward. Our retail portfolio has been built based on proprietary data and analytics in addition to bureau checks, utilising the existing customer database for sourcing in key retail asset products through cross sell and up-sell and pricing in relation to the risk. In the business banking and SME business, our focus is on parameterised and programme based lending, granularity, collateral and robust monitoring. We have given further information on our retail and business banking portfolio in slides 42 to 45 of our investor presentation.

The loan and non-fund based outstanding to performing corporate and SME borrowers rated BB and below was 118.42 billion Rupees at December 31, 2021 compared to 127.14 billion Rupees at September 30, 2021. The amount of 118.42 billion Rupees at December 31, 2021 includes 27.97 billion Rupee of loans under resolution. The details are given on slide 40 and 41 of the investor presentation.

Similar to the last quarter, other than three accounts, one each in construction, power and telecom sectors, the maximum single borrower outstanding in the BB and below portfolio was less than 6 billion Rupees at December 31, 2021. At December 31, 2021, we held provisions of 15.75 billion Rupees on the BB and below portfolio compared to 9.60 billion Rupees at September 30, 2021. This includes provisions held against borrowers under resolution included in this portfolio.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was 257.53 billion Rupees at December 31, 2021 compared to 228.14 billion Rupees at September 30, 2021. The builder portfolio is about 3% of our total loan portfolio. Our portfolio is granular in nature with the larger exposures being to well-established builders and this is also reflected in the sequential increase in the portfolio. About 11% of our builder portfolio at December 31, 2021 was either rated BB and below internally or was classified as non-performing, compared to 13% at September 30, 2021.

The total outstanding to NBFCs and HFCs was 675.86 billion Rupees at December 31, 2021 compared to 605.11 billion Rupees at September 30, 2021. The total outstanding loans to NBFCs and HFCs were about 7% of our advances at December 31, 2021. The details are given on slide 47 of the investor presentation. The sequential increase in the outstanding to NBFCs and HFCs is mainly due to disbursements to PSU entities, entities having long vintage and owned by banks and well-established corporate groups. The proportion of the NBFC and HFC portfolio internally rated BB and below or non-performing is less than 0.4% as of December 31, 2021.

F. Subsidiaries and key associates

The details of the financial performance of subsidiaries and key associates is covered in slides 52 to 54 and slides 73 to 78 in the investor presentation.

The new business premium of ICICI Life grew by 29.7% year-on-year to 102.48 billion Rupees in 9M this year. The VNB margin increased from 25.1% in FY2021 to 27.1% in 9M this year. The value of new business increased by 34.8% year-on-year to 13.88 billion Rupees in 9M this year. The profit after tax of ICICI Life was 5.69 billion Rupees in 9M this year compared to 8.96 billion Rupees in 9M of last year. ICICI Life had a net loss of 1.86 billion Rupees in Q1 this year primarily because of Covid-19 claims and provisions made for incurred but not reported claims. The profit after tax was 3.11 billion Rupees in this quarter compared to 3.06 billion Rupees in Q3 of last year.

Gross Direct Premium Income of ICICI General was 133.11 billion Rupees in 9M this year compared to 105.25 billion Rupees in 9M last year. The combined ratio was 111.0% in 9M of this year compared to 99.1% in 9M last year. The profit after tax was 3.18 billion Rupees this quarter compared to 3.14 billion Rupees in Q3 last year. Prior period numbers are not comparable due to the reflection of the general insurance business of Bharti AXA in the current period numbers.

The profit after tax of ICICI AMC was 3.34 billion Rupees in this quarter compared to 3.58 billion Rupees in Q3 of last year.

The profit after tax of ICICI Securities, on a consolidated basis, increased by 42.3% year-on-year to 3.80 billion Rupees in this quarter from 2.67 billion Rupees in Q3 of last year.

ICICI Bank Canada had a profit after tax of 11.5 million Canadian dollars in this quarter compared to 5.1 million Canadian dollars in Q3 last year and 8.4 million Canadian dollars in Q2 this year. The sequential increase in profit after tax of ICICI Bank Canada is mainly due to writeback of provisions. The loan book of ICICI Bank Canada at December 31, 2021 declined by 4.8% year-on-year. ICICI Bank Canada has repatriated CAD 220 million of equity capital to ICICI Bank in January 2022.

ICICI Bank UK had a profit after tax of 3.0 million US dollars this quarter compared to 2.2 million US dollars in Q3 of last year and 2.0 million US dollars in Q2 this year. The loan book of ICICI Bank UK at December 31, 2021 declined by 21.3% year-on-year and 2.2% sequentially.

As per Ind AS, ICICI Home Finance had a profit after tax of 0.48 billion Rupees in the current quarter compared to 0.03 billion Rupees in Q3 of last year and 0.46 billion Rupees in Q2 this year. The year-on-year increase in profit after tax is mainly due to decline in cost of funds and lower provisions.

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

Moderator:

We will now begin the question-and-answer session. The first question is from line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania:

Congratulations. My first question is on fee. The fee growth has been very strong for the second consecutive quarter. Would cards be the biggest delta? Would there be any risk to card fees in the near to medium term?

Rakesh Jha:

The fee growth that we have seen has been strong across various segments such as retail assets, credit cards, payments, wholesale banking, small businesses and SME. We have seen an overall growth across businesses and across products as well. Cards is of course an important part of our overall fees and it will continue to be so.

Mahrukh Adajania:

But any near term or medium term risk that you see to the strength in fee income from credit cards or any other products but mainly from cards?

Rakesh Jha:

Nothing specific per se. I think there are definitely some industry trends in terms of lower penal charges and late payment fees. But overall, we don't see any specific worry. Of course, we have to keep track of regulatory changes or market changes. So, that is very difficult to predict. Otherwise, I think across segments, we have been seeing a reasonably good growth in fee revenues.

Mahrukh Adajania:

My second question is on operating expenses. So, you did give out the tech spends for the first nine months. But just in non-employee operating expenses especially, what is the biggest driver in Q3-2022? Would it be collections, growth or tech related?

Rakesh Jha:

So, actually in Q3 there is always a higher amount of advertisement and promotion and all expenses linked to the festive season. So, every time you will see from Q2 to Q3 the sequential increase, the larger part comes from there. In addition to that, we would have seen an increase in the technology expenses. We have been purchasing priority sector lending certificates, so that cost would have also gone up. So, these are the costs which would have gone up for us.

Mahrukh Adajania:

Just again in terms of technology spends, 8% of opex would be 3% of your net revenue for the first nine months on an annualised basis whereas there are some international banks who want to spend 8% to 9% of their revenues on tech in FY2022. So, what would your future tech spends be? Will it match up to the international banks as in, not 8% to 9%, but will it have to move up substantially or you think that most of the high cost investments are already in the bay?

Rakesh Jha:

It's a continuing journey on technology and digital and expenses as we expand our offerings. If you look at the last few years, I think we have always cited that within expenses, technology has been one of the expenses that have been growing at a faster pace than the overall expenses. So, this is 8% of operating expenses, if you go back three years, it would have definitely been a lower number. We will see some increase in that proportion, but of course, we are not looking at 3% of revenues going up to 9% or 10%. I think that's a completely different cost base which is there, completely different infrastructure setup which is there. So, those numbers may not be comparable for the Indian banks.

Mahrukh Adajania:

Last question on treasury income. Excluding gains from sale of shares in ICICI Securities, the treasury income is negative, right? It had happened also probably in Q4-2021. So, what's the accounting there?

Rakesh Jha:

The gain from sale of shares in ICICI Securities was last year Q3 because we had to meet that minimum public shareholding requirements.

Moderator:

The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia:

Recently, we have been advertising a lot about our trade services. So, is there a big opportunity to increase market share based on open architecture model like what we have done in retail? Will it be forex-related and payments-driven? Any sense you can give about current market share and the room for growth because we seem to be doing well? Secondly, on the auto side, we have seen the pre-owned car market has grown 2 times of OEM sales in the last few years. So, is there an opportunity we are focusing to grow the loan book? Any tie-ups with Maruti or Mahindra or some of the other manufacturers

Rakesh Jha:

On the trade side, definitely, we see a huge opportunity across our business segments, on the small business side as well as the larger corporates. We have been leveraging our digital offerings also to scale up that business. You would have seen that even in our overseas business, we have seen the increase has come from the trade finance book. Domestically also, both trade-related short-term book as well as LCs are key contributors for us and the growth there has been quite good for us and we would assume that would continue to be a strong driver for the fee income as well which Mahrukh was earlier talking about and it kind of fits in very well with our overall approach of capturing the entire customer 360 and the ecosystem. On the pre-owned cars, clearly, that is something where the yields are better and the overall ROEs are better if the credit costs are contained. But, definitely there is some bit of higher risk as well. So, we would want an optimal proportion of pre-owned cars in our car loan business. Nothing specific to highlight there. We are very happy to grow that business and the proportion for us has been increasing as well. It is an important component especially from an overall car loan business profitability point of view. This segment actually provides a higher ROE definitely than the new car loan business.

Prakash Kapadia:

Any sense on that market share if you could give, are we in low teens, or 3%-5% on some of the corporate initiatives which you mentioned and can it grow in the near future?

Rakesh Jha:

We of course track those market shares based on various data, but we have not disclosed that per se separately. The market share would, vary anywhere from 5% to up to 15% across the various initiatives that we are doing.

Moderator:

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

Nitin Agarwal:

So, the question is on the credit card segment. We have shown a very strong growth in cards spends. If you can share some light on how the revolve rates are trending in this business now?

Anup Bagchi:

On the credit card, there are sort of a couple of things that we are doing which is leading to slightly better growth. One is on the retail segment itself. We are doing much more intense activity on the portfolio in the sense that what are the customer behaviours, where are they behaving and whatever spends we have to do on activation or spends that we have to do on rewards and other things, we are ensuring that every rupee that we are spending, it is matching with the customer behaviour or what we think will be the customer behaviour so that the return on those investments are good. We don't see it as expenses, we are actually seeing it as return on investments, from every rupee invested how much return is going to come. Second, we also had good help from Amazon as you know. The portfolio risk is very little, the spends are very high and the quality of customers is also very high. The third one, there is a nice portfolio that is getting built up on the commercial cards. So, these are the three big drivers that are happening. We saw that in the first wave and then second wave, the revolver rate actually came down a little bit and now it is again coming up. We'll have to see how it pans out during the third wave. But indeed, the revolver did come down and people did get conservative on that. So, as of now this is the situation of cards. We are now seeing that the impact of the third wave is not very large. The spends during the festive season and were very strong. After this wave gets over, I think it will be back to where we were and life will be good.

Nitin Agarwal:

So, we are not very far from the pre-COVID levels of revolve rate, this is what we can take away?

Anup Bagchi:

From a consumer behaviour perspective, all I can say is that whenever there is a stress or fear the revolve rate actually comes down and not goes up, and customers don't sort of revolve that much, but as there is normalcy, as consumers get more confident the revolve rate actually goes up.

Nitin Agarwal:

Second question is on the recoveries that we had during the quarter. What has actually driven this because this has enabled like a pretty sharp reduction in our credit cost, it has come down to 1% annualised for the quarter. So, has this like undershot in terms of the 1% number this quarter or how do we look at this trajectory going ahead?

Anup Bagchi:

I will just respond on the retail side and then hand it over to Rakesh. We have been sharing with you a lot of work that we are doing on the pre-delinquency management. On the pre-delinquency management, there is a lot of data that we have such as which are the customers that are most likely to bounce and where you should collect and if there is an overdue, which are the sectors, which are the profiles of the customers with higher chances of recovery due to presence of cash flows. So, we are able to allocate our energy and resources towards collections efficiently and that has really helped us and we are improving those models by the day. With more data, the machine learns more and the pre-delinquency management get better. That has certainly contributed a lot to our recoveries. Because at this point of time, if there is cash which is coming with the customers, depending on who reaches first, they get repaid. As the stress in the economy comes down, of course, everybody will get repaid. But when there is a stress in the economy and you are going for collection, it is important that if there is one call to be made, which is a customer, where you have the highest probability of collection, the call should go there. So, on the retail side essentially, those are the recoveries. Also, as for us, we have always been maintaining that the consumer behaviour is that it goes overdue, but it comes back. So, there are two reasons why customers go overdue, one is because of their own cash flow stress, the second one sometimes once in a while is on account of intent. Our experience is that the intent percentage is really very low. All customers want to pay back and when they want to pay back, we have seen that there is a cashflow mismatch. So, partly you can give them restructuring. If you think that it is only a temporary loss of income, and they are going to come back, and you also do pre-delinquency management and collections, data analytics that you have done so that you are able to allocate your resources well for collections. So, that has certainly given us the flip. On the balance part, I just request Rakesh to elaborate.

Rakesh Jha:

As Anup talked about the reasons for the higher level of deletions that we have seen from the NPA portfolio, I think overall in terms of credit cost through the cycle, we have talked about 25% of our core operating profit as the number. So, near term, of course, it will depend on how things pan out. We don't want to give any specific guidance on the credit cost per se, but in second quarter, we had said that second half, we do expect the level of gross additions to come down from what we have seen in the first half, specifically the first quarter, and the trend has been in line with that.

Nitin Agarwal:

And this level of credit cost, we have reported after making how much of restructured provisions, it's almost like Rs. 5 billion, am I right?

Rakesh Jha:

Yes, Rs. 4.5 billion.

Nitin Agarwal:

That amounts to only 15% of core operating this quarter then.

Rakesh Jha:

So, in that sense, actually, this quarter, we have made two provisions. One is the restructured provisions that you refer to, which was about Rs. 4.5 billion. We have also taken some provision on our security receipts, another about Rs. 4.5 billion on a prudent basis. So, those two additional provisions we have taken.

Moderator:

The next question is from the line of Naishi Shah from Acko General Insurance. Please go ahead.

Naishi Shah:

I'm just confused about one of the data points that is shared. You said that net deletions of Rs. 1.9 billion from gross NPA and you clarified that this is not write-off. So, then could you please explain what this number is?

Rakesh Jha:

The gross addition to NPAs was about Rs 40.18 billion. That is the fresh slippages during the quarter and we had deletions, upgrades, recoveries of Rs. 42.09 billion where we would have either recovered the loans in full or we would have recovered the overdue amount in full so, the account would have got upgraded. So, the Rs. 40.18 billion of addition less the gross deletion of Rs. 42.09 billion is the net addition or reduction in this case of Rs. 1.91 billion that we refer to. And then thereafter, we have also done write-off of about Rs. 40 billion.

Naishi Shah:

Also, from the write-off, could you just tell me how much was from the restructuring book?

Rakesh Jha:

Write-off from restructuring book would really not be there. We would have seen some slippages.

Naishi Shah:

What kind of slippages did you see if I may ask?

Rakesh Jha:

We have seen some slippages from the restructured portfolio. Of the reduction on the restructured loans about one-third has been because of slippages, two-thirds has been recovery. That's the kind of trend that we have seen.

Moderator:

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

Jai Mundra:

Can you share some more details on your fee income, maybe you can give the bifurcation of the fee into may be third-party related, liability-related fee, credit card or any other bifurcation?

Rakesh Jha:

We don't disclose that. What we do disclose is that 76% of the fees is coming from the retail, business banking and SME segments. Right now, we have not given any further details per se, but in future maybe we will look at it.

Jai Mundra:

On growth in SME and business banking, we are putting very strong growth there, I just wanted to check what could be the lending rate here, I mean, even a broad range would be helpful, what is the range of interest rates for the loans originated in the business banking portfolio

Rakesh Jha:

Lending rate will be in a wide range. It will not really be helpful. To the best of the customers the rate can go as low as 7%. We also do a bit of unsecured there, overdraft and all where the rates will be well in double digits. So, it's a wide range per se.

Jai Mundra:

On general insurance arm, now that we have gone below I think 48% or 49% What is the way forward? What is your view on the Bank stake there?

Rakesh Jha:

As we have disclosed earlier that banks cannot hold between 30% and 50%. Either you have to hold more than 50% or you have to hold below 30%. We have got an exemption from the government through recommendation of RBI to hold between 30% and 50% till September of 2023. So, in the interim, we would need to reduce our shareholding to 30% in ICICI General. So, that would happen through any of the means available or we could also always request for an extension of that period.

Moderator:

The next question is from the line of Prakhar Agrawal from Edelweiss. Please go ahead.

Prakhar Agrawal:

Three sets of questions to start and a few follow up to the questions that we have referred earlier. So, we have been seeing a reasonable growth, at least in SME and business banking, would you attribute this to the improving underlying in the segment or is it more to do with the internal changes that the Bank has been undergoing?

Rakesh Jha:

If you look at growth in the business banking segment for us, I think over the last four years or so, it has been very strong. SME again for at least the last two and a half years, we have seen that growth. Of course, it has to do with the market opportunity, which is there for us to grow. Additionally, it also reflects the sharp focus that we have put on these business segments and the fact that we have been leveraging our branches a lot more in the past few years. This also has got driven by the kind of streamlining of processes that we have done in terms of customer acquisition, onboarding, underwriting. So, all those steps which we have taken kind of enabled us to grow at this pace. The strong underpinning of technology and digital of course is there because that is something that ensures that we are able to attract customers. A lot of this business that we are doing is with existing customers of the Bank also. As we acquire business from branches, there have been customers who have had current accounts with us, but we have not had a lending relationship with them. So, all of that is something which is really helping us in this growth. We are focused in terms of ensuring that we meet our risk and return thresholds. We look at the granularity and ensure that there is good collateral and exposure is widespread across sectors. All of this is what has really been driving growth for us.

Prakhar Agrawal:

Second bit on fee income. So, while you have highlighted that you have seen growth being more granular in nature, any pocket of pressure that you probably see on the fee income side or any pockets, where you probably see some pressure points of being compared. A couple of banks have been highlighting that.

Rakesh Jha:

There will always be some element of fee income, which will be growing at a slower pace than overall, plus there are always some regulatory changes which keep on coming. So, for example, on the lending side, the lending linked fee, will be growing slower for us, especially on the corporate side, as we focus more and more on 'A and above' rated lending business. The lending related fees there is much lesser. The third party distribution fees for us that would be growing at somewhat slower pace than the overall fees. So, there will be various things, but if you look at the previous quarter also, our growth was around 20% or so and this quarter is about 19%.

Prakhar Agrawal:

In terms of your yields, probably we have seen a couple of quarters wherein we have seen pressure points on yield despite reasonably favourable mix change. What would you attribute this to and how do you see your margin in maybe two years, three years out, any sense on that?

Rakesh Jha:

Incrementally clearly, there has been a lot of pressure on the lending spreads. I think, given the surplus liquidity in the system and overall, loan growth for the system is indeed still running at around 8% to 9% kind of level. So, that is something which has impacted the yield and it is there for all the banks that we have seen. In the near term, like we had said last quarter, our first half NIM was about 3.94% and we had talked about protecting our NIM at around that level in the near term, and that's what our focus is. There are a lot of moving parts. I think on the deposit side, the deposit costs have bottomed out for banks. On the lending side, maybe there is still some further pressure which could be there. The surplus liquidity in the balance sheet, as that keeps getting deployed, I think that will be a positive as well. And then of course, how the overall market rates and repo rate move will also impact. Like I said, for us, nearly 38% of our loans are linked to repo rate and 7% to other external benchmarks as well. These are all the factors that we will have to see. Our objective will be to kind of see and protect our NIMs at the nine months level where we are.

Moderator:

The next question is from the line of Mahesh MB from Kotak Securities. Please go ahead.

Mahesh MB:

Just a couple of questions. One, there has been a marked increase in borrowings and we see it in quite a few banks as well. Any particular reason for this?

Rakesh Jha:

We raised about Rs. 80 billion of infra bonds during the quarter, there is no SLR and CRR requirement which is applicable and also one gets a benefit on priority sector lending, because that amount gets reduced from the ANBC while computing the requirement of priority sector lending. So, that is one element. Plus the other thing, which will always be there is that, it can always be a balance sheet-end numbers in terms of where you are on the market borrowings. There are some opportunities at points of time where you can borrow and deploy. Otherwise, the underlying increase is that Rs. 80 billion of infra bonds that we have done.

Mahesh MB:

Second question, Rakesh, the recoveries and upgrades in the retail portfolio is still matching, the slippages. So, we assume that at a net level, the impact on the P&L will be quite negligible, and there are no large slippages on the corporate side. So, you come to a point where credit cost comes down quite sharply. We have also seen ROE now touching 15%-odd. Internally, what is the way forward from here? Do you allow the ROE to inch up? Do you increase the riskiness of the book by going towards a slightly risky segment? Do you invest more? How are you seeing the next few quarters?

Rakesh Jha:

Mahesh, I think, we will have to look at it slightly more from a medium to long term perspective. In the near term, of course, we have seen a lot of deletions from NPLs coming in. It also reflects the fact that we did add a fair bit of NPLs last year and in the first quarter this year. This trend of deletions at some stage will definitely slow down as well. So, as of now, I think we would kind of stay with our long term estimates for credit cost. In the near term, yes, it could end up under-shooting that. That is always a possibility, but let us see. In terms of the point that you are saying on the risk aspect of it, I think that is something, which we always look at it from risk and return thresholds together. That's why we have been happy to grow credit card book or personal loan book as well. Aside from the fact that because of the pandemic the growth has been much lower over the last six quarters or so in this portfolio. As you are aware, prior to Covid, that book was growing at close to 40% on a year-on-year basis. Unfortunately, the third wave has happened, otherwise, things were kind of getting back to a much more normal level. As Anup mentioned earlier, as things normalize, we will see more increase in some of these segments, where the customers are also happy to take some of these loans, which are more from a discretionary perspective. We will always evaluate that in terms of the portfolio.

Mahesh MB:

I'm just kind of giving a hypothetical question here. If you have a choice where loan growth is not coming at the margins at which you want, but credit cost is falling off sharply, would you go for that loan growth given that the customer segment is less risky?

Rakesh Jha:

Yes, we would. Again, it is nothing to do with the historic book. One has to look at what your underwriting is on an incremental basis. What we look at is the final contribution to the core operating profit and the related credit costs. Those are the two things that we look at. So, especially on the retail side, the net interest income piece, expenses, sourcing cost, credit cost, all of these are variables, which we are happy to use to optimize the return on the portfolio. So, that's definitely something that we would look at.

Moderator:

The next question is from the line of Aakriti Kakkar from Goldman Sachs. Please go ahead.

Rahul Jain:

Hi. I am Rahul. Just a couple of questions, actually, more product related. Mortgages have been growing nicely in the last few quarters. So, just wanted to understand, there's been clearly a compression on yields and given where the yields are, how are you thinking about it in terms of making money on this product? This question actually is not only about mortgages, but also in terms of the cross-sell opportunities that are available thorugh the mortgage customers. So, just wanted to understand how you are see that playing out because growth has been strong and the pricing.

Rakesh Jha:

So, pricing on the mortgage side, is always competitive. I think we are very clear that we don't want to be price leaders in any of the segments including mortgages. But, if we see the market rates where they are, we would be happy to be at par because, indeed, it's a sticky product, you acquire good long term value customers. We are happy to match the lending rates that are there. It's not that we will go and do our entire business at the headline rates which are there. We look at the portfolio, we look at the risk and we kind of work out what are the yields that will work for us from a portfolio perspective. We also factor in the overall customer profitability, not just from the mortgage business. At times, we also look at the mortgage plus the loan against property business in aggregate to see where our overall returns are. The good thing with the mortgage book is that all of this is floating rate linked to repo rate. So, at some stage as the funding costs go up, those yields will also kind of go up, but there can definitely be a lag between that happening. We will continue to focus on the mortgage book and that is an important book for us to grow and we will be competitive in terms of pricing there, though we will not be price leaders.

Rahul Jain:

Just a follow up question, the customer level profitability also, let's say over the last two to three years, you all have been able to maintain that or that has also come under pressure?

Rakesh Jha:

Actually, customer level profitability on the retail side that we look at, basically one has bands of profitability and we track that very closely. The respective retail branches, the zonal heads and we try and kind of move the customers up those profitability bands. There it is definitely helpful when you are able to sell more products and services to the customer. Now we have seen a slight uptick in deposit rates, so maybe the lowering of mortgage rates will hopefully be behind us, but let's see.

Rahul Jain:

The other question actually was again going back to credit cards and just looking at your slide 30. I think the spends market share has really picked up nicely, but the number of cards is like in a particular band of 17% to 18%, so, does it mean that the spends Anup talked about, the partnership with Amazon has been pretty good? So, cards have become more productive given the spends per card, the market share gain over there is much higher. So, just trying to understand, what explains the sharp pick up in the market share on spends versus the number of cards? How much more traction would there be on a go-forward basis?

Anup Bagchi:

As I said earlier, there are three drivers. There is normal retail where sharper portfolio management is driving the spends. With Amazon, the good thing is that the activation rates are quick. So, if there is a card, the customers generally immediately start the spends. Here, really the S curve is very steep. That is the second thing. And third is on the commercial cards side, there is an improvement. So, these are the three drivers of card spends. And they seem to be quite secular and customers are activating. I must also add to what Rakesh was saying, overall, I think the dispensation of customers, because of whatever is happening within our Bank and with the help of our brand, we are sensing that customer propensity to also take our cards or come to us and do more business with us is also increasing. Of course, while we are working hard, I must say that customers are also tilting a bit towards us because of the brand and because of the positivity of the Bank at this point of time.

Rahul Jain:

Then there are 2 million cards Amazon Pay cards, which is roughly 17% of the total cards issued, if I'm not wrong. But, on spends, would it be a much higher number, like north of 20%, 25%?

Anup Bagchi:

The propensity of customers of Amazon card to spend more is higher.

Rahul Jain:

Rakesh, the write offs were pretty sharp this quarter. What explains this kind of write offs, which product segment would have driven this?

Rakesh Jha:

There is no specific explanation per se, but indeed we have a high level of provisions against the gross NPA and that's what we have written off. A fair bit of that will also be against the retail NPAs. You would have seen the gross retail NPAs have also come down in the December quarter over September quarter.

Rahul Jain:

No specific products across the board?

Rakesh Jha:

It is across retail products.

Moderator:

The next question is from the line of Nilanjan Karfa from Nomura. Please go ahead.

Nilanjan Karfa:

Hi Rakesh, I'll go back to the question of Mahesh, but let me frame it a little differently. Obviously, the credit cost is going down quite sharply. Given the construct of the loan book, everybody seems to believe that as the repo rate kicks in, we will get a benefit. Cost ratios are broadly going to be okay. Reality is that banking is a cyclical basis. The problems that I potentially see, and I'm probably feeding this answer, is a very lopsided kind of growth in the overall loans of the system. In my opinion, it looks to me that banks are enjoying a very good pricing power, at least at this point of time. Would you therefore want to believe or give us a sense that it is probably the margins, which will have a fair amount of pressure going forward? That could also be from your perspective, because if growth remains like this, banks would typically prefer to get into a volume-driven growth than a unit economics of the growth.

Rakesh Jha:

Nilanjan, overall clearly there will be pressure on lending yields and lending spreads. We have seen that, especially now with the deposit costs kind of bottoming out across the banking system, but still there is surplus liquidity in the system. So, definitely in the near term that is going to be the scenario. One has to kind of manage through that period.

Anup Bagchi:

Also, I'll just add that at this point of time, I think pricing pressure is there and the yields are low because 10-year G-sec is at 6.50% and mortgages are at 6.70%, I don't remember in the last many years, where the delta between the mortgage pricing and 10-year was so low. Of course, this is resettable and this is one year and all of it, but finally it is a long-term floating rate loan. And if you look at the rate at which good SME customers are getting loans, that spread over government securities is also quite competitive.

Nilanjan Karfa:

By any chance, would you want to consider that, not just ICICI Bank, but in general, given the spread gaps that you're talking about, we are taking risks which might materialize in the longer term?

Anup Bagchi:

From the Bank's perspective, I think we will be very careful on risk-calibrated growth. It is very difficult to comment on other people. From our perspective, we will be very, very careful about risk-calibrated growth.

Nilanjan Karfa:

I'll do it offline. Just one additional question on the ECLGS portfolio, any clarity on the total stock of loans at this point? How has the total stock of loans behaved? How much it has come down? How much of that has slipped in the December quarter?

Rakesh Jha:

In terms of numbers, it could be pretty similar to what it was in the September quarter. In terms of the portfolio, I think we said it last time, our approach was one where we wanted to use the facility with the businesses where the model was not broken and we had visibility in terms of repayments from those businesses. Of course, companies that have taken ECLGS would have had some amount of stress. So, overall if one looks at this portfolio, maybe the delinquencies or the overdues could be somewhat higher than the overall book for the Bank. But in our case, we are not overly worried about this portfolio. There would be somewhat higher numbers that we see there, but nothing more than that.

Nilanjan Karfa:

It was very specific to this quarter. Have you seen any slippages coming through because I think we are more or less done with one-year moratorium?

Rakesh Jha:

Nothing material I would say.

Moderator:

Ladies and gentlemen, due to time constraint, we take that as the last question. I now hand the conference over to the management for their closing comments.

Rakesh Jha:

Thank you everyone, for joining us this Saturday evening. We will be happy to take the remaining questions separately.

Moderator:

Ladies and gentlemen, on behalf of ICICI Bank, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.