

**ICICI Bank Limited**  
**Earnings Conference Call – Quarter ended September 30, 2014 (Q2-2015)**  
**October 30, 2014**

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**Moderator:** Ladies and gentlemen good day and welcome to the Q2-2015 Earnings Conference call of ICICI Bank. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need any 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. N. S. Kannan, Executive Director at ICICI Bank. 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, 2014, which was the second quarter of the financial year 2015.

In my remarks this evening, I will cover the following areas:

- First: the macro-economic and monetary environment;
- then, our performance during the quarter, including performance on our 5Cs strategy;
- then, our consolidated results;
- and finally, the outlook for the full financial year 2015.

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

On the global front, IMF has revised the global growth forecast downwards on account of downside risks due to weak global demand and geo-political tensions. In the domestic economy, recovery in real economic activity remained uneven. Industrial activity, as measured by the index of industrial production - IIP – moderated, recording a year-on-year growth of 0.4% in July and August, compared to a growth of 3.9% in June 2014. The manufacturing and services sector purchasing managers' index – PMI – also moderated from peak levels in June and July 2014. However, the optimism due to the strong electoral mandate continues as reflected by upward revisions in the growth forecasts for India and the upgrade in outlook for India by Standard & Poors. The Government has also announced several measures recently including complete deregulation of diesel prices, approval of the new gas pricing policy and re-launch of the direct benefit transfer scheme to provide subsidy on cooking gas. The Government has taken steps to address the de-allocation of coal mines by the Supreme Court by passing an ordinance reverting these mines to the government and announcing the e-auction of coal blocks on end-use basis. The government has also announced that the policy would enable commercial mining in the future. These developments are steps towards addressing issues in the infrastructure sector and undertaking reforms that will positively impact the investment and growth climate in the country over the longer term.

Headline Consumer Price Index, or CPI, based inflation moderated from 7.5% in June 2014 to 6.5% in September 2014, driven partly by a favourable base effect and by a moderation in food inflation. The Reserve Bank of India is focusing on the objective of achieving 6.0%

CPI inflation by January 2016 and has reiterated that it will look through transient effects on inflation while deciding on policy rate changes. Keeping in view the targeted inflation levels, RBI maintained stable policy rates during the quarter. However, to ensure adequate credit flow to the productive sectors of the economy, the statutory liquidity ratio was reduced by 50 basis points to 22.0% in August 2014. The ceiling on SLR securities under the held-to-maturity category was reduced from 24.5% of net demand and time liabilities -NDTL- to 24.0% of NDTL. RBI has decided to reduce it to 22.0% of NDTL in a gradual manner by September 2015. RBI has also allowed banks to include government securities up to 5.0% of NDTL within the SLR requirement as level one high quality liquid assets, for the computation of the liquidity coverage ratio.

Moving on to the performance of financial markets, the BSE Sensex rose by 5% during the quarter. The yield on government securities was 8.5% at end-September 2014 compared to 8.4% at end-July 2014 when the new benchmark bond was issued. The exchange rate moved to 61.6 Rupees per US Dollar at the end of Q2 of 2015 from 60.1 Rupees per US Dollar at the beginning of the quarter. The Indian rupee remained among the best performing emerging market currencies during the quarter.

With respect to the banking sector, non-food credit growth moderated to 11.2% year-on-year at end-September 2014. Growth in total deposits saw a slight pickup to about 13% on a year-on-year basis at end-September 2014 from about 12% at end-June 2014. Demand deposits saw a year-on-year growth of about 16% at end-September 2014.

With this background, let me now move to our performance during the quarter, including our progress on our 5Cs strategy:

- **First, with respect to Credit growth:** The Bank's domestic loan portfolio grew by 15.1% on a year-on-year basis at September 30, 2014, compared to 11.2% growth in non-food credit for the system at October 3, 2014. Loan growth for the Bank continues to be driven by the retail segment which grew by 25.2% year-on-year at September 30, 2014. The growth in our retail portfolio continues to be driven by secured products with the outstanding mortgage and auto loan portfolios growing by 26% and 38% respectively on a year-on-year basis at September 30, 2014. Growth in the business banking and rural lending segments was 18% and 41% year-on-year respectively. Commercial business loans declined by 18% on a year-on-year basis at September 30, 2014, reflecting both a slowdown in this segment as well as run-down of the bought out portfolio. The unsecured credit card and personal loan portfolio at 90.36 billion Rupees at September 30, 2014 continued to remain a small portion, about 2.5%, of the overall loan book though the growth rate is high due to the low base.

In view of the operating environment, the Bank continued to adopt a cautious approach to growth in the corporate and SME segments. The domestic corporate portfolio growth was 4.5% on a year-on-year basis at September 30, 2014 compared to 7.7% growth at June 30, 2014. The SME portfolio increased marginally on a sequential basis to 160.88 billion Rupees at September 30, 2014. Going forward, we will continue to calibrate the growth in corporate and SME portfolios with the trends in the economic environment.

Growth in net advances of the overseas branches, in US dollar terms, was 11.9% on a year-on-year basis at September 30, 2014, reflecting primarily the lending against FCNR deposits during the third quarter of fiscal 2014. In rupee terms, the year-on-year growth in net advances of the overseas branches was lower at

10.3%, given that the rupee had appreciated vis-à-vis the US dollar between September 30, 2013 and September 30, 2014. On a sequential basis, the overseas branches loan book grew marginally by about 2.0%, in US dollar terms.

As a result of the above, total advances of the Bank increased by 13.8% on a year-on-year basis from 3.18 trillion Rupees at September 30, 2013 to 3.62 trillion Rupees at September 30, 2014.

- **Moving on to the second C on CASA deposits:** The Bank continued to see healthy momentum in its CASA deposit mobilisation. On a period-end basis, we saw an addition of 64.40 billion Rupees to our current account deposits and the savings deposits increased by 28.71 billion Rupees during the quarter. As a result of above trends, the period end CASA ratio improved to 43.7% at September 30, 2014 compared to 43.0% at June 30, 2014. The daily average CASA ratio for the Bank for Q2 of 2015 remained stable at 39.5%, the same level as in the previous quarter.
- **On the third C on Costs:** The Bank maintained a healthy cost-to-income ratio of 36.5% in the second quarter of fiscal 2015 compared to 37.3% in the second quarter of fiscal 2014 and 38.4% in the first quarter of fiscal 2015. For the second quarter, operating expenses increased by 16.1% on a year-on-year basis. The increase in the operating expenses is off a lower base in Q2 of 2014 when the operating expenses reflected the positive impact of the increase in government securities' yield on retiral benefit expenses. In addition to this, the year-on-year increase in employee expenses reflects the full impact of the increase in the employee base in fiscal 2014 and annual wage increases affected in April 2014. Based on an assessment of staffing requirements and given the addition of about 14,000 employees in the previous

two years, the Bank has not replaced attrition due to which the employee base has decreased by about 3,800 during Q2 of 2015. The Bank continues to focus on further enhancing the productivity and efficiency of its employee base as well as the expanded distribution network in order to drive growth. During Q2 of 2015, the increase in the non-employee expenses is primarily on account of the larger distribution network and higher retail lending volumes.

- **Let me move on to the fourth C on Credit quality:** During the second quarter, the Bank saw gross NPA additions of 16.73 billion Rupees, including slippages of about 8.00 billion Rupees from the standard restructured category to the non-performing asset category. As mentioned on our previous calls, given the prolonged economic slowdown and uneven economic recovery, banks including us have witnessed slippages from the restructured portfolios. Deletions from NPA during the quarter were 4.40 billion Rupees and the Bank has also written-off 2.48 billion Rupees of NPAs. The Bank also sold NPAs aggregating 2.91 billion Rupees to asset reconstruction companies during the quarter. The net NPA ratio was 96 basis points at September 30, 2014 compared to 87 basis points at June 30, 2014.

During the quarter, the Bank had gross additions of 8.29 billion Rupees to its restructured loans. After taking into account deletions - including the slippages mentioned earlier, upgrade of some accounts and the required specific provisioning, the net restructured loans for the Bank were lower at 110.20 billion Rupees at September 30, 2014 compared to 112.65 billion Rupees at June 30, 2014. The current restructuring pipeline is about 18.00 billion Rupees. It may be noted that the restructuring in Q2-2015 was about 8.00 billion Rupees compared to the pipeline of 15.00 billion Rupees we had indicated following our Q1 results. The current pipeline takes into account the cases

expected to be restructured in Q2 where restructurings have not been completed and will spill over into the third quarter.

Provisions for Q2 of 2015 were at 8.50 billion Rupees compared to 6.25 billion Rupees in Q2 of 2014 and 7.26 billion Rupees in Q1 of 2015. As a result, credit costs as a percentage of average advances were at 96 basis points on an annualised basis for Q2 of 2015. Effective Q1 of 2015, banks are required to make additional standard asset provisions in respect of borrowers having unhedged foreign currency exposures, or UFCE, and are permitted to recognise these provisions over four quarters. Accordingly, the Bank has made standard asset provisions of about 300 million Rupees on account of exposure to clients having unhedged foreign currency exposure. This added about 3 basis points to our annualised provisions to average advances for Q2 of 2015.

The provisioning coverage ratio on non-performing loans was 65.9% at September 30, 2014.

- **Now to the fifth 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 the quarter, the Bank added 52 branches and 292 ATMs to its network. Accordingly, as of September 30, 2014, the Bank has a branch network of 3,815 branches and 11,739 ATMs. We also continued to strengthen our technology channels for increasing customer convenience. During the quarter, we launched six next generation mobile banking apps. The new apps include features using which the customers can access loan account details, track status of dispatches, initiate transactions before visiting a branch, connect with a service executive over video call and view transactions on their mobile phones. We have also launched 'ICICI Store app' which enables

customers to easily view all mobile apps introduced by the ICICI Group in one place. Our Facebook page continues to be appreciated by customers with over 3.0 million fans, the largest fan base on Facebook among Indian banks. The Bank has also seen healthy growth in transaction volumes through the mobile banking platform. With a market share of about 25%, based on latest available data, the Bank is the market leader among banks in India in terms of value of transactions through mobile banking.

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 by 15.2% year-on-year from 40.44 billion Rupees in Q2 of 2014 to 46.57 billion Rupees in Q2 of 2015. The net interest margin improved to 3.42% in Q2 of 2015 from 3.31% in the corresponding quarter last year. The domestic NIM was at 3.84% in Q2 of 2015 compared to 3.65% in the corresponding quarter last year and 3.80% in the previous quarter. International margins were at 1.58% in Q2 of 2015 compared to 1.80% in the corresponding quarter last year and 1.63% in the previous quarter. The sequential decrease in international margins in Q2 of 2015 was on account of impact of bond issuance expenses during the quarter.
2. Total non-interest income increased by 26.4% from 21.66 billion Rupees in Q2 of 2014 to 27.38 billion Rupees in Q2 of 2015. If we look at the components,
  - Fee income grew by 5.5% from 19.94 billion Rupees in Q2 of 2014 to 21.03 billion Rupees in Q2 of 2015. The lower growth is mainly due to subdued corporate activity, and lower foreign exchange transaction volumes. Excluding forex and derivative fees, the year-on-year growth in overall fees was in low double digits. Retail fees for the



Bank continue to grow at a healthy rate of over 20% and contribute close to 60% of overall fees.

- Other income was 4.98 billion Rupees in Q2 of 2015, compared to 2.51 billion Rupees in Q2 of 2014 and 5.26 billion Rupees in Q1 of 2015. On a year-on-year basis, during Q2 of 2015, the Bank received higher dividend from ICICI Life, based on the increased payout levels approved by the company's Board. While there may be some variation in the dividend income on a quarterly basis, for the full year we continue to expect healthy dividend income from subsidiaries.
- During the quarter, based on the significant reserves & surplus position built up in the overseas branches and the muted growth outlook in the near term, the Bank repatriated profits from its overseas branches resulting in exchange rate gains of 1.65 billion Rupees. Such repatriation may not be a quarterly phenomenon. The Bank considers repatriations from overseas branches based on the outstanding position of retained earnings, long term funding requirements of overseas branches and outlook on USD INR exchange rate.
- During the second quarter, treasury recorded a profit of 1.37 billion Rupees compared to a loss of 0.79 billion Rupees in the corresponding quarter last year and a profit of 3.88 billion Rupees in the previous quarter.

3. I have already spoken about the trends in operating expenses and provisions while speaking about the 5Cs strategy.

4. As a result of these trends, the Bank's standalone profit before tax increased by 17.9% from 32.63 billion Rupees in Q2 of 2014 to 38.48 billion Rupees in Q2 of 2015.
5. The Bank's standalone profit after tax increased by 15.2% from 23.52 billion Rupees in Q2 of 2014 to 27.09 billion Rupees in Q2 of 2015. In accordance with the RBI circular dated December 20, 2013, the Bank created deferred tax liability on Special Reserve by charging it to the profit and loss account. Accordingly, a charge of 0.88 billion Rupees was recognised in Q2 of 2015 while there was no such impact in Q2 of 2014. The return on average assets was 1.82% in Q2 of 2015, about 10 basis points higher compared to Q2 of 2014.

The Bank's capital adequacy as per Reserve Bank of India's guidelines on Basel III norms continues to remain strong at 16.64% overall CAR and 11.98% Tier I ratio at September 30, 2014. In accordance with guidelines, the profits for the half year ending September 30, 2014 are not considered in the reported capital adequacy ratios. Including the profits for the half year, the Bank's overall capital adequacy ratio was 17.41% and the Tier 1 ratio was 12.75%.

I now move on to the consolidated results.

The profit after tax for the life insurance company in Q2 of 2015 was 3.99 billion Rupees as compared to 3.87 billion Rupees in Q2 of 2014. The new business annualised premium equivalent increased from 9.54 billion Rupees in Q2 of 2014 to 11.97 billion Rupees in Q2 of 2015. The retail weighted received premium for ICICI Life grew by a healthy 28.9% on a year-on-year basis in H1 of 2015 compared to 1.7% decrease in FY2014. As we had mentioned earlier, the business mix of the company is evolving post the changes in regulations. During the quarter, unit linked premiums constituted over 80% of new business premiums compared to about 65% in FY2014 and

about 78% in Q1 of 2015. The new business margin for the company was stable at 10.9% in Q2 of 2015. While the IRDA numbers for the industry are not available, we understand that the company has seen an increase in its market share to over 10% in H1-2015.

The profit after tax for ICICI General was 1.58 billion Rupees in Q2 of 2015 compared to 1.56 billion Rupees in Q2 of 2014 and 0.72 billion Rupees in Q1 of 2015. While the profit before tax increased by 29% on a year-on-year basis in Q2 of 2015, the profit after tax was flat on a year-on-year basis due to normalisation of the tax rate. The tax rate was lower in the last financial year on account of the losses carried forward due to the impact of the third party motor pool. The gross premium income was stable on a year-on-year basis at 16.38 billion Rupees in Q2 of 2015 as the company adopted a calibrated approach to growth given the pricing trends in the industry. The company continues to retain its market leadership among the private players and while the IRDA numbers for the industry are not available, we understand that the company had a market share of about 8.5% in H1-2015.

ICICI Securities and ICICI AMC have continued to see improvement in their performance. The profit after tax for ICICI Securities increased from 0.18 billion Rupees in Q2 of 2014 to 0.68 billion Rupees in Q2 of 2015. The profit after tax for ICICI AMC increased by 40.9% from 0.44 billion Rupees in Q2 of 2014 to 0.62 billion Rupees in Q2 of 2015.

Let me move on to the performance of our overseas banking subsidiaries.

As per IFRS financials, ICICI Bank Canada's total assets were 5.49 billion CAD at September 30, 2014 compared to 5.63 billion CAD at June 30, 2014. Loans and advances were 4.77 billion CAD at September 30, 2014 compared to 4.65 billion CAD at June 30, 2014. The profit after tax for Q2 of 2015 was 9.2 million Canadian Dollars compared to 12.9 million CAD for Q2 of 2014. The decrease in profits

was on account of higher specific provisions on account of change in risk categorisation of a mid-sized India-linked account during the quarter. The capital adequacy ratio for ICICI Bank Canada was healthy at 34.0% at September 30, 2014.

ICICI Bank UK's total assets were 4.16 billion US\$ at September 30, 2014 compared to 4.12 billion US\$ at June 30, 2014. Loans and advances were 2.71 billion US\$ at September 30, 2014 compared to 2.75 billion US\$ at June 30, 2014. The profit after tax for ICICI Bank UK for Q2 of 2015 was 5.1 million US\$ compared to 6.1 million US\$ in Q2 of 2014. The capital adequacy ratio was 23.1% at September 30, 2014.

Let me now talk about the overall consolidated profits.

The consolidated profit after tax for Q2-2015 was 30.65 billion Rupees compared to 26.98 billion Rupees in Q2-2014. The annualised consolidated return on average equity was at 15.1% in Q2-2015.

In summary, we believe our performance in Q2 of 2015 is a result of our continued focus on delivering against our stated objectives. In line with our expectations, we have,

1. Sustained the improvement in net interest margins,
2. Maintained healthy non-interest income,
3. Sustained improvement in our operating efficiency,
4. Our deposit franchise has remained a key area of focus and we have seen continued healthy trends in CASA mobilisation in Q2 of 2015.
5. With respect to loan growth, we have continued to scale up growth in the retail segment while calibrating growth in the corporate and SME segments in view of the environment.

While we would have liked the fee income growth to have been higher, it needs to be viewed in the context of the operating environment for corporate banking and forex & derivative volumes. Retail fees for us, however, continue to grow at a healthy rate.

Moving on to the outlook for the financial year,

- On the loan growth front, we expect our domestic loan growth to be 2%-4% higher than the system, driven by more than 20% growth in the retail segment. Growth in the loan portfolio of overseas branches will continue to be calibrated to conditions in the funding markets.
- With respect to our deposit franchise, our focus would be on maintaining stable average CASA ratio in the range of 38-40%.
- With respect to margins, we would target overall margins of 3.30% to 3.40% in financial year 2015.
- Fee income growth would depend on market conditions, particularly activity in the corporate sector, as well as regulatory measures with respect to various components of fee income. Our endeavour would be to continue to grow the retail fee streams, while capitalising on opportunities that emerge in the corporate segment within our risk management criteria.
- Operating efficiency continues to be a key area of focus for the Bank. Our endeavor will be to maintain the cost-to-income ratio at about the current level.
- With respect to asset quality, we expect that for FY2015, the aggregate flow of fresh loans into restructuring and NPA categories will be lower than FY2014, excluding slippage of existing restructured loans to the non-performing category.

Overall credit costs as a percentage of advances are expected to be in the 90-95 basis points range for the full year. Further, developments in certain specific cases and the coal & power sectors would need to be closely monitored. With respect to the coal block de-allocation, the Bank has exposure to power, metal and mine operating companies that would get impacted by the Supreme Court order. In respect of the same, more clarity is needed on the process of re-auction of the coal mines and availability of alternative sources of fuel for these projects. Based on our assessment of the projects in our portfolio, we believe that while on the basis of alternative fuel sources the DSCR of these projects reduces as compared to that based on captive mines, most projects would still be able to service their debt obligations. In this context, the recent ordinance passed by the Government is an important step. While the e-auction mechanism details need to emerge, provisions for compensation to be paid to prior allottees for land and mine infrastructure and for new allottees to continue contracts with prior allottees will help in addressing some of the concerns emerging out of the de-allocation of the coal mines. We will continue to monitor the developments in this regard.

- Our focus in FY2015 would be to sustain the return on assets.
- We believe that our strong and diversified franchise and large distribution network give us the ability to leverage opportunities for profitable growth. We are well-placed with regard to the capital required to support this growth, and given our current capital position, we believe that we do not need to raise capital for the next three years.

With these opening comments, my team and I will be happy to take your questions.

**Moderator:** Thank you very much, sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Mahrukh Adajania from Standard Chartered. Please go ahead.

**Mahrukh Adajania:** Just wanted to clarify that the slippage from restructured was from a single account only, is that correct?

**Rakesh Jha:** One mid-sized corporate exposure and few other smaller accounts slipped from standard restructured category to NPA category during the quarter.

**N.S. Kannan:** It was predominantly one account.

**Mahrukh Adajania:** And the guidance for the restructuring pipeline at Rs. 18 billion would not include anything from the recent coal issue, right?

**Rakesh Jha:** As Kannan mentioned, we do not expect any significant impact especially in the near term. Over time we expect a solution to be achieved for most of the impacted projects. So we are not considering any of that in the current restructuring pipeline.

**Mahrukh Adajania:** And your excess SLR would be how much?

**N.S. Kannan:** About 5% to 6%.

**Moderator:** Thank you. We have the next question from the line of Suruchi Jain from Morningstar. Please go ahead.

**Suruchi Jain:** Just wanted to confirm that the wholesale loan growth is about 7%?

**N.S. Kannan:** It is about 5%.

**Suruchi Jain:** And also 60% of your fee income is from retail, right, which grew at what percent, sorry I missed that?

**N.S. Kannan:** Over 20%.

**Suruchi Jain:** What is causing a very strong growth of 26% in fee income?

**N.S. Kannan:** No, fee income overall growth is 5.5% for the Bank within which the retail fee is growing at over 20%. Within retail fees, both retail assets and retail liabilities have contributed. So obviously on the Corporate side there is a decline in fee income.

**Suruchi Jain:** But as I can see your non-interest income has grown by about 26%?

**N.S. Kannan:** Yes, apart from fee income, we also have the treasury gains, dividend from subsidiaries and other income as part of non-interest income. Treasury income for the second quarter of last year was a negative number. We had about Rs.1.37 billion of treasury income during the current quarter which has resulted in a higher percentage growth for overall non-interest income.

**Suruchi Jain:** From what I understood from there it was mainly the forex, right, the FCNR inflows?

**N.S. Kannan:** Treasury income is a combination of trading gains or losses in foreign exchange, fixed income and equity.

**Moderator:** Thank you. The next question is from the line of Anish Tawakley from Barclays. Please go ahead.

**Anish Tawakley:** The question is on the restructured assets, how they are performing and how would you assess the outlook now. So, you started the quarter with about Rs.112 billion and there were additions of about Rs.8.2 billion which would result in about Rs. 120 billion. If I look at the reductions you have got 8 billion going into NPAs and there have been some upgrades, is that correct?

**N.S. Kannan:** Yes.



- Anish Tawakley:** It looks like a lot of what is coming out of the restructured bucket right at the end of the moratorium period is going into NPLs. Is that too negative way to read it? What does it mean for the outlook for the rest of the restructured assets as they come out of the moratorium period?
- N.S. Kannan:** As I mentioned earlier, this time the slippage has been predominantly due to one mid-sized account. The long-term average of slippages from restructured loans to NPL category would be around 15%. But, of course, the quarter-to-quarter number could get disturbed if there is a medium to large-size account slipping to the NPA category.
- Anish Tawakley:** Kannan, I understand the long-term average, but the concern I have is that in the long-term average in the denominator, the lot of the accounts are still in the moratorium period. So they cannot potentially slip.
- N.S. Kannan** Yes, one has to look at each of the cases individually on how they operate.
- Anish Tawakley:** If we look at the cases that are going to come out of moratorium, what would you expect the pattern to be over the next two-to-three quarters? How many cases come out of the restructuring bucket in the next two or three quarters is the first question? And what would you expect in terms of their performance?
- Rakesh Jha:** If the loans come out of moratorium period, it is not that they will get immediately upgraded or downgraded. There is a time period for upgrade and a downgrade happens if it becomes more than 90 days overdue. As Kannan mentioned in the initial part in his opening remarks, given the prolonged economic slowdown and the uneven economic recovery, banks have seen increased slippages from the restructured portfolio. For the next few quarters, it is very difficult to give any specific estimate of what could or could not slip from this

portfolio. It is possible that there could be more slippages over the next few quarters from the restructured portfolio.

**N.S Kannan:** So, when we made the assessment, we also looked at the incremental provisioning requirement on account of the slippages from restructured assets. For the year as a whole, credit cost as a percentage of average advances is expected to be in the range of 90 to 95 basis points including the additional provision which is required on account of unhedged foreign currency exposure of the borrowers.

**Moderator:** Thank you. The next question is from the line of Nicholas Yap from CreditSights. Please go ahead.

**Nicholas Yap:** Would you be able to give me a sectoral break down of your NPA slippages this quarter?

**N.S. Kannan:** We had additions to NPAs of about Rs.16.73 billion during the quarter. Out of that, as I mentioned earlier, about Rs.8 billion is on account of slippages from the standard restructured category to non-performing category which include one mid-sized corporate account. Accordingly, the fresh additions to NPAs, have been contained at about Rs.8.5 billion. The fresh additions would be across corporate, SME and retail segments. But, there is no specific sectoral pattern.

**Nicholas Yap:** Based on your presentation, it seems that your investments in security receipts have actually declined from June to September. So how exactly should I read it – are they being valued lower?

**Rakesh Jha:** We had a few redemptions from the security receipts portfolio during the quarter. On the retail side, we get regular redemptions every quarter. We have also got some redemptions on the corporate side during this quarter.

**Nicholas Yap:** Can you just also give me a breakdown of your provisions?

- Rakesh Jha:** About Rs.1 billion is the standard asset provision which includes the provision made against unhedged foreign currency exposure. The balance would largely be provision against NPAs and restructured assets.
- Moderator:** Thank you. Next question is from the line of Manish Ostwal from KR Choksey. Please go ahead.
- Manish Ostwal:** My question is on the slippages other than the one mid-sized corporate account. On the other slippages, what is the colour in terms of whether it is linked to the large corporate, SME or retail portfolio?
- Rakesh Jha:** The trend continues to be extremely stable on the retail side, across each of the portfolios. In the commercial vehicles segment, we have been cautious in terms of the growth. So, overall, the slippages are still on account of higher than normalised levels in the corporate and the SME segment. As Kannan mentioned, excluding the slippage from restructured assets, additions to NPLs is not a significant number in the overall scheme of things.
- Manish Ostwal:** We have seen a pick-up in the corporate fee in some of the other corporate lenders during this quarter. So when we will see some pick up in our corporate fees given the slow recovery in the economy and improving sentiment in the corporate space?
- N.S. Kannan:** On the corporate side, especially lending-linked fee income, we will have to wait and see how the economy and investment pipeline improve. However, we have seen some growth in the commercial banking segment. Further, the growth in forex and derivative income was impacted by lesser volatility in the currency during the quarter compared to the corresponding quarter last year.
- Manish Ostwal:** Could you give your views on the CV and construction equipment space in terms of asset quality trends and the growth outlook?

**N.S. Kannan:** On a y-o-y basis, the portfolio of CVs and construction equipment has declined by about 18%. The growth has also been impacted by rundown of the bought out portfolio in this segment. We are seeing some pick up for the industry in terms of the incremental growth. The growth outlook should be positive with the revival in the economy going forward. On the asset quality side, we do not have any concerns for this segment.

**Moderator:** Thank you. Next question is from the line of Adarsh from Nomura. Please go ahead.

**Adarsh:** This question is related to core fees. How do you see the corporate book fee growth outlook, especially split between forex & derivative income and the other corporate fees? I think this quarter compared to the corresponding quarter last year on a y-o-y basis would have been weaker on forex & derivative income. So, has the other corporate fee improved compared to Q1-2015?

**N.S. Kannan:** If I take it into three components, one is the forex & derivative income where if you look at the results of banks so far, generally it has been weaker on a y-o-y basis. Forex fees depend on the remittance volumes and the hedging activities of corporates. I think there was not much opportunity this time compared to the same quarter last year, because of the relatively higher volatility in exchange rate in the base quarter. Going forward, I think it will get rebased and hopefully things should improve. On the second component, which is the commercial banking segment, there has been a slowdown in some of the activities like the bank guarantees. The trend, going forward, will depend on the economic recovery. The last component, which is lending-linked fee, it is still sometime away in terms of a pickup. So, if you look at it in the context of core fees of the bank, I would say that the immediate term drivers would continue to be from the retail side. Within retail, trends in both liabilities and asset related fee income continue to be healthy.

- Adarsh:** So from a near term corporate fee perspective, you would still think that the contraction can continue?
- N.S. Kannan:** Yes. However, at some point in time, the base effect will start working for us and accordingly growth could pick up. But, on an overall basis, we would rather focus on the areas which are growing and try to get a higher market share on those income streams. For instance, in forex fees, over a period of time, we have improved our market share.
- Adarsh:** What is the split of the fees now between corporate and retail fees?
- N.S. Kannan:** Retail has become close to 60% of our fee income and corporate & other fees would be the balance 40%.
- Moderator:** Thank you. Next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.
- Manish Karwa:** My question is again on fees. If you look at your breakup, it seems that corporate fees have declined by about 15% to 20% on a y-o-y basis. While you have explained some part of it, your competition has grown fees in a range of 5% to 30% on the corporate side. Where do you think you are losing market share and in which product? And you also said that international fees is doing well. Is it is some segment on the domestic side where you are losing market share?
- Rakesh Jha:** In terms of the fees, from last year Q2 onwards the overall fees was broadly flat for the last 4 quarters. During this quarter, there has been a sequential increase from about Rs. 19.36 billion in Q1-2015 to about Rs. 21.03 billion in Q2-2015, which is mainly driven by retail fees. On corporate and other fees, trends have been broadly stable sequentially. We have not seen any decline compared to what we would have earned in Q1-2015 or Q4-2014, but yes, compared to Q2 of last year we have seen a decline in corporate and other fees. The

decline is mainly due to lower forex fees compared to Q2 of last year. Further, as Kannan mentioned at some stage as the economy recovers, you will start seeing the fee levels growing. We do not expect the current level of fees to decrease.

**N.S. Kannan:** During the quarter, the y-o-y decrease in corporate and other fees is mainly on account of the base effect on forex & derivative fees. But the positive areas have been the sequential improvement in fee income. The fee-to-income ratio improved from 26.4% in the previous quarter to 28.4% during the current quarter.

**Rakesh Jha:** Excluding the forex & derivative fee income, the rest of the fees would have grown at about 10% on a y-o-y basis.

**Manish Karwa:** On the salary cost, it has declined on a sequential basis this quarter. Is it due to lower pension provisioning?

**Rakesh Jha:** Yes, a part of that has come from a lower provision for overall pension and other retirements.

**N.S. Kannan:** Also, if you look at the number of employees, it has decreased by about 3,800 sequentially which has also impacted our salary cost.

**Moderator:** Thank you. We have the next question from the line of Nilanjan Karfa from Jefferies. Please go ahead.

**Nilanjan Karfa:** A question on employee reduction. I probably missed it, you talked about it earlier, what was the rationale, is it more strategic?

**N.S. Kannan:** This is something we had talked about earlier itself. At the beginning of the year, we had mentioned that we would focus on improving employee productivity. We have introduced a number of new technology platforms over the last 18 months like Tab banking, various mobile-based applications, etc. We expect this to translate in terms of better people productivity. Further, as I mentioned during the opening remarks, we had recruited about 14,000 employees over

the last two years. We believe that given our scale of operations, the employee additions over the last two years and our aspirations in terms of growth & productivity, we can do with lesser number of employees. We have executed this strategy by carefully looking at manpower in each of the functions and wherever we believe that the productivity can be enhanced, we have not replaced the attrition. Some of the initiatives could not play out fully in the first quarter, which has started playing out now.

**Nilanjan Karfa:** If I read it right, you have roughly about 69,000 employees on roll today, is that right?

**N.S. Kannan:** That is right.

**Nilanjan Karfa:** Even some of your competitors which are having an asset base much lower than yours are having employee base much higher than yours.

**N.S. Kannan:** If you look at the composition of our assets, about 40% of our loans are from the retail business. Retail is an employee-intensive business in terms of the manpower requirement. The second piece, about 30% of the loans would be domestic corporate which does not consume too much of manpower. Further, about 25% of our asset base is from our overseas branches where bulk of the funding is wholesale in nature and on the lending side, the loans are to corporates. Accordingly, it is not a manpower-intensive business. So, while comparing across banks, one has to adjust for the asset composition. We have looked at it in that context and said that we can do a lot in terms of overall employee productivity.

**Nilanjan Karfa:** Another question about the security receipts. The investment in security receipts decreased by about Rs. 2 billion and you also added Rs. 2.9 billion on account of the assets sold to ARCs? You would have pretty significant amount of redemption, is that the right conclusion?

- Rakesh Jha:** The Rs. 2.9 billion was basically NPAs which were substantially provided for. The SRs we would have got against that would be a much smaller amount.
- Nilanjan Karfa:** So you essentially sold NPAs?
- Rakesh Jha:** Yes, Rs.2.9 billion is the gross NPAs sold. The net of provisions number was much smaller.
- Nilanjan Karfa:** When you look at the insurance space, you said that the incremental business is coming from ULIPs. If you help me understand, is ULIP a better margin product? Further, why is the margin not improving on a sequential or y-o-y basis?
- N.S. Kannan:** No, ULIP is not a better margin product. However, from a customer perspective it is now a much more cost efficient and transparent product than what it used to be earlier. Further, the markets have done well and there is appetite for ULIPs. It is also easier to sell through the branch network. And, of course, as you are aware, post the change in the guidelines for traditional non-linked products late last year, there has been some shift back towards ULIPs in terms of the composition. The challenge is to improve the margins from 10.9% level to 12% to 13% over the next few quarters. If the ULIP happens to be the most popular product given the customer preference, I do not think we can fight it. The company is looking at selling high margin products, like a term product, either on a standalone basis or as a top up product bundled with other products. It will take some time for the margins to improve. The company is quite focused on that and we will also track it from our side.
- Nilanjan Karfa:** You also mentioned that dividends have again increased from ICICI Life. If I look at the full year FY2014, I think the total dividend from the top four large subsidiaries was about Rs. 12 billion. What is the growth you are looking at, an increase of another 15-20%? This



number essentially increased from about Rs. 7 billion the year before.

**Rakesh Jha:** ICICI Life started paying out higher dividends last year but now for the last three quarters on a sequential basis, the dividend from ICICI Life has been stable.

**Nilanjan Karfa:** Would you have any guidance for us?

**N.S Kannan:** Our endeavour would be to increase the dividend income from subsidiaries. However, we have not articulated any specific target on this.

**Moderator:** Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

**Ashish Sharma:** Could you just give a split between domestic and international NIMs? And also from a guidance perspective do you see any lever to increase the domestic margins? And where do you see it from a medium-term perspective?

**N.S. Kannan:** The domestic margins during the quarter were at 3.84% and international margin were at 1.58%. We have seen expansion in domestic margins expansion driven by healthy CASA accretion On international margins, we saw a decrease of about 4 basis points during the quarter on account of the expenses related to US\$ 500 million bond issuance. As I mentioned even during the last call, we would focus on maintaining margins at 3.3% to 3.4% for this year.

**Ashish Sharma:** But from a domestic margin perspective, do you see any levers which can pull this 3.8% to 4%, what is your sense on that?

**N.S. Kannan:** Of course, over the long term that is going to be the objective; however, in the short term one has to look at how the interest rates pan out in the environment. We have seen some moderation of wholesale deposit costs already. We will have to wait and see what

the RBI action is as well as the how the liquidity situation develops over next few quarters. So, there are moving parts which we will have to wait and see. But the endeavour over the long term would be to improve the domestic margins further.

**Ashish Sharma:** Second would be on ICICI Life. The margin for Q2-2015 was around 10.9%. Do you think this can inch upwards, just some color on that?

**N.S. Kannan:** Our endeavour would be to improve the new business margins of ICICI Life. But currently, the most popular product has become ULIP given the market conditions. While we would have liked to sell more of other products, ULIPs accounted for 80% of the new business during the quarter. ULIP is not necessarily a very good product from a margin perspective, but customer preference is currently towards ULIPs. As I mentioned earlier, we would target to improve the margins by moving the product mix towards higher margin products such as term insurance which will be sold either on a standalone basis or as a top up or a rider over the existing products. So, that is the path the company is pursuing and we are hopeful that over the medium term, the margins should improve.

**Moderator:** Thank you. We have the next question from the line of Abhishek Kothari from Quant Capital. Please go ahead.

**Abhishek Kothari:** Just one question on your employee base. Looking at retail growth that you are targeting of about 20%, would you be hiring in large numbers?

**N.S. Kannan:** We will not be hiring in large numbers but wherever required we will hire. Over a period of time the strategic shift has been towards doing more loans from branches. Accordingly, it gets added to the overall branch activity and we can manage it through the existing staff as well by focusing on retail lending through more branches.

- Abhishek Kothari:** Of about 3,800 reduction that we have seen, do you have any break-up such as to which segments did you reduce majorly from?
- N.S. Kannan:** It will be across segments. Since retail continues to be the highest manpower absorbing unit, obviously, it will be a bit more on the retail side, but across the businesses and operations teams we have seen the manpower reduction.
- Abhishek Kothari:** What is our total accumulated NPAs from restructured book?
- Rakesh Jha:** As Kannan earlier mentioned, of all the restructuring that we have done over the last several years, about 15% has slipped into NPAs.
- Moderator:** Thank you. The next question is from the line of Nilesh Parikh from Edelweiss. Please go ahead.
- Kunal:** This is Kunal over here. Just wanted to understand in terms of overall advances what we have seen in case of the other banks, they have gained some traction on the corporate side. Today, our loan growth is still driven by the retail. So what is our stance on that and where do we see the corporate loan growth to be?
- Rakesh Jha:** For us the retail portfolio will continue to grow at a higher pace, it should be closer to 25% for the year. Even for the next couple of years, the growth in the retail portfolio should be strong for us as we are coming from overall lower proportion of retail loans compared to where we used to be earlier. On the corporate side, as things start improving in the economy, we will also start seeing growth there. In the current quarter, the growth in domestic corporate portfolio was about 5% and the SME portfolio was about 11% on y-o-y basis. We expect the growth to improve going forward but it will be a function of what opportunities we see. Further, given the current lower loan growth across the system, the pricing is also extremely competitive. So, we will see how the pricing is and what the risks are, and then grow in a calibrated manner.

- Kunal:** In terms of the provisioning, was there a need of any additional provisioning on the restructured loans that slipped into NPLs?
- Rakesh Jha:** On any loan that slips into NPL, there are RBI guidelines on the provisioning requirements. The requirements for a loan slipping from a standard category or restructured category would be similar. For the loans that have slipped from restructured, we would have made additional provisions as per the RBI requirements and additionally in case of restructuring, the date of NPA has to be taken from when the restructuring had happened. Accordingly, the level of provision required is normally higher than any fresh NPA.
- Kunal:** On this Rs. 800 crores, maybe it would have been slightly higher, is that correct?
- N.S. Kannan:** Yes, because ageing provisions corresponding to that age is much higher provision.
- Moderator:** Thank you. We have next question from the line of Pritesh Bumb from Prabhudas Lilladher. Please go ahead.
- Pritesh Bumb:** One question on home loans. For any industry, especially in the private sector banks, we have seen home loan growth remain more or less flat quarter-on-quarter, there has not been a lot of traction, but we have seen a continuous uptick in the Bank's home loan portfolio growth. What different we are doing on the home loan side for such kind of a growth?
- Rakesh Jha:** If I look at the industry numbers, home loans are still growing reasonably well. System loan growth for mortgages is still about 15% y-o-y. A lot of that growth is with the private sector banks and the housing finance companies. Growth for us is higher than the system in case of home loans and passenger car loans because over the last 18 months we have expanded our presence in locations, where we were earlier not present. That helped us grow the volumes

and we believe that we should be able to sustain this growth. In the next financial year, the level of growth could come down from the current level of 25% due to the higher base.

**Pritesh Bumb:** What kind of a branch expansion do we want to see in the next two quarters and for FY2016?

**N.S. Kannan:** This year, we would be looking at adding about 400 branches and similar pace of addition should continue next year, though we have not yet finalised our plan.

**Pritesh Bumb:** So those incremental branches will be more in metro and urban areas than in the rural areas?

**N.S. Kannan:** It will be a mix across metro, urban, semi-urban and rural areas.

**Pritesh Bumb:** Gross retail NPAs have been coming down for the last few quarters. What level should one see it coming down to?

**Rakesh Jha:** There will be some improvement partly because of recoveries and partly because we have been writing off some NPLs. Thus, gross retail NPLs should still improve from the current levels.

**Moderator:** Thank you. We have the next question from Amit Premchandani from UTI Mutual fund. Please go ahead.

**Amit Premchandani:** On ICICI Life front, of the Rs. 400 crores of profit, how much would be from surrender charges?

**Anindya Banerjee:** I do not think that is a relevant number now, the same would have been a relevant number three years ago.

**Amit Premchandani:** The Home Finance subsidiary has seen growth in this quarter. Are you re-thinking on the strategy of booking the mortgages on the subsidiary or the parent book?

**N.S. Kannan:** No, they have a location-based strategy. Beyond certain locations which are being done by the Bank, mortgages in smaller locations are done by the housing finance company. Going forward, we will continue to book mortgages, predominantly, in the Bank's book.

**Amit Premchandani:** No change in that?

**N.S. Kannan:** No change in the strategy.

**Moderator:** Thank you. The next question is from the line of Rajeev Verma from Bank of America. Please go ahead.

**Rajeev Verma:** On the unsecured portfolio i.e. credit cards and personal loans, can we expect growth to be sustained at the high levels since it is coming off a very low base?

**N.S. Kannan:** Yes, the base is low and growth would be sustained at the levels that we have seen. However, we do not expect the proportion of unsecured retail loans to total loans to materially increase from current levels.

**Rajeev Verma:** For the retail fees growth, how much of the branch network have you penetrated for the growth, in terms of retail assets? Have you reached 60-70% of branches or you still have some scope there?

**N.S. Kannan:** We will still have some scope for increasing penetration. It has expanded a lot compared to what it was a couple of years back, but we still have scope to expand it further.

**Moderator:** Thank you. Our next question is from the line of Anand Laddha from HDFC Mutual fund. Please go ahead.

**Anand Laddha:** You mentioned that you will be focusing on increasing operating efficiencies. Could you throw some light on what sort of opex one can expect?

**N.S. Kannan:** As I had mentioned, we would look at sustaining the cost-income ratio around the current levels. Even at this level it will be one of the most efficient banks in terms of cost-income ratio. We constantly look at efficiencies in not just manpower expenses but all other expenses.

**Anand Laddha:** This quarter the cost-income ratio was at 36%?

**N.S. Kannan:** 36.5%.

**Anand Laddha:** Is it sustainable?

**N.S. Kannan:** Internally, we want to bring it down from the current levels, but we should at least be able to hold that at this level.

**Moderator:** Thank you. The next question is from the line of Jignesh Shial from IDBI Capital. Please go ahead.

**Jignesh Shial:** First, wanted to confirm, what had been the addition to restructured book during this quarter?

**N.S. Kannan:** It is about Rs. 8 billion.

**Jignesh Shial:** Further, since restructuring would not be allowed from next fiscal onwards, do you see more cases coming up for restructuring in the second half of this fiscal and would the probability of slippage from restructuring be even higher in the second half? Do you see that kind of probability?

**N.S. Kannan:** In terms of further restructuring, we have talked about current pipeline of Rs.18 billion which will predominantly get restructured in Q3. Further, there can be cases coming up for restructuring in next few months, which are not part of this pipeline. With regard to slippages from restructured assets, as I mentioned earlier, while our endeavour would be to follow up with companies and ensure that they perform, it will also depend on the economic environment

going forward. We would not be able to predict exactly how much will slip and will have to wait and watch the economic environment to make an assessment.

**Jignesh Shial:** What is the approximate quantum of lending to power or related companies, which might be affected by the ordinance on coal block de-allocation?

**Anindya Banerjee:** As we mentioned earlier, we do not expect any impact on the debt servicing capacity of these companies in the near-term on account of this ordinance. For the medium term, as Kannan mentioned, we analysed the projects based on alternate sources of fuel and while the DSCRs do come down, in most of the cases there would be ability to service debt. As of now we have not identified any projects that will need to be restructured on account of the coal de-allocation.

**Jignesh Shial:** That I agree. I wanted to know the total exposure that you will be having towards this. I am not saying which one of this is looking stressed. I agree that it looks okay right now, but still if you can just give me the total exposure to this.

**N.S. Kannan:** We have not shared any such number.

**Moderator:** Thank you. We will take the last question from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

**M.B. Mahesh:** Just a couple of questions; one, you mentioned that the average CASA was one of the critical drivers for margin expansion, but if you look at margins in the domestic book, the average CASA in the last four quarters has been more or less constant, at about 39% to 39.5%. How has the margin expansion come especially given the fact that the loan mix is moving towards retail? Is it not inherently a yield dilutive process? Two, you have seen reasonably large amount of slippage from the restructured book. You would have seen interest income reversals from the day the asset initially fell into the



moratorium period. So what is driving the margin expansion in the domestic side?

**N.S. Kannan:** While the average CASA ratio has been stable, we have in the last several quarters increased the proportion of retail deposits in the total deposits. Also, the wholesale deposits rates have been coming down. As a result, cost of funds on the domestic side has come down over the last 2 to 3 quarters resulting in margin expansion. While the yields have been broadly stable, it is a combination of these factors which have resulted in an improvement in margins. Restructuring slippages have not really impacted the margins.

**M.B. Mahesh:** Is it possible for you to say that retail yields and corporate yields are at similar levels?

**Rakesh Jha:** We have not given that separately, but they will be different across each of the products.

**M.B. Mahesh:** In response to an earlier question, is it possible for you to tell us how much of the retail assets are now being generated in-house? Two, has it resulted in a higher cost, because the DMA expenses are running at fairly high levels today. Are the RoEs in the retail business inherently equivalent to corporate business? I understand that the long-term aim is to get RoE to above 16% levels. Will retail achieve that RoE or not given the current sourcing pattern and current risk adjusted yields?

**Rakesh Jha:** In terms of the sourcing pattern across various products on the secured side, about 30% would be sourced through branches.

We would target to improve that further from this level. RoE varies across individual products in the retail business. For e.g. while passenger car loans would have relatively lower RoE, mortgages, including LAP, would be doing pretty well in terms of ROE. For the unsecured portfolio, RoEs are even better. Over time, we should be

able to get the retail RoEs to that of the corporate business. Operating efficiency would be a critical driver for us to get to the desired ROEs on the retail business.

**N.S. Kannan:** And looking at the capital regulations, retail is expected to get more and more capital efficient.

**M.B. Mahesh:** That is from a risk weighted asset perspective. From RoE perspective, can we still do 15%-16% levels in the current format?

**Rakesh Jha:** Lower capital requirement will mean higher RoE. Risk weighted assets will be lower, capital requirement will be lower and as a result, RoE will be higher.

**Moderator:** Thank you. I now hand the floor back to Mr. N.S. Kannan for closing comments. Thank you and over to you, sir.

**N.S. Kannan:** My team and I are available for any questions you may have. Thank you for joining the call.

**Moderator:** Ladies and Gentlemen, on behalf of ICICI Bank, that concludes this conference. Thank you for joining us. You may now disconnect your lines.