Analyst call on July 27, 2024: Opening Remarks

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Mr. Bakhshi's opening remarks

Thank you. Good evening to all of you and welcome to the ICICI Bank Earnings Call to discuss the results for Q1 of FY2025. Joining us today on this call are Sandeep Batra, Rakesh, Ajay, Anindya and Abhinek.

The Indian economy continues to remain resilient as reflected by high frequency indicators showing growth momentum such as expansion in manufacturing and services PMI, higher tax collections, real estate buoyancy and pickup in rural demand, supported by the consistent actions and initiatives of the policymakers.

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

The profit before tax excluding treasury grew by 11.8% year-on-year to 140.80 billion Rupees in this quarter. The core operating profit increased by 11.0% year-on-year to 154.12 billion Rupees in this quarter. The profit after tax grew by 14.6% year-on-year to 110.59 billion Rupees in this quarter.

Total deposits grew by 15.1% year-on-year and 0.9% sequentially at June 30, 2024. Term deposits increased by 19.9% year-on-year and 3.1% sequentially at June 30, 2024. During the quarter, average deposits grew by 17.8% year-on-year and 3.3% sequentially and average current and savings account deposits grew by 9.7% year-on-year and 5.1% sequentially. The Bank's average liquidity coverage ratio for the quarter was about 123%.

The domestic loan portfolio grew by 15.9% year-on-year and 3.3% sequentially at June 30, 2024. The retail loan portfolio grew by 17.1% year-on-year and 2.4% sequentially. Including non-fund based outstanding, the retail portfolio was 46.3% of the total portfolio. The business banking portfolio grew by 35.6% year-on-year and 8.9% sequentially. The SME portfolio grew by 23.5% year-on-year and 4.0% sequentially. The rural portfolio grew by 16.9% year-on-year and 3.4% sequentially. The domestic corporate portfolio grew by 10.3% year-on-year and 3.1% sequentially. The overall loan portfolio including the international branches portfolio grew by 15.7% year-on-year and 3.3% sequentially at June 30, 2024.

The net NPA ratio was 0.43% at June 30, 2024 compared to 0.42% at March 31, 2024 and 0.48% at June 30, 2023. During the quarter, there were net additions of 26.24 billion Rupees to gross NPAs, excluding write-offs and sale, reflecting mainly the seasonal higher additions in the kisan credit card portfolio and lower recoveries and upgrades compared to previous quarter. The total provisions during the quarter were 13.32 billion Rupees or 8.6% of core operating profit and 0.43% of average advances. The provisioning coverage ratio on NPAs was 79.7% at June 30, 2024. In addition, the Bank continues to hold contingency provisions of 131.00 billion Rupees or about 1.1% of total loans at June 30, 2024.

The capital position of the Bank continued to be strong with a CET-1 ratio of 15.92% and total capital adequacy ratio of 16.63% at June 30, 2024, including profits for Q1 of 2025.

Looking ahead, we see many opportunities to drive risk calibrated profitable growth. We believe our focus on customer 360 degree, extensive franchise and collaboration within the organisation, backed by our focus on enhancing delivery systems and simplifying processes 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 are laying strong emphasis on strengthening our operational resilience for seamless delivery of services to customers. 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” will continue to guide our operations. We remain focused on delivering consistent and predictable returns to our shareholders.

I now hand the call over to Anindya.

Anindya's opening remarks

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

A. Loan growth

Sandeep covered the loan growth across various segments. Coming to the growth across retail products, the mortgage portfolio grew by 14.2% year-on-year and 2.5% sequentially. Auto loans grew by 14.8% year-on-year and 1.7% sequentially. The commercial vehicles and equipment portfolio grew by 13.9% year-on-year and 2.2% sequentially. Personal loans grew by 24.9% year-on-year and 1.5% sequentially. The credit card portfolio grew by 31.3% year-on-year and 4.2% sequentially. The personal loans and credit card portfolio were 9.7% and 4.4% of the overall loan book respectively at June 30, 2024.

The overseas loan portfolio, in US dollar terms, grew by 5.4% year-on-year at June 30, 2024. The overseas loan portfolio was about 2.8% of the overall loan book at June 30, 2024. The non-India linked corporate portfolio declined by 9.0% or about 24.8 million US dollars on a year-on-year basis. Of the overseas corporate portfolio, about 92% comprises Indian corporates, 6% overseas corporates with Indian linkage, 1% comprises companies owned by NRIs or PIOs and balance 1% non-India corporates.

B. Credit quality

The gross NPA additions were 59.16 billion Rupees in the current quarter compared to 51.39 billion Rupees in the previous quarter. There were gross NPA additions of about 7.21 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 32.92 billion Rupees in the current quarter compared to 39.18 billion Rupees in the previous quarter. The net additions to gross NPAs were 26.24 billion Rupees in the current quarter compared to 12.21 billion Rupees in the previous quarter.

The gross NPA additions from the retail, rural and business banking portfolio were 57.32 billion Rupees in the current quarter compared to 49.28 billion Rupees in the previous quarter. These include the KCC NPAs mentioned earlier. Recoveries and upgrades from the retail, rural and business banking portfolio were 29.33 billion Rupees compared to 32.17 billion Rupees in the previous quarter. The net additions to gross NPAs in the retail, rural and business banking portfolios were 27.99 billion Rupees compared to 17.11 billion Rupees in the previous quarter.

The gross NPA additions from the corporate and SME portfolio were 1.84 billion Rupees compared to 2.11 billion Rupees in the previous quarter. Recoveries and upgrades from the corporate and SME portfolio were 3.59 billion Rupees compared to 7.01 billion Rupees in the previous quarter. There were net deletions of gross NPAs of 1.75 billion Rupees in the corporate and SME portfolio compared to 4.90 billion Rupees in the previous quarter.

The gross NPAs written-off during the quarter were 17.53 billion Rupees. There was sale of gross NPAs of 1.14 billion rupees in the current quarter compared to

3.27 billion Rupees in the previous quarter. The sale of NPAs includes about 1.02 billion Rupees in cash.

The non-fund based outstanding to borrowers classified as non-performing was 35.43 billion Rupees as of June 30, 2024 compared to 36.71 billion Rupees as of March 31, 2024. The Bank holds provisions amounting to 19.64 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 27.35 billion Rupees or about 0.2% of the total loan portfolio at June 30, 2024 from 30.59 billion Rupees at March 31, 2024. Of the total fund based outstanding under resolution at June 30, 2024, 23.25 billion Rupees was from the retail, rural and business banking portfolio and 4.10 billion Rupees was from the corporate and SME portfolio. The Bank holds provisions of 8.63 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 7.3% year-on-year to 195.53 billion Rupees in this quarter. The net interest margin was 4.36% in this quarter compared to 4.40% in the previous quarter and 4.78% in Q1 of last year. The impact of interest on income tax refund on net interest margin was nil in the current and previous quarter and was 3 bps in Q1 of last year.

The domestic NIM was 4.44% in this quarter compared to 4.49% in the previous quarter and 4.88% in Q1 of last year. The cost of deposits was 4.84% in this quarter compared to 4.82% in the previous quarter. Of the total domestic loans, interest rates on 50% of the loans are linked to the repo rate, 2% to other external benchmarks and 17% to MCLR and other older benchmarks. The balance 31% of loans have fixed interest rates.

Non-interest income, excluding treasury, grew by 23.3% year-on-year to 63.89 billion Rupees in Q1 of 2025.

- Fee income increased by 13.4% year-on-year to 54.90 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 was 8.94 billion Rupees in this quarter compared to 2.91 billion Rupees in Q1 of last year. The year-on-year increase in dividend income was primarily due to dividend from ICICI Securities, ICICI Lombard General Insurance and ICICI Prudential Life Insurance in Q1 of this year compared to Q1 of last year.

On Costs: The Bank's operating expenses increased by 10.6% year-on-year in this quarter compared to 19.0% in FY2024. In Q4 of last year, the year-on-year increase was 12.9% adjusted for one-off in the previous year's base, as we had stated on the earnings call. Employee expenses increased by 12.5% year-on-year in this quarter, reflecting mainly the impact of annual increments and promotions that take place during the first quarter of every fiscal year. Non-employee expenses increased by 9.2% year-on-year in this quarter primarily due to retail business related and technology expenses. The technology expenses were about 9.3% of our operating expenses in this quarter. Our branch count has increased by 64 in the first quarter. We had 6,587 branches as of June 30, 2024.

The total provisions during the quarter were 13.32 billion Rupees, a year-on-year increase of 3.1% over the provisions of 12.92 billion rupees in Q1 of 2024. This includes the impact of release of AIF related provisions of 3.89 billion Rupees during the quarter, pursuant to clarity on the regulatory requirements.

The provisions during the quarter were 8.6% of core operating profit and 0.43% of average advances compared to 9.3% of core operating profit and 0.49% of average advances in Q1 of 2024. Adjusting for the AIF provision release and the seasonality of KCC provisioning which comes in only in Q1 and Q3, the credit cost to advances would be about 50 bps, which is the adjusted credit cost level we had spoken of in the earnings calls for the previous two quarters as well.

The provisioning coverage on NPAs was 79.7% as of June 30, 2024. In addition, we hold 8.63 billion Rupees of provisions on borrowers under resolution. Further, the Bank continues to hold contingency provision of 131.00 billion Rupees as of June 30, 2024. At the end of June, the total provisions, other than specific provisions on fund-based outstanding to borrowers classified as non-performing, were 234.03 billion Rupees or 1.9% of loans.

The profit before tax excluding treasury grew by 11.8% year-on-year to 140.80 billion Rupees in Q1 of this year.

Treasury gains increased to 6.13 billion Rupees in Q1 from 2.52 billion Rupees in Q1 of the previous year, primarily reflecting realised and mark-to-market gains in equities and security receipts.

As you are aware from the first quarter of this year, the revised investment guidelines have become applicable under which the mark-to-market gain on investments classified as fair value through P&L flows through the P&L, which was not getting recognized prior to the introduction of these guidelines, and hence, the future course of treasury gains will depend on these market movements.

The tax expense was 36.34 billion Rupees in this quarter compared to 31.99 billion Rupees in the corresponding quarter last year. The profit after tax grew by 14.6% year-on-year to 110.59 billion Rupees in this quarter.

Sandeep earlier talked about the capital adequacy position with a CET-1 ratio, including profits for Q1 of 2025, of 15.92%, Tier 1 ratio of 15.92% and total capital adequacy ratio of 16.63% at June 30, 2024. These ratios include the impact of increase in risk-weighted assets for operational risk, which is computed in first quarter of every fiscal year and also the impact of implementing revised investment guidelines from the beginning of this fiscal year.

Growth in digital offerings

We continue to enhance the use of technology in our operations to provide simplified solutions to customers. The Bank has launched an industry-first initiative 'SmartLock' that empowers customers to instantly lock/unlock the key banking services such as UPI, Debit Cards, Credit Cards, with just one click on iMobile Pay. About 71% of trade transactions were done digitally in Q1-2025. The volume of transactions done through Trade Online platform grew by 21.5% year-on-year in Q1-2025.

D. Portfolio information

We have provided details on our retail, business banking and SME portfolio in slides 25 to 32 of the investor presentation.

The loan and non-fund based outstanding to performing corporate and SME borrowers rated BB and below was 52.86 billion Rupees at June 30, 2024 compared to 55.28 billion Rupees at March 31, 2024. This portfolio was about 0.43% of our advances at June 30, 2024. Other than two accounts, the maximum single borrower outstanding in the BB and below portfolio was less than 5.00 billion Rupees at June 30, 2024. At June 30, 2024, we held provisions of 8.49 billion Rupees on the BB and below portfolio compared to 9.03 billion Rupees at March 31, 2024. This includes provisions held against borrowers under resolution included in this portfolio.

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The total outstanding to NBFCs and HFCs was 854.12 billion Rupees at June 30, 2024 compared to 770.68 billion Rupees at March 31, 2024. The total outstanding loans to NBFCs and HFCs were about 7.0% of our advances at June 30, 2024. During the current quarter, the increase in NBFC portfolio was primarily due to lending opportunities at better pricing to high rated borrowers and profitable opportunities in the bond market.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital was 521.30 billion Rupees at June 30, 2024 compared to 482.92 billion Rupees at March 31, 2024. The builder portfolio was about 4.3% 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 2.2% of the builder portfolio at June 30, 2024 was either rated BB and below internally or was classified as non-performing, compared to 2.7% at March 31, 2024.

E. Consolidated results

The consolidated profit after tax grew by 10.0% year-on-year to 116.96 billion Rupees in this quarter.

The details of the financial performance of subsidiaries and key associates are covered in slides 40 to 42 and 62 to 67 in the investor presentation.

The annualised premium equivalent of ICICI Life increased to 19.63 billion Rupees in Q1-2025 from 14.61 billion Rupees in Q1-2024. The value of new business increased to 4.72 billion Rupees in Q1-2025 from 4.38 billion Rupees in Q1-2024. The value of new business margin was 24.0% in Q1-2025 compared to 24.6% in fiscal 2024. The profit after tax of ICICI Life increased by 8.7% year-on-year to 2.25 billion Rupees in Q1-2025 compared to 2.07 billion Rupees in Q1-2024.

Gross Direct Premium Income of ICICI General was 76.88 billion Rupees in Q1-2025 compared to 63.87 billion Rupees in Q1-2024. The combined ratio stood at 102.3% in Q1-2025 compared to 103.8% in Q1-2024. The profit after tax was 5.80 billion Rupees in Q1-2025 compared to 3.90 billion Rupees in Q1-2024.

The profit after tax of ICICI AMC, as per Ind AS was 6.33 billion Rupees in this quarter compared to 4.74 billion Rupees in Q1 of last year.

The profit after tax of ICICI Securities, as per Ind AS on a consolidated basis, was 5.27 billion Rupees in this quarter compared to 2.71 billion Rupees in Q1 of last year.

ICICI Bank Canada had a profit after tax of 20.3 million Canadian dollars in this quarter compared to 16.4 million Canadian dollars in Q1 last year.

ICICI Bank UK had a profit after tax of 7.7 million US dollars in this quarter compared to 9.4 million US dollars in Q1 of last year.

As per Ind AS, ICICI Home Finance had a profit after tax of 1.17 billion Rupees in the current quarter compared to 1.05 billion Rupees in Q1 of last year.

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

Moderator:

We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Nuvama Institutional Equities. Please go ahead.

Mahrukh Adajania:

My first question is on deposit and loan growth. So, incrementally everyone is complaining about tight deposits, there are some rate hikes that have happened as well. So, are you still comfortable with, say, maybe targeting a loan growth of mid-to-high teens? And would you be comfortable increasing your LDR, since it's already lower than peers or would deposits continue to grow in line with loans?

Anindya Banerjee:

Mahrukh, we don't target any particular level of loan growth, but we have grown our deposits quite comfortably during the quarter at 17% on an average basis and 15% plus on a period end basis. So, the deposit flows are quite healthy in terms of supporting the loan growth. As you said, the deposit rates continue to be tight, the wholesale deposit rates have not really come down during the first quarter as they usually do and of late there has been one or two hikes in the retail deposit rate also, although in one case it is at a longer tenor. So, we will have to see how the deposit market moves going ahead, but we don't feel that as a constraint in terms of the available lending opportunities. On the lending side also, I think there is a price competition the other way and we are seeing fair amount of competition particularly on the corporate side. So, we will keep calibrating both. As far as the LDR is concerned, I think this low-to-mid 80s is the level of domestic LDR that we have historically operated at and I don't see any big change in that, it may vary one quarter here up or down, but broadly it should be at that level. As far as both deposit growth and loan growth are concerned, of course, over the next couple of quarters, we will also have to take into account the implications of the revised guidelines on LCR, the draft of which has come, which will have some impact on both deposit markets and loan markets. So, we will have to see that as we go along as well.

Mahrukh Adajania:

So, my other two questions, one is, if you have any rough calculation on LCR and can we assume that 90%, 95% of deposits would fall under the digitally-enabled tap? And the other question is just on retail recoveries, right. Do you see them slowdown in your customer segments because there's a lot of discussion on customer leverage in some segments or the other, so in your set of customers, do you see the retail recoveries flowing in as smoothly as you saw last year, how does it play out?

Anindya Banerjee:

On the first one, I think it's a fairly easy calculation to do because the LCR disclosures are public and at least I think all the analyst reports that we've seen as of yesterday for the major banks talk about between a 10 to 15 percentage point impact and I think that's a fair estimate.

On the recoveries, I think we have been saying for some time that the pace of recoveries will vary and may not continue at the same pace, because we were still collecting out of the pool of NPAs that got created in fiscal '21 and fiscal '22. So, that pace will come-off and therefore, the credit cost will also normalize upwards. But, as I mentioned earlier, finally, if we look at it, the credit costs are still at or below around 50 basis points and then NPL ratios, provisioning coverage are all fine. So, I think that's the way we would look at it.

Moderator:

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

Nitin Agarwal:

I have two questions. First is on the cards portfolio. Like there in few other banks and NBFCs have reported acute stress in the segment and the system in general is seeing some rise in delinquencies. So, how do you see the asset quality outlook here? And if you can just also provide some color on the credit cost currently versus the long period average? Some qualitative color around that will also be helpful.

Anindya Banerjee:
As far as cards is concerned, it's less than 5% of our loan portfolio and whatever happens in the credit cost there has flowed into the overall numbers. I would say that we see it as a growth business and we are investing in growth in that business in terms of both products and distribution and our offerings. So, that's a business we would like to grow.

On the credit cost, if you're asking about on the overall basis, I think as I said, currently, we seem to be operating at about 50 bps. This, I would expect it to further normalise gradually, but what the long period average will be, in the kind of portfolio construct and the systemic construct that we have now, is difficult to say at this point, but I would say that it will be better than historical levels for sure.

Nitin Agarwal:
Also, this credit cost outlook on the cards, specifically like how do you compare versus long period average?

Anindya Banerjee:
We don't really call that out. As I said, it's about 5% of our book, but it is a book we would be very keen to grow.

Nitin Agarwal:

Other question is on the yield on advances, which has come down this quarter around eight basis points. So, how do you read, is it like that the yields have peaked out and will sustain around current levels?

Anindya Banerjee:

So, part of it would just be the impact of the non-accrual on the KCC portfolio, because it's a non-accrual of interest accrued over a slightly longer period. That could be one component and others there will be some small movements here and there, nothing really specific to call out. On lending rates per se, as I said, I think we continue to see a reasonable amount of competition, particularly on the corporate side.

Nitin Agarwal:

Just one clarification on the treasury gains also, which is a higher number this quarter versus the run rates that we have reported in the prior years. So, some details as to we are behind this game and how do we like see this moving?

Anindya Banerjee:

We would have made gains from our normal proprietary trading businesses which includes trade equities, fixed income and currency. We also had some gains on our security receipts portfolio, both realized gains because there were redemptions of the security receipts. The third component would largely be the mark-to-market on the fair value through P&L portfolio which earlier we had to only take the negative MTM impact, now under the new guidelines on the AFS portfolio, the MTM impact either positive or negative flows to the AFS reserve, and on the fair value through P&L portfolio, whether positive or negative, it flows through to the P&L and in this quarter, it would have been a positive impact. So, those would be the three impacts. In the overall context, even at rupees 6 billion, the treasury profit number is a pretty small component of the P&L.

Moderator:

Next question is from the line of Manish Shukla from Axis Capital. Please go ahead.

Manish Shukla:

Just going back to the yield on loans question, QoQ I appreciate that, but even if you look at YoY the yields are 9.86 to 9.8. During this period, the share of retail, SME and business banking has gone up, which I believe is higher yielding business, MCLR rates would be higher, GNPA proportion is lower and yet the yield on advances have not gone up. What would explain that?

Anindya Banerjee:

I think the yield on advances really has been at a stable level over the last year. If you look at all the categories that you mentioned, there has been no real increase in market pricing which would have taken the yields up. In fact, if we look at for example, as you know, even on something like personal loans, the lending rates were at very low teens kind of lending rates, the mortgage market has been very competitive, as has been the corporate market. So, there was no real case for yields to go up. Also, on the SME and business banking side, I would guess most banks are operating at really the upper end of the quality spectrum. So, it's not in itself a high yield business in that sense. So, in that context, I think the yields are quite okay in terms of the yield movement reported.

Manish Shukla:

Secondly, opex growth for the full year, how should we really think about it relative to either balance sheet growth or income growth and if you could talk about it separately in terms of employee and non-employee expenses?

Anindya Banerjee:

We don't give guidance on expenses or different components of expenses, but as you would have seen, the opex growth has been coming down over the quarters and the adjusted growth for Q4 was also between 12% and 13%, this quarter it is 10%-odd. So, I would expect that should be a fair indicator. I don't think that there is anything that should take it up materially in our business as usual sense.

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

Abhishek Murarka:
Three questions. One is in cards and PL. Do you think any additional tightening is needed or the current QoQ growth rates allow you to filter out enough risk and this kind of QoQ trend can continue?

Anindya Banerjee:
I don't think we are looking at really any material tightening. I mean there is minor tweaking and refinement that we keep doing. On PL, we had taken a number of actions last year and I think the growth rate has come off; if you look at the year-on-year growth, it has come from 40% to 24% and I am guessing by the time we end this year it will be closer to 20% kind of number or lower. So, I don't think there is anything much to be done. Cards, it's an ongoing refinement, but as I said there we want to grow the business. So, to answer your question, I don't think anything needed.

Abhishek Murarka:
Second question is on corporate loans. Now, we have seen two banks growing corporate loans on a QoQ basis this quarter. Is it because there is now some bit of asset quality stress in the retail side and therefore moving to this side or there are better opportunities in this space, how do we read this and what's happening in that space, if you could give an update?

Anindya Banerjee:
It is nothing to do with the asset quality on the retail side. I think it really depends on what opportunities come at any point in time and what is the pricing available.

So, if you look at, we've spoken of in this quarter also, we saw a growth in the NBFC portfolio and a growth in the real estate portfolio and some of this, of course is at decent pricing and as well as within our risk/reward thresholds. For a couple of quarters, our NBFC portfolio had gone down because of some prepayments, etc., So, that has not happened this quarter. So, I think if you look at for the last several quarters, our corporate book has grown at around 10%, it could be 8% to 9% in one quarter, it could be 11% to 12% in another and that is a pretty steady pace, no change in approach. Going forward, I think what we are currently seeing again is a fair amount of competitive intensity in that space. So, we will have to calibrate.

Abhishek Murarka:
And just quickly on LCR. So, just as an approach, now, do you need to maintain 20%, 25% additional LCR over 100 on an ongoing basis or once you're reserving higher and anyway it is more stringent, you don't need to maintain that much surplus and that can be how you offset the impact of this new circular?

Anindya Banerjee:
I think we have to think all that through and I guess look at refining both the asset and liability side of the balance sheet. But we will have to think that through, not something we can respond as of now.

Moderator:
Next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer:
Just sort of getting back to some of the questions that were asked earlier on yield. Now, I'd be interested in your thoughts as to borrower demand has been strong for the last two years, the raw material cost for banks is going up, yet, not just you, but none of your peers have been able to pass it on to the borrowers. Why

do you think that's the case really? Or, is it that because there is growth, you are sacrificing NIMs?

Anindya Banerjee:

No, it would not be correct to say that it has not been passed on at all. So, I think if you look at, for example, products even although it has been very competitive, but products like home loans, auto loans or a number of asset classes, yields have gone up between certainly FY'22, '23, that is not going up any further now. On the corporate side, I think in two markets I would say corporate and mortgages there are episodes of competitive intensity because I think different banks may have different motivations at various points of times.

Piran Engineer:

Is it also the case that within each product, the customer selection is getting better, just getting to like Manish's question that the product mix is changing, but then in each product you're getting to better types of customers. So, the effective yield does not change. Is that what has happened?

Anindya Banerjee:

So, I would say that for the quality customers, the banks are quite competitive in terms of yield. And I think broadly, banks are focused on the prime, I would say more prime end of the spectrum.

Moderator:

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

Param Subramanian:

Could you explain the quarter-on-quarter movement in net worth because it's up 15,600 crores whereas the profit for the quarter is 11,000 crores. So, is there something that I'm missing?

Anindya Banerjee:

Yes, the revised investment guidelines became applicable in the quarter and as we have disclosed in our stock exchange release, we recognized an AFS reserve plus retained earnings of about rupees 32 billion net of deferred tax and the AFS reserve would have increased a little bit further based on market movements between April and June. So, that would be the main component. In addition, some amount of capital and reserves gets added every quarter due to stock option exercises, but that's a smaller number.

Moderator:

Next question is from the line of Kaitav Shah from Anand Rathi Financial Service.

Kaitav Shah:

Thank you. All my questions have been answered. Thank you.

Anindya Banerjee:

Thank you.

Moderator:

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

Kunal Shah:

So, firstly, maybe if you can quantify the impact of the penal charges...

Moderator:

Kunal, sorry to interrupt you. Can you speak through the handset please?

Kunal Shah:

If you can just quantify the impact of penal charges circular which has come through, that would be helpful? And secondly, maybe with respect to recoveries, maybe if corporate recoveries are anticipated to be relatively lower, should we see the faster normalization we had seen in one of the peer banks that impacting the credit cost immediately in one single quarter? Do we expect such kind of volatility or maybe for us as you mentioned it should be gradual inch-up or maybe gradual normalization, which will come through in the quarters?

Anindya Banerjee:
On the penal charges circular, we have not really put out any number. So, that's not something I can share. On the recoveries part, I would just say that overall, our credit costs have been quite steady, even in the last couple of quarters where for various reasons the reported numbers were pretty low, we had kind of said that the adjusted cost for the quarter would be around 50 bps and that is where it is. There will always be some ups and downs in terms of additions, recoveries, etc., but that's okay, not something that we would want to specifically comment on.

Kunal Shah:
And lastly, as you also indicated in terms of the retail, couple of players have hiked by almost like 20-odd basis points, how would we take a call, maybe are we looking to be equally competitive and increase the interest rates and even in terms of the branch expansion and changes compared to what you have earlier articulated in terms of the plan on an annual basis?

Anindya Banerjee:
On the rates, we will take a view. These are dynamic markets, so, as we go along, we will take a view and based on both sort of our target, our kind of desired level of mobilization as also the maturity bucket which works for us. On the branch, no change as such.

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

Anindya Banerjee:

Thank you all for taking time out on a Saturday as always. And if any other clarifications are required, please reach out. Thank you.

Moderator:

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