Analyst call on January 20, 2024: Opening Remarks

Certain statements in this release relating to a future period of time (including inter alia concerning our future business plans or growth prospects) are forward-looking statements intended to qualify for the 'safe harbor' under applicable securities laws including the US Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. These risks and uncertainties include, but are not limited to statutory and regulatory changes, international economic and business conditions; political or economic instability in the jurisdictions where we have operations, increase in nonperforming loans, unanticipated changes in interest rates, foreign exchange rates, equity prices or other rates or prices, our growth and expansion in business, the adequacy of our allowance for credit losses, the actual growth in demand for banking products and services, investment income, cash flow projections, our exposure to market risks, changes in India's sovereign rating, as well as other risks detailed in the reports filed by us with the United States Securities and Exchange Commission. Any forward-looking statements contained herein are based on assumptions that we believe to be reasonable as of the date of this release. ICICI Bank undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof. Additional risks that could affect our future operating results are more fully described in our filings with the United States Securities and Exchange Commission. These filings are available at www.sec.gov

Ladies and gentlemen, good day and welcome to the ICICI Bank Q3 FY2024 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then 0 on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sandeep Bakhshi, Managing Director and CEO of ICICI Bank. Thank you and over to you, sir.

Mr. Bakhshi's opening remarks

Thank you. Good evening to all of you and welcome to the ICICI Bank Earnings Call to discuss the results for Q3 of FY2024. Joining us today on this call are Sandeep Batra, Rakesh, Ajay, Anindya and Abhinek.

The Indian economy continues to remain resilient with upward revision in the GDP growth estimate for FY2024 by RBI, reflecting the consistent actions and initiatives of the policymakers. As the liquidity and interest rate environment evolves, we would continue to monitor the developments closely.

At ICICI Bank, our strategic focus continues to be on growing our core operating profit less provisions, i.e., profit before tax excluding treasury through the 360-degree customer centric approach, and by serving opportunities across ecosystems and micro markets. We continue to operate within our strategic framework to strengthen our franchise and expand our technology and digital offerings. Maintaining high standards of governance, deepening coverage and enhancing delivery capabilities are our focus areas for risk calibrated profitable growth.

The profit before tax excluding treasury grew by 23.4% year-on-year to 135.51 billion Rupees in this quarter. The core operating profit increased by 10.3% year-on-year to 146.01 billion Rupees in this quarter. The profit after tax grew by 23.6% year-on-year to 102.72 billion Rupees in this quarter.

Total deposits grew by 18.7% year-on-year and 2.9% sequentially at December 31, 2023. Term deposits increased by 31.2% year-on-year and 4.9% sequentially at December 31, 2023. During the quarter, the average current and savings account deposits grew by 5.3% year-on-year and 0.2% sequentially. The Bank's average liquidity coverage ratio for the quarter was about 121%.

The domestic loan portfolio grew by 18.8% year-on-year and 3.8% sequentially at December 31, 2023. The retail loan portfolio grew by 21.4% year-on-year and 4.5% sequentially. Including non-fund based outstanding, the retail portfolio was 46.4% of the total portfolio. The business banking portfolio grew by 31.9% year-on-year and 6.5% sequentially. The SME portfolio grew by 27.5% year-on-year and 6.7% sequentially. The rural portfolio grew by 18.2% year-on-year and 4.6% sequentially. The domestic corporate portfolio grew by 13.3% year-on-year and 2.9% sequentially driven by growth across well-rated financial and non-financial corporates. The overall loan portfolio including the international branches portfolio grew by 18.5% year-on-year and 3.9% sequentially at December 31, 2023.

We continue to enhance our digital offerings and platforms to onboard new customers in a seamless manner, provide them end-to-end journeys and solutions and enable more effective data driven cross sell and up sell. We have shared some details on our technology and digital offerings in slides 15 to 26 of the investor presentation.

The net NPA ratio was 0.44% at December 31, 2023 compared to 0.43% at September 30, 2023 and 0.55% at December 31, 2022. During the quarter, there were net additions of 3.63 billion Rupees to gross NPAs, excluding write-offs and sale. The total provisions during the quarter were 10.50 billion Rupees or 7.2% of core operating profit and 0.36% of average advances. The provisioning coverage ratio on NPAs was 80.7% at December 31, 2023. In addition, the Bank continues to hold contingency provisions of 131.00 billion Rupees or about 1.1% of total loans at December 31, 2023.

The capital position of the Bank continued to be strong with a CET-1 ratio of 16.03%, Tier 1 ratio of 16.03% and total capital adequacy ratio of 16.70% at December 31, 2023, including profits for the nine months ended December 31, 2023. This includes the impact of recent regulatory guidelines on increasing the risk weights on consumer loans and credit to NBFCs.

Looking ahead, we see many opportunities to drive risk calibrated profitable growth. We believe our focus on customer 360, extensive franchise and collaboration within the organisation, backed by our digital offerings, process improvements and service delivery initiatives will enable us to deliver holistic solutions to customers in a seamless manner and grow market share across key segments. We will continue to make investments in technology, people, distribution and building our brand. We will remain focused on maintaining a strong balance sheet with prudent provisioning and healthy levels of capital. The principles of “Return of Capital”, “Fair to Customer, Fair to Bank” and “One Bank, One Team, One RoE” will continue to guide our operations. We remain focused on delivering consistent and predictable returns to our shareholders.

I now hand the call over to Anindya.

Anindya's opening remarks

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

A. Loan growth

Sandeep covered the loan growth across various segments. Coming to the growth across retail products, the mortgage portfolio grew by 15.9% year-on-year and 3.7% sequentially. Auto loans grew by 22.5% year-on-year and 4.5% sequentially. The commercial vehicles and equipment portfolio grew by 14.8% year-on-year and 3.3% sequentially. Personal loans grew by 37.3% year-on-year and 6.4% sequentially compared to 40.4% year-on-year and 10.2% sequentially at September 30, 2023. The Bank worked on increasing pricing, further refining credit parameters and optimising sourcing costs resulting in lower disbursements of personal loans during the quarter as compared to the previous quarter. The credit card portfolio grew by 39.5% year-on-year and 11.5% sequentially. The personal loans and credit card portfolio were 9.4% and 4.1% of the overall loan book respectively at December 31, 2023.

The overseas loan portfolio, in US dollar terms, increased by 9.8% year-on-year at December 31, 2023. The overseas loan portfolio was about 3.4% of the overall loan book at December 31, 2023. The non-India linked corporate portfolio declined by 30.4% or about 116 million US dollars on a year-on-year basis. Of the overseas corporate portfolio, about 92% comprises Indian corporates, 4% is overseas corporates with Indian linkage, 2% comprises companies owned by NRIs or PIOs and balance 2% is non-India corporates.

B. Credit quality

There were net additions of 3.63 billion Rupees to gross NPAs in the current quarter compared to 1.16 billion Rupees in the previous quarter. The net additions to gross NPAs were 23.02 billion Rupees in the retail, rural and business banking portfolios and there were net deletions of gross NPAs of 19.39 billion Rupees in the corporate and SME portfolio.

The gross NPA additions were 57.14 billion Rupees in the current quarter compared to 46.87 billion Rupees in the previous quarter. Recoveries and upgrades from gross NPAs, excluding write-offs and sale, were 53.51 billion Rupees in the current quarter compared to 45.71 billion Rupees in the previous quarter.

The gross NPA additions from the retail, rural and business banking portfolio were 54.82 billion Rupees in the current quarter compared to 43.64 billion Rupees in the previous quarter. There were gross NPA additions of about 6.17 billion Rupees from the kisan credit card portfolio in the current quarter. We typically see higher NPA additions from the kisan credit card portfolio in the first and third quarter of a fiscal year. Recoveries and upgrades from the retail, rural and business banking portfolio were 31.80 billion Rupees compared to 30.19 billion Rupees in the previous quarter. The gross NPA additions from the corporate and SME portfolio were 2.32 billion Rupees compared to 3.23 billion Rupees in the previous quarter. Recoveries and upgrades from the corporate and SME portfolio were 21.71 billion Rupees compared to 15.52 billion Rupees in the previous quarter.

The gross NPAs written-off during the quarter were 13.89 billion Rupees. There was sale of NPAs worth 0.36 billion rupees in the current quarter compared to 1.79 billion rupees in the previous quarter. The sale of NPAs includes about 0.29 billion rupees in cash and about 0.07 billion rupees of security receipts. As these NPAs were fully provided, we continue to hold provisions against the security receipts.

The non-fund based outstanding to borrowers classified as non-performing was 36.94 billion Rupees as of December 31, 2023 compared to 38.86 billion Rupees as of September 30, 2023. The Bank holds provisions amounting to 20.61 billion Rupees against this non-fund based outstanding.

The total fund based outstanding to all standard borrowers under resolution as per various guidelines declined to 33.18 billion Rupees or about 0.3% of the total loan portfolio at December 31, 2023 from 35.36 billion Rupees at September 30, 2023. Of the total fund based outstanding under resolution at December 31, 2023, 27.82 billion Rupees was from the retail, rural and business banking portfolio and 5.36 billion Rupees was from the corporate and SME portfolio. The Bank holds provisions of 10.32 billion Rupees against these borrowers, which is higher than the requirement as per RBI guidelines.

Moving on to the P&L details:

C. P&L details

Net interest income increased by 13.4% year-on-year to 186.78 billion Rupees. The net interest margin was 4.43% in this quarter compared to 4.53% in the previous quarter and 4.65% in Q3 of last year. The sequential movement in NIM reflects the lagged impact of increase in term deposit rates over the last year, on the cost of deposits.

The impact of interest on income tax refund on net interest margin was 4 bps in Q3 of this year compared to nil in the previous quarter and in Q3 of last year. The domestic NIM was at 4.52% this quarter compared to 4.61% in the previous quarter and 4.79% in Q3 of last year. The cost of deposits was 4.72% in this quarter compared to 4.53% in the previous quarter. Of the total domestic loans, interest rates on 49% are linked to the repo rate, 2% to other external benchmarks and 18% to MCLR and other older benchmarks. The balance 31% of loans have fixed interest rates.

Non-interest income, excluding treasury, grew by 19.8% year-on-year to 59.75 billion Rupees in Q3 of 2024

- Fee income increased by 19.4% year-on-year to 53.13 billion Rupees in this quarter. Fees from retail, rural, business banking and SME customers constituted about 79% of the total fees in this quarter

- Dividend income from subsidiaries and associates was 6.50 billion Rupees in this quarter compared to 5.16 billion Rupees in Q3 of last year. The year-on-year increase in dividend income was primarily due to higher interim dividend from ICICI Securities, ICICI Prudential Asset Management and ICICI Securities Primary Dealership

On Costs: The Bank's operating expenses increased by 22.3% year-on-year in this quarter. Employee expenses increased by 30.5% year-on-year in this quarter, reflecting mainly the increase in the employee base from the second half of fiscal 2023 onwards. The Bank had about 141,000 employees at December 31, 2023. The number of employees has increased by about 23,600 in the last 12 months and about 1,700 in the current quarter. Non-employee expenses increased by 17.8% year-on-year in this quarter primarily due to retail business related and technology expenses. Our branch count has increased by 123 in Q3-2024 and we had 6,371 branches as of December 31, 2023. The technology expenses were about 9% of our operating expenses in the nine months ended December 31, 2023.

The core operating profit increased by 10.3% year-on-year to 146.01 billion Rupees in this quarter. Excluding dividend income from subsidiaries and associates, the core operating profit grew by 9.7% year-on-year.

The total provisions during the quarter were 10.50 billion Rupees, or 7.2% of core operating profit and 0.36% of average advances compared to 5.83 billion Rupees in the previous quarter. The provisions during the quarter included the impact of 6.27 billion Rupees pursuant to the recent RBI circular on investments in Alternative Investment Funds. The provisioning coverage on NPAs was 80.7% as of December 31, 2023. In addition, we hold 10.32 billion Rupees of provisions on borrowers under resolution. Further, the Bank continues to hold contingency provision of 131.00 billion Rupees as of December 31, 2023. At the end of December, the total provisions, other than specific provisions on fund-based outstanding to borrowers classified as non-performing, were 230.25 billion Rupees or 2.0% of loans.

The profit before tax excluding treasury grew by 23.4% year-on-year to 135.51 billion Rupees in Q3 of this year.

There was a treasury gain of 1.23 billion Rupees in Q3 compared to 0.36 billion Rupees in Q3 of the previous year.

The tax expense was 34.02 billion Rupees in this quarter compared to 27.02 billion Rupees in the corresponding quarter last year. The profit after tax grew by 23.6% year-on-year to 102.72 billion Rupees in this quarter.

D. Growth in digital offerings

Leveraging digital and technology across businesses is a key element of our strategy of growing the risk-calibrated core operating profit. We continue to see increasing adoption and usage of our digital platforms by our customers.

There have been more than 10 million activations of iMobile Pay by non-ICICI Bank account holders at end-December 2023.

Our merchant STACK offers an array of banking and value-added services to retailers, online businesses and large e-commerce firms such as digital current account opening, instant overdraft facilities based on point-of-sale transactions, connected banking services and digital store management, among others.

We have created more than 20 industry specific STACKs which provide bespoke and purpose-based digital solutions to corporate clients and their ecosystems. Our Trade Online and Trade Emerge platforms allow customers to perform most of their trade finance and foreign exchange transactions digitally. Our digital solutions integrate the import transaction lifecycle with bespoke solutions providing frictionless experience to the clients and simplify customer journeys. About 72% of trade transactions were done digitally in Q3-2024. The volume of transactions done through Trade Online platform in Q3-2024 grew by 26.2% year-on-year.

We have further simplified cross-border remittance journeys with new enhancements. SmartIRM, is a multi-party cross-border inward remittance solution with virtual account architecture, enhanced security features and remittances reconciliation with payer identification. SmartORM enables pre-vetting of outward remittance transactions to ensure error-free submission before booking foreign exchange deals.

iLens, the retail lending platform currently enabled for mortgages, is being upgraded on an ongoing basis with new features such as integration with account aggregators, opening of instant paperless saving bank account for newly on-boarded mortgage customers and instant property valuation reports for select developers to provide enhanced customer experience and serve the customer's 360 degree needs digitally.

E. Portfolio information

We have provided details on our retail, business banking and SME portfolio in slides 32 to 43 of the investor presentation.

The loan and non-fund based outstanding to performing corporate and SME borrowers rated BB and below was 58.53 billion Rupees at December 31, 2023 compared to 47.89 billion Rupees at September 30, 2023 and 55.81 billion Rupees at December 31, 2022. This portfolio is about 0.5% of our advances at December 31, 2023. Other than two accounts, the maximum single borrower outstanding in the BB and below portfolio was less than 5.00 billion Rupees at December 31, 2023. At December 31, 2023, we held provisions of 9.25 billion Rupees on the BB and below portfolio compared to 8.17 billion Rupees at September 30, 2023. This includes provisions held against borrowers under resolution included in this portfolio.

The total outstanding to NBFCs and HFCs was 784.84 billion Rupees at December 31, 2023 compared to 837.49 billion Rupees at September 30, 2023. The total outstanding loans to NBFCs and HFCs were about 6.8% of our advances at December 31, 2023.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital was 456.85 billion Rupees at December 31, 2023 compared to 430.58 billion Rupees at September 30, 2023. The builder portfolio is about 4.0% of our total loan portfolio. Our portfolio largely comprises well-established builders and this is also reflected in the sequential increase in the portfolio. About 3.1% of the builder portfolio at December 31, 2023 was either rated BB and below internally or was classified as non-performing, compared to 3.5% at September 30, 2023.

F. Consolidated results

The consolidated profit after tax grew by 25.7% year-on-year to 110.53 billion Rupees in this quarter.

The details of the financial performance of subsidiaries and key associates are covered in slides 46 to 49 in the investor presentation.

The annualised premium equivalent of ICICI Life was 54.30 billion Rupees in 9 months ended December 31, 2023 compared to 53.41 billion Rupees in 9 months of last year. The value of new business margin was 26.7% in 9 months ended December 31, 2023 compared to 32.0% in 9 months of last year and 32.0% in fiscal 2023. The value of new business was 14.51 billion Rupees in 9 months ended December 31, 2023 compared to 17.10 billion Rupees in 9 months of last year. The profit after tax of ICICI Life was 6.79 billion Rupees in 9 months ended December 31, 2023 compared to 5.76 billion Rupees in 9 months of last year and 2.27 billion Rupees in Q3-2024 compared to 2.21 billion Rupees in Q3-2023.

Gross Direct Premium Income of ICICI General was 62.30 billion Rupees in Q3-2024 compared to 54.93 billion Rupees in Q3-2023. The combined ratio stood at 103.6% in Q3-2024 compared to 104.4% in Q3-2023. Excluding the impact of CAT losses, the combined ratio was 102.3% in Q3-2024. The profit after tax was 4.31 billion Rupees in Q3-2024 compared to 3.53 billion Rupees in Q3-2023.

The profit after tax of ICICI AMC, as per Ind AS was 5.46 billion Rupees in this quarter compared to 4.20 billion Rupees in Q3 of last year.

The profit after tax of ICICI Securities, as per Ind AS on a consolidated basis, was 4.66 billion Rupees in this quarter compared to 2.81 billion Rupees in Q3 of last year.

ICICI Bank Canada had a profit after tax of 15.9 million Canadian dollars in this quarter compared to 11.5 million Canadian dollars in Q3 last year.

ICICI Bank UK had a profit after tax of 6.7 million US dollars this quarter compared to 3.1 million US dollars in Q3 of last year.

As per Ind AS, ICICI Home Finance had a profit after tax of 1.86 billion Rupees in the current quarter compared to 1.05 billion Rupees in Q3 of last year.

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

Moderator:

Thank you very much. We will now begin the question and answer session. We have the first question from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania:

Hi, I just wanted to know about operating expenses. They've not grown much this quarter. So, going ahead, do we expect this kind of growth or any comments on the opex bit?

Anindya Banerjee:

As far as the operating expenses are concerned, I think if we look at the non-employee expenses, those are really growing in line with the business. This quarter, of course, the advertising and sales promotion expenses on a year-on-year basis, the growth was on the higher side because of the festive season related spends. In the last year, the festive season was split over Q2 and Q3. So those are really growing in line with the business. On the employee side, I think, is where we have seen over the last maybe six quarters pretty high growth because of the increase in the team size of the Bank. But, as you would have seen in this quarter, the net increase has slowed down, I mean, compared to about 10,000 to 11,000 in the first half, we were at about 1,700 in Q3. We would not be probably looking at adding the kind of headcount at the same pace. So, that will play through into the operating expenses as we go ahead.

Mahrukh Adajania:

So, the headcount additions now will be moderate only, this is not just a one-off?

Anindya Banerjee:

Yes, they will not be at the pace that we have seen over the previous four to five quarters.

Mahrukh Adajania:

Just in terms of LDR, there's a lot of discussion around it already. You are okay, but do you have any path on LDR, I mean, would you like to retain LDR at current levels or bring it down, any views on that?

Anindya Banerjee:

The way we look at the balance sheet and the funding structure is that we look at, I would say three ratios, certainly the credit deposit (CD) ratio or the LDR, the LCR, which is a measure of current liquidity and the NSFR or the net stable funding ratio. So the LCR and NSFR are a little more granular in the sense that they do take into account the nature of assets and liabilities in terms of product, counterparty and tenor. So, we look at all three. If we look at the LCR and the NSFR, we are well above the regulatory minimum at about 120%. On the credit-to-deposit ratio, there are a couple of things. One, typically a bank with a higher level of capital would tend to have also a higher CD ratio mathematically. When we look at our CD ratio, we also look at the overseas operations and the domestic balance sheet separately, because they are managed separately and in the overseas operations we have relatively limited deposit taking capability. Of course, now the impact is much lower than it used to be say 7-8 years ago, because that portfolio has come down to less than 5% of our overall portfolio, but it does have an impact of a percentage point or two. As far as the bulk of the balance sheet, which is the domestic balance sheet of course, deposits are our primary source of funding along with capital. In addition to that, we always try to optimise between the wholesale deposit taking and the more stable wholesale sources like refinance and bonds. So, in general, if you look at it over a longer period of time on the domestic balance sheet, our CD ratio has kind of hovered around the mid-80s other than periods of very high liquidity and very low loan growth like the pandemic. So, that is kind of the way in which we manage it, looking at all these three ratios on an ongoing basis.

Mahrukh Adajania:

Assuming that the rates will remain stable, would you say that your margins have now bottomed out and this would be the level or is deposit competition too strong to say that, assuming no change in policy rates?

Anindya Banerjee:

On the deposit side, I think the retail deposit rates have remained stable for a fair period of time now, at least the peak rate. Although, I think at various points of time, banks have moved up and down in certain other buckets. Of course, in Q3, given the overall liquidity environment, we did see some amount of hardening of the wholesale deposit rates, which is reflected in the certificate of deposit (CD) rates and also the rates being quoted for high value kind of deposits, and I think if you look at current systemic liquidity, it is running at a negative. So, I guess that scenario will stay for some time until, may be, the monetary policy starts to turn a little more accommodative. So, that's on the deposit rate side. From a margin perspective, we have said in the past that we expect the full year margin of this year to be at a similar level as of last year, and that implies some further margin compression in Q4, but it should be much lower than what we have seen. I mean, Q3 was already much lower than Q2, and Q4 should be lower than what we have seen in Q3.

Moderator:

Next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka:

Two questions. One, on asset quality. If I see your slippages in retail, rural, business banking, that have gone up, even if I knock off the kisan credit card slippages. So, can you explain, where that has come from? Similarly, on the recoveries and upgrades in corporate and SME, is there any kind of one-off or what's happened there that has also improved actually?

Anindya Banerjee:

I think as far as the retail side is concerned, nothing specific to call out. I think it's really spread across products, and if you look at the delta relative to the size of the portfolio, it is not particularly meaningful. So, as we have been saying, we would expect both the gross and net additions on the retail side to gradually normalise upwards, both as the portfolio grows and seasons. On the corporate side, we did have one or two larger sort of upgrades this quarter, but in a way the benefit of that in provisioning terms was kind of offset by the provisioning on the AIF investments. Taking it altogether, if we look at kind of the credit costs, the provisioning for the quarter and eliminate maybe a very chunky corporate upgrade, eliminate the AIF provisioning and really try and look at an adjusted number, it would be still be below maybe 50 bps of loans and about 10% of the PPOP. So that is the context in which we would look at the NPL formation and recoveries from our planning and risk appetite perspective.

Abhishek Murarka:

Sort of extending that, does it mean that even in the next few quarters, we should continue to see credit cost in that range because you have enough PCR anyway, that can come down a little bit, so credit cost can remain low for let's say next three to four quarters, is that a fair assumption?

Anindya Banerjee:

We don't really give forward-looking thing, but I would say that yes, I don't see anything imminently that would cause it to spike up, there will be some gradual normalization upwards.

Abhishek Murarka:

My second question is just on cost of deposits. If you can share maybe your incremental cost of TDs or incremental cost of deposits, anything that you may have handy that would be helpful?

Anindya Banerjee:

We don't publish those numbers, Abhishek.

Moderator:

Next question is from the line of Rikin Shah from IIFL. Please go ahead.

Rikin Shah:

I just have one question on cost of deposits. If you could just qualitatively comment as to the repricing on the existing book of TD, would you say that by Q4, most of it would already be repriced into the P&L or it could flow into Q1 as well?

Anindya Banerjee:

There could be some flow into Q1 as well, but I think most of it should be done in Q4.

Rikin Shah:

In this quarter, it increased 20 bps Q-o-Q. So, in terms of the quantum, should it be kind of slowing down from the current run rate?

Anindya Banerjee:

I would guess so.

Moderator:

Next question is from the line of Kunal Shah from Citi group. Please go ahead.

Kunal Shah:

Sir, the question is on yield. When we look at it, in fact the rise is in some of the high yielding portfolio, sequential growth has been strong and we would have increased the rates even say post the tweaking of the risk weights by RBI, but still, overall yield on advances are down, so just want to understand on that bit? This entire NBFC rundown which has been there, is it like we tried to pass it on, in terms of the rates and then there were repayments or we have been conservative post the risk weight stance from RBI?

Anindya Banerjee:

On the first question, I think part of the impact on the advances yield is because of the addition to the KCC NPL. So basically what happens is that you derecognise a year's worth of interest income, so that does impact the yield on advances. In other parts, one, if you look at the share of the high yielding portfolio, it is still not that high and we have seen decent growth in mortgages and auto and also on the corporate side which continue to be pretty competitive. So, I would say the yields have been broadly stable and to some extent any mix benefit that could have come has been offset by the non-accrual on the KCC loan. The second question was on the NBFC exposure. I guess that we keep looking at the various exposures from a risk-reward basis. I mean, we did not have any credit concerns on these exposures. But they were finely priced exposures and we have, therefore, a couple of borrowers, who prepaid and we were quite okay with that.

Kunal Shah:

And how much rate pass-on was there in NBFC?

Anindya Banerjee:

It would really depend on the client. I don't think there is any rule of thumb in that sense. As you see the book itself, I mean, even adjusting for this pre-payment, it has not really grown much during the quarter. So, there would not have been any very large lending that would have happened afresh.

Moderator:

Next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal:

So one question again around the yields as to really how do you look at the competitive intensity in unsecured products, and even in the mortgage, are you seeing that lenders are cutting down on spreads because the repo rates have been unchanged, but are the rates like seeing some moderation there? Going forward, how do you see the unsecured loan mix also moving for the Bank because until now it has been going very steady and some other private banks are indicating that they'll continue to drive that up, so what will be our approach on the unsecured loan mix?

Anindya Banerjee:

I think as far as the competitive intensity in rates, that is kind of continuing, I mean, we'll have to see if things change in Q4, but certainly in Q3 across most of the products, mortgages and corporate lending, we continue to see a fair degree of competitive intensity. The way we look at it is to try and be disciplined in our pricing, to look at the customer and see what is the total relationship value that we can have with the client and their ecosystem and then take a call on the loan pricing. We, in general, are not particularly focused on loan growth. So, in that sense, we are able to calibrate our pricing decisions.

Nitin Aggarwal:

Just related to this like has your aggregate mortgage portfolio yield come down over say in the second quarter?

Anindya Banerjee:

No, it could not have because incremental business takes time to feed through. You had another question after the yield competitiveness.

Nitin Aggarwal:

That was like on the unsecured loan mix.

Anindya Banerjee:

On the unsecured loan mix, I think as far as personal loans is concerned, as we have mentioned we have taken some steps in terms of refining the credit parameters. Basically, in any portfolio you have certain cohorts which contribute more to the delinquencies and you try to figure out what are the origination markers of those cohorts and then cut origination in those particular segments, which is what we've done and we've also rationalised, for example, sourcing payouts as well as we've moved our pricing on personal loans by maybe 20, 25 basis points. So, I would expect that growth in that portfolio may continue to moderate a little bit even from a current level. But from overall P&L impact, I would think that it should not have much of a P&L impact because in any product or business, it's not just about the yield and the margin. Hopefully, if we are managing the sourcing cost well that will contribute to profitability, and hopefully, if we are reducing in the right cohorts, that will contribute to credit costs being better as well.

Nitin Aggarwal:

Around credit cost, any comments on that?

Anindya Banerjee:

I think I spoke earlier in relation to an earlier question. I mean, I do agree that there is some noise in that line item this quarter because of the AIF and the large corporate recovery. But if I kind of try to smoothen that out, as I said, we would be at about maybe 50 bps of loans and 10% of the PPOP. So it is quite well contained and within our risk appetite.

Moderator:

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

MB Mahesh:

Just two questions. One is on slide #34, there has been a drop in the AA-kind of rated portfolio and then increase in the BBB part of the portfolio.

Anindya Banerjee:

Mahesh, I think two things largely explain that. One is that the reduction in the NBFC portfolio, most of our NBFC portfolio is well rated A and above. So, as a result of the reduction in that portfolio, we would have seen some reduction in the outstanding in the higher rated category. And the second factor was that we had one of the larger upgrades of NPLs that got rated in the BBB family on upgrade. So one is the sort of I would say positive movement from a capital and profitability perspective, the other is a positive movement from a credit perspective. But yes, because of those two, the mix does look slightly different.

MB Mahesh:

Second question is, is there interest reversal impact on account of KCC portfolio which is meaningful?

Anindya Banerjee:

We have not really given a number, I mean that's part of the sort of margin, happens every first and third quarter, so, we've not called out that number separately.

MB Mahesh:

On the unsecured loans, are you saying that things have started to worsen or you say that the margin remaining more or less the same?

Anindya Banerjee:

I think it is remaining more or less the same. We have been looking at that portfolio very closely. As I said, in any portfolio at any point of time, there's always a bottom cohort which one could sort of do without, and given the overall commentary on unsecured and the increase in capital charge and so on, we have tried to sort of trim that part of the portfolio.

Moderator:

Next question is from the line of Chintan Joshi from Autonomous. Please go ahead.

Chintan Joshi:

Can I just follow up on that unsecured point you made? You mentioned that some cohorts you're seeing, different delinquency trends on unsecured. If you were to do cohorts by time of origination, is there recent kind of origination seeing different delinquency trends, not breaking cohort by quality, but by time, are you seeing any difference?

Anindya Banerjee:

I think the markers we look at are more in terms of the characteristics of the customer and try and find, wherever, if we are able to look at delinquency in terms of the characteristics of the customer and see what kind of loan borrowers are contributing more to delinquency, not to do with time as such.

Chintan Joshi:

And if you do look at time, is it similar trends so far say a loan given at the end of COVID and versus kind of in the last six months?

Anindya Banerjee:

I don't think we have really commented on that.

Chintan Joshi:

The other question I had was on cost of deposits. It increased 19 bps quarter-on-quarter. You are indicating some more NIM pressure, but if I think about the exit run-rate, if I keep NIMs flat on FY24 versus FY23 basis, then it would be kind of 4.2, but I don't think that's what you're trying to imply. So, if I break that down a little bit more, could you give some color on how much more repricing is left on the deposit side that we can factor in?

Anindya Banerjee:

We've not given really how much more repricing on the deposit side. I think what we said is that there will be some more increase in the cost of deposits in Q4 and possibly a little bit into Q1 as well. It should be less than what we have seen and the NIM impact should also be less than what we have seen in this quarter.

Chintan Joshi:

Any indication on branch expansion number for FY2025?

Anindya Banerjee:

No, not really. I think this quarter we added about 123 branches. As we have said in the past, we follow a pretty bottom-up approach. I mean, people closest to the market who kind of recommend branch openings and then we do some assessment and open it. So, we are not holding back on any branch opening, but we don't have a particular branch opening target either.

Moderator:

Next question is from the line of Param Subramanian from Nomura. Please go ahead.

Param Subramanian:

On the average CASA ratio, if we look at it quarter-on-quarter, we are not seeing any let up in the pace at which this is moderating. So, any indication on where you see this say bottom-out, starting to pick up or do we have to wait for a much more looser liquidity environment like you were alluding to earlier?

Anindya Banerjee:

I think this is something you're seeing to varying degrees across the system, across all banks. I think, in our context, we are probably doing relatively better on the current account side. I think our payment products and payment platforms are contributing to higher float balances. On the SA side, I think it's much more a function of interest rates and consumption. So, I guess, I don't have an answer at the moment, I think we will have to wait for a couple of quarters and eventually see how things pan out next year as liquidity sort of normalises in the system.

Param Subramanian:

Just one more question again around this. How are we geared towards say government spend coming back, how much is that? If you can give some direction number as a percentage of our deposit say so when that comes back, how does that help you in terms of CASA as well as overall deposits?

Anindya Banerjee:

Our focus as far as the government is concerned is more from providing solutions which enable them to manage their cash flow and provide MIS, reconciliation, digital solution. So yes, the flow of that money through our system does create float. It is some part of our base, but one caveat is that the government is also becoming progressively more efficient in terms of the way in which it manages its finances. So, I don't think one can rely too much on idle government money lying with you in CASA form.

Moderator:

Ladies and gentlemen, we will take that as a last question. I now hand the conference over to the management for closing comments.

Anindya Banerjee:

Thank you very much for taking the time on a Saturday evening as always and happy to speak on any other clarification.

Moderator:

On behalf of ICICI Bank Limited, that concludes this call. Thank you for joining us. You may now disconnect your lines.