ICICI Bank

April 29, 2022

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Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400 001

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, 5th floor
Plot No. C/1, G Block
Bandra-Kurla Complex
Bandra (East)
Mumbai 400 051

Dear Sir/Madam,

Please find attached the transcript of earnings call with analysts and investors for the quarter ended March 31, 2022. The same can be accessed on the link:

https://www.icicibank.com/aboutus/qfr.page?#toptitle

Please take the above information on record.

Yours sincerely,
For ICICI Bank Limited

Vivek Ranjan

Digitally signed by Vivek Ranjan
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ICICI Bank Limited

Earnings conference call - Quarter ended March 31, 2022 (Q4-2022)

April 23, 2022

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, and the impact of the Covid-19 pandemic which could result in fewer business opportunities, lower revenues, and an increase in the levels of non-performing assets and provisions, depending inter alia upon the period of time for which the pandemic extends, the remedial measures adopted by governments and central banks, and the time taken for economic activity to resume at normal levels after the pandemic, 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.

Moderator:

Ladies and gentlemen, good day and welcome to the ICICI Bank Q3 FY2022 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 Q4 of FY2022. Joining us today on this call are Vishakha, Anup, Sandeep Batra, Rakesh and Anindya.

We hope that you are safe and in good health.

In January we saw a sharp rise in the number of Covid-19 cases that resulted in a moderation in the pace of economic activity. However, the impact of this third wave of the pandemic was mild and with the decline in number of new Covid-19 cases, economic activity gained momentum in the months of February and March. This was visible in the Bank's Ultra Frequency Index, comprising several high frequency indicators tracked by our Economic Research Group, which rose from 112.0 in January to 114.9 in February and 124.4 in March. Some of the major factors leading to improvement in this index were increase in power demand, rail freight revenues, e-way bill generation and GST collections. We extend our gratitude to the medical and health workers' fraternity for their tireless effort in this fight against Covid-19.

At ICICI Bank, we aim to grow the core operating profit within the guardrails of compliance and risk through our 360-degree customer-centric approach and focus on opportunities across client and segment ecosystems. We focus on growing our loan portfolio in a granular manner with a focus on risk and reward, with return of capital and containment of provisions below a defined percentage of core operating profit being a key imperative. We follow a micro market based approach to create an efficient distribution and resource allocation strategy by using analytics to identify opportunities. We aim to steadily grow our business within our strategic framework and strengthen our franchise, delivery, and servicing capabilities, backed by a range of digital initiatives.

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 18.7% year-on-year to 101.64 billion Rupees in this quarter and 22.3% year-on-year to 383.47 billion Rupees in FY2022. Excluding dividend income from subsidiaries and associates, core operating profit grew by 21.0% year-on-year in Q4 of 2022. The profit after tax grew by 59.4% year-on-year to 70.19 billion Rupees in this quarter. For the fiscal year 2022, the profit after tax increased by 44.1% year-on-year to 233.39 billion Rupees. The Board has recommended a dividend of 5 Rupees per share for FY2022, subject to requisite approvals.

Second-Further enhancing our strong deposit franchise

Total deposits grew by 14.2% year-on-year at March 31, 2022. During the quarter, average current account deposits increased by 23.6% year-on-year and average savings account deposits by 22.7% year-on-year. The liquidity coverage ratio for the quarter was about 130%, reflecting continued surplus liquidity. Our cost of deposits continues to be among the lowest in the system.

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

The retail loan portfolio, excluding rural loans, grew by 19.7% year-on-year and 6.0% sequentially at March 31, 2022. Disbursements across various retail products increased in Q4 of 2022 compared to the previous quarter. The business banking portfolio grew by 43.2% year-on-year and 10.2% sequentially at March 31, 2022. The SME portfolio grew by 33.6% year-on-year and 11.3% sequentially. The growth in our SME and business banking portfolios has been driven by our digital offerings and platforms like InstaBIZ and Merchant Stack.

The domestic corporate portfolio grew by 9.7% year-on-year and was flat sequentially at March 31, 2022. The domestic loan portfolio grew by 17.5% year-on-year and 5.7%

sequentially. The overall loan portfolio grew by 17.1% year-on-year and 5.5% sequentially at March 31, 2022.

Fourth-Leveraging digital across our business

Our various digital platforms such as iMobile Pay, internet banking platforms, InstaBIZ and Trade Online provide end-to-end seamless digital journeys, personalised solutions and value added features to customers and enable more data driven cross sell and up sell. In line with the philosophy of open architecture, of our digital platforms, recently, we made our InstaBIZ app interoperable, that is, all benefits of the app are now available to all merchants including those who do not have a current account with us. This initiative enables merchants to instantly create digital collection solutions like UPI ID and QR code and start collecting money from their customers. We have shared some details on our technology and digital offerings in slides 18 to 32 of the investor presentation.

Fifth - Protecting the balance sheet from potential risks

Net NPAs declined by 24.2% year-on-year and 5.2% sequentially to 69.61 billion Rupees at March 31, 2022 from 73.44 billion Rupees at December 31, 2021. The net NPA ratio declined to 0.76% at March 31, 2022 from 0.85% at December 31, 2021. During the quarter, there were net deletions from gross NPAs of 4.89 billion Rupees, excluding write-offs and sale. The provision coverage ratio on NPAs was 79.2% at March 31, 2022. The total provisions during the quarter were 10.69 billion Rupees or 10.5% of core operating profit and 0.53% of average advances. This includes contingency provision of 10.25 billion made on a prudent basis. The Bank holds contingency provisions of 74.50 billion Rupees or about 0.9% of total loans as of March 31, 2022.

Sixth- Maintaining a strong capital base

The capital position of the Bank continued to be strong with a CET-1 ratio of 17.60% at March 31, 2022 after reckoning the impact of the proposed dividend. The Tier 1 ratio was 18.35% and the total capital adequacy ratio was 19.16% at March 31, 2022. Further, the market value of the Bank’s investments in listed entities of the Group is about 840 billion Rupees.

As has been announced, Vishakha has decided to pursue opportunities outside the Group and will step down from the Board effective May 31. We thank her for her outstanding contribution to ICICI and wish her all the very best. Anup would take over Vishakha's responsibilities at the Board level. The Board has today approved the elevation of Rakesh as an Executive Director and he would take over Anup's responsibilities. Anindya will take up the role of CFO and will report to Sandeep who will continue to head our Corporate Centre.

At ICICI Bank, we strive to build a sustainable and responsible business and make a positive impact on the economy, society and environment. The Bank has focused on various aspects of ESG in its business as well as CSR activities. We have adopted a Board approved ESG Policy along with a governance and oversight framework for ESG.

Looking ahead, we see many opportunities to grow our core operating profit in a risk-calibrated manner. We will continue to focus on our objective of catering to all the banking and financial needs of the customer with a focus on risk and reward. Our ecosystem based approach and creation of multi-functional teams has helped in nurturing relationships and offering the entire bouquet of services of the Bank to customers. We continue to be guided by the twin principles of "One Bank, One RoE", emphasising the goal of maximising our share of target market across all products and services and "Fair to Customer, Fair to Bank", emphasising the need to deliver fair value to customers while creating value for shareholders. We remain focused on delivering consistent and predictable returns to our shareholders.

I now hand the call over to Rakesh.

Rakesh'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. Up to the last quarter, we used to report rural loans as a part of the retail portfolio. From this quarter, we are reporting rural separately. The retail loan portfolio, excluding rural loans, grew by 19.7% year-on-year and 6.0% sequentially at March 31, 2022. Coming to the growth across retail products, the mortgage portfolio grew by 20.3% year-on-year, and auto loans by 11.3%. The commercial vehicles and equipment portfolio declined by 1.3% year-on-year. Growth in the personal loan and credit card portfolio was 31.9% year-on-year. This portfolio was 879.35 billion Rupees or 10.2% of the overall loan book at March 31, 2022. The rural loan portfolio increased by 6.5% year-on-year and 4.3% sequentially. The retail and rural portfolio together grew by 17.6% year-on-year and 5.8% sequentially.

The overseas loan portfolio, in US dollar terms, grew by 5.9% year-on-year and was flat sequentially at March 31, 2022. The year-on-year increase in the overseas loan portfolio was primarily due to increase in the India-linked trade finance book. The overseas loan portfolio was 4.8% of the overall loan book at March 31, 2022. The non-India linked corporate portfolio reduced by 48.2% or about 597 million US Dollars year-on-year and 6.8% or about 47 million US Dollars sequentially. Of the overseas corporate portfolio, about 82% comprises Indian corporates, 10% is overseas corporates with Indian linkage, 4% comprises companies owned by NRIs or PIOs and balance 4% is non-India corporates. Our direct exposure to Russia and Ukraine is negligible. We have exposure to an Indian oil refinery rated AA- externally where a sanctioned Russian entity owns 49% stake. The exposure is largely non-fund in nature. The oil refinery's operations are largely in India.

Coming to the funding side: average savings account deposits increased by 22.7% year-on-year in Q4 and 23.5% year-on-year in FY2022. Average current account deposits increased by 23.6% year-on-year in Q4 and 31.0% year-on-year in FY2022. Total term deposits grew by 9.0% year-on-year at March 31, 2022.

B. Credit quality

The net deletions from gross NPAs were 4.89 billion Rupees in the current quarter compared to 1.91 billion Rupees in the previous quarter. There were net additions of 1.23 billion Rupees to gross NPAs in the retail, rural and business banking portfolios and net deletions of 6.12 billion Rupees to gross NPAs in the corporate and SME portfolios.

The gross NPA additions were 42.04 billion Rupees in the current quarter compared to 40.18 in the previous quarter. The gross NPA additions from the retail, rural and business banking portfolio were 37.36 billion Rupees and from the corporate and SME portfolio were 4.68 billion Rupees. Recoveries and upgrades from NPAs, excluding write-offs and sale, were 46.93 billion Rupees in the current quarter compared to 42.09 billion Rupees in the previous quarter. There were recoveries and upgrades of 36.13 billion Rupees from the retail, rural and business banking portfolio and 10.80 billion Rupees from the corporate and SME portfolio. Corporate and SME recoveries and upgrades include a power sector account which was upgraded post implementation of a resolution plan under IBC. The gross NPAs written-off during the quarter were 26.44 billion Rupees.

The non-fund based outstanding to borrowers classified as non-performing was 36.40 billion Rupees as of March 31, 2022 compared to 36.38 billion Rupees as of December 31, 2021. The Bank holds provisions amounting to 20.51 billion Rupees as of March 31, 2022 against this non-fund based outstanding.

The total fund based outstanding to all standard borrowers, under resolution as per various guidelines declined to 82.67 billion Rupees or about 1.0% of the total loan portfolio at March 31, 2022 from 96.84 billion Rupees as of December 31, 2021. The sequential decline was mainly due to prepayment by a borrower in the construction sector. Of the total fund based outstanding under resolution at March 31, 2022, 60.43 billion Rupees was from the retail, rural and business banking portfolio and 22.24 billion Rupees was from the corporate and SME portfolio. The Bank holds provisions of 25.30 billion Rupees against these borrowers, which is higher than the requirement as per RBI guidelines.

C. P&L Details

Net interest income increased by 20.8% year-on-year to 126.05 billion Rupees. The net interest margin was at 4.00% in this quarter compared to 3.96% in the previous quarter and 3.84% in Q4 of last year. The impact of interest on income tax refund on net interest margin was 1 bps in Q4 of this year compared to 6 bps in the previous quarter and 1 bps in Q4 of last year. The domestic NIM was at 4.12% this quarter compared to 4.06% in previous quarter and 3.94% in Q4 last year. The cost of deposits was 3.48% in this quarter compared to 3.47% in previous quarter. Of the total domestic loans, interest rates on 41% are linked to repo rate and 7% to other external benchmarks.

Non-interest income, excluding treasury income, grew by 11.4% year-on-year to 46.08 billion Rupees in Q4 of 2022

- Fee income increased by 14.4% year-on-year to 43.66 billion Rupees in this quarter driven by growth across various segments. Fees from retail, rural, business banking and SME customers grew by 14.3% year-on-year and constituted about 77% of the total fees in this quarter
- Dividend income from subsidiaries and associates was 2.32 billion Rupees in this quarter compared to 3.57 billion Rupees in Q4 of last year. The dividend income in Q4 of last year included interim dividend of ICICI General and ICICI Securities PD

On Costs: The Bank's operating expenses increased by 17.4% year-on-year in this quarter. The employee expenses increased by 21.0% year-on-year. The Bank had about 105,800 employees at March 31, 2022. The employee count has increased by about 7,050 in the last 12 months. Employee expenses in this quarter include an impact of 0.69 billion Rupees due to fair valuation of ESOPs granted to all employees post April 1, 2021 for the current quarter as required by RBI guidelines. Non-employee expenses increased by 15.6% year-on-year in this quarter primarily due to retail business and technology related expenses. The technology expenses were about 8.5% of our operating expenses in FY2022.

The core operating profit increased by 18.7% year-on-year to 101.64 billion Rupees in this quarter. Excluding dividend income from subsidiaries and associates, the core operating profit, grew by 21.0% year-on-year. The core operating profit grew by 22.3% year-on-year to 383.47 billion Rupees in FY2022.

There was a treasury gain of 1.29 billion Rupees in Q4 compared to 0.88 billion Rupees in Q3 and a loss of 0.25 billion Rupees in Q4 of the previous year.

The total provisions during the quarter were 10.69 billion Rupees or 10.5% of core operating profit and 0.53% of average advances. During the quarter we made contingency provisions of 10.25 billion Rupees on a prudent basis. The Bank continues to carry Covid-19 related provision of 64.25 billion Rupees as contingency provisions at March 31, 2022. Thus, the Bank holds contingency provision of 74.50 billion Rupees as of March 31, 2022. The provisioning coverage on NPAs continued to be robust at 79.2%. In addition, we hold 25.30 billion Rupees of provisions on borrowers under resolution. At March 31, 2022, the total provisions, other than specific provisions on fund-based outstanding to borrowers classified as non-performing, were 179.18 billion Rupees or 2.1% of loans.

The profit before tax grew by 63.1% year-on-year to 92.24 billion Rupees in this quarter. The tax expense was 22.05 billion Rupees in this quarter compared to 12.54 billion Rupees in the corresponding quarter last year. The profit after tax grew by 59.4% year-on-year to 70.19 billion Rupees in this quarter. The profit after tax grew by 44.1% year-on-year to 233.39 billion Rupees in FY2022.

The consolidated profit after tax grew by 58.0% year-on-year to 77.19 billion Rupees in this quarter. The consolidated profit after tax grew by 36.6% year-on-year to 251.10 billion Rupees in FY2022.

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 have seen significant increase in the adoption of our mobile banking app, iMobile Pay. There have been 6.3 million activations of iMobile Pay by non-ICICI Bank account holders as of end-March. The value of transactions by non-ICICI Bank account holders in the current quarter was 4.9 times the value of transactions in Q3 of 2022.

The value of credit card spends grew by 77% year-on-year in Q4 of 2022 driven by higher activation rate through digital onboarding of customers, including Amazon Pay credit cards, automated and effective portfolio management to grow spends among existing card customers and diversification through commercial cards. The Bank has issued more than 3 million Amazon Pay credit cards since its launch. The Bank has recently tied up with Emirates Skywards, the award-winning loyalty programme of Emirates and FlyDubai, to launch a range of co-branded credit cards that enable customers to earn reward points on travel, lifestyle and everyday spends.

The value of financial transactions on InstaBIZ grew by about 44% year-on-year in the current quarter. The value of transactions on the supply chain platforms in the current quarter was 2.7 times the value of transactions in Q4 last year.

The proportion of end-to-end digital sanctions and disbursements across various products has been increasing steadily. About 34% of our mortgage sanctions and 44% of our personal loan disbursements, by volume, were end-to-end digital in FY2022.

The Bank has created more than 20 industry specific STACKs which provide bespoke and purpose-based digital solutions to corporate clients and their ecosystems. The volume of transactions through these solutions in FY2022 was 2.7 times the volume of transactions in FY2021. The value of transactions done on Trade Online increased by about 80% year-on-year in FY2022.

E. Portfolio information

We have provided details on our retail, business banking and SME portfolio in slides 43 to 46 of the investor presentation.

The loan and non-fund based outstanding to performing corporate and SME borrowers rated BB and below was 108.08 billion Rupees at March 31, 2022 compared to 118.42 billion Rupees at December 31, 2021. The amount of 108.08 billion Rupees at March 31, 2022 includes 23.89 billion Rupee of loans under resolution. The sequential decline during the quarter was mainly due to prepayment from a borrower in the construction sector where resolution had been implemented as per RBI's Covid resolution framework. The details are given on slide 41 and 42 of the investor presentation.

Other than two accounts one each in power and telecom sectors, the maximum single borrower outstanding in the BB and below portfolio was less than 6 billion Rupees at March 31, 2022. At March 31, 2022, we held provisions of 12.32 billion Rupees on the BB and below portfolio compared to 15.75 billion Rupees at December 31, 2021. This includes provisions held against borrowers under resolution included in this portfolio.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was 269.48 billion Rupees at March 31, 2022 compared to 257.53 billion Rupees at December 31, 2021. The builder portfolio is about 3% of our total loan portfolio. Our portfolio is granular in nature with the larger exposures being to well-established builders and this is also reflected in the sequential increase in the portfolio. About 9.5% of our builder portfolio at March 31, 2022 was either rated BB and below internally or was classified as non-performing, compared to 11% at December 31, 2021.

F. Subsidiaries and key associates

The details of the financial performance of subsidiaries and key associates are covered in slides 53 to 55 and slides 76 to 81 in the investor presentation.

The VNB margin increased from 25.1% in FY2021 to 28.0% in FY2022. The value of new business increased by 33.4% year-on-year to 21.63 billion Rupees in FY2022. The profit after tax of ICICI Life was 7.54 billion Rupees in FY2022 compared to 9.60 billion Rupees in FY2021. The Embedded value increased by 8.7% year-on-year to 316.25 billion Rupees at March 31, 2022. The profit after tax was 1.85 billion Rupees in this quarter compared to 0.64 billion Rupees in Q4 of last year.

Gross Direct Premium Income of ICICI General was 179.77 billion Rupees in FY2022 compared to 140.03 billion Rupees in FY2021. The combined ratio was 108.8% in FY2022 compared to 99.8% in FY2021. The profit after tax was 12.71 billion Rupees in FY2022 compared to 14.73 billion Rupees in FY2021. The profit after tax was 3.13 billion Rupees this quarter compared to 3.46 billion Rupees in Q4 last year. Prior period numbers are not comparable due to the reflection of the general insurance business of Bharti AXA in the current period numbers.

The profit after tax of ICICI AMC was 3.57 billion Rupees in this quarter compared to 3.48 billion Rupees in Q4 of last year.

The profit after tax of ICICI Securities, on a consolidated basis, increased by 3% year-on-year to 3.40 billion Rupees in this quarter from 3.29 billion Rupees in Q4 of last year.

ICICI Bank Canada had a profit after tax of 4.3 million Canadian dollars in this quarter compared to 5.1 million Canadian dollars in Q4 last year and 11.5 million Canadian dollars in Q3 this year. Profit after tax was higher in Q4 last year and Q3 this year due to write-back of provisions. ICICI Bank Canada repatriated CAD 220 million of equity capital to ICICI Bank in Q4 this year.

ICICI Bank UK had a profit after tax of 3.1 million US dollars this quarter compared to 2.8 million US dollars in Q4 of last year and 3.0 million US dollars in Q3 this year.

As per Ind AS, ICICI Home Finance had a profit after tax of 0.53 billion Rupees in the current quarter compared to 0.15 billion Rupees in Q4 of last year and 0.48 billion Rupees in Q3 this year. The year-on-year increase in profit after tax is mainly due to decline in cost of funds and lower provisions.

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

Moderator:

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

Mahrukh Adajania:

My first question is really on the margin outlook. I know you don't give any specific guidance, but given intense pricing competition in some segments, unsecured salaried and then even mortgages, do you think repo rate hikes will benefit margin?

Rakesh Jha:

Mahrukh, on net interest margin, it is difficult to give an outlook. I think in addition to the competitive pricing that you talked about, like you rightly said, it will also be a function of the repo rate movement through the year and the timing of it. So, we do have a reasonable part of our book which is linked to external benchmarks now, like most other banks as well. So like we always say our target would be to try and see how we can maintain our margins, but it will be a function of what is happening in the market. If you look at the current quarter Q4, our margin was about 4%. If you look at it in the past years also, Q4 traditionally for us has seen margins to be about eight to ten basis points higher just because of the fact that the quarter has lesser number of days, so the annualised computation gives a slightly higher margin. On the core basis, I would say, between Q3 and Q4, the margin was kind of flat and you also saw the fact that the cost of deposits were kind of now bottomed out at 3.47%, 3.48%. So, we will have to kind of navigate through this period before the repo rate starts to increase. And then thereafter definitely the existing book yields will go up, but the incremental lending rates will still be a function of how much liquidity surplus continues in the system.

Mahrukh Adajania:

Just in terms of mortgages, your mortgage book has been growing very well, but if you see the sectoral deployment, sectoral loan growth is just 8%, when everyone is talking about a very good real estate cycle and very good registration. So what kind of explains that?

Rakesh Jha:

If you look at the last actually several quarters, our growth has been at similar levels of around 20%. I think the focus that we have had on the entire retail business, in terms of customer 360 where we are looking at the entire set of products and services to be provided, has really helped us in growing both the asset book that you are seeing as well as the strong growth on the liabilities that we have seen. Of course, in the mortgage market also, the lending rates have declined. There has been a fair degree of balance transfers also that has been happening. So those are the reasons that we have seen. I will ask, Anup to add if there is anything.

Anup Bagchi:

No, I think, Rakesh, you have broadly covered it. Our focus on micro markets and our focus on just making sure that we have decongested many of our processes and make it easier for customer onboarding and added to that our micro market and go-to-market focus is increasing our share, and that actually is leading to this kind of growth.

Mahrukh Adajania:

My last question is that, RBI has come up with master directions on credit and debit card. Would your Amazon Pay ICICI Bank card be fully compliant with those master directions?

Anup Bagchi:

I think I am glad you asked this question, because I am sure subsequently many would have asked this question because it's a very recent development. As far as we are concerned, we have read through the guidelines. We are looking at it more finely, but at the first reading, we will be quite unimpacted by these guidelines. These guidelines seem to be on co-brand, but there are various aspects of co-brand, particularly data sharing and revenue sharing and all of it. So we will be unaffected largely by this circular. But, we are also going through it with toothcomb if there are any issues, but prima facie, it doesn't seem to have any impact. Of course, there is another bucket of customers on activation after one year and if somebody requests for deactivation within seven days, we have to deactivate. I think those are very-very good customer service measures that are coming.

So I would put it into two buckets - co-brand and customer service-related issues. We seem to be good on both so far.

Moderator:

The next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan:

Firstly, on the SME and business banking book. What are our incremental yields? And if you could give some color on in terms of growth, is it led by increased working capital demand due to higher commodity prices or higher inflation?

Rakesh Jha:

We do not separately disclose yields by portfolio segments, but like we were responding to earlier questions from Mahrukh, indeed, the business banking SME segment is extremely competitive and we continue to focus on the entire customer 360. So it's not just about the loan, but also the float income on the current account side, FX and trade and all the other income that we get from the customers. We have been seeing pretty strong growth in this portfolio for the last few years. I think it is a combination of the focus that we have had on this segment, plus, of course, all the investments that we have made on digital and technology for servicing the customers in this segment has really helped with this growth for us.

Mona Khetan:

I mean, would you be able to get some color on whether a large part of this incremental growth is also driven by increased inflation in commodity prices, etc.,

Rakesh Jha:

If you go back say six months, even then the portfolio was growing at broadly this kind of a pace. So I don't think there is any specific delta impact of inflation per se, but, of course, in this segment most of our loans are working capital loans, the amount of term lending will be much more limited.

Mona Khetan:

I am assuming that on the margin front, there is no one-off in terms of income tax refund or anything this quarter.

Rakesh Jha:

I talked about the interest on income tax refund, that was like one basis point or something. So there is no one off per se but like I mentioned in Q4, typically, we have the margin which is about eight to ten basis points higher than Q3, that's how it comes out and Q3 was 3.96%, that included about six basis points of the income tax refund benefit. So if you look at it, I think 3.90% is where we were in Q3 broadly around that level, in Q4 on a core basis and full year also we are in that region of 3.9-3.95%.

Anup Bagchi:

Just to add to Rakesh on that, our SME portfolio and business banking portfolio, our ticket sizes largely are similar, it is enhanced coverage and decongestion of processes which is I would say more weighted on leading to the growth.

Mona Khetan:

Just finally on the credit card book. Where would our revolve rates be versus pre-Covid-19 level?

Rakesh Jha:

We don't disclose that separately, but yes, it will be somewhat lower than where we were pre-COVID.

Moderator:

The next question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy:

My questions are all related to credit cards. Anup, do you explicitly share data with Amazon? That's the first question on co-branding or with any of your co-branded partners?

The second question is that the credit card book is up 10% q-o-q. So, q-o-q, have you seen any change in the revolver rates if you can tell us because obviously the credit card outstanding is up q-o-q. Finally, there is one rule of thought with respect to this new guidelines of credit cards is that the Reserve Bank of India could be a bit more open to giving licenses to NBFCs for credit cards considering that there are severe restrictions imposed on co-branding. Do you subscribe to that view?

Anup Bagchi:

Firstly, as I had mentioned earlier to Mahrukh's question, we have read through the guidelines, there doesn't seem to be any impact on us prime facie. We will of course go through the guidelines more closely to see if there is any impact. So that will cover the data and all other aspects that you sort of asked about. I think the other important question that you asked is that now is there restrictions on co-brand, will NBFCs be allowed to issue their own cards, etc., I think it seems that it points more towards other fintechs rather than an NBFC/bank type of tie-up, it looks more fintech than other things. So from that perspective, I will say that competitive intensity might come down instead of up from Bank’s perspective. There are a lot more guidelines around customer service and being fair to the customer, which I think are very positive. So that is also positive to us. Will other NBFCs try to get a card? There was an old guideline of RBI where RBI could have given a permission or approval to issue a card, but you have to have an issuing Bank and which is not co-branded. But nobody has launched, but I'm sure many people might be open to launching those things. We will have to see. But the large players who might be open to launching such a thing, they already had co-branded cards in one way or the other. So let us see how it evolves. But overall at this point of time, for our co-branded, there doesn't seem to be much impact or in fact any impact from the first reading. Second, on the competitive intensity, I think it is going to be less than equal to, doesn't seem to be greater than equal to of the larger players coming and issuing or having their own credit card, that was always an option, but has not fructified, it might happen, it is good. But, it's a large market today. So increased competition, etc., we have to basically play our own games. Competitive intensity does impact, but at the end of it finally we will have to play our game well, only then we'll win.

Suresh Ganapathy:

Q-o-Q, have we seen increase in revolver rates because your outstanding book is up 10% Q-o-Q?

Anup Bagchi:

QoQ, as you know, there are revolver rates and there are transactions for sure. Also, because Q3 was very good for us, our spends were very good, because we have festivals, we focus on spends, we focus on ads, we increase the spends, etc., part of it is that as well.

Moderator:

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

Manish Ostwal:

On your FY2023 loan book outlook, so, we have not seen the growth rate due to the inflationary related demand pressure in the economy.

Rakesh Jha:

Like we always say that we don't have any specific loan growth target or outlook. I think our focus is entirely on growing the risk calibrated core operating profit. So we will grow in line with the market opportunities which are there, we will look at the risk and the return parameters to be within our thresholds. In terms of the opportunity, if you look at across the portfolio, we have seen pretty consistent growth across retail, business banking, SME, corporate and to the extent we do calibrate our growth where we find that the pricing is not in line with what we expect. And the entire focus is to not look at just the loan book or the loan growth, look at the entire operating profit contribution coming from the customer, coming from the ecosystem. So, that is how we will continue to evaluate these opportunities on a market basis.

Anup Bagchi:

On the loan growth part, just to add, Rakesh, our market shares in individual micro markets are still not fully saturated. So, we have the option today to pick up more profitable growth, profitable pools, etc., using data analytics and our reach and understanding of micro market. We will certainly strive and we are of course, in pockets, also able to pick up those profit pools and that growth in the market. So we focus on growth, but we try and focus on profitable growth and more sustainable growth and certainly a risk managed growth.

Moderator:

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

Nitin Agarwal:

I have three quick questions. First is again around growth. What sort of growth opportunities are we looking at in the wholesale business as growth trends over there have been quite modest and especially in context to the trends being reported by a peer bank? And second question is if you can share some color on the kind of business Bank is garnering from non-ICICI Bank customers who have used ICICI mobile banking services? And third is around the provisioning expenses. If you can share more color on it the context of contingent provisioning, the provisioning is almost negligible for the quarter. So some color on this and also the outlook on the provisions to keep up guidance, any thoughts around that over FY2023?

Rakesh Jha:

Maybe I'll talk about the provisions first. So as you said, for us this quarter largely the provisions were the contingent provisions that we made of Rs.10.25 billion. On the rest of the NPA and the restructured book, the provisions were negligible. That reflected, one, the net deletion in NPAs that we had during the quarter. It also reflected the prepayment of a corporate restructured loan that we talked about, that would have resulted in write-back on the provisions that we held for that restructured loan. And we have continued to recover well on both the corporate side and of course on the retail side as well, especially on the retail side the high level of addition that we have seen in the last four to five quarters, those recoveries have been coming in. So, I don't think we should be extrapolating this quarter from a go forward perspective. I think in the past we have talked about the fact that we would always want our provisions as a percentage of core operating profit, not to exceed 25%. That is of course through a cycle and it will vary up and down depending on the stage of cycle where we are and also the composition of the portfolio. So no specific guidance that we can give there in addition to what we have already said. On the wholesale banking opportunities, I think the good thing is that we get to look at pretty much all the deals that are happening in the market and wherever it is franchise business which is adding to our overall core operating profit, we are happy to do that business. Wherever it is standalone lending opportunities at very fine pricing where the only objective could be book growth and does not really contribute to the core operating profit, we are very happy to stay away from that. And to some extent that is what is reflected in the loan growth for us. As we have said in the earlier calls, I think the entire corporate banking team is also focused on the ecosystem approach towards business. So we don't look at just the loans, we look at all other important services for the corporate client, we look at all that we can do with the employees of the corporate in terms of our retail businesses as well as the dealers and vendors from an SME perspective, and we track the profitability in absolute terms and the ROE for the corporate client as well as for the entire ecosystem. So that is the approach that we have and we will continue with that. We will be competitive wherever required from a franchise perspective. That's how we look at the market. And opportunity is there in terms of growth, and as long as it comes within our risk and return parameters, we are happy to grow.

Anup Bagchi:

Third question was that what happens to the non-ICICI Bank customers. First, I think we should start to really look at it from a point of view that who are our customers and we will have to start to expand our way of how we think about our customers. We would think that it is not just deposit customers or asset customers who are our customers. Anybody who is using our services becomes our customers. So if it is iMobile Pay, they may not have deposits with us today, they may not have assets with us today but if they start using iMobile Pay, they become our customers. Similarly, FASTag for example. There are many FASTag customers, they are all good customers, they are all affluent customers. They may not have deposits with us and they may not have assets with us, but they are also our customers. So I would say that non-deposit customers and not a non-asset customer because that today is one of the largest flows of good quality leads for a Bank like us, and our experience with that is very, very good because they tie-in to the brand, they get to see and experience adjunct services that we provide and more data footprint they leave with us, better is our ability to pre-approve them, better is our ability to understand them, and better is our ability in a sharp focused manner to give them propositions that will give them a reason to start overall 360 banking with ICICI Bank. So our experience is good and I thought I'll just expand it a little bit to just share with you what is our general approach to the so-called non-ICICI Bank customers, they are all ICICI Bank customers, they are service customers, they are not deposit customers, they are not asset customers.

Moderator:

The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise:

Just wanted to get a sense on the AFS portfolio. Can you share the duration here because we still have a small trading profit this quarter?

Rakesh Jha:

We don't share the duration separately, but again our approach has never been to take high duration into the AFS portfolio even if we have some strong view on interest rates going down. That view would be taken in the HTM book per se. The AFS and trading book is very actively managed and traded by the trading group. If you look at the current quarter on treasury, I don't think on fixed income side, we would have made money or any other bank would have, given how the yields have moved. For us it would reflect more in FX and other revenues.

Sameer Bhise:

Secondly, I think this one is for Anup. Are you seeing pickup in the spend levels on the credit card or a large part is driven by new acquisition spends, how are you seeing like the fee item on the credit card side, how should one read this on a sequential basis?

Anup Bagchi:

So we certainly see that the spends are slowly increasing. As you know, in credit card, it is you get a customer, then they activate, and then they start spending and then they start revolving and there are many facets of this life cycle and you have a fee somewhere and you have interest rate somewhere and all of it. So, we are certainly seeing consumption coming up as Covid-19 normalises and it has normalised quite a bit, almost fully. So we are seeing now spends coming up and revolve also slowly, slowly moving up and that will make all other downstream things which is revolve and fees and all of it should start to look healthier.

Sameer Bhise:

Any comment on spend behavior of customers who are probably acquired through last year or have been with you for years?

Anup Bagchi:

Spend behavior is improving and because many of you are interested in Amazon Card, so I'm happy to share that actually the non-Amazon spends on Amazon card has been quite healthily growing. So that is a very happy thing for us and that was the desired outcome as well from us and we are seeing is that across categories now spends are increasing and it is evident through other part of ours as our MD also shared with you on the Ultra High Frequency index also. If you look at the components of the index, you will see economic activity everywhere. And finally, this economic activity only reflects in the card spends and on the commercial spends. So, so far so good. Let's see.

Moderator:

The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama:

My first question is that we have been focusing a lot on the core profitability growth. This quarter we have clocked somewhere about 19%-odd core profitability growth. Now, moving into FY'23 where margin expansion will be a challenge, so what could be the levers of core profitability growth that you can talk about that will be great?

Rakesh Jha:

From operating profit perspective, I think the margins that you talked about, that is of course a prime driver. In addition to that, in terms of the fee income, the business sourcing cost and the other expenses, we look at all the levers and we have to manage all those levers optimally to get the desired outcome on the core operating profit. You are right, that this year we have seen increase in our margin by close to 25 to 30 basis points on a y-o-y basis which has definitely helped us in the strong core operating profit growth. And as I said, we will have to navigate through this coming here especially with the interest rate scenario also changing and we will do the best that we can do in terms of optimising on all these levers and continuing to focus on doing granular good quality business as we do this.

Anand Dama:

So, do you think that the fee income actually can improve from here on and what could be the levers for improvement in the fee?

Rakesh Jha:

So the way we look at is not fee income say in aggregate, so as Anup also earlier mentioned, I think it's all about the focus on the micro markets and customers. We don't target an overall fee income growth or something like that. What we are focused is to look at the customer level, the ecosystem level, the micro market, what we can do and if margins are higher, lower fees is fine, or if margins are low, we would need to look at more fees. So it is something which optimally each of the business teams looks at on what needs to be done from the point of view of what works the best and the most fair for both the customer and the Bank. So in aggregate, it is not something that we are focused on and there can always be ups and downs in some of these metrics going forward as well.

Anand Dama:

Sir, next year and maybe over next two to three years, there is a peer Bank which is going to look at deposit mobilisation to the extent of about 5 trillion or so. Deposit mobilisation is an area where there is going to be a lot of competition. So how do you see basically in terms of your branch expansion, customer acquisition and deposit rates going forward?

Rakesh Jha:

At any point of time, it is a competitive market on deposits, on lending and we don't see that changing over the next two or three years. So I think there is a certain approach that we have in terms of our liability franchise and the growth that we look at and then how we deploy those funds. So I think we will continue with our approach. Again, in terms of number of branches and all of those things, they are decided by the respective businesses in terms of what they are seeing on the ground in their respective micro market and if they believe addition of branches, addition of people, will help them grow their deposits and more importantly the core operating profit, then they're absolutely happy to go ahead and invest. That is how we look at it. And if there is more competition, I guess we will have to just live with that and see what best we can do.

Anand Dama:

Could you see an acceleration in the branch expansion finally because of the competitor going crazy?

Rakesh Jha:

That may not be the only factor. As long as we are seeing opportunity in the micro market for us to grow, we will be happy to add branches, and, of course, the type of branches have also evolved a lot, so, there are various format branches. So branch is not the only thing, it's an important thing, we will definitely look at adding branches, but it's not just as a reaction to any competitor that we look at it.

Anand Dama:

At any point of time, RBI has asked our housing business to be merged with the Bank though it is very small in the overall scheme of things, but -

Rakesh Jha:

No, not really.

Moderator:

The next question is from the line of Adarsh Parasrampuria from CLSA. Please go ahead.

A Parasrampuria:

Couple of questions. First is we are firmly like a benign credit cost cycle including what you see with your results in the last six months. Do you think that you are in a structurally lower credit cost mix of book and hence over a medium term does the price reflect that in margins and credit costs are just lower because we are clearly undershooting what we have ever mentioned as a guidance on provisions?

Rakesh Jha:

Adarsh, I think we'll have to see that over a slightly longer period. Clearly, our focus has been on what we call as return of capital in all our lending and that should result in lower credit costs for us through cycle. But, it is just too early to kind of talk about that. And, of course, in the last couple of quarters like you mentioned, we have also had the benefit of significant deletions, upgrades from NPAs coming because of the larger additions that we have had in the earlier periods because of the C0vid-19. But overall portfolio, definitely, if you look at the rating profile on the corporate SME side which we disclose every quarter, you look at the retail portfolio how the NPA additions there have been moving, it does give us a good amount of confidence but we don't want to kind of right now talk about how low or high these numbers could be. Our approach would always be to see how we can have it at an optimal level from a growth perspective.

A Parasrampuria:

Anup, you did mention. When we look at how much the retail products have penetrated within our customer base, it's still not optimum and there's a lot of leeway. Any sense and direction you can give us to how you look at it in next three to five years where we want to get, either some numbers or any sense of quantum or direction?

Anup Bagchi:

Two things we have certainly strengthened over a period of time. I think over a period of time, last three, four, five years there is more and more and more digital footprint that the customers have kept with us, because of our very strong digital property. So that helps us also in understanding them better and also figuring out from various other public sources, CIBIL and other places and of course auto debit on deposit, where are they banking with and then we have to give them a very strong reason why they should shift to our Bank and Bank with us in a more holistic manner. The onus is certainly on us. That is one. So there itself saturation, it's okay, but we can certainly make it better. The second place is at the micro market level itself, we have a reasonable sense of what is the profit pool in a micro market given the kind of business that is happening, given the kind of economic activities that underpins the micro market and generally a reasonable idea, I'll not say it is exact, but a reasonable idea of what is our percentage share of that profit pool that is there, there we use. So in both cases we use very, very extreme and very good quality focus on outcome, focus on data analytics. So we have got a good share there and there we see that there are many micro markers, we are quite underpenetrated. And so it is our endeavor to put the processes, put the proposition, reach out to the customer and try and crunch the timeline from the opportunity to conversion. That is really the big job every day full teams are focused on. So these are the two clear opportunities; one, customers who are with us; second, customers who are not with us, but in the micro markets.

Moderator:

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

Rakesh Jha:

Thank you everyone for spending the Saturday evening with us. We'll be happy to take any residual questions separately. Thank you.

Moderator:

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