Analyst call on October 21, 2023: 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 non-performing 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.

This release does not constitute an offer of securities.

Ladies and gentlemen, good day and welcome to the ICICI Bank Q2 FY24 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. Sandeep Bakhshi:

Thank you. Good evening to all of you and welcome to the ICICI Bank Earnings Call to discuss the results for Q2 of FY2024. Joining us today on this call are Sandeep Batra, Rakesh, Anindya and Abhinek.

The Indian economy continued to be resilient amidst the uncertainties in the global environment, reflecting the actions and initiatives of the policymakers. The underlying growth momentum is visible with expansion in manufacturing and services PMI, real estate buoyancy, increasing steel and cement output, higher tax collections and demand for travel. The Government led capex cycle is continuing. Though there has been a pause in the policy rate hike cycle in India, global and domestic inflation, and the liquidity and rate environment continue to evolve.

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 and strengthen our franchise, enhance our delivery and servicing capabilities and expand our technology and digital offerings.

The profit before tax excluding treasury grew by 35.7% year-on-year to 137.31 billion Rupees in this quarter. The core operating profit increased by 21.7% year-on year to 143.14 billion Rupees in this quarter. The profit after tax grew by 35.8% year on-year to 102.61 billion Rupees in this quarter.

Total deposits grew by 18.8% year-on-year and 4.5% sequentially at September 30, 2023. Term deposits increased by 31.8% year-on-year and 9.2% sequentially at September 30, 2023. During the quarter, the average current and savings account deposits grew by 7.1% year-on-year and 1.1% sequentially. The Bank's average liquidity coverage ratio for the quarter was about 122%.

The domestic loan portfolio grew by 19.3% year-on-year and 4.8% sequentially at September 30, 2023. The retail loan portfolio grew by 21.4% year-on-year and 5.5% sequentially. Including non-fund based outstanding, the retail portfolio was 46.0% of the total portfolio. The business banking portfolio grew by 30.3% year-on-year and 10.6% sequentially. The SME portfolio grew by 29.4% year-on-year and 7.2% sequentially. The rural portfolio grew by 17.3% year-on-year and 3.5% sequentially. The domestic corporate portfolio grew by 15.3% year-on-year and 3.1% sequentially. The overall loan portfolio including the international branches portfolio grew by 18.3% year-on-year and 5.0% sequentially at September 30, 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 declined to 0.43% at September 30, 2023 from 0.48% at June 30, 2023 and 0.61% at September 30, 2022. During the quarter, there were net additions of 1.16 billion Rupees to gross NPAs, excluding write-offs and sale. The total provisions during the quarter were 5.83 billion Rupees or 4.1% of core operating profit and 0.2% of average advances. The provisioning coverage ratio on NPAs was 82.6% at September 30, 2023. In addition, the Bank continues to hold contingency provisions of 131.00 billion Rupees or about 1.2% of total loans as of September 30, 2023.

The capital position of the Bank continued to be strong with a CET-1 ratio of 16.77%, Tier 1 ratio of 16.86% and total capital adequacy ratio of 17.59% at September 30, 2023, including profits for H1-2024.

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.

Mr. Anindya Banerjee:

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 16.2% year-on-year and 4.1% sequentially. Auto loans grew by 24.1% year-on-year and 5.5% sequentially. The commercial vehicles and equipment portfolio grew by 12.3% year-on-year and 4.5% sequentially. Personal loans grew by 40.4% year-on-year and 10.2% sequentially and the credit card portfolio grew by 29.5% year-on-year and 6.2% sequentially. The personal loans and credit card portfolio were 9.4% and 3.9% of the overall loan book respectively at September 30, 2023.

The overseas loan portfolio, in US dollar terms, declined by 6.3% year-on-year at September 30, 2023. The overseas loan portfolio was about 3.3% of the overall loan book at September 30, 2023. The non-India linked corporate portfolio declined by 26.9% or about 115 million US dollars on a year-on-year basis. Of the overseas corporate portfolio, about 90% comprises Indian corporates, 6% 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 1.16 billion Rupees to gross NPAs in the current quarter compared to 18.07 billion Rupees in the previous quarter. The net additions to gross NPAs were 13.45 billion Rupees in the retail, rural and business banking portfolios and there were net deletions of gross NPAs of 12.29 billion Rupees in the corporate and SME portfolio.

The gross NPA additions were 46.87 billion Rupees in the current quarter compared to 53.18 billion Rupees in the previous quarter. Recoveries and upgrades from gross NPAs, excluding write-offs and sale, were 45.71 billion Rupees in the current quarter compared to 35.11 billion Rupees in the previous quarter.

The gross NPA additions from the retail, rural and business banking portfolio were 43.64 billion Rupees in the current quarter compared to 50.72 billion Rupees in the previous 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 30.19 billion Rupees compared to 31.40 billion Rupees in the previous quarter. The gross NPA additions from the corporate and SME portfolio were 3.23 billion Rupees compared to 2.46 billion Rupees in the previous quarter. Recoveries and upgrades from the corporate and SME portfolio were 15.52 billion Rupees compared to 3.71 billion Rupees in the previous quarter.

The gross NPAs written-off during the quarter were 19.22 billion Rupees. There was sale of NPAs worth 1.79 billion rupees in the current quarter compared to no sale in the previous quarter. The sale of NPAs includes 0.14 billion rupees in cash and 0.53 billion rupees of security receipts. As these NPAs were fully provided, we continue to hold provisions against security receipts.

The non-fund based outstanding to borrowers classified as non-performing was 38.86 billion Rupees as of September 30, 2023 compared to 37.04 billion Rupees as of June 30, 2023. The Bank holds provisions amounting to 20.64 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 35.36 billion Rupees or about 0.3% of the total loan portfolio at September 30, 2023 from 39.46 billion Rupees at June 30, 2023. Of the total fund based outstanding under resolution at September 30, 2023, 30.00 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 11.07 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 23.8% year-on-year to 183.08 billion Rupees. The net interest margin was 4.53% in this quarter compared to 4.78% in the previous quarter and 4.31% in Q2 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 nil in Q2 of this year compared to 3 basis points in the previous quarter and no impact in Q2 of last year. The domestic NIM was at 4.61% this quarter compared to 4.88% in the previous quarter and 4.45% in Q2 of last year. The cost of deposits was 4.53% in this quarter compared to 4.31% in the previous quarter, reflecting primarily the increase in term deposit rates over the last year, though rates on incremental retail term deposits have largely stabilized. Of the total domestic loans, interest rates on 48% are linked to the repo rate, 3% 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 14.0% year-on-year to 58.61 billion Rupees in Q2 of 2024

- Fee income increased by 16.2% year-on-year to 52.04 billion Rupees in this quarter. Fees from retail, rural, business banking and SME customers constituted about 78% of the total fees in this quarter.

- Dividend income from subsidiaries and associates was 6.48 billion Rupees in this quarter, same as in Q2 of last year.

On Costs: The Bank's operating expenses increased by 20.8% year-on-year in this quarter. Employee expenses increased by 29.0% year-on-year in this quarter. The Bank had about 139,000 employees at September 30, 2023. The number of employees has increased by about 29,000 in the last 12 months. Non-employee expenses increased by 16.3% year-on-year in this quarter primarily due to retail business related and technology expenses. Our branch count has increased by 174 in Q2-2024 and we had 6,248 branches as of September 30, 2023. The technology expenses were about 9.2% of our operating expenses in H1 of this year.

The core operating profit increased by 21.7% year-on-year to 143.14 billion Rupees in this quarter. Excluding dividend income from subsidiaries and associates, the core operating profit grew by 22.9% year-on-year.

The total provisions during the quarter were 5.83 billion Rupees, or 4.1% of core operating profit and 0.2% of average advances compared to 12.92 billion Rupees in the previous quarter. The sequential decline in provisions reflects higher NPA additions from kisan credit card portfolio in Q1 of this year, and corporate recoveries and upgrades as well as recoveries from written-off accounts. The provisioning coverage on NPAs was 82.6% as of September 30, 2023. In addition, we hold 11.07

billion Rupees of provisions on borrowers under resolution. Further, the Bank continues to hold contingency provision of 131.00 billion Rupees as of September 30, 2023. At the end of September, the total provisions, other than specific provisions on fund-based outstanding to borrowers classified as non-performing, were 229.10 billion Rupees or 2.1% of loans.

The profit before tax excluding treasury grew by 35.7% year-on-year to 137.31 billion Rupees in Q2 of this year.

There was a treasury loss of 0.85 billion Rupees in Q2 similar to Q2 of the previous year.

The tax expense was 33.85 billion Rupees in this quarter compared to 24.78 billion Rupees in the corresponding quarter last year. The profit after tax grew by 35.8% year-on-year to 102.61 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-September 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 export transaction lifecycle with bespoke solutions providing frictionless experience to our clients and simplify customer journeys. About 71% of trade transactions were done digitally in Q2 of this year. The volume of transactions done through Trade Online and Trade Emerge platforms in Q2-2024 grew by 29.7% year on-year.

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 47.89 billion Rupees at September 30, 2023 compared to 42.76 billion Rupees at June 30, 2023 and 76.38 billion Rupees at September 30, 2022. The increase during the quarter is due to the upgrade of one borrower from non-performing status. Other than this account, the maximum single borrower outstanding in the BB and below portfolio was less than 5.00 billion Rupees at September 30, 2023. At September 30, 2023, we held provisions of 8.17 billion Rupees on the BB and below portfolio compared to 4.02 billion Rupees at June 30, 2023. This includes provisions held against borrowers under resolution included in this portfolio.

The total outstanding to NBFCs and HFCs was 837.49 billion Rupees at September 30, 2023 compared to 874.18 billion Rupees at June 30, 2023. The total outstanding loans to NBFCs and HFCs were about 8% of our advances at September 30, 2023.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital was 430.58 billion Rupees at September 30, 2023 compared to 427.12 billion Rupees at June 30, 2023. The builder portfolio is about 3.9% 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 3.5% of the builder portfolio at September 30, 2023 was either rated BB and below internally or was classified as non-performing, compared to 3.7% at June 30, 2023.

F. Consolidated results

The consolidated profit after tax grew by 36.1% year-on-year to 108.96 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 value of new business margin of ICICI Life was 28.8% in H1 of this year compared to 32.0% in fiscal 2023 and 31.0% in H1 of last year. The value of new business of ICICI Life was 10.15 billion Rupees in H1 of this year compared to 10.92 billion Rupees in H1 of last year. The annualised premium equivalent was 35.23 billion Rupees in H1 of this year compared to 35.19 billion Rupees in H1 of last year. The profit after tax of ICICI Life was 4.51 billion Rupees in H1 of this year compared to 3.55 billion Rupees in H1 of last year and 2.44 billion Rupees in Q2-2024 compared to 1.99 billion Rupees in Q2-2023.

Gross Direct Premium Income of ICICI General was 60.86 billion Rupees in Q2-2024 compared to 51.85 billion Rupees in Q2-2023. The combined ratio stood at 103.9% in Q2-2024 compared to 105.1% in Q2-2023. Excluding the impact of CAT losses, the combined ratio was 102.8% in Q2-2024 and 104.3% in Q2-2023. The profit after tax was 5.77 billion Rupees in Q2-2024 compared to 5.91 billion Rupees in Q2-2023. The profit after tax of Q2-2023 included reversal of tax provisions of 1.28 billion Rupees.

The profit after tax of ICICI AMC, as per Ind AS was 5.01 billion Rupees in this quarter compared to 4.06 billion Rupees in Q2 of last year.

The profit after tax of ICICI Securities, as per Ind AS on a consolidated basis, was 4.24 billion Rupees in this quarter compared to 3.00 billion Rupees in Q2 of last year.

ICICI Bank Canada had a profit after tax of 21.1 million Canadian dollars in this quarter compared to 12.0 million Canadian dollars in Q2 of last year.

ICICI Bank UK had a profit after tax of 3.3 million US dollars this quarter compared to 1.5 million US dollars in Q2 of last year.

As per Ind AS, ICICI Home Finance had a profit after tax of 1.12 billion Rupees in the current quarter compared to 0.60 billion Rupees in Q2 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:

Hello, I just had a question on the sector and then even on margins. So, there's a lot of talk going around on unsecured loans, on which segment of unsecured loans is safe and which is seeing higher delinquencies. So, what is the sense you make from the bureau data and from your own customer data, that's the first question.

And then in your experience as veteran bankers, do you think that the stress in one segment, say below 50,000, can easily spread to other segments, so that's my first question.

Anindya Banerjee:

Yes, we track this portfolio quite closely and we have been doing so for the past several quarters. As far as our portfolio is concerned, we feel that the trends are quite stable and the credit delinquencies and credit costs are well within what we would have sort of expected them to be.

As far as the industry outlook is concerned, we have also seen some research which makes this distinction between the smaller ticket size loans and the larger ticket size loan.

As far as our portfolio is concerned, we have a very minimal presence in the smaller ticket size segment. But I think you are right in the sense that if we start seeing significant increase in delinquencies on personal loans that would have implications for other parts of the portfolio as well, potentially.

But, I think if we have kind of focused on the portfolio as we believe we have on existing customers, on cross-sell and on customers with credit scores above a certain level, and also properly assessed and monitored their level of leverage and how many loans they are servicing at any point in time, we feel that the risks should not be something which would cause too much concern, but we will continue to monitor this as we go along. As things stand in our portfolio the numbers are pretty comfortable and that is why you would have seen us growing the portfolio also at a similar pace this quarter as we have been growing for the past several quarters.

Mahrukh Adajania:

Okay but as the portfolio seasoned, even in your portfolio would it be fair to say that there would be a rising delinquencies over the last six months like anything to call out?

Anindya Banerjee:

There is nothing really to call out, if you look at for example, we have been saying for the last several quarters that in absolute terms as the retail portfolio grows and seasoned and some of the higher recoveries coming out of the stock of NPLs that got created during COVID come down, the net additions to gross NPLs in the retail portfolio will go up, but they have been moving quite in a stable way.

And in fact, in this quarter, you have seen it coming down actually sequentially, which is partly due to the absence of KCC NPLs, but even on the retail side the performance has actually improved slightly.

Mahruk Adajania:

Got it. And, would it be possible to get the average ticket size?

Anindya Banerjee:

No, we have not really given that answer. But, as I said, our presence in the smaller ticket size would be marginal.

Moderator:

Thank you. We will take our next question from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar:

Hi sir, just two questions. One is your recovery and upgrade, so your retail slippages are running at 3% and your recovery upgrades are like 60% of that. Is that what you would consider as a normal run rate in this business now?

Anindya Banerjee:

I guess so. I mean as the portfolio grows in absolute terms, it may go up, but we expect these trends to be reasonably stable. There could be some variation quarter-to-quarter.

Saurabh Kumar:

Okay and the second sir, again back to the PL, the 40% growth that you have seen, your approval rates on loans will be -- where would this be versus let's say 2023 and versus like 2019 in terms of your internal credit filters?

Anindya Banerjee:

We have not really talked about approval rates and so on. I think we have given our outlook on the portfolio and we will continue to monitor it as we go along.

Saurabh Kumar:

Okay, but your credit filters internally have come down over the last one year, sir? I mean, if you can give us directional colour?

Anindya Banerjee:

No, I don't think we would have diluted our credit filters. In general, I think we have been focusing progressively more on the upper end of the spectrum.

Moderator:

Thank you. We will take our next question from the line of Chintan Joshi from Bernstein. Please go ahead.

Chintan Joshi:

Hi, thank you for the opportunity. I have two areas; one is on kind of lending and deposit yields and second is on your branch expansion strategy. Lending yields have gone down 5 basis points this quarter, which felt a little low. And cost of deposit yields – cost of deposit has gone up substantially. How much repricing is left on the deposits and on the lending side?

And, the second question is, HDFC is growing branches quite aggressively now. It is leaving some of the other private sector banks behind on market share relative to the private sector. How does this impact kind of your branch expansion strategy on a three-year view?

Anindya Banerjee:

As far as the first question is concerned, I think you're aware that the way margins for most banks have moved over the last few quarters in FY23, banks saw the benefit of the increase in the repo rate on the external benchmark linked loans, primarily mortgages and others.

And the deposit rate started to also go up last year, but because the deposits are fixed term, that repricing impact is playing out through the quarters and we are currently in the situation where the policy rates are on a pause, and therefore the external benchmark linked loans are not seeing an increase in yields.

But the deposit rate increases that took place last year are continuing to reprice as they come up for maturity and so on and so forth. So, that is why in fact we had articulated even in the call last time that the repricing of the loan book from here on would not be significant, and that is the way it has played out.

We would continue to expect to see some increase in the cost of deposits on the book, and therefore some moderation in margins over the next quarter or so as well, as we have articulated in the past, but on a full year basis, we continue to expect that the margins would be at a similar level as they were in FY23.

On your second question on branch strategy, so we have added about 350 branches in the first half of this year. We are really looking at what is our network across different micro-markets and assessment of the opportunity in those micro-markets and the branch capacity we need to add to serve that and that is the basis on which we are adding, not really looking at what any other particular bank may or may not be doing.

Chintan Joshi:

That might leave you losing market share relative to the other players, are you happy with that?

Anindya Banerjee:

As I said, we are looking at what is our assessment of the market in each place, in each kind of geographical area and what is the kind of network expansion we need to do based on that. So, it is kind of aligned to what our growth aspirations are.

Moderator:

Thank you. We will take our next question from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain:

Yes, good evening everyone. Actually, I have two, three questions. Number one, can I just get your thoughts on the competitive dynamics, particularly in mortgages and deposits because clearly, the systemic growth has not been very strong in mortgages and of course, some pricing pressure here anecdotally has started coming through. So, what are your experience in that?

Anindya Banerjee:

So on mortgages, yes, it has always been a competitive segment and it continues to be so. So, we do have players offering in particular segments that they are targeting pretty competitive rates. But we are calibrating our response and trying to make sure that we optimize across the portfolio. But overall, I think on loan pricing there is a reasonable level of competitive intensity across the system.

Rahul Jain:

Got it. And the reason I was asking is, of course, credit cost has been extremely benign. So do we choose to pass on some of that and strengthen the position in the secured portfolio because very unsecured while your portfolio is fine, but RBI has found it out, everybody across the board has been saying that the portfolios are fine, but when we speak to some of the bureaus, they do tell us that there's been some downgrades in Super Prime customers too. So just trying to get some head around as to how the cycle will play out. So while it is looking pretty strong at this point of time, but what RBI and the bureaus are saying in the Prime, Super Prime customers, is there a need for you to increase your secure portfolio at some stage and therefore offer some of the pricing out there? Just trying to understand that how it evolves.

Anindya Banerjee:

I don't think it is like that so if you look at our secured retail portfolios those are going pretty well; mortgages growing at 16%-17%, auto is growing above 20%, commercial vehicles which was flat or growing just about in single digits for a long time, this quarter the year-on-year growth is more like 14%. Our SME and business banking portfolios are growing at the 30% kind of level.

So, I think we have pretty broad-based growth and certainly we are not reliant on personal loans for growth. It is still less than 10% of our loan book. Credit cards, of course, we would want to continue to expand our franchise. For personal loans, we will continue to monitor the portfolio and whatever comes through our credit filters in the customer segments that we are comfortable with, we will take that.

In any case, we are not particularly targeting a certain level of loan growth. If credit conditions are not so favourable in our view and we need to prune it by a percentage point or two that is fine. But, currently there is no softness in the secured loan categories either.

Moderator:

Our next question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah:

Yes, thanks for taking my question. So firstly, in terms of the international NIMs, they have gone up by almost like 56 odd basis points. Are we seeing, obviously the portfolio is quite small now. But eventually when we look at it, is this a steady state in the overall or maybe we see further improvement in the NIMs as well looking at the rates globally?

Anindya Banerjee:

I think it is not particularly consequential Kunal that is a small portfolio. Incrementally, mainly what we are doing there is a short-term working capital, trade finance kind of portfolio. So we do that, the funding that is available and the rates that are wherever we see that the lending rates give us appropriate level of spread over that funding particularly for some of the Indian corporates etc., also in that market the Indian banks tend to be quite competitive. So in the overall scheme of things it does not really make much of a difference.

Kunal Shah:

Secondly in terms of the unsecured so if you look at the retail slippage run rate which is there. Any change in mix between the secured and unsecured incrementally? And is there a need to increase the rates in any of the segments of the personal loan portfolio? Either maybe due to the industry delinquency levels or what we are seeing. And is there enough or maybe if you talk about the competitive intensity even within the PL, is that giving us any kind of leverage to increase the rates if need be or is it extremely competitive from the other players?

Anindya Banerjee:

So I would want to increase rates on every loan category, every customer given, because as I said, the loan markets across all segments for, I think, the quality of customers that most banks are prioritizing from corporate through SME to retail, the pricing environment is competitive.

As far as the personal loans are concerned, I mean, you are aware that rates in that segment have come off meaningfully across, over the last few years. I guess, driven by the favourable credit experience and driven by the entry of new players who were not perhaps present in those segments earlier. It continues to be a profitable portfolio, so we will see it as we go along, and as long as we are able to get volumes in our chosen customer segments, we will keep looking at it. Otherwise, we can always prune it if required.

Moderator:

Thank you. We have next question from the line of Manish Shukla from Axis Capital. Please go ahead.

Manish Shukla:

Thank you for the opportunity. My first question Anindya is slide 54. There is a five basis points Q-o-Q decline in yield on loans when slippages have declined quarter-on-quarter. What kind of explains that?

Anindya Banerjee:

So largely I think it is basis, the computational convention, because the second quarter has one day more than the first quarter. So the interest computation convention led to some decline, but that is mathematical. It will be stable in Q3 and then reverse in Q4.

As I said, it may not have made too much impact in this quarter from a yield on advances perspective, but there is significant pricing competition in the market as well.

Manish Shukla:

I appreciate that, Anindya. But the fact that we are still in elevated interest rate environment, I would not have expected it is to go down, especially when slippage are lower. So that is where the question came from.

Anindya Banerjee:

But four, five basis points can always happen either way. Yes.

Manish Shukla:

Okay. Going back to your comment that full year margin should largely be similar to last year. Full year, last year we were at 4.5, first year is first half, this year is 4.65. That implies a 4.35 for second half. Is that the way to look at it?

Anindya Banerjee:

We cannot give a specific number. As I said, we do expect margins to moderate further from the Q2 level. And hopefully, the extent of moderation could be somewhat lower. And we would be at a similar level of margins as we were last year. That is what I think we have been consistently saying for the last couple of quarters. Therefore, we are just maintaining the same thing.

Moderator:

Thank you. We have a next question from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise:

Hi, thanks for the opportunity. Just a quick question on the mortgage portfolio. So if I see the presentation of few quarters back say a year back, the average ticket size on the portfolio was roughly 25 lakhs. It is right now at 35 lakhs. Does the sizable increase look okay or is there something more to read into it?

Anindya Banerjee:

I do not recall the 25 lakh number. I think it would – was always 30 odd. But yes, there would have been some increase in the average ticket size, that looks okay.

Sameer Bhise:

Okay, because say Q1-2023 shows 2.5 million as average ticket size of the home loan, while it is 3.5 million right now. So just wanted to pick your brains on the same? Fine, I will follow up offline. Thank you.

Moderator:

Thank you. We have a next question from the line of Ashish Sharma from Enam AMC. Please go ahead.

Ashish Sharma:

Yes, hi. Just on the net interest margin, would you be able to sort to differentiate in terms of impact which is because of ICC, incremental cash reserve ratio? So, the NIM compression we have seen something which will not flow through in the next quarter. Any comment on that?

Anindya Banerjee:

So ICC would have been a small impact. As I mentioned, if you look at the sequential impact, there would have been some 2-3 basis point impact of the absence of interest on income tax refund. The ICRR would have had maybe one or a couple of basis points impact. The day count would have had some impact, but the larger impact would have been the repricing of deposits that we have spoken of earlier.

Ashish Sharma:

Okay. The second question would be on the personal loan. So given the growth rate, which we are comfortable at this moment, in terms of what regulator is saying, I think they also have clarified the issue is on the growth part. So I mean, from a delinquency perspective, we aren't seeing anything. I think you already sort of alluded a little bit on the first question. So let's just reconfirm again?

Anindya Banerjee:

As I said, we are comfortable with our portfolio. We believe we have underwritten it well. The delinquency levels on the portfolio are not disturbing us. But we will continue to monitor it as we go along.

As I said, our presence in the smaller ticket sizes overall in the portfolio is marginal and over the last few quarters, we would have been migrating more towards the upper segments. So no concerns on this portfolio that we have. We will continue to monitor the growth, the credit quality and growth trends for our portfolio as well as whatever system data we get and calibrate if we need to.

Moderator:

Thank you. We have the next question from the line of Param Subramanian from Nomura. Please go ahead. Mr. Subramanian.

Param Subramanian:

Yes, thanks for the opportunity. So, first question again on the unsecured piece, so we are continuing to see the strong growth at least for us. If you could highlight, explain the disconnect that we are seeing perhaps between the broader trends in consumption in discretionary spend as well as, at least for yourself, the strong growth that we're seeing in the unsecured piece, personal loans, credit cards, etc. Some of the use cases that have increased over the last few years, if you could highlight some of that, which is driving this strong growth that we're seeing? That's the first question.

Anindya Banerjee:

So I wouldn't really want to talk more about the unsecured piece. I don't think that our market share in credit card spend has increased dramatically. So there is enough growth happening across the system in these categories and we are not particularly divergent. So no further comment that I have to make on that.

Param Subramanian:

Okay, fair enough. Secondly, on this recent fine by RBI on the cross selling of non-financial products and one or two other reasons. You could speak a little bit about that because, when it had happened for the peer banks, especially on this cross selling of non-financial products that had been taken seriously. So, any comments there would be useful. Yes, that is it from me, thanks.

Anindya Banerjee:

So I think, as you are aware, the regulator conducts, inspections and continuous examination of the activities of banks. It is a heavily regulated activity and while we try and maintain as best levels of compliance, we can from time to time in any bank, there are misses for which you know action can be taken and penalties can be imposed. As stated in the public release, these relate to 2020 and 2021. And we have taken the necessary corrective action, as we have said in our release. So, nothing more to add on to that.

Moderator:

Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to management for closing comments. Over to you.

Anindya Banerjee:

Thank you very much for taking time out on a Saturday evening, and have a good weekend.

Moderator:

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