ICICI Bank Limited

Earnings conference call - Quarter Ended March 31, 2020 (Q4-2020)

May 9, 2020

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

Moderator: Ladies and gentlemen, good day. And welcome to the ICICI Bank Q4 FY20 Earning 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 "*" than "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Bakshi – Managing Director and CEO of ICICI Bank. Thank you and over to you, sir.

Sandeep Bakhshi: Good afternoon to all of you and welcome to the ICICI Bank Earnings Call to discuss the Q4-2020 results. Joining us today on this call are Vishakha, Anup, Sandeep Batra, Rakesh and Anindya.

Thank you everyone for joining us today. Team ICICI hopes that you and your family and your near and dear ones are safe and healthy. We would like to extend our gratitude to all the health care workers, sanitation workers, police and other essential service providers and everyone who has continued to work to keep our society functioning and meet our daily needs, for their immense contribution.

Banking was categorised as an essential service to enable customers to meet their requirements in the physical space, to the extent possible, as well as through digital channels. In these challenging times, our employees have shown strong resilience and the ability to adapt to changing circumstances. The health and well-being of our employees and customers and business continuity is of utmost importance to us. The Bank formed a quick response team to take steps to protect the health of the employees and provide essential services to the customers. About 97% of the branches were functional with reduced working hours during the lockdown. The branches were staffed based on the customer footfalls and employees were rostered. Excluding the employees working at the branches and some of the team members from Operations and IT, the majority of the employees were working from home during the lockdown period and continue to do so. There is an ongoing thorough risk assessment for augmenting IT security controls and addressing any gaps and potential threats in the current working arrangement. ATMs across the country remain operational with an average uptime of about 98%. We have also deployed mobile ATM vans for the benefit of the general public residing in and around the containment zones.

Even in this challenging time, we are seeing opportunities to grow and strengthen our franchise and we are using these opportunities to further accelerate the digital journey of the Bank and our customers. In March 2020, we launched a comprehensive digital banking platform called ICICI STACK which offers nearly 500 services to ensure uninterrupted banking experience to our retail, business banking, SME and corporate customers. Many of these services are first-in-the industry and are available instantly on the Bank's mobile banking platforms such as iMobile and InstaBIZ or the internet banking platform. These include digital account opening, instant loans, payment solutions, investments and health and term insurance. Small business customers can also use the APIs from the recently launched API Banking Portal to integrate various payment and product solutions. We are seeing increased utilisation of our digital channels and platforms by our customers and have ensured that our IT infrastructure is equipped-maintained to handle any surge in digital transactions. We continue to monitor the situation in the country and would take necessary steps to ensure the safety of our people and continuity of our business operations.

In our effort to support the nation in its fight against the Covid-19 outbreak, the ICICI Group has committed a sum of 1 billion Rupees, including 800 million Rupees to the PM Cares Fund. ICICI Bank and ICICI Foundation have worked actively to assist various agencies including hospitals, the police, paramilitary forces, municipalities and other government bodies in their tireless efforts to safeguard the citizens of the country.

While the first two months of Q4 of 2020 saw business as usual, the month of March was impacted by Covid-19. In Q4 of 2020, our core operating profit increased by 17.6% year-on-year to 71.48 billion Rupees. For FY2020, the core operating profit grew by 21.5% to 268.08 billion Rupees. The lower growth in core operating profit in the fourth quarter reflects the high level of interest on income tax refund of 4.14 billion Rupees in the corresponding quarter last year.

Our deposit flows continue to remain healthy. Term deposits grew by 28.6% year-on-year to 4.2 trillion Rupees at March 31, 2020 while average CASA deposits increased by 12.0% year-on-year in this quarter. The Bank has been carrying substantial excess liquidity and the liquidity coverage ratio on a daily average basis for the quarter was healthy at about 125% and on an outstanding basis at March 31 was even higher. Deposit flows have continued to be robust and liquidity has continued to increase post March 31. The deposit flows and costs are reflected in the progressive reductions in our MCLR.

The loan growth was impacted in March due to Covid-19. The domestic loan book grew by 12.9% year-on-year at March 31, 2020 driven by retail loans, which grew by 15.6% year-on-year. The overseas branches portfolio decreased by 14.4% year-on-year in Rupee terms and 21.7% year-on-year in US dollar terms as of March 31, 2020. The overall loan growth was 10.0% year-on-year.

Coming to asset quality, gross NPA additions were 53.06 billion Rupees this quarter. As you may be aware there have been certain developments with respect to a healthcare group based in West Asia and an oil trading company based in Singapore, where the borrowers appear to have been misrepresenting their financial position to the lenders. Our exposures to both these accounts have been classified as non-performing and substantially provided for in this quarter. Going forward, we do not expect any further impact on the P&L from these accounts. Here one would want to spend a couple of minutes on our overseas business. Since March 2016, the overseas branches loan portfolio has reduced by about 50% in absolute US dollar terms and its share in the total loan portfolio has decreased from its peak of 24% in 2014-15 to about 8% at March 31, 2020. We have redefined our international strategy from FY2019 onwards to focus on:

- Non-resident Indians for deposits and remittances businesses, with digital and process decongestion as a key enabler;
- Deepening relationships with well-rated Indian corporates in international markets, subject to our risk management framework;
- Deepening relationships with MNCs and funds for maximising the India-linked trade, fund flow, transaction banking and lending opportunities, with strict limits on exposures, including reduction in current exposure where required; and
- Progressively exiting exposures that are not linked to India, in a planned manner.

Our provision coverage against non-performing loans was 75.7% at March 31, 2020. We have made Covid-19 related provisions of 27.25 billion Rupees against standard assets to further strengthen the balance sheet, which Rakesh will explain in more detail. Excluding the Covid-19 related provisions, credit costs were 206 basis points of average loans for Q4 of 2020 and 186 basis points of average loans for FY2020.

The profit after tax was 12.21 billion Rupees in the current quarter compared to 9.69 billion Rupees in Q4 of 2019. For the full year, profit after tax was 79.31 billion Rupees compared to 33.63 billion Rupees in FY2019. In line with RBI guidelines issued on April 17, 2020, the Board has not recommended any dividend for FY2020. The CET-1 ratio was healthy at 13.39% at March 31, 2020.

The Bank has undertaken a detailed analysis of its loan portfolio to assess the potential impact of the pandemic and economic disruption. As you would appreciate, we are currently in a period of high uncertainty and any outlook necessarily involves a range of assumptions around constantly evolving variables. Hence, we would not share any specific numbers in terms of the outlook. At a systemic level and for us there will be an impact on revenues and an increase in rating downgrades and NPA formation. However, based on our current assessment and the starting level of capital, operating profits and provision coverage on

NPAs, as well as the Covid-19 related provisions we are carrying, we expect to be well able to absorb the impact.

We will continue building a granular book and lending to higher rated corporates. We are conscious of the importance of balance sheet resilience in a highly uncertain scenario. As we mentioned, our current capital position is strong. We would continue to assess this and look at further strengthening the balance sheet as opportunities arise. We see our digital and technology platforms as a key strength, and the present scenario as an opportunity to re-engineer the delivery of banking. We are using this period to further strengthen our platforms, our ability to capture market potential and our delivery capabilities, while enhancing efficiency.

As mentioned earlier, we have seen robust deposit flows post March 31, 2020, reflecting the strength and trust of our brand and franchise. Overall the Bank is well positioned to serve risk calibrated opportunities that would arise in the coming times.

At ICICI Bank, we are committed to building a sustainable and responsible business and creating a positive impact on the economy, society and the environment. We have a Board-approved Environment, Social and Governance Framework which integrates the various policies and approaches of the Bank with regard to ESG. Our activities around ESG are covered in the slides 43 to 47 in the investor presentation. The Bank is committed to having an ethical and transparent relationship with all its stakeholders and making a positive impact on the society in which we operate and the environment.

With these opening remarks, I will now hand the call over to Rakesh.

Rakesh Jha: Thank you, Sandeep.

A. Loan and deposit growth

The overall loan portfolio grew by 10.0% year-on-year as of March 31, 2020. The domestic loan growth was 12.9% year-on-year as of March 31, 2020 driven by a 15.6% year-on-year growth in the retail business. Within the retail portfolio, the mortgage loan portfolio grew by 12.3% to 2.0 trillion Rupees, auto loans by 2.5%, business banking by 41.0%, rural lending by 13.8% and commercial vehicle and equipment loans by 7.7% year-on-year. The personal loan and credit card portfolio grew by 40.7% year-on-year, off a relatively small base, to 609.42 billion Rupees and was 9.4% of the overall loan book as of March 31, 2020. The domestic loan portfolio at March 31, 2020 grew by 2.1% over December, 31, 2019. Within this, the retail portfolio grew by 2.6% over December 31, 2019. The sequential loan growth was lower than previous quarters.

The SME business comprising of borrowers having a turnover of less than 2.5 billion Rupees grew by 27.5% year-on-year to 228.51 billion Rupees as of March 31, 2020.

Growth of the performing domestic corporate portfolio was about 9.3% year-on-year. The Bank is focusing on meeting the commercial banking needs of its corporate clients, including foreign exchange and derivatives, trade finance, payments and collections, as well as tapping opportunities across corporate ecosystems, including the supply chain and the employees.

Coming to the funding side: We continue to focus on growing the daily average CASA balances. Average savings account deposits increased by 11.0% year-on-year and average current account deposits increased by 14.9% year-on-year during the quarter. Average current account deposits grew by 17.1% year-on-year in FY2020. Total term deposits grew by 28.6% year-on-year to 4.2 trillion Rupees at March 31, 2020.

B. Credit Quality

Gross NPA additions during the quarter were 53.06 billion Rupees. The gross NPA additions from the retail portfolio were 12.94 billion Rupees. Of the corporate and SME gross NPA additions of 40.12 billion Rupees, 4.68 billion Rupees represents the impact of rupee depreciation on existing foreign currency NPAs. There were slippages of 17.26 billion Rupees from corporate and SME borrowers rated BB and below at December 31, 2019 which includes devolvement of non-fund based outstanding to NPAs amounting to 0.32 billion Rupees. The slippages from the BB and below rated portfolio include 5.86 billion pertaining to an account which was substantially recovered in the same quarter pursuant to a settlement. The balance corporate and SME NPA additions virtually entirely comprise the oil trading company and the healthcare group that Sandeep mentioned earlier. The provision coverage ratio, excluding write-offs continues to remain healthy at 75.7% as of March 31, 2020

Recoveries and upgrades excluding write-offs were 18.83 billion in the current quarter. There were recoveries and upgrades of 9.74 billion Rupees from the retail portfolio and 9.09 billion Rupees from the corporate portfolio. The gross NPAs written-off during the quarter aggregated to 54.55 billion Rupees. The Bank sold gross NPAs amounting to 0.13 billion Rupees in Q4 of 2020.

The total net non-performing assets were 101.14 billion Rupees at March 31, 2020 compared to 103.89 billion Rupees at December 31, 2019. The gross NPA ratio declined from 5.95% at December 31, 2019 to 5.53% at March 31, 2020. The net NPA ratio declined from 1.49% at December 31, 2019 to 1.41% at March 31, 2020.

The loans and non-fund based outstanding to borrowers rated BB and below (excluding NPAs) were 166.68 billion Rupees at March

31, 2020 compared to 174.03 billion Rupees at December 31, 2019 and 175.25 billion Rupees at March 31, 2019, of which:

- The non-fund based outstanding to non-performing loans, was 50.63 billion Rupees at March 31, 2020 compared to 39.19 billion Rupees as of December 31, 2019. The Bank holds provisions of 11.82 billion Rupees as of March 31, 2020 against this non-fund based outstanding
- The fund and non-fund based outstanding to borrowers under RBI resolution schemes was 15.33 billion Rupees as of March 31, 2020 compared to 38.94 billion Rupees as of December 31, 2019
- The fund and non-fund outstanding to restructured loans was 1.80 billion Rupees at March 31, 2020
- The balance 98.92 billion Rupees of fund-based and non-fund based outstanding to borrowers rated BB and below, includes 65.98 billion Rupees related to cases with an outstanding greater than 1.00 billion Rupees and 32.94 billion Rupees related to cases with an outstanding of less than 1.00 billion Rupees.

On slide 29 and 30 of the presentation, we have provided the movement in our BB and below portfolio during Q4 of 2020 and FY2020.

- The rating downgrades from investment grade categories (excluding fund-based outstanding to accounts that were also downgraded to NPA in the same period) were 22.88 billion Rupees in Q4 of 2020. The downgrades were granular in nature. In terms of sectoral composition, there were a few downgrades in the commercial real estate sector.
- There were rating upgrades to the investment grade categories and a net decrease in outstanding of 12.97 billion Rupees in Q4 of 2020.

- Lastly, there was a reduction of 17.26 billion Rupees in Q4 of 2020 due to slippage of some borrowers into the non-performing category and devolvement of non-fund based outstanding to existing NPAs.

The Bank has operationalised the RBI guidelines on moratorium for borrowers as follows:

- Borrowers required to opt-in for the moratorium, which included all eligible corporate and most retail and SME borrowers
- Borrowers with automatic deferral who could opt-out of the moratorium, which included select retail categories like commercial vehicles and rural loans, comprising about 11% of total loans

At April end, loans under moratorium across both opt-in and opt-out categories constituted approximately 30% of total loans.

The Bank has made Covid-19 related provisions of 27.25 billion Rupees against standard assets to strengthen the balance sheet. Based on RBI guidelines, the Bank is required to make a provision of 5% in Q4 of 2020 amounting to 6.07 billion Rupees on all loans overdue as of March 1 where moratorium has been granted. Loans that were overdue more than 90 days at March 31 but have not been classified as non-performing were 13.09 billion Rupees. The impact of classification of these loans as non-performing on the gross NPA ratio at March 31, 2020 would have been 18 basis points. On these loans, the Bank has made provisions equivalent to that on NPA accounts, which is included in the Covid-19 related provisions of 27.25 billion Rupees mentioned earlier.

The total outstanding provisions at March 31, 2020, excluding provisions for non-performing assets considered in the computation of the provisioning coverage ratio, were 79.40 billion Rupees, or 1.2% of loans. These include the Covid-19 related provisions, provisions held against the non-fund based outstanding to NPAs, general provisions on standard assets as required RBI and other standard asset provisions.

C. P&L Details

Net interest income increased by 17.2% year-on-year to 89.27 billion Rupees, driven by both loan growth and an increase in margins. Interest on income tax refund was 0.27 billion Rupees this quarter compared to 0.16 billion Rupees in the previous quarter and 4.14 billion Rupees in Q4 of last year. Excluding the impact of interest on income tax refund, net interest income grew by 23.5% year-on-year in Q4 of 2020. The net interest margin was at 3.87% in Q4 of 2020 compared to 3.77% in the previous quarter and 3.72% in Q4 of last year. The impact of interest on income tax refund and interest collections from NPAs was about 4 basis points this quarter compared to 10 basis points in Q3 of 2020. The domestic NIM was at 4.14% in Q4 of 2020 compared to 4.04% in Q3 of 2020 and 4.12% in Q4 of 2019. International margins were at 0.28% in Q4 of 2020.

- Fee income grew by 13.2% year-on-year to 35.98 billion Rupees in Q4 of 2020. There was some impact of the lockdown in the last fortnight of March. Retail fee income grew by 16.1% year-on-year and constituted about 75% of overall fees in the current quarter.
- Dividend income from subsidiaries was 3.38 billion Rupees in Q4 of 2020 compared to 2.69 billion Rupees in Q4 of 2019. The dividend income from subsidiaries was 12.73 billion Rupees in FY2020 compared to 10.78 billion Rupees in FY2019. In line with the IRDAI guideline asking insurers to conserve capital, ICICI General and ICICI Life have not recommended any final dividend for FY2020. As a result, dividend income from subsidiaries is expected to reduce in FY2021.

On Costs: The Bank's operating expenses increased by 15.7% year-on-year in Q4 of 2020. The employee expenses increased by 17.7% year-on-year and non-employee expenses increased by 14.4% year-on-year in Q4 of 2020. The Bank had 99,319 employees at March 31, 2020. The provisions on retirals and other employee benefits have increased during this quarter due to decline in yields the current quarter compared to Q4 of 2019. For FY2020, employee expenses increased by 21.5% year-on-year and non-employee expenses increased by 18.3% year-on-year.

Treasury recorded a profit of 2.42 billion Rupees this quarter compared to 1.56 billion Rupees in Q4 of 2019.

The core operating profit increased by 17.6% year-on-year to 71.48 billion Rupees in Q4 of 2020. Excluding the impact of interest income on income tax refund, the core operating profit grew by 25.7 % year-on-year in Q4 of 2020. For FY2020, the core operating profit grew by 21.5% year-on-year to 268.08 billion Rupees.

Total provisions were 59.67 billion Rupees in Q4 of 2020 compared to 54.51 billion Rupees in Q4 of 2019. These include the Covid-19 related provisions. There was no benefit of the relaxation provided by RBI in relation to making additional provisions required for extension in resolution period as per the June 7, 2019 circular. Excluding the Covid-19 related provisions, credit costs were 206 basis points of average loans for Q4 of 2020 and 186 basis points of average loans for fiscal 2020.

The profit before tax was 14.23 billion Rupees in Q4 of 2020 compared to 7.82 billion Rupees in Q4 of 2019. The profit after tax was 12.21 billion Rupees in Q4 of 2020 compared to 9.69 billion Rupees in Q4 of the previous year. The profit after tax was 79.31 billion Rupees in FY2020 compared to 33.63 billion Rupees in FY2019.

D. Capital

As per Basel III norms, the Bank on a standalone basis had a CET-1 ratio of 13.39%, Tier 1 capital adequacy ratio of 14.72% and total capital adequacy ratio of 16.11%. On a consolidated basis, the Bank's Tier 1 capital adequacy ratio was 14.41% and the total capital adequacy ratio was 15.81%.

E. Loan portfolio information

Retail loans as a proportion of total loans were 63.2% as of March 31, 2020. Including non-fund based outstanding, the share of the retail portfolio was 53.3% of the total portfolio as of March 31, 2020. The portfolio level build-up strategy for the retail loan book has been based on utilising the existing customer database for sourcing in key retail asset products through cross sell and up-sell. The underwriting process involves a combination of key variables to assess the cash flow and repayment ability of the customer like income, leverage, customer profile, affluence markers, bureau data and demographics. The Bank utilises multiple data points from the ecosystem including liability and asset relationships, transaction behaviour and bureau behaviour along with proprietary machine learning/statistical models for credit decisioning. The Bank also leverages on the strong analytical capabilities for finer risk segmentation of customers based on internally developed scorecards and models which help in achieving superior categorisation for delinquency identification. The Bank carries out regular benchmarking of its major retail portfolios with industry through credit bureaus and the delinquency metrics have been better than the industry for all major retail products. We continue to monitor the performance at a sub-segment level and in view of the current operating environment, we have reviewed the customer selection and underwriting norms and carried out necessary policy strengthening at micro-market and sub-segment level.

Our mortgages portfolio was about 49% of the retail loan portfolio and about 31% of the total loan portfolio at March 31, 2020. Home loans comprise about 70% of the total mortgage portfolio and the balance are predominantly loans against property. The home loan portfolio is granular in nature with average ticket size of about 3.0 million Rupees. It is geographically well diversified and has been built on fundamental premises of cashflow assessment of underlying borrower as well as meeting the legal and technical standards of the Bank for the property being mortgaged. The average loan-to-value ratio of the home loan portfolio is about 65%. The loan against property portfolio has conservative loan to value ratios and lending is based on cash flows of business/individuals with limited reliance on the value of collateral. The valuation of the property is carried out internally. The average loan-to-value ratio of the loan against property loan portfolio is about 55%.

Auto loans and commercial business loans, which includes commercial vehicle financing, account for 5% and 4% of the overall portfolio respectively. The commercial vehicle portfolio across banks, including us, had seen an increase in delinquencies even before the outbreak of Covid-19 and the situation is likely to deteriorate further due to lockdown across the country. However, it may be noted that generally the economic life of a commercial vehicle or a construction equipment is much higher than the tenor of the loan. It has been seen during past cycles that vehicle and equipment owners repay dues as and when the asset starts to generate profit in tandem with economic recovery. The growth in the auto loan portfolio across banks, including us, has declined over the last few quarters due to decline in passenger car sales.

Our personal loan and credit card portfolio is about 9% of our total loan portfolio. We have grown this portfolio from a low base primarily through cross-sell. About 70% of the personal loan and credit card portfolio is to the existing customers base which provides strong liability information for credit assessment. Around 85% of the portfolio comprises salaried individuals. About 75% of the customers in the salaried segment are employed with well rated corporates including MNCs, and government entities, and have stable income streams. The delinquency rates for the remaining customers in the salaried segment are only marginally higher than the rest of the portfolio. This can be attributed to conservative underwriting norms in terms of higher income cut offs, lower leverage norms, loan caps, etc. The self-employed segment in these portfolios is about 15% and while this segment could be more impacted in the current environment, the proportion of customers in highly impacted sectors like restaurants and travel and tourism is low.

The rural portfolio comprises 9% of the total portfolio. Within this gold loans comprise 2% and kisan credit cards comprise 3%. We and other banks have been highlighting the higher delinquencies in the kisan credit card portfolio for the last several quarters. Our overall micro finance loans are very small and negligible.

Our business banking portfolio accounts for 4% of the total portfolio. It comprises small business customers with an average ticket size of 10-15 million Rupees. The relatively high growth in this portfolio reflects the low base and market share. Our focus in this segment is on parameterised and programme based lending, digital channels, granularity, collateral and robust monitoring. About 85% of the portfolio has a collateral cover of more than 100%. About 87% of the portfolio qualifies for priority sector lending. The delinquency trends in this portfolio have been low.

The corporate, international and SME portfolios were 36.7% of total loans as of March 31, 2020. Including non-fund based outstanding, the share of the corporate, international and SME portfolios was 46.7% of the total portfolio as of March 31, 2020.

The SME portfolio comprising exposures to companies with a turnover of upto 2.50 billion Rupees was 3% of total loans. In the past, the Bank has experienced high NPLs in this portfolio. In recent years, the Bank has reoriented its strategy in this portfolio towards granularity, collateral security and more parameterized lending.

The international loan portfolio was 8.4% of the overall loan book as of March 31, 2020. Excluding exposures to banks and retail lending against deposits, the corporate fund and non-fund outstanding at March 31, 2020, net of cash/bank/insurance backed lending, was 7.48 billion US dollars. 63% of the outstanding was to Indian corporates and their subsidiaries and joint ventures. 16% of the outstanding was to non-India companies with Indian or India-linked operations and activities. The portfolio in this segment is well-rated and the Indian operations of these companies are target customers for the Bank's deposit and transaction banking franchise. The Bank would continue to pursue risk-calibrated opportunities in this segment. 7% of the outstanding was to companies owned by NRIs/ PIOs. 14% of the outstanding was to other non-India companies which is about 1% of the total portfolio of the Bank. We are planning significant reduction in this portfolio. While the outstanding to Indian corporates and their subsidiaries and joint ventures has remained at a similar level compared to the previous year, the balance portfolio has reduced by about 30% year on year at March 31, 2020.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was 223.18 billion Rupees or about 3% of our total loan portfolio. The real estate sector had been under stress even before the outbreak of Covid-19 due to slow sales, cash flow mismatches and funding constraints. The lockdown on account of Covid-19 is expected to cause delays in respect of project progress and sales. Our portfolio is granular in nature with the larger exposures being to well-established builders. About 12% of our builder portfolio at March 31, 2020 was either rated BB and below internally or was classified as non-performing.

The total outstanding to NBFCs and HFCs was 397.55 billion Rupees or about 5% of our total outstanding loans at March 31, 2020 and the details are given on slide 32 of the investor presentation. Our exposure is largely to well-rated entities with long vintage, PSUs, and entities owned by banks and well-established corporate groups. The proportion of the NBFC and HFC portfolio internally rated BB and below or non-performing is about 2%.

Coming to our non-fund based exposure, we would like to highlight that the notional amount of derivatives and swaps represents over 90% of the amount reported as contingent liabilities in the financials. Since 2016, we have focused on shifting from non-fund based exposure to fund-based exposure even as we continue to consider all types of exposures for our credit assessment and limit set up. The outstanding amount of letters of credit and bank guarantees has declined over the last four years while the total advances of the Bank have grown by a CAGR of about 10%. The outstanding amount of letters of credit and bank guarantees was about 22% of the total advances as of March 31, 2020, compared to 34% at March 31, 2016.

Overall, our approach to the corporate portfolio since 2015-16 has comprised:

- Improvement in the incremental rating mix, with 80-90% of incremental disbursements being to clients rated A- and above;
- Reduction in concentration risk, particularly in lower rated borrowers, reflected in the reduction in share of top 20

borrowers (excluding banks) in the portfolio, substantial improvement in the rating profile of top exposures and a much more granular lower rated (that is, BB and below) portfolio. Other than three accounts, one each in the telecom, power and construction sectors, the maximum single borrower outstanding in the BB and below portfolio was less than 6 billion Rupees as of March 31, 2020. The fund-based outstanding of the construction account is classified as non-performing and its non-fund based outstanding is part of the BB and below portfolio;

- Reduction in specific types of exposures such as project implementation risk, equity shares as primary security and low visibility of cashflow;
- Shift from non-fund to fund-based exposure, even as we continue to consider all types of exposures for our risk assessment and limits; and
- Sell-down/ syndication of originations to other market participants.

Over the last two years, our focus has shifted further from loan growth to serving the entire ecosystem of the corporate client including its employees and business associates.

As Sandeep mentioned, the Bank has undertaken a detailed analysis of its loan portfolio to assess the potential impact of the pandemic and economic disruption. This involved assumptions on the time to normalcy of the environment; assessment of resilience of the borrower based on income or profits, leverage, rating or credit score, level of fixed costs, market reputation, liquidity on hand and ease of restart of the business; and assessment of the Covid-19 induced risk intensity including the industry, the nature of the market, volatility levels in the specific segment and complexity of the business.

- For the retail portfolio, other than business banking, risk markers based on credit score, leverage and loan-to-value as well as categorisation of employers for salaried borrowers and inputs from analysis of customers under moratorium were considered.
- In the rural portfolio, the analysis was based primarily on assumptions of drop in collection efficiency.
- For the SME and business banking portfolios, factors such as collateral, industry, location and other credit markers were considered.
- For the corporate portfolio, the Bank has conducted a borrower-specific analysis covering a substantial part of the portfolio. In respect of NBFCs/ HFCs, the analysis took into account available liquidity, collection assumptions, promoter support and ease of refinancing. For the real estate developer portfolio, assumptions on rentals and cash flows were considered.

At March 31, 2020, the Bank had 75.7% coverage against existing NPAs. The total outstanding provisions at March 31, 2020, excluding provisions for non-performing assets considered in the computation of the provisioning coverage ratio, were 79.40 billion Rupees, or 1.2% of loans. These include the general provision on standard assets, Covid-19 related provisions, provisions held against non-fund based outstanding to NPAs and other standard asset provisions. The Bank's CET-1 ratio is comfortable. Based on the above, our operating profitability and our current assessment, we would be well able to absorb the impact of the potential stress induced by the Covid-19 pandemic.

F. Subsidiaries

The details of the financial performance of subsidiaries is covered in slides 38 to 39 and 65 to 70 in the investor presentation. I will briefly talk about the major highlights of the unlisted subsidiaries.

The profit after tax of ICICI AMC was 2.17 billion Rupees in the current quarter, at a similar level compared to last year.

ICICI Bank Canada had a loss of 7.5 million Canadian dollars in the current quarter compared to a profit after tax of 22.0 million Canadian dollars in Q3 of 2020 and 12.6 million Canadian dollars in Q4 of 2019. The loss in the current quarter primarily reflects the increase in expected credit loss provisions under IFRS 9 due to change in the macro-economic outlook arising from Covid-19. For the full year, the profit after tax was 40.6 million Canadian dollars compared to profit after tax of 52.4 million Canadian dollars for FY2019.

ICICI Bank UK had net loss of 6.8 million US dollars this quarter compared to a net profit of 8.0 million US dollars in Q3 of 2020 and a loss of 25.3 million US dollars in Q4 of 2019. The loss in the current quarter reflects the collective overlay provisions related to Covid-19. For the full year, the profit after tax was 23.2 million US dollars compared to a net loss of 52.9 million US dollars for FY2019.

The focus for the overseas subsidiaries is similar to that for the branches, primarily around NRI and India-related opportunities. The non-India corporate portfolio of the subsidiaries has reduced over the last one year, and they are working on a further planned reduction going forward.

ICICI Home Finance had a profit after tax of 0.64 billion Rupees in the current quarter compared to a profit after tax of 0.03 billion Rupees in Q3 of 2020 and a loss of 0.03 billion Rupees in Q4 of 2019.

The consolidated profit after tax was 12.51 billion Rupees in Q4 of 2020 compared to 46.70 billion Rupees in Q3 of 2020 and 11.70 billion Rupees in Q4 of 2019. The consolidated profit after tax was

95.66 billion Rupees in FY2020 compared to 42.54 billion Rupees in FY2019.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the questions-and-answer session. The next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: Is it fair to assume that of the total Rs. 27 billion of provision, Rs. 8 billion is either RBI mandated or NPL provisions, that is accounts that would have become NPLs and Rs. 19 billion is broadly on completely standard loans?

Rakesh Jha: Of the Rs. 27.25 billion, about Rs. 6 billion is the minimum provision required as per RBI guidelines, based on 5% provision requirement which is there at March 31. Of course, the minimum provisions are on the standard overdue loans as of March 1. Out of that, about Rs. 13 billion of loans where we have granted moratorium, would have crossed 90 days at March 31 and they have been kept standard as per the benefits given by RBI. If we were to strictly go by the minimum provisions required to be made as per the April 17 circular, we would have done provision of about Rs. 6 billion for the quarter.

Mahrukh Adajania: In terms of the slippages, would the healthcare account be domestic or international?

Rakesh Jha: It was from our overseas portfolio.

Mahrukh Adajania: So, that is also overseas only, right?

Rakesh Jha: Yes.

Mahrukh Adajania: Okay. In terms of the moratorium, would you be able to give any colour on how the moratorium looks in terms of personal loans, unsecured loans and the SME book?

Rakesh Jha: The moratorium guideline has been given by RBI. Given the current situation where the borrowers, whether they are of the highest credit standing or have low standing, they would look at opportunities to conserve their cash flows. We have seen borrowers from across geographies, product segments, customer categories, who have opted for taking the benefit of the moratorium. It is something which is actually quite well spread across the portfolio. There is nothing specific that one will be able to conclude from looking at each of these segments. As we mentioned earlier, that indeed for some of the portfolios like the commercial vehicle portfolio, some of the rural portfolios, the two wheeler portfolio, which is a small portfolio for us, we had an opt-out kind of an option for the customer, that we gave by default a moratorium. The customer, if he came back to say that he did not want the moratorium, then we exclude the customer from moratorium. That's how it has played out and the moratorium aggregates to about 30% of total loans for us.

Mahrukh Adajania: Okay, sure. One last question. In terms of your international book, did you mention that the size of the largest account, except for the three accounts is Rs. 6 billion?

Rakesh Jha: That was for the BB and below portfolio.

Mahrukh Adajania: In terms of the international loans, given the very weak commodity cycle, would there be a lot of stress on the remaining international book? Or those downgrades would have already happened in Q4-2020?

Rakesh Jha: If you look at the rating profile that we have given for the portfolio and the BB and below, indeed, that may not capture the full impact of what may happen under COVID, that is not something which would have been completely factored as of March 31. That is generally true for the entire portfolio for us and I am sure for other entities as well. Within the overseas portfolio, over the last 12 months or 15 months, we have been pretty focused in terms of our approach and Sandeep outlined our approach on the non-resident Indians and other India focused business. We have had a local lending portfolio in the past and we have been working to bring it down. We did reduce that by about 30% during the year, including wherever we have been able to get cash collateral or get guarantees from other banks or credit insurance. We would continue to reduce that further. I would not say that there is any specific large worry that we have on the portfolio. It was indeed unfortunate that in the March quarter we have had these two instances and they are, in the overall scheme of things, material for us, that's why we have called them out in our presentation. Both of these accounts were investment grade loans and we were caught by surprise with the outcome which happened in terms of the financial misrepresentation. This clearly tells us that we should be even more proactive in bringing down this portfolio, which is not core to our strategy, that I think is very clearly established by us internally across businesses over the last 12 months. The only thing is that on the existing portfolio we could have been more proactive in terms of bringing that down. It is something that we will look at doing going forward. I would not say that there is any specific worry on the portfolio per se, and I gave you a colour of the portfolio as well. About 63% of the fund and non-fund based outstanding, net of all the cash like collateral that we have, is to Indian corporates and their subsidiaries and joint ventures. So, it's already at 63%, which would have been maybe a bit lower in March 2019. That's how we are looking at this portfolio.

Moderator: Thank you. The next question is from the line of Prashant Poddar from Abu Dhabi Investment Authority. Please go ahead.

Prashant Poddar: Quickly, one clarification. The outstanding provision and the general provisions, excluding the standard provisions on assets is about Rs. 50 billion, is that fair?

Rakesh Jha: Sorry, Prashant, just come again.

Moderator: This is the operator. The current participant has put the call on hold. We take the next question from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

Bhavik Dave: My question is regarding your mortgage business; can you clarify whether 70% of your mortgage portfolio is home loan? I wanted to understand on home loan front, what proportion of this would be to customers where they haven't got their property, like the property is under construction and they are taken away? If you could give some more colour on your mortgages regarding the proportion of the customers asking for moratorium on the mortgage side?

Rakesh Jha: Sorry, you were not very clear. But from what I understood, on the home loan portfolio, we have not given a separate breakup in terms of the under construction properties. It will be a part of our portfolio. I think we would probably be in line with the market or slightly lower than the market is what we believe. I could not get the second part of the question.

Bhavik Dave: The second part is on the moratorium front. Is there any specific number that you are giving out for retail because it has been a focus area? Is the moratorium very different across the retail segment?

Rakesh Jha: In the retail segment or for that matter even in the corporate segment we have had borrowers who have opted for the moratorium. Frankly if you look at it, it is at the normal interest rate and it's like an additional line for you. So, we have seen even corporates opting for moratorium. For retail also, there have seen a fair number of customers opting for moratorium, and the aggregate is 30% for the total portfolio. As I said, it is broadly quite well spread across the portfolio. It would of course, be higher for the portfolio where we had a default moratorium option, which is the commercial vehicle portfolio, parts of the rural portfolio and two wheelers also. Rest of it is quite well spread across each of the portfolios.

Bhavik Dave: And lastly on your personal loans, which has seen a reasonable growth momentum, although a smaller base. Can you provide some more color on the personal loan book, what percentage of our customers would have liability or a savings account with the Bank or any other colour on the personal loans?

Rakesh Jha: As I mentioned earlier, about 70% of the personal loan and credit card portfolio is to the existing customer base of the Bank. That overlap will virtually be on the liability side. So, they would largely have a savings account with us. So, that is the number that we could look at right now.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived PMS. Please go ahead.

Prakash Kapadia: I have two questions. Mortgage has been a big driver of our growth. What is the kind of growth that we are looking at, because that's a large part of our retail book and the overall book is also at Rs. 2 trillion. Given the uncertainties due to COVID, what are we seeing or what is our sense on residential segment as an asset class? And if you could give some colour of top 8-10 cities of our book, that would be helpful. Secondly, in terms of cross-sell, on personal loan and credit card, are we cutting the limits for risky customers, what is the cross sell ratio? If you could give some color that would be helpful.

Rakesh Jha: On the mortgage portfolio, actually even if you look at more generically, it's fair to assume that over the last six weeks or so, I don't think much of bank lending has happened at all. I talked about our approach across the retail portfolio. Indeed, mortgage loan is a very important product for us and we find it to be a very sticky product. Once you get a customer with a mortgage and a savings deposit account, you can have a long-term relationship. So, it will continue to be a key product. In terms of growth, I think it will be a function of all the factors that we talked about while discussing the COVID-19 in terms of how soon the lockdown gets over, how soon the economic activities resume and all the other related things. So, what we can say is that we will be focused on this segment. If you look at our approach that we have followed in the last two to three years, nothing will change going forward. Of course, from a risk assessment point of view, there are some things that we will fine tune given the current environment. On growth number itself, it's very difficult to give any number on mortgage or the rest of the portfolio as well. On cross-sell, as I mentioned earlier, 70% of the personal loan and card business has been coming from the existing customers of the Bank. That focus will continue to be there in the future, if anything it would even get sharper than where we are right now. Of course, as we speak, it's not that we are doing a large amount of business on the personal loan product. On credit card, wherever we have existing customers of the Bank with pre-approved limits, of course, we have tightened all those limits compared to where we were a couple of months back. We are quite happy to issue fresh credit cards also. So, that is how we would look at it. Overall, I think we are happy to do business, but indeed we have tightened the credit filters in the current time.

Prakash Kapadia: Any number you can share on cross-sell ratio as of now or the number in terms to get contribution from top 10 cities would be helpful.

Rakesh Jha: We have not disclosed that separately. The way we track cross-sell is what I said that 70% of the business is coming from the existing customers of the bank.

Prakash Kapadia: We had targeted an ROE of 15%. Does that stand true given the uncertainty get deferred by six to eight months or one year? What is the overall sense there?

Rakesh Jha: As Sandeep mentioned, given the uncertainty in the environment, we would not be in a position to comment on a specific outlook in this regard. I think it is fair to assume that there will be an impact on credit demand, our loan growth, fee revenues and there will be some increase in NPA additions and credit losses. I think the focus in the next six to nine months for us would be on balance sheet preservation, on ensuring we are well capitalized, have a high level of liquidity buffer and also use this opportunity to further strengthen our customer and deposit franchise. I think there's a lot of opportunity there as well. So on RoE, I think we will be able to assess that once we have clarity on the post Covid situation.

Moderator: Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: I have got two to three questions, but I will limit it to only two. Number one is, just wanted clarification on this provisioning that we have made on the Covid side. Rs. 13 billion that you talked about, where you have granted moratorium which otherwise might have slipped into NPA, you said you have made 100% provisions against this under this Covid provision, did I get it right?

Rakesh Jha: No. I said that against that Rs. 13 billion, we have made provisions as if they were NPA. If they had become NPA at March 31 i.e. if the April 17 circular was not there, the provision that would have been required is the same provision amount that we have made on these loans and that is a part of the Rs. 27.25 billion.

Rahul Jain: Understood. And this Rs. 13 billion would all be on account of retail loans or there would be corporate also?

Rakesh Jha: It would not be all retail, but predominantly I would say it would be retail.

Rahul Jain: Got it. You said that 30% of the customers have applied for moratorium. This is as on what date? This is as of end April or at this point of time?

Rakesh Jha: This is as of end April.

Rahul Jain: Okay. Just one more thing, is it possible to get colour in terms of what will be the bureau score of these 30% of customers who have applied for moratorium, particularly in the retail portfolio? Will it be above 750, between 700 and 750, any colour on that qualitatively?

Rakesh Jha: We have not disclosed anything specific on that.

Rahul Jain: Okay. Wanted to know what would be a standard provisioning now going forward?

Rakesh Jha: Sorry, what is that?

Rahul Jain: Strategy on provisioning going forward over the next couple of quarters.

Rakesh Jha: On provisioning, like we said, over the last couple of years, our approach has been very clear that we would want to be conservative in terms of provisioning and recognition. I think we have tried to be. If a problem comes up and we kind of see that recovery will be a challenge, we have classified accounts upfront as NPA. We had one such account in the December quarter and a couple of accounts in the current quarter which technically may not have been 90 days overdue, but were still classified as NPA. So, that approach is very clear. Once an account is NPA, we try and take provisions which are appropriate. We would definitely want to see our coverage ratio at a comfortable level. Today, of course, we are at a pretty high level, partly because of the ageing of past cycle of the corporate NPAs, we have increased the provisions there a lot. The provision coverage was 75% as of March 31. But, if I go back two-three years, we were as low as 50% or below that ratio. There is no way that we will go down to those kinds of levels. We have put in place a Board approved policy for a certain minimum coverage ratio as well. So, that is on the NPA side.

On the standard provision aspect, of course, in addition to whatever we are required to do as per RBI, we have taken this into the Rs. 27.25 billion provision which we have made in the current quarter. Out of which, like I said, Rs. 6 billion would have been the minimum requirement as per RBI guideline based on 5%. If you make it 10%, then also by June it would be Rs. 12 billion, the rest of the Rs. 15 billion is purely contingency kind of provision that we have taken at March 31. We will have to see how the actual requirement of provisions over the next couple of quarters or for this current financial year plays out. But in general, we will want to continue with the conservative approach on the asset quality and the provision aspect.

Moderator: Thank you. The next question is from the line of Anand Ladha from HDFC Mutual Fund. Please go ahead.

Anand Ladha: A couple of questions from my side. Few data points, if you can share your outlook. So, in fact if we look at our NIM, it has consistently improved from 3.5% on the domestic side to today almost like 4.15%. If you can share an outlook, given environment where the pricing power is with banks, do we expect things to be stable or improve probably. Secondly, if you can give some colour on cost-to-income ratio side, this year the growth in employee and non-employee expenses was fairly strong. What is the outlook on the same?

Rakesh Jha: Anand, I will first take those two, else I will lose track of your questions. I will take those two and then we can do the next. On the net interest margin, we have had the benefit of our funding franchise, the growth in not just the CASA deposits but also the retail term deposits. You would have seen our retail deposit rates are virtually the lowest among private sector banks. At most times, we have been leading the reduction in rates, we have even cut the rates on the savings deposits. So, we are focused on margin. Of course, in the current context, you will have to take into consideration that the liquidity that we are having is much higher than normal levels. A large part of that is because there is not as much of credit demand as well. It will have some impact on the margins going forward for sure. We have reduced our MCLR, you would have seen from May 1st by 25 basis points. Some of our loans are linked to repo rate. So, as the repo rate has come down, some of the yields there will go down as well. So, to the extent possible, we will try and manage that by lowering our funding cost. But at some stage, beyond a level, you will not be able to do that. That's how we are looking at it. The other thing has been that on the business side, each and every business team has been extremely focused on pricing of loans, and that has also kind of benefited us in terms of giving us that extra 10 to 20 basis points on the asset yields across portfolios. That focus will continue. But it's absolutely fair to assume that in the near-term, the pressure will be there on the margin coming from the surplus liquidity, lack of loan demand, and the lower rates always mean that the CASA float benefit comes down. Some of that will be there. Directionally, we should look at the fact that over the last year or two we have been able to improve our NIM quite meaningfully.

On the cost-to-income ratio, I think in FY2021, we will have to see how the income kind of shapes up. It will again be a function of the lockdown period and the time it takes to recover from there on. It's difficult to say. On the cost side, you would have seen that this quarter the cost growth was clearly somewhat lower than the trend that we have seen in the first three quarters of FY2020. I think going forward, we will have to focus both in terms of leveraging the investments that we have done in terms of increasing the employees and branches and get outcome from there. Sandeep talked about all the efforts that we are making on the digital side and new ways of customer acquisition that we have been working on and servicing the customers. On the employee costs, clearly compared to FY2020, incremental hiring will not really be there in the current context. So, some of those benefits will come in. But some of the costs like technology and all, we will continue to invest through this period. So that is something which clearly is giving us a competitive edge. And on that side, we will continue to make investments and expenses. Sorry for the long winded answer, but the focus will be to bring down cost. But on a cost-to-income ratio, there is no specific number that we are kind of looking at.

Anand Ladha: Perfect. But if you can articulate a two to three-year cost-to-income ratio strategy, your peer banks are at 37-38% and you are at 43%, the gap is almost like 5-6%. So, is it fair to assume that at some point of time this gap will narrow down? We have seen narrowing of gap in the margin side.

Rakesh Jha: The gap can be narrowed in many ways. But what we would want to do is that, whether that gap narrows or even widens, as long as the core operating profit of the bank is growing on a risk calibrated basis, we are quite fine. We could narrow the gap by reducing some investments and all of that, maybe do less of business that can use more cost. But as we have discussed in the past, the focus of the Bank across each of the businesses is to maximise core operating profit on a risk calibrated basis. We are not so focused on particular ratios per se. But yes, directionally, I think clearly there will be a benefit which comes from the technology. But we see that benefit to come in more from enhancing revenue opportunities rather than just plain cost cutting.

Anand Ladha: Again, just data point pertaining to mortgage book, what proportion could be LAP?

Rakesh Jha: About 30%.

Anand Ladha: Okay. And lastly, on the UK and Canada subsidiaries' reported loss, what is happening in both the subsidiaries? What is our strategy going forward? As we have clearly indicated that in a domestic book, we will keep on reducing the international loan proportion. What will happen to these two subsidiaries?

Rakesh Jha: So, in both the subsidiaries, Anand, I gave the specific reason. They got into a loss because of the provision required due to Covid-19. For example, ICICI Bank Canada is on IFRS 9. They have taken a higher expected credit loss provision based on the potential impact of Covid-19 and the slowdown in the growth that has to get reflected in the probabilities of default that they consider for their Stage 1 and Stage 2 portfolios. Similarly, ICICI Bank UK, under UK GAAP has taken additional collective provision because of Covid-19. So, that is the reason for the loss in the current quarter. We were quite happy to note that ICICI Bank UK came into annual profit after a gap of a couple of years. ICICI Bank Canada, the earlier three quarters have been profitable and they have declared dividend. A part of our dividend income for the March quarter has come from ICICI Bank Canada. So our focus, again, for overseas subsidiaries will also be similar to what is there at the branches i.e. to focus on NRIs and India-linked businesses. We do acknowledge that as part of a subsidiary there will be local business that we will do, which will be more than what we do in the branches. But the overall focus will be that, I don't think you will see much of a balance sheet growth and capital conservation will be the key there as well. And on the portfolio, we do give some breakup in our presentation.

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

MB Mahesh: Just one question from my side. Have you made any reassessment on the capital side, given the post-COVID scenario?

Rakesh Jha: In terms of capital, as you would assume, in the current scenario that's something that one would regularly keep reviewing. Our current CET-1 ratio is 13.39% and factoring the operating profit trajectory that we have had for the last few quarters and also the fact that what does happen at these times is that there is a lack of credit demand and the loan growth actually slows down. So, the capital consumption pace also comes off during this period. So, those factors will be positive and I think no declaration of dividend is also helpful in this kind of a situation, per se. There will be pressure because of the profitability kind of getting impacted and the potential credit losses. So as of now, we believe that we are pretty well placed to kind of absorb the impact, which could potentially be there from Covid-19, given the starting level of capital and the operating profit which we have.

MB Mahesh: Rakesh, the only reason why we are asking the question is because of the situation on the ground we really don't know what is a good level of capital for a bank. That’s the broad point. You are seeing stock prices being very erratic for even some of the reasonably well capitalised firms when they enter into some problems. That is the reason why I had asked.

Rakesh Jha: No, absolutely. I think and that's the reason why in the opening remarks itself we commented that our current capital position is strong, as you can make out from the CET-1 ratio of 13.39%. But we will continue to assess this and look at further strengthening the balance sheet as opportunities arise. That's something that we have said upfront and it's a continuous assessment that will be required because of the reasons that you mentioned.

MB Mahesh: My second question, just one clarification. If a customer moves from MCLR to external benchmark, is it at this point of time a margin dilutive exercise?

Rakesh Jha: It could depend on MCLR, at what rates the customer is. So, if the current rate is lower, it would be at a lower yield. That's what happens when rates go down.

MB Mahesh: No, the question is more specific at this point of time, when you look at your convergence which is happening.

Rakesh Jha: It would be at a lower rate.

MB Mahesh: Is it dilutive?

Rakesh Jha: Yes.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: Most of my questions have been answered, only one data point. What is the excess liquidity sitting on the balance sheet on 31st March, 2020?

Rakesh Jha: We don't disclose that number separately. But I think you can imagine in the current environment where banks are lending so much to RBI in terms of surplus and given our strong deposit franchise, we have a significant surplus which is there. A part of that you can kind of see in the balance sheet, when you look at the cash and bank balances numbers, that has gone up substantially compared to December and will be reflecting the higher liquidity that we have.

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

Nitin Agarwal: A few questions. Firstly, in the deposit growth, our CASA deposits growth has been relatively modest versus what we have seen when compared with some other private banks. So has there been some flow from savings to term deposits which has held up really well and how is your account opening run rate since March?

Rakesh Jha: On CASA deposits, like I said, we have virtually completely removed our focus from the period end balance number. So if you look at both the period-end current account and savings deposits, year-on-year growth is 6-7%. But I would urge you to look at the daily average balance growth, which on the current account side is 17%. I don't think there will be too many banks who would have grown the current account balances at 17% for the year. On the savings deposit side, yes, we are at about 11% year-on-year growth rate, we have been in that region of 8.5% to 12% year-on-year kind of a range. We would like to do better than that. The other thing that you yourself mentioned, the retail term deposits have been doing extremely well. The rates that we have been keeping are the lowest amongst the private sector banks. So, if you look at the cost of deposits, that has been coming down for us well. We would pretty much be amongst the lowest cost of deposit banks, maybe SBI would be lower, other than that we would be there. So, again, we look at not just the CASA ratio per se, we look at the absolute growth in daily average balance and the cost of deposits. That is what has over the last couple of years helped us on the margin expansion which we discussed as a part of the earlier question.

Nitin Agarwal: And on the account opening per se, how has that been since the lockdown?

Rakesh Jha: On the account opening, I think it's fair to assume that the disruption has impacted all aspects of the business, including the account opening. We have not given any specific numbers on that.

Nitin Agarwal: Okay. Secondly, on the mortgage, which is the largest segment for us. The growth trend has been different, not just in this quarter but in earlier quarters. We have been trying to compensate for them by growing the LAP book. So what is the growth of pure mortgage loans? And secondly, are we seeing any customers churn from our housing loan book to other lenders during the rising difference in rate of interest?

Rakesh Jha: On the mortgage portfolio, in terms of outlook, I think I talked about it in response to an earlier query. On the churning balances, transfer-in and transfer-out, I think in terms of rates, our rates have been somewhat higher in the past. I think as we speak we have brought down the rate a bit. So, we should not be net losing is what our objective is and we would try and gain in terms of balance transfer-in during this period.

Nitin Agarwal: Okay. And if you could share the growth rate for housing loans, excluding LAP?

Rakesh Jha: So, if you look at the overall growth, it's about 12% in the portfolio. I don't have the specific breakup, but it will be clearly lower than that for the pure home loans.

Nitin Agarwal: Okay. And lastly you have given the number on moratorium, but if you look at Slide 33 of the presentation wherein we give a rating profile, 70% of the book is rated A- and above and our moratorium book is 30%. So, if you can share some color as to where does this moratorium book come from? How much is from A- and above and how much below that?

Rakesh Jha: This portfolio that we have given on slide 33 is for corporate and retail loans in aggregate. The retail portfolio, as we have mentioned in the footnote, that is mapped on an entire product level. So, if mortgage is rated, for example, A, then it will come into A category. So it is not customer by customer kind of rating profile for the retail portfolio. As I said, the moratorium which has been asked for, will be spread across the borrowers. We have not given any further details on the rating-wise split of the moratorium.

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

Sameer Bhise: Can you provide some colour on how the Bank approached the requirement of Rs. 27 billion of Covid-19 provision or some commentary on stress testing. I know that things are uncertain, but how are you looking at the situation?

Rakesh Jha: We have looked at various kind of scenarios and I talked about in my opening remarks in terms of each of the portfolios, the variables that we have considered. For example, on the retail portfolio, we have a look at markers based on credit score, leverage, loan-to-value, as well as the employers, salaried borrowers and other such inputs, including whether the borrower has taken moratorium. So, for each of the portfolios there is a specific kind of assessment that we have done based on the analysis that I talked about earlier. Indeed, there can be many more scenarios that can be developed. I think the fundamental assumption is around when does the lockdown get over and then thereafter what is the time taken for economic activities to come back to the pre-Covid kind of level. Those are the two biggest variables which are there and that's something that we will continue to assess on a continuous basis based on the framework that we have put in place. The provision that we have taken, it is not that it is exactly computed based on a particular scenario or stress, per se, we have looked at various scenarios and we have looked at various factors and then taken what we believe is the provision to strengthen our balance sheet in the current times.

Sameer Bhise: So, I am assuming that in your base case, this is the provision that you would want to make and nothing incremental is required depending on the information that we have today.

Rakesh Jha: I think it's very difficult to look at it that way. It is not that we would have upfronted all provisions required due to Covid and taken it on March 31. I don't think that would be a fair assumption because it's not that we will not have incremental provision requirement coming in because of Covid in FY2021. There are so many scenarios that can be developed in that regard. Of course, we have looked at all the scenarios and at how things can play out and then we have taken the provision to strengthen the balance sheet is how I would say, and I do not say that it is equivalent to the total provision required because of COVID.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from IDFC. Please go ahead.

Nilanjan Karfa: One question on cost. So would you be able to help us understand the rough split between, let's say, fixed costs to semi-fixed and variable cost? And when I talk of variable, which is business linked, something on that will be really helpful.

Rakesh Jha: So again, it is very difficult how every expenses are categorized into fixed and variable. I think that there are a lot of business related expenses which are there. The ones which are absolutely variable would be things like the sourcing cost, if you are paying some percentage for sourcing a particular loan, that is a completely variable cost which is there and it will not be a very large number as you would appreciate. The rest of it will be a mix of fixed and semi-variable. But then again, some of the costs can be managed as well. So we will have to look at it on a line item by line item and business by business basis.

Nilanjan Karfa: Okay. But you won't like to give out a little more colour on that?

Rakesh Jha: Very difficult to give.

Nilanjan Karfa: Okay. Let me ask you differently. If you have to look at your costs, what would be your strategy in terms of how much of cuts you can take over the next three, four years? I mean, is that the kind of range you would want to look at?

Rakesh Jha: On the cost, I think there are various things which are there. For example, employee cost is a large part. A lot of expenses are non-employee related such as infrastructure costs and various other costs. On the employee costs, the variables are, how much you hire new employees, replacement of attrition, increment for the employees and the performance bonus. On the non-employee side, like I said, technology and IT related expenses that will definitely continue. You have rentals and I am sure in the current context, all entities including us, will look at various options for work from home and all of that and deliberate do we really require as much of infra as we have, can we look at rentals differently. So, a lot of those opportunities will be there. But it is a fine balance, I think we will continuously assess the time that we think it will take for the economy to get back to an even keel for us to grow our revenues. In the meanwhile, we look at all of these options.

Nilanjan Karfa: Okay. Let me ask another question. Given howsoever the growth and economic activity pans out, you would want to keep your revenue growth above expense growth, that's something you will not sacrifice at all. And that would mean that you will also sacrifice margin if it comes to that. Would that be a right assessment?

Rakesh Jha: If for a particular quarter expense turns out to be higher than revenue, we will not over-worry on that. I think that is not something you should over-worry about. Our objective is very clear in the medium-term, long-term, is to grow core operating profit in a risk calibrated manner. For us to grow that, we will require revenue growth to be higher than expenses, that is the core objective. But at this time it is difficult. For example, there's no credit demand. If there is no loan growth, you can assume, in the June quarter, it is possible that expenditure will be growing higher.

Nilanjan Karfa: Rakesh, not a quarter. I am not even bothered for the six months or nine months.

Rakesh Jha: Yes. In the medium-term, absolutely, revenues will have to grow faster than expenses, there is no two ways around it. As soon as any business sees potentially that expenses can start running higher than revenues, each business looks at that aspect.

Nilanjan Karfa: Sure. Just a book keeping question, Rakesh, if we have to exclude those two international accounts, what might have been the slippage is this quarter?

Rakesh Jha: It would have been lower.

Nilanjan Karfa: Sequentially lower?

Rakesh Jha: We don’t give individual exposures, Nilanjan.

Moderator: Thank you. The next question is from the line of Abhishek Morarka from IIFL. Please go ahead.

Abhishek Murarka: So a couple of questions. One, in this moratorium that you have given to nearly 30% of your portfolio. Can you give some sort of understanding of which product you would have seen a higher request or a preference for moratorium in versus others? The second is, in business banking portfolio, would you be able to give some sense of industry level NPAs, average industry level NPAs pre-COVID? And any commentary around what kind of worst thing you could see maybe from six months, one year point of view? And third on credit cards again, if you can share some ballpark of, let's say, composition of trends between broad heads like travel, entertainment or discretionary, non-discretionary, any sort of ballpark there would be very useful. Thanks.

Rakesh Jha: On moratorium, we have answered it earlier as well that it is spread across portfolios. I think clearly, the portfolios that would have a higher proportion of customers under moratorium are commercial vehicle portfolio, some of the rural portfolio, two wheeler portfolio where we have given an opt-out i.e have given a moratorium by default. So, there the percentages will indeed be higher. Otherwise, it is spread across each of the portfolios, it's not that any portfolio is at a very low number or any anything is at a very high number, other than the ones where there is a default moratorium being given. As I said, that is about 10-11% of our total loans. So, of course, a large part of that would contribute to the 30% number that we talked about. That is on moratorium. Was the second question on the BB and below portfolio?

Abhishek Murarka: No, the business banking portfolio.

Rakesh Jha: On the business banking portfolio, the delinquency numbers have been extremely low for us for the last few years and that trend has continued till March 31, 2020 and of course now we have to see how the current scenario impacts that portfolio. The comfort that we have is that it is a granular portfolio and very well collateralised. It is a portfolio where we have a deep banking relationship with the customer and it is not just a term loan portfolio which is there. So, with all of that, we believe that the portfolio should do well. But again, COVID-19 is an unprecedented kind of a threat, so we will see how that plays out.

But generally, we are comfortable on that portfolio. We have not disclosed any industry-wise break up, maybe in future we will consider disclosing that. Abhishek, on the credit card, I don't have those numbers right now, maybe separately we will see if we can provide those numbers.

Abhishek Murarka: Sure. So just squeezing in one more question, very quick one. So, overall contingency provisions, do you propose to keep them at a certain level, let's say, 2% of loans or 1% of loans, or you want to increase them to a higher level, any sort of targets there?

Rakesh Jha: We don't have any specific percentage in mind. It will be a function of what we see on the portfolio, what we believe should be comfortable from a balance sheet strength perspective is how we will look at it. The provision, like I said, on the NPAs, we are extremely comfortable with the coverage level, if anything, it's slightly higher than where it normally would be. On this time, because of the current COVID-19, we thought we should take somewhat higher provision on the standard loans per se. We don't have any specific number in our mind in terms of where we will maintain it.

Abhishek Murarka: So, at least in the short-term, I mean, notwithstanding what's happening otherwise, you would not look to take it to, let's say, 2% of loans or anything, any such level?

Rakesh Jha: No.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari: My question is on the international losses that we have seen. I am just trying to understand why we are still lending to corporates who don't have any Indian connections, why we could not kind of wind up this earlier?

Rakesh Jha: So, I think that's something which is clearly a learning for us. I think we have been winding it down. I talked about a 30% decline in the portfolio on a year-on-year basis, between March 2019 and March 2020 for the overseas portfolio in the branches, which was not to Indian corporates and their subsidiaries and joint ventures. So clearly, we are going in that direction. As Sandeep mentioned, we would continue to do that in a planned and calibrated manner going forward as well. We take your point completely that maybe we would have done it at a faster pace.

Prashant Kothari: Okay. Second question is about our unsecured loan, credit cards and personal loans. How worried would you be about that or not worried, because of the COVID situation? Just some sense on that.

Rakesh Jha: One way to say is that I don't think we would be worried more about the unsecured in comparison to other categories of loans in the current environment. As I said, 70% of these borrowers are customers who have their liability relationship with us. I talked about the numbers on the proportion of salaried customers, within that a large portion work with well-rated entities as well. So, overall, I don't think it's a portfolio on which we are more worried than other portfolios. I think in the current context, things are uncertain and one would have concerns across portfolios in terms of how things shape up, that is true for the entire portfolio. But nothing higher more than that, I would say, for the unsecured book.

Prashant Kothari: Just squeezing in a last question, ICICI Home Finance's loans and advances have declined by about 10% from last quarter. What's happening to the business, is it not scaling in a meaningful way?

Rakesh Jha: The loan book of ICICI Home Finance has come down sequentially this quarter. The company would have sold or securitised a part of their loan portfolio and that is from the point of view of their balance sheet and capital management perspective. We would indeed look at growing the portfolio there. But it is within the context of the capital which is there and the opportunities which are there.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now have the confidence over to the management for closing comments.

Rakesh Jha: Thank you everyone. Like always, we will be happy to take your questions. While we will not be able to meet in the next few weeks, but we will be available for audio or video calls at any point of time. Take care and be safe. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of ICICI Bank, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.