ICICI Bank Limited

Earnings conference call - Quarter ended March 31, 2023 (Q4-2023)

April 22, 2023

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Ladies and gentlemen, good day and welcome to the ICICI Bank's Q4 FY2023 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 touchtone phone. Please note that this conference is being recorded.

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

Mr. Bakhshi's opening remarks

Good evening to all of you and welcome to the ICICI Bank Earnings Call to discuss the results for Q4 of FY2023. Joining us today on this call are Anup, Sandeep Batra, Rakesh, Anindya and Abhinek.

The Indian economy has continued to show resilience amidst a volatile global environment. The underlying growth momentum is visible in increasing steel and cement output, GST collections, capacity utilisations, rising demand for electricity and travel. The Government led capex cycle is continuing. Financial stability has been maintained and inflation, though elevated, has moderated from its peak. We will continue to monitor these developments closely.

Our strategic focus is growing our risk calibrated core operating profit through the 360-degree customer centric approach and by serving opportunities across customer segments and ecosystems. We continue to operate within our strategic framework and strengthen our franchise, enhance our delivery and servicing capabilities and expand our technology and digital offerings.

The core operating profit increased by 36.4% year-on-year to 138.66 billion Rupees in this quarter and increased by 28.1% year-on-year to 491.39 billion Rupees in FY2023. Core operating profit less provisions grew by 34.7% year-on-year to 122.47 billion Rupees in this quarter and increased by 43.0% year-on-year to 424.73 billion Rupees in FY2023. The profit after tax grew by 30.0% year-on-year to 91.22 billion Rupees in this quarter. For the fiscal year 2023, the profit after tax grew by 36.7% year-on-year to 318.96 billion Rupees. The Board has recommended a dividend of 8 Rupees per share for FY2023, subject to requisite approvals.

Total deposits grew by 10.9% year-on-year and 5.2% sequentially at March 31, 2023. Term deposits increased by 17.1% year-on-year and 4.3% sequentially at March 31, 2023. During the quarter, the average current and savings account deposits grew by 8.0% year-on-year and 1.2% sequentially. The liquidity coverage ratio for the quarter was about 124%.

The retail loan portfolio grew by 22.7% year-on-year and 5.4% sequentially at March 31, 2023. Including non-fund based outstanding, the retail portfolio was 45.7% of the total portfolio. The business banking portfolio grew by 34.9% year-on-year and 7.8% sequentially. The SME portfolio grew by 19.2% year-on-year and 6.2% sequentially. The growth in SME and business banking portfolios was driven by leveraging our branch network and digital offerings such as InstaBIZ and Merchant Stack. The domestic corporate portfolio grew by 21.2% year-on-year and 3.8% sequentially at March 31, 2023 driven by growth across well-rated financial and non-financial corporates. The rural portfolio grew by 13.8% year-on-year and 5.5% sequentially. The domestic loan portfolio grew by 20.5% year-on-year and 5.0% sequentially. The overall loan portfolio grew by 18.7% year-on-year and 4.7% sequentially at March 31, 2023.

We continue to enhance our digital offerings and platforms to onboard new customers in a seamless manner, provide them end-to-end digital journeys and personalised solutions and enable a more effective data driven cross sell and up sell. We have shared some details on our technology and digital offerings in slides 17 to 28 of the investor presentation.

The net NPA ratio declined to 0.48% at March 31, 2023 from 0.55% at December 31, 2022 and 0.76% at March 31, 2022. During the quarter, there were net additions of 0.14 billion Rupees to gross NPAs, excluding write-offs and sale. The provisioning coverage ratio on NPAs was 82.8% at March 31, 2023. The total provisions during the quarter were 16.19 billion Rupees or 11.7% of core operating profit and 0.7% of average advances. This includes contingency provision of 16.00 billion Rupees made on a prudent basis. The Bank holds contingency provisions of 131.00 billion Rupees or about 1.3% of total loans as of March 31, 2023.

The capital position of the Bank continued to be strong with a CET-1 ratio of 17.12%, Tier 1 ratio of 17.60% and total capital adequacy ratio of 18.34% at March 31, 2023, after reckoning the impact of proposed dividend.

Looking ahead, we see many opportunities to drive growth in the risk calibrated core operating profit. We believe our focus on customer 360, extensive franchise and synergy and collaboration within the organization, backed by our digital offerings and process improvement and service delivery initiatives will enable us to deliver customized 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 “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 17.6% year-on-year and 4.0% sequentially. Auto loans grew by 23.2% year-on-year and 5.1% sequentially. The commercial vehicles and equipment portfolio grew by 5.2% year-on-year and 3.8% sequentially. Growth in the personal loan and credit card portfolio was 43.2% year-on-year and 9.0% sequentially. This portfolio was 1,258.96 billion Rupees or 12.3% of the overall loan book at March 31, 2023.

The overseas loan portfolio, in US dollar terms, declined by 23.8% year-on-year and 2.6% sequentially at March 31, 2023. The overseas loan portfolio was about 3.3% of the overall loan book at March 31, 2023. The non-India linked corporate portfolio declined by 52.3% or about 336 million US dollars on a year-on-year basis. Of the overseas corporate portfolio, about 89% comprises Indian corporates, 7% 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 0.14 billion Rupees to gross NPAs in the current quarter compared to 11.19 billion Rupees in the previous quarter. The net additions to gross NPAs were 8.73 billion Rupees in the retail, rural and business banking portfolios and there were net deletions from gross NPAs of 8.59 billion Rupees in the corporate and SME portfolio.

The gross NPA additions were 42.97 billion Rupees in the current quarter compared to 57.23 billion Rupees in the previous quarter. The gross NPA additions from the retail, rural and business banking portfolio were 40.20 billion Rupees and from the corporate and SME portfolio were 2.77 billion Rupees.

Recoveries and upgrades from gross NPAs, excluding write-offs and sale, were 42.83 billion Rupees in the current quarter compared to 46.04 billion Rupees in the previous quarter. There were recoveries and upgrades of 31.47 billion Rupees from the retail, rural and business banking portfolio and 11.36 billion Rupees from the corporate and SME portfolio. The gross NPAs written-off during the quarter were 11.58 billion Rupees. There was sale of NPAs of 2.01 billion Rupees for cash in the current quarter compared to no sale of NPAs in the previous quarter.

Net NPAs declined by 25.9% year-on-year and 8.8% sequentially to 51.55 billion Rupees at March 31, 2023.

The non-fund based outstanding to borrowers classified as non-performing was 37.80 billion Rupees as of March 31, 2023 compared to 38.69 billion Rupees as of December

31, 2022. The Bank holds provisions amounting to 20.05 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 45.08 billion Rupees or about 0.4% of the total loan portfolio at March 31, 2023 from 49.87 billion Rupees as of December 31, 2022. Of the total fund based outstanding under resolution at March 31, 2023, 38.33 billion Rupees was from the retail, rural and business banking portfolio and 6.75 billion Rupees was from the corporate and SME portfolio. The Bank holds provisions of 13.80 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 40.2% year-on-year to 176.67 billion Rupees. The net interest margin was 4.90% in this quarter compared to 4.65% in the previous quarter and 4.00% in Q4 of last year. The net interest margin was 4.48% in FY2023. The impact of interest on income tax refund on net interest margin was nil in Q4 of this year and in the previous quarter compared to 1 bps in Q4 of last year. The domestic NIM was at 5.02% this quarter compared to 4.79% in the previous quarter and 4.12% in Q4 of last year. Of the total domestic loans, interest rates on 46% are linked to the repo rate, 3% to other external benchmarks and 20% to MCLR and other older benchmarks. The balance 31% of loans have fixed interest rates. The cost of deposits was 3.98% in this quarter compared to 3.65% in the previous quarter. The sequential increase in NIM reflects the impact of increase in interest rates on loan yields while repricing of deposits occurs with a lag. We expect to see the cost of deposits continuing to increase in future quarters.

Non-interest income, excluding treasury income, grew by 11.3% year-on-year to 51.27 billion Rupees in Q4 of 2023

- Fee income increased by 10.6% year-on-year to 48.30 billion Rupees in this quarter. Fees from retail, rural, business banking and SME customers grew by 14.8% year-on-year and constituted about 80% of the total fees in this quarter

- Dividend income from subsidiaries and associates was 2.73 billion Rupees in this quarter compared to 2.32 billion Rupees in Q4 of last year. The dividend income this quarter included interim dividend from ICICI Prudential Asset Management and ICICI Bank Canada.

On Costs: The Bank's operating expenses increased by 26.7% year-on-year in this quarter. The Bank had about 129,000 employees at March 31, 2023. The employee count has increased by about 23,200 in FY2023. Employee expenses increased by 40.0% year-on-year in this quarter. During the quarter, the Bank took a more conservative approach on certain assumptions underlying the provisions for retirement benefit obligations, which resulted in an additional expense of 3.35 billion Rupees. Non-employee expenses increased by 19.6% year-on-year in this quarter primarily due to retail business related expenses and technology expenses. Our branch count has increased by about 480 in the last twelve months and we had 5,900 branches as of March 31, 2023. The technology expenses were 9.3% of our operating expenses in this fiscal year compared to about 8.6% in the last fiscal year.

The core operating profit increased by 36.4% year-on-year to 138.66 billion Rupees in this quarter. Excluding dividend income from subsidiaries and associates, the core operating profit grew by 36.9% year-on-year. The core operating profit increased by 28.1% year-on-year to 491.39 billion Rupees in FY2023.

The total provisions during the quarter were 16.19 billion Rupees, or 11.7% of core operating profit and 0.7% of average advances. These include contingency provisions of 16.00 billion Rupees made on a prudent basis. The total provisions during FY2023 decreased by 22.9% year-on-year to 66.66 billion Rupees. During the year, the Bank made contingency provisions of 56.50 billion Rupees and impact of change in provisioning norms for corporate, SME and business banking to be made more conservative was about 11.96 billion Rupees.

The provisioning coverage on NPAs was 82.8% as of March 31, 2023. In addition, we hold 13.80 billion Rupees of provisions on borrowers under resolution. Further, the Bank holds contingency provision of 131.00 billion Rupees as of March 31, 2023. At March-end, the total provisions, other than specific provisions on fund-based outstanding to borrowers classified as non-performing, were 226.35 billion Rupees or 2.2% of loans.

Core operating profit less provisions grew by 34.7% year-on-year to 122.47 billion Rupees in Q4 of this year.

There was a treasury loss of 0.40 billion Rupees in Q4 compared to a gain of 1.29 billion Rupees in Q4 of the previous year.

The tax expense was 30.85 billion Rupees in this quarter compared to 22.05 billion Rupees in the corresponding quarter last year. The profit after tax grew by 30.0% year-on-year to 91.22 billion Rupees in this quarter. The profit after tax grew by 36.7% year-on-year to 318.96 billion Rupees in FY2023.

The consolidated profit after tax grew by 27.6% year-on-year to 98.53 billion Rupees in this quarter. The consolidated profit after tax grew by 35.6% year-on-year to 340.37 billion Rupees in FY2023.

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 9 million activations of iMobile Pay by non-ICICI Bank account holders as of end-March. The value of transactions by non-ICICI Bank account holders in Q4 of this year was 1.3 times the value of transactions in Q4 of last year.

We have seen about 225,000 registrations from non-ICICI Bank account holders on InstaBIZ till March 31, 2023. The value of financial transactions on InstaBIZ grew by about 22% year-on-year in this fiscal year.

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. About 70% of trade transactions were done digitally in Q4 of this year. The value of transactions done through these platforms in Q4 of this year was 1.7 times the value of transactions in Q4 of last year.

Recently, the Bank launched Startup Ecosystem Banking to cater to the banking needs of startups across their life stages through its domestic and international network, and branch at GIFT City. The Bank offers comprehensive solutions in the areas of treasury, transaction banking, lending, managing foreign direct investments and regulatory compliances along with personal banking services for employees and founders. During the quarter, the Bank launched an array of digital solutions for capital market participants and clients of custody services. The solutions enable various participants including brokers, Portfolio Management Service providers, Foreign Portfolio Investors, Foreign Direct Investors and Alternative Investment Funds to seamlessly meet all their banking requirements.

E. Portfolio information

We have provided details on our retail, business banking and SME portfolio in slides 34 to 45 of the investor presentation.

The loan and non-fund based outstanding to performing corporate and SME borrowers rated BB and below was 47.04 billion Rupees at March 31, 2023 compared to 55.81 billion Rupees at December 31, 2022 and 108.08 billion Rupees at March 31, 2022. The sequential decline was primarily due to prepayments/ repayments during the quarter. The total outstanding of 47.04 billion Rupees at March 31, 2023 includes 7.74 billion Rupees of loan and non-fund based outstanding to borrowers under resolution.

The maximum single borrower outstanding in the BB and below portfolio was less than 5 billion Rupees at March 31, 2023. At March 31, 2023, we held provisions of 4.09 billion Rupees on the BB and below portfolio compared to 4.48 billion Rupees at December 31, 2022. This includes provisions held against borrowers under resolution included in the BB and below portfolio.

The total outstanding to NBFCs and HFCs was 834.90 billion Rupees at March 31, 2023 compared to 765.40 billion Rupees at December 31, 2022. The total outstanding loans to NBFCs and HFCs were about 8% of our advances at March 31, 2023. The sequential increase in the outstanding to NBFCs and HFCs is mainly due to disbursements to entities having long vintage and entities owned by well-established corporate groups.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital was 398.87 billion Rupees at March 31, 2023 compared to 360.11 billion Rupees at December 31, 2022. The builder portfolio is about 4% 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 4.6% of the builder portfolio at March 31, 2023 was either rated BB and below internally or was classified as non-performing, compared to 5.6% at December 31, 2022.

F. Subsidiaries and key associates

The details of the financial performance of subsidiaries and key associates are covered in slides 49 to 51 and 71 to 76 in the investor presentation.

The VNB margin of ICICI Life increased from 28.0% in FY2022 to 32.0% in FY2023. The value of new business increased by 27.8% year-on-year to 27.65 billion Rupees in FY2023. The annualized premium equivalent grew by 11.7% year-on-year to 86.40 billion Rupees in FY2023. The profit after tax of ICICI Life increased by 7.6% year-on-year to 8.11 billion Rupees in FY2023 compared to 7.54 billion Rupees in FY2022. The profit after tax grew by 27.0% year-on-year 2.35 billion Rupees in Q4 this year compared to 1.85 billion Rupees in Q4 last year.

Gross Direct Premium Income of ICICI General was 210.25 billion Rupees in FY2023 compared to 179.77 billion Rupees in FY2022. The combined ratio was 104.5% in FY2023 compared to 108.8% in FY2022. The profit after tax was 17.29 billion Rupees in FY2023 compared to 12.71 billion Rupees in FY2022. The profit after tax in FY2023 includes reversal of tax provisions of 1.28 billion Rupees. The profit after tax was 4.37 billion Rupees this quarter compared to 3.13 billion Rupees in Q4 last year.

The profit after tax of ICICI AMC was 3.85 billion Rupees in this quarter compared to 3.57 billion Rupees in Q4 of last year.

The profit after tax of ICICI Securities, as per Ind AS on a consolidated basis, was 2.63 billion Rupees in this quarter compared to 3.40 billion Rupees in Q4 of last year.

ICICI Bank Canada had a profit after tax of 15.6 million Canadian dollars in this quarter compared to 4.3 million Canadian dollars in Q4 last year.

ICICI Bank UK had a profit after tax of 5.0 million US dollars this quarter compared to 3.1 million US dollars in Q4 of last year.

As per Ind AS, ICICI Home Finance had a profit after tax of 0.96 billion Rupees in the current quarter compared to 0.53 billion Rupees in Q4 of last year.

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

Moderator:

We will now begin the question-and-answer session. We have a first question from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania:

My first question is on outlook for margins. So obviously, the margin achievement for FY2023 has been phenomenal. But, would you have a threshold below which you think margins won't fall, because obviously margins are peakish for the sector, so could you give us a band in which you would like to hold margins even if they are not sustainable at these levels?

Anindya Banerjee:

I don't think that we can really give a band. Our efforts, first of all, would be to continue to grow our liability franchise in a healthy way across optimizing quantum and cost, because that is really the starting point and then price our lending in an appropriate fashion, while, of course, looking at the entire ecosystem and customer level profitability, and also manage interest rate risk and earnings which is on the balance sheet as best we can, while having to work with the fact that the requirement of pricing, a large part of the lending to external benchmarks, that creates this cyclicality and then we will see where we emerge out of it. Our endeavour, of course, would be to protect our operating profitability as far as we can.

Mahrukh Adajania:

I have another two questions. Firstly on opex. So, would you have any branch addition plan or target for next year? How many branches do you plan to add?

Anindya Banerjee:

So, if you see this year, the pace of branch addition has picked up significantly. We have added 480 branches in the year and out of that 180 has come in the fourth quarter. So, I think, that's kind of a starting run rate and we should see significantly higher branch additions next year than what we have seen this year.

Mahrukh Adajania:

My last question is on the insurance subsidiaries. So after RBI’s approval to HDFC yesterday, would you review your plans for your stakes in your insurance subsidiary? I mean, how do you view your stakes now after what happened yesterday?

Anindya Banerjee:

I think as you may have seen, we have received an extension of the timeline required for compliance with the BR Act to September 2024. So we have sufficient time to think through and take the appropriate course of action. So that's what we will do.

Mahrukh Adajania:

Okay, but there is no firm thought already that you would not now want to increase taking subsidiaries or any such thing, right, it's open for review and discussion?

Anindya Banerjee:

I'll just repeat that, we have a year and a half to comply with the requirements of the Act, which require us to either be above 50 or below 30. So we'll see over this period of time what to do.

Moderator:

We have a next question from the line of Hiren Kumar Takurlal Desai, an individual investor. Please go ahead.

Hiren K T Desai:

I have three questions. One has been NIM related question, has been answered. On deposits in comparison to advance growth, is there some specific detail?

Anindya Banerjee:

We have pretty comfortably funded a 20% loan growth with the level of deposit growth while maintaining pretty healthy levels of liquidity. We started the year with significant excess liquidity and as we ran that down, we have increased the deposit growth. So, if you look at the second half of the year, deposit growth has been approximately, I think, four times of what it was in the first half, and that momentum is continuing. So we don't have any concerns on that front.

Hiren K T Desai:

So do we believe that we are somewhere close to hiking deposit rate or Bank may have increase it further?

Anindya Banerjee:

I think that really depends on how the policy rates move and how different banks position themselves in a competitive context. I think, currently, for the last couple of months rates have been quite stable, and we don't see an immediate trigger.

Hiren K T Desai:

And one last question is, so we have seen a jump in provision. So, is there some sign of asset quality issue that you see or purely just a prudent provisioning given that we have reached very good margins and profitability?

Anindya Banerjee:

Actually, on a full year basis, our provisions have declined by more than 20%. This is despite making contingency provisions on a prudent basis of INR 56.50 billion, as well as the impact of the change in our provisioning norms to make them more conservative, which was about Rs.12 billion. So excluding these two provisions for the year would actually be negative. So we are not seeing any uptick in provisions at all.

Hiren K T Desai:

But my question was more on Q4.

Anindya Banerjee:

So, again in Q4, we made total provisions of INR 16.19 billion, of which the contingency provision itself was INR 16 billion. So excluding that the provisions were negligible.

Hiren K T Desai:

No, no, I get that but contingency also is, I mean, just that there is nothing more to read into?

Anindya Banerjee:

No, it is a part of our approach of being prudent and strengthening the balance sheet.

Moderator:

We have a next question from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka:

So the first question is going back to NIM. We see that your yield on advances still growing at 50-60 bps q-o-q, even though, your cost of funds now is increasing at a faster pace. So, when does this inflection happen? And on an average, do you think, in FY2024 over 2023 NIMs will move up still or do you think that on an average, it would be, let's say, flattish?

Anindya Banerjee:

If you look at it, I think in this quarter, we had the benefit of the repo rate hike, which took place in December, which fed through into the external benchmark linked portfolio. Our yield on investments has also gone up as we have our increased government bond portfolio at higher yields and we've also seen a repricing of our floating rate bond portfolio. At the same time, the deposit costs have also started to reflect the higher rates at which deposits are being raised incrementally. So, I think, we would believe that the NIMs are at kind of peak or near peak levels. And from here, we should see a moderation. Of course, it's difficult to give a very precise outlook on that. So I wouldn't want to get into the level of NIM for next year. As I said, our focus will be on growing the business in a sustainable way.

Abhishek Murarka:

Taking that forward, do you think then the loan growth will become more operative to drive growth, because NIM should largely moderate from here, and then there's more pressure to maintain, let's say, 18%, 19% loan growth, do you think that's possible?

Anindya Banerjee:

I don't think we would see it as a pressure to do anything. We believe that there is sufficient opportunity for us to grow and that we are quite comfortable from a funding perspective to support that level of growth. But yes, mathematically, growth in earnings would be more driven by growth in the business than any increase in margin for sure.

Abhishek Murarka:

Your loan growth outlook for next year, can you share? I mean, do you think the system growth is going to slow down from here and how are you going to be placed relative to that?

Anindya Banerjee:

I think that most of the analysts are predicting or forecasting a slowdown in system growth, which from where we have ended the year at whatever 15%, 16%, may come down by two three percentage points. From our perspective, we continue to see pretty strong momentum across the retail products, and that we have seen in the fourth quarter as well. And in certain customer segments, such as SME and Business Banking, for example, we continue to have a market share that is lower than our overall market share and there is a higher growth opportunity for us. And for most of these segments, as we spoke about in the call, we believe our product offerings and our digital offerings are pretty strong, and we are growing our distribution as well. You would have seen the employee count additions that we've done and what we've spoken about branches. So we are, I would say, pretty optimistic on the growth outlook.

Abhishek Murarka:

So you should be able to hold on to, let's say, current growth rate, given all these efforts that you're taking?

Anindya Banerjee:

We don't target a particular level of loan growth, but I'm not seeing anything today, which suggests that there could be any material drop or that we would not be able to grow our business, or that demand would be inadequate.

Abhishek Murarka:

Just on branch additions, you said it's going to go up significantly. If we look at 480 branches roughly that you have added, that's around 9%, 10% of your opening branch count. Do you think this run rate will go up, as in you will end up adding maybe 15% of your current branch count or do you think this run rate remains the same?

Anindya Banerjee:

So it could go up as well.

Abhishek Murarka:

And the hiring is in anticipation of that, because the employee per branch has gone up?

Anindya Banerjee:

There may not be a direct correlation. We will be hiring across a range of functions, including, for example, credit, frontline sales, technology, product teams and so on. But yes, obviously, given the level of hiring that we've done in the last six months, we would expect those to become productive over the next year.

Moderator:

We have a next question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah:

So firstly on the operating profit. Given that NIM trajectory could slow down, there could be some moderation in the overall industry-wide credit growth. And since we are investing into the franchise as well. So maybe in terms of what we have been highlighting with respect to 20% operating profit growth all through over the past several years, maybe what are the levers available just to ensure that the operating profit growth sustains in that range or there should be definitely a moderation which we should see over the next couple of quarters?

Anindya Banerjee:

I think what we have seen on the operating profit growth has really been an outcome of the business that we have done, underwriting that we have done, our liability profile and our approach to overall profitability. I think when we really adopted operating profit as the main operative metric for us, we were making significant provision on our historic NPL book. And now, if we look at it, that is largely addressed. And given the kind of provisioning policies that we have now, where there is very little lag between an asset turning delinquent or over 90 days and getting provided for, the operating profit less provisions is a pretty accurate reflector of the earnings of the business or the growth and quality of the business. So that's one thing to keep in mind. Of course, as you know and as we discussed in the past, the kind of margin expansion that we have seen this year, will not be there next year and there will be some pressure on margins. But that, will hopefully get addressed along with growth.

Kunal Shah:

Any levers with respect to either the fee income or maybe some other line items which can provide incremental delta?

Anindya Banerjee:

I don't think we're looking at it on a line item of the income. We see a lot of opportunity in the market and that is what we would try to capitalize on and look at the overall kind of earnings performance of the business including credit costs.

Kunal Shah:

In terms of the overall term deposit growth, if you can throw some colour in terms of how much has been from the retail side and how much was wholesale because there was a strong growth which was there in this quarter?

Anindya Banerjee:

We've focused mainly on the retail and more granular deposit growth. We have not really been large takers of high value deposits.

Kunal Shah:

So larger part of the growth is retail?

Anindya Banerjee:

Yes.

Moderator:

We have a next question from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal:

So one question is, like, on the trend and recoveries and upgrades. What is really driving this, and what have we changed in our underwriting approach to enable like, negligible credit cost on a successive basis, while the entire system is reporting a very benign credit cost but numbers for ICICI is almost zero to negligible credit costs is way better than everybody else?

Anindya Banerjee:

This year, one aspect that we have benefited from is pretty strong recoveries on the corporate side. We were able to complete the resolution of some of the older corporate NPAs. And that's why we split out the corporate and retail additions and deletions for you, and those deletions on the corporate side would also reflect into some level of write-backs. On the retail side, I think our experience with the portfolio has been pretty good both in terms of the performance in terms of overdues and bounces and so on, and at the same time, also, in terms of the collections of delinquent accounts. Again, because we have accelerated our provisioning on these portfolios significantly, they become delinquent, we provide and then as the collection efforts continue, the customers become regularized again. So, when we have a granular portfolio, a lot of delinquency and recovery can happen in a much quicker manner than in a larger, chunkier corporate portfolio, where it can take several years to resolve an account.

Nitin Aggarwal:

Secondly, while you talked about the growth opportunities in the retail business, but how do you see the growth prospects in the corporate banking going into FY2024 and FY2025?

Anindya Banerjee:

Very difficult to predict. I think this year, of course, as you would have seen our wholesale banking growth has been higher than in the previous years. I think for the system also, there has been a recovery in corporate credit growth, I guess, post the turn in the monetary environment and some shift from bond markets to banks. We are seeing certainly opportunities for lending in some of the sectors like NBFCs, real estate, which has become a significantly stronger sector in the last three, four years. So there are those opportunities. The public sector companies continue to invest as well. So these are some of the opportunities which are there. And we really look at sort of for each corporate client, what is the overall ecosystem opportunity, and lending is a part of that.

Nitin Aggarwal:

If you can just share some color on the treasury losses this quarter, very small digit also 40 odd crores?

Anindya Banerjee:

Actually, we don't really look at booking large treasury gains in our core SLR and other portfolios. We had on other portfolios some profit, but we had a mark-to-market on our security receipts portfolio, which are the security receipts with underlying assets that we would have sold to the asset construction companies over the years, there was a small negative on that account, which gets reflected in the treasury line item.

Moderator:

We have a next question from the line of Saurabh S Kumar from JP Morgan. Please go ahead.

Saurabh S Kumar:

So, this 75%, 80% recovery rate that is seen on the retail business, that you think normal or just sort of COVID where we are just experiencing a strong momentum. I'm just asking that your gross number is maybe two and a half percent and net is extremely low, if net number is sustainable is the question?

Anindya Banerjee:

I think we have always been saying that the net additions in retail will go up and they have actually gone up. But probably if you look at the gross additions and gross deletions for the quarter, the deletions which are accounted for by very old NPAs would not be much. In fact, now, we have, in addition to pretty accelerated provisioning, we have fairly accelerated write-offs as well. So, I think, deletions is I would say not abnormal. But, having said that, as the portfolio grows and seasons, we will see an increase in the net additions as well.

Saurabh S Kumar:

Second one is on RIDF. So your reduction which we have seen year-on-year is mostly done?

Anindya Banerjee:

This is basically the net maturity. So we have had more majorities of our RIDF investment than the incremental investments that we have been called upon to make.

Saurabh S Kumar:

So, incrementally, you must be meeting the requirements even at this growth. Will that be a fair comment?

Anindya Banerjee:

We do meet the overall requirement. We have some shortfalls in a couple of the subcategories. And we do have some RIDF calls as well. But those are quite moderate and the maturity out of the past years' RIDF portfolio has exceeded that.

Moderator:

We'll take a last question for today from MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh:

Just two questions. One, when you look at the mortgage part of the book, could you just tell us how have you kind of worked through the borrowers with respect to the increasing interest rates?

Anindya Banerjee:

The standard structure of floating rate home loans in India is that, when the interest rate rises, the tenure gets extended subject to certain cut offs, which could be in terms of age or certain criteria that are defined for the various customers. And, similarly, when the interest rates decline, tenure gets shorter, and customers also understand the cycle pretty well. So, in the current cycle, of course, given the sharp increase in the benchmark rates over a relatively short period, a fairly large part of the portfolio would have seen an EMI increase, but that has happened.

MB Mahesh:

If you look at the increase in the CASA ratio, growth slowdown reflect anything about the underlying customer profile, in the sense that are you seeing salary credits or savings credits kind of significantly slowing down for rural in the portfolio, as a consequence of it, you should see a slowdown in the sector quite soon?

Anindya Banerjee:

No, I don't think so. I think what has happened is that we had two years of extremely strong growth and probably this is the year when our segment of customers have seen a consumption recovery and so on. The second is, of course, as interest rates go up you will see some shift from SA to FD. Those seem to be two main factors - the base effect and rise in interest rates on the savings account side. On the current account side, actually, when we look at the average growth, it has been a little bit better. Although, again the circumstances in terms of tight liquidity and so on are not that conducive to current account growth, but we have been able to offset some of that with the digital propositions and getting more flow through the Bank.

MB Mahesh:

Have you reported the LCR ratio?

Anindya Banerjee:

Yes. I think, Sandeep mentioned it. It was 124% for the quarter.

Moderator:

We'll take one last question from Adarsh Parasrampuria from CLSA. Please go ahead.

Adarsh Parasrampuria:

The question is on fees. We did have a bit of clean out on fees, in the sense that we got choosy on selling insurance, we let go also prepayment charges and all. Just wanted to understand, is that part of the base or it still takes a little bit time before we get normalcy growth?

Anindya Banerjee:

I would think maybe in the second half, it is largely part of the base. Insurance of course is something that has been coming down over the last couple of years, and the other charges etc., is something that we rationalized through the year. So we should probably be closer to the base in that.

Adarsh Parasrampuria:

When I look at the other expenses on ex-employees, it's had a decent growth over the last couple of years, right, accelerated technology spends. As NIM slows down, is that a lever or because you had branches and given the profitability is too strong, that should not be used as an ROE lever?

Anindya Banerjee:

So I think we have consistently said that, we believe that there is a good market opportunity for us, and we will continue to invest in that, and if for a couple of quarters, operating expenses growth is higher than revenue growth, we would not really worry about it too much as long as we have a have a sustainable path. So we'll have to just look through that.

Moderator:

I would now like to hand the conference over to management for closing comments.

Anindya Banerjee:

Thank you as always for sparing time on a Saturday and we'll be happy to take other questions that you have after the call.

Moderator:

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