ICICI Bank Limited

Earnings conference call - Quarter ended June 30, 2020 (Q1-2021)

July 25, 2020

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Moderator: Ladies and gentlemen, good day and welcome to ICICI Bank Q1-2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Bakhshi -- Managing Director and CEO of ICICI Bank. Thank you. And over to you, sir.

Sandeep Bakhshi: Good evening to all of you and welcome to the ICICI Bank Earnings Call to discuss the Q1 of 2021 results. Joining us today on this call are Vishakha, Anup, Sandeep Batra, Rakesh and Anindya.

Thank you everyone for joining us today. We hope that all of you are safe, healthy and doing well. During this period of the Covid-19 pandemic, the health care workers, sanitation workers, police and all essential service providers have shown utmost resilience in keeping us safe and their dedication motivates us. As the country has gradually reopened, many Indians have gone back to work, supporting the path of normalization. Team ICICI is thankful to all of them. We also appreciate the efforts of our employees who continue to serve our customers in these unprecedented times. Nearly all our branches and ATMs across the country are functional currently. We have seen a gradual rise in the customer footfalls in our branches in June and the first fortnight of July compared to April and May. Excluding the employees working at the branches and some of the team members from Operations and IT, a majority of the employees continue to work from home.

Since June, India has seen a resumption of economic activity. Some high frequency indicators such as electronic and physical toll collections, and generation of electronic permits for transportation of goods have shown an improvement and are close to pre-Covid levels. GST collections have increased in June compared to April and May 2020. Indicators such as kharif sowing, water reservoir levels, tractor sales volumes and sales of fertilizers reflect a relatively stronger rural economy. Of course, the trajectory of the pandemic and the pace and sustenance of the improvement in economic activity need to be monitored carefully over the next few months.

At ICICI Bank, we continue to steadily grow our franchise and maintain our strong balance sheet, within our well-defined strategic framework. This framework has the following key elements:

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

   We were able to take the core operating profit from 189.40 billion Rupees in FY2018 to 268.08 billion Rupees in FY2020. The growth in core operating profit improved from 5.7% in FY2018 to 21.5% in FY2020. In Q1 of 2021, a significant decline in fee income due to the disruption in customer activities was more than offset by robust growth in net interest income and some decline in operating expenses, resulting in a core operating profit of 70.14 billion Rupees, which is a 14.8% growth on a year-on-year basis. Excluding the impact of higher interest income on income tax refund in the first quarter last year, the year-on-year core operating profit growth was 18.0%.

2. **Further enhancing our strong deposit franchise**

Our business and core operating profit are driven by our deposit franchise. During the quarter, we continued to see robust deposit flows, resulting in high liquidity and a Liquidity Coverage Ratio of 146.0% for the quarter. Our cost of deposits is the among the lowest in the system and during the quarter we reduced the interest rate offered on savings accounts as well as the key retail term deposit rate by 50 basis points each. Total deposits increased by 21.3% year-on-year at June 30, 2020. Average savings account deposits increased by 14.0% year-on-year. Average current account deposits increased by 19.8% year-on-year during the quarter, reflecting healthy inflows into current accounts which we see as a positive indicator of the business health of our customers as well as a result of the growth of our franchise. Our digital platforms and efforts towards process decongestion have played an important role in the growth of our deposit franchise.

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

We have continued to increase the share of the granular, diversified lending to retail and small business customers in our overall portfolio. Our retail portfolio is largely secured, built based on proprietary data and analytics in addition to bureau checks, and well-priced in relation to the risk. Our strong deposit franchise enables us to offer competitive pricing to the selected customer segments.

In our corporate portfolio, we have emphasized reduction in concentration risk and improvement in the rating mix of business. Our approach is to provide a full suite of banking products to corporate clients and their ecosystems of employees and business partners.

Rakesh will give further details on our various portfolios, as we had done in the last earnings call.

Loan origination was impacted due to the nation-wide lockdown in April and May. The year-on-year loan growth declined and the loan book decreased sequentially, though month-wise trends indicate an improvement as the lockdown has been relaxed. In line with the approach we had articulated for the overseas business, the overall overseas branches portfolio and the non-India linked corporate portfolio declined both year-on-year and sequentially.

4. Leveraging digital across our business

The growth of our franchise is driven to a significant extent by the digital platforms and technology-led solutions that we offer our customers. The ICICI STACK, our API banking portal and our iMobile, InstaBizz and internet banking platforms as well as bespoke solutions in place for corporate and institutional customers provide seamless banking services digitally to our customers. During Q1 of 2021, an online food delivery platform used our "insta wallet" offering to launch its digital wallet; we introduced the Video KYC facility to on board new savings account and personal loan customers and customers availing the Amazon Pay Credit Card; and we crossed one million users on our WhatsApp banking platform. We have seen significant growth and improvement in market share in UPI transactions in the person-to-merchant or acquiring segment. Our digital trade solutions for corporates and SMEs have proved particularly relevant in the current environment.

5. Protecting the balance sheet from potential risks

Our approach with respect to asset quality and provisioning has been, One, to construct the portfolio in a manner that does not deliver concentrated shocks; Two, to build an operating profit base that can absorb required provisions; and Three, to be proactive in provisioning with the objective of ensuring that the balance sheet is robust and the impact on earnings is recognized on a prudent basis.

We continue to have a high provisioning coverage ratio on NPAs, with the PCR increasing further to 78.6% at June 30, 2020.

As part of the regulatory measures following the outbreak of the pandemic, banks have been permitted to grant moratorium on loan repayments to borrowers. This is a policy and regulatory support to customers facing sudden cashflow depletion or potential future uncertainty. Our approach to the moratorium has been to permit the same for customers seeking it, after due engagement. From about 30.0% of total loans being under moratorium at end-April, the loans to customers where moratorium was effected for June repayments were about 17.5% of total loans at June 30, 2020. This trend is in line with our expectations and the gradual resumption of economic activities in June. Rakesh will provide additional comments later on the call.

While moratorium trends would continue to evolve, we do not see these as a conclusive indicator of eventual outcomes. We monitor and analyse our portfolios with reference to a wide range of markers including cashflows, deposit account data, income levels, leverage, sources of income, the industry in which they operate or are employed and repayment behaviour. We are confident that the approach we have adopted in building the portfolio, which I outlined earlier, would hold us in good stead.

Our intention has been to cushion the balance sheet from the potential risks arising out of uncertainties around the trajectory of the pandemic and the pace and level of economic activity. We had made Covid-19 related provisions of 27.25 billion Rupees in Q4 of 2020 against standard assets to further strengthen the balance sheet. As a prudent measure, the Bank has made further Covid-19 related provisions of 55.50 billion Rupees during Q1 of 2021 with the objective of completely cushioning the balance sheet from the impact of Covid-19.

6. Maintaining a strong capital base

During the quarter, the Bank monetized 1.5% and 4.0% stake respectively in its life and general insurance subsidiaries, further strengthening the balance sheet by about 30.00 billion Rupees, which is reflected in the treasury income for the quarter. The capital position of the Bank after making the further Covid-19 related provisions with the objective of completely cushioning the balance sheet from the impact of Covid-19, continued to be healthy with a CET-1 ratio of 13.60% as of June 30, 2020, including the profits for the quarter.

Over the medium term, we see favourable prospects for the Indian economy. We expect India's strong domestic consumption and investment drivers to continue to support healthy rates of growth in a normal environment. Given our strong deposit franchise and robust technology platforms, we will seek to benefit from the growing formalization of the economy and the rapid adoption of technology in banking.

We seek to achieve profitable growth through identification and focus on pre-selected customer segments and micro-segments, and geographical micro-markets that offer an opportunity for growth. We aim to provide all relevant deposit, credit and fee-based products and services to these segments and in these markets, with digital delivery and decongested processes as a key enabler. This approach has aided in growth in core operating profit in the last year even as NPL additions and related provisions have declined. We will continue to build our business on this basis. We have also created a significant provisioning buffer with the objective of protecting the balance sheet from potential risks.

The Board of Directors of the Bank has approved raising of equity capital of an amount up to 150 billion Rupees, subject to regulatory, shareholders' and other approvals as may be required. The proposed capital raising, subject to necessary approvals and market conditions, is aimed at further strengthening our capital adequacy and improving our competitive positioning.

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

Rakesh Jha: Thank you, Sandeep. I will talk about balance sheet growth, credit quality, P&L details, capital adequacy and performance of subsidiaries.

A. Balance sheet growth

The overall loan portfolio grew by 6.5% year-on-year as of June 30, 2020. The domestic loan growth was 9.6% year-on-year as of June 30, 2020 compared to 12.9% year-on-year as of March 31, 2020. The domestic loan book declined by 1.2% sequentially. The retail portfolio grew by 11.3% year-on-year and declined by 0.8% sequentially. Within the retail portfolio, the mortgage loan portfolio grew by 9.3%, business banking by 33.7%, rural lending by 14.3% and commercial vehicle and equipment loans by 6.6%, while the auto loan portfolio was flat year-on-year. Growth in the personal loan and credit card portfolio also reduced to 22.0% year-on-year. This portfolio was 587.09 billion Rupees or 9.3% of the overall loan book as of June 30, 2020. The Bank has extended the Emergency Credit Line Guarantee Scheme to eligible MSME borrowers based on its credit assessment. Till July 22, we have sanctioned about 50 billion Rupees to about 19,000 borrowers under this scheme, of which about 38 billion Rupees has been disbursed.

The SME business comprising of borrowers having a turnover of less than 2.5 billion Rupees grew by 17.9% year-on-year to 208.57 billion Rupees as of June 30, 2020.

The growth of the performing domestic corporate portfolio was about 8% year-on-year. During the quarter we closely engaged with highly rated corporates to meet their short term funding needs. We also used TLTRO funds during the quarter to lend through corporate bonds.

The international loan portfolio declined by 21.1% year-on-year in Rupee terms and 27.9% year-on-year in US dollar terms at June 30,

2020. The international loan portfolio was 7.5% of the overall loan book as of June 30, 2020. We had mentioned in our previous quarter earnings call that we would be progressively exiting our non-India linked exposures in a planned manner. Excluding exposures to banks and retail lending against deposits, the total corporate fund and non-fund outstanding of overseas branches, net of cash or bank or insurance backed lending, was 6.41 billion US dollars at June 30, 2020 compared to 7.48 billion US dollars at March 31, 2020. The non-India linked corporate portfolio reduced by 40.4% year-on-year and 16.1% sequentially at June 30, 2020. 63% of the outstanding at June 30, 2020 was to Indian corporates and their subsidiaries and joint ventures. 17% of the outstanding was to non-India companies with Indian or India-linked operations and activities. As we had stated on the last earnings call, 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, and the Bank would continue to pursue risk-calibrated opportunities in this segment. 7% of the outstanding was to companies owned by NRIs/ PIOs. 13% of the outstanding was to other non-India companies which is less than 1% of the total portfolio of the Bank.

Coming to the funding side: We continue to focus on growing the daily average CASA balances. Average savings account deposits increased by 14.0% year-on-year and average current account deposits increased by 19.8% year-on-year during the quarter. Total term deposits grew by 27.4% year-on-year to 4.6 trillion Rupees at June 30, 2020.

B. Credit quality

Gross NPA additions during the quarter were 11.60 billion Rupees. The gross NPA additions from the retail portfolio were 6.02 billion

Rupees. Of the corporate and SME gross NPA additions of 5.58 billion Rupees, there were slippages of 1.71 billion Rupees from corporate and SME borrowers rated BB and below at March 31, 2020, the details of which are given on slide 25 of the investor presentation. The lower gross NPA additions reflect the asset classification standstill benefit on loans under moratorium.

Recoveries and upgrades excluding write-offs were 7.57 billion Rupees in the current quarter. There were recoveries and upgrades of 4.17 billion Rupees from the retail portfolio and 3.40 billion Rupees from the corporate portfolio. The gross NPAs written-off during the quarter aggregated to 14.26 billion Rupees. The Bank did not sell any gross NPAs in Q1 of 2021.

The total net non-performing assets were 86.75 billion Rupees at June 30, 2020 compared to 101.14 billion Rupees at March 31, 2020. The gross NPA ratio was 5.46% and the net NPA ratio was 1.23% at June 30, 2020. The provision coverage ratio, excluding write-offs, increased further to 78.6% as of June 30, 2020.

The loans and non-fund based outstanding to borrowers rated BB and below (excluding NPAs) were 171.10 billion Rupees at June 30, 2020 compared to 166.68 billion Rupees at March 31, 2020 of which:

- The non-fund based outstanding to non-performing borrowers was 48.29 billion Rupees at June 30, 2020 compared to 50.63 billion Rupees at March 31, 2020. The Bank holds provisions of 13.98 billion Rupees as of June 30, 2020 against this non-fund based outstanding;
- The fund and non-fund based outstanding to borrowers under RBI resolution schemes was 14.60 billion Rupees as of June 30, 2020 compared to 15.33 billion Rupees at March 31, 2020;

- The fund and non-fund outstanding to restructured borrowers was 1.68 billion Rupees at June 30, 2020; and
- The balance 106.53 billion Rupees of fund-based and non-fund based outstanding to borrowers rated BB and below, includes 70.69 billion Rupees related to cases with an outstanding greater than 1.00 billion Rupees and 35.84 billion Rupees related to cases with an outstanding of less than 1.00 billion Rupees.

Similar to the position at March 31, 2020, 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 June 30, 2020.

On slide 27 of the presentation, we have provided the movement in our BB and below portfolio during Q1 of 2021.

- The rating downgrades from investment grade categories (excluding fund-based outstanding to accounts that were also downgraded to NPA in the same period) were 14.73 billion Rupees in Q1 of 2021. The downgrades were granular in nature and spread across sectors;
- There were rating upgrades to the investment grade categories and a net decrease in outstanding of 8.60 billion Rupees; and
- There was a reduction of 1.71 billion Rupees in Q1 of 2021 due to slippage of some borrowers into the non-performing category and devolvement of non-fund based outstanding to existing NPAs.

As Sandeep mentioned, our approach in recent years has been to make provisions upfront for potential losses and risks. For example, in the case of certain corporate NPL additions, we had made provisions substantially covering the outstanding amount in the quarter of NPL addition, as opposed to phasing out the same as permitted by applicable regulations. In Q4 of 2020, we had on a prudent basis made Covid-19 related provisions of 27.25 billion Rupees. In Q1 of 2021, we have made additional Covid-19 related provisions of 55.50 billion Rupees on a prudent basis with the objective of completely cushioning the balance sheet from the impact of Covid-19, primarily taking into account the following:

- The lower rated i.e. BB and below corporate and SME portfolio;
- Loans under moratorium in portfolios such as commercial vehicle loans and builder loans that were experiencing challenges even before the outbreak of the pandemic; and
- Loans under moratorium in certain other portfolios based on the nature of the product, collateral, borrower segment and underlying economic activity.

These provisions, we believe, are prudent in the context of uncertainties around the trajectory of the pandemic and the pace and sustenance of the improvement in economic activity.

The total outstanding provisions at June 30, 2020, excluding provisions for non-performing assets considered in the computation of the provisioning coverage ratio, were 143.68 billion Rupees, or 2.3% of loans. These include the Covid-19 related provisions, provisions held against the non-fund based outstanding to NPAs, general provisions on standard assets and other standard asset provisions.

C. P&L Details

Net interest income increased by 19.9% year-on-year to 92.80 billion Rupees. Interest on income tax refund was 0.24 billion Rupees this quarter compared to 0.27 billion Rupees in the previous quarter and 1.84 billion Rupees in Q1 of last year. The net interest margin was at 3.69% in Q1 of 2021 compared to 3.61% in Q1 of last year and 3.87% in the previous quarter. The domestic NIM was at 3.91% in Q1 of 2021 compared to 4.14% in Q4 of 2020 and 3.93% in Q1 of 2020. International margins were at 0.33% in Q1 of 2021. The impact of interest on income tax refund and interest collections from NPAs was about 4 basis points, at a similar level compared to Q4 of 2020. The margins were lower in Q1 of 2021 compared to the previous quarter primarily due to the higher liquidity as deposit flows continued to be robust, with fewer lending opportunities.

Non-interest income, excluding treasury income, declined by 26.7% year-on-year to 23.80 billion Rupees in Q1 of 2021.

- Fee income declined by 30.8% year-on-year to 21.04 billion Rupees in Q1 of 2021 due to lower borrowing and investment activity by customers and lower consumer spends in the lockdown period. Retail fee income declined by 31.9% year-on-year and constituted about 70% of overall fees in the current quarter.
- Dividend income from subsidiaries was 1.87 billion Rupees in Q1 of 2021 compared to 1.91 billion Rupees in Q1 of 2020.

On Costs: The Bank's operating expenses decreased by 4.7% year-on-year in Q1 of 2021. The cost to income ratio, excluding gains from sale of stake in subsidiaries was 37.5% in Q1 of 2021 compared to 43.9% in Q4 of 2020 and 43.7% in Q1 of 2020. The employee expenses increased by 10.9% year-on-year during the quarter. The year-on-year increase in employee expenses reflects the increase in provisions on retirals and other employee benefits due to decline in yields the current quarter. The Bank had 96,682 employees at June 30, 2020. Non-employee expenses decreased by 15.1% year-on-year in Q1 of 2021. The decrease in non-employee expenses was due to lower business volumes during the lockdown period and lower administrative and infrastructure related expenses, partly offset by increase in technology related expenses. We would expect business related expenses to increase in future quarters as business volumes increase from the current levels.

The core operating profit increased by 14.8% year-on-year to 70.14 billion Rupees in Q1 of 2021. Excluding the impact of higher interest income on income tax refund in the corresponding quarter last year, the core operating profit grew by 18.0% year-on-year in Q1 of 2021.

The treasury income was 37.63 billion Rupees this quarter compared to 2.42 billion Rupees in Q4 of 2020. The gains of 30.36 billion rupees through sale of shares of ICICI Life and ICICI General are reflected in treasury gains for Q1-2021.

Provisions, other than Covid-19 related, declined by 41.5% y-o-y to 20.44 billion Rupees in Q1 of 2021.

The profit before tax increased by 14.0% to 31.83 billion Rupees in Q1 of 2021 compared to 27.93 billion Rupees in Q1 last year. The profit after tax increased by 36.2% year-on-year to 25.99 billion Rupees in Q1 of 2021 compared to 19.08 billion Rupees in Q1 last year.

D. Capital

The CET1 ratio, including profits for Q1 of 2021, was 13.60% at June 30, 2020 compared to 13.39% at March 31, 2020. Including profits for Q1 of 2021, the tier 1 ratio was 14.93% and total capital adequacy ratio was 16.32% at June 30, 2020.

E. Loan portfolio information

Retail loans as a proportion of total loans were 64.1% as of June 30, 2020. Including non-fund based outstanding, the share of the retail portfolio was 54.4% of the total portfolio as of June 30, 2020. As we had mentioned in our previous quarter's earnings call, 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. We monitor the performance at a sub-segment level and in view of the current operating environment, customer selection and underwriting norms have been reviewed and are being monitored constantly with necessary policy strengthening carried out at micro-market and sub-segment level.

The disbursements across various retail products which had virtually entirely stopped in the months of April and May, have picked up in June. The disbursements across home and auto loans decreased by about 65% and personal loans and commercial business decreased by about 85% in Q1 of 2021 compared to Q4 of 2020. The incremental sourcing during Q1 of 2021 was primarily to existing customers of the Bank.

Our mortgages portfolio was about 50% of the retail loan portfolio and about 32% of the total loan portfolio at June 30, 2020. Of the total mortgage portfolio, home loans comprise about 70%, top-up loans given to existing home loan customers based on their track record comprise 8%, office premises loans are about 5% and loan against property comprises about 17%. About 70% of the mortgage customers have an existing liability relationship with the Bank. The home loan portfolio is granular in nature with average ticket size of about 3.5 million Rupees. It is geographically well diversified and has been built on fundamental premises of cashflow assessment of the 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 and individuals with limited reliance on the value of collateral. The valuation of the property is carried out internally. average loan-to-value ratio of the loan against property loan portfolio is about 55%.

The commercial business portfolio, including commercial vehicles, comprises 4% of the overall portfolio. With the gradual opening up of economy, we have seen the utilisation of commercial vehicles go up. Electronic toll collections through FASTag, where we are a market leader, fell to about 35% of pre-Covid levels in the last week of April and 60% in May before improving to above 80% in June and the first fortnight of July mainly due to demand for transportation of essential commodities. The utilisation levels of commercial vehicles based on daily average distance covered have recovered to about 80% of pre-Covid levels in the first fortnight of July from a low of about 27% in April. The e-commerce sector, in particular, is seeing more than 100% logistics utilisation compared to pre-Covid levels. The Bank has a well-diversified commercial vehicle portfolio with the top 20 customers contributing to 3% of the book. Around 60% of our commercial vehicle portfolio comprises customers with long vintage. These customers are well seasoned and have witnessed multiple cycles in this business.

Auto loans comprise 5% of the overall portfolio. Overall the passenger car industry has started showing recovery and we understand that wholesale billing has reached 50% of the average of the last fiscal in June 2020. Retail trends too have been promising in the month of June and are estimated to have reached 70-80% of inquiries and bookings seen in pre-Covid times. Auto loan disbursement volumes in June 2020 have reached around 65% of the pre-Covid levels. About 87% of our auto loan portfolio comprises new vehicles and about 13% is used vehicles. About 50% of the new vehicle customers and 40% of the used vehicle customers have an existing relationship with the Bank.

Our personal loan and credit card portfolio is about 9% of the 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 customer base which provides 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 Bank has in place conservative underwriting norms in terms of higher income cut offs, lower leverage norms and loan caps, among others, for the remaining customers in the salaried segment. Our analysis of pre-moratorium bureau data suggests that the delinquencies in our unsecured retail portfolio were lower than both the industry average and the average for private sector banks. With respect to the moratorium, we see that, adjusted for usual attrition levels, about 97% of our personal loan and credit card customers who have availed the moratorium continue to receive salary credits. Credit card spends have recovered to around 65% of pre-Covid levels in June and we have observed a shift in consumer spending patterns with spends in categories such as travel and restaurants being replaced by health & wellness, insurance, electronics and e-commerce transactions.

Our rural portfolio comprises 9% of the total portfolio. Within this gold loans comprise 3% and kisan credit cards comprise 3%. Our overall micro finance loans are very small and negligible. The economic activity in the rural segment has been relatively less impacted by the pandemic. This, coupled with the satisfactory indicators Sandeep alluded to earlier, has led to healthy farm income and strong growth in the rural sector. The same has been witnessed in the increase in tractor sales. Disbursements in the rural portfolio have picked up and are close to pre-Covid levels. Gold loans grew by 32.0% year-on-year at June 30, 2020.

Our business banking portfolio accounts for 4% of the total portfolio. The average ticket size is 10-15 million Rupees. The portfolio is fully collateralized with about 85% of the portfolio having a collateral cover of more than 100%. The primary collateral is in the form of charge on current assets and is backed by self-occupied residential or commercial or industrial property. Our focus in this segment is on parameterised and programme based lending, digital channels, granularity, collateral and robust monitoring. The portfolio is well diversified, spans multiple sectors and industries and is well spread out geographically. Prior to the outbreak of Covid-19, the delinquency trends were low. With the gradual resumption of economic activities, credit summations in the overdraft accounts of small business customers have nearly reached pre-Covid levels in the last week of June 2020.

Even before the outbreak of Covid-19, we were using an artificial intelligence based pre-delinquency management engine which uses more than 100 variables to create multiple microsegments and accurately forecast almost 80% of our bounces for the right intervention at the right time. It was further sharpened during this quarter with additional markers such as zones under lockdown, industries directly impacted by Covid-19 and salary uploads, among others. We strengthened our collections team by re-organizing teams from sales, credit, operations and customer service. We have been able to connect to over 400,000 customers on a daily basis using Cloud Telephony and Voicebots to counsel them on the moratorium. We are using API based integrations with large payment channels to ensure timely credit of the overdue amount.

The corporate, international and SME portfolios were 35.9% of total loans as of June 30, 2020. Including non-fund based outstanding, the share of the corporate, international and SME portfolios was 45.6% of the total portfolio as of June 30, 2020.

The SME portfolio comprising exposures to companies with a turnover of upto 2.50 billion Rupees was 3% of total loans. Our focus in this portfolio is on granularity, collateral security and more parameterized lending. The average ticket size of the incremental sanctions in this portfolio has reduced by about 50% over the past few years and is about 0.10 billion Rupees now. The collateral cover has also improved significantly. Almost all the sanctions in financial year 2020 were through programme based lending. The customer sourcing has been largely through the internal channels of branches, wealth management and private banking. We have seen positive trends for customers as the lockdown has been gradually lifted. Besides certain industry segments like gems & jewellery, retail trade, hospitality and textiles in certain higher impacted regions, the recovery of cash flows for customers in other industry segments and regions has been positive. The average credit summation for clients who have opted for moratorium is similar to those who have not opted for moratorium.

As Sandeep mentioned earlier, in our corporate portfolio, we have emphasized reduction in concentration risk and improvement in the rating mix of business. We believe that our approach of granular exposures and focus on higher rated corporates is standing us in good stead in this environment, and we will continue with this approach. Our approach is to provide a full suite of banking products to corporate clients and their ecosystems of employees and business partners.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was 218.48 billion

Rupees or about 3% of our total loan portfolio. As mentioned in our previous calls, our portfolio is granular in nature with the larger exposures being to well-established builders. About 12% of our builder portfolio at June 30, 2020 was either rated BB and below internally or was classified as non-performing.

The total outstanding to NBFCs and HFCs was 441.62 billion Rupees at June 30, 2020 compared to 397.55 billion Rupees at March 31, 2020 or about 5% of our total outstanding loans at June 30, 2020 and the details are given on slide 31 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 sequential increase in the outstanding to NBFC and HFCs during the quarter reflects this. The proportion of the NBFC and HFC portfolio internally rated BB and below or non-performing is about 1%.

In line with the approach for the overseas business that we had articulated earlier, in our international business we focus on non-resident Indians for deposits, wealth and remittances businesses. We are also focused on deepening relationships with Indian corporates in international markets and multinational companies present in international as well as domestic market, for maximising the India-linked trade, transaction banking and lending opportunities. The non-India linked overseas corporate portfolio declined by about 16% or USD 460 million sequentially in Q1 of 2021.

RBI had permitted banks to grant moratorium on amounts falling due between March 1 – May 31. During the month of May, RBI extended the period for which moratorium could be granted till August 31. Various banks have adopted different approaches towards the grant of moratorium as well as disclosures regarding the same, including in the FY2020 financial statements. As per the latest Financial Stability Report released by RBI, about 31% of loans of private sector banks were under moratorium at April 30, 2020.

As Sandeep mentioned, our approach to the moratorium has been to permit the same for customers seeking it, after due engagement. From about 30.0% of total loans being under moratorium at end-April for us, the loans to customers where moratorium was effected for June repayments was about 17.5% of total loans at June 30, 2020. This trend is in line with our expectations and the gradual resumption of economic activities in June. For the moratorium up to May 31 we had granted automatic moratorium on certain categories, with customers being able to opt-out. For the moratorium from June 1 there is no opt-out category, other than for operational convenience reasons in some small ticket size portfolios like jewel loans, and all retail borrowers are required to opt-in for the moratorium in each of the months of June, July and August separately. About 90% of the portfolio under moratorium at end-June comprises loans that were also under moratorium at end-May. The percentage of loans under moratorium was higher for some portfolios such as commercial vehicles loans and builder loans, which had been experiencing challenges even prior to the outbreak of Covid-19. Apart from the above, there is no major difference in moratorium levels in the key portfolios, and hence the mix of moratorium loans would largely reflect the overall portfolio mix.

There would be a set of customers who availed moratorium prior to end-May and have not availed the moratorium from June so far, but have overdues. We are engaging with these customers and should they also come under moratorium, based on the pool of such loans the overall moratorium level may increase by up to a couple of percentage points.

F. Subsidiaries

The details of the financial performance of subsidiaries is covered in slides 37 to 38 and 59 to 64 in the investor presentation.

Value of new business of ICICI Life was 2.01 billion Rupees in Q1 of 2021 compared to 3.09 billion Rupees in Q1 of 2020. The new business margin increased from 21.7% in fiscal 2020 to 24.4% in Q1 of 2021. The protection based annualised premium equivalent remained stable year-on-year at 2.14 billion Rupees and accounted for 26.0% of the total annualised premium equivalent in Q1 of 2021. The new business premium was 14.99 billion Rupees in Q1 of 2021.

Gross Direct Premium Income of ICICI General declined by 5.3% year-on-year to 33.02 billion Rupees in Q1 of 2021 compared to 34.87 billion Rupees in Q1 of 2020. The combined ratio was 99.7% in Q1 of 2021 compared to 100.4% in Q1 of 2020. The profit after tax grew by 28.5% year-on-year to 3.98 billion Rupees in Q1 of 2021 from 3.10 billion Rupees in Q1 of 2020.

The profit after tax of ICICI AMC was 2.57 billion Rupees in the current quarter compared to 2.19 billion Rupees in Q1 of last year.

The profit after tax of ICICI Securities, on a consolidated basis, was 1.93 billion Rupees in the current quarter compared to 1.14 billion Rupees in Q1 of last year.

ICICI Bank Canada had a profit after tax of 4.8 million Canadian dollars in the current quarter compared to a net loss of 7.5 million Canadian dollars in Q4 of 2020 and profit of 11.8 million Canadian dollars in Q1 of 2020.

ICICI Bank UK had a net profit of 5.0 million US dollars this quarter compared to a net loss of 6.8 million US dollars in Q4 of 2020 and a net profit of 10.1 million US dollars in Q1 of 2020.

As mentioned in our earlier calls, 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 during the quarter and they are working on a further planned reduction going forward.

ICICI Home Finance had a profit after tax of 0.01 billion Rupees in the current quarter compared to a profit after tax of 0.64 billion Rupees in Q4 of 2020 and a loss of 0.06 billion Rupees in Q1 of 2020. The profit was higher in Q4 of 2020 due to gains from sell down of loans.

The consolidated profit after tax was 31.18 billion Rupees in Q1 of 2021 compared to 12.51 billion Rupees in Q4 of 2020 and 25.14 billion Rupees in Q1 of 2020.

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

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

Mahrukh Adajania: I have two questions: Firstly, of the moratorium 1.0 customers who have not shifted to moratorium 2.0, how many of them are overdue? You had mentioned that they are overdue, but could you give a proportion like some banks have said that 70% of the customers who had opted for moratorium 1.0 1.0 have paid, so any rough range that you could give?

Rakesh Jha: When I had said that we think the moratorium percentage could go up by a couple of percentage points, that is part of the portfolio of customers who had taken moratorium 1.0 and have not opted for moratorium 2.0, but would not have made the payment for the month of June 2020. As we speak, we would be engaging with them in terms of their plans for the payment. The loans to customers where moratorium was effected for June 2020 repayments were about 17.5% of total loans, that could go up by another couple of percentage points.

Mahrukh Adajania: And the other thing, I wanted to know about your provisioning drawdown policy. As in you have mentioned that your Covid provisions are against some BB loans that were in trouble during pre-Covid times and some other segments who have taken moratorium. So, what will be your drawdown policy as and when these accounts slip, you will draw down right, you will not make fresh provisions, is that the right way to look at it?

Rakesh Jha: Mahrukh, these provisions have been taken as a contingency provision. Like you said, I had broadly outlined the portfolios that we have taken into consideration while making this provision. So, as we see slippages happening from this portfolio, the provisions would be drawn down. Of course, I must add that the provision that we took in March quarter of Rs. 27.25 billion, we could have drawn down on that as well during the current quarter, because many of those customers would have made payments during the quarter. But, our plan is to let the moratorium period get over and then reassess the provisions instead of doing it in the interim period.

Mahrukh Adajania: But after the moratorium gets over, you will draw down, right, you will not keep that as a buffer?

Rakesh Jha: The intention of these provisions is to utilise them for the impact that could come from Covid-19. So, yes, we would utilise the provisions.

Mahrukh Adajania: And are they earmarked against specific pools of assets?

Rakesh Jha: The Covid-19 provision is earmarked against portfolios. It is not against individual loans. It is like a contingency provision. It would not be against specific loans per se.

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

Rahul Jain: Just the question again on moratorium to start with. So Rakesh, you said a couple of percentage points could further go up because some of the customers in moratorium 1.0 are still in the overdue categories. So the customers who started paying, have they paid the full June installment that was due or is that part collection, how do you classify those customers out of moratorium?

Rakesh Jha: Rahul, if a customer has taken moratorium, he would not be required to make payments from March to May for the moratorium 1.0. From June, the normal billing would have started for the customers who have not opted for moratorium 2.0. So, there will be a set of customers who would have paid their installments for the month of June and not opted for moratorium 2.0 and there will be a set of customers who would have not paid yet. This is the set of customers who we are engaging with and because of that we do expect that the loans to customers where moratorium was effected which were about 17.5% of total loans can go up by another couple of percentage points.

Rahul Jain: Again, so just to clarify, this collection of EMI would be 100% of the billed amount or it could be like a lower number also?

Rakesh Jha: Typically, full EMI gets paid.

Rahul Jain: The second question, Rakesh you talked about certain portfolios like CVs and builder loans facing stress. So, is it possible to get some more color on this 17.5% number? Can you throw some light on what could be the mix between secured and unsecured or individual portfolios like salaried versus self-employed, what could those cuts look like?

Rakesh Jha: Rahul, we believe that customers have got impacted by the pandemic, but there are a set of customers who have taken moratorium as an additional buffer as well. It is a mix of both factors which is there. Generally, what we have found is that the moratorium percentage across portfolios is not very divergent. The reason we called out commercial vehicles and the builder loans and maybe you can add dealer funding to that portfolio as well, these two or three segments are where the moratorium percentages would be much higher than the average of 17.5% that we have seen. For other portfolios it will be in that range, like in April around 30%, this time one can say around 18% to 20% will be the moratorium portfolio across various portfolios. For these commercial vehicles and builder loans, it is a higher percentage.

Rahul Jain: Just one more question, on provisions that you have made which is about 7.5% of the moratorium book. What is the policy now on a going forward basis? Do you plan to add some more contingent provisions in the next quarter or you think 7.5% is good enough taking into account the PDs and the LGDs also?

Rakesh Jha: Like we said, the objective here was to completely cushion the balance sheet against the possible impact from Covid-19. So, we have taken this provision. Going forward, we will of course have to look at how things evolve from here. Assuming a base case, we have made the entire provisions that we would have wanted to make from a contingency point of view. I think from September quarter and of course December and March quarter, once the moratorium gets over, in any case, one will start seeing the actual payment collections and delinquency numbers coming up.

Moderator: Thank you. The next question is from the line of Krishna Kumar from Sundaram Mutual Fund. Please go ahead.

Krishna Kumar: From all that you have done and the provisioning, credit costs and outlook, I just want to understand why do you want to raise more capital at this juncture given your fairly strong capital position at this point in time?

Rakesh Jha: For the capital raising that we have announced, we are in the process of seeking shareholders' approval for the raising. It is from the point of view of strengthening our capital adequacy further and from the point of view of competitive positioning as well if you look at the overall landscape. So, that is the objective which is there behind the capital raising. We see growth opportunities to be there from a medium-term perspective for the banking system, in particular the private banks, and we would want to be competitively placed to capitalize on that opportunity.

Krishna Kumar: Could you guide a little bit in terms of your thoughts across various loan portfolios in terms of growth for this year, given the way that you are opening up where are you focusing upon in terms of fresh lending, etc. We do see some peers have gone ahead with a lot of corporate lending. How are we thinking about the rest of the year in terms of numbers?

Rakesh Jha: I think from an overall perspective, as we have said earlier, we do not have any specific loan growth target. We will look at the opportunities, the risk and return and then look at the deployment of funds that we have. If you look across the portfolios on the corporate side, indeed there is some more opportunity to lend, but a lot of it is at very fine pricing, and if it is for longer maturity, then we are not sure whether at the current cost one would want to do it, but we are very happy to do short-term lending there. That is something that we will continue to explore. On the retail side, I think from the month of June we have started to see a pickup happening and we expect gradually the numbers to increase through the rest of the year. Rural, of course, has held up pretty well during this period and we expect that to be running at normal levels through the year. Lending will be a very focused thing, wherever we are comfortable with the underlying credit and the returns are appropriate, we are happy to lend, but at the same time, just because we have surplus liquidity, we would not be in any significant hurry to deploy the funds, because the negative carry of liquidity is not too much for us to worry and start lending in a big way. So, it will be a balance that we will do based on the risk and return opportunities that we see.

Moderator: Thank you very much. The next question is from the line of Parth Gutka from Macquarie. Please go ahead.

Nishant Shah: Hi, this is Nishant Shah from Macquarie. I have a couple of questions around your credit card business. If I look at the industry level data, your market share of spends is roughly around 300 to 400 basis points lower than your market share of cards outstanding. So could you perhaps explain why this is so, is this something to do with a lower share of corporate spends in your mix or could you quantify what is your 30-day active card number? So that is question one. Question two would be around the Amazon co-branded card. The terms of the card are fairly onerous. Could you probably explain some thoughts around that card? Why is such a high cash back and origination fee needed? And like just the thoughts around this card portfolio, how much of your cards today are being sourced from Amazon? And the final question is on the mix of internal versus external sourcing. If you could quantify that for your unsecured portfolio or like your card portfolio in specific, that will be helpful.

Anup Bagchi: As you know there are two ends of the spectrum of the credit card portfolio. There are pure transactors and there are people who will revolve and we have to balance both, because if it does not balance both, then we will always have a problem in cards, either on profitability or on the loan losses. Second, what has been our approach in building up the credit card portfolio. As you yourself have answered, we can bump up the spends by having a mix of very large commercial cards than individual. Now, on the commercial card spends, while volumes will come, it is unlikely that one will make any money out of it or if at all one makes money, it will be very less. And in our Bank, we are quite focused on two things. One, card is an integral part of personal banking portfolio because it is perhaps one of the very few products which has high frequency usage. So, from a brand perspective, both credit cards as well as debit cards are very important. This is not true for commercial cards, although we have a commercial card portfolio. As Rakesh and Sandeep have alluded earlier, we are quite focused that things should make money for us and it should be fair to the customer, and also be fair to the Bank. Most of the sourcing is now from our internal customers, primarily the affluent customers. We get well-profiled customers on the liability side, we create a pre-approved base and then go out and then give them and cross-sell other products including cards. Coming back to Amazon credit card, I think it is a fantastic product. The pickup of Amazon card has been very good. Everybody who is on the call, I would request all of you to pick up the Amazon card. I think you will really like it, whether it is the cashback of 5% or 3%, certainly, it is very beneficial to all of you. And let me also assure you, it is quite beneficial to the Bank. Because once it becomes a primary card of the customer, it is not that the customer is spending all of his life on Amazon. There are very few people who just use this card for purchases on Amazon and use some other cards for non-Amazon purchases. Slowly Amazon card becomes a primary card and then one will start to make money if the customer starts revolving. Our approach to credit card is to increase high quality card in force, ensure that there is activation and that we have lesser chronic revolvers on the card. We have more episodic revolvers in the card portfolio. For example, one of the reasons why people use our credit card is because if they are getting a 10% discount and they do not have the cash today, the revolver rates are low compared to the 10% discount that they get. So, for one month it is a very good instrument for getting discount and at a very reasonable rate. That is how the credit card movement is. If you see Bank's spends rate or if you look at the revolver rate, it is among the better quality. We are driving our cards portfolio and it is moving up. What we have done on cards as against physical cards where we are present, we have started to move to digital cards. As you know, for most of our cards one can now have a digital card issued instantly. So one does not have to wait for a physical card to reach to them, one can start using it on the e-commerce platform, and on e-commerce platforms digital cards get used much more than the physical cards. From the Bank's perspective, strategically, the push is more towards digital and more towards primary accounts and making our credit card a primary card and ensuring that there is a very good mix of transactors and revolvers. When there are transactors we make sure that we get a 360-degree view of the customers; when there are revolvers, we ensure that there are not too many chronic revolvers because the chronic revolvers do not last very long. We also ensure that our operating expenses are low because as you know credit card is a high operating cost business. We are reducing the operating expenses by, one, reducing the cost of acquisition which is through our own customer base and then making sure that the overall operating expenses of administering the card gets better because of the decongestion. We know our numbers and we know numbers of one of the listed card companies. When we look at it vis-à-vis them, we are quite favorably poised on the cards portfolio.

Nishant Shah: Could you quantify what percentage of your cards are on 30-days basis?

Anup Bagchi: We have not disclosed it. So I will not be able to quantify, but I will urge all of you to take the Amazon card. It is really very good.

Moderator: Thank you very much. The next question is from the line of Manish Karwa from Axis Capital. Please go ahead.

Manish Karwa: The cost-to-income ratio has come down this quarter obviously, the costs have declined sharply. Now, how much of this cost decline will be structural and how much do you think will come back once the growth starts picking up?

Rakesh Jha: Like I said Manish, I think a lot of the decline in costs is business linked. The retail sourcing costs, advertisement, sales promotion, etc., have been much lower this quarter and in line with the lower business opportunities. A lot of these costs will indeed bounce back as we start seeing the business moving up. Of course, we have also got a fair bit of benefit from lower travel costs, printing and stationery cost, some of the rental costs that we have been able to renegotiate, for this period. Some of those elements are also there. Of course, we continue to spend on technology. Technology cost is still increasing at a reasonable level. You saw our employee expenses. A large part of the increase which you are seeing in the employee expenses is coming from the retiral provisions itself, otherwise increase should be clearly be lower than what we saw for the quarter. So, it is a mixed bag, but a lot of the expenses will indeed come back with the business going up and that will also get reflected in fees, because fees have also come down meaningfully in this quarter.

Anup Bagchi: Rakesh, I just want to add on to what you are saying. See, our philosophy on the cost side has been to allocate the cost in such a way so that the good quality cost which is an investment, which is coming through operating expenses, goes towards generating our pre-provisioning operating profit. The other part of cost which does not have a direct linkage with the operating profit, we try and manage those costs very aggressively and efficiently. Actually, we do not run with the target of cost-to-income or an absolute level of costs. But what we certainly internally run with is to ensure that every rupee that is spent generates return from it and whether it is positively correlated with the business that you get. And, if I were to give you an example, from health, it is like bad cholesterol and good cholesterol. So actually all costs are not bad costs, there are good costs. We really think that some of the costs will bounce back as the market comes back to normalcy. We would certainly want those costs to come back when the market re-opens. By using this opportunity in the current environment, we would certainly cut costs which does not have either a direct linkage to business or because of the shift in customer demands, or because of the shift in consumer behavior. Those costs are no longer valid or no longer required, but we will try to take out costs from there and reinvest. But we would not want to put a cap on costs, but we certainly want to be accountable to ourselves to ensure that every rupee that we spend get returns on that.

Manish Karwa: Another question would be on investment. Now, obviously this quarter we have seen a very sharp jump in investment, more G-sec and other investments, quite likely because of a decent jump in deposits as well. But what is the nature of these investments, especially the non-G-sec related investment and is it longer duration investments that we are doing, can you just throw some light on that?

Rakesh Jha: If you look at the investment numbers, large part of the increase actually has come from the SLR book itself, if you are comparing from March to June there is about Rs. 370 billion increase in the SLR book. Regarding the balance, we had participated in TLTRO and we have invested in some of the corporate bonds. From a credit point of view, I would say we are very comfortable on that book. So even if there is any long duration that will be triple A, double A, otherwise, those will be shorter duration and rating wise very comfortable. Thus the increase in investments reflects one, the TLTRO and the other is the surplus liquidity which we clearly had during this quarter and we will have in the September quarter as well.

Manish Karwa: Rakesh, on the moratorium number of about 17% that we have, is there a wide dispersion between corporate segment versus retail versus SME segment, I think it is pretty obvious to assume that the SME and retail would be higher than corporate, but is it significantly different one versus the other?

Rakesh Jha: The number is 17.5% for us. As I said, if you are looking at the significant difference, that is there in the commercial vehicles portfolio, which we report as part of retail, the builder loans, the commercial real estate portfolio, there it is much higher than 17.5% and dealer funding, would again be much higher than 17%. Rest of it is reasonably at a similar level across the portfolio.

Anup Bagchi: Rakesh, if I may add to what you are saying, the way we look at moratorium is that if you look at parts of the portfolio. Actually, if you look at commercial vehicle or if you look at builder portfolio, it is not a new thing that has suddenly come into the market, they already had co-morbidity. And so, naturally the moratorium there would be higher. Now, for the rest of the portfolio which was performing quite well, moratorium will have two components, one is the stress component and the other one will be a liquidity insurance component. And when we look at all the data and Rakesh actually expanded every portfolio in great detail and the data on those portfolios, when we look at this, it certainly is that a very large proportion of them are using it for liquidity insurance and which is why I think as the economy resumed, we saw that in almost all places moratorium 2.0 is statistically lower than moratorium 1.0. So, it is a function of cash flows. We also see credit summations in our business banking book or the smaller SME book are increasing and we are tracking it very closely. At the end of it, all of us are actually focused not so much on moratorium, but we are trying to have a fix on what is the portfolio at risk and what will be the eventual credit losses. I am sure all of us are focused on that. Loans under moratorium is an intermediate number. Due to want of any other number we have started to focus on moratorium. Now we cannot track NPL. So what is the proxy for that? Moratorium is certainly becoming more than a proxy for that. So, I just wanted to give you some comfort that when we look at a portfolio and portfolio at risk, certainly things are rapidly improving. In July I must also add that because of localized lockdown, it had started to taper a little bit in those geographies, but rest of the geographies it has moved. If we look at our FASTag data, which is a very real proxy for commercial vehicles movement, there are many states where it is higher than pre-Covid level. Most parts of rural is higher than pre-Covid level. Of course, there are certain sectors where it is a factor of two things: how much will demand come back and how quickly will the demand come back. That will actually decide how leveraged is that sector. Our exposure itself is very small. In many places where this is moving, where demand has come back and it is moving up, we certainly see a corresponding increase in cash flows and credit summations and deposit balances etc. I understand the sole issue and we also track it; it is not that we do not track moratorium. But we certainly track more, we try to assess what is the portfolio at risk, what is the stress, what is the leverage and what is the underlying resilience of our consumer, how much reserves do they have and so on and so forth and which is why Rakesh has really given out a lot of details on each of the individual portfolios.

Moderator: Thank you. Next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Two questions: One is essentially how will the growth of current accounts and savings accounts be on a daily average basis on a quarter-on-quarter basis? Second is essentially on the corporate advances, other private sector banks seem to have reported a faster growth rate and so is this just conservatism or what do you think is driving that?

Rakesh Jha: On CASA while I talked about the y-o-y growth numbers, compared to Q4 as well the growth has been quite healthy both on savings and current account deposits. The overall increase in daily average balance for CASA was about Rs. 190 billion in Q1 compared to Q4. Within that, the increase in savings account deposits would have been about Rs. 150 billion and current account deposits around Rs. 30 billion. The trend has been positive in that sense. On the corporate portfolio, I do not think it is from credit risk point of view that there is any averseness. As I said, we are happy to do more of shorter term lending and it is a function of the return that we expect. We would of course not want to do very long-term lending even if it is to very high rated corporates because the pricing right now would not be appropriate from a long-term lending perspective. Otherwise there is no other difference in terms of our approach and going forward, maybe you could see better numbers as well. I would say that we also had a fair bit of repayments and prepayments which came in. A lot of this lending is actually akin to liquidity deployment, because these are three months, six months, less than 12 months kind of lending at pretty fine pricing.

Moderator: Thank you. Next question is from line of Mahesh from Kotak Securities. Please go ahead.

Mahesh: Just a couple of questions from my side. One, while you have kind of given a clarity that the international loan book keeps declining, if you could just give us a status update on it, if there have been any further developments on the situation on the ground as you kind of see any stress emerging? The second question is on the market side. You seem to be seeing very strong flow of deposits on the term side. Any thought process on how are you approaching this? And the third one is on the moratorium numbers. If you could just get us an update, does 17.5% represent customers who have not paid any installment for the last four months?

Rakesh Jha: On the overseas book, I talked about the numbers. You would have seen that in terms of how the portfolio has declined. There is no real incremental specific worry compared to where we were when we spoke in May. Of course, in Q4 we had a couple of reasonably large exposures which slipped into NPA, something that was a miss on our part. We continue to be focused on a planned exit from the non-India portfolio and that continues to be the case as we speak and during the year we would expect to see reasonable amount of reduction in that portfolio and we will be looking at all opportunities, whether it is getting prepayments or at the time of renewal reducing the limits which are there and also look at exiting through sale of exposure. We are looking at it from all perspectives in terms of bringing down the portfolio. Like we mentioned earlier, it is not because of any specific worry that we have on the portfolio. It is more to do with the fact that this is identified as being not core to our overseas business strategy. We would not really want to spend our bandwidth on this portfolio and that is the reason we are looking at bringing down the portfolio. On the margin, of course, we are seeing liquidity surpluses to be pretty high. Even as we speak in July that situation continues and the expectation is next few months it will continue. From our point of view, we have been reducing deposit rates, wherever possible. We have brought down the savings deposit rate also. Last quarter, we had reduced our retail term deposit rates and wholesale rates. So, at some stage, I guess, the deposit flows could also come down, but otherwise we will live with surplus liquidity and the impact it has on margin in the near-term. We said that in our last results call that our margin will be impacted by surplus liquidity and the lack of credit demand. That is something which has reflected in the current quarter numbers. Going forward, as and when we start seeing the loan growth pick up, is when the liquidity gets deployed and margin should see more stability in that sense.

Bulk of the decline that we have seen on the margin is coming from the surplus liquidity because what is happening is that surplus liquidity we are able to deploy it at a very minimal margin maybe 30 to 50 basis points and it adds a humongous number to the denominator while contributing only 30 basis points. Overall the margin comes down, but if you for a moment strip it out, then in terms of the loan yields or other investment yield, we have been able to bring down our deposit cost also in line. It is not that from a perspective of the business spreads that has declined meaningfully, it is more of the surplus liquidity which is adding to the denominator.

Mahesh: On the moratorium, you said the last time, there was an opt out, in a sense, customers had the option of paying but it was given to the overall portfolio. If you could kind of walk through what has happened? are those customers paying? How much have paid? Of your loan book under moratorium which is currently stands at 17.5%, how much of them have not paid anything so far?

Rakesh Jha: Mahesh, all the banks have said that largely the customers who have taken moratorium 2.0 were from the customers who had taken moratorium 1.0. In our case also that would be true. 90% of the customers who have taken moratorium 2.0 would have taken the moratorium 1.0. To that extent, they generally would have not been paying for the last three or four months. Some of them would have paid as well, but broadly it would be fair to assume that these are the moratorium 1.0 customers continuing into moratorium 2.0. There is a very small segment of customers who have not taken moratorium 1.0 and have kind of said that they want a break on payment from June.

Mahesh: Is it like customers actually have no balances at this point of time? Is the position of the customer quite weak? Or do you say that the customer is liquid, but he is uncertain about his future?

Rakesh Jha: So, it is a mix of both. The fact is there is uncertainty. For example, I talked about that there will be a fair number of salaried customers who have taken moratorium, but we find that based on the salary credit, that bulk of the customers, adjusted for the usual attrition, are getting their salary credits as well. So, it is a mix which is there. Moratorium like Anup kind of expanded earlier, if looked at as a single item is not a very good indicator of the quality of the credit per se, because it will have a mix of both the customers who have genuine challenge in repaying, but it will also have a good amount of customers who based on the uncertainty currently want to conserve on their cash and liquidity. That is the reason, for example, why, what was at 30% of our portfolio on 30th April, and like we had said at that point of time, that number would have gone up a bit in May as well, it has now come down to 17.5%. Of course, like I said, it can go up by a couple of percentage points more. So, let us say 20%. What is reflecting is the fact that it is not only because of some genuine payment challenge that customers have taken moratorium. When we look at a customer who has taken moratorium, we look at many other factors in terms of bureau score, cash flows, collateral and all of that and then the credit position for that customer.

Moderator: Thank you very much. The next question is from the line of Jai Mundra from Batlivala & Karani Securities. Please go ahead.

Jai Mundra: If you can share what is the progress that we have made on the the loans overdue as of Feb-end and where moratorium has been granted? As per your annual report, the balance was somewhere around Rs. 120 billion. What is the current overdue balance of these accounts?

Rakesh Jha: We have not disclosed that separately, but clearly there would have been a meaningful decline in that particular amount of portfolio. Of course, since then, there would have been other customers who would have taken moratorium and would have got into overdue category. If you look at the static position of those customers, there would have been a meaningful decline on that.

Jai Mundra: So that overdue number is not static, right, because those people who were in SMA-0 you would keep on adding. Is that the understanding or no? because I thought that pool was static because there is a DPD freeze there?

Rakesh Jha: So, the thing was that, the customers who have taken moratorium 1.0, of course, for them it would become static, but then there would be a set of customers who have not taken moratorium 2.0. So from June onwards the days past due would again start adding up. If a customer has taken moratorium 1.0 and 2.0, of course, then the position remains the same as it was.

Anup Bagchi: When we speak to our customers, it is very clear that whenever there is uncertainty, liquidity is an important criteria. So, liquidity insurance then becomes important criteria in this market. Actually one should not be too much averse in providing liquidity provided one establishes viability. If there is viability and it is liquidity, it is a cash flow mismatch issue and the customers will also come out well. From a bank's perspective because full interest is charged we do not lose anything on the NPV basis. So, it is not a very bad thing. We should not look at it very negatively if a customer has taken moratorium because in uncertain times, liquidity is a very good strength. We have to only look at viability of the situation and if there is viability then it is only a matter of a confidence issue. In many cases, because we have seen even from the best of the corporates and the best of the customers taking moratorium. So, it is confidence level, it is liquidity level, it is behavior level, but we certainly have to be mindful of the viability level. If there is viability and there is cash flow mismatch, somebody takes a moratorium, fine. Just like it is about protection, it is about any insurance. Viability and non-viability, is the real core issue, which is why we track in addition to moratorium, many other factors which Rakesh alluded to earlier.

Jai Mundra: So, in that sense, you also explained earlier I think that the PAR is much lower than the moratorium. So maybe can you provide some color on the PAR or maybe the viable and non-viable portion, is it significantly lower than moratorium or how you look at that number, because of course as you said you are more concerned on the viability and non-viability portion, but in terms of number if you can throw any light?

Anup Bagchi: In absence of many other things, moratorium has become a focal point. But what I am just trying to sort of communicate is that the issue is what is the portfolio at risk, what are the factors that a portfolio has, how are we monitoring our portfolio, which is why I think Rakesh, this time decided to give a far more extensive disclosure than perhaps we have ever given. It is very important that all of us understand how we think through this issue, how we are tackling this issue, what is our approach to this issue and how do we look at our portfolio, how will you look at provisioning, how do we look at continuously provisioning, how do we look at fundraising in this context. We certainly expect we will be among the stronger banks who will be able to then capture a much larger opportunity at that point of time. We should be well positioned to capture that opportunity by way of liability franchise, by way of very deep understanding of the customer, by way of our underwriting and making it better and more agile, looking at micro market, looking at deeper customer segments and of course, also supported by capital. So that is how we are positioning our Bank overall. We certainly think and we all should pray and hope that this passes soon. When we are on the other part of the tunnel, certainly, we are confident, and we will emerge much stronger. That is how we are working hard to position our bank accordingly. Because the banking capacity in some ways will get restricted given whatever is happening. So, that is our position.

Jai Mundra: In your commentary, you mentioned that the reduction from 30% to 17.5% is as per your expectations. Just wanted to check if you can broadly share your expectation as to what would this book become by August end?

Rakesh Jha: We will not be able to make such forward-looking statements in terms of what that position will be at August 31st.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing remarks. Over to you.

Rakesh Jha: Thank you, everyone for spending time this Saturday evening. Apologies for the questions that we could not take. Anindya and I will be happy to take that subsequently. Stay safe and take care. Thank you. Bye.

Moderator: Thank you very much members of management. Ladies and gentlemen, on behalf of ICICI Bank, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.