

**ICICI Bank Limited**  
**Earnings Conference Call – Quarter ended September 30, 2017 (Q2-2018)**  
**October 27, 2017**

*Please note that the transcript has been edited for the purpose of clarity and accuracy.*

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**Moderator:** Good Day, ladies and gentlemen and welcome to the Q2-2018 Earnings Conference Call of ICICI Bank. As a reminder, all participant lines will be in the listen-only mode, and there will be opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Chanda Kochhar, Managing Director and CEO of ICICI Bank. Thank you and over to you, ma'am.

**Chanda Kochhar:** Good evening to all of you.

Our Board has today approved the financial results of ICICI Bank for the quarter ended September 30, 2017.

The Bank continues to make progress on the strategic priorities outlined in our 4 x 4 Agenda covering Portfolio Quality and Enhancing Franchise. I would like to highlight a few areas in this context:

1. We continue to maintain our focused approach to growth, which is in line with the objective of improving the portfolio mix.
  - The domestic loans portfolio grew by 12.8% year-on-year.
  - The retail loan portfolio grew by 18.6% year-on-year at September 30, 2017. Growth in the retail portfolio was strong across products.
  - During Q2 of 2018 we saw an uptick in domestic corporate loan growth. Excluding net NPAs, restructured loans and loans internally rated below investment grade in key sectors at September 30, 2017, growth in the domestic corporate portfolio was about 14%. About 90% of the disbursements in the domestic corporate portfolio in H1 of 2018 were to corporates rated A- and above.
  - The SME portfolio grew by 6.0%
  - At the same time, there was a reduction in some parts of the balance sheet
  - Net NPAs, restructured loans and loans to internally rated below investment grade in key sectors at September 30, 2017, declined by 30.9% year-on-year.
  - The loan portfolio of overseas branch declined by 21.6% on a year-on-year basis.
  - Therefore, overall loans grew by 6.3% year-on-year at September 30, 2017.
2. Our funding profile remained healthy as savings account deposits increased by 21.5% year-on-year and current account deposits increased by 17.2% year-on-year. The outstanding CASA ratio was 49.5% at September 30, 2017.

3. The growth during Q2 of 2018 was profitable. The net interest margin was 3.27%, at a similar level as Q1 of 2018 and higher by 14 bps compared to Q2 of 2017.
4. Gross additions to NPAs continued to decline and were 46.74 billion Rupees in Q2 of 2018 compared to 49.76 billion Rupees in Q1 of 2018 and 80.29 billion Rupees in Q2 of 2017. The net NPAs declined during the quarter in absolute terms from 253.06 billion Rupees at June 30, 2017 to 241.30 billion Rupees at September 30, 2017. The net NPA ratio declined from 4.86% to 4.43%. There was a sequential increase of 410 bps in the provision coverage ratio on non-performing loans to 59.3%, including cumulative technical/prudential write-offs, further strengthening the balance sheet.
5. The Bank also made significant recoveries from non-performing loans. Recoveries and upgrades from non-performing loans aggregated 10.29 billion Rupees in Q2 of 2018.
6. The Bank's capital position continues to be strong with a Tier 1 capital adequacy ratio of 14.85% at September 30, 2017, including profits for H1 of 2018.
7. We continue to be at the forefront of offering technology-enabled services to our customers. Debit and credit card transactions continued to grow at a healthy rate. The number of debit card transactions at point-of-sale terminals increased year-on-year by 64% in Q2 of 2018. The number of credit card transactions increased year-on-year by 40%. The number of mobile banking transactions increased by 57% year-on-year. Over 5.0 million Unified Payment Interface (UPI) Virtual Payment Addresses have been created using the Bank's mobile platforms till September 30, 2017. The Bank's artificial intelligence powered chatbot iPal

handles about 1.0 million queries/chats monthly on both website and mobile app with nearly 90% resolution. iPal's services involve simple FAQs, financial transactions and helping customers to discover new features.

Coming to our subsidiaries:

8. During Q2 of 2018, we saw the first IPO from a general insurance company in India, by ICICI Lombard General Insurance Company. The transaction valued ICICI General at 300.00 billion Rupees and its market capitalization as of October 26, 2017 was 311.00 billion Rupees. The Bank continues to have 55.9% shareholding in ICICI General. This transaction further demonstrates the significant value created in our non-banking subsidiaries.

I will now hand the call over to Kannan.

**Mr. Kannan:**

I will talk about our performance on growth and credit quality. I will then talk about the P&L details, subsidiaries and capital.

#### **A. Growth**

The domestic loan growth was 12.8% year-on-year at September 30, 2017 driven by strong growth in the retail business. Within the retail portfolio, the mortgage and auto loan portfolios grew by 17% and 15% year-on-year respectively. Growth in the business banking and rural lending segments was 26% and 16% year-on-year respectively. Commercial vehicle and equipment loans grew by 14% year-on-year. The unsecured credit card and personal loan portfolio grew by 39% year-on-year, off a relatively small base, to 249.55 billion Rupees and was about 5.2% of the overall loan book as of September 30, 2017. We continue to grow the unsecured credit card and personal loan portfolio primarily driven by a focus on cross-sell to our existing customers.

The SME portfolio constituted 4.3% of total loans as of September 30, 2017.

The net advances of the overseas branches decreased by 21.6% year-on-year in Rupee terms and 20.0% year-on-year in US dollar terms as at September 30, 2017, reflecting our overall approach to corporate lending as well as the repayment of FCNR deposit linked loans in fiscal 2017. The international loan portfolio has now reduced to 14.9% of our total loans.

Coming to the funding side: total deposits grew by 11.0% year-on-year to 4.99 trillion Rupees as of September 30, 2017. On a daily average basis, current and savings account deposits grew by 24.2% year-on-year. On a daily average basis, the CASA ratio was 45.2% in Q2 of 2018.

## **B. Credit Quality**

Gross NPA additions were 46.74 billion Rupees in Q2 of 2018. The retail portfolio had gross NPA additions of 6.60 billion Rupees in Q2 of 2018 compared to 8.79 billion Rupees in Q1 of 2018. Additions to NPAs from: restructured loans; loans to companies internally rated below investment grade in key sectors, or the drilldown list; devolvement of non-fund based exposure and increase in outstanding due to exchange rate movement related to accounts classified as non-performing in prior periods; and loans to a central PSU owned power company in respect of which we have been disclosing the net exposure as a footnote to the drilldown list disclosure, aggregating 17.27 billion Rupees. The exposure to the central PSU owned power company is under resolution through a demerger process, which we expect will conclude in the coming months. As we await the demerger order, the account has been classified as non-performing based on payment record and

application of RBI guidelines. The balance addition of 22.87 billion Rupees to NPAs includes one large exposure in the oil & gas sector.

The net standard restructured loans were at 20.29 billion Rupees, about 0.4% of net advances, as of September 30, 2017 compared to 23.70 billion Rupees as of June 30, 2017.

The Bank has been reporting a further drilldown of its portfolio in key sectors. Our approach to the drilldown list has been explained in slide 33 of the investor presentation. The aggregate fund based limits and non-fund based outstanding to companies that were internally rated below investment grade in the key sectors and promoter entities, decreased from 203.58 billion Rupees as of June 30, 2017 to 195.90 billion Rupees as of September 30, 2017. On slide 35 of the presentation, we have provided the movement in these exposures between June 30, 2017 and September 30, 2017.

- There was a net decrease in exposure of 9.60 billion Rupees. The decrease was mainly due to reduction of exposure to a promoter entity.
- There were rating downgrades of exposures aggregating to 4.48 billion Rupees to 'below investment grade' during the quarter. The downgrades were largely from the power and iron and steel sectors. Of this, exposure to one account has reduced by 0.98 billion Rupees subsequent to September 30, 2017.
- There was a reduction of 2.56 billion Rupees due to classification of certain borrowers as non-performing.

The above amount of 195.90 billion Rupees includes non-fund based outstanding in respect of accounts in this portfolio where the fund based outstanding has been classified as non-performing. Apart from this, the non-fund based outstanding to borrowers classified as non-performing was 21.19 billion Rupees as of September 30, 2017 compared to 21.35 billion Rupees as of June 30, 2017. The aggregate non-fund based outstanding to companies in the restructured

portfolio was 4.15 billion Rupees as of September 30, 2017 compared to 5.15 billion Rupees as of June 30, 2017.

On slide 27 of the presentation, we have provided the details of loans under various RBI resolution schemes as of September 30, 2017, and have also indicated the amounts under each scheme which are also part of the drilldown list or the restructured portfolio. Comparative numbers as of June 30, 2017 have been provided on the linked slide 61. I would like to mention that of the outstanding performing loans of about 26 billion Rupees where a change in management outside of the SDR scheme is being implemented, loans of about 10 billion Rupees are a part of the drilldown exposure and the balance about 17 billion Rupees largely represents one borrower in the sugar industry, where a binding agreement for change in management has been entered into and we expect this to be resolved in the coming months. I would also like to highlight the overlap of about 17 billion Rupees noted on slide 27, between loans for which refinancing under the 5/25 scheme has been implemented and loans under SDR or change in management outside SDR.

At September 30, 2017, excluding NPAs, restructured loans, the drilldown list and loans under RBI resolution schemes, the maximum single party BB and below rated exposure was about 6 billion Rupees.

During Q1 of 2018, RBI had advised banks to initiate insolvency resolution process in respect of 12 accounts under the provisions of Insolvency and Bankruptcy Code, 2016 and also required banks to make higher provisions for these accounts during the year. The Bank was required to make an additional provision of 6.51 billion Rupees over three quarters as advised by RBI, in addition to the provisions to be made as per the existing RBI guidelines. The entire amount of 6.51 billion Rupees was provided in Q2 of 2018. At September 30, 2017, the Bank held provisions of 35.42 billion Rupees on these loans

which amounts to a 56.5% provision coverage in respect of outstanding loans to these borrowers.

During the second quarter, RBI directed banks to initiate insolvency resolution process for additional accounts under the provisions of IBC by December 31, 2017, if a resolution plan where the residual debt is rated investment grade by two external credit rating agencies is not implemented by December 13, 2017. At September 30, 2017, the Bank had outstanding loans and non-fund facilities to 18 borrowers amounting to 104.76 billion Rupees and 13.84 billion Rupees respectively. 98.7% of the loans amounting to 103.37 billion Rupees were to borrowers classified as non-performing as of September 30, 2017. The Bank at September 30, 2017, holds provisions of 32.99 billion Rupees against these outstanding loans, which amounts to 31.5% provision coverage in respect of outstanding loans to these borrowers, reflecting that these are more recent additions to NPA.

As we have stated in our previous earnings calls, we continue to expect the additions to gross NPA in FY2018 to be significantly lower than FY2017.

### **C. P&L Details**

The domestic NIM was at 3.57% in Q2 of 2018 compared to 3.62% in Q1 of 2018 and 3.41% in Q2 of 2017. International margins were at 0.95% in Q2 of 2018 compared to 0.73% in Q1 of 2018 and 1.65% in Q2 of 2017.

There was interest on income tax refund of 0.79 billion Rupees in Q2 of 2018 compared to 1.77 billion Rupees in Q1 of 2018 and 1.11 billion Rupees in Q2 of 2017. Margins in Q2 of 2018 were positively impacted by significant interest collection from non-performing and other non-accrual accounts.



Non-interest income for the quarter included gains of 20.12 billion Rupees relating to sale of shares of ICICI General in the IPO and dividend income of 2.76 billion Rupees from ICICI Life. Non-interest income in Q2 of 2017 included gains of 56.82 billion Rupees relating to sale of shares of ICICI Life.

- Fee income grew by 9.1% year-on-year in Q2 of 2018 with retail fee income growth of 13.1% year-on-year. Growth in retail fees was driven by lending linked fees, third party fees and credit cards. Retail fees constituted 70% of overall fees in Q2 of 2018.
- Treasury recorded a profit of 21.93 billion Rupees in Q2 of 2018 compared to 64.12 billion Rupees in Q2 of 2017.
- Other income was 4.23 billion Rupees in Q2 of 2018 compared to 3.52 billion Rupees in Q2 of 2017.

On Costs: the Bank's cost-to-income ratio was at 35.9% in Q2 of 2018. Operating expenses increased by 4.6% year-on-year. The Bank had 83,058 employees at September 30, 2017.

The Bank's standalone profit before provisions and tax, excluding gain on sale of shares in insurance subsidiaries was 49.74 billion Rupees in Q2 of 2018 compared to 51.84 billion Rupees in the preceding quarter and 49.54 billion Rupees in the corresponding quarter last year.

Provisions were 45.03 billion Rupees in Q2 of 2018 compared to 26.09 billion Rupees in the preceding quarter. There was a sequential increase of 410 bps in provision coverage ratio on non-performing loans to 59.3%, including cumulative technical/prudential write-offs, further strengthening the balance sheet.

The Bank's standalone profit before tax was 24.83 billion Rupees in Q2 of 2018 compared to 25.75 billion Rupees in the preceding quarter and 35.53 billion Rupees in the corresponding quarter last year.

The Bank's standalone profit after tax was 20.58 billion Rupees in Q2 of 2018 compared to 20.49 billion Rupees in the preceding quarter and 31.02 billion Rupees in the corresponding quarter last year.

#### **D. Subsidiaries**

The profit after tax for ICICI Life for Q2 of 2018 was 4.21 billion Rupees compared to 4.19 billion Rupees in Q2 of 2017. The new business margin has been continuously improving from 8.0% in FY2016 to 10.1% in FY2017 and further to 11.7% in H1 of 2018. In H1 of 2018, the company retained its market leadership among the private players based on retail weighted received premium with an overall market share of 13.7% and private sector market share of 24.6% in H1 of 2018. The Embedded Value, based on Indian Embedded Value methodology, was 172.10 billion Rupees as of September 30, 2017 compared to 161.84 billion Rupees as of March 31, 2017.

The profit after tax of ICICI General increased by 19.3% from 1.71 billion Rupees in Q2 of 2017 to 2.04 billion Rupees in Q2 of 2018. The gross written premium of ICICI General grew by 17.5% on a year-on-year basis to 32.34 billion Rupees in Q2 of 2018. The company continues to retain its market leadership among the private sector players and had an overall market share of about 8.9% in H1 of 2018.

The profit after tax of ICICI AMC increased by 20.0% year-on-year to 1.56 billion Rupees in Q2 of 2018. With average assets under management of about 2.8 trillion Rupees for the quarter, ICICI AMC continues to be the largest mutual fund in India.

The profit after tax of ICICI Securities increased by 32.3% year-on-year to 1.31 billion Rupees in Q2 of 2018 compared to 0.99 billion Rupees in Q2 of 2017.

The Bank's total equity investment in ICICI Bank UK and ICICI Bank Canada has reduced from 11.0% of its net worth at March 31, 2010 to 4.0% at September 30, 2017.

ICICI Bank Canada had a profit after tax of 12.8 million Canadian dollars in Q2 of 2018 compared to a loss of 5.4 million Canadian dollars in Q2 of 2017.

ICICI Bank UK had a profit after tax of 2.4 million US dollars in Q2 of 2018 compared to 2.3 million US dollars in Q2 of 2017.

The consolidated profit after tax was 20.71 billion Rupees in Q2 of 2018 compared to 29.79 billion Rupees in corresponding quarter last year and 26.05 billion Rupees in the preceding quarter.

## **E. Capital**

The Bank had a Tier 1 capital adequacy ratio of 14.85% and total standalone capital adequacy ratio of 17.89%, including profits for H1 of 2018. The Bank's consolidated Tier 1 capital adequacy ratio and the total consolidated capital adequacy ratio, including profits for H1 of 2018, were 14.67% and 17.50% respectively. The capital ratios are significantly higher than regulatory requirements.

To sum up, during Q2 of 2018 the Bank:

1. Continued to unlock value in subsidiaries;
2. Progressed on resolution & recovery in the corporate segment;
3. Sustained growth in retail loans;

4. Maintained a healthy funding mix;
5. Continued to focus on selective lending opportunities; and
6. Maintained focus on cost efficiency and capital efficiency.

The Bank's pre-provisioning earnings, capital position and value created in its subsidiaries give the Bank the ability to absorb the impact of challenges in the operating and recovery environment for the corporate business while driving growth in identified areas of opportunity.

We will now be happy to take your questions.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

**Mahrukh Adajania:** On the RBI audit, the report of which will come out this quarter, there are a lot of names floating around for other banks whose audit is complete. Based on that would there be any guidance on the size of divergence expected in the next quarter because that is one key figure that everyone is tracking?

**Chanda Kochhar:** Mahrukh, as we mentioned earlier the final process of RBI supervisory review is not complete, so we await the final report. During that period, it would not be appropriate for us to talk about any specific cases or any other bank-specific issues.

**Mahrukh Adajania:** In terms of the watch list, you have clarified what slipped outside the watch list and there are good enough details in the presentation, but over the last two quarters the slippage from the watch list is low. This question is not about slippages outside the watch list, this question is focused on the watch list. Do you expect the slippage ratio from the watch list to be lower now than what you had expected say five or six months ago?

**Chanda Kochhar:** It is a drilldown list, but I will ask Kannan or Rakesh to answer.

**Rakesh Jha:** Mahrukh, in terms of the drilldown list that we have given across the sectors, one of the things is that some of those loans are under various RBI resolution schemes, that is either an SDR is underway or change in management outside SDR etc. That is something where an RBI dispensation is there. In terms of specific sectors like iron & steel, for example, indeed the performance of companies has generally been improving over the last couple of years, but in case of other sectors, clearly there is stress. We will have to see how the asset classification moves over the coming quarters from the drilldown list.

**Mahrukh Adajania:** In terms of margins, they have turned out to be better than what most people expected. How do you view margins going ahead? Would you be revising your guidance for the full year?

**Rakesh Jha:** We had said that our margin should be more than 3% for the full year. Clearly in the first half we have been at 3.27%, so for the year we will definitely end up higher than the initial estimate that we had given. For the second half of the year, we would expect margins to be above 3%, so for the full year it will be an average of 3.27% and what we see in the second half of the year. There has been some benefit from the reduction in the savings deposit rate of 50 basis points, part of it came in the September quarter and part of it will come in the coming quarters. Kannan talked about some of the benefit that we got from the interest on the income tax refund in Q1 and Q2 as well.

**N. S. Kannan:** As I mentioned we also had decent collection from non-accrual loans during the second quarter.

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

- Kunal Shah:** Particularly with respect to the RBI's second list and the provisioning coverage today, the names are out and looking at the assessment of what could be the sustainable debt in case of these 18 borrowers, when do we think of say providing extra? Will we be waiting for their admission and say the final resolutions under NCLT or maybe till December, how would the overall provisioning move on Rs. 10,000-odd crores of such loans?
- N. S. Kannan:** As I mentioned in my remarks, we do have a provision cover of about 31.5% currently and RBI has given time till 13th of December to work out a resolution plan. We are working on the resolution plans, failing which we will have to refer them to NCLT by December 31st and the provisions will have to be taken before 31st of March. So we will continue to work on these cases and see how it develops. Also, in the meanwhile, in some of the cases depending on the NPL bucketing, normal ageing based provisions will be made.
- Kunal Shah:** If it gets referred to NCLT and given that there would be a 180-day deadline, would provisioning get pushed to the next fiscal or will it have to be taken prior to March?
- N. S. Kannan:** RBI guideline is very clear; that 50% provisioning will have to be taken by the end of this financial year.
- Kunal Shah:** Even on the second list?
- N. S. Kannan:** Even on the second list, that is quite clear. The resolution process is a separate one. That will take 180 to 270-days depending on how it progresses under NCLT.
- Kunal Shah:** In terms of the expression of interest which are coming for the first 12 cases, what is your assessment in terms of the fair value which we would have estimated and the bids given the supply of assets. Is there a huge scope of the bid being lower than the fair value under the NCLT regime resulting in lower recoverability?

**N. S. Kannan:** We have said earlier also that the steel companies in the first list have been showing a good EBITDA and industry prospects are much better today. We do believe that there could be good amount of sustainable debt in that portfolio. If you recall we had discussed earlier that in case of some of these assets, more than 50% of the debt would have been sustainable even under the S4A process, so things have stabilised there. In case of operating plants we are very confident of a decent amount of sustainable debt. That outlook continues even now. Things have only gotten better from there.

**Kunal Shah:** But apart from steel, what about other companies, maybe EPC given the underlying assets are not much?

**N. S. Kannan:** We will have to look at it on a case-by-case basis. As I mentioned earlier, on the first list of 12 cases we have increased the provisioning coverage by making the entire additional provisions required for 50% coverage upfront in this quarter itself, i.e. over and above the ageing based provision required by RBI.

**Kunal Shah:** How much has transitioned to MCLR from 56% in the last quarter?

**Rakesh Jha:** 62% of domestic floating rate loans are now linked to MCLR.

**Moderator:** Thank you. The next question is from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead.

**Pawan Ahluwalia:** I just want to shift gears and talk a little bit about the retail side of the business. The progress on CASA is obviously quite impressive. I was wondering when I look at the asset side of the book, that it is a very conservatively constructed book. Given the CASA you have gathered, the scale and franchise you have, and the investments you are making in technology, is there a room to do more in terms of the kinds of things some of your peers are doing with deeper penetration on unsecured loans, credit cards, the high yielding portion of book? Plain vanilla retail is already intensely competitive and may even get more so depending on how PSUs react to the recapitalisation. In a

similar way, the fee income growth has been fairly sluggish. I was hoping to get your perspective on what the retail strategy is likely to look like over the next few years. Is there a scope of getting higher margin, better fee generating retail products or is it likely to be a very conservatively constructed book and you are willing to forego margins and fees for lower risk?

**N. S. Kannan:**

If we look at retail growth over the last several quarters, it has been extremely robust and even in this quarter, the book grew by 18% year-on-year. We have said that for the full year the retail book would grow between 18% to 20%. Given the environment we believe that it is a very good robust growth. Within retail if we look at some of the high margin businesses, we have indeed seen a much higher growth, although off a small base, but as a proportion it is increasing. Our own strategy is clearly good growth however not at the cost of quality. We have pushed many levers, if you look at the things we have done in the last few quarters, the percentage of branch based sourcing has increased a lot, we have also mined our data to look at prequalified offers for our existing customers, and thirdly we have deployed technology and big data to make sure that we use analytics to expand our business in this area. So from our side we are not really holding back, we just want to make sure that as we grow the portfolio, the quality is intact which is what has happened. We will continue to grow this portfolio going forward. Retail fee income growth is currently about 13% which we think is good and of course as you said, as we move along, there is an opportunity to further increase the fee income growth in the retail area. I clearly want to give a message saying that we are growing in a robust manner, even the recent indicators are showing a very robust growth in this portfolio and within the quality parameters, we will be very happy to grow this business further.

**Pawan Ahluwalia:** Given what you said is it reasonable to expect that over a two, three year horizon your metrics on the retail front in terms of penetration



of higher margin products, retail fee income and NIM, etc. will converge with the best-in-class private sector peers?

**N. S. Kannan:** I do not want to make any interbank comparison with best-in-class or otherwise, but what I feel is that as a proportion clearly, the proportion of unsecured loans will go up from here. We believe that we have looked at the portfolio quality and it is growing with a very good quality.

**Moderator:** Thank you. The next question is from the line of Ravikant Bhatt from Emkay Global. Please go ahead.

**Ravikant Bhatt:** I was referring to your comments post the fourth quarter results wherein you said that for the year as a whole, overall slippages will be significantly lower compared to FY2017. Looking at your performance in H1-2018, would you still be reasonably confident that this performance can be repeated in H2?

**N. S. Kannan:** Yes, we are absolutely confident that slippages for this current financial year are going to be significantly lower than last year.

**Ravikant Bhatt:** Again rewinding a bit, will it be possible for you to give some colour on what kind of common boxes would the accounts identified as divergent earlier would have checked? For example, were these SMA-2 accounts or were they delinquent elsewhere, but not delinquent in your books, or belonging to particular segments, what kind of common boxes would these have checked?

**Rakesh Jha:** There would not be any such common element which can be identified. I think it is more of a borrower-specific issue. If you look at our portfolio, in addition to the NPA and restructured loans, we have talked about the drilldown list also and some of the loans which are under RBI resolution schemes, that is the broad overall portfolio which is there.

**N. S. Kannan:** Our endeavour this time has been to give you a full sense of the residual portfolio. I specifically mentioned about one particular sugar asset, which we believe will get sorted out over the next few months because of the binding agreement which has been entered into for a change in management, that is of the order of about Rs.17 billion, and also we thought we should give you a color on the residual portfolio. When we look at the BB and below internally rated portfolio, the maximum exposure to single borrower is about Rs. 6 billion. We believe that apart from all the disclosures you have seen from us in terms of NPA, restructured loans and the drilldown list, RBI schemes etc. the residual portfolio on the corporate side, which is below investment grade is quite a granular portfolio, that is a sense we wanted to give you.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

**Nitin Agarwal:** My question is that over past two quarters we have had downgrades amounting to nearly Rs. 2,000-odd crores which have been hampering the reduction in the watch list. Is it possible to get a sense of assets which are under rating watch and thus potentially can get added to the watch list going ahead?

**Rakesh Jha:** In the last quarter we had mentioned that there was a particular development in a power sector company because of which it got downgraded from investment grade to below investment grade for us. These downgrades are actually based on ongoing developments, as and when it happens. It is not that there is an immediate list of accounts which can potentially be downgraded. In a large portfolio as you would appreciate there could be some downgrades and upgrades in the overall portfolio. In general, as we have said, we do not expect any lumpy downgrades on the portfolio, but beyond that it is very difficult to say.

**Nitin Agarwal:** Do you think it is possible that ICICI Bank can report say zero or negligible divergence with the RBI or you think it is very difficult for banks with big corporate portfolio to have that in the current environment? I am not asking just in respect to this year, but say probably in the following year, can you assure that we will not have divergence running into thousands of crores?

**Rakesh Jha:** It is very difficult to give an assurance on a going forward basis, but in general, yes, when there is a divergence, one also looks at internal processes and what the regulator is expecting on some of these accounts, but beyond that, it is an evolving process. The regulator's approach has been evolving. We thus have to see that. I do not think any bank can give an assurance on that on a going forward basis. But as we said for the current year, our assessment is that our NPA additions for the year will be significantly lower than the last year.

**Nitin Agarwal:** Does the RBI vet the entire portfolio or is it some proportion of the portfolio which gets vetted and then analyzed for divergence?

**Rakesh Jha:** It is like any supervisory process or an inspection process wherein you would not really go an account-by-account basis across the entire portfolio for banks. You would have your own criteria as to which accounts you would want to review and all. So there would be some kind of a sampling which would be there across all the banks.

**N. S. Kannan:** It is a risk-based supervision which RBI is adopting. They will look at files which they feel are appropriate internally in the bank and at the same time they also have information on the system-wide conduct of these accounts. With that information they choose whichever account they want and we always give them all the information required by them to complete the assessment.

**Moderator:** Thank you. Next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.

- Manish Karwa:** My question is on SDR. In this quarter the increase in SDR is just because of one sugar account or there are other cases as well?
- Rakesh Jha:** That is a change in management outside SDR for the sugar borrower. In addition, there is one account from the drilldown list as well.
- Manish Karwa:** There are two accounts. In the sugar account, do we expect full recovery or will there be a haircut that we may have to take?
- Rakesh Jha:** There is a binding agreement which is there. We will have to see how that progresses and whether there would be any sacrifice involved or not. As of now, it is very difficult to comment on that.
- Manish Karwa:** On the mining account wherein we have implemented a change in management, what is the update there because it has almost been three quarters since that happened? When do we expect that to get concluded?
- N. S. Kannan:** It is part of the RBI scheme which is change in management outside of SDR. The mine is operating and beyond that we continue to be in a dialogue with the management. Nothing specific to update further during the quarter on that.
- Manish Karwa:** But how long can you keep that as a standard asset?
- N. S. Kannan:** There are fixed timeframes stipulated by RBI. Those timelines have to be followed in respect of this account also.
- Manish Karwa:** Just one data point, oil & gas account, what was the quantum of that account?
- Rakesh Jha:** A very large part of the slippage that you are seeing from outside the identified set of accounts, but we have not given a specific number for that.
- Manish Karwa:** Lastly what was the retail and SME slippage during the quarter?

**N. S. Kannan:** Retail slippage were about Rs. 6.60 billion compared to about Rs. 8.79 billion in the previous quarter.

**Rakesh Jha:** For SME and corporate, we give the combined numbers.

**Manish Karwa:** So Rs. 6.60 billion for SME and retail put together.

**Rakesh Jha:** That is retail only

**N. S. Kannan:** Which was Rs. 8.79 billion last quarter, retail only.

**Moderator:** Thank you. The next question is from the line of Deepak Sharma from Alliance Bernstein. Please go ahead.

**Deepak Sharma:** I just wanted to ask if we have plans to issue offshore bonds during the second half of this fiscal year?

**Rakesh Jha:** As of now there are no firm plans around that, but that is an ongoing activity that we do to fund our overseas business. Depending on the loan demand that we see and the funding opportunities, we would look at it.

**Deepak Sharma:** Also with respect to the guidance on credit cost and NPA ratios, do you see any major change for the year-end of fiscal '18 from the current levels?

**Rakesh Jha:** We expect that credit cost for the year will continue to be elevated. On NPAs, we would expect the additions for the year to be significantly lower than last year. These are the two things that we have said. On credit cost in the second half of the year, of course, there would be some impact which could come in from the second list of accounts which RBI has asked banks to resolve before December 13th, failing which it has to be referred to NCLT.

**N. S. Kannan:** These provisions will end up increasing the provisioning coverage ratio.

**Deepak Sharma:** Sir, for the loan growth and deposit growth, will it be similar to what we have achieved in the first half?

**Rakesh Jha:** Loan growth, we would expect to see some improvement on both the domestic and the overseas book, domestic because last year if you remember, the third and fourth quarters had a relatively lower growth because of demonetisation. We would thus expect some improvement because of that on YoY basis. On the overseas book, as we have mentioned in the earlier quarters also, because last year there were large repayments which happened on the loans against FCNR(B) deposits, the portfolio had come down in the December quarter. So, again on YoY basis from December you will see a lesser decline on the overseas book. So, overall the growth will improve. On the domestic book, we would expect the growth to get to around 15% or slightly higher with retail continuing to grow between 18% to 20%.

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

**Vishal Goyal:** I think in the residual slippage which is around Rs. 22 billion, was that from below investment grade book or like rated below BBB?

**Rakesh Jha:** Yes, it will mostly be from that.

**Vishal Goyal:** Second, I think on the NCLT second list, with one more month left, how much of this you think would basically get resolved, resolution without NCLT?

**N. S. Kannan:** It is difficult to comment now because these cases are consortium cases and we will have to work with the other banks to complete the resolution. We will really have to wait and see how it develops.

**Vishal Goyal:** Last question on the drilldown list. Almost 60% of our drilldown list is part of some RBI scheme now. If we were to think of mortality from here into let us say NPL, do you think these are safe now? With the

schemes already being in place, is there a very high probability of them staying standard?

**Rakesh Jha:** So it would be a mix, Vishal, in the sense that like the case that we added in the current quarter for a change in management outside SDR, there is a binding agreement which is already there. In some of the cases which are there in the drilldown list and within RBI scheme, if it is under SDR, the change in management still has to happen on those cases. It is not that if it is under a RBI resolution scheme, one can assume that the solution is already kind of done and complete. It is difficult to say how much could slip and how much will be standard.

**Vishal Goyal:** What do you think is the status now on IFRS? Is RBI interested in IFRS for this year because we are hearing that the final rules are not yet out and there are only three or four months left?

**Rakesh Jha:** RBI in September had asked banks to submit their financials for the June quarter under IND AS and submission has to be done in the coming days. So to that extent RBI is clearly working on IND AS migration from April 1, 2018. Of course, banks have been expecting some kind of draft guidelines because there will be changes in the prudential and regulatory guidelines as well, those are still awaited. But otherwise with respect to IND AS, the standard itself is quite comprehensive. You do not require too much of accounting guidelines, but some of the regulatory guidelines would require a change and those draft guidelines have not come out. But otherwise from our understanding, RBI is working on it and that's why they have asked banks to submit their financials for the first quarter based on the IND AS numbers.

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

**Rohan Mandora:** On cases which may be seeing initial signs of stress and these are obviously not the cases which RBI mandates to be referred to IBC, how comfortable would we be to refer these cases to IBC for say some form of resolution? How do we see ICICI Bank or any other bank using IBC, say, two to three years down the line?

**N. S. Kannan:** Even before this RBI list came we were the first bank to use NCLT where we thought that that is the best way to move forward. It is not just this list, we also have several other cases which are in NCLT. Our approach is that we look at the best resolution mechanism possible given the environment, given the asset and the Bank's interests. It has to be a case-to-case approach. Whenever we think NCLT is an optimal way of arriving at a solution we will not hesitate to go to NCLT.

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

**Nilanjan Karfa:** Hi, Kannan. Could we have the cash interest received from basically the NPL accounts in the first half?

**Rakesh Jha:** Actually we do not disclose that separately.

**Nilanjan Karfa:** But you have quoted qualitatively, the quantum going up on YoY basis?

**Rakesh Jha:** The quantum is actually reasonably volatile. If you recollect we had reported that one reason for higher margin in Q4-2017 was increased collection from non-accrual accounts. Q1-2018 was a bit lower, Q2-2018 again was higher, because these are non-accruing accounts wherein we get cash collection, so there is no consistency across that, it has been volatile in the last two quarters, and we would expect the same to be the case going forward as well.

**Nilanjan Karfa:** How do you distinguish whether it is an interest or principal payment? It could very easily be classified under other income.



- Rakesh Jha:** It is principal repayment also that we get in cash on these accounts. In some of them we get it as interest. If you look at the quarter, overall recoveries and upgrades were Rs.10 billion reflecting collections that we have got in cash against the principal. Overall to give you a sense in terms of the interest collection it would not impact the margin by say more than 10 basis points on QoQ basis. It is not such a large number as well.
- Nilanjan Karfa:** Also in this call so far we are sounding very very confident on a couple of things, which is margins will still be good in H2, slippages will still be lower versus last year. Why don't you qualify it by saying that I do not know what the divergences will be next quarter? Or do you believe based on your past experiences, that this is probably not going to move the needle so much and therefore you are that much confident?
- N. S. Kannan:** We have said very clearly that we cannot comment on the RBI divergence or otherwise report. What we have clearly said is that the final report is still awaited. Beyond that we cannot say anything on the RBI process or divergence.
- Nilanjan Karfa:** So should you not qualify saying that subject to that report being received next quarter, our guidance might actually change?
- Rakesh Jha:** The guidance that we have given for the year is that our gross NPA additions will be significantly lower than last year. We have not really gone ahead and given a much more precise guidance on the NPA ratio or NPA addition number. We believe that in our assessment we should be on track to end up the year with a significantly lower NPA addition compared to last year. Of course, the RBI process is not complete as we speak. Similarly, on the margins, we ended up the first half with 3.27%. What we are saying is that for the second half we expect the margin to be above 3%. So clearly there is some pressure which would be there because incremental lending spreads are under pressure. There will be some offset because of the full

impact of the 50 basis points savings deposit rate cut that we are factoring in. Further, in the first half we got very good amount of interest on income tax refund which may not repeat in the second half of the year. Taking that into account we have said that the margin will be above 3%. It is not that we are saying that the margin will be maintained, or it will improve in the second half. But the fact that margins would be above 3% is something we are quite confident given the trends that we are seeing.

**Nilanjan Karfa:** Would you want to disclose what the total BB and below rated exposure is at this stage? I understand you said per account basis, it is Rs. 6 billion, but what is it in totality or as a percentage?

**Rakesh Jha:** If you look at the last couple of quarters we have talked about few of these lumpy accounts which are below investment grade and outside the drilldown list. Those have actually either slipped into NPA or got into a resolution process. For one of them a change in management outside SDR has been invoked. Beyond that if you look at the BB and below portfolio outside of drilldown list and the various RBI resolution schemes that we anyway disclose separately, the largest exposure is Rs. 6 billion. Overall given the NPA addition in absolute terms that has been coming from outside all of this in the last couple of quarters and given that the largest exposure now is Rs. 6 billion, we would not expect that to be the case. So it should not be that much of an issue going forward.

**Moderator:** Thank you. Next question is from the line of Amey Sathe from Tata Mutual Fund. Please go ahead.

**Amey Sathe:** Two questions from my side; one is on the SME loan book. You talked about 15% to 20% growth last quarter, but this quarter it seems that it has slowed down little bit. So anything on that side?

**Rakesh Jha:** For the year, we still believe that we should end up in the region of 15% to 20% growth on the SME portfolio. For the quarter, you are

right, on a YoY basis the growth was lower than what we were expecting. The market is extremely competitive in terms of pricing and there would have been some impact of GST as well. But for the year given what we are looking at, we are relatively confident of getting the growth of 15% to 20% on the SME portfolio. The other smaller business portfolio which is a part of our retail business which we disclose as the business banking portfolio has grown at upwards of 20% for the year.

**Amey Sathe:** The second question is on margin. You mentioned that it will remain about 3% for FY18. But with PSU banks being recapitalised, do you think that the government might nudge them to lower lending rates further which can impact our margin?

**Rakesh Jha:** The fact that banks could compete away the current margins, that is something which could happen especially given the limited credit demand and surplus liquidity in the system. That is something we are factoring in when we say that in the second half margin will be above 3% when we are currently running at 3.27%. But you are right that it is a risk in terms of the market being competitive which could play out. Second, of course, there is a working group report from RBI, which talks about linking the floating rate loans to market benchmark and other such steps. As and when that gets finalised and implemented, one will have to see the impact of that as well.

**Amey Sathe:** How much headroom is there for us to improve our cost of deposits from current level?

**Rakesh Jha:** We are already below 5%. One of the banks still has lower fixed deposit rates compared to our rates. So there is some probability of rates coming down, but I would not be certain of that. I think the current level of cost of deposits is already pretty low.

**N. S. Kannan:** I just want to supplement by saying that given all our funding strategies over the last few years, we are happy to say that after 2005,

this is the first time when our cost of deposits has come down below 5%. On the deposit side we are seeing very good momentum and we are very happy with the cost of funds which we have been able to achieve.

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

**Rahul Jain:** Hi, good evening. This is Rahul here. Well most of my questions have been answered, but just wanted to get some more colour on the resolution pertaining to the second list of NCLT accounts. When RBI says resolution, what exactly does this mean? Does this mean implementation of any RBI dispensation scheme or satisfactory performance from these accounts? Can you throw some colour as to what does this really imply?

**Rakesh Jha:** RBI has said that resolution would mean that if banks have residual debt to the borrower, that debt should be rated investment grade by two external credit rating agencies. That is how they have defined the outcome of resolution.

**Chanda Kochhar:** It can actually be under any scheme or it can just be a simple restructuring.

**Rahul Jain:** Since then have you seen any resolution across the industry within these 28, 30-odd accounts?

**Chanda Kochhar:** Some JLFs have taken place, we have had discussions. But I do not think they will decide on resolution so quickly. However, it can be any form of resolution provided it meets the caveat that Rakesh said, that the residual debt should be investment grade rated by two external credit rating agencies.

**Rahul Jain:** Is it possible to get the below investment grade book for the consolidated entity, the number that we share as part of our 20-F filing?

- Rakesh Jha:** We disclose it on an annual basis as part of the filing.
- Rahul Jain:** We have made some more provisions against the first NCLT list. I just want to understand what would be the ideal PCR that you would like to hold on these 12-cases?
- Rakesh Jha:** Provisions that we are making are essentially based on the RBI guidelines of ageing of the loan plus the amount of loan which is secured or unsecured. In addition, of course, for the cases that RBI has directed banks to refer to NCLT, they have given certain minimum provisions to be made. So these provisions are being made on that basis and not really from any other context.
- Rahul Jain:** Is the current provision that we hold sufficient or we might need to make something more?
- Rakesh Jha:** We would need to make some more provisions as the ageing happens, depending on when the loan moves from substandard to doubtful-1 or doubtful-2, there will be an increase in provisioning on some of those cases over the next couple of quarters itself.
- Rahul Jain:** The security receipts that we hold, what would be from the steel sector there and how much provisions or haircut have we taken on those?
- Rakesh Jha:** We have not given a sectoral breakup of the SRs.
- Rahul Jain:** But any mix that you can share like I guess most of it would be...?
- Anindya Banerjee:** It is not a large number also in the context of the overall loan portfolio.
- Rahul Jain:** Because we have seen performance improvement in the steel sector, so just wanted to get some sense...
- Anindya Banerjee:** We do not have a breakup that we could give.

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

**Adarsh Parasrampurua:** Just a question on power side of the watch list. Do you expect more additions to the power sector in your watchlist? That is the place where it looks like there could be further slippages. So I just wanted to understand that part.

**Rakesh Jha:** As we said, the internal rating exercise is an ongoing activity, a couple of cases could get downgraded, it is a possibility. As I mentioned earlier there is really no lumpy exposure which could get downgraded, but it is an ongoing exercise that we do on a regular basis. So it can always happen.

**Adarsh Parasrampurua:** That Rs. 6 billion number that you said of single exposure applies to even these five sectors that you have?

**Rakesh Jha:** No, that is for below investment grade outside of the sectors covered in the drilldown list, outside of these cases which are already under any kind of an RBI resolution. So we are excluding the SDR, S4A, change in management outside SDR, 5/25 refinancing because that is already disclosed separately by the Bank. Outside of all of this, for the residual exposure which is below investment grade, the maximum is about Rs. 6 billion.

**Adarsh Parasrampurua:** Again getting back to the below investment grade exposure in other sectors, you obviously had two, three names or accounts you specified earlier and those have kind of materialised. Could there be chances that individual accounts which slip into NPA outside of drilldown are like Rs. 5 billion each given that you have two, three of them coming for a long time every quarter or is that something that you would not expect?

**Rakesh Jha:** Very difficult to say that. We will have to see how it goes. Of course in the near-term there is general stress, which is there on the corporate portfolio for banks. So, if you say that, "Will it come for a

long time?" For sure it will not come for a long time. Can it come for next couple of quarters? It could.

**Moderator:** Thank you. The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

**MB Mahesh:** Four very simple questions; one is you had some very large transaction in the oil sector in the last quarter. That does not seem to have made a material change in the watch list. Just trying to understand was there any other place where it was reflected or do we see that this is going to be the running number for the next few quarters? The second question is the rating exercises which you do will include financials which a company gives you, I guess, once a year. Most of these companies would probably be giving you the financials for FY2017 in the first half of this year or is this exercise already completed? The third one is whether the Overseeing Committee actually has any relevance in the current scheme of things where most of them is moving through the IBC process?

**Rakesh Jha:** On the first question regarding transaction in the oil sector, you saw that there was a reduction in the exposure to the promoter entities given in the drilldown list. Also, if you recollect the exposure in the past was about Rs. 60 billion or so, and we had received some of the money earlier as well which led to the reduction in the exposure. So, the reduction in exposure to promoter entities in this quarter reflects the payment that we got during the September quarter which was the residual payment that came in. On ratings, it is an ongoing exercise and of course at the time that you get a new set of financials you do a comprehensive rating exercise. In addition, depending on the rating category of the exposure, you would also do a periodic review, for example, if there are quarterly or half yearly statements in the interim or if there any specific development for the borrower or the sector, it is just like any rating agency would do. That is what the internal risk department for the Bank does. So it is continuous kind of a process which is there.

- MB Mahesh:** No, Rakesh, the reason I am asking is, typically the downgrades in the September-to-December quarter tend to be higher because that is when the unlisted companies start giving you the financials, right, so that is the key worry out here.
- Rakesh Jha:** No, I am just saying that from our borrowers we do get their quarterly financials and all of that on a regular basis. It is not that it will be a complete surprise which will come in the financial results and it may happen that in a few accounts that the financials for the full year are somewhat different from what you are expecting, that is possible, but it would not be true for a large number of borrowers.
- MB Mahesh:** On the first question, if the customer has possibly paid whatever dues were to be received at that particular point in time, is it now fully moved back to a standard asset? What is balanced to be paid or it is being fully settled and it is over once and for all?
- Rakesh Jha:** No, this is the balance amount which is there.
- MB Mahesh:** Why is it still a part of the watch list is the question, because either he has paid his outstanding dues, so the account moves to a standard asset, right?
- Rakesh Jha:** The drilldown list is a list of all below investment grade exposures across these sectors, because it would continue to be a below investment grade exposure, while we have got payments on that, it is still a below investment grade exposure, and it is included in the drilldown list accordingly.
- MB Mahesh:** No, the question is why it is still a below investment grade even after the transaction has been completed?
- Rakesh Jha:** This is the balance exposure which is still there which needs to be repaid by the borrower.



**MB Mahesh:** Fair point. I will just take it offline. The Overseeing Committee question?

**Rakesh Jha:** In terms of the Overseeing Committee, given that RBI is kind of directing banks to take a number of these accounts to NCLT, so to that extent those cases will not get referred to the OC. But there could still be resolutions for some other borrowers which happen as per say the S4A scheme or so, then it has to get referred to the OC.

**MB Mahesh:** So just one clarification; the oil & gas account that was reported this quarter, does it also have any linkage to the engineering account which you reported in the previous quarter?

**Rakesh Jha:** We do not talk about that specifically in terms of the borrower accounts.

**Moderator:** Thank you. Ladies and gentlemen, with this I hand over the floor back to the management for their closing comments. Over to you.

**Chanda Kochhar:** As we have said, during the quarter we have seen NIMs being quite comfortable, we have seen growth in fee income, asset quality trends improving in terms of additions to NPA. Given all that we will of course keep watching the environment, we will keep working with the developments in the ecosystem as far as resolution is concerned, but there are a lot of growth opportunities that we are capitalising on. Given our overall position on capital, distribution network, technology leadership and so on, I think we are quite poised to participate in the growth opportunity.

**Moderator:** Thank you very much ma'am. Ladies and gentlemen, on behalf of ICICI Bank that concludes this conference call. Thank you for joining us and you may now disconnect your lines.