ICICI Bank Limited

Earnings conference call - Quarter ended December 31, 2022 (Q3-2023)

January 21, 2023

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 nonperforming 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 ICICI Bank Limited Q3 FY2023 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your 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, Mr. Bakhshi.

Mr. Bakhshi's opening remarks

Good evening to all of you and welcome to the ICICI Bank Earnings Call to discuss the results for Q3 of FY2023. Joining us today on this call are Anup, Sandeep Batra, Rakesh, Anindya and Abhinek.

Amid the global uncertainties, India's GDP growth has been resilient. The pickup in economic activity is reflected in the expanding purchasing managers' indices, GST collections and other high frequency indicators. Financial stability has been maintained and inflation, though elevated, has moderated from its peak. We will continue to monitor these developments closely

At ICICI Bank, we aim to grow the core operating profit in a risk-calibrated manner through a 360-degree customer-centric approach and by focusing on ecosystems and micro-markets. We continue to operate within our strategic framework and strengthen our franchise, enhance our delivery and servicing capabilities and expand our technology and digital offerings.

Coming to the quarterly performance against this framework:

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

The core operating profit increased by 31.6% year-on-year to 132.35 billion Rupees in this quarter. The profit after tax grew by 34.2% year-on-year to 83.12 billion Rupees in this quarter.

Second- Further enhancing our strong deposit franchise

Total period-end deposits grew by 10.3% year-on-year and 2.9% sequentially at December 31, 2022. Period-end term deposits grew by 14.2% year-on-year and 5.3% sequentially at December 31, 2022. During the quarter, the average CASA grew by 10.4% year-on-year and 2% sequentially. The liquidity coverage ratio for the quarter was about 123%.

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

The retail loan portfolio grew by 23.4% year-on-year and 4.5% sequentially at December 31, 2022. Including non-fund based outstanding, the retail portfolio was 44.9% of the total portfolio. The business-banking portfolio grew by 37.9% year-on-year and 5.2% sequentially. The SME portfolio grew by 25% year-on-year and 8.3% 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 18.2% year-on-year and 4.7% sequentially at December 31, 2022 driven by growth across well-rated financial and non-financial corporates. The rural portfolio grew by 12.5% year-on-year and 3.8% sequentially. The domestic loan portfolio grew by 21.4% year-on-year and 4.2% sequentially. The overall loan portfolio grew by 19.7% year-on-year and 3.8% sequentially at December 31, 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 28 of the investor presentation.

Fifth - Protecting the balance sheet from potential risks

The net NPA ratio declined to 0.55% at December 31, 2022 from 0.61% at September 30, 2022 and 0.85% at December 31, 2021. During the quarter, there were net additions of 11.19 billion Rupees to gross NPAs, excluding write-offs and sale. The provisioning coverage ratio on NPAs was 82% at December 31, 2022. The total provisions during the quarter were 22.57 billion Rupees or 17.1% of core operating profit and 0.93% of average advances. This includes contingency provision of 15 billion Rupees made on a prudent basis. The Bank holds contingency provisions of 115 billion Rupees or about 1.2% of total loans as of December 31, 2022.

As we have mentioned during the previous earnings calls, we aim to be proactive in provisioning with a key objective of strengthening our balance sheet. During the quarter, we have changed our provisioning norms on non-performing assets to make them more conservative for corporate, SME and business banking. This change resulted in higher provisions amounting to about 11.96 billion Rupees in Q3-2023.

Sixth- Maintaining a strong capital base

The capital position of the Bank continued to be strong with a CET-1 ratio of 17.09%, Tier 1 ratio of 17.58% and total capital adequacy ratio of 18.33% at December 31, 2022, including profits for 9 months 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 the 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 19.1% year-on-year and 4% sequentially. Auto loans grew by 22% year-on-year and 5.9% sequentially. The commercial vehicles and equipment portfolio grew by 3.4% year-on-year and 1.1% sequentially. Growth in the personal loan and credit card portfolio was 44.8% year-on-year and 7.2% sequentially. This portfolio was 1,154.78 billion Rupees or 11.9% of the overall loan book at December 31, 2022.

The overseas loan portfolio, in US dollar terms, declined by 22.1% year-on-year and 8.7% sequentially at December 31, 2022. The decline in the overseas book primarily reflects maturities of the short-term India-linked trade book. The overseas loan portfolio was about 3.6% of the overall loan book at December 31, 2022. The non-India linked corporate portfolio declined by 42.8% or about 285 million US dollars on a year-on-year basis. Of the overseas corporate portfolio, about 86% comprises Indian corporates, 8% is overseas corporates with Indian linkage, 3% comprises companies owned by NRIs or PIOs and balance 3% 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. We also had bond maturities arising out of older capital instruments during the quarter.

B. Credit quality

There were net additions of 11.19 billion Rupees to gross NPAs in the current quarter compared to 6.05 billion Rupees in the previous quarter. The net additions to gross NPAs were 9.75 billion Rupees in the retail, rural and business banking portfolios and 1.44 billion Rupees in the corporate and SME portfolio.

The gross NPA additions were 57.23 billion Rupees in the current quarter compared to 43.66 billion Rupees in the previous quarter. The gross NPA additions from the retail, rural and business banking portfolio were 41.59 billion Rupees and from the corporate and SME portfolio were 15.64 billion Rupees. There were gross NPA additions of about 6.72 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. Corporate and SME gross NPA additions includes 8.05 billion Rupees on account of borrowers that were under resolution at September 30, 2022. The Bank held about 35% provisions against these borrowers.

Recoveries and upgrades from gross NPAs, excluding write-offs and sale, were 46.04 billion Rupees in the current quarter compared to 37.61 billion Rupees in the previous quarter. There were recoveries and upgrades of 31.84 billion Rupees from the retail, rural and business banking portfolio and 14.20 billion Rupees from the corporate and SME portfolio. The gross NPAs written-off during the quarter were 11.62 billion Rupees. There was no sale of NPAs in the current quarter compared to 0.94 billion Rupees of NPAs sold on a cash basis in the previous quarter.

Net NPAs declined by 23.1% year-on-year and 7.3% sequentially to 56.51 billion Rupees at December 31, 2022.

The non-fund based outstanding to borrowers classified as non-performing was 38.69 billion Rupees as of December 31, 2022 compared to 35.16 billion Rupees as of September 30, 2022. The Bank holds provisions amounting to 19.93 billion Rupees as of December 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 49.87 billion Rupees or about 0.5% of the total loan portfolio at December 31, 2022 from 67.13 billion Rupees as of September 30, 2022. Of the total fund based outstanding under resolution at December 31, 2022, 41.90 billion Rupees was from the retail, rural and business banking portfolio and 7.97 billion Rupees was from the corporate and SME portfolio. The Bank holds provisions of 15.29 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 34.6% year-on-year to 164.65 billion Rupees. The net interest margin was 4.65% in this quarter compared to 4.31% in the previous quarter and 3.96% in Q3 of last year. The net interest margin was 4.33% in 9 months of 2023. There was no impact of interest on income tax refund on net interest margin in the current quarter. The domestic NIM was at 4.79% this quarter compared to 4.45% in the previous quarter and 4.06% in Q3 last year. The cost of deposits was 3.65% in this quarter compared to 3.55% in the previous quarter. Of the total domestic loans, interest rates on 45% are linked to the repo rate, 4% 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. We expect to see the impact of repricing of deposits in future quarters.

Non-interest income, excluding treasury income, grew by 1.8% year-on-year to 49.87 billion Rupees in Q3 of 2023

- Fee income increased by 3.7% year-on-year to 44.48 billion Rupees in this quarter. Fees from retail, rural, business banking and SME customers grew by 7.3% year-on-year and constituted about 78% of the total fees in this quarter

- Dividend income from subsidiaries and associates was 5.16 billion Rupees in this quarter compared to 6.03 billion Rupees in Q3 of last year. The dividend income in Q3 of last year included interim dividend from ICICI Securities Primary Dealership.

On Costs: The Bank's operating expenses increased by 16.1% year-on-year in this quarter. Employee expenses increased by 17.6% year-on-year. The Bank had about 117,200 employees at December 31, 2022. The employee count has increased by about 15,300 in the last 12 months. Non-employee expenses increased by 15.4% year-on-year in this quarter primarily due to technology and retail business related expenses. Our branch count has increased by about 420 in the last twelve months and we had 5,718 branches as of December 31, 2022. The technology expenses were about 9.3% of our operating expenses in 9 months of this year compared to about 8.6% in FY2022.

The core operating profit increased by 31.6% year-on-year to 132.35 billion Rupees in this quarter. Excluding dividend income from subsidiaries and associates, the core operating profit grew by 34.5% year-on-year.

There was a treasury gain of 0.36 billion Rupees in Q3 compared to a loss of 0.85 billion Rupees in Q2 and a gain of 0.88 billion Rupees in Q3 of the previous year.

The total provisions during the quarter, including impact of change in provisioning norms, were 22.57 billion Rupees, or 17.06% of core operating profit and 0.93% of average advances. These include contingency provisions of 15 billion Rupees made on a prudent basis.

The provisioning coverage on NPAs was 82% as of December 31, 2022. In addition, we hold 15.29 billion Rupees of provisions on borrowers under resolution. Further, the Bank holds contingency provision of 115 billion Rupees as of December 31, 2022. At December 31, 2022, the total provisions, other than specific provisions on fund-based outstanding to borrowers classified as non-performing, were 213.40 billion Rupees or 2.2% of loans.

The profit before tax grew by 35.3% year-on-year to 110.14 billion Rupees in this quarter. The tax expense was 27.02 billion Rupees in this quarter compared to 19.47 billion Rupees in the corresponding quarter last year. The profit after tax grew by 34.2% year-on-year to 83.12 billion Rupees in this quarter.

The consolidated profit after tax grew by 34.5% year-on-year to 87.92 billion Rupees in this quarter.

D. Growth in digital offerings

Leveraging digital and technology across businesses is a key element of our strategy for growing the risk-calibrated core operating profit. We continue to see increasing adoption and usage of our digital platforms by our customers.

There have been about 8.6 million activations of iMobile Pay by non-ICICI Bank account holders as of end-December. The value of transactions by non-ICICI Bank account holders in Q3 of this year was 2.3 times the value of transactions in Q3 of last year.

We have seen about 215,000 registrations from non-ICICI Bank account holders on InstaBIZ till December 31, 2022. The value of financial transactions on InstaBIZ grew by about 29.2% 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 71.2% of trade transactions were done digitally in Q3 of this year. The value of transactions done through these platforms increased by 59.3% year-on-year in Q3 of this year.

E. Portfolio information

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

The loan and non-fund based outstanding to performing corporate and SME borrowers rated BB and below was 55.81 billion Rupees at December 31, 2022 compared to 76.38 billion Rupees at September 30, 2022 and 118.42 billion Rupees as of December 31, 2021. The sequential decline was primarily due to slippage of borrowers that were under resolution into NPA and a few repayments during the quarter. The amount of 55.81 billion Rupees at December 31, 2022 includes 8.79 billion Rupees of outstanding to borrowers under resolution.

The maximum single borrower outstanding in the BB and below portfolio was less than 5 billion Rupees at December 31, 2022. At December 31, 2022, we held provisions of 4.48 billion Rupees on the BB and below portfolio compared to 8.12 billion Rupees at September 30, 2022. This includes provisions held against borrowers under resolution included in this portfolio.

The total outstanding to NBFCs and HFCs was 765.4 billion Rupees at December 31, 2022 compared to 735.73 billion Rupees at September 30, 2022. The total outstanding loans to NBFCs and HFCs were about 7% of our advances at December 31. The sequential increase in the outstanding to NBFCs and HFCs was mainly due to disbursements to entities having longer vintage and entities owned by well-established corporate groups.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital was 360.11 billion Rupees at December 31, 2022 compared to 319.63 billion Rupees at September 30, 2022. The builder portfolio is about 3.4% 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. 5.6% of our builder portfolio at December 31, 2022 was either rated BB and below internally or was classified as non-performing, compared to 6.8% at September 30, 2022.

F. Subsidiaries and key associates

The details of the financial performance of subsidiaries and key associates are covered in slides 49 to 51 and 70 to 75 in the investor presentation.

The value of new business margin of ICICI Life increased from 28% in FY2022 to 32% in 9 months of this year. The value of new business increased by 23.2% year-on-year to 17.1 billion Rupees in 9 months of this year. The annualized premium equivalent grew by 4.2% year-on-year to 53.41 billion Rupees in 9 months of this year. The profit after tax of ICICI Life was 5.76 billion Rupees in 9 months of this year compared to 5.69 billion Rupees in 9 months of last year and 2.21 billion Rupees in Q3 this year compared to 3.11 billion Rupees in Q3 last year.

The gross direct premium income of ICICI General increased by 16.9% year-on-year to 54.93 billion Rupees in Q3 of this year. The combined ratio was 104.4% in Q3 of this year compared to 104.5% in Q3 of last year. The profit after tax grew by 11% year-on-year to 3.53 billion Rupees in the current quarter.

The profit after tax of ICICI AMC was 4.2 billion Rupees in this quarter compared to 3.34 billion Rupees in Q3 of last year.

The profit after tax of ICICI Securities, as per Ind AS on a consolidated basis, was 2.81 billion Rupees in this quarter compared to 3.8 billion Rupees in Q3 of last year.

ICICI Bank Canada had a profit after tax of 11.5 million Canadian dollars in this quarter compared to 11.5 million Canadian dollars in Q3 last year and 12.0 million Canadian dollars in Q2 this year.

ICICI Bank UK had a profit after tax of 3.1 million US dollars this quarter compared to 3 million US dollars in Q3 of last year and 1.5 million US dollars in Q2 this year.

As per Ind AS, ICICI Home Finance had a profit after tax of 1.05 billion Rupees in the current quarter compared to 0.48 billion Rupees in Q3 of last year and 0.6 billion Rupees in Q2 this 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. First question is from the line of Mahrukh Adajania from Nuvama Wealth.

Mahrukh Adajania:

So I had a couple of questions. Firstly, that would you say that the sequential growth, because you lend to so many segments, the sequential growth has peaked at around, say, 4% Q-o-Q. Would that be a fair assumption? Because there will always be some moving parts. The sector growth is also on a very high base?

Anindya Banerjee:

No, I think it really can't be expressed in that way. There are, as you said, moving parts in different quarters. So for example, in this year, the festive season was kind of split between Q2 and Q3, it started a bit early. So some of the consumption-related growth would have happened partly in Q2 instead of happening fully in Q3.

The way we look at it, I think, in terms of, if you look at the granular portfolio, which is retail, business banking etc. the disbursement volumes are pretty much holding up and the loan growth will be really an outcome of that. So that's the way we would look at it.

Mahrukh Adajania:

And so if loan growth accelerates in the fourth quarter, would there be enough deposits? I know that you've done borrowings as well, but the deposit growth on an overall basis is 3%. So, on a sequential basis. I mean, would there be enough deposits to fund higher growth, how is the system shaping up?

Anindya Banerjee:
Yes. I think a lot of focus goes on this year-on-year deposit growth versus credit growth gap, which kind of misses the fact that the first 2 quarters of the calendar year were quarters when banks had and then ran down significant excess liquidity. Liquidity in the system itself has come down from INR 8 trillion to under INR 1 trillion. So it has to be seen in that context. I think the way we've analyzed it is if we look at the net increase in the balance sheet, say, in the third quarter, borrowings represent only about 10% or 11% of the funding accretion and the balance is really coming through deposits and equity or the profit generation. So we don't see deposits or funding as a constraint at all. During the quarter we have grown our total deposit base by over INR 300 billion and as we had mentioned last time, as the retail deposit rates have started moving up, we've seen a pretty healthy increase in the accretion to retail deposits and that momentum is continuing. So we are quite comfortable on the funding side. And for Q3, we had an LCR of 123% average for the quarter.

Mahrukh Adajania:

And my next question is on contingent provisions. So a few banks or at least two private banks have been telling us that they have some sort of a deadline from auditors or some sort of feedback from auditors that it has to be utilized within a certain period and therefore some of them are cutting down contingency provisions. So how does that work with you in terms of auditor’s timeline because you're just building on the buffer?

Anindya Banerjee:

I'm not aware of such a requirement. The way we look at the contingency provisions is that we certainly see the various developments that are taking place both globally and in India that could impact various parts of the portfolio and then we do an analysis of the portfolio where there is no NPL development currently but the risk markers could be a little higher than the average and then that's how we kind of build-up on the contingency provision and that's something that we would keep revisiting every quarter as we've said earlier.

Moderator:

Next question is from the line of Jignesh from InCred Capital.

Jignesh:

I just had two questions itself. One, as I see it in the presentation the rise in cost of deposits sequentially has been somewhere around 10 bps, if I see it correct. How do you see that panning forward? How that particular trend looks to be? Second, your cost to income has seen a significant improvement of roughly around 38% right now, 38.2%. What kind of trajectory are you seeing up on this segment also if you can highlight?

Anindya Banerjee:

On the first question I think what has happened in this cycle is that the wholesale deposit rates moved up first pretty sharply starting from May and we have not been large takers in the wholesale deposit market. The retail deposit rates started moving much more gradually and much later. So the larger rise in retail deposit rates has come only actually from September onwards. So if you look at for example, the peak retail term deposit rate that we are offering today is about 115 basis points compared to what it was a quarter ago. So that is why the repricing of retail deposits is happening with a lag, these are more granular in any case so they do get repriced over a period of time but as I had mentioned in the opening remarks, we would expect to see the cost of deposits go up at a sharper pace going forward.

Jignesh:

And on the cost to income?

Anindya Banerjee:

On the second part, I think we don't really manage that ratio. We are looking at the overall PPOP and PPOP growth and we continue to invest in technology, branches and people. So as it happened this quarter the opex growth was a little lower on a year-on-year basis than the trend that we've seen over the last couple of quarters and so cost to income has come down to 38%. But it's going to be in that range I would say, around 40%. I don't think we are looking at any major moves there.

Jignesh:

One quick question on contingency provision, which is INR 115 billion right now as on December. Is there any target that this you want to introduce as a balance or it can vary every quarter? I mean any specific number in your mind? Or how does it work?

Anindya Banerjee:

No, we don't have any specific number in our mind. It's something that we keep assessing on a quarterly basis.

Moderator:

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

Manish Shukla:

First question is on loan-to-deposit ratio. If I were to adjust the historically high level of international loans probably on domestic book, you will be close to peak LDR that you have been. So going back to the earlier question, while I will appreciate the borrowing part, till what level are you seeing the LDR and beyond which deposit growth could start becoming a concern for loan growth?

Anindya Banerjee:

Yes, you are right. If you leave aside the overseas balance sheet, the loan-to-deposit ratio is at 85% and which is at the higher end of the historical range. But as I explained earlier, we don’t see the deposit growth really as a constraint. I think if you look at the accretion to deposits on a quarter-on-quarter basis, it has been going up quite smartly as we have moved the rates in line with the system broadly. We were slower in the initial part of the year because we had significant excess liquidity to start with.

But while there is a natural level at which the loan-to-deposit ratio will settle again, we don't over-worry about it because as we've mentioned in the past a three-month wholesale deposit makes that ratio lower, whereas a two-year refinance borrowing makes it higher. So we would look at the overall quality of funding. But all forms of wholesale funding are essentially the marginal source of funding. The core funding remains the retail deposits and we are seeing pretty healthy momentum there.

Manish Shukla:

Moving on to loan growth, if you look at it the personal and credit card book today is more than 21% and growing much faster than the overall loans. Is it fair to assume as long as the credit costs remain low you would still be okay if the share continues to rise?

Anindya Banerjee:

Yes we are quite comfortable with this portfolio and we have seen the borrower behavior through the COVID period as well and we have no concerns as such on this portfolio. If at all on the personal loan side, I think that concern is a little bit on the pricing where the market has become quite competitive. But from a credit perspective, we are very comfortable on both portfolios.

Moderator:

The next question is from the line of Adarsh from CLSA India.

Adarsh:

I just wanted to check on the fee growth. Is this 3% fee growth a fairly widespread representation of growth or because of third-party slower insurance, different elements would have a different growth trajectory? How does one see from a medium-term perspective?

Anindya Banerjee:

There are actually quite a few factors here, Adarsh. One, is that we don't particularly focus on it as a line item because we are focused on the overall PPOP, risk-calibrated PPOP growth as our guiding metric. If you look at the fee number for this quarter, again, there is some impact of the festival seasonality. There is, as you rightly pointed out a de-growth year-on-year in the third-party distribution led fees, which one would have to adjust for. In addition to that, I think if you look at a couple of other areas for example, the loan processing fee where there is, A, a competitive element and B, we also are more focused on making sure that we have the appropriate loan yield rather than maximizing upfront fees.

In certain products from our overall perspective of customer fairness, we have also rationalized or reduced substantially the exit penalties like the prepayment premiums and foreclosure charges on certain categories of loans, for example a personal loan or an auto loan which is at least somewhat seasoned or business banking where the borrower has been with us for a couple of years and for whatever reason wishes to exit, we would charge lower or no penalty is the way we would look at it because it is the borrower relationship which is important.

In all of these if we adjust the fee growth would be a few percentage points higher than what is the reported number. Having said that, of course, there are areas where we can do better for example, FX or transaction banking, these are some of the areas where we believe we have excellent platforms and we need to leverage those to grow our share and our revenue but that's the overall kind of range which we would get it. So it should hopefully improve from the current level over a period of time. But there are many things we are doing within that to make sure that rather than getting fixated on this number, we really manage it in a way that contributes to the sustainable growth of the franchise.

Adarsh:

My second last question is for FY2024 and FY2025, if you think about margins peaking about at some point, next year would be a relatively tough year from a core operating profits scenario. One can ignore it and say that let's look at two, three-year CAGR. The second is, do you have levers on the opex side, because the last two to three years opex post-COVID has been, there's been a lot of investment. So just wanted to understand if that lever can be of use when margins kind of normalize?

Anindya Banerjee:

This year, we are seeing the benefit of repo rate hike, while the interest costs are moving up only with some lag and that is leading to a higher operating profit growth than would have featured in anyone's projections or estimates and some of that will get adjusted next year. But we will see as we go along, it depends on how we look at incremental lending, funding and the levers that we have to try and optimize the balance sheet and of course, all other elements of the PPOP so we'll take that as it comes.

Adarsh:

Is opex the investments done in the last few years at a point where that could be a lever or continued investments would continue. So opex unlikely to be an ROE lever?

Anindya Banerjee:

I think it's a question of choice. It is a very controllable lever, a large part of it. But as we have said in the past, if for a couple of quarters opex growth is running ahead of revenue growth because we are continuing to invest in a sustainable way then we will not worry about it too much.

Moderator:

Next question is from the line of Saurabh from JPMorgan.

Saurabh:

Sir, two questions. One is through this quarter end LCR. And the second is, can you explain this provisioning tightening you have done in your corporate and SME business?

Anindya Banerjee:

We have not reported the quarter end LCR, the reporting is on a quarterly average basis, but I would say it would be broadly at similar levels. The trajectory that liquidity follows is typically pretty strong at month end, then during the month, deposit withdrawals happen, say on the savings side, in particular quarters there are advance tax outflows and so on when the system goes tight on liquidity and then it builds up again. That's why we look at the average but the quarter end would not be materially different from the reported number of 123% average for the quarter.

On the provisioning policy the RBI norms prescribe a minimum provisioning policy and on the retail and rural loans, we already follow a more conservative provisioning norm where we provide for NPAs on a more accelerated basis. For the corporate, SME and business banking portfolio we were applying the RBI norm and we thought that it would be prudent to do some acceleration there as well, both in terms of the period over which we reach 100% coverage and also in the earlier buckets.

Saurabh:

Sir, on your card spend market share, how you're thinking about it?

Anindya Banerjee:

We are focused on growing the profitable high-quality market share. I think we have seen a decline in our commercial card market share over the last couple of quarters in terms of spend but we are quite happy with the way our retail card spends are shaping up. Not targeting a particular level of market share overall but just looking at higher quality spend growth and that is broadly moving in line with what we would wanted to.

Moderator:

Next question is from the line of Abhishek from HSBC.

Abhishek:

The first question is actually if you could share some commentary on the loan growth outlook for FY2024. Do you think it will moderate from there or you can still look to deliver similar kind of growth? Also, what would be the role of capex next year? Do you think there's a real possibility of capex improving or it may not pick up from here?

Anindya Banerjee:

We will have to wait and see, because clearly on the corporate side the loan growth this year partly has come from because of the sharp pricing of liquidity and some shift from bond markets and so on. We have seen higher borrowings or higher appetite for borrowings from some of the segments like NBFC which explain a reasonable portion of the corporate loan growth. As I said, our feeling is that the retail loan volumes are quite steady. So that part of the growth should sustain. On the corporate side, we will have to wait and see. We will just look at our own analysis of risk reward and profitability and how to optimize our PPOP, that will be our guiding factor without targeting a particular level of loan growth. But on the retail SME business banking side, I don't see a challenge in the loan volumes.

On the capex, clearly a fair amount of capex is happening, which has been undertaken and funded by the government and the public sector. There is investment happening from the private sector in real estate and there is some amount of investment happening from the private sector in infrastructure and industrials as well. But so far it has not been of a level which would move the needle on domestic loan growth. We'll have to see how it shapes up. While it's good from a credit perspective the issue from a loan demand perspective is that most corporates are extremely well funded and liquid and are therefore, able to undertake some amount of investment without having recourse to banks. So what is coming to banks is more granular in nature.

Abhishek:

And assuming that this loan growth moderates a little bit next year. And you also, started to coincide with NIM normalizing as well. What can you do on the rest of the lines, like fee or cost to protect PPOP growth?

Anindya Banerjee:

We will see it as it comes. We're not seeing any sharp deceleration in loan growth. Our loan growth has been quite sustainably in the high teens. Of course, when the system loan growth itself, it reached mid to higher teens, it went about 20%. So it may come off a little, but that's okay. And we would look at ways to achieve a stable level of profitability. Current year's operating profit growth is, of course, much higher than what a normal level would be, because of a sharp rise in interest rates. But I think there are many levers available in the balance sheet and the P&L, which can be optimized.

Abhishek:

A very quick question on fees. I understand that you've changed a lot of rates on fees but from the current point onwards, should it track loan growth and loan mix? Or do you still see more fees getting rationalized and therefore, you could still continue to see some pressure on fee to assets or fee to loans?

Anindya Banerjee:

No, I don't think that it will reach the level of loan growth in a hurry.

Abhishek:

Okay. So basically, more rationalization could come?

Anindya Banerjee:

No, it's not a question of rationalization, there are many parts to the fee income. There is a part linked to cards and payments, there is a loan processing fee, there is FX, then there is the liability-related fees and third-party distribution. These would be the broad categories. Each of them has a different dynamic and a distinct influencing factors at various points in time and we have different strategies for each line item. So it's difficult to just link it to loan growth in that sense.

Moderator:

The last question is from the line of M.B. Mahesh from Kotak Securities.

M. B. Mahesh:

Two questions. One, if you just kind of call out, are you still seeing recoveries coming in from previously written-off accounts? And if that is moving still favourably in your provisioning lines?

Anindya Banerjee:

Yes, we have seen some recoveries coming in from the older NPLs that were then provided or may be partly written off and that has contributed to the lower provisions or actually, if you look at for this quarter, excluding the impact of the change in norms and the contingency provision, we have a net write-back of about INR 4.4 billion. We have seen one or two large corporate recoveries.

M.B. Mahesh:

If you keep interest rates where they are today, when does cost of funds start hitting as you go forward? And if yes, how should we model over the next few quarters on this number?

Anindya Banerjee:

It is difficult for me to say how you should model it. But my guess is that it should start showing up to some extent in Q4 and more so in Q1.

M.B. Mahesh:

And how much of headroom you have available on the yield side, if interest rates are where they are today?

Anindya Banerjee:

We would have for Q4, the December hike will play out over Q4 for us.

M.B. Mahesh:

And you're saying that the peak cost of funds starts hitting you from Q1 of next year?

Anindya Banerjee:

Yes, it will happen over a period of time. And of course, the balance sheet doesn't remain static in that sense. We also have some ability to manage assets and liabilities, investment portfolio and so on.

Moderator:

Thank you very much. I now hand the conference over to the management for closing comments.

Anindya Banerjee:

Thank you all for sparing time on a Saturday evening and my colleagues and I are available for any further questions. Thank you.

Moderator:

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