

ICICI Bank Limited
Earnings Conference Call – Quarter ended Sep 30, 2012 (Q2-2013)

October 26, 2012

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Moderator

Good evening ladies and gentlemen and welcome to the Q2FY13 Earnings Conference Call of ICICI Bank. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing * followed by 0 on your touch-tone phone. I would now like to hand the conference to Mr. N. S Kannan thank you and over to you sir.

N. S. Kannan

Good evening and welcome to the conference call on the financial results of ICICI Bank for the quarter ended September 30, 2012, which is the second quarter of the current financial year 2013, that is Q2-2013.

As always, my remarks this evening would revolve around four key themes:

- First: the domestic macro-economic and monetary environment;
- followed by, our performance during the quarter, including performance on our 5Cs strategy;

- then, our consolidated results;
- and finally, the outlook for the full financial year 2013.

Let me start with the first part on the macro economic and monetary environment during the second quarter.

During Q2-2013, there was an improvement in market sentiment both globally and in India following important liquidity and monetary policy measures in the US and Europe, and the announcement of several policy measures in India. However, the impact of these is yet to be seen on economic growth trends, which continue to remain subdued, both globally and domestically.

In India, industrial activity continued to remain weak with a slowdown across mining, manufacturing and electricity sectors. The Index of Industrial Production has increased by 0.4% during April-August 2012 compared to a growth of 5.6% in April-August 2011. In August 2012, there were some encouraging trends seen in the capital goods and consumer goods segments, with overall IIP growth of 2.7% during the month.

Reflective of the continued slowdown in economic activity, the GDP growth estimates for fiscal 2013 have been revised downwards by most agencies to the range of 5.5% to 6.0%. Even at this level, India would continue to be among the fastest growing economies in the world, given the downward revision in growth estimates for most countries.

On the external front, exports continued to decline for the fifth consecutive month in September 2012, with the decline for the first six months of fiscal 2013 at 6.8%. The deceleration in exports has been sharper than in imports, with decline in imports during April-September 2012 at 4.4%. Import growth turned positive in September 2012 due to a sharp increase in the oil import bill. On the positive side, data released for Q1-2013 shows a reduction in the current account deficit from 4.2% of GDP in FY2012 to 3.9% of GDP in Q1-2013, with

the balance of payments registering a marginal surplus compared to a negative balance of 1.2% of GDP in FY2012.

Inflationary trends have continued to persist. Inflation measured by the Wholesale Price Index remained at about 7.5% in July and August 2012, and increased to 7.8% in September 2012 largely reflecting the impact of the increase in diesel prices during the month. On the positive side, food inflation eased during September 2012 to 7.9% from 9.1% in August 2012, while core inflation, which is manufactured products excluding food products, remained stable at 5.6%.

Systemic liquidity eased significantly during the second quarter of fiscal 2013 with average daily borrowing by banks from RBI under the LAF window reducing to about ₹ 464 billion during Q2-2013 from about ₹ 969 billion during the previous quarter. Interest rates on market instruments like Commercial Papers and Certificate of deposits declined during the quarter. The 3-month CP rates which were at about 9.6% in June 2012 moderated to about 8.8% in September 2012. A similar trend was seen in CD rates as well. The yield on the 10-year benchmark government securities was 8.15% at end-September 2012 compared to 8.18% at end-June 2012.

During the second quarter, the Reserve Bank of India reduced the statutory liquidity ratio by 100 basis points from 24.0% to 23.0% in August 2012, and the cash reserve ratio by 25 basis points from 4.75% to 4.50% in September 2012. The repo rate was maintained at 8.0% during the quarter, in view of inflation risks.

The equity markets saw a marked improvement in September 2012, reflecting the positive global and domestic developments during August-September 2012. Liquidity and monetary measures announced by the ECB and the US Federal Reserve, and also policy measures announced in India improved market sentiment significantly. Net inflows from foreign institutional investors improved to USD 7.14 bn in Q2-2013, with over 57% of the inflows coming in September 2012 alone. The benchmark BSE Sensex rose by 7.6%

during Q2-2013 to 18,762 at end-September 2012. The Rupee appreciated against the dollar by 6.4% from ₹ 56.3 per USD at end-June 2012 to ₹ 52.7 per USD at end-September 2012.

Credit off-take from scheduled commercial banks remained moderate during Q2-2013. Non-food credit recorded a 15.4% increase year-on-year at October 5, 2012 compared to a growth of 16.1% at June 29, 2012 and 19.4% at October 7, 2011. Similar trends were seen with respect to deposit growth. Total deposit growth was 13.9% on a year-on-year basis at October 5, 2012 compared to a growth of 13.4% at June 29, 2012, and 17.5% at October 7, 2011. Demand deposits grew by 5.6% year-on-year at October 5, 2012. However, during the period March 30-October 5 2012, demand deposits have declined by ₹ 1.29 trillion. Growth in time deposits decelerated from 17.7% at March 30, 2012 to 14.8% year-on-year at October 5, 2012.

With this background, I now move to Part 2 on the performance of the Bank during the quarter. Let me begin with the progress on our 5Cs strategy:

- **With respect to Credit growth:** Total advances of the Bank increased by 17.6% on a year-on-year basis from ₹ 2.34 trillion at September 30, 2011 to ₹ 2.75 trillion at September 30, 2012. The growth in total advances was balanced across various loan segments.

Growth in the retail portfolio has been increasing steadily over the last few quarters. This trend has continued in Q2-2013, with the retail portfolio growing by 14.0% on a year-on-year basis at September 30, 2012, compared to 10.3% year-on-year growth at June 30, 2012. The outstanding retail loan portfolio at September 30, 2012 was ₹ 933.30 billion. The growth in the retail portfolio was driven by growth in the secured retail lending categories with outstanding mortgages increasing by 11.5%, auto loans increasing by 26.6% and commercial business loans increasing by 22.7% on a year-on-year basis. The unsecured retail portfolio for

the Bank was ₹ 34.94 billion at September 30, 2012, at about the same level as at June 30, 2012.

The growth in corporate and international portfolio was 21.0% on a year-on-year basis, driven largely by a 38.4% growth in the domestic corporate portfolio. The increase in the corporate portfolio was, in part, due to maturities of inter bank participation certificates issued in the previous quarters. Excluding these, growth in the domestic corporate portfolio would have been lower at 27% to 28% on a year-on-year basis at September 30, 2012. The domestic corporate loan portfolio also includes some short term loans to high quality corporates, that will mature during the year.

Net advances of the overseas branches increased by 6.3% on a year-on-year basis in rupee terms. During Q2-2013, the appreciation of the rupee had a negative impact on the growth of the net advances of our overseas branches, resulting in a sequential decline of 5.5% compared to June 30, 2012. In dollar terms the net advances of the overseas branches remained stable on a sequential basis.

- Moving on to **CASA deposits**: The Bank maintained its CASA ratio at 40.7% at September 30, 2012. On an absolute basis, the Bank's savings account deposits increased by ₹ 26.95 billion and current account deposits increased by ₹ 30.46 billion in Q2-2013. The average CASA ratio for the Bank during Q2-2013 was 37.5%.
- On **Costs**: For Q2-2013, operating costs, including DMA expenses, were higher by 17.3% on a year-on-year basis. The Bank's cost-to-income ratio declined to 40.9% in Q2-2013 compared to 41.8% in the previous quarter with the cost-to-assets ratio declining to 1.80% in Q2-2013 compared to 1.84% in Q1-2013.

- Let me move on to the next C on **Credit quality**: The Bank continues to see near zero net slippages from the retail portfolio.

While the SME portfolio continues to see higher than normal slippages, given that the Bank's SME portfolio is small at about 5% of advances, it does not have a material impact on the Bank's asset quality.

In the corporate segment, during Q2-2013, the Bank classified its loans outstanding to a media company aggregating about ₹ 5.00 billion as non-performing, resulting in an increase in additions to NPAs as compared to the previous quarters.

Including the addition of this loan, the Bank saw gross additions of ₹ 12.20 billion to its overall gross NPAs compared to gross additions of ₹ 8.68 billion in Q1-2013. Recoveries in Q2-2013 were ₹ 5.58 billion, resulting in net additions to gross NPAs of ₹ 6.62 billion. The Bank has also written-off ₹ 5.06 billion of NPAs during Q2-2013.

The net NPA ratio was 66 basis points at September 30, 2012 as compared to 61 basis points at June 30, 2012 and 80 basis points at September 30, 2011. The provisioning coverage ratio was 78.7% at September 30, 2012 compared to 80.6% at June 30, 2012 and 78.2% at September 30, 2011.

The Bank has provided for 85% of its loans to the media company in Q2-2013 itself and does not expect any material impact on the profit & loss account on this account going forward.

As a result, provisions for Q2-2013 have increased to ₹ 5.08 billion from ₹ 3.19 billion in Q2-2012 and ₹ 4.66 billion in Q1-2013. Credit costs as a percentage of average advances were at about 74 basis points for Q2-2013 and about 72 basis points for H1-2013 on an annualised basis. For the full year FY2013, the Bank expects credit costs to average loans to be about 75 basis points.

Additions to the restructured portfolio were ₹ 1.39 billion in Q2-2013, offset by deletions and repayments during the quarter. As a result, the net restructured loans were ₹ 41.58 billion at September 30, 2012 compared to ₹ 41.72 billion at June 30, 2012.

- Final C on ***Customer centricity***: The Bank continues to focus on enhancing its customer service capability and leveraging on its increased branch network to cater to its customer base.

During Q2-2013, the Bank added 640 ATMs to its network, taking the total number of ATMs to 10,006 at September 30, 2012, to supplement its branch network of 2,772 branches at the same date.

The Bank also focused on increasing convenience for customers while transacting through different channels and introduced various technology based platforms in Q2-2013. These include 24x7 electronic branches which can be used for conducting all banking transactions. Currently, there are 25 such electronic branches across 18 locations.

The Bank has also recently launched a unique “MySavings Rewards” program under which all savings accounts customers will earn rewards on their regular banking transactions.

Further, the Bank’s facebook initiative continues to be appreciated by customers, with close to 960,000 fans for the ICICI Bank facebook page. The Bank has recently been ranked fifth among banks and financial services firms globally in terms of facebook fan base.

Having talked about the progress on 5Cs, let me move on to the key financial performance highlights for the quarter.

1. Net interest income increased 34.5% year-on-year from ₹ 25.06 billion in Q2-2012 to ₹ 33.71 billion in Q2-2013. Net interest margin was maintained at 3.00% for the third successive quarter and reflected an increase of about 40 basis points from 2.61% in Q2-2012. The international NIM declined on a sequential basis from

1.60% in Q1-2013 to 1.22% in Q2-2013. The sequential decline was on account of the excess liquidity maintained in the international business, as the Bank met the US\$ 1.7 billion bond redemption in early October 2012, and on account of the pending deployment of proceeds of the recent foreign currency bond issuance. Further, the issue expenses of the bond issuance were expensed upfront, resulting in about a 15 basis points impact on international NIMs in Q2-2013. The NIM on domestic business increased to 3.43% in Q2-2013 as compared to 3.32% in Q1-2013 and 2.92% in Q2-2012, with the sequential increase being driven by lower cost of funds during the quarter due to the reduction in term deposit rates since the beginning of the year.

2. Overall non-interest income increased by 17.4% from ₹ 17.40 billion in Q2-2012 to ₹ 20.43 billion in Q2-2013.

- During Q2-2013, treasury recorded a profit of ₹ 1.72 billion as compared to a loss of ₹ 0.80 billion in Q2-2012 and a loss of ₹ 0.21 billion in Q1-2013. The profit in Q2-2013 was on account of proprietary trading gains and gains on the fixed income portfolio. Further, the Bank had losses on its security receipts portfolio in previous quarters, which was not the case in Q2-2013. The Bank does not expect any significant losses on its security receipts portfolio going forward.
- Other income for the Bank increased by 34.2% from ₹ 1.20 billion in Q2-2012 to ₹ 1.62 billion in Q2-2013, primarily due to higher dividend received from subsidiaries. In Q2-2013, the Bank has continued to receive dividend from ICICI Life. There was no dividend payment by ICICI Life in Q2-2012 as dividend payouts by ICICI Life commenced from the third quarter of the last fiscal. On a sequential basis, dividend from subsidiaries was lower, as Q1-2013 included the dividend received from ICICI Bank Canada of ₹ 1.33 billion.

- Fee income increased marginally from ₹ 17.00 billion in Q2-2012 to ₹ 17.09 billion in Q2-2013. The Bank's fee income growth continued to remain impacted by lower corporate banking fee income due to the slowdown in new projects/financial closures. During Q2-2013, there was continued momentum in granular fee income streams such as transaction banking fees as well as retail asset fees.
3. I have already spoken about the trends in operating expenses and provisions while speaking about the 5Cs strategy.
 4. As a result of the above drivers, the Bank's standalone profit before tax increased by 31.9% from ₹ 20.35 billion in Q2-2012 to ₹ 26.85 billion in Q2-2013.
 5. The Bank's standalone profit after tax increased by 30.1% from ₹ 15.03 billion in Q2-2012 to ₹ 19.56 billion in Q2-2013.

I now move on to the consolidated results.

The profit after tax for the life insurance subsidiary was ₹ 3.96 billion in Q2-2013 as compared to ₹ 3.50 billion in Q2-2012. This level of net profits reflects an annualized return of above 30% on the Bank's invested capital. Following a phase of transition to the new regulatory regime, ICICI Life has started witnessing healthy year-on-year increase in volumes. The new business annualized premium equivalent for ICICI Life increased by 14.5% from ₹ 11.80 billion in H1-2012 to ₹ 13.51 billion in H1-2013. The new business margin for Q2-2013 was 15.0%. The retail weighted received premium for ICICI Life increased by 25.2% in April-August 2012 compared to a 0.7% year-on-year decline for the private sector and 24.1% growth for the industry. During April-August 2012, ICICI Life maintained its market leadership in the private sector with an industry market share of 5.8% on the basis of retail weighted received premium.

ICICI General recorded an 80.4% increase in profit after tax from ₹ 0.56 billion in Q2-2012 to ₹ 1.01 billion in Q2-2013, driven by an increase in gross premiums and investment income. The company maintained its leadership position in the private sector with overall market share of 8.9% during April-August 2012. As I had mentioned during the first quarter results call, during FY2013, ICICI General is expected to have some impact of the motor third party business in the coming quarters, as the liability for the period FY2007 to FY2012 would be actuarially valued for the first time, and due to any share of the declined pool accruing to the company. However, despite this impact, we expect the company to be profitable in FY2013.

With respect to our overseas banking subsidiaries, I would like to mention that the financials reported for ICICI Bank Canada are based on IFRS. As per IFRS financials, ICICI Bank Canada's profit after tax for Q2-2013 was CAD 12.2 million as compared to CAD 5.2 million for Q2-2012 and CAD 11.9 million in Q1-2013. Total assets for ICICI Bank Canada were CAD 5.28 billion at September 30, 2012 as compared to CAD 5.32 billion at June 30, 2012. The capital adequacy ratio at September 30, 2012 was 34.1%.

ICICI Bank UK's total assets were USD 3.81 billion at September 30, 2012, a marginal decline from USD 3.86 billion at June 30, 2012. The profit after tax for ICICI Bank UK for Q2-2013 was USD 4.3 million as compared to USD 2.2 million in Q2-2012 and USD 4.4 million in Q1-2013. The capital adequacy ratio was 33.6% at September 30, 2012.

Now let me talk about the overall consolidated profits.

The consolidated profits for Q2-2013 increased by 20.0% to ₹ 23.90 billion compared to ₹ 19.92 billion in Q2-2012. The consolidated RoE improved from 13.7% in Q2-2012 to 14.8% in Q2-2013.

I would now like to talk about our outlook for fiscal 2013. As I had mentioned earlier, there has been a moderation in economic growth,

with a significant slowdown in new project activity. Our outlook for fiscal 2013 is in this overall context.

- For fiscal 2013, we estimate our domestic loan growth to be slightly above system growth, driven primarily by growth in the retail portfolio and continued off-take out of past project sanctions and working capital demand in the corporate segment. We currently estimate the system growth for FY2013 to be about 17%-18% and accordingly expect our domestic loan growth to be about 20% for the full year. However, given the large amount of repayments on the overseas loan portfolio in FY2013, we would expect our overseas loan book growth to be in single digits in dollar terms in FY2013.
- For the full year FY2013, the Bank would target to maintain the average CASA ratio of about 38% to 40%.
- With respect to margins, while there is some uncertainty on the system interest rates and the trend in lending and deposit rates going forward, which could result in some volatility in quarterly margins, we would endeavour to achieve an overall margin of about 3.0% for the full year FY2013 as compared to 2.73% for the full year FY2012. While international NIMs declined on a sequential basis to 1.22% in Q2-2013 due to the reasons I discussed earlier, we expect to maintain international NIMs at about 1.50% on a steady state basis.
- For FY2013, given the lack of pickup in corporate lending activity, we expect fee income growth to remain subdued. The Bank will focus on improving its overall fee income growth.
- With respect to operating expenses, we would be working to keep the cost to income at about 41%-42%

- With respect to credit costs, the Bank expects overall credit costs to be about 75 basis points for the full year FY2013, based on the current RBI guidelines and our current assessment of asset quality trends.
- The Bank expects to achieve continued improvement in the standalone RoA from 1.50% in FY2012 to about 1.70% over the next two years. The Bank would target an exit run rate of 15% for consolidated RoE by the end of this financial year. Our growth strategy will continue to be balanced vis a vis risk and profitability, given the overall global and domestic environment.

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

Moderator

Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Vishal Goyal from UBS Securities, please go ahead.

Vishal Goyal

The question is about the retail segment. Almost every bank is now trying to grow retail lending, especially PSU banks, due to lack of corporate demand. You have also been re-entering the market while not cutting interest rates. In what way are you differentiating yourself now when the competition is intense in the retail segment?

N. S. Kannan

As we have articulated earlier, our market share in retail had come down from about 25% to 30% levels for example in mortgages to about 5%-6%. We have slowly improved it to about 7% to 8% currently. There are indeed competitive pressures in terms of rates but our turnaround times and service proposition are strong. Additionally, given the fact that we are trying to sort of improve our market share from very low levels of 7% to 8%, we do not think we have to compromise too much on the margins or asset quality to achieve our objectives. So, we are quite confident of getting to 15% plus levels of growth for the retail portfolio for the year as a whole despite the competition.

Vishal Goyal And the same would be the case for CVs and auto loans?

N. S. Kannan Yes. Our focus continues to be on retail secured loans. So when I say 15% plus I mean that for the total retail secured portfolio that will be the range of growth rates. With respect to unsecured loans, we would still be focusing on only offering for our existing liability customers. So there I do not expect a high growth rate. That portfolio will probably stabilize at around the current level. I would say that largely what I mentioned is true for across all the retail secured lending segments.

Vishal Goyal I have a question on the branch licensing by RBI. How difficult is it to get metro branch licenses these days. Will it lead to any kind of an inorganic approach in terms of growth for branches?

N. S. Kannan I think things have got a bit easy on getting licenses from RBI. We have articulated that we would like to add about 200 – 250 branches in this current financial year. For that kind of an addition, I do not think we need to pursue any other strategy other than just applying to RBI and getting the license.

Vishal Goyal Is this true even in the metro and tier 1 cities?

N. S. Kannan Yes it is better than before. It is not coming in the way of executing our strategy.

Moderator Thank you. We have the next question from the line of Manish Karwa from Deutsche Bank, please go ahead.

Manish Karwa I had a question on fees. If you look at every other private sector bank they have seen better trends in fees, especially in this quarter. But our fees have been lagging. Is it to do with the composition of fees?

N. S. Kannan I have indeed seen fee growth numbers of about 20% in the market but if we look at those banks, largely the fee driver has been through retail assets which in their case have been growing at 20% plus. Given that our retail assets have just about started growing in double-digits and the growth has gone up to 14% in this quarter only, that

part of the fee income growth has been more subdued for us compared to some of our competitors. Secondly at the starting base we had a much higher share of project finance and large corporate lending related fee income. That has actually declined. We have tried to offset this by increasing the granularity of our fee income through commercial banking and forex fees. We do recognize that a short term adjustment phase in terms of fee income composition will be there for us but the endeavor would be to grow the fee income on an overall basis.

Manish Karwa

What will be our breakup of fees in terms of retail and corporate?

N. S. Kannan

Retail would be about 50% of the fee income. Corporate fees including commercial banking would be about 40% and the balance would be rural and SME related.

Manish Karwa

Ok. You mentioned that you would target an exit RoA of 1.7% which is more than a 10 bps increase from the current levels. Where do you see this increase in RoA coming from?

N. S. Kannan

What I mentioned was that we would get to a standalone RoA of 1.7% over a two year period. In terms of drivers, while our immediate focus is to maintain the margins at 3%, over the medium term we would like to increase the margins. That will be one of the key areas of improvement. Secondly we would focus on expanding fee income growth. Further, the provisioning should stabilize at about 75 basis points. These would be the three drivers and some more efficiency on the cost side as our medium term endeavor is to bring the cost to income ratio to below 40%. For the exit quarter of FY2013, we will target to achieve a consolidated RoE of 15%. Given that we have reached 14.8% consolidated RoE in the current quarter, we are confident of achieving that as well.

Manish Karwa

Ok. How much dividend that we get from ICICI Life this quarter.

N. S. Kannan As I had mentioned earlier, every quarter we have been getting about ₹750 million. That has been the trend during the current quarter as well.

Moderator Thank you. We have the next question from the line of Mahrukh Adajania from Standard Chartered, please go ahead.

Mahrukh Adajania What is the current restructuring pipeline for the Bank?

N. S. Kannan We looked at the CDR references. For the system as a whole the number is at about ₹ 480 billion. Within that our share is about ₹ 5 billion.

Mahrukh Adajania Ok. In terms of growth in auto loans, why has the growth been flattish quarter-on-quarter?

N. S. Kannan Mahrukh, given our starting market share, we are seeing an increase in the automobile lending segment as well. There are competitive pressures in this segment and one has to calibrate the growth. We are ok with the current volumes, given that the overall aspiration for retail asset growth for us is 15% plus.

Moderator Thank you. Next question is from the line of Suresh Ganapathy from Macquarie, please go ahead.

Suresh Ganapathy On provisions, out of ₹ 5 billion that you have provided this quarter about ₹ 4.3 billion has gone towards provisioning for Deccan Chronicle. How much would be your general asset provisioning?

N. S. Kannan Yes, you are right. A large part of the provision had gone towards Deccan Chronicle through the P&L. If you look at the general provisioning, we have got a benefit in terms of the exchange rates due to the rupee appreciating because of which the incremental general provisioning was close to zero. That was a significant improvement compared to the previous quarter and is an area where we have made some savings. Secondly on the retail side we have seen better than anticipated write-back of provisions. So, those are the two positive in terms of overall provisioning.

Suresh Ganapathy But on an absolute basis, there has been a growth in loan book and in this case how can a general provisioning write-back happen?

N. S. Kannan Incrementally, the general provisioning requirement was close to zero. This is because the exchange rate appreciation reduced the positive derivative mark-to-market and client receivables due to which there was no need for additional general provisioning to be made, despite the growth in the balance sheet.

Moderator Thank you. The next question is from the line of Mr. Adarsh P from Prabhudas Lilladher, please go ahead.

Adarsh P You mentioned that the losses from the security receipts book has come off now. Is it safe to assume that the loss of last year of ₹ 4.00 billion is probably to come off to close to zero from here on?

N. S. Kannan Yes. We do not expect the loss of ₹ 4 billion to be repeated at all. There could be a little bit of further impact depending on the NAV on a quarterly basis, but we do not expect that to materially change our numbers. The bulk of the impact is behind us.

Adarsh P You mentioned some reason on the growth in the domestic corporate book. Could you please explain?

N. S. Kannan On the domestic corporate book, what I mentioned was that there were some corporate assets which were sold through the IBPC mechanism in the previous financial year in the March quarter. These came back to our balance sheet during the current quarter. If you adjust for that, I mentioned that the domestic corporate portfolio growth rate would have been lower at about 27% rather than the number suggested by a plain computation from the balance sheet.

Adarsh P You also mentioned that you have some short term corporate loans which probably mature during the year. What is the quantum of that?

N. S. Kannan We do not have a specific break up on that. However, I can reiterate that we expect our overall domestic growth rate for the year to be about 20% with retail growing at about 15% plus.

Moderator Thank you. The next question is from the line of Saikiran Pulavarthi from Espirito Santo, please go ahead.

Saikiran Pulavarthi The average CASA has seen a sharp fall on a quarter-on-quarter basis. Can you just explain why is it so and how do you see that moving going forward?

N. S. Kannan As I had mentioned in my outlook for the year, we would hope to keep the average CASA ratio in the 38% to 40% range. If we look at what has happened over the quarter, clearly the savings account momentum continues well and we do not anticipate any issues there. However, the current account deposits have been volatile for the system as a whole and demand deposits have not grown significantly.

Saikiran Pulavarthi You have demonstrated reasonably strong momentum on the savings deposits but with the competition offering 6% interest rates do you see any threat in terms of incremental acquisition?

N. S. Kannan On the savings deposits, we continue to believe that the savings bank account behavior is going to be based on the transaction pattern of the customers and not on interest rates. The product is not an investment type account and is more a transactional account. So our approach in this regard has been to enhance the ability of the customer to do more transactions. In fact, as I articulated about our "My Savings Rewards" program, our approach has been to incentivise transactions through the savings bank account. That is the path we have taken rather than the interest rate proposition. We have also analysed the trends in savings accounts and we have no reason to believe that we need to do anything on the interest rate front. It is current account deposit piece that has seen pressure given the liquidity situation for the system, corporate profitability etc. In this regard, we will continue to take steps in terms of getting a fair share of payment opportunities in the system, but there is indeed some pressure in terms of current account mobilisation for the system.

- Saikiran Pulavarthi** Ok. Can you also share the size of the builder loan portfolio and also the corporate loan breakup in terms of working capital and term lending?
- Rakesh Jha** Builder loan continues to be at about 3% to 3.5% of our total loan portfolio and we have not seen any significant increase in that portfolio. On the corporate portfolio, working capital would be about 30% or so of the total domestic corporate portfolio.
- Moderator** Thank you. The next question is from the line of Rakesh Kumar from Dolat Capital, please go ahead.
- Rakesh Kumar** On the rural portfolio, this quarter we have seen a slight decrease in the book. How are we meeting that PSL requirements, if we are decreasing our rural book?
- Rakesh Jha** On the priority sector as you know with recent guidelines that have come over in the current financial year and the changes that RBI has made over the last year or so, all the private sector banks are expected to face challenges in terms of meeting the priority sector lending requirement. However, the requirement is for the year end and you will see it across many banks that the portfolio does decline somewhat during the year. We had missed our requirements for last year on priority sector lending both in terms of overall and direct agriculture lending targets. We are trying to ensure that over the next few years we meet our overall targets.
- Rakesh Kumar** On the secured retail loan portfolio there is only a marginal increase sequentially. Is it due to the competition?
- Rakesh Jha** With respect to vehicle loans, as Kannan had mentioned, there has been reasonably good growth on a year-on-year basis. Again, what happens, especially in the commercial vehicles portfolio, is that private banks like us buyout some of those portfolios from non-bank finance companies. Some of that portfolio would have matured during the quarter which is impacting the growth sequentially.

However, in terms of incremental disbursements the growth is reasonably strong.

Rakesh Kumar What portion of the buyout book would have matured?

Rakesh Jha It would be about ₹20 billion.

Moderator Thank you. We have the next question from the line of Anand Vasudevan from Franklin Templeton, please go ahead.

Anand Vasudevan There were some press report a few weeks ago that the government could consider holding back or limit its own business with private banks that fall short of PSL requirements. Is there any risk of loss of business going forward from this?

Anindya Banerjee There is actually no material risk of loss of business because that business is not significant for us. As you would recall there has been a debate about whether government business should be given to private sector banks and it has always been given in a fairly limited way. I do not think that we are large players in that business and therefore it could be seen as some opportunity loss but not something that is going to go away from the existing revenue streams or balance sheet. Even if such a directive was to be implemented there are different types of government business - there are consumers to government payments or collections like tax and so on which are largely not impacted. The impact could mainly pertain to areas where the bank is acting as an agent of the government to disburse money and so on. Some of those could be impacted to some extent but we do not think it would be significant.

Anand Vasudevan Kannan mentioned that you benefited from some unexpected provision write-backs from the retail portfolio. I would like to understand a bit more about that and the products that these were these from as generally retail behavior is not unexpected.

N. S. Kannan What I had said was that the write backs had been more than anticipated. This was for the past provisions we had made across the

asset classes and we have been able to recover some of these. That along with no need for additional general provisioning helped cushion the impact of the large provision we had to take on the media account this quarter. It is possible that the write backs on the retail portfolio could repeat but we would have to monitor the trends going forward.

Anand Vasudevan Are you seeing write-backs from the unsecured retail segment as well?

N. S. Kannan Yes we are.

Moderator Thank you. We have the next question from the line of Anand Ladha from HDFC Mutual Fund, please go ahead.

Anand Ladha What sort of collateral is the bank having against the media account taken as NPL in this quarter?

Rakesh Jha We would not want to discuss individual cases in terms of collateral and specific structures.

N. S. Kannan Having taken a substantial provision on that account we will continue to see what recovery we can have and maximize the recovery for the Bank. We have tried to protect our P&L by taking a significant provision this quarter itself and the approach has been to be prudent about it.

Anand Ladha Every private sector bank has been taking a large hit on this particular exposure and I was wondering what collateral the whole industry has for this account.

N. S. Kannan The impact taken would be largely from the perspective of what has happened with respect to the cricket team. I believe banks have been probably taking a prudential step given the developments in the case. That is the way I would like to put it on rather than availability or lack of collateral.

Anand Ladha I am taking one more corporate name that has been in the media. CRISIL has recently downgraded Lanco to default. I wanted to have

your view on the same. Does the bank have any exposure or has the corporate approached the Bank for restructuring?

Anindya Banerjee We have exposure to the Lanco group as a whole. Our main exposure is for their coal mine acquisition in Australia and we also have exposure to few of their domestic projects. On this particular CRISIL action, I understand that there was a delay in repayment on short-term loans to a specific bank. The group as a whole has significant receivables from SEBs which is putting some strain on their liquidity. They have not approached us for any restructuring and there is no plan to restructure any of our accounts with Lanco.

Anand Ladha Today also there is a press article which says that the Group has not taken delivery of its goods from customs and customs wants to auction them.

Anindya Banerjee Our understanding is that they do not have issues about taking delivery but about the quantum of customs duty to be paid, where you could clarify with them directly, they are expecting some duty drawback or lower level of duty given the purpose for this import.

Moderator Thank you. We have the next question from the line of Nitin Kumar from Quant Capital, please go ahead.

Nitin Kumar How open would the bank be to inorganic growth going ahead?

Anindya Banerjee Currently, the Bank is not considering merger or acquisition of any bank. If an opportunity comes we would look at it but currently we are not considering acquisition of any bank.

Moderator Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management, please go ahead.

Hiren Dasani On the life insurance premium number, has there been any restatement for the September 2011 quarter in the renewal premiums? Your last year Q2 presentation mentioned renewal premium of about ₹ 23.1 billion and the current year presentation mentions about ₹ 24.6 billion for the same period

N. S. Kannan There has been a minor change because of some IRDA clarification which came subsequently. Otherwise there is no restatement or any reclassification.

Moderator Thank you. The next question is from the line of Nilanjan Karfa from Brics Securities, please go ahead.

Nilanjan Karfa What is your view on the retail segment given the overall slowdown in growth?

Anindya Banerjee We believe that the sector as a whole continues to grow because even if you look at this year, you see that the wage growth has been quite strong. While incremental employment in some sectors may have slowed down, we are not seeing any reductions. So we believe that the retail loan growth for the industry will continue to be there and as Kannan mentioned given that we are starting off from a relatively small base in terms of market share even if we increase our market share slightly as we are doing in terms of incremental volumes, we should be able to get to about 15% growth on the retail portfolio by the end of the year. If you look at the last few quarters we have increased retail growth from 7% to 10% to 14% in this quarter, and that trend should continue.

Nilanjan Karfa Are you incrementally targeting customers with EMI based credit card payment products?

Anindya Banerjee I do not think we have any specific push on the product. In any case our unsecured credit card and personal loan portfolio put together is just about flat and we are not growing that business very aggressively. We are not pushing an EMI based product specifically.

Nilanjan Karfa Ok. I have a small suggestion. You put out a standalone balance sheet every quarter. It will be great to have the consolidated balance sheet as well because we have been talking about consolidated RoE for quite some time.

N. S. Kannan We will evaluate that.

Moderator Thank you. The next question is from the line of M B Mahesh from Kotak Securities, please go ahead.

M B Mahesh Can we have the breakup of the infrastructure portfolio between power and non-power?

Rakesh Jha The power exposure broadly remains at the same level at about 7% and the overall infrastructure exposure is about 13% - 13.5%. Apart from power the balance would be distributed across telecom, roads, and ports, etc.

M B Mahesh This has remained unchanged over FY2012.

N. S. Kannan That is broadly correct.

M B Mahesh From an asset quality perspective is there any update on how this portfolio is doing with respect to delays in implementation?

N. S. Kannan As we have articulated earlier, indeed we are seeing some projects where delays have happened but incrementally there have been some positive developments in the sector. Every project has to be carefully monitored given the environment but we do not expect any significant slippages which will cause us any concern.

M B Mahesh On margins, you mentioned that there is a possibility that margins could improve in the second half of this year. Could you elaborate on where it would come from?

N. S. Kannan What I was mentioning was that our immediate priority is to stabilize the margins at about 3%. To a question on what are the levers available to increase the RoA to 1.7%, I mentioned that margin in the medium term could improve. To answer your specific question on what are the levers which are available for increasing margins, if you see the Q2-2013 numbers, the international margin had come down to 1.22% because of certain specific issues relating to excess liquidity we had. We expect it to be deployed over the year and incremental lending would be at reasonable margins. With that we expect international margins to expand to 1.4%-1.5%.

M B Mahesh	Ok. What will be the share of wholesale deposits in your overall deposits?
Rakesh Jha	Retail banking group accounts for about 70% of our total deposit base.
Moderator	Thank you. The next question is from the line of Kashyap Zaveri from Emkay Global, please go ahead.
Kashyap Zaveri	Would we have non-fund exposure to corporates to which there is no funded exposure? Secondly, does your credit cost expectation of about 75 basis points take into account any probable slippages from the non-funded exposures?
Rakesh Jha	Generally, we would not have only non-fund exposure to a corporate or SME but it is possible that in some cases we may have only non-funded exposure as well. However, these would be a few cases.
N. S. Kannan	From our credit appraisal perspective there is no real difference in terms of assessment between fund and non-fund based exposures.
Rakesh Jha	To your second question, the credit losses that Kannan talked about earlier factors in our overall exposure including fund and non-fund based exposures.
Kashyap Zaveri	Whatever slippages we have seen till date or probably over last couple of quarters, if any of those corporates are non-funded exposures, would that immediately get classified as non-performing or it will be classified only once it turns into a funded exposure?
Rakesh Jha	It would typically happen as and when it gets into a funded position but what practically happens is that by the time the company gets into an NPA situation they would have typically drawn down on most of the lines and LC devolvments would have happened in most cases. So it would not be that there will be some large non-fund still outstanding against the NPA cases.

Moderator	Thank you. The next question is from the line of Mudit Painuly from Max Life Insurance, please go ahead.
Mudit Painuly	Regarding your power exposure, out of the 7% exposure how much would be to under construction and how much would be to gas-based power projects?
Rakesh Jha	The under construction proportion would be about half the total power sector exposure.
Anindya Banerjee	Within the under construction part, we would not have any significant gas based exposure.
Mudit Painuly	What would be the key drivers to achieve 20% domestic loan growth this year as retail growth would be around 15% and I believe project lending would not be that strong?
Rakesh Jha	Retail lending growth would be at about 15% and corporate lending as you have seen, is currently running at higher than 20%. The corporate portfolio growth is based on the past sanctions that we have and the working capital lending growth that we are seeing. We believe that these would drive an overall domestic loan growth of 20% for the year. Additionally, in the second half of the year you would typically find that lending related to the priority sector will also increase and the rural book which has actually declined in the first half of the year will see growth in the second half. So, overall that gives us comfort that we should be around 20% domestic loan growth for the year.
Mudit Painuly	Would lack of incremental sanctions be a bigger issue in the next year?
Rakesh Jha	If the current trend continues there would be an impact on loan growth for banks next year.
N. S. Kannan	In that context, our plan is to increase retail lending growth by that time and have retail lending at a much higher growth rate than we are seeing now.

Mudit Painuly	Given that mortgages are essential to your retail loan growth, what would be the disbursements and repayments in the first half of this year compared to the same period last year?
Rakesh Jha	There is no significant change in the repayments that we are seeing.
N. S. Kannan	The incremental disbursements are growing at a much faster pace now.
Moderator	Thank you. We have the last question from the line of Mark Lien from Lazard Asset Management, please go ahead.
Mark Lien	You mentioned that the NIM expansion was being helped by the lower cost of funding. Could you give us an assessment of where competitive pressures are in respect of loan yields? If loan yields were to decline in this environment that could perhaps limit the margin progress we have made in through cheaper funding.
N. S. Kannan	We do see some pressures in terms of yields on retail lending but as far as corporate lending is concerned we are not seeing any yield pressures at all, given the economic environment. Both in foreign currency lending as well as domestic lending in the corporate sector we are able to protect and expand our NIMs. However, on the retail side, especially mortgages and automobile loans, there have been yield pressures. Our proposition in these segments has been more than the rates per se as we will broadly match our rates with competition. Beyond that we would be focusing on the turnaround times, customer convenience and proposition etc. Also, given that our market share is only about 7% to 8% currently we do not, for our aspiration of 15% growth, have to undercut by much and compromise on our margins. So despite retail yield pressures we are quite confident that we will be able to protect our domestic net interest margins.
Moderator	Thank you. I would now like to hand the floor back to Mr. N. S Kannan for closing comments. Over to you sir.

N. S. Kannan

Thank you once again to all of you for joining the call. If you still have further queries, my team and I will be available to answer them.

Moderator

Thank you sir. Ladies and gentlemen on behalf of ICICI Bank Limited that concludes this conference call.