Analyst call on October 23, 2021: opening remarks

Certain statements in this release relating to a future period of time (including inter alia concerning our future business plans or growth prospects) are forward-looking statements intended to qualify for the 'safe harbor' under applicable securities laws including the US Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. These risks and uncertainties include, but are not limited to statutory and regulatory changes, international economic and business conditions, political or economic instability in the jurisdictions where we have operations, increase in non-performing loans, unanticipated changes in interest rates, foreign exchange rates, equity prices or other rates or prices, our growth and expansion in business, the adequacy of our allowance for credit losses, the actual growth in demand for banking products and services, investment income, cash flow projections, our exposure to market risks, changes in India's sovereign rating, 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.

Mr. Bakhshi's opening remarks

Good evening to all of you and welcome to the ICICI Bank Earnings Call to discuss the results for Q2 of 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. India has witnessed a steady decline in Covid-19 cases and a massive pickup in the vaccination programme since June. India has now crossed the milestone of administering 100 crore vaccination doses. We would like to extend our gratitude to the efforts and dedication of all health workers and essential service providers for their untiring efforts in the recovery from the pandemic. I would also like to take a moment to thank our employees for their service to customers in these challenging times. We are happy to share that now almost all our employees have received at least one dose of the vaccine.

Economic activity has continued to improve since June. The Ultra Frequency Index, comprising several high frequency indicators tracked by the Bank's Economic Research Group, has steadily increased from 99.6 in the first week of July 2021 to 105.5 in September 2021 and reached 110.3 in the week ending October 17. The underlying economic activity continues to show an upward momentum owing to higher peak power demand, e-way bill generation and rail freight revenues, improved vehicle registrations on the back of the festive season, and rising labour force participation rate in urban areas. Overall industrial activity is above pre

Covid-19 levels. The progress in the vaccination programme is supporting an improvement in mobility indicators. We expect the festive season to give further impetus to economic activity.

During the challenging period of the last 18 months, we at ICICI Bank have continued to strengthen our franchise and delivery and servicing capabilities, with a range of digital initiatives. Our loan portfolio has performed well in the face of the challenges posed by the two waves of the pandemic, behaving either in line with or better than our expectations. We aim to create holistic value propositions for our customers through our 360-degree customer-centric approach and focus on opportunities across client and segment ecosystems. Cross-functional teams have been created to tap into key customer and market segments, enabling 360-degree coverage of customers and increase in wallet share. We will continue to steadily grow our business and franchise within our strategic framework.

Coming to the quarterly performance against this framework:

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

   The core operating profit increased by 23.3% year-on-year and 10.6% sequentially to 95.18 billion Rupees in this quarter. The profit after tax grew by 29.6% year-on-year and 19.4% sequentially to 55.11 billion Rupees in this quarter.

2. Further enhancing our strong deposit franchise

Growth in deposits continued to be strong at 17.3% year-on-year at September 30, 2021. During the quarter, average current account deposits increased by 35.7% year-on-year and average savings account deposits by 24.9% year-on-year. The liquidity coverage ratio for the quarter was 133%, reflecting continued surplus liquidity. Our cost of deposits continues to be among the lowest in the system.

3. Growing our loan portfolio in a granular manner with a focus on risk and reward

The retail loan portfolio grew by 20.0% year-on-year and 5.0% sequentially at September 30, 2021. With the increase in economic activity, disbursements across all retail products increased sequentially in this quarter. Mortgage disbursements were close to the level seen in Q4 of 2021, reflecting the increase in demand coupled with our seamless customer onboarding experience through pre-approved offers and digitisation. Disbursements of personal loans and auto loans were also close to Q4 of 2021 levels. Credit cards in force increased by 6.0% sequentially and the value of credit card spends grew by 47.0% sequentially. Spends across most categories other than travel crossed March 2021 levels in September. We expect the momentum in spends to continue in the festive season.

The business banking and SME portfolios grew by 43.1% year-on-year and 42.0% year-on-year respectively. Sequentially, the business banking portfolio grew by 12.3% and the SME portfolio grew by 11.3%. We are observing a steady uptick in the number of credit enquiries and with our digital offerings and platforms like InstaBIZ, Merchant Stack and Trade Online, we believe that there is significant potential for growth across these portfolios.

Excluding the builder portfolio, the growth in the domestic corporate portfolio was about 14% year-on-year at September 30, 2021.

Overall, the domestic loan portfolio grew by 19.0% year-on-year and 4.0% sequentially.

4. Leveraging digital across our business

Our digital platforms are continuously evolving to enable best-in-class end-to-end seamless digital journeys, offer personalized solutions and value added features to customers and enable more effective data-driven cross-sell and up-sell. These platforms also enable us to acquire new customers. We have shared some details in slides 18 to 30 of the investor presentation.

We have seen significant increase in adoption of our mobile banking app, iMobile Pay. There were about 1.5 million activations from non-ICICI Bank account holders in the current quarter, taking the total activations to 4 million as of end-September. The transactions by non-ICICI Bank account holders in terms of value and volume respectively were three times and thirteen times higher in September 2021 compared to June 2021. We are seeing a rapid rise in payment transactions through repeat use of features such as 'Pay to Contact' and 'Scan to Pay'.

We continue to expand the suite of services offered through iMobile Pay to achieve high engagement levels with users. Recently, we launched a facility which enables our savings account holders to manage dues of credit cards of any bank through iMobile Pay. We also launched a contactless payment facility on iMobile Pay which enables users of android based smartphones to make credit and debit card payments on POS terminals in a safe and secure manner by tapping their phones.

The financial transactions on our digital platform for businesses, InstaBIZ, and our supply chain platforms have grown steadily in the past few quarters. The value of financial transactions on InstaBIZ grew by about 80% year-on-year in Q2 of 2022. We have onboarded about 200 corporate customers on our supply chain platforms. About 70% of the dealers of these customers are active on our supply chain platforms. The value of transactions through these platforms increased 4.7 times year-on-year in Q2 of 2022.

The proportion of end-to-end digital sanctions and disbursements across various products has been increasing steadily. About 32% of our mortgage sanctions and 40% of our personal loan disbursements, by volume, were end-to-end digital in H1 of 2022. About 95% of the overdraft facilities set up for business banking current account customers were end-to-end digital in H1 of 2022. 40% of asset and liability accounts opened during the quarter were through digital channels.

An important element of our strategy to grow our risk-calibrated core operating profit is to serve the complete financial requirements of customers and their ecosystems. The ICICI STACK for corporates is being continuously enhanced. We have created 19 industry specific STACKs which provide bespoke and purpose-based digital solutions to corporate clients and their ecosystems. The volume of transactions through these solutions grew 2.4 times year-on-year in Q2 of 2022. These solutions along with the depth of our coverage have supported the strong growth in our average current account deposits. Further, the Bank is well positioned to capture the opportunities arising from the growing FDI and capital market flows.

We are focusing holistically on the merchant ecosystem, both directly and through partnerships. Our Super Merchant current account which offers various benefits such as digital account opening and instant overdraft facilities based on point-of-sale transactions has been receiving a good response from customers. We have partnered with Amazon India to offer instant overdraft to sellers, including non-ICICI Bank customers, on its portal. We have also launched an instant overdraft facility for MSMEs registered on the GEM Sahay application through API integration with the OCEN network.

5. Protecting the balance sheet from potential risks

Net NPAs declined by 12.3% sequentially to 81.61 billion Rupees at September 30, 2021 from 93.06 billion Rupees at June 30, 2021. The net NPA ratio declined to 0.99% at September 30, 2021 from 1.16% at June 30, 2021. The net additions to gross NPAs during the quarter were 0.96 billion Rupees. The total provisions during the quarter were 27.14 billion Rupees or 28.5% of core operating profit and 1.44% of average advances. The provision coverage ratio on NPAs was 80.1% at September 30, 2021. The total fund based outstanding to all standard borrowers under resolution as per various guidelines was 96.84 billion Rupees or about 1.3% of the total loan portfolio at September 30, 2021. The Bank holds provisions of 19.50 billion Rupees against these borrowers, which is higher than the requirement as per RBI guidelines. In addition, the Bank continues to hold Covid-19 provisions of 64.25 billion Rupees or about 0.8% of total loans as of September 30, 2021.

6. Maintaining a strong capital base

The capital position of the Bank continued to be strong with a CET-1 ratio of 17.33% at September 30, 2021, including profits for H1 of 2022. Further, the market value of the Bank's investments in listed entities of the Group is about 1 trillion Rupees.

Looking ahead, we see many opportunities to grow our core operating profit in a risk calibrated manner. Using ICICI STACK, we will create digital journeys and offer personalized and customized solutions to the customers to suit their life-stage and business needs. We will continue to build flexibility and agility in the Bank to tap into opportunities across ecosystems. We believe that our ongoing investments in technology, people and distribution network, our prudent risk management practices and our strong balance sheet will enable us to drive growth in our core operating profit in a risk-calibrated manner. We continue to be guided by our philosophy of "Fair to Customer, Fair to Bank", emphasising the need to deliver fair value to customers while creating value for shareholders. We will continue to focus 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, capital adequacy, portfolio trends and performance of subsidiaries.

A. Balance sheet growth

The overall loan portfolio grew by 17.2% year-on-year and 3.6% sequentially at September 30, 2021. The domestic loan portfolio grew by 19.0% year-on-year and 4.0% sequentially at September 30, 2021. The retail portfolio grew by 20.0% year-on-year and 5.0% sequentially. Within the retail portfolio, the mortgage loan portfolio grew by 25.0% year-on-year, and rural loans and auto loans by 16.1% each. The commercial vehicles and equipment portfolio declined by 5.0% year-on-year. Growth in the personal loan and credit card portfolio was 20.7% year-on-year. This portfolio was 724.16 billion Rupees or 9.5% of the overall loan book at September 30, 2021.

The business banking portfolio grew by 43.1% year-on-year and 12.3% sequentially at September 30, 2021. The SME business, comprising borrowers with a turnover of less than 2.5 billion Rupees, grew by 42.0% year-on-year and increased by 11.3% sequentially.

The growth of the domestic corporate portfolio was 11.5% year-on-year. Excluding the builder portfolio, the growth was about 14% year-on-year, driven by disbursements to higher rated corporates and PSUs across various sectors to meet their working capital and capital expenditure requirements. We are focusing on providing the full suite of banking products to corporate clients and their ecosystems.

The overseas loan portfolio declined by 8.6% year-on-year and 3.5% sequentially at September 30, 2021. The overseas loan portfolio was 5.1% of the overall loan book at September 30, 2021. The non-India linked corporate portfolio reduced by 56.9% or about 1.1 billion US Dollars year-on-year and 15.9% or about 154 million US Dollars sequentially, at September 30, 2021. We have provided the breakup of our overseas corporate portfolio on slide 16 of the investor presentation.

Coming to the funding side: average savings account deposits increased by 24.9% year-on-year and 4.3% sequentially. Average current account deposits increased by 35.7% year-on-year 4.6% sequentially. Total term deposits grew by 12.5% year-on-year to 5.3 trillion Rupees at September 30, 2021.

B. Credit quality

Net NPAs declined by about 12.3% sequentially to 81.61 billion Rupees at September 30, 2021 from 93.06 billion Rupees at June 30, 2021. The net NPA ratio decreased to 0.99% at September 30, 2021 from 1.16% at June 30, 2021.

The net additions to gross NPA were 0.96 billion Rupees in the current quarter compared to 36.04 billion Rupees in the previous quarter. There were net deletions of 5.54 billion Rupees from gross NPAs in the retail and business banking portfolios and net additions of 6.50 billion Rupees to gross NPAs in the corporate and SME portfolios.

The gross NPA additions declined to 55.78 billion Rupees in the current quarter from 72.31 billion Rupees in the previous quarter. The gross NPA additions from the retail and business banking portfolio were 46.24 billion Rupees and from the corporate and SME portfolio were 9.54 billion Rupees. The gross NPA additions from the corporate and SME portfolio were almost entirely from borrowers rated BB and below as of June 30, 2021, and devolvement of non-fund based outstanding to NPAs.

Recoveries and upgrades from NPAs, excluding write-offs and sale, increased to 54.82 billion Rupees from 36.27 billion rupees in the previous quarter. There were recoveries and upgrades of 51.78 billion Rupees from the retail and business banking portfolio and 3.04 billion Rupees from the corporate and SME portfolio. The recoveries and upgrades in the current quarter include upgrades of 11.67 billion Rupees where resolution was implemented as per RBI's framework. The gross NPAs written-off during the quarter were 17.17 billion Rupees. The Bank sold gross NPAs amounting to 0.90 billion Rupees in Q2 of 2022 on a cash basis.

The non-fund based outstanding to borrowers classified as non-performing was 37.14 billion Rupees as of September 30, 2021 compared to 41.01 billion Rupees at June 30, 2021. The Bank holds provisions amounting to 17.71 billion Rupees as of September 30, 2021 on this non-fund based outstanding.

The outstanding to all borrowers where resolution was implemented as per Covid-19 framework 2.0 was 41.58 billion Rupees. The outstanding to borrowers where resolution was implemented as per Covid-19 framework 1.0 and later modified as per Covid-19 framework 2.0 was 1.18 billion Rupees. The total fund based outstanding to all standard borrowers, under resolution as per various guidelines was 96.84 billion Rupees or about 1.3% of the total loan portfolio at September 30, 2021 compared to 48.64 billion Rupees at June 30, 2021. Of the total fund based outstanding under resolution at September 30, 2021, 69.92 billion Rupees was from the retail and business banking portfolio and 26.92 billion Rupees was from the corporate and SME portfolio. The Bank holds provisions of 19.50 billion Rupees against these borrowers, which is higher than the requirement as per RBI guidelines. Over 95% of the loans under resolution in the retail and business banking portfolio are secured loans.

Till the last quarter, we disclosed the rating-wise breakup of the total loan book wherein the retail loan portfolios were grouped under various categories at the product level. Based on feedback received, from this quarter we have disclosed the rating-wise details of the non-retail portfolio comprising domestic corporate, SME, business banking and overseas advances in order to provide a more transparent presentation of the rated portfolio. The details are given on slide 38 of the investor presentation.

The proportion of overdues across most products in the performing retail, SME and business banking portfolio as of September 30, 2021 has reduced compared to June 30, 2021 and has reached March 2021 levels. Less than 1% of the performing corporate portfolio is overdue as of September 30, 2021.

C. P&L Details

Net interest income increased by 24.8% year-on-year to 116.90 billion Rupees. Interest on income tax refund was 0.30 billion Rupees this quarter compared to 0.14 billion Rupees in the previous quarter and 0.26 billion Rupees in Q2 of last year. The net interest margin was at 4.00% in this quarter compared to 3.89% in the previous quarter and 3.57% in Q2 of last year. The domestic NIM was at 4.09% this quarter compared to 3.99% in Q1 and 3.72% in Q2 last year. International margins were at 0.26%. The cost of deposits was 3.53% in Q2 compared to 3.65% in Q1. The sequential increase in NIM in this quarter was primarily due to decline in cost of funds and lower interest reversals on NPAs.

Non-interest income, excluding treasury income, grew by 26.2% year-on-year to 44.00 billion Rupees in Q2 of 2022

- Fee income increased by 21.4% year-on-year to 38.11 billion Rupees in Q2. Fees from retail, business banking and SME customers grew by 24.6% year-on-year and constituted about 77.9% of the total fees in this quarter.

- Dividend income from subsidiaries and listed entities was 5.83 billion Rupees in this quarter compared to 3.34 billion Rupees in Q2 of last year. The dividend income this quarter includes final dividend of ICICI General and higher final dividend from ICICI Securities compared to Q2 of last year.

On Costs: The Bank's operating expenses increased by 28.0% year-on-year in Q2 reflecting the low base of Q2 last year. The employee expenses increased by 21.2% year-on-year. The Bank had slightly over 100,000 employees at September 30, 2021. The employee count has increased by about 8,000 in the last 12 months. Employee expenses in Q2 include an impact of about 1.25 billion Rupees due to fair valuation of ESOPs granted to all employees post April 1, 2021 for the current and previous quarter as required by RBI guidelines. Non-employee expenses increased by 32.3% year-on-year in this quarter primarily due to retail business and technology related expenses. We will continue to invest in technology, people, distribution and building our brand.

The core operating profit increased by 23.3% year-on-year and 10.6% sequentially to 95.18 billion Rupees in this quarter.

There was a treasury gain of 3.97 billion Rupees in Q2 compared to 2.90 billion Rupees in Q1 and 5.42 billion Rupees in Q2 of the previous year.

The total provisions during the quarter were 27.14 billion Rupees or 28.5% of core operating profit and 1.44% of average advances. There was no writeback of Covid-19 related provisions during the quarter. The provisioning coverage on NPAs continued to be robust at 80.1% as of September 30, 2021. In addition, we hold 19.50 billion Rupees of provisions on borrowers under resolution and Covid-19 related provisions of 64.25 billion Rupees. The Covid-19 provisions are about 0.8% of loans. At September 30, 2021, the total provisions, other than specific provisions on NPAs, were 149.51 billion Rupees or 2.0% of loans. Given the performance of the portfolio, we are confident that these provisions will completely cushion the balance sheet from the potential credit losses which may arise due to the pandemic.

The profit before tax grew by 36.7% year-on-year to 72.01 billion Rupees in this quarter compared to 52.66 billion Rupees in Q2 of last year. The tax expense was 16.90 billion Rupees in this quarter compared to 10.15 billion Rupees in the corresponding quarter last year. The profit after tax grew by 29.6% year-on-year to 55.11 billion Rupees in this quarter compared to 42.51 billion Rupees in Q2 of last year.

In accordance with the Scheme of Arrangement between ICICI General and Bharti AXA General Insurance, assets and liabilities of Bharti AXA's general insurance business vested with ICICI General on the appointed date of April 1, 2020. The Bank's consolidated financial statements for Q1 of 2022 have been restated to reflect the scheme and there was no material impact on the consolidated profit after tax. The consolidated profit after tax was 60.92 billion Rupees this quarter compared to 48.82 billion Rupees in Q2 of last year.

D. Capital

The CET1 ratio, including profits for H1 of 2022, was 17.33% at September 30, 2021 compared to 17.01% at June 30, 2021. The Tier 1 ratio was 18.53% and the total capital adequacy ratio was 19.52% at September 30, 2021.

E. Portfolio information

We have been growing our loan portfolio in a granular manner with a focus on risk and reward. Our retail portfolio has been built based on proprietary data and analytics in addition to bureau checks, utilising the existing customer database for sourcing in key retail asset products through cross sell and up-sell and pricing in relation to the risk. In the business banking and SME business, our focus is on parameterised and programme based lending, granularity, collateral and robust monitoring. Credit summations in the overdraft accounts of business banking and SME customers have continued to grow consistently in this quarter and reached March 2021 levels in September. We have given further information on our retail and business banking portfolio in slides 37 to 47 of our investor presentation.

The loan and non-fund based outstanding to performing corporate and SME borrowers rated BB and below was 127.14 billion Rupees at

September 30, 2021 compared to 139.75 billion Rupees at June 30, 2021 and 119.29 billion Rupees at September 30, 2020. The details are given on slide 39 and 40 of the investor presentation.

Similar to the last quarter, other than three accounts, one each in construction, power and telecom sectors, the maximum single borrower outstanding in the BB and below portfolio was less than 6 billion Rupees at September 30, 2021. At September 30, 2021, we held provisions of 9.60 billion Rupees on the BB and below portfolio compared to 9.76 billion Rupees at June 30, 2021.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was 228.14 billion Rupees at September 30, 2021 or 3% of our total loan portfolio. Our portfolio is granular in nature with the larger exposures being to well-established builders. About 13% of our builder portfolio at September 30, 2021 was either rated BB and below internally or was classified as non-performing.

F. Subsidiaries and key associates

The details of the financial performance of subsidiaries and key associates is covered in slides 51-52 and 71-76 in the investor presentation.

The new business premium of ICICI Life grew by 45.0% year-on-year to 64.61 billion Rupees in H1 of 2022. The VNB margin increased from 25.1%

in FY2021 to 27.3% in H1. The profit after tax of ICICI Life was 2.59 billion Rupees in H1 of 2022 compared to 5.91 billion Rupees in H1 of last year. ICICI Life had a net loss of 1.86 billion Rupees in Q1 of 2022 primarily on account of Covid-19 claims and provisions made for incurred but not reported claims. The profit after tax increased by 46.6% year-on-year to 4.45 billion Rupees in Q2 of 2022.

Gross Direct Premium Income of ICICI General was 86.13 billion Rupees in H1 this year compared to 64.91 billion Rupees in H1 last year. The combined ratio was 114.3% in H1 of this year compared to 99.8% in H1 last year. The profit after tax was 4.46 billion Rupees this quarter compared to 4.16 billion Rupees in Q2 last year. Prior period numbers are not comparable due to the reflection of the Scheme of Arrangement in the current period numbers.

The profit after tax of ICICI AMC was 3.83 billion Rupees in this quarter compared to 2.82 billion Rupees in Q2 of last year reflecting the growth in AUM.

The profit after tax of ICICI Securities, on a consolidated basis, increased by 26.3% year-on-year to 3.51 billion Rupees in this quarter from 2.78 billion Rupees in Q2 of last year.

ICICI Bank Canada had a profit after tax of 8.4 million Canadian dollars in this quarter compared to 5.1 million Canadian dollars in Q2 last year and 5.0 million Canadian dollars in the previous quarter. The sequential increase in profit after tax of ICICI Bank Canada is mainly due to lower loan loss provisions. The loan book of ICICI Bank Canada at September 30, 2021 declined by 8.8% year-on-year.

ICICI Bank UK had a profit after tax of 2.0 million US dollars this quarter compared to 4.9 million US dollars in Q2 of last year and 2.9 million US dollars in Q1 of 2022. The loan book of ICICI Bank UK at September 30, 2021 declined by 28.9% year-on-year and 8.8% sequentially. During the quarter ICICI Bank UK repatriated capital of 200 million US dollars to the parent bank.

As per Ind AS, ICICI Home Finance had a profit after tax of 0.46 billion Rupees in the current quarter compared to 0.02 billion Rupees in Q2 of last year and 0.17 billion Rupees in the previous quarter. The sequential increase in profit after tax is mainly due to lower provisions.

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