ICICI Bank Limited

Earnings conference call - Quarter ended September 30, 2020 (Q2-2021)

October 31, 2020

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Moderator: Ladies and gentlemen, good day and welcome to ICICI Bank Q2-2021 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 results for Q2 of FY2021. Joining us today on this call are Vishakha, Anup, Sandeep Batra, Rakesh and Anindya.

We thank you for joining us and hope that you are safe and in good health. We thank the medical and healthcare fraternity, sanitation workers, providers of all essential services and police, who are enabling us to navigate these unprecedented times. We express our gratitude to our colleagues for their dedication in serving customers despite the current challenges. Most of our branches and ATMs across the country are operational, along with our digital channels. Most of our employees except for those working at the branches and in functions such as operations and technology, continue to work from home.

The Bank's Economic Research Group publishes a proprietary Ultra Frequency Index, comprising several high frequency indicators, to assess the resumption in economic activity. The Ultra Frequency Index was 94 for the week ending October 25, indicating that economic activity is at about 94% of the pre-COVID levels. Several high frequency indicators such as power consumption, fuel consumption, e-way bill generation and electronic toll collections were close to, and in some cases higher than, pre-Covid levels in the first two to three weeks of October. In September, GST collections were about 90% of pre-Covid levels, and there was a sharp month-on-month increase in the manufacturing PMI reflecting increasing production and stocking of inventories ahead of the festive season. Vehicle registrations in September have increased over the previous month and data released by auto companies suggests a sharp sequential and year-on-year growth in passenger vehicle and two-wheeler sales. We have also observed an increase in property registrations in the month of September compared to August. A bumper kharif crop, normal monsoons, and increase in tractor sales point to a stronger rural economy. Even as we keep a close eye on the trajectory of the pandemic, all the above indicators suggest an improvement in the economy in the second half of this financial year.

These trends are also reflected in the business and results of ICICI Bank, as we continue to steadily grow our business, within our well-defined framework.

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

Our approach to risk-calibrated growth in core operating profit is to have a 360-degree customer centric approach, tap opportunities across ecosystems, leverage internal synergies, build partnerships and decongest processes. The core operating profit increased by 18.1% year-on-year to 77.19 billion Rupees in Q2 of 2021. The profit after tax was 42.51 billion Rupees in Q2 of 2021 compared to 6.55 billion Rupees in Q2 last year.

2. Further enhancing our strong deposit franchise

Deposit growth continued to be strong, with 19.6% year-on-year growth in total deposits at September 30, 2020. During the quarter, average current account deposits increased by 20.7% year-on-year and average savings account deposits by 15.4% year-on-year. The liquidity coverage ratio for the quarter was 150%, higher than the previous quarter, reflecting significant surplus liquidity. Our cost of deposits continues to be among the lowest in the system.

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

Post the easing of restrictions, there has been a substantial month-on-month increase in disbursements across retail products. Mortgage disbursements during the quarter crossed pre-Covid levels and reached an all-time monthly high in September. Auto loan disbursements have continued to increase from June and have reached pre-Covid levels in September reflecting the rise in passenger car sales. Disbursements across the rural portfolio have crossed pre-Covid levels in August and September. The overall retail loan portfolio grew by 12.8% year-on-year and 6.2% sequentially. The domestic loan portfolio grew by 10.3% year-on-year and 4.5% sequentially. The overseas branches portfolio and within that, the non-India linked corporate portfolio, declined both year-on-year and sequentially in line with the approach which we have articulated earlier.

4. Leveraging digital across our business

Digital is core to our strategy of integrating across ecosystems, smooth onboarding and transactions, growth in liabilities and analytics for risk selection. We have continued to enhance our digital delivery with a range of new offerings and solutions. During this quarter, we launched the iStartup 2.0 programme, which enables startups to open current accounts digitally and instantly at the time of incorporation. It also offers startups a range of banking and non-banking services needed to expand their business digitally. We have seen an increase in the adoption of our newly launched services and platforms such as video KYC and WhatsApp banking. In September, we introduced new features on our WhatsApp banking platform which enable customers to create fixed deposits, pay their utility bills and access details of trade finance instantly. We have also introduced forex on mobile through our InstaBIZ platform for our small business customers.

5. Protecting the balance sheet from potential risks

Even as the robust growth in core operating profit demonstrates the strength of our franchise and our ability to capitalise on the ongoing recovery in economic activity, the portfolio trends have further enhanced our confidence in the robustness of our underwriting, and our confidence that the provisions made in the March and June quarters will completely cushion the balance sheet from potential credit losses due to Covid-19.

Loans under moratorium had decreased substantially from April-end to June-end and declined further at August-end. We had articulated that moratorium levels were not conclusive indicators of eventual outcomes. This is borne out by the trends in collections across the loan portfolio in September and October, which were either in line with or better than our expectations. Rakesh will share further information on these trends.

The gross NPA additions in Q2 of 2021 were 30.17 billion Rupees, and recoveries and upgrades were 19.45 billion Rupees. The provision coverage ratio on non-performing loans increased further to 81.5% as of September 30, 2020. During the quarter, the Bank did not utilise the Covid-19 related provisions made in earlier quarters.

14.10 billion Rupees of loans were not classified as non-performing pursuant to the Supreme Court’s interim order directing that accounts which were not classified as non-performing till August 31, 2020, should not be classified as such until further orders. However, on a prudent basis, the Bank has made provisions of 4.97 billion Rupees in respect of these accounts. These provisions are included in the Covid-19 related provisions at September 30, 2020, which stood at 87.72 billion Rupees.

As expected, in the second half of fiscal 2021, the banking system, including us, would see higher gross NPA additions as well as some resolution of loans as per the framework announced by RBI given the disruption to economic activity in the first half and the dissipation of the moratorium impact. We would maintain the transparency and strength of our balance sheet by ensuring that appropriate provisions are held against any portfolio under resolution.

To summarise on asset quality and provisioning: collection and overdue trends are close to pre-Covid levels and are in line with or better than our expectations. We are confident that the Covid-19 provisions we have already made will completely cushion the balance sheet from potential credit losses which may arise due to the pandemic. We expect a normalisation of credit costs in fiscal 2022 based on our current expectations of economic activity and portfolio trends.

6. Maintaining a strong capital base

During the quarter, the Bank raised equity capital of 150.00 billion Rupees with the objective of further strengthening our capital adequacy and improving our competitive position. We thank our investors for their support. As of September 30, 2020, the Bank had a net worth of about 1.4 trillion Rupees, and a CET-1 ratio of 16.54% including the profits for H1 of 2021. This strong capital position does not include the value of the Bank's investments in listed subsidiaries, of about 705 billion Rupees.

Looking ahead, we see wide-ranging opportunities for risk calibrated growth in the core operating profit. We believe our high quality digital platforms and focus on micro-markets, backed by our robust deposit franchise, prudent risk management practices and strong capital ratios put us in a good position to grow sustainably.

We will continue to focus on delivering consistent and predictable returns to our shareholders.

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, portfolio trends and performance of subsidiaries.

A. Balance sheet growth

The overall loan portfolio grew by 6.4% year-on-year at September 30, 2020. The domestic loan growth was 10.3% year-on-year at September 30, 2020 compared to 9.6% year-on-year at June 30, 2020. The domestic loan book increased by 4.5% sequentially. The retail portfolio grew by 12.8% year-on-year and 6.2% sequentially. Within the retail portfolio, the mortgage loan portfolio grew by 11.0% year-on-year, business banking by 37.0%, rural lending by 18.7%, commercial vehicle and equipment loans by 10.2% and auto loan portfolio by 2.4%. Growth in the personal loan and credit card portfolio was 14.4%. This portfolio was 600.02 billion Rupees or 9.2% of the overall loan book at September 30, 2020.

The overall disbursements in the retail portfolio have increased substantially in Q2 compared to Q1. Sandeep has already talked about the trends in mortgages, auto loans and the rural portfolio. While the disbursements in the commercial vehicle and personal loan portfolios have increased in Q2 compared to Q1, they continue to remain below pre-Covid levels. Credit card spends have recovered to about 85% of pre-Covid levels in September led by increased spends in categories such as health & wellness, electronics and e-commerce. We expect the momentum in spends to continue on account of the festive season.

The Bank has extended the Emergency Credit Line Guarantee Scheme to eligible MSME borrowers based on its credit assessment. Till October 28, we have sanctioned about 160 billion Rupees to about 187,000 borrowers under this scheme, of which about 106 billion Rupees has been disbursed. This is reflected in the growth of the business banking portfolio. The SME business comprising borrowers with a turnover of less than 2.5 billion Rupees grew by 22.4% year-on-year to 233.41 billion Rupees at September 30, 2020.

The growth of the performing domestic corporate portfolio was about 7% year-on-year. In addition, we have made investments in high-rated corporate bonds by utilising TLTRO funds during H1 of 2021.

The international loan portfolio declined by 32.3% year-on-year in US dollar terms at September 30, 2020. The international loan portfolio was 6.5% of the overall loan book at September 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. The non-India linked corporate portfolio reduced by 48.3% year-on-year and 19.6% sequentially at September 30, 2020.

Coming to the funding side: We continue to focus on growing the daily average CASA balances and retail term deposits. Average savings account deposits increased by 15.4% year-on-year and average current account deposits increased by 20.7% year-on-year during the quarter. Total term deposits grew by 26.1% year-on-year to 4.7 trillion Rupees at September 30, 2020.

B. Credit quality

Gross NPA additions during the quarter were 30.17 billion Rupees. This excludes 14.10 billion Rupees of loans not classified as non-performing pursuant to the Supreme Court's interim order. The gross NPA additions from the retail portfolio were 17.49 billion Rupees. Corporate and SME gross NPA additions were 12.68 billion Rupees, of which 12.12 billion Rupees comprised portfolio rated BB and below at June 30, 2020. The details are given on slide 25 of the investor presentation.

Recoveries and upgrades, excluding write-offs, were 19.45 billion Rupees in the current quarter. There were recoveries and upgrades of 6.83 billion Rupees from the retail portfolio. The recoveries from the corporate and SME portfolio were 12.62 billion Rupees. The gross NPAs written-off during the quarter were 24.69 billion Rupees. The Bank did not sell any NPAs in the quarter.

The net non-performing assets were 71.88 billion Rupees at September 30, 2020 compared to 86.75 billion Rupees at June 30, 2020. The gross NPA ratio was 5.17% and the net NPA ratio was 1.00% at September 30, 2020. Including loans not classified as non-performing pursuant to the Supreme Court's interim order, the gross NPA ratio on a proforma basis would have been 5.36% at September 30, 2020 compared to 5.46% at June 30, 2020 and the net NPA ratio would have been 1.12% at September 30, 2020 compared to 1.23% at June 30, 2020.

As Sandeep mentioned, the trends in collections across the loan portfolio in September and October were close to pre-Covid levels and in line with or better than our expectations. The demand resolution for the retail EMI and credit card portfolio was about 97% of pre-Covid levels in the month of September. Compared to the level of loans which were under moratorium, the level of overdues in the portfolio is substantially lower and more comparable to overdue levels pre-Covid. The percentage of the performing retail and credit card portfolio which was overdue at September 30, 2020 was about 4% higher than the normal pre-Covid trend, which we would expect to moderate as collections pick up further. The percentage of the performing rural portfolio which was overdue at September 30, 2020 was about 1% higher than the normal pre-Covid trend. The collection trend on the SME and business banking portfolio has been quite good and the percentage of performing portfolio overdue is now quite similar to the pre-Covid levels. In the performing domestic and overseas corporate loan portfolio, less than 3.0% of the portfolio was overdue at September 30, 2020.

In August 2020, RBI proposed a resolution framework for borrowers impacted by the pandemic, that were classified as standard and not in default for more than 30 days at March 1, 2020 and continue to be classified as standard till the date of invocation of resolution. The fund based outstanding of corporate and SME borrowers from whom we have received applications for resolution under the above framework till recently, is about 21 billion Rupees. Our current expectation is that corporate loans under resolution would be less than 1% of the total loan portfolio of the Bank. While resolution would result in asset classification benefit for the borrower on implementation of the resolution, we would maintain the transparency and strength of our balance sheet by ensuring that appropriate provisions are held against any portfolio under resolution.

C. P&L Details

Net interest income increased by 16.2% year-on-year to 93.66 billion Rupees. The net interest margin was at 3.57% in Q2 of 2021 compared to 3.69% in the previous quarter and 3.64% in Q2 of last year. The domestic NIM was at 3.72% in Q2 of 2021 compared to

3.91% in Q1 and 3.92% in Q2 last year. International margins were at 0.26%. The margins were lower in Q2 compared to the previous quarter primarily due to higher liquidity. The cost of deposits was 4.22% in Q2 compared to 4.53% in Q1.

Non-interest income, excluding treasury income, declined by 9.5% year-on-year to 34.86 billion Rupees in Q2 of 2021. The non-interest income grew by 46.5% sequentially.

- Fee income was 31.39 billion Rupees in Q2. Though the fee income declined by 9.7% year-on-year, it grew by about 49% sequentially reflecting the increase in customer spending and borrowing and investment activity in Q2 compared to the previous quarter
- Dividend income from subsidiaries was 3.34 billion Rupees in Q2 of 2021 compared to 3.77 billion Rupees in Q2 of 2020

On Costs: The Bank's operating expenses decreased by 4.6% year-on-year in Q2. The operating expenses increased by 10.5% sequentially. The employee expenses decreased by 8.1% year-on-year mainly due to decrease in provisions on retirals and other employee benefits during the quarter compared to the corresponding quarter of the previous year. This reflects the increase in yields of government securities during the current quarter compared to a decline in yields in Q2 of last year. The employee expenses increased marginally by 1.0% in H1 of 2021 compared to H1 of last year. The Bank had 92,127 employees at September 30, 2020. We expect the employee count to increase during the second half of fiscal 2021. Non-employee expenses decreased by 2.2% year-on-year in Q2 of 2021 due to lower business volumes and administrative and infrastructure related expenses, partly offset by increase in technology related expenses. The non-employee expenses increased by 27.7% sequentially reflecting the increase in business volumes during the quarter. We would expect business related expenses to increase in future quarters as business volumes increase from the current levels. We continue to make investments in technology and to grow our franchise.

The core operating profit increased by 18.1% year-on-year to 77.19 billion Rupees in Q2 of 2021. The core operating profit grew by 16.5% during H1 of 2021.
The treasury income was 5.42 billion Rupees this quarter compared to 37.63 billion Rupees in Q1. The treasury income this quarter includes 3.05 billion Rupees from sale of 2% stake in ICICI Securities which was done to meet the minimum public shareholding requirement for a listed company by March 2021. The treasury income in Q1 included gains of 30.36 billion rupees through sale of shares of ICICI Life and ICICI General.

Provisions, other than Covid-19 related, were 24.98 billion Rupees in this quarter compared to 25.07 billion Rupees in Q2 last year. The provision coverage ratio increased further to 81.5% at September 30, 2020. We have not utilized any Covid-19 related provisions during the current quarter.

At June 30, 2020, the Bank held Covid-19 related provisions of 82.75 billion Rupees. During the quarter, the Bank made provisions of 4.97 billion Rupees on accounts not classified as non-performing pursuant to the Supreme Court's interim order. At September 30, 2020, the Bank held Covid-19 related provisions of 87.72 billion Rupees. As Sandeep mentioned, we are confident that these provisions will completely cushion the balance sheet from the potential credit losses which may arise due to the pandemic. We would utilise these provisions in future periods as required.

The total outstanding provisions at September 30, 2020, excluding provisions for non-performing assets considered in the computation of the provisioning coverage ratio, were 147.31 billion Rupees, or 2.26% of loans. These include Covid-19 related provisions, provisions held against the non-fund based outstanding to NPAs, general provisions on standard assets and other standard asset provisions.

The profit before tax increased by 20.6% to 52.66 billion Rupees in Q2 of 2021 compared to 43.67 billion Rupees in Q2 last year. The tax expense was 10.15 billion in Q2 of 2021 compared to 37.12 billion Rupees in the corresponding quarter last year. The tax expense in Q2 last year included a one-time additional charge due to re-measurement of accumulated deferred tax assets at the revised marginal tax rate. The profit after tax was 42.51 billion Rupees in Q2 this year compared to 6.55 billion Rupees in Q2 of last year. The standalone RoE this quarter was 13.2%.

The consolidated profit after tax was 48.82 billion Rupees this quarter compared to 31.18 billion Rupees in Q1 and 11.31 billion Rupees in Q2 last year. The consolidated tax expense in Q2 last year included a one-time additional charge due to re-measurement of deferred tax assets at the revised marginal tax rate. The consolidated RoE was 14.2% this quarter.

D. Capital

The CET1 ratio, including profits for H1 of 2021, was 16.54% at September 30, 2020 compared to 13.60% at June 30, 2020. Including profits for H1 of 2021, the Tier 1 ratio was 17.89% and the total capital adequacy ratio was 19.33% at September 30, 2020.

E. Loan portfolio information

We are focused on growing our loan portfolio in a granular manner with a focus on risk and reward. Our retail portfolio is largely secured with mortgage loans comprising about half of it. It is 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. Our personal loans and credit card portfolio largely comprises salaried individuals and has been built up by cross-selling to the existing customer base which provides liability information for credit assessment. Adjusted for usual attrition levels, about 99% of our personal loan and credit card customers, having salary accounts with us, continue to receive salary credits in the month of September. Our growth in the business banking segment is driven by parameterised and programme based lending, digital channels, granularity, collateral and robust monitoring. In the corporate portfolio, our approach is to provide a full suite of banking products to corporate clients and their ecosystems of employees and business partners. The average daily credit summations in the overdraft accounts of the SME and business banking customers in aggregate have reached pre-Covid levels in September. We have given further information on our portfolio in slides 30 to 33 of our investor presentation.

The loans and non-fund based outstanding to corporate and SME borrowers rated BB and below (excluding NPAs) was 161.67 billion Rupees at September 30, 2020 compared to 171.10 billion Rupees at June 30, 2020, details of which are given on slide 34 of the investor presentation.

Other than two accounts, one each in the telecom and construction sectors, the maximum single borrower outstanding in the BB and below portfolio was less than 6 billion Rupees at September 30, 2020.

On slide 35 and 36 of the presentation, we have provided the movement in our BB and below portfolio during Q2 and H1 of 2021. In Q2 of 2021:

- The rating downgrades from investment grade categories were 16.98 billion Rupees. These were spread across sectors;
- There were rating upgrades to the investment grade categories and a net decrease in outstanding of 14.29 billion Rupees; and
- There was a reduction of 12.12 billion Rupees due to slippage of some borrowers into the non-performing category and devolvement of non-fund based outstanding to existing NPAs.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was 231.86 billion Rupees at September 30, 2020 or about 3.5% 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 September 30, 2020 was either rated BB and below internally or was classified as non-performing.

The total outstanding to NBFCs and HFCs was 501.31 billion Rupees at September 30, 2020 compared to 441.62 billion Rupees at June 30, 2020 or about 5% of our total outstanding loans at September 30, 2020. The details are given on slide 38 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%.

Coming to our overseas portfolio, 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 5.47 billion US dollars at September 30, 2020 compared to 6.41 billion US dollars at June 30, 2020 and 8.35 billion US dollars at September 30, 2019. 66% of the outstanding at September 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. 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 we would continue to pursue risk-calibrated opportunities in this segment. 7% of the outstanding was to companies owned by NRIs or PIOs. 10% of the outstanding was to other non-India companies which is less than 1% of the total portfolio of the Bank.

F. Subsidiaries

The details of the financial performance of subsidiaries is covered in slides 43-44 and 64-69 in the investor presentation.

Value of new business of ICICI Life was 6.02 billion Rupees in H1 of 2021 The new business margin increased from 21.7% in fiscal 2020 to 26.3% in H1 of 2021. The new business margin was 27.4% in Q2 of 2021. The protection based annualised premium equivalent was 4.46 billion Rupees and accounted for 19.5% of the total annualised premium equivalent in H1 of 2021. ICICI Life continued to have a well-diversified distribution mix with distribution channels other than ICICI Bank contributing about 65% of the annualised premium equivalent in H1 of 2021. The new business premium was 44.56 billion Rupees in H1 of 2021.

Gross Direct Premium Income of ICICI General increased by 0.8% year-on-year to 64.91 billion Rupees in H1 of 2021 compared to 64.40 billion Rupees in H1 of 2020. The combined ratio was 99.8% in H1 of 2021 compared to 101.5% in H1 of 2020. The profit after tax grew by 35.0% year-on-year to 4.16 billion Rupees this quarter from 3.08 billion Rupees in Q2 last year.

The profit after tax of ICICI AMC was 2.82 billion Rupees in the current quarter compared to 3.05 billion Rupees in Q2 of last year.

The profit after tax of ICICI Securities, on a consolidated basis, was 2.78 billion Rupees in the current quarter compared to 1.35 billion Rupees in Q2 of last year.

ICICI Bank Canada had a profit after tax of 5.1 million Canadian dollars in the current quarter compared to 4.8 million Canadian dollars in Q1 of 2021 and 14.2 million Canadian dollars in Q2 of 2020. The loan book of ICICI Bank Canada at September 30, 2020 declined by 3.8% year-on-year and 2.7% sequentially.

ICICI Bank UK had a net profit of 4.9 million US dollars this quarter compared to 11.9 million US dollars in Q2 of last year and 5.0 million US dollars in Q1 of 2021. The loan book of ICICI Bank UK at September 30, 2020 declined by 14.6% year-on-year and was at a similar level compared to June 30, 2020.

ICICI Home Finance had a profit after tax of 0.02 billion Rupees in the current quarter compared to a profit after tax of 0.01 billion Rupees in Q1 of 2021 and a loss of 0.61 billion Rupees in Q2 of 2020.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nitin Agarwal from Motilal Oswal.

Nitin Agarwal: Firstly, on the NPA formation which we said will pick up during the second half, do you think that there is a probability that it can spillover to H1-2022 and some bit of the restructuring and NPA problems can pushover therefore to the first quarter of FY2022 or we will largely see this activity getting completed in third quarter and fourth quarter of FY2021?

Rakesh Jha: With the moratorium period having got over on August 31, of course this quarter had only one month of payment which was due during September. So, to that extent December and March quarters will definitely have higher additions to NPAs for the banking system. It is possible that there could be a spillover to the first quarter of next financial year. For example, if the restructuring happens and some of those loans do slip after restructuring. But our own sense would be that given that the stress has kind of initiated from March of this year onwards, a fair bit of additions will happen and a large part of that would end up happening in the current financial year itself. In any case, on the provisions that we have taken related to Covid, we have assessed the impact through the period. So it's not that we have taken provisions only for numbers to be added up to this fiscal year end. So, to that extent we are extremely comfortable. The actual additions, we will see how it plays out.

Nitin Agarwal: You mentioned the collection efficiencies across the board. If you can again just clarify as to how much it is at the portfolio level and if you can share some split between secured and unsecured retail.

Rakesh Jha: I talked about the demand resolution for the retail EMI product and credit card portfolio which was about 97% of the pre-Covid levels in the month of September. We have not shared the split between secured and unsecured. I think generically speaking, we have talked about it earlier that for example, a portfolio like commercial vehicle was under some stress for banks even prior to Covid-19. So it would be logical to expect that the demand resolution in that segment could be a bit lower than the average. Otherwise across the portfolio, it's pretty similar.

Nitin Agarwal: This quarter we have closed 30 branches in the metro region. Any color on that and how do we see the cost-to-income ratios panning over the next 18 to 24 months, given the rise in usage of digital channels?

Rakesh Jha: I don't think there is much to read in the number of branches. It's an ongoing exercise that the business teams do on a regular basis to look at branches, their profitability, look at whether you need to realign, relocate or reenergize branches. I think it's a part of that process. Going forward, like I said, we do expect to add employees and branches and invest in technology and the franchise for growth. We don't have any particular outlook on cost–to-income ratios. All our metrics internally are aligned towards risk calibrated growth in core operating profit. But just like I covered in my opening remarks that given that some of the business linked expenses have come off because of lower level of business, those expenses will definitely go up in the second half of the fiscal year as business picks up even more from the current level, and we would continue to invest in technology. On employee expenses, I highlighted the fact that in this quarter we had some benefit on the lower provision for retirals because of the movement in interest rate, because of the dearness allowance assumption that we make for our pension calculation. So the H1-2021 numbers would be more reflective there.

Moderator: The next question is from the line of Dhaval Gada from DSP Investment Managers.

Dhaval Gada: I had two questions, first was related to the normalization of credit costs in FY2022. Just wanted to clarify, pre-Covid, our normalized level of provisioning was expected to be 25% of pre-provision operating profit, is that still the objective and if you could also help in understanding the restructuring on the retail portfolio and overall confidence on this credit cost number. So that is the first question. The second is related to, if we see data on the downgrades to the corporate and SME BB & below portfolio, on a four quarter rolling basis just to eliminate volatility, the average comes to around 3.5% of the corporate and SME loan book. I just wanted to understand if this is the normal level or based on past experience this number can be much lower in the coming quarters, some color around that. Lastly a data keeping question, if you could repeat the overdue numbers of each of the products, I think you had mentioned 4% and 1%, so just if you could repeat that, it would be quite useful. Yeah, those were the three things.

Rakesh Jha: On the provisioning you are right Dhaval that our objective is to be at 25% of the core operating profit, that is the risk calibration that we are talking about and that number can obviously vary a bit through a cycle. It can vary a bit based on the portfolio composition. But that is what our objective will be and when we talk about normalized credit cost that is what we typically look at.

On the restructuring part, I talked about Rs. 21 billion of corporate and SME loans in respect of which we have received application for restructuring. On the retail side, it is a bit too early to talk about this. I think over the next couple of months will have a complete sense on that. But when we talk about our trends and our numbers, we are considering all of that and we talk about the comfort that we have on provisioning.

On the corporate and SME BB & below portfolio, one can compute a moving average of last four quarters, but given that it is not a granular portfolio like retail, it is very difficult to have a specific estimate. I think for the current financial year, from the very beginning in March we have been saying that there could be higher slippages into BB & below book because of the current environment. For example, going forward if some restructurings happen, that could also result in some increase here. So difficult to kind of talk about what a number or an average could be for slippages into BB & below. I will just reiterate that our focus on new business has largely been on A- and above categories from which the slippage to BB & below generically in the past has been low. So we would expect going forward, once we are beyond this Covid period, the BB & below book composition to be pretty low.

On overdues, the number that I mentioned was that on the retail and the credit card portfolio, the portfolio which was overdue at September 30 was about 4% higher than the normal pre-Covid trend. We do expect this 4% higher number to moderate as collection picks up further into the December quarter. On the rural portfolio, the overdue number was about 1% higher than the normal pre-Covid trend. On the SME and business banking portfolio, there we are pretty much back to overdue level being pretty similar to the pre-Covid level. In the performing domestic and overseas corporate loan portfolio, less than 3% of the portfolio was overdue at September 30.

Moderator: The next question is from the line of Mahrukh Adajania from Elara Capital.

Mahrukh Adajania: I have a couple of questions, firstly on collection efficiency. You said the overall book is 97% of pre-Covid level, so what was the pre-Covid level? Was it 97%-98%, what was that figure? So, it was 97% of what and this collection efficiency is as of September 30, that is the numerator of September and denominator of September, is that correct?

Rakesh Jha: Yes Mahrukh, so that is correct. It is for the month of September like I said and as we call it the demand resolution. In terms of what was the total billing which was there and against that what the collections were and we gave the number as a percentage to say that this number for the month of September was 97% of the pre-Covid level which would have been there. While we have not given the pre-Covid level Mahrukh, you can definitely assume given the low NPLs on the retail portfolio, on a typical basis, that number of demand resolution would be closer to 99%+ on a normal basis.

Mahrukh Adajania: And my other question is more on the sector, two things. That in the beginning of the lockdown everyone was worried about was collection efficiency, but the outcome of most lenders including those financing second-hand truck operators have been very good. So what went wrong on our overcautious approach or on our assessment in the beginning because the collection efficiency numbers are turning out to be very good compared to what we feared earlier. The other one on the sector is that a lot of lenders including ICICI Bank raised capital and coincidently that followed RBI's comment that the sector should have a good capital buffer. But after capital raise, most lenders have not done much incremental Covid provisioning. Your comments on both these.

Rakesh Jha: On the first one, if you go back to March-April, there was clearly a lot of uncertainty, no one had seen this kind of a pandemic or the kind of moratorium the RBI introduced, which was there for three months then extended for further three months. So I think given the entire uncertainty around it, people in general would have been conservative. I think it is too early to conclude for everyone, for the system. We still have to see the second half of the financial year. Like I said earlier, indeed the NPA additions for the second half will be higher for all the banks because there will be no moratorium benefit, some of this Supreme Court instruction on NPA classification, all of that would come into the NPA numbers in the second half of the year. Especially the private banks in general have taken provisions on a conservative basis and when we took the provisions in the June quarter we clearly mentioned that our objective was to completely cushion the balance sheet from any potential impact of Covid. Just to spend thirty seconds on capital raising, we were very clear at that point of time to say that the purpose of raising capital was not to make high provisions on our existing portfolio. It was raised from two points of view. One of course is that we do believe that we will have a good opportunity for growth once Covid is behind us in over the next six or nine months, one has to see how that plays out. Second was that there is always a tail risk in such an event because we don't know how the Covid actually continues to spread. While it is not anything specific to our Bank or our portfolio, on a generic basis that tail risk was and is definitely there and that is the reason why we thought that we should be in a very strong position in terms of our overall capital adequacy and as you saw during the quarter we have seen nearly 3% increase in our core equity Tier I ratio. I hope that answers your queries.

Anup Bagchi: I think there will be a recurring theme of collection efficiency and there will be a recurring theme of what happened. When everybody was thinking it's going to completely go down under but it hasn't gone down under. So there is a positive surprise there. If we just remember, Mahrukh, in Mr. Bakhshi's opening remarks, he said that our ultra-high frequency index is also showing that economic activity is at 94% of the pre-Covid levels. It basically means that on an average if you were to just take an index, 94% would be there as collection efficiency, if one were to be exposed to exactly identical ultra-high frequency exposure to those sectors. Few banks including ours, will have better exposure perhaps to those sectors and many of us will have a collection efficiency which is higher than that. From our perspective we certainly look at cash flows very carefully. Solvency and collateral comes later and from a cash flow perspective we are seeing that business loans or smaller retail SMEs and rural one intuitively understands that it is doing better, so there anyways rural is doing very well. But even for the business loans which are smaller sized, Rs. 10-15 million, and which are fully collateralised, we are seeing that the credit summation of that is now above pre-Covid levels.

Third is if we look at toll collections through Fastag, where we have a very high and dominant market share, we are seeing that it is already above pre-Covid levels, which also is a good proxy of the economic underlying activity. Having said that, if we look at the passenger vehicle movement and the toll collections there, that has still not reached Covid levels. It is still in the 80s which basically means from a passenger vehicle movement, that is from a normal you and me movement perspective, we are at mid-80s. But certainly on a commercial vehicle side, commercial activity is above 100% which perhaps explains some of these mental construct that are things really moving the way things should move? Our ultra-high frequency indicators as well as other things are certainly pointing towards the fact that things have come back quite rapidly. Earlier people did dip into their reserves that they had to pay off and that has been our experience as well. People who had moratorium but who went out of moratorium, we were able to generally collect the overdues, whatever overdue they had by way of interest quite easily, it was not so much of a trouble. Also, what has happened in the last few years is that the mode of collection for us certainly, but I would reckon that it is for most of the system, has gone largely digital. In our case as you know we run a very highly developed pre-delinquency model. As a result, we are able to put resources appropriately using that pre-delinquency model, as to where should we put our resources, where do we get the fastest fingers first, we link it up with our cash flows that we are seeing on the accounts and as you know that in our case most of them do have, it's a cross-sell, they have their accounts with us. So, that is where we get a slightly incremental lift over the system.

We don't know how much of the demand which we are seeing is pent up and how much of it is going to be sustainable. But when we speak to the OEMs etc. it looks like July-August were more pent up. Now it looks more sustainable. If you look at mortgage where we had done a lifetime high of disbursements in the month of

September, we must not take away one very important thing that has happened in mortgage that is, if you look at the EMI in the last two years, it has moved down by at least 25%. So EMIs which were in 900s now has gone down to 700s. So that is a 25% dip. Then you also have the prices dipping by around 10-15%. So if you multiply 0.75 by 0.85 you'll see that actually there has been a reduction of 35% in the overall outflow of a consumer. So that is the big positive outcome. Also one more push that has come is work from home, so people require a slightly larger home. But one must not take assumed you are getting something which is 35% cheaper that you anyway require. And in an uncertain environment, roof over home is very critical and people want to go for roof over home and they don't want to stay in rental apartments. So not just our disbursement but when you speak to the large builders, you will see that the frequency of sales has actually increased quite substantially in Q2 over Q1 and it continues. Things are moving towards better branded, completed inventories and that is getting sold.

It is the same thing for four wheelers as well. Because of physical distancing, social distancing etc. people are buying four wheelers also aided by the fact that EMIs have come down and new models are also coming up and when people see that the risk is receding, they also like to feel good. So they also want to spend and they want to live well. So I would say that combo of many of these things plus banks like us, we have also come out with festival treats, we are also creating desire and discounts for customers where they should buy plus the need for feeling good plus the fact that the salary account uploads etc. haven't come down at all year over year plus the fact that if you are taking a larger asset the EMIs have come down by 25-30%, asset values itself have come down by 10-15%. So I would say that there is fair amount of positives that are there but we must keep our fingers crossed. We don't know what is going to happen in Q3 or Q4 or in future in this pandemic but at this point of time, as we speak, if you see the retail asset growth of our Bank, notwithstanding the fact that we did have some support of the emergency credit line guarantee scheme, but so had other banks, it has been very positive. I would reckon that it is almost lifetime high retail asset disbursements that we had on the back of very solid mortgages, very solid secured business loans, very solid SME, very solid high quality clients where we are able to see credit summations which have surpassed the pre-Covid levels. The other thing that is happening in the Covid time is that the weak are becoming weaker and the strong are becoming stronger, the market is moving towards the stronger across things and this we are seeing even in SMEs that the strong are becoming stronger and weak are becoming slightly weaker. So positioning of the portfolio, how do you build your retail underwriting and going forward how much are you cross-selling, how much of additional underwriting parameters you have over and above just a bureau score becomes very important. I think those will be determinants of the asset quality that we have.

As far as opportunity is concerned, we certainly see opportunity with competitive pricing. What has happened is that the prices of mortgages etc. have fallen quite substantially, you get it at around 7% interest rate now which is very competitive, if somebody wants to really create any asset. So this is what is happening on the ground. While we are positively surprised, I think we should reasonably expect that it will mimic and it will mirror and will hug the ultra-high frequency numbers that we have which is at 94% at this point of time.

Mahrukh Adajania: On your website there is a personal Flexi loan product. What is that? What is the Flexi loan all about?

Anup Bagchi: So the Flexi loan product and we can take it offline but very quickly, you give us an asset where we check your profile and we'll give you a credit line against your profile, which is the income and the asset.

And we'll pool it in and we'll give you a line of credit against that which is flexible in nature. It is like a business loan but very flexible for the client.

Mahrukh Adajania: But is it an interest only loan like Bajaj Finance does or how is it structured?

Anup Bagchi: We don't know what Bajaj Finance does, interest only etc. We do normal banking, which is if it is of a working capital nature then we collect interest and if the nature is of a term loan then we'll collect interest as principal.

Moderator: The next question is from the line of Sameer Bhise from JM Financial.

Sameer Bhise: Just looking at the emergency credit line guarantee disbursements, would it be fair to assume that large part of it has gone towards business banking?

Rakesh Jha: It will be spread across portfolios, business banking will be there, some part in SME, some part in the commercial vehicle and even on the housing loans side. So it will be spread across. It is for all small businesses and that's a part of various product portfolios.

Sameer Bhise: But any specific segments which would be large part of this?

Anup Bagchi: No it is quite spread out, so it's not sort of specific to any segment. So it will be across all products where there's commercial activity at the back.

Moderator: The next question is from the line of Manish Karwa from Axis Capital.

Manish Karwa: So on the restructuring indicative numbers, is it largely coming from the BB & below book or that is over and above the BB & below book that we will see?

Rakesh Jha: We'll see where we end up but there will be some overlap between BB & below and there would be some loans which are currently in the BBB rating category as well. Because as you know even on the restructuring side, the kind of restructuring would also vary because in some of these cases it could just be a postponement of payment by six months or twelve months where we don't expect any kind of haircut at all, so we will see. Right now only the applications have been received, we don't have the details of how the restructuring would happen. But it will have loans outside BB & below also.

Manish Karwa: Okay but would you say that would be a larger proportion of that 1% number that we are talking about or it's tough to say that as of now?

Rakesh Jha: It is difficult to say because it is not that we have the listing of that 1%, but I'll confirm that it will have loans which are BBB rated as well.

Manish Karwa: And again the portfolio, the provisioning that you will need to do, would you now drawdown from the provisioning that you have already made or how will you think about the provisioning requirement that you will see in the future quarters?

Rakesh Jha: In the December and March quarters, we do expect the NPA additions to be higher as all the loans would be out of moratorium and there will be a 4-month period to service till December or 7 months till March and there will be some of this restructuring also that will happen. So we would expect to drawdown and utilize the provisions that we have created for this specific purpose in the future quarters. That will definitely be there.

Manish Karwa: As of now we do not think that we will require more provisioning on the restructuring cases that we may see?

Rakesh Jha: We have assessed that, the exercise that we did in Q1 at the time of our results, the exercise we did at the time of our capital raising exercise and when we look at it right now, as I said I think the trends are either the same or slightly better across portfolios but like Anup mentioned, it's a bit too early to completely conclude on this. So we will see how it plays out but we are very confident that the provisions that we have taken would suffice in terms of the requirements which are there over the next few quarters.

Manish Karwa: My second question is on your margin and the margin outlook. In the context of 2-3 things, one is that when do you think you will be okay to work with lower liquidity which should actually be positive for margins? Second is there further room to cut rates both on terms deposit and savings deposit and third the impact on margin continues to keep going down despite having a very easy rate environment globally wherein we could have benefited our bank. So how do you see that trend?

Rakesh Jha: So Manish on the last point when the rates are low banks don't really benefit. We don't get the benefit of free float on current account deposits, savings deposit-you can't reduce the savings deposit rate beyond a point, your free float on capital is lower. So that is a cyclical trend which will always be there when rates are at a lower end; that's what we are seeing currently. On liquidity, it's not completely by choice that we are having this level of liquidity in the balance sheet. Our assessment is that from December quarter we should start seeing some decline in the excess liquidity that we have but whichever scenario we still look at having a substantial surplus liquidity even till March to be there in the balance sheet and that's something that we are factoring in but the level of liquidity should start to decline from here on is what our best guess is. On the rates itself, on the deposit rates we have been I guess as proactive as we can be on reducing deposit rates, the retail deposit rates in the 12 to 18 months bucket, we are at 4.9% pretty much the same as where SBI is and lower than many of our peer banks. Below that rate it does become a somewhat of a challenge to reduce rates unless for example, if RBI cuts repo rate and all of that happens; in that scenario one can definitely look at it. But once you are below 5% the retail rates do become a bit sticky and the banks which have a large retail franchise, at these points of time will have somewhat higher cost because the wholesale rates are much lower but that is only a point of time thing and we are focused on growing our retail deposit franchise so we will keep our rates competitive there. There is a scope to reduce rates but to my mind it will only be if the benchmark rates or system rates go down.

Moderator: The next question is from the line of Anand Dama from Emkay Global.

Anand Dama: My question was about the corporate downgrades that we have seen this quarter. So we have seen Rs. 16.89 billion of downgrades in this quarter. Is there any chance that we get our hand on financials of the customer? We could see more downgrades going forward and if yes, what could be the level of downgrades that you might see in the corporate and SME BB and below portfolio?

Rakesh Jha: You are asking about the BB & below downgrades in the corporate and SME BB and below category I suppose.

Anand Dama: I am saying that from the above investment grade portfolio to the below investment grade portfolio, what are the downgrades that we may see?

Rakesh Jha: We do expect to see more downgrades into BB & below going forward. At the beginning of the year itself we had said that in the current environment, there would be downgrades into corporate and SME BB and below book. To a previous question which I was answering on restructuring, there will be loans which are currently not in the BB and below category and could get restructured. So to that extent one would expect the BB & below category of loans to increase over the next couple of quarters and that would be in line with the current environment and our expectation.

Anand Dama: But any number that you can put on that?

Rakesh Jha: It's not possible to have a number there because there are not specific loans that we are aware of which would go into that bucket. We have done various kind of scenarios, not based on specific borrowers per se but overall numbers and based on the NPA additions that we think may happen, based on the restructurings and downgrades that may happen, that is the level of Covid-19 related provisions that we hold on the balance sheet and which we believe is quite comfortable to cover all of this.

Anand Dama: On the proforma NPAs, we have made provisions, but have we reversed the interest or reversed the interest on interest for the proforma NPAs?

Rakesh Jha: So what we have done is that these loans, while technically not classified as NPA for all practical purposes, for the financial statements, we have done as if NPA treatment, so based on the bucketing of overdues have taken the NPA provision as per our policy and we would have also not accrued income on these unless collected in cash.

Anand Dama: So that would also partly explain the contraction in the margins during the current quarter?

Rakesh Jha: If you look at the 10-12 basis point decline in margin, a larger piece in the current quarter would have come from the surplus liquidity because in the September quarter we had even higher liquidity than what we had in the June quarter. There would be some impact of the interest reversals also but the larger impact would have been of the surplus liquidity.

Moderator: The next question is from the line of Adarsh Parasrampuria from CLSA.

Adarsh Parasrampuria: Question on the loan spread remains, obviously it is affected by liquidity, basically you talked about how loan spreads have behaved broadly and what's the expectation over the next 12 months? So I just wanted to understand what happened with loan spread and what would be the outcome for it?

Rakesh Jha: On the loan spreads at least till now we have been able to reasonably manage in terms of bringing down the cost of funds broadly in line with the yield on advances. On the advances side we have seen a fair bit of repricing downwards with the MCLR coming down, repo rate coming down plus the new lending is happening at lower rates as well. Till now we have been able to reduce our term deposit rates on the deposit side, even the savings deposit rates were reduced earlier in the year. The approach would be to try and ensure that on the loan spread we are able to manage to maintain that going forward. In the second half of the year, practically speaking, there would be some impact that will come through the fact that there will be higher addition to NPAs and there would be some interest reversals that will happen. On an overall basis we expect to see the liquidity levels to come down and that should have a positive impact as well. So those will be the two moving parts in the near term.

Anup Bagchi: Rakesh let me share a little bit on the liability side because I think those questions are also there underlying. So on the liability side first is in general when the interest rate regime comes down, your low cost liabilities don't remain as attractive because suppose the interest rate comes to let's say 3% then your CA will only give you 3% spread and SA, if you don't bring it down, will not give you that much spread. So in general for banks low interest rates is not a very positive thing, that is the first part. Second part is that in general at this point of time if you see the spread of a 10 year-corporate bond over government security is quite high, 5 year spread is lower. It is also because of the kind of players that are there in that, which is also pointing to the fact that at this point of time, short term liquidity is essentially driving a lot of compression that is happening and naturally it is hugging the reverse repo and repo rate depending on the activity that is happening. Now, what are the choices for banks? If the balance sheet is very small one can have a mix on the deposit side, on the term deposit side one has a mix of wholesale deposits or you can have the bulk deposits or you can have retail deposits. The market for bulk deposits is not very large so one cannot support a very large balance sheet on bulk deposit and we have seen that in the past with different players, it becomes very risky because the rates shoot up whenever there is a lack of liquidity and it is not within control. There is not that much of a supply of those kind of deposits and so it is very important that large banks must focus also on a mix of retail and wholesale deposits. At this point of time whenever there is large liquidity, wholesale deposits come at a much lower rate than retail deposits. Having said that, the retail deposit franchise has to be nurtured carefully because in a cycle when the rest move up it is retail deposits which come at a much cheaper cost and a less volatile cost and in a predictable manner than wholesale funds and ALM issues are then mitigated if you have a good retail franchise. At this point of time, we are leading the rates on the retail deposit franchise but it has come below 5%. While it has come below 5% on the banking system side, on the other side it's not that the rates have come down drastically. So a time will come when consumers will also start to move towards slightly higher yielding products and it could come by way of equity because equity is rising and so you will see a lot of equity traders, direct equity traders coming into the market. So people might keep a little bit of allocation, not much, but a little bit of allocation towards that, a little bit of allocation again towards small savings and other things where the rates are high. If it stabilizes here and it starts to move up, one will see how this whole wholesale versus retail deposit plays out. Rakesh has done a great job in managing the balance sheet in a way that we have surplus liquidity and if one takes a stance that one can absorb a little bit and then perhaps the margin goes up, because on the asset side it is not a cost-plus regime as you know. Asset is a different pricing mechanism and if that is dependent on the demand and supply of the credit and the ability to price it well. We can absorb a little bit of liquidity and become more aggressive like we have on the retail term deposit size and manage it in our overall context so that we are able to manage the NIM. So far so good; we have been able to manage it well.

On the retail asset side certainly, our stance is to do more and more secured given what is happening in the environment, so we would want to go towards mortgages and fully collateralized kind of loans and open up the unsecured as and when we see more stability. We see less volatile markers there but stability is returning on the unsecured side as well. As you know on the Amazon card side, I think this is the fastest product to reach a million cards in the credit card history and I would reckon that it would be so in most of the places outside of India as well. So that is doing quite well and it also plugs well into our affluent strategy.

So that's on the liability side. Last quarter there was more volatility on the mutual fund side but we now see stability returning on the mutual fund side as well, but there the returns are not as attractive. So it competes with the bank deposit, but not quite that much. So we will see how it comes, we have extra liquidity which we can absorb if the need arises. We feel that stability of liquidity is there and volatility is low because on the liability side we look at only three things. We don't look at the CASA percentage, we look at volume of deposits, the cost of overall deposits that is delivered and volatility of deposits, within each bucket and the kind of deposits. That's how we peg ourselves.

Moderator: The next question is from the line of Suresh Ganapathy from Macquarie.

Suresh Ganapathy: The market is tough so everybody is struggling to find appropriate investment avenues. If that's the case, why can't the Bank re-think its strategy of offering traditional par and non-par products for its customers, which at the end of the day is one product gap that the Bank customers have and can it not be done through ICICI Prudential and have a more open approach, because at the end of the day you are just giving what the customer requires, right?

Anup Bagchi: Yeah so two things from a product perspective and then from a customer perspective. From a product perspective it is a good product provided you have 100% persistency. So if you have 100% persistency it's a good product from a customer perspective. But then because it is finally a reflection of the underlying investments, one cannot be very competitive there because otherwise you are either taking higher risk on the asset side or you are taking an ALM risk. So from a product concept point of view, it is the lookout for the solvency ratio for the life insurance companies. However, that is not sort of a subject matter of ICICI Bank while wearing the distributor hat. Now from a distributor point of view of ICICI bank, the reason why we don't offer this product to the consumer is because we have seen that the persistency levels in the industry are not very high and the persistency levels drops to 60% and below over 5 years-1 month which is 61st month, which basically means that 40% of our customers will really lose a substantial part of the principal. Now if that is the product concept, I must be honest if can we sell it in a manner or offer it in a manner that we can guarantee 100% persistency, I am afraid the answer is no. Now just look at the situation of a bank where this is not the only product that we offer to the customer. In fact, the revenue from this is a fraction of the revenue from our other banking products on the retail banking side, but if 40% of the customers lose a large proportion of their principal because of this product what will happen is all our other relationships with the product will go bad for sure and if that is the case then it is better to not offer this product to a customer. But again, I will say that if the life insurance company is good and solid and solvent and they can manage the risk and give a higher return, fixed return to the consumer and as a distributor we can almost underwrite 100% persistency, it is not a bad product. But unfortunately that's not how our experience has been. That's not how the industry experience has been both of the life insurance industry as well as the banking industry.

Moderator: The last question is from the line of Mahesh from Kotak Securities.

Mahesh: If you look at your slippage for the quarter at about Rs. 30 billion plus and Rs. 14 billion which is outside, any reason why this is on the higher side? When we compare this with some of the other banks you seem to have taken where the benefit of standstill, what has happened on this side?

Rakesh Jha: In terms of the slippages for the current quarter, at least from our portfolio what we have seen, one is of course the corporate and SME side additions that you saw has come entirely from the BB & below portfolio and there we have taken a prudent stand in terms of categorization of some of these loans as NPA. On the retail side from our expectations at least, it is in line. We have seen higher NPA additions across portfolios as customers have come out of moratorium and the payments were due so wherever has crossed 90 days at August 31, 2020 we have categorized those as NPAs and then you can add the Rs. 14 billion of the other loans. So from our point of view it is broadly in line and Mahesh I must say that in the second half of this year one will see higher NPA additions and that's the reason why we have the provisions that we have created. There is an impact on the portfolio in terms of some of the customers who have got impacted and that will reflect. So it's fair to assume that NPA additions will be higher in the second half of the year.

Mahesh: Just to elaborate this point a bit. When you say high, what is high because you say on one hand collections are back to pre-Covid levels, then how should we look at these numbers?

Rakesh Jha: Mahesh that is why we thought we would give the overdue position because that gives you a much clearer picture instead of looking at moratorium and all of those things. So like we said, on the retail EMI products and cards side the overdues are higher than normal levels by about close to 4% of loans. This is including one day overdue as well. On the rural side the impact is less, so it's only 1% higher, SME business banking is pretty much back to normal so those are the indicators which are there.

Mahesh: The tax rate that has shown this quarter and the last two quarters, how do we read into it?

Rakesh Jha: The tax rate you are saying?

Mahesh: Yeah tax rate.

Rakesh Jha: We get tax break on capital gains and dividend. So the tax rate is around slightly below what the marginal tax rate that is, a couple of percentage points because of the benefit that we get from dividend and all. That should be the sustainable tax rate going forward is what we believe. So, this quarter the tax rate is around slightly below 20%, on a normal basis it would be slightly above that.

Mahesh: How should we look at the corporate loan book finally because the book continues to remain flattish for a very long time. But when we look at a lot of corporates and the extent of relationship that ICICI has compared to one of the larger private sector bank, there is a fair amount of opportunity. What's stopping you to take that chance for the corporates out there because the share of corporate loans continues to remain fairly low?

Rakesh Jha: In terms of the corporate loan book, Mahesh like we have spoken in the past we are focused on the corporate business not just as a lending kind of a business. We are looking at it from a 360° point of view, from an ecosystem point of view and to that extent we are focused on growing the core operating profit from this business and improving our ROEs there. On the lending side, in this particular quarter, we had a fair bit of prepayments. Otherwise if I look at the new business, the disbursements that we have done were a pretty high level. Of course a lot of it was short-term kind of a loan at pretty fine pricing. While we have done some of the transactions in AAA, AA rated categories and PSUs which is finely priced, we have not been very focused on that because we believe at that kind of pricing taking up 10-15 year loans may not be an appropriate call. So we have done that on a more selective basis and internally we don't have any specific loan growth targets per se but we have done a fair bit in terms of increasing our current account deposits that have shown a very high increase and commercial banking revenues which have gone up. On forex again, we have seen an increase, all these things are doing well. On the loan book it's a call that we have to take in terms of pricing, like you rightly said we pretty much look at all the deals which are there in the market. A lot of the deals that

I am talking about are bid out and to the extent that we are keen we are doing that. To the extent we believe it's not good from a long-term perspective we are not doing that.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Rakesh Jha: Thank you everyone for joining this Saturday evening and wish you a Happy Deepawali in advance on behalf of team ICICI. Stay safe and healthy. Thank you.

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