ICICI Bank Limited

Earnings conference call - Quarter ended June 30, 2022 (Q1-2023)

July 23, 2022

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Moderator:

Ladies and gentlemen, good day and welcome to the ICICI Bank Q1 FY2023 Earnings Conference Call. As a reminder, all participant lines will be in 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 Q1 of FY2023. Joining us today on this call are Anup, Sandeep Batra, Rakesh, Anindya and Abhinek.

During the quarter, we saw continued improvement in parameters like the index of industrial production, travel and mobility, pickup in non-oil and non-gold imports and bank credit. There are concerns arising out of the movements in inflation and interest and exchange rates, largely reflecting the uncertainties in the global environment. The Government and the Reserve Bank of India have taken various steps in this regard. We will continue to monitor these developments closely.

At ICICI Bank, we aim to grow the core operating profit in a risk-calibrated manner through a 360-degree customer-centric approach and by focusing on ecosystems and micro-markets. 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.

Coming to the quarterly performance against this framework:

First- Growth in the core operating profit in a risk-calibrated manner through the focused pursuit of target market segments

The core operating profit increased by 19.4% year-on-year to 102.73 billion Rupees in this quarter. Excluding dividend income from subsidiaries and associates, core operating profit grew by 21.1% year-on-year. The profit after tax grew by 49.6% year-on-year to 69.05 billion Rupees in this quarter.

Second-Further enhancing our strong deposit franchise

Total period-end deposits grew by 13.4% year-on-year at June 30, 2022. During the quarter, average current account deposits increased by 23.0% year-on-year and 2.9% sequentially. Average savings account deposits grew by 19.1% year-on-year and 4.4%

sequentially. Period-end term deposits grew by 11.4% year-on-year at June 30, 2022. The liquidity coverage ratio for the quarter was about 127%, reflecting continued surplus liquidity. Our cost of deposits continues to be among the lowest in the system.

Third-Growing our loan portfolio in a granular manner with a focus on risk and reward

The retail loan portfolio grew by 24.4% year-on-year and 5.1% sequentially at June 30, 2022. Including non-fund based outstanding, the retail portfolio was 44.0% of the total portfolio. The rural portfolio grew by 8.4% year-on-year and was flat sequentially. The business banking portfolio grew by 44.7% year-on-year and 7.4% sequentially. The SME portfolio grew by 32.3% year-on-year and declined by 2.6% sequentially. The growth in SME and business banking portfolios was driven by leveraging our branch network, cross sell to existing current account customers and digital offerings such as InstaBIZ and Merchant Stack. The domestic corporate portfolio grew by 14.4% year-on-year and 4.4% sequentially at June 30, 2022. The domestic loan portfolio grew by 21.7% year-on-year and 3.9% sequentially. The overall loan portfolio grew by 21.3% year-on-year and 4.3% sequentially at June 30, 2022.

Fourth-Leveraging digital across our business

We continue to enhance our digital offerings and platforms to onboard new customers in a seamless manner and provide them end-to-end digital journeys and personalised solutions. These platforms also enable us to do more data driven cross sell and up sell. Recently, we have further enhanced the open architecture based features of InstaBIZ. Merchants can now open a current account instantly and digitally on InstaBIZ by using video KYC. Through 'InstaOD Plus', customers of any bank can avail an overdraft facility of up to 2.5 million Rupees instantly on InstaBIZ. We have seen about 120,000 registrations from non-ICICI Bank account holders on InstaBIZ till June 30, 2022. Recently, the Bank launched a revamped OneSCF, an integrated supply chain platform providing corporate customers, their vendors and dealers with a one-stop solution to efficiently manage their working capital requirements. We have shared some details on our technology and digital offerings in slides 18 to 28 of the investor presentation.

Fifth - Protecting the balance sheet from potential risks

The net NPA ratio declined to 0.70% at June 30, 2022 from 0.76% at March 31, 2022 and 1.16% at June 30, 2021. During the quarter, there were net additions of 3.82 billion Rupees to gross NPAs, excluding write-offs and sale. The provisioning coverage ratio on NPAs was 79.6% at June 30, 2022. The total provisions during the quarter were 11.44 billion Rupees or 11.1% of core operating profit and 0.53% of average advances. This includes contingency provision of 10.50 billion Rupees made on a prudent basis. The Bank holds contingency provisions of 85.00 billion Rupees or about 0.9% of total loans as of June 30, 2022.

Sixth- Maintaining a strong capital base

The capital position of the Bank continued to be strong with a CET-1 ratio of 17.23%, Tier 1 ratio of 17.95% and total capital adequacy ratio of 18.74% at June 30, 2022, including profits for the quarter.

Looking ahead, we see many opportunities to grow the core operating profit in a risk-calibrated manner. In order to leverage these opportunities, we have reorganized our business teams. Cities with large concentrated market opportunities have been organised under 'city business heads' covering the full spectrum of ecosystems. We have also focused on strengthening the workforce by skilling and providing cross-functional opportunities. We will continue to make investments in technology, people, distribution and building our brand.

Going forward, we will continue to operate within our strategic framework while focusing on micro markets and ecosystems. The principles of "Fair to Customer, Fair to Bank" and "One Bank, One RoE" will guide our operations. We focus on building a culture where every employee in the Bank serves customers with humility and upholds the values of brand ICICI. We aim to be the trusted financial services provider of choice for our customers and deliver sustainable returns to our shareholders.

I now hand the call over to Anindya.

Anindya's opening remarks

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

A. Balance sheet growth

Sandeep covered the loan growth across various segments. Coming to the growth across retail products, the mortgage portfolio grew by 22.3% year-on-year and 4.1% sequentially. Auto loans grew by 17.6% year-on-year and 5.2% sequentially. The commercial vehicles and equipment portfolio grew by 3.7% year-on-year and was flat sequentially. Growth in the personal loan and credit card portfolio was 44.7% year-on-year and 9.6% sequentially. This portfolio was 963.85 billion Rupees or 10.8% of the overall loan book at June 30, 2022.

The overseas loan portfolio, in US dollar terms, grew by 7.4% year-on-year and 6.4% sequentially at June 30, 2022. The increase in the overseas loan portfolio was primarily due to increase in the India-linked trade finance book. The overseas loan portfolio was about 5.1% of the overall loan book at June 30, 2022. The non-India linked corporate portfolio declined by 52.8% or about 513 million US dollars on a year-on-year basis. Of the overseas corporate portfolio, about 87% comprises Indian corporates, 6% is overseas corporates with Indian linkage, 4% comprises companies owned by NRIs or PIOs and balance 3% is non-India corporates.

B. Credit quality

There were net additions of 3.82 billion Rupees to gross NPAs in the current quarter compared to net deletions of 4.89 billion Rupees in the previous quarter. There were net additions of 7.24 billion Rupees to gross NPAs in the retail, rural and business banking portfolios and net deletions of 3.42 billion Rupees from gross NPAs in the corporate and SME portfolios.

The gross NPA additions were 58.25 billion Rupees in the current quarter compared to 42.04 billion Rupees in the previous quarter. The gross NPA additions from the retail, rural and business banking portfolio were 50.37 billion Rupees and from the corporate and SME portfolio were 7.88 billion Rupees. There were gross NPA additions of about 7.55 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 gross NPAs, excluding write-offs and sale, were 54.43 billion Rupees in the current quarter compared to 46.93 billion Rupees in the previous quarter. There were recoveries and upgrades of 43.13 billion Rupees from the retail, rural

and business banking portfolio and 11.30 billion Rupees from the corporate and SME portfolio. The gross NPAs written-off during the quarter were 11.26 billion Rupees. The Bank sold NPAs amounting to 0.13 billion Rupees during the quarter on a cash basis.
Net NPAs declined by 28.5% year-on-year and 4.4% sequentially to 66.56 billion Rupees at June 30, 2022.

The non-fund based outstanding to borrowers classified as non-performing was 36.70 billion Rupees as of June 30, 2022 compared to 36.40 billion Rupees as of March 31, 2022. The Bank holds provisions amounting to 20.75 billion Rupees as of June 30, 2022 against this non-fund based outstanding.

The total fund based outstanding to all standard borrowers, under resolution as per various guidelines declined to 73.76 billion Rupees or about 0.8% of the total loan portfolio at June 30, 2022 from 82.67 billion Rupees as of March 31, 2022. Of the total fund based outstanding under resolution at June 30, 2022, 52.75 billion Rupees was from the retail, rural and business banking portfolio and 21.01 billion Rupees was from the corporate and SME portfolio. The Bank holds provisions of 22.90 billion Rupees against these borrowers, which is higher than the requirement as per RBI guidelines.

C. P&L Details

Net interest income increased by 20.8% year-on-year to 132.10 billion Rupees. The net interest margin was 4.01% in this quarter compared to 4.00% in the previous quarter and 3.89% in Q1 of last year. The impact of interest on income tax refund on net interest margin was 3 bps in Q1 of this year compared to 1 bps in the previous quarter and in Q1 of last year. The domestic NIM was at 4.14% this quarter compared to 4.12% in the previous quarter and 3.99% in Q1 last year. The cost of deposits was 3.46% in this quarter compared to 3.48% in previous quarter. Of the total domestic loans, interest rates on 43% are linked to the repo rate, 6% to other external benchmarks and 21% to MCLR and other older benchmarks. The balance 30% of loans have fixed interest rates.

Non-interest income, excluding treasury income, grew by 24.9% year-on-year to 46.29 billion Rupees in Q1 of 2023

- Fee income increased by 31.8% year-on-year to 42.43 billion Rupees in this quarter driven by growth across various segments, partly reflecting the low base in Q1 of last year. Fees from retail, rural, business banking and SME customers grew by 37.8% year-on-year and constituted about 79% of the total fees in this quarter

- Dividend income from subsidiaries and associates was 3.47 billion Rupees in this quarter compared to 4.10 billion Rupees in Q1 of last year. The year-on-year decline in dividend income was due to lower final dividend from ICICI Life, offset in part by higher dividend from ICICI AMC and ICICI Securities Primary Dealership

On Costs: The Bank's operating expenses increased by 25.3% year-on-year in this quarter partly reflecting the low base in Q1 of last year. The employee expenses increased by 20.0% year-on-year. The Bank had about 107,350 employees at June 30, 2022. The employee count has increased by about 7,250 in the last 12 months. Employee expenses in this quarter include an impact of 1.29 billion Rupees due to fair valuation of ESOPs granted to all employees post April 1, 2021 as required by RBI guidelines. Non-employee expenses increased by 28.8% year-on-year in this quarter primarily due to retail business and technology related expenses. The technology expenses were about 8.5% of our operating expenses in this quarter, similar to FY2022.

The core operating profit increased by 19.4% year-on-year to 102.73 billion Rupees in this quarter. Excluding dividend income from subsidiaries and associates, the core operating profit grew by 21.1% year-on-year.

There was a treasury gain of 0.36 billion Rupees in Q1 compared to 1.29 billion Rupees in Q4 and 2.90 billion Rupees in Q1 of the previous year.

The total provisions during the quarter were 11.44 billion Rupees or 11.1% of core operating profit and 0.53% of average advances. These include contingency provisions of 10.50 billion Rupees made on a prudent basis.

The provisioning coverage on NPAs continued to be robust at 79.6%. In addition, we hold 22.90 billion Rupees of provisions on borrowers under resolution. Further, the Bank holds contingency provision of 85.00 billion Rupees as of June 30, 2022. At June 30, 2022, the total provisions, other than specific provisions on fund-based outstanding to borrowers classified as non-performing, were 187.70 billion Rupees or 2.1% of loans.

The profit before tax grew by 51.7% year-on-year to 91.65 billion Rupees in this quarter. The tax expense was 22.60 billion Rupees in this quarter compared to 14.27 billion Rupees in the corresponding quarter last year. The profit after tax grew by 49.6% year-on-year to 69.05 billion Rupees in this quarter.

The consolidated profit after tax grew by 55.0% year-on-year to 73.85 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 from our customers.

There have been 7.3 million activations of iMobile Pay by non-ICICI Bank account holders as of end-June. The value of transactions by non-ICICI Bank account holders increased by 35% sequentially in the current quarter.

The value of credit card spends in the current quarter grew by 12.6% sequentially and was two times the value of spends in Q1 of last year driven by improvement in discretionary spending, higher activation rate through digital onboarding of customers, including Amazon Pay credit cards, and diversification through commercial cards. The Bank has issued more than 3.2 million Amazon Pay credit cards since its launch.

During the quarter, we launched Campus Power, an online platform providing various banking solutions such as loans, bank accounts, foreign exchange remittances and value added services to the student ecosystem for higher education in India and abroad.

The value of financial transactions on InstaBIZ grew by about 57% year-on-year in the current quarter. The value of transactions on the supply chain solutions, CorpConnect and DigitalLite, in the current quarter was 2.4 times the value of transactions in Q1 last year.

The proportion of end-to-end digital sanctions and disbursements across various products has been increasing steadily. About 33% of our mortgage sanctions and 44% of our personal loan disbursements, by volume, were end-to-end digital in Q1 of this year.

The Bank has created more than 20 industry specific STACKs which provide bespoke and purpose-based digital solutions to corporate clients and their ecosystems. The volume of payment and collection transactions through API based solutions in Q1 of this year was 3.7 times the volume of transactions in Q1 last year.

E. Portfolio information

We have provided details on our retail, business banking and SME portfolio in slides 35 to 45 of the investor presentation.

The loan and non-fund based outstanding to performing corporate and SME borrowers rated BB and below was 82.09 billion Rupees at June 30, 2022 compared to 108.08 billion Rupees at March 31, 2022. The amount of 82.09 billion Rupees at June 30, 2022 includes 22.89 billion Rupees of loans under resolution. The sequential decline during the quarter was mainly due to reduction in exposure to a borrower in the telecom sector and upgrades of a few accounts in power and construction sectors. The details are given on slide 37 and 38 of the investor presentation.

Other than one account in the power sector, where resolution has been implemented as per RBI's Covid-19 resolution framework, the maximum single borrower outstanding in the BB and below portfolio was less than 6 billion Rupees at June 30, 2022. At June 30, 2022, we held provisions of 8.61 billion Rupees on the BB and below portfolio compared to 12.32 billion Rupees at March 31, 2022. This includes provisions held against borrowers under resolution included in this portfolio.

The total outstanding to NBFCs and HFCs was 699.72 billion Rupees at June 30, 2022 compared to 686.32 billion Rupees at March 31, 2022. The total outstanding loans to NBFCs and HFCs were about 8% of our advances at June 30, 2022. The sequential increase in the outstanding to NBFCs and HFCs is mainly due to disbursements to PSU entities, 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 loans was 275.69 billion Rupees at June 30, 2022 compared to 269.48 billion Rupees at March 31, 2022. The builder portfolio is about 3% of our total loan portfolio. Our portfolio is granular in nature with the larger exposures being to well-established builders and this is also reflected in the sequential increase in the portfolio.

About 8.3% of our builder portfolio at June 30, 2022 was either rated BB and below internally or was classified as non-performing, compared to about 9.5% at March 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 slides 70 to 75 in the investor presentation

The VNB margin of ICICI Life increased from 28.0% in FY2022 to 31.0% in Q1 of this year. The value of new business increased by 31.6% year-on-year to 4.71 billion Rupees in Q1 of this year. The annualized premium equivalent grew by 24.7% year-on-year to 15.20 billion Rupees in Q1 of this year. The profit after tax of ICICI Life was 1.56 billion Rupees in Q1 of this year compared to a loss of 1.86 billion Rupees in Q1 of last year.

Gross Direct Premium Income of ICICI General increased by 28.2% year-on-year to 53.70 billion Rupees in Q1 of this year. The combined ratio was 104.1% in Q1 of this year compared to 123.5% in Q1 of last year. The profit after tax grew by 79.6% year-on-year to 3.49 billion Rupees in the current quarter.

The profit after tax of ICICI AMC was 3.05 billion Rupees in this quarter compared to 3.80 billion Rupees in Q1 of last year.

The profit after tax of ICICI Securities, on a consolidated basis, was 2.74 billion Rupees in this quarter compared to 3.11 billion Rupees in Q1 of last year.

ICICI Bank Canada had a profit after tax of 7.2 million Canadian dollars in this quarter compared to 5.0 million Canadian dollars in Q1 last year and 4.3 million Canadian dollars in Q4 this year.

ICICI Bank UK had a profit after tax of 3.4 million US dollars this quarter compared to 2.9 million US dollars in Q1 of last year and 3.1 million US dollars in Q4 last year.

As per Ind AS, ICICI Home Finance had a profit after tax of 0.40 billion Rupees in the current quarter compared to 0.17 billion Rupees in Q1 of last year and 0.53 billion Rupees in Q4 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. The first question is from the line of Mahrukh Adajania from Edelweiss. Please go ahead.

Mahrukh Adajania:

Could you please explain the increase in employee expenses because there was a sharp increase? That's my first question.

Anindya Banerjee:

Yes. Mahrukh, as we explained, if we compare, over the last 12 months, we have added about 7,250 employees. Also, the ESOP cost, which was not accounted for in Q1 of last year, is getting accounted for in Q1 of this year, that's about Rs. 1.29 billion. We would have the impact of promotions and increments that would have become effective in the current quarter.

Mahrukh Adajania:

So, a large part of it is growth related as well.

Anindya Banerjee:

Yes

Mahrukh Adajania:

And my other question was on your yields. So, if you see the yield on loans, it's kind of declined quarter-on-quarter. That's largely because of the foreign book?

Anindya Banerjee:

No. As you know, the rise in interest rates is a phenomenon that started to play out only from June. So, it reflects the rates at which lending has been done over the last few quarters and the relative maturity versus new lending in the book because rates were quite competitive well into May as well. If you recall, last time we had mentioned that there is some arithmetical impact between Q4 and Q1 because of the number of days. So, if you look back historically also in Q1 versus Q4, the yield has been slightly lower.

Mahrukh Adajania:

Got it. In general, how would the growth outlook pan out? As in we are into a strong growth phase right now. But does the global scenario impact growth 6 months down the line or is there a resilient structural demand?

Anindya Banerjee:

I think currently, Mahrukh, if you look at general loan growth across the sectors for us and our peer banks who have reported, it has held up quite well, although rates have started moving up from late May. There seems to be a fair degree of resilience in demand in typical segments in which banks like us operate. But we'll have to monitor this as we go along.

Mahrukh Adajania:

Got it. I just have one last question, which is on your bond portfolio. You did make trading gains, and you did not have any mark-to-market loss. Is that correct?

Anindya Banerjee:

Yes. Mahrukh, in our AFS portfolio, as we may have discussed in the past, we generally carry a very low duration. So, whatever mark-to-market, if at all, would have been there, would have been negligible. We would have had some small gains on the equity side. So, that has led to this small net positive. But even adjusted for that, we would not have had any material mark-to-market at all because of the low duration of our AFS portfolio.

Moderator:

The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead

Manish Ostwal:

Only 1 small data point. What is the size of the AFS book and modified duration of the book?

Anindya Banerjee:

We don't disclose that on a quarterly basis.

Moderator:

The next question is from the line of Nilanjan Karfa from Nomura. Please go ahead

Nilanjan Karfa:

Anindya, just going back to the yield question, will you have some walk in terms of the incremental loans that we do at a higher rate because the yields have declined on a sequential basis, even after including the reasons that you gave. If you can just help us walk through that decline.

Anindya Banerjee:

No, I think we already explained it that lending rates have been pretty competitive across segments over the last few quarters. That will now start reversing out as the benchmarks pick up. Further, there would have been some mathematical impact of the day count, which has been seen in the past as well. Beyond that, really, there is no other factor.

Nilanjan Karfa:

Okay. So, if the reasons continue like this, do you think when the back book reprices along with the reset debt, do you expect the reset to also be slightly muted?

Anindya Banerjee:

No. The reset will be to the extent that the benchmark changes. So, it will entirely reflect the change in the benchmark. There is no change in the spread.

Nilanjan Karfa:

The second one I wanted to ask is on the SME portfolio. Even though there is a sequential decline, I think the growth is quite robust. Could you help understand which are the segments where you are seeing a lot of demand? Secondly, across both SME and corporate loans, could you share what percentage is the working capital loan and how this has changed through this quarter because the commodity prices have also been quite volatile?

Anindya Banerjee:

If you look at our portfolio, we have been quite consistently growing the SME portfolio for the last 4 years or so. We had made a lot of changes in the way we approach this category of customers over the last 5 years in terms of distribution, our credit underwriting, our portfolio granularity and so on. This is probably one of the portfolios where the credit outcome so far post COVID has been somewhat better than what we may have originally anticipated. So, we are quite comfortable with growth in this portfolio. One of the other things that we have done over the last 3 years is invested heavily in digital propositions for this segment of customers. We have also seen a fairly high increase in digital adoption in this segment. Those are the areas that have driven this growth. It is a mix of working capital and sort of term loans. I don't think that there is anything specific to call out in terms of increase in working capital requirement in this quarter as such because the growth rates have been quite in line with what we have seen in the past adjusted for the period of dislocation during the pandemic.

Nilanjan Karfa:

Let me squeeze in a third one. If we look at the segmental disclosure, and while we obviously don't talk about how the equities are split between these businesses, but generally speaking, if you look at the profitability of each of the segments, which is the segment that you are seeing the profitability sort of jump quite a bit? Would you say that, for example, the corporate or the wholesale segment is actually doing a little better than retail? And do you think that's going to persist through the next couple of quarters?

Anindya Banerjee:

No, I don't think so. If you look at the improvement in profitability for what is reported in the corporate segment, I think part of that is due to actually a write-back of provisions as we continue to get recoveries out of past NPLs in that portfolio. On the retail side, of course, if you look at it on a year-on-year basis, there is a sort of multiple jump in the profit. For the sequential decline, I think 75%-80% of our cost base sits in retail. So, the sequential increase in costs that we discussed earlier in response to another question would largely reflect in retail. Also, as we mentioned in the first quarter, we do see the seasonally higher addition to NPLs in the KCC portfolio, which was Rs. 7.55 billion in this quarter, and the provisioning on that would also form part of the segmental result. But I don't think in terms of long-term profitability trend, there is anything to call out. The last thing I would like to say is that we are increasingly trying to organize ourselves around ecosystems. So, there is a lot of sort of how should I say it, for the regulatory requirements we would be reporting a segmental basis, but the way we are organized internally is much more around cross-functional teams and looking at particular customer ecosystems where these distinctions are quite blurred in that sense.

Moderator:

The next question is from the line of Jai Mundra from B&K Securities. Please go ahead

Jai Mundra:

If you can share the duration of your term deposit, what could be the average duration of your term deposit? I mean a ballpark number will also do.

Anindya Banerjee:

We have not really given a duration per se. I think we do publish sort of maturity pattern. I would say that we would have a significant proportion in 1 year plus.

Jai Mundra:

Right. I think that gets distorted because 1 year plus would have the entire CA and I don't know what percentage of SA would be sitting in either 3 years or 5 years. So, specifically on term deposit, I mean ballpark, let's say, how much of that would be, let's say, less than 1 year or how much could be over 3 years or 5 years?

Rakesh Jha:

A lot of the retail term deposits actually across most banks is in the 1-year bucket as Anindya said. It is for the retail FD, in particular, not the total deposits. A lot of it is in 1 year. And of course, we have been offering slightly higher rates in the longer bucket as well, in the 3-year bucket. So, some of the deposits would have come in that bucket. But predominantly, it will be in the 12 to 18 months bucket. For all banks, it will be pretty similar.

Jai Mundra:

Just while we are on this, the distribution of savings and the current deposit will always be less than 1 year, right? Is it fair to assume that, let's say, 90%-95% of CA in that maturity pattern would be sitting in less than 1-year maturity?

Rakesh Jha:

That is behavioural. So, it will vary.

Anindya Banerjee:

It will vary and it may not be consistent across banks as well.

Jai Mundra:

Second question is, sir, on your distribution strategy, I mean the branch strategy, we have been fairly calibrated over the last 3-4 years, maybe rightly so, because we have already increased the digital offerings and digital services. Do you think that you may have to sort of rethink that approach for the next 2-3 years, considering the competitive landscape emerging, especially distribution strategy by the largest private Bank?

Anindya Banerjee:

We give a lot of flexibility to our operating teams on where and how many branches they want to open. We have not imposed any restrictions. It is part of the investment that needs to be made and managed within our overall PPOP framework. This quarter, if you see, we have, after a long time, added about 120 branches. So, we will keep looking at that and adding as we need to, wherever we see opportunity to either establish a presence in a growth market or deepen our presence in a high-value market.

Jai Mundra:

So the question is similar, that could we see a higher branch addition pace versus what we have seen over the last 2-3 years?

Anindya Banerjee:

Yes, I think we could, but that is based on our own sort of growth strategy.

Jai Mundra:

Last question, sir, I mean even adjusted for KCC slippages, the retail slippages compared to last quarter also look higher. Would you have any specific reasons apart from the KCC slippages?

Anindya Banerjee:

So, Jai, as we have been saying for some time, I think in the granular portfolios like retail, business banking, SME and so on, we need to focus on the net slippage. Similarly in the granular working capital accounts where there may be an NPL classification due to some technical reason, which then gets regularized. These types of accounts, to a large extent, tend to cure in a pretty short period of time. This is very different from the lumpy corporate-type exposure, which once they get into the NPA bucket, there is typically a long delay until the recovery happens. So, we would really focus on the net number. And as far as the net number is concerned, we have been saying for some time that -- of course, in the second half of last year, we had net deletions to gross NPA. So that was due to higher recoveries out of the stock of NPAs that had got created during the pandemic period. And we were expecting that we would start seeing net addition from the current quarter, which is what has played out. Although I must say that even the current level of net additions is relatively low.

Moderator:

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

Nitin Aggarwal:

I have 2 questions. One is around how sustainable are the recoveries that we are witnessing over the past few quarters? In context to this, if we look at our provisions to PPOP guidance and even including the contingent provisions, we are seeing a very benign run rate. So, how do you see that? Any thoughts around this? Second question is on unsecured book. The PL and credit cards both are doing very well and the mix is now averaging 10.5%-11% of the total book. How do you really see that? Any cap that we will look to have on the mix of unsecured assets? These are my two questions.

Anindya Banerjee:

On the first one, I think one is that, I guess, it sort of gives us confidence in our underwriting. And I think that the two things we must remember is that on the corporate side, we were anyway, even in 2019 and 2020, coming off a very deep corporate cycle. So, it is fair to expect that in the years after that, you would have a very benign kind of credit experience. In retail and SME, the portfolio has gotten severely tested by COVID. Of course, we did see higher NPL additions during that time. From here on, we will have to see how the mix, the gross additions and recoveries and so on evolve and look at what kind of credit costs come through. But in terms of what we are sort of planning over the long term or what are our tolerance levels or what we are trying to design the business to, we would continue to look at that 20-odd percent of provisions to PPOP. Sorry, what was your second question?

Nitin Aggarwal:

On the unsecured piece

Anindya Banerjee:

As you know, we have grown this portfolio primarily on the back of cross-sell to existing customers or through very strong partnerships like Amazon and by identifying sort of the correct profiles even if they are new to Bank. The credit performance of these portfolios has been quite good. We have no plans to look at any cap as of now because we don't see anything in the credit trends to warrant that.

Moderator:

The next question is from the line of Ashish Sharma from ENAM AMC. Please go ahead.

Ashish Sharma:

Sir, 2 questions. One on the credit cost. We have created another contingent provision in this quarter, but we've seen one peer bank sort of writing back the provision they made in relation to the COVID. So, sir, some color on how we see the credit cost, given our strategy of sort of creating contingent provision? Second question would be on the credit card portfolio. If you can, sir, sort of give some color on the revolver book. I mean has it picked up? That would be helpful.

Anindya Banerjee:

I think we made this contingency provision on a prudent basis. Clearly, as you would have seen the numbers in terms of the net additions as well as the net provisions, the numbers are very low. But at the same time, there are potential headwinds in the environment given what is happening on inflation and rates and potentially a sharp slowdown in growth in major economies and so on. So, given that, although the current trends are benign, we looked at our portfolio and decided to add to our contingency buffer to strengthen the balance sheet, which is a key element of our strategic framework that Sandeep also spoke about. So, that is how we looked at it. I think we'll have to see how the credit cost trajectory evolves in future. On the revolver, of course, compared to pre-pandemic levels, revolver rates had come down, and we hope that they would now start moving up as spends also pick up.

Moderator:

The next question is from the line of Hardik Shah from Goldman Sachs. Please go ahead.

Rahul Jain:

This is Rahul here. Just a couple of questions. On Slide 36, the rating-wise mix that you've given, is it predominantly for the entire corporate and the SME portfolio? I mean just wanted to understand what explains the swing in AA minus and above from 36% to 47%?

Anindya Banerjee:

Yes. So, this is on the non-retail portfolio. And as you see, the A- and above bracket has remained broadly stable. There would have been some upgrades from the A family to the AA- and above family. So, that is a movement that would keep happening. But broadly, we would focus on, say, 70% plus is A- and above.

Rahul Jain:

Understood. Understood. And will it have sort of implication on yields also going forward in this portfolio then?

Anindya Banerjee:

Not really, I think.

Rahul Jain:

Then going back to the provisioning bit, of course, much has been asked, but just wanted to understand the understanding behind making it. So, these are contingency provisions, right, which you've been building over the last 2 quarters. Is this against the BB and below rated portfolio? Or what portfolio this is being built against?

Anindya Banerjee:

It is a contingency provision made by looking at sort of risk markers across a very broad range of portfolios and, as we said, the continuing uncertainties in the environment, both geopolitical and macroeconomic.

Rahul Jain:

Can you talk about the revolver percentage in the credit card portfolio that we may have and also the EMI book?

Anindya Banerjee:

We have not really spoken about a specific percentage, Rahul.

Rahul Jain:

And then one final big picture question. So, RBI has put out this vision document on payments in which you talk about UPI, credit on UPI plus linking the RuPay credit card to UPI. Any broad thoughts on how you're all thinking about those? And does it sort of excite you about the credit on UPI?

Anindya Banerjee:

We are always excited about new innovations that take place in the payment system or the financial system. I think we will participate in all of these within our risk appetite. We already offer a pay later product, which is a credit line on UPI embedded in the Bank's mobile app. I think India has one of probably the most evolved payment system in the world and we would keep looking at what business cases or use cases arise out of that.

Moderator:

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

MB Mahesh:

Just 2 questions. Anindya. How does the portfolio behave over the next 2-3 quarters given the recent increase in the repo rates?

Anindya Banerjee:

So, we have given the numbers, Mahesh. 43% of the book is linked to repo, about 6% is linked to other external benchmarks and 21% is linked to MCLR. So, our MCLR, we have increased by 50 basis points at the end of May and June. Repo, as you know, has moved up by 90 basis points. And these have sort of 3 months to 1 year reset periodicity. So, that will play out over the next few quarters.

MB Mahesh:

In your assessment that the ability for a full pass-through is visible in the portfolio, adjusted for the repayments and the cash additions at the spreads, which might be different to what the portfolio is contracted at?

Anindya Banerjee:

For example, if you look at the repo-linked portfolio, say, the mortgage portfolio. There, as you know, the floating rate product that is uniform in India has a lengthening of the EMI schedule up to a certain level, and there is only a smaller set of customers who we would see an increase in the EMI. So, in the larger corporates, I think they also have their own fair degree of resilience or ability to kind of refinance and so on. So, it should be manageable. But as I said, it depends upon the pace and extent of these changes, so we have to watch as we go along.

MB Mahesh:

Second question, sir. CC/OD changes on the NPL side, I didn't get this in case it was answered. Was there any impact of it in the current quarter?

Anindya Banerjee:

So, that was a clarification which came in Q4. There would have been some impact, but nothing that we have quantified for calling out in particular. I think we just have to adjust to it. There would have been some impact. Hopefully, that impact will trend down.

Moderator:

Ladies and gentlemen, we take that as the last question for today. I now hand the conference call over to the management for their closing comments. Over to you, sir.

Anindya Banerjee:

Thank you all very much for sparing time on a Saturday evening, and Abhinek and I will be happy to take your questions separately. Thank you

Moderator:

Ladies and gentlemen, on behalf of ICICI Bank, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.