ICICI Bank Limited

Earnings conference call - Quarter ended September 30, 2022 (Q2-2023)

October 22, 2022

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Moderator:

Ladies and gentlemen, good day and welcome to the ICICI Bank Q2 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 Q2 of FY2023. Joining us today on this call are Anup, Sandeep Batra, Rakesh, Anindya and Abhinek.

The Indian economy has seen a robust recovery from challenges posed by pandemic. However, we are currently experiencing volatility in the global economy and financial markets, geo political tensions and upward movements in inflation, interest and exchange rates. The authorities have been taking various measures to address the evolving situation.

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 23.6% year-on-year to 117.65 billion Rupees in this quarter. Excluding dividend income from subsidiaries and associates, core operating profit grew by 24.4% year-on-year. The profit after tax grew by 37.1% year-on-year to 75.58 billion Rupees in this quarter.

Second-Further enhancing our strong deposit franchise

Total period-end deposits grew by 11.5% year-on-year at September 30, 2022. During the quarter, average current account deposits increased by 15.5% year-on-year. Average savings account deposits grew by 16.0% year-on-year. Period-end term deposits grew by 10.5% year-on-year and 4.3% sequentially at September 30, 2022. The liquidity coverage ratio for the quarter was about 127%.

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

The retail loan portfolio grew by 24.6% year-on-year and 6.0% sequentially at September 30, 2022. Including non-fund based outstanding, the retail portfolio was 44.2% of the total portfolio. The business-banking portfolio grew by 42.6% year-on-year and 10.8% sequentially. The SME portfolio grew by 26.5% year-on-year and 6.4% 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 23.1% year-on-year and 6.8% sequentially at September 30, 2022 driven by growth across well-rated financial and non-financial corporates. The rural portfolio grew by 11.7% year-on-year and 3.8% sequentially. The domestic loan portfolio grew by 24.0% year-on-year and 6.0% sequentially. The overall loan portfolio grew by 22.7% year-on-year and 4.8% sequentially at September 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 cross sell and up sell. We have shared some details on our technology and digital offerings in slides 17 to 27 of the investor presentation.

Fifth - Protecting the balance sheet from potential risks

The net NPA ratio declined to 0.61% at September 30, 2022 from 0.70% at June 30, 2022 and 0.99% at September 30, 2021. During the quarter, there were net additions of 6.05 billion Rupees to gross NPAs, excluding write-offs and sale. The provisioning coverage ratio on NPAs was 80.6% at September 30, 2022. The total provisions during the quarter were 16.44 billion Rupees or 14.0% of core operating profit and 0.71% of average advances. This includes contingency provision of 15.00 billion Rupees made on a prudent basis. The Bank holds contingency provisions of 100.00 billion Rupees or about 1.1% of total loans as of September 30, 2022.

Sixth- Maintaining a strong capital base

The capital position of the Bank continued to be strong with a CET-1 ratio of 16.95%, Tier 1 ratio of 17.51% and total capital adequacy ratio of 18.27% at September 30, 2022, including profits for H1-2023.

Looking ahead, we will continue to focus on growing the core operating profit in a risk-calibrated manner. We will work as one team by facilitating cross-functional collaboration to tap into key customer and market segments, enabling 360-degree coverage and increase in wallet share. We will continue to make investments in technology, people, distribution and building our brand. The principles of "Fair to Customer, Fair to Bank" and "One Bank, One Team, 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 20.4% year-on-year and 4.4% sequentially. Auto loans grew by 19.0% year-on-year and 5.2% sequentially. The commercial vehicles and equipment portfolio grew by 5.6% year-on-year and 0.6% sequentially. Growth in the personal loan and credit card portfolio was 48.8% year-on-year and 11.8% sequentially. This portfolio was 1,077.49 billion Rupees or 11.5% of the overall loan book at September 30, 2022.

The overseas loan portfolio, in US dollar terms, declined by 10.4% year-on-year and 19.4% sequentially at September 30, 2022. The decline in overseas book primarily reflects maturities of the short-term India-linked trade book. The overseas loan portfolio was about 4.0% of the overall loan book at September 30, 2022. The non-India linked corporate portfolio declined by 47.4% or about 387 million US dollars on a year-on-year basis. Of the overseas corporate portfolio, about 84% comprises Indian corporates, 7% is overseas corporates with Indian linkage, 4% comprises companies owned by NRIs or PIOs and balance 5% is non-India corporates.

On the liabilities side, Sandeep covered the growth in deposits. During the quarter, we raised long-term infrastructure bonds as well as refinance borrowings from domestic financial institutions. Overseas borrowings declined reflecting the reduction in assets.

B. Credit quality

There were net additions of 6.05 billion Rupees to gross NPAs in the current quarter compared to 3.82 billion Rupees in the previous quarter. The net additions to gross NPAs were 5.93 billion Rupees in the retail, rural and business banking portfolios and 0.12 billion Rupees in the corporate and SME portfolios.

The gross NPA additions were 43.66 billion Rupees in the current quarter compared to 58.25 billion Rupees in the previous quarter. The gross NPA additions from the retail, rural and business banking portfolio were 36.58 billion Rupees and from the corporate and SME portfolio were 7.08 billion Rupees. The gross NPA additions from the corporate and SME portfolio include the impact of rupee depreciation on existing foreign currency NPAs.

Recoveries and upgrades from gross NPAs, excluding write-offs and sale, were 37.61 billion Rupees in the current quarter compared to 54.43 billion Rupees in the previous quarter. There were recoveries and upgrades of 30.65 billion Rupees from the retail, rural and business banking portfolio and 6.96 billion Rupees from the corporate and SME portfolio. The gross NPAs written-off during the quarter were 11.03 billion Rupees. The Bank sold NPAs worth 0.94 billion Rupees on a cash basis in the current quarter compared to 0.13 billion Rupees in the previous quarter.

Net NPAs declined by 25.3% year-on-year and 8.4% sequentially to 60.99 billion Rupees at September 30, 2022.

The non-fund based outstanding to borrowers classified as non-performing was 35.16 billion Rupees as of September 30, 2022 compared to 36.70 billion Rupees as of June 30, 2022. The Bank holds provisions amounting to 20.24 billion Rupees as of September 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 67.13 billion Rupees or about 0.7% of the total loan portfolio at September 30, 2022 from 73.76 billion Rupees as of June 30, 2022. Of the total fund based outstanding under resolution at September 30, 2022, 47.39 billion Rupees was from the retail, rural and business banking portfolio and 19.74 billion Rupees was from the corporate and SME portfolio. The Bank holds provisions of 20.59 billion Rupees against these borrowers, which is higher than the requirement as per RBI guidelines.

C. P&L Details

Net interest income increased by 26.5% year-on-year to 147.87 billion Rupees. The net interest margin was 4.31% in this quarter compared to 4.01% in the previous quarter and 4.00% in Q2 of last year. The net interest margin was 4.16% in H1-2023. There was no impact of interest on income tax refund on net interest margin in the current quarter. The domestic NIM was at 4.45% this quarter compared to 4.14% in the previous quarter and 4.09% in Q2 last year. The cost of deposits was 3.55% in this quarter compared to 3.46% in previous quarter. Of the total domestic loans, interest rates on 44% are linked to the repo rate, 5% to other external benchmarks and 21% to MCLR and other older benchmarks. The balance 30% of loans have fixed interest rates. The sequential increase in NIM reflects the impact of increase in interest rates on loan yields while repricing of deposits occurs with a lag. While policy rate hikes effected so far should further reflect in loan yields, we also expect to see the impact of repricing of deposits in future quarters.

Non-interest income, excluding treasury income, grew by 16.8% year-on-year to 51.39 billion Rupees in Q2 of 2023

- Fee income increased by 17.6% year-on-year to 44.80 billion Rupees in this quarter. Fees from retail, rural, business banking and SME customers grew by 19.0% year-on-year and constituted about 79% of the total fees in this quarter
- Dividend income from subsidiaries and associates was 6.48 billion Rupees in this quarter compared to 5.83 billion Rupees in Q2 of last year. The year-on-year increase in dividend income was due to higher final dividend from ICICI General and final dividend from ICICI Bank UK, offset in part by lower dividend from ICICI AMC and ICICI Securities

On Costs: The Bank's operating expenses increased by 24.2% year-on-year in this quarter. The employee expenses increased by 21.1% year-on-year. The Bank had about 110,000 employees at September 30, 2022. The employee count has increased by about 9,800 in the last 12 months. Non-employee expenses increased by 25.9% year-on-year in this quarter primarily due to retail business and technology related expenses. Our branch count has increased by about 340 in the last twelve months and we had 5,614 branches as of September 30, 2022. The technology expenses were about 9% of our operating expenses in H1 of this year compared to about 8.5% in FY2022.

The core operating profit increased by 23.6% year-on-year to 117.65 billion Rupees in this quarter. Excluding dividend income from subsidiaries and associates, the core operating profit grew by 24.4% year-on-year.

There was a treasury loss of 0.85 billion Rupees in Q2 compared to a gain of 0.36 billion Rupees in Q1 and 3.97 billion Rupees in Q2 of the previous year.

The total provisions during the quarter were 16.44 billion Rupees or 14.0% of core operating profit and 0.71% of average advances. These include contingency provisions of 15.00 billion Rupees made on a prudent basis.

The provisioning coverage on NPAs was 80.6% as of September 30, 2022. In addition, we hold 20.59 billion Rupees of provisions on borrowers under resolution. Further, the Bank holds contingency provision of 100.00 billion Rupees as of September 30, 2022. At September 30, 2022, the total provisions, other than specific provisions on fund-based outstanding to borrowers classified as non-performing, were 200.59 billion Rupees or 2.1% of loans.

The profit before tax grew by 39.4% year-on-year to 100.36 billion Rupees in this quarter. The tax expense was 24.78 billion Rupees in this quarter compared to 16.90 billion Rupees in the corresponding quarter last year. The profit after tax grew by 37.1% year-on-year to 75.58 billion Rupees in this quarter.

The consolidated profit after tax grew by 31.4% year-on-year to 80.07 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 about 8 million activations of iMobile Pay by non-ICICI Bank account holders as of end-September. The value of transactions by non-ICICI Bank account holders in Q2 of this year was 4.4 times the value of transactions in Q2 of last year.

The value of credit card spends in the current quarter grew by 4.4% sequentially and 43.1% year-on-year. We saw a healthy growth in retail credit card spends driven by increase in discretionary spending, higher activation rate through digital onboarding of customers, including Amazon Pay credit cards. During the current quarter, we closed about 817,000 inactive credit cards as per recent RBI guidelines. The Bank has issued more than 3.5 million Amazon Pay credit cards since its launch.

We have seen about 195,000 registrations from non-ICICI Bank account holders on InstaBIZ till September 30, 2022. The value of financial transactions on InstaBIZ grew by about 22.8% year-on-year in the current quarter.

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 Q2 of this year. The value of transactions done through these platforms increased by 70.1% year-on-year in Q2 of this year.

E. Portfolio information

We have provided details on our retail, business banking and SME portfolio in slides 34 to 44 of the investor presentation.

The loan and non-fund based outstanding to performing corporate and SME borrowers rated BB and below was 76.38 billion Rupees at September 30, 2022 compared to 82.09 billion Rupees at June 30, 2022 and 127.14 billion Rupees as of September 30, 2021. The amount of 76.38 billion Rupees at September 30, 2022 includes 21.98 billion Rupees of outstanding to borrowers under resolution.

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 September 30, 2022. At September 30, 2022, we held provisions of 8.12 billion Rupees on the BB and below portfolio compared to 8.61 billion Rupees at June 30, 2022. This includes provisions held against borrowers under resolution included in this portfolio.

The total outstanding to NBFCs and HFCs was 735.73 billion Rupees at September 30, 2022 compared to 699.72 billion Rupees at June 30, 2022. The total outstanding loans to NBFCs and HFCs were about 8% of our advances at September 30, 2022. 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 319.63 billion Rupees at September 30, 2022 compared to 275.69 billion Rupees at June 30, 2022. The builder portfolio is over 3% of our total loan portfolio. Our portfolio is largely to well-established builders and this is also reflected in the sequential increase in the portfolio. 6.8% of our builder portfolio at September 30, 2022 was either rated BB and below internally or was classified as non-performing, compared to 8.3% at June 30, 2022.

F. Subsidiaries and key associates

The details of the financial performance of subsidiaries and key associates are covered in slides 48 to 50 and slides 69 to 74 in the investor presentation.

The VNB margin of ICICI Life increased from 28.0% in FY2022 to 31.0% in H1 of this year. The value of new business increased by 25.1% year-on-year to 10.92 billion Rupees in H1 of this year. The annualized premium equivalent grew by 10.1% year-on-year to 35.19 billion Rupees in H1 of this year. The profit after tax of ICICI Life was 3.55 billion Rupees in H1 of this year compared to 2.59 billion Rupees in H1 of last year and 1.99 billion Rupees in Q2 this year compared to 4.45 billion Rupees in Q2 last year.

Gross Direct Premium Income of ICICI General increased by 17.2% year-on-year to 51.85 billion Rupees in Q2 of this year. The combined ratio was 105.1% in Q2 of this year compared to 105.3% in Q2 of last year. The profit after tax grew by 32.2% year-on-year to 5.91 billion Rupees in the current quarter. The profit after tax includes reversal of tax provisions of 1.28 billion Rupees. Excluding this reversal, profit after tax grew by 3.4% year-on-year in Q2 of this year.

The profit after tax of ICICI AMC was 4.06 billion Rupees in this quarter compared to 3.83 billion Rupees in Q2 of last year.

The profit after tax of ICICI Securities, as per Ind AS on a consolidated basis, was 3.00 billion Rupees in this quarter compared to 3.51 billion Rupees in Q2 of last year.

ICICI Bank Canada had a profit after tax of 12.0 million Canadian dollars in this quarter compared to 8.4 million Canadian dollars in Q2 last year and 7.2 million Canadian dollars in Q1 this year.

ICICI Bank UK had a profit after tax of 1.5 million US dollars this quarter compared to 2.0 million US dollars in Q2 of last year and 3.4 million US dollars in Q1 this year.

As per Ind AS, ICICI Home Finance had a profit after tax of 0.60 billion Rupees in the current quarter compared to 0.46 billion Rupees in Q2 of last year and 0.40 billion Rupees in Q1 this year. During the quarter, we infused 2.50 billion Rupees of equity capital in ICICI Home Finance to strengthen its capital position and support its growth.

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 Nuvama. Please go ahead.

Mahrukh Adajania:

So, my first question is on deposit growth in the second half of this fiscal year. Obviously yours is a strong liability franchise, but liquidity is getting tight. HDFC's merger activity will also strengthen in the second half as they run closer to the merger. So, how do you see deposit growth panning out? And in terms of further expansion to margin, what is the outlook over the next 4 to 5 quarters?

Anindya Banerjee:

So, on the first part, Mahrukh, as you know, retail term deposit growth for the system in general was quite soft over the last few quarters till the early part of this financial year given the level to which the deposit rates had gone down. As the retail term deposit rates have started to move up from the first quarter of this year, we have started to see good traction and momentum in the retail FD accretion. Having said that, the pace of increase in the retail FD rates has been much lower than what we have seen in the wholesale deposit market. But if we look at developments over the last couple of weeks, we are seeing a more accelerated increase in retail FD rates. Therefore, we will see an increase in retail FD inflows as the banking system moves up on the FD rates. We expect to see the retail FD deposit growth momentum to continue and to strengthen.

On the second part on margins, as I mentioned in the opening remarks, given that 44% of the domestic book is linked to repo, we will continue to see some benefit on the yields in terms of the repricing as the repo rate increases. In fact, the last increase, which was on 30th September will have some impact. We do expect to see funding costs kind of move up at a quicker pace than what we have seen so far. So, net of that, will be impact on margin. We'll have to wait and see how it evolves.

Mahrukh Adajania:

The other thing is in general on loan growth and the ability of consumers to bear the hike, right, loan growth has been very strong amidst rising rates and it's almost in defiance with the global macro. So, are you going to see a slowdown also as a hard landing or how does it shape? Why is the economy or why are consumers showing so much strength as never seen before and better than expected? Does it continue for 2 to 3 quarters?

Anindya Banerjee:

So, as Sandeep mentioned, that the recovery from the pandemic in India has been quite strong and that is evidenced in a number of indicators, whether it is demand indicators or the resilience and recovery in bank loan portfolios in terms of the credit performance. So, those are all indicators that the consumer is in good shape.

In terms of the cost of credit, part of what has happened so far is really a reversion to where the rates anyway were pre-pandemic and during this time incomes of customers would have gone up. But we have to see whether future rate hikes, the extent of pass-through that happens and what impact, if any, that has on the demand. Also it's a competitive environment, so banks are offering products to consumers at rates which they feel consumers will have offtake at.

Moderator:

The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead

Saurabh Kumar:

So, sir, just on this contingent provision, is it fair to assume that you would just target this 2% ROA and effectively that's how the contingent provisions are being made or is there any reason you made this?

Anindya Banerjee:

No, it's not that way. We are looking at the overall macro environment both globally and in India in terms of risks to growth, the impact of inflation, interest rates and the geopolitical risk across our portfolio, wherever we feel that the risk markers are higher and some of these risks could manifest. On that basis is how we are looking at the contingent provisions.

Moderator:

The next question is from the line of Krishnan ASV from HDFC Securities. Please go ahead

Krishnan ASV:

This is more to do with 2 things. One, we have generally seen an environment where loan repricing has been fairly fast because of EBLR, like that's evident. But also what we have observed is that the loan resets are faster. So, if the earlier contracted period, and this is not just true of ICICI Bank, I wouldn't have probably observed this specifically for ICICI Bank. But the system in general has moved from say a quarterly reset to a real-time reset so the day the RBI moves, immediately 50 basis points gets passed on, right? Does the

RBI look at the same reset on the way down as well or do you anticipate that banks can continue to go back and forth between real-time reset and quarterly reset when the rate movement is adverse, right? So, that's the first question. The second question is also about deposit mobilization. The fact is you're now at nearly an 86% loan-to-deposit ratio given the kind of demand environment you're seeing. Could pricing be on the deposit side? Could we catch up on the deposit side pricing? Could that be faster say towards the end of the year?

Anindya Banerjee:

So, on your first question, Krishnan, we don't have any real-time resets. So, our EBLR or repo linked loans reset every 3 months. So, there is no next month or immediate reset on our, say, home loans which are linked to EBLR. On the second part, as we spoke earlier also on this call that we have seen more increases in deposit rates recently than we had seen or larger increases than we had seen say broadly till September-end. So, it would be fair to assume that the repricing of deposits will pick up from here on.

Krishnan ASV:

So, just as a related thing on the EBLR, I mean it almost seems like if the RBI does hike 100 basis points say incrementally from here till the termination, right, all of that 100 basis points gets passed on. This is something we have been trying to clarify from other banks as well. I mean, if you could share your thoughts. Is there any discretion you can exercise? If you see risk building up, you really don't want to kind of break the camel's back, right? So, would I mean banks be able to exercise any discretion saying that there comes a point beyond which I will absorb this on my P&L rather than pass it down further and increase asset quality risk or does that discretion not exist as things stand?

Anindya Banerjee:

So, I think that's hypothetical. I mean contractually the loan resets at the spread over the EBLR. If the borrower is able to for example look at refinancing at a lower cost from a competing provider, then that can happen. So, they can exit my loan and go to a competing provider and take a loan at a lower spread. Yes, so that can happen. And in fact I guess as the rates go up, that can also be a factor in how spreads and margins move.

Moderator:

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

Nitin Aggarwal:

I have two questions. One is again on the provisions, which was touched upon earlier. As a percentage of PPOP, we are tracking significantly lower than the run rate that we have talked about in the past and core credit costs are running negligible now. So, how do you see this? Like how long can this continue and what will be our strategy in respect to making contingent provisions? So, will we continue to make more contingent provisions as the provisions to PPOP slows?

Anindya Banerjee:

As I explained in response to Saurabh's question, we are not working out any percentage of PPOP or anything like that. It is entirely based on an analysis of the factors in the global and Indian environment and the portfolios where perhaps risk markers are a little higher than the average portfolio. That is what we do on a quarterly basis and we continuously review from the perspective of making these prudent provisions.

In terms of how the specific credit costs will shape up, basis our current understanding and expectation, in the near term we would expect them to kind of significantly undershoot the normalised level. The reasons for that are that we are not seeing really any material NPL development on the corporate side. In fact, we are seeing some recoveries. And on the retail and SME side, we are coming off the pandemic related cycle so we are seeing actually recoveries out of those portfolios as well. And incremental additions are also well under control. So, credit costs would be lower than normal for some time.

Nitin Aggarwal:

Right. And secondly, if you can talk about the branch expansion strategy over the medium term. How do you see that because competition is talking about a very aggressive branch expansion. How are you looking at it? And any implications on the cost ratio? This quarter the cost ratios have moderated backed by strong revenues, but how do you see these 2 things going ahead?

Anindya Banerjee:

As far as branches are concerned, we mentioned we've added about 340 branches in the last one year and we've added about 200 branches in the last six months and this pace of addition is somewhat higher than what we would have done in the preceding years. This is based on our own assessment of the market opportunity across different markets and micro markets where new economic nodes or new nodes of residential development are coming up and we need to have a physical presence to service that. One of the other things that we are also doing as a strategy is trying to move our colleagues closer to the market. So, that also results in expansion of the local footprint. I guess we would continue to expand our branches on this basis. So, you would see branch numbers going up over the next couple of quarters as well.

Nitin Aggarwal:

Right. And any colour on the cost ratios?

Anindya Banerjee:

So, we really focus on the pre-provision operating profit and that naturally requires an appropriate management of operating expenses in relation to the revenue. Currently, as you rightly said, the revenue environment is pretty strong and we feel that there is a lot of opportunity for us to grow our business, to expand our franchise and therefore, we continue to invest in that and that's what we would continue to do. As we have said in the past, if in a quarter or two cost growth overshoots even revenue growth, we would not worry about it too much and if we find it to be a sustained thing, we can always make some adjustments. But currently we are looking at investing and expanding the franchise.

Moderator:

The next question is from the line of Sharaj from Laburnum Capital. Please go ahead

Shahraj:

My question is on the contingent provision that you made. So, is there some specific segment of the book we are providing for against in times of crisis?

Anindya Banerjee:

No. We look across the portfolio. It's quite a broad range of portfolios that we look at.

Shahraj:

I was particularly asking from the SME and business banking segment. Would it be fair to expect this would be hit hard if there was a slowdown?

Anindya Banerjee:

Actually, that segment has behaved quite well for us. In fact, I would say that even if we look at the analysis that we had done at the start of the pandemic when the moratorium was on, this is one of the segments where the outcomes have probably been a little bit overall in line or better. But of course, in an environment of a lot of macro volatility, this could be a segment that will see some vulnerability. But as far as the contingent provisions are concerned, we are looking at a fairly broad range of portfolio.

Shahraj:

Thank you so much, sir. Congratulations on the results and Happy Diwali.

Anindya Banerjee:

Thank you. Happy Diwali.

Moderator:

The next question is from the line of Rakesh Kumar from Systematix. Please go ahead

Rakesh Kumar:

So, I have one question. This is related to when we are in a falling interest rate scenario which is quite far from here, but just to understand what you're thinking about it. The asset quality trajectory and the EBLR, both would not be working as a countercyclical thing. So, what is our thought process here? Because margins would also taper off and with the fall in the interest rate, there would be asset quality issues also coming up. So, the EBLR would not help for the system as a whole. So, your thoughts on this.

Anindya Banerjee:

I'm not sure I understood the question. I think that repo rate increases so far have been quite well absorbed by the borrowers and clearly don't seem to be leading to signs of any higher delinquencies and we'll have to of course keep monitoring as the situation evolves. I don't think that in a falling rate scenario, there would be any negative impact on asset quality, if at all at the margin, risks could be in the rising scenario. From a bank margin perspective, therefore, it's not really in that sense countercyclical because bank's margins would also rise in a higher interest rate scenario

Rakesh Kumar:

No, sir. Basically, I was trying to say that generally inflation is there when we are in a falling interest scenario and the NPAs significantly rise. When we see the credit growth numbers tipping off and the interest cycle coming down, we see asset quality issues. In those times because of this EBLR mechanism in place now, loan pricing would also be faster until and unless we change the benchmark itself like or if we do some changes there within the MCLR and EBLR. So, actually because of EBLR linkage, we would have adverse impact on credit yield also and then we would also have asset quality issues associated with the falling interest rate.

Anindya Banerjee:

I don't think - it's a kind of reverse causation. Typically, in a normal cyclical tightening and loosening of monetary policy, we would not see such an impact. It could happen in a crisis situation. For example, if there is a big shock to growth, it is the shock to growth which causes the NPL and not the reduction in interest rates, which is also a consequence of the shock to growth. If it's a normal calibrated tightening and then unwinding of monetary policy, this should not happen. But I will sort of hedge by saying that we have not really seen a full cycle under the EBLR pricing regime. So, that is something that we have to see how it goes through both on the way up and the way down in terms of both margins and credit quality

Moderator:

The next question is from the line of Jignesh from Incred Capital. Please go ahead

Jignesh:

I wanted to discuss similar to what Krishnan was asking earlier. In this interest rate cycle side, can we assume that at least incrementally on the new loans not on the existing loans, which is repo-linked or these treasury-linked loans and all, considering that demand scenario becomes little fragile, in that case, can we take a hit on the spreads just to manage the demand? Is that kind of scenario also likely or the spread generally remains stretched all the time?

Anindya Banerjee:

That's a function of how the market sort of prices the loans. As we said, it is a competitive market, so it's a decision of each lender based on their strategy and their funding costs as to what spread over the benchmark they offer on incremental loans. If we look at what has happened so far in terms of incremental lending, the pass-through would not have been uniform for all sort of segments of the market and we have to see how that goes along.

Jignesh:

Understood. But there is no regulation as such, right, which restricts you to cut down on your spreads? That is what I'm trying to understand. So, intermittently if you want to reduce the spread, that is possible.

Anindya Banerjee:

If I want, yes.

Moderator:

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

Nilanjan Karfa:

One question was on this contingency provision buildup. Do you think your ECL model, which you supply to RBI and what we are building right now, are they sort of kind of pretty much similar? Is that how we should look at that number?

Anindya Banerjee:

Not really. I mean this is not modeled on the same basis as that. But whenever we move to that, we will have to see how to transition this.

Nilanjan Karfa:

The reason is if I just go back last 14-15 quarters, given that we did not have so much contingent and floating provision figures, our credit costs have roughly averaged around maybe 170-180 excluding some of the high periods. So, is that something we should look at? I mean because just we are sitting on the other side of the table. So, how should we think about this number?

Anindya Banerjee:

See, unfortunately, the environment has been volatile, so we have not seen in that sense a stable cycle. My guess is that given our overall risk appetite on the corporate side and the focus on granularity on the retail and SME side, the long-term averages may not be as effective a guide as to the future credit cost. But we have to go through some period of time before we see how that settles.

Nilanjan Karfa:

Fair enough. There seems to be some bit of disconnect, when we look at other sectors. Other companies are talking about discretionary spends dropping vis-a-vis banks sort of guiding to extremely strong forecast. How do we rationalize both of these sides or are we missing something in this whole picture? Is it just inflation which is playing out? And broadly, in terms of your risk management policies, have you begun tightening some of the screws once again?

Anindya Banerjee:

On the second one we continuously review and make whatever micro level changes we need to make, but there is no sort of broad-brush tightening that we are doing. In terms of the first one, it's difficult to really answer that question. It's data. For example, if you look at the credit card spends data, which is being published at a systemic level, that is showing the trends in growth. So, it's quite transparent.

Moderator:

The next question is from the line of Seshadri Sen from Alchemy Capital. Please go ahead.

Seshadri Sen:

The first one is on credit cards and I'm seeing a sharp jump quarter-on-quarter in the credit card outstanding book. How are the underlying metrics in terms of revolvers and EMI and transactors behaved over this quarter? I know you don't disclose, the break up. But have there been any significant shifts in the trends given the sharp jump in the overall book?

Anindya Banerjee:

I think what happened really was, without getting into numbers, that we saw a pretty strong growth in the retail spends and some rationalization of corporate spends. So, the retail spend growth would probably be higher than the average and that is what translates into the book growth. So, I don't think that there is any real change in the revolver level.

Seshadri Sen:

So, both revolver and EMI have been largely stable. There has not been any movement in either direction.

Anindya Banerjee:

Yes, nothing to call out certainly on the revolver side.

Seshadri Sen:

And secondly, I know a couple of people have asked this before, but just want to revisit the net interest margin cycle in terms of how it plays out. We are now at the point in cycle where assets are repricing faster than liabilities. That tends to reverse at some point. Is it FY2024 or sooner than that trend starts to reverse or do you think that given your loan mix changes, and I'm seeing your loan book, there is significant acceleration in some of the high-yield segments, that that should take care of any reversal that happens at that point?

Anindya Banerjee:

We will have to see. You are absolutely right that more durable changes in bank margins come from either loan mix or funding mix or asset quality, but we'll have to see. As we explained given the 3-month reset structure and if you look at the repo rate hikes which have happened and which are expected, there will be some upward movement even from here on. At some point, the funding cost will catch up. I guess it will happen sometime in the next few quarters.

Moderator:

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

MB Mahesh:

Just 2 questions from my side. First one on the deposit side again. When you look at these CASA balances especially on the SA side and you look at the salaried accounts, from a broad perspective has the average salary at the retail level gone up? If yes, when you look at the numbers, how much would that number look like? Just a ballpark number to understand how much of this interest rate hike can be offset by higher incomes that the consumer is seeing today?

Anindya Banerjee:

We have not really given such an analysis, Mahesh, so I would not be able to give you any comment.

MB Mahesh:

I mean the direction mostly, not so much about specific numbers at least.

Rakesh Jha:

We have not given any data like that. But as you know, there's a lot of data which has come out saying that the average salary increase has been in the region of 10% or so. So, that will be reflected for everyone in general.

MB Mahesh:

So, you would say that the number, which is floating around in the public domain, broadly reflects what you're seeing as well or you wouldn't have done that analysis as well?

Rakesh Jha:

Yes, because that is the actual data which is there, so it will reflect

MB Mahesh:

So, just another question. This One Bank, One ROE target that one has been for 3 to 4 years. How has been the attrition level at the bank? Has it gone up, gone down? If you could just kind of broadly comment about it.

Anindya Banerjee:

So, attrition rates in the financial sector over the last 12 to 18 months for all entities, whatever the approach to performance management they may follow, has gone up substantially and I don't think there is anything idiosyncratic with us.

Moderator:

Thank you very much. I now hand the conference over to Mr. Sandeep Bakhshi for closing comments.

Sandeep Bakhshi:

Happy Diwali to everyone and wishing you the very best. Thank you so much.

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.