

ICICI Bank Limited

Earnings conference call - Quarter ended June 30, 2021 (Q1-2022)

July 24, 2021

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Moderator:

Ladies and gentlemen, good day and welcome to ICICI Bank Q4-2021 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.

Mr. Bakhshi's opening remarks

Good evening to all of you and welcome to the ICICI Bank Earnings Call to discuss the results for Q1 of FY2022. Joining us today on this call are Vishakha, Anup, Sandeep Batra, Rakesh and Anindya.

We hope that you are safe and in good health. The second wave of the Covid-19 pandemic was more severe compared to the first wave in terms of cases and fatalities, and a wider geographic reach. As banking is classified as an essential service, most of our branches were open even during the months of April and May when containment measures were in place in various parts of the country. Our colleagues have shown resilience and strength and continued to serve our customers, even in this challenging environment when a number of our colleagues were themselves impacted by the virus. We are happy to share that now about 80% of the Bank's employees have received at least one dose of vaccination against Covid-19. We would like to thank the medical and health workers and other essential workers for their tireless efforts in this fight against Covid-19.

With the decline in the numbers of Covid-19 cases since June, there has been a gradual easing of restrictions across various states. The Ultra Frequency Index, comprising several high frequency indicators tracked by the Bank's Economic Research Group, which declined from 107.9 in March to 70.9 in May has improved to 99.6 in the first week of July. High frequency indicators such as power demand, e-way bill generation and the unemployment rate have shown significant improvement in June. Vehicle registrations have also improved in June compared to April and May. Going forward the pace of normalisation in economic activities will depend on the trajectory of the pandemic, the level of containment measures in place and the pace and effectiveness of vaccination.

At ICICI Bank, we continue to steadily grow our franchise and maintain our strong balance sheet.

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

Our aim is to achieve risk-calibrated growth in core operating profit through a 360-degree customer centric approach, tapping opportunities across ecosystems, leveraging internal synergies, building partnerships and decongesting processes. The core operating profit increased by 22.7% year-on-year to 86.05 billion Rupees in Q1 of 2022. The profit after tax grew by 77.6% year-on-year to 46.16 billion Rupees in Q1 of 2022.

2. Further enhancing our strong deposit franchise

Total deposits grew by 15.5% year-on-year to 9.3 trillion Rupees at June 30, 2021. During the quarter, average current account deposits increased by 32.4% year-on-year and average savings account deposits by 21.7% year-on-year. Term deposits grew by 8.7% year-on-year. The liquidity coverage ratio for the quarter was 130%, reflecting continued significant surplus liquidity. Our cost of deposits continues to be among the lowest in the system. Our digital platforms and solutions, presence in various ecosystems and process decongestion initiatives 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

Retail disbursements moderated in April and May due to the containment measures in place across various parts of the country. With the gradual easing of restrictions, disbursements picked up in June and July. Credit card spends declined in April and May but improved to March levels in June, driven by spends in categories like consumer durables, utilities, education and insurance. The retail loan portfolio, excluding business banking, grew by 20.2% year-on-year and was flat sequentially at June 30, 2021.

Credit summations in the overdraft accounts of business banking and SME customers also picked up in June and July after declining in April and May. Our business banking and SME franchises continue to grow on the back of digital offerings and platforms like InstaBIZ and Trade Online. The business banking and SME portfolios grew by 53.4% and 42.8% year-on-year respectively. The business banking portfolio grew by 6.3% sequentially and the SME portfolio saw a marginal sequential decline.

The growth of the domestic corporate portfolio was 11.4% year-on-year. The growth in performing domestic corporate portfolio, excluding the builder portfolio, was about 15% year-on-year at June 30, 2021. Overall, the domestic loan portfolio grew by 19.6% year-on-year and was flat sequentially. The non-India linked overseas corporate portfolio, declined year-on-year and sequentially, in line with the approach which we have articulated earlier.

4. Leveraging digital across our business

Our open architecture based digital platforms provide end-to-end seamless digital journeys and personalized solutions to customers and enable more effective data-driven cross-sell and up-sell. These platforms also enable us to reach out to non-ICICI Bank account holders. We have shared some details in slides 17 to 28 of the investor presentation.

We have seen significant increase in adoption of our mobile banking app, iMobile Pay, with over 2.5 million activations by non-ICICI Bank account holders since its launch six months ago. The transactions by non-ICICI Bank account holders in terms of value and volume have grown by eight times and seven times, respectively, in June 2021 compared to March 2021.

The financial transactions on our digital platform for businesses, InstaBIZ, and our supply chain platform have grown steadily in the past few quarters. The increasing adoption of our digital platforms and growth in the value and volume of transactions supports growth in CASA deposits and provides a rich base for analytics and cross-sell. The value of financial transactions through InstaBIZ more than doubled year-

on-year in Q1 of 2022. The value of transactions through supply chain platforms grew by more than 8 times year-on-year in June 2021.

We have taken a number of initiatives to offer a convenient and frictionless experience to customers by digitising the credit underwriting process, with instant loan approvals. The proportion of end-to-end digital sanctions and disbursements across various products has been increasing steadily. About 34% of our total mortgage sanctions by volume were end-to-end digital in Q1 of 2022 compared to 19% FY2021. About 46% of personal loan disbursements by volume were end-to-end digital in Q1 of 2022 compared to 42% in FY2021. Of the total asset and liability accounts opened as well as third party products sold during June, about 40% was end-to-end digital. About 95,000 customers were onboarded using video KYC in June 2021.

We continue to strengthen our position in the digital payments ecosystem by building seamless user journeys, facilitating higher transaction throughputs and driving repeat transactions. Our strategy is to participate both directly through our own platforms and partner with third party players in the P2P and P2M space of the UPI ecosystem. We are seeing high customer engagement through repeat usage of features like Pay to Contact, Scan to Pay and bill payments on iMobile Pay. The volume of transactions through 'Pay to Contact' has grown by over five times in Q1 of 2022 over Q4 of 2021. The value of UPI P2M transactions more than doubled year-on-year and grew by over 30.0% sequentially in Q1 of 2022.

We have recently launched a digital platform called Merchant Stack, which offers an array of banking and value-added services to retailers, online businesses and large e-commerce firms such as digital current account opening, instant overdraft facilities based on point-of-sale transactions and instant settlement of point-of-sale transactions, among others. We also introduced ICICI STACK for Corporates which is a comprehensive set of digital banking solutions for corporates and their entire ecosystem of promoters, employees, dealers, and vendors. These solutions enable corporates to seamlessly meet all banking requirements of their ecosystems in a frictionless manner.

We continue to invest in technology to enhance our offerings to customers as well as the scalability, flexibility and resilience of our technology architecture. We actively monitor and improve our technology infrastructure to minimise disruptions in services to our customers. As a part of our #2025 technology strategy, we are creating an enterprise architecture framework spanning digital platforms, data and analytics, micro services based architecture, cloud computing and other emerging technologies.

5. Protecting the balance sheet from potential risks

The measures imposed by authorities in various parts of the country to contain the spread of the second wave of the pandemic had a significant impact on collections and recoveries in April and May. We sought to adopt a sensitive approach to the difficulties faced by our customers and prioritised their health and safety as well as that of our employees. Unlike last year, regulatory dispensations such as moratorium were not available to borrowers this time. This has led to an increase in overdues and gross NPA additions in Q1 of 2022 for the banking system, including us. The gross NPA additions during the quarter were 72.31 billion Rupees, of which 67.73 billion Rupees was from the retail and business banking portfolio. The retail and business banking gross NPA additions included additions of 11.30 billion Rupees from the jewel loan portfolio. Jewel loan is a fully secured product and the loss given default in this portfolio is negligible. In order to be sensitive to the difficulties faced by customers and give them time for repayment, we have delayed sending the auction notices to customers in default. We expect near complete recoveries from this portfolio in the coming quarters.

As mentioned in our previous earnings calls, our aim is to be proactive in provisioning with the objective of ensuring that the balance sheet is robust at all times. We have further strengthened our provisioning policies on NPAs during this quarter. The provisions during the quarter were higher by 11.27 billion Rupees due to this more conservative approach. The provision coverage ratio on NPAs was 78.2% at June 30, 2021.

Based on its current assessment of the portfolio, the Bank has written back 10.50 billion Rupees of Covid-19 related provisions created in earlier periods. As of June 30, 2021, the Bank held Covid-19 provisions of 64.25 billion Rupees which are about 0.9% of our total loans.

The overdues in the performing portfolio across various segments were either marginally higher than pre-Covid levels or at pre-Covid levels at the end of March 2021. These increased in April and May due to the second wave of the pandemic and related restrictions. With the easing of restrictions and pickup in economic activity in June, the overdues across various segments of the performing portfolio have declined. We expect further improvement in collections and decline in overdues in the coming quarters.

In the absence of regulatory measures such as moratorium, the gross NPA formation due to the recent wave of Covid-19 is being upfronted in the first half of the current fiscal for the system, including us. Based on our current expectations of economic activity and portfolio trends, we expect our gross NPA additions to be lower in Q2 of 2022 and decline more meaningfully in the second half of fiscal 2022. There would also be some additions to the loans under resolution as per the various frameworks announced by RBI.

We have a robust provision coverage ratio on NPAs and in addition we hold Covid-19 related provisions of 64.25 billion Rupees, or about 0.9% of our total loans, to address potential future credit losses arising out of the pandemic and its economic impact. The performance of the portfolio and the strength of the balance sheet give us significant comfort.

6. Maintaining a strong capital base

The capital position of the Bank continued to be strong with a CET-1 ratio of 17.01% at June 30, 2021, including profits for the quarter. Further, the market value of the Bank's investments in listed subsidiaries is about 1 trillion Rupees.

Looking ahead, we see many opportunities to grow the core operating profit in a risk-calibrated manner. We will calibrate our growth in the near term based on the operating environment and the future trajectory of the Covid-19 pandemic. We will continue to focus on creating holistic value propositions for our customers and capturing opportunities across customer ecosystems, leveraging internal synergies, building partnerships and simplifying processes. We have a wide physical distribution network and our best-in-class digital platforms provide seamless onboarding and transacting experience for our customers. We have opened eight ecosystem branches that house multi-functional teams required to nurture relationships and bring the entire bouquet of services of the Bank to the corporates and their ecosystem. We will continue to make investments in technology, people, distribution and building our brand. We are guided by our philosophy of “Fair to Customer, Fair to Bank” emphasising the need to deliver fair value to customers while creating value for shareholders. We will continue to focus on delivering consistent and predictable returns to our shareholders.

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

Rakesh’s opening remarks

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

A. Balance sheet growth

The overall loan portfolio grew by 17.0% year-on-year at June 30, 2021. The domestic loan portfolio grew by 19.6% year-on-year and 0.3% sequentially at June 30, 2021. Up to the last quarter, we used to report business banking as a part of the retail portfolio. From this quarter, we are excluding it from the retail portfolio and reporting it separately. The retail portfolio grew by 20.2% year-on-year and 0.7% sequentially. Within the retail portfolio, the mortgage loan portfolio grew by 24.0% year-on-year, rural loans by 24.2%, commercial vehicle and equipment loans by 1.5% and the auto loan portfolio by 15.0%. Growth in the personal loan and credit card portfolio was 13.5% year-on-year. This portfolio was 666.26 billion Rupees or 9.0% of the overall loan book at June 30, 2021.

The business banking portfolio grew by 53.4% year-on-year and 6.3% sequentially at June 30, 2021. The SME business comprising borrowers with a turnover of less than 2.5 billion Rupees grew by 42.8% year-on-year and decreased by 1.7% sequentially to 297.78 billion Rupees at June 30, 2021.

The growth of the domestic corporate portfolio was 11.4% year-on-year. The growth in performing domestic corporate portfolio, excluding the builder portfolio, was about 15% year-on-year at June 30, 2021 driven by disbursements to higher rated corporates and PSUs across various sectors to meet their working capital and capital expenditure requirements.

The overseas loan portfolio declined by 14.7% year-on-year and increased by 6.7% sequentially at June 30, 2021. The sequential increase in the overseas loan portfolio was primarily due to increase in the India-linked trade finance book. The overseas loan portfolio was 5.4% of the overall loan book at June 30, 2021. The non-India linked corporate portfolio reduced by 58.8% or about 1.4 billion US Dollars year-on-year and 21.6% or about 270 million US Dollars sequentially, at June 30, 2021. We have provided the breakup of our overseas corporate portfolio on slide 16 of the investor presentation.

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 21.7% year-on-year and average current account deposits increased by 32.4% year-on-year during the quarter. There could be some impact on the sequential growth in current account deposits in the next quarter due to the implementation of RBI's guideline on opening of current accounts by banks. Total term deposits grew by 8.7% year-on-year to 5.0 trillion Rupees at June 30, 2021.

B. Credit quality

The gross NPA additions were 72.31 billion Rupees in the current quarter compared to 55.23 billion Rupees on a proforma basis in Q4 of 2021. Recoveries and upgrades from NPAs, excluding write-offs and sale, were 36.27 billion rupees which was about 50.0% of the gross NPA additions during the quarter. The gross NPA additions from the retail and business banking portfolio were 67.73 billion Rupees in the current quarter

compared to 43.55 billion Rupees on a proforma basis in Q4 of 2021. The retail and business banking gross NPA additions included additions of 9.61 billion Rupees from the kisan credit card portfolio and 11.30 billion Rupees from the jewel loan portfolio. As Sandeep mentioned earlier, we expect near complete recoveries from the jewel loan portfolio in the coming quarters. We typically see gross NPA additions from kisan credit card portfolio in the first and third quarter of the fiscal year. The gross NPA additions from the kisan credit card portfolio were relatively low last year due to moratorium extended to the borrowers from March to August. The kisan credit card portfolio and jewel loan portfolio were about 3% each of our total loan portfolio at June 30, 2021. In the retail and business banking gross NPA additions, excluding rural, the proportion of mortgages was similar to FY2021, commercial vehicle and equipment loans was higher and personal loans and credit cards was lower.

The gross NPA additions from the corporate and SME portfolio were 4.58 billion Rupees in the current quarter compared to 11.68 billion Rupees on a proforma basis in Q4 of 2021. Proforma corporate and SME NPA additions in the previous quarter included one account in the construction sector which was rated BB and below at December 31 and was classified as non-performing during Q4 and upgraded in the same quarter post the implementation by all lenders of a resolution plan as per RBI's framework.

Recoveries and upgrades from NPAs, excluding write-offs and sale, were 36.27 billion Rupees. There were recoveries and upgrades of 22.64 billion Rupees from the retail and business banking portfolio and 13.63 billion Rupees from the corporate and SME portfolio. The recoveries and upgrades in the corporate and SME portfolio during Q1 of 2022 mainly represent a few accounts which were upgraded post the implementation of a resolution plan as per RBI's framework, by all lenders. The gross NPAs written-off during the quarter were 15.89 billion Rupees. The Bank sold gross NPAs amounting to 2.40 billion Rupees in Q1 of 2022 on a cash basis. The gross NPAs sold during the quarter were entirely from the corporate and SME portfolio.

The net non-performing assets were 93.06 billion Rupees at June 30, 2021 compared to 91.80 billion Rupees at March 31, 2021. The gross NPA ratio was 5.15% at June 30, 2021 compared to 4.96% at March 31, 2021. The net NPA ratio was 1.16% at June 30, 2021 compared to 1.14% at March 31, 2021. The non-fund based outstanding to borrowers

classified as non-performing was 41.01 billion Rupees as of June 30, 2021 compared to 44.05 billion Rupees at March 31, 2021. The Bank holds provisions amounting to 16.55 billion Rupees as of June 30, 2021 on this non-fund based outstanding.

The total fund based outstanding to all standard borrowers, under resolution as per various guidelines was 48.64 billion Rupees or about 0.7% of the total loan portfolio at June 30, 2021 compared to 39.27 billion Rupees at March 31, 2021. Of the total fund based outstanding at June 30, 2021, 21.80 billion Rupees was from the retail and business banking portfolio and 26.84 billion Rupees was from the corporate and SME portfolio. The Bank holds provisions of 8.99 billion Rupees against these borrowers, which is in excess of the requirement as per RBI guidelines.

The overdues across various portfolios increased in April and May due to the reasons which Sandeep highlighted earlier. With the easing of restrictions from June, collections and recoveries have improved and overdues have declined. We had mentioned in our previous quarter's earnings call, that overdues in the performing portfolio across retail EMI products and credit cards, SME and business banking portfolio were either marginally higher or at pre-Covid levels at March 31, 2021. The percentage of overdues in the performing portfolio across most of these segments at June-end was similar to or lower than December 2020 levels. Less than 1% of the performing domestic corporate portfolio was overdue at June-end. As Sandeep mentioned, we expect further improvement in collections and decline in overdues in the coming quarters.

C. P&L Details

Net interest income increased by 17.8% year-on-year to 109.36 billion Rupees. Interest on income tax refund was 0.14 billion Rupees this quarter compared to 0.11 billion Rupees in the previous quarter and 0.24 billion Rupees in Q1 of last year. The net interest margin was at 3.89% in Q1 of 2022 compared to 3.84% in the previous quarter and 3.69% in Q1 of last year. The impact of interest on income tax refund and interest collections from NPAs was about 2 basis points this quarter compared to about 4 basis points in the previous quarter and in Q1 of last year. The domestic NIM was at 3.99% this quarter compared to 3.94% in Q4 and 3.91% in Q1 last year. International margins were at 0.27%. The cost of deposits was 3.65% in Q1 compared to 3.80% in Q4.

Non-interest income, excluding treasury income, grew by 55.7% year-on-year to 37.06 billion Rupees in Q1 of 2022 primarily due to base effect.

- Fee income increased by 53.0% year-on-year to 32.19 billion Rupees in Q1. Fees from retail, business banking and SME customers grew by 65.4% year-on-year and constituted about 76% of the total fees in Q1 of 2022. Total fee income declined by 15.6% sequentially reflecting the decline in investment and borrowing activity by customers during the quarter.
- Dividend income from subsidiaries was 4.10 billion Rupees in Q1 of 2022 compared to 1.87 billion Rupees in Q1 of last year. Dividend income in Q1 of this year includes final dividend from ICICI Prudential Life Insurance.

On Costs: The Bank's operating expenses increased by 29.9% year-on-year in Q1. The employee expenses increased by 9.6% year-on-year and by 18.2% sequentially. The Bank had slightly over 100,000 employees at June 30, 2021. Non-employee expenses increased by 47.7% year-on-year in Q1 of 2022 primarily due to base effect. The non-employee expenses declined by 8.3% sequentially due to lower business volumes during the quarter, partly offset by, technology related expenses.

The core operating profit increased by 22.7% year-on-year to 86.05 billion Rupees in Q1 of 2022.

There was a treasury gain of 2.90 billion Rupees in Q1 compared to a loss of 0.25 billion Rupees in Q4 and a gain of 37.63 billion Rupees in Q1 of the previous year. Treasury gains in Q1 of previous year included gains of 30.36 billion Rupees from sale of stake in ICICI Life and ICICI General.

The total net provisions during the quarter were 28.52 billion Rupees. We have further strengthened our provisioning policies on NPAs during this quarter. The provisions during the quarter were higher by 11.27 billion Rupees due to this more conservative approach.

During the quarter, the Bank wrote back 10.50 billion Rupees of Covid-19 related provisions created in earlier periods. This was based on the updated position of various

portfolios underlying these provisions, after taking into account the NPAs already accounted for and specific provisions held against the same, as well as potential future credit losses arising out of the pandemic and its economic impact.

The provisioning coverage on NPAs continued to be robust at 78.2% as of June 30, 2021. In addition, we continue to hold Covid-19 related provisions of 64.25 billion Rupees, which is about 0.9% of loans. We are confident that these provisions will completely cushion the balance sheet from the potential credit losses which may arise due to the pandemic. The performance of the portfolio and the strength of the balance sheet give us significant comfort.

The profit before tax grew by 89.8% year-on-year to 60.43 billion Rupees in Q1 of 2022 compared to 31.83 billion Rupees in Q1 of last year. The tax expense was 14.27 billion Rupees in Q1 of 2022 compared to 5.84 billion Rupees in the corresponding quarter last year. The profit after tax grew by 77.6% year-on-year to 46.16 billion Rupees in Q1 this year compared to 25.99 billion Rupees in Q1 of last year.

The consolidated profit after tax was 47.47 billion Rupees this quarter compared to 48.86 billion Rupees in Q4 and 31.18 billion Rupees in Q1 last year.

D. Capital

The CET1 ratio, including profits for Q1 of 2022 was 17.01% at June 30, 2021 compared to 16.80% at March 31, 2021. The Tier 1 ratio was 18.24% and the total capital adequacy ratio was 19.27% at June 30, 2021.

E. Portfolio information

We have been growing our loan portfolio in a granular manner with a focus on risk and reward. Our retail portfolio has been built based on proprietary data and analytics in addition to bureau checks, utilising the existing customer database for sourcing in key retail asset products through cross sell and up-sell and pricing in relation to the risk. Our strong deposit franchise enables us to offer competitive pricing to the selected customer segments. As Sandeep mentioned, disbursements across key retail products declined in April and May. However, these recovered in June and trends in July also appear

promising. We continuously monitor the performance at a sub-segment level and recalibrate the customer selection and underwriting norms in view of the current operating environment so as to leverage the demand while operating within our risk appetite. The Bank had calibrated its credit filters and underwriting norms following the outbreak of the Covid-19 pandemic last year. With the gradual unlock and subsequent recovery observed, some rollback of the measures were carried out. The Bank reviewed the same in view of the second wave of Covid-19 and considering the measures already place, no significant further action was deemed necessary. However, due to the evolving environment, policy rationalization measures are being continuously taken as per our analysis of various micro segments.

We have given further information on our retail and business banking portfolio in slides 34 to 45 of our investor presentation.

The loan and non-fund based outstanding to corporate and SME borrowers rated BB and below (excluding fund and non-fund based outstanding to NPAs) was 139.75 billion Rupees at June 30, 2021 compared to 130.98 billion Rupees at March 31, 2021, details of which are given on slide 37 of the investor presentation. Other than three accounts, one each in construction, power and telecom sectors, the maximum single borrower outstanding in the BB and below portfolio was less than 6 billion Rupees at June 30, 2021. At June 30, 2021, we held provisions of 9.76 billion Rupees on the BB and below portfolio compared to 3.32 billion Rupees at March 31, 2021.

On slide 38 of the presentation, we have provided the movement in our BB and below portfolio during Q1 of 2022. The increase during the quarter primarily reflects a few accounts which were upgraded post the implementation of a resolution plan as per RBI's framework.

Except for fund based outstanding of project under implementation accounts in the commercial real estate sector amounting to about 3 billion Rupees, all corporate and SME borrowers under resolution were rated below investment grade at June 30, 2021. The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was 230.05 billion Rupees at June 30, 2021 or 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 13% of our builder portfolio at June 30, 2021 was either rated BB and below internally or was classified as non-performing.

The total outstanding to NBFCs and HFCs was 593.67 billion Rupees at June 30, 2021 compared to 645.09 billion Rupees at March 31, 2021. The total outstanding loans to NBFCs and HFCs were about 7% of our advances at June 30, 2021. The details are given on slide 44 of the investor presentation. Our exposure is largely to well-rated entities with PSUs, long vintage, entities owned by banks and well-established corporate groups. The proportion of the NBFC and HFC portfolio internally rated BB and below or non-performing is less than 1%.

F. Subsidiaries

The details of the financial performance of subsidiaries is covered in slides 49-50 and 69-74 in the investor presentation.

Value of new business of ICICI Life grew by 78.1% year-on-year to 3.58 billion Rupees in Q1 of 2022. The new business premium grew by 70.6% year-on-year to 25.59 billion Rupees in the current quarter. The new business margin increased from 24.4% in Q1 of last year to 29.4% in Q1 of current year. The annualized premium equivalent grew by 48.1% year-on-year to 12.19 billion Rupees in Q1 of 2022. The protection based annualised premium equivalent was 2.70 billion Rupees and accounted for 22.1% of the total annualised premium equivalent in Q1 of 2022. ICICI Life had a net loss of 1.86 billion Rupees in Q1 of this year compared to a profit after tax of 2.88 billion Rupees in Q1 of last year. During Q1 of 2022, ICICI Life had claims on account of Covid-19, net of reinsurance, amounting to 5.00 billion Rupees. Further, at June 30, 2021, ICICI Life held provision of 4.98 billion Rupees for future Covid-19 related claims, including incurred but not reported claims, compared to 3.32 billion Rupees at March 31, 2021.

Gross Direct Premium Income of ICICI General increased by 13.0% year-on-year to 37.33 billion Rupees in Q1 of this year compared to 33.02 billion Rupees in Q1 last year. The combined ratio was 121.3% in current quarter compared to 99.7% in Q1 last year

primarily on account of the Covid-19 pandemic. The profit after tax was 1.52 billion Rupees this quarter compared to 3.98 billion Rupees in Q1 last year.

The profit after tax of ICICI AMC was 3.80 billion Rupees in the current quarter compared to 2.57 billion Rupees in Q1 of last year.

The profit after tax of ICICI Securities, on a consolidated basis, was 3.11 billion Rupees in the current quarter compared to 1.93 billion Rupees in Q1 of last year.

ICICI Bank Canada had a profit after tax of 5.0 million Canadian dollars in the current quarter which was at a similar level compared Q1 of last year and 5.1 million Canadian dollars in Q4 of 2021. The loan book of ICICI Bank Canada at June 30, 2021 declined by 10.4% year-on-year and 1.3% sequentially.

ICICI Bank UK had a profit after tax of 2.9 million US dollars this quarter compared to 5.0 million US dollars in Q1 of last year and 2.8 million US dollars in Q4 of 2021. The loan book of ICICI Bank UK at June 30, 2021 declined by 22.2% year-on-year and 1.9% sequentially.

As per IndAS, ICICI Home Finance had a profit after tax of 0.17 billion Rupees in the current quarter compared to 0.01 billion Rupees in Q1 of last year.

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 Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania:

Your jewel loans and rural loans, those would be part of the rural portfolio, correct?

Rakesh Jha:

Yes.

Mahrukh Adajania:

So, I know that you commented that most of it would be recovered, but were these the loans lent at high LTV or you never really increased your LTV last year?

Rakesh Jha:

No, here the issue is not about LTV. I think like we mentioned given the current environment, the collections could not take place and typically as you know in the jewel loan portfolio, if the loan goes into overdue, you send auction notices to customers. In the current environment, we have not done that in the months of April and May and large part of June as well. So that is something that we have started now in the month of July and we have already started to see recoveries from these portfolios. From the LTV perspective, the LTV allowed by RBI was about 75%. RBI had increased that during the last year. We also had increased our LTV, but as I said that is not an issue. These loans are completely covered by the value of the gold in the collateral that we have.

Mahrukh Adajania:

My other question is that even if you exclude agri and jewel loan NPLs, the slippage rate is higher because of Covid-19 and in the fourth quarter you had mentioned that mortgage slippages were also on the higher side. So does that continue, as in has the slippage ratio in mortgages increased q-o-q, any color?

Rakesh Jha:

Like I said Mahrukh earlier that if you look at the overall additions to the NPAs in the retail portfolio last year and you compare that with this year first quarter - last year as a whole I am taking because there were many issues like moratorium and Supreme Court judgment, the quarter numbers were varying a lot - if you look at it from an annual perspective, last year and Q1 this year, the trend on the retail side excluding rural, I would say home loan is actually pretty similar to what we had last year. We had seen higher

slippages, relatively speaking to last year, on the commercial vehicle portfolio and on the unsecured side actually, that is personal loan and credit card, it has been somewhat better than last year. That is what we have seen in the first quarter and again the overall numbers have to be seen in the context that unlike last year we did not have any of the regulatory dispensation this year, so we were expecting to see the impact of the second wave in a more upfront manner during the current financial year and that is what we have seen. From here on, we should see a decline in the pace of addition to NPA. Of course, they will still be somewhat elevated in the coming quarter, but again taking out any assumption on the third wave, we are not kind of factoring that in, if we keep that aside for a moment, into the second half of the year, definitely we should start seeing meaningful reduction in the addition to NPLs and of course to some extent the current environment has also impacted collections and the recoveries which happened from the NPL portfolio. But despite that, if you look at it, from the retail portfolio itself, we have recovered about Rs. 22 billion in the current quarter compared to additions of about Rs. 68 billion, so about one third of that has been the recovery level from the retail portfolio.

Mahrukh Adajania:

That was my next question that the retail recovery is actually much higher than fourth quarter when fourth quarter was a much better environment for recovery, so has some classification changed which is why you have higher slippage and higher recovery or is it actual recovery?

Rakesh Jha:

No, again as I said, last year because of the moratorium and all of that, the numbers were up and down across quarters

Mahrukh Adajania:

No, I am talking about fourth quarter only

Rakesh Jha:

Yes, because the classification of NPLs happened only in the fourth quarter, Mahrukh, the NPLs were not added in the previous quarters at all, so the recoveries could not have

been there. Just to say that in Q1 these recoveries are all normal recoveries and upgrades which have happened on the retail portfolio.

Mahrukh Adajania:

And on provisioning, you had tightened your provisioning policy even last year, so why did you need to tighten it again this year? Is it different segments that you had tightened or what has been tightened now?

Rakesh Jha:

I think there could be a couple of portfolios where we would have tightened in December and we have done further tightening this quarter as well. Mahrukh, the way we look at it is purely from a point of view that we have made it more conservative. We are very conscious about the coverage ratio that we want to maintain on the portfolio. And when the NPA additions are higher like we had in this quarter on a gross basis and on a net basis, we would have increased some provision on the early buckets of NPAs. Again, I don't think it reflects anything in terms of our expectation of eventual recovery from these NPL categories in which we have increased the provisions. There could of course be some delay in recoveries. For example, the level of recoveries that we were expecting in this quarter sitting in February versus what it turned out to be was definitely lower than what we had thought. So, there could be some delay in recoveries which could happen. But otherwise, it is just ensuring that our balance sheet remains strong in terms of the net NPLs and in terms of the coverage ratio. If you look at our net NPAs through the Covid-19 period starting from March 2020, the net NPAs actually came down in the last 5 quarters compared to March 2020. If you look at the net NPA outstanding, compared to March 2021 in June 2021 again, it is like a marginal increase. So we have looked at all of these aspects as well.

Mahrukh Adajania:

Just one very last question in the interest income breakup, the other interest has gone up from like Rs. 9.8 billion to Rs. 12 billion. Is that normal or is there some one-off recovery there?

Rakesh Jha:

No. We called out the collections number separately and that was not a material number. There were some opportunities for the Bank to deploy some of the surplus liquidity in the form of FX swaps, so, that is something that we had done. It was just a change in the form of liquidity that we maintained and that shows up in the other interest income as swap income instead of interest income on investments or some other category, as would have happened in the normal course of time. There is no one-off there.

Moderator:

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

Nilanjan Karfa:

Just want to dwell on that last question on the higher recoveries in the retail and business banking portfolio, obviously in the last year we had pretty high slippages, I think between fiscal 2020 and 2021, the retail slippages had more than doubled, so I find it quite curious that while it was challenging in collections this quarter, we had slippages and we also had collections, so would you elaborate what kind of slippages actually we had seen last year because I am guessing that all of the collections which had happened in this quarter were from the last year slippages and therefore colour of the recoveries that had actually happened in this quarter, so that is my first question.

Rakesh Jha:

Nilanjan, again just to say, if you look at the last year, bulk of the NPL additions happened in the March quarter. If you look at the slide 31 of the investor presentation, out of Rs. 128 billion of the gross NPA additions in FY2021, close to Rs. 100 billion was in Q4-2021 on an actual basis, not on proforma basis. The stock of NPLs did go up quite substantially in the last financial year and as I said we were expecting recoveries to be pretty high this year and for Q1 sitting in February or early March we would have thought of an even higher number than what we eventually had in the quarter. The collections, for example, in the first couple of weeks of April was still relatively okay. June as we mentioned, things started to get better specially from the second week onwards and again the benefit of

the retail portfolio is that it is a very granular portfolio. These are home loans, car loans, personal loans, credit cards. So, there will always be additions and deletions that will happen in this portfolio. Again, I don't want to put out a number on this, but if things remain, the third wave is not at all as intense as what we saw in the second wave and it is much milder, then we would definitely expect to see better recoveries in the second half of the year as well.

Nilanjan Karfa:

May be I will need a little more color, but to cut to the chase, given that we are saying that second half, I think the Q2 itself, I think you are calling out to be slightly better in terms of lower additions, let us keep aside third wave for a while and you are saying the second half will be a lot better in terms of additions and collections equally, would you want to call out that gross additions will be lower than last year? I think last year, we have seen something around Rs. 160 billion, would that be the case, do you want to hazard a guess and secondly, would you still want to manage 25% provision to PPOP ratio?

Rakesh Jha:

On the gross additions, it is difficult to say. The fact is that in the first quarter, the additions on a gross basis were Rs. 72 billion. Will the additions fall off as sharply or remain at the same levels as last year, that looks difficult. But again the way we look at it and specially on the retail portfolio is that we have to take into consideration the deletions and recoveries that happen as well. In the retail portfolio you will see additions and deletions all the while. So even if the gross additions were to be higher than last year, I think if you look at the recovery number, that would also be meaningfully higher than last year. So, we expect some improvement in the September quarter and then meaningful improvement into the second half of the year. It is difficult to hazard any specific number on that and again all of this is also subject to how the pandemic plays out from here and there are so many other factors as well. This is the best estimate that we can have right now.

Anup Bagchi:

Rakesh, I thought I will just give a colour on the consumer behaviour because I think there is an angle of consumer behaviour here. We had seen last time also that the

moment there is uncertainty and there is a bit of anxiety, generally, the trend is to hoard cash and get into emergency funds. So, emergency fund this time around also we saw that there was a shift and obviously the bounces and the overdue position worsened in April and May. This is on the asset side. We also saw on the liability side, people taking out cash from ATMs and keeping it at home, so we also saw withdrawal and you will see across the banking system in general that the retail FD growth rates have been lower this quarter. Actually, we have to see this liability and asset movement with the consumer behaviour and in the first two months and first fortnight of June also, the anxiety hasn't fully gone, it is in the second fortnight of June that some bit of confidence started to come back and once the confidence started to come back, there is an unwind of the emergency funds that people want to keep. Emergency funds, they keep by way of delaying repayments and also if they have got balances in their liabilities account, keeping it in cash because this time around for hospitalization and buying of medicines, etc., actual cash was required. We saw that consumer behaviour as well, which is why you will see that in upgrades etc., it will also move a bit with the sentiment, which is why we saw higher upgrades in Q1, bulk of it also came in June. April and May bounce rates and overdues had worsened, in June it had improved substantially, July also the trends are better. I thought I will just overlay the consumer behaviour and what a consumer is thinking and its impact on the asset side as well as on the liability side.

Nilanjan Karfa:

Anup, just a follow up on this, I mean given the kind of customers let us say these are, obviously I don't have a lot of color, do you have to actually go out and collect or these are like more digital savvy and all?

Anup Bagchi:

No, actually a very good question, so we have to look at it product by product., So in jewel loans for example, because the customer's jewelry is there with us as collateral, people walk in and pay most of it, we don't go out and collect. So that got impacted more in the first quarter and then, of course the issue of auction was there. On the others, most of our collections, 90% plus, now we are collecting digitally. We are not sort of sending people and doing all of it. We are collecting digitally and over a period of time for us, most of our collections are through digital modes and this has been increasing

over a period of time. For non-account holders there are auto debits through NACH. Bulk of it is all digital collection, so our dependence on actually people going out and collecting does get impacted, to some extent, I will not say it doesn't, but our dependence on that, let us say, compared to one or two years back, is now much lesser. So, to that extent, we are okay. We are more driven by the consumer behaviour and the anxiety levels in the market, so if we were to sort of plot an anxiety meter versus movement on the overdue as well as on the liability side, you will see that they are fairly co-related. So I would say that is a much bigger driver than sending people and collecting. Our dependence is much less and we would continue to make it less and less dependent on that.

Moderator:

Thank you. The next question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy:

Just two questions, rather three quick questions. One is to Vishakha, what are you seeing on the corporate side because obviously a lot of people are expecting that credit growth revival in general for the system will happen from corporate as the economy gathers steam, so I just wanted to know the outlook on both working capital as well as capex demand. What exactly is the recovery that you are seeing there? Second question is to both Anup and Sandeep, first beginning with the impact of Mastercard, have you guys assessed that? And the other aspect is, with these fintechs coming in and you guys also have partnership with them, what is the value that you see in them bringing to you, what is it that you guys can't do that fintech guys are doing it better, be it technology or be it customer segment, any color on that would be very helpful.

Vishakha Mulye:

Suresh, on the corporate side, two things, the capital expenditure and the working capital. So let us take Q1 out because of the pandemic wave 2, clearly in April and May, one did see some impact on the capacity utilizations and stuff like that. But if you look at generally on the corporate side, the capacity utilizations have gone up, the commodity cycles are at the peak and therefore general requirement of working capital has gone up

and we have seen an improvement in the utilization on the working capital side. Having said that, many of these corporates have actually gone and raised capital either in the form of equity because of buoyant equity market or they have relied on raising money in the form of bonds in the market to fund those working capital needs. Going forward, I expect this momentum to continue, the way one had seen in the last year. Coming to capital expenditure, I would divide it into two parts, first the private corporates and then the public sector. As far as the private sector is concerned, one must admit that one has not seen much capital expenditure in terms of large projects and so on and so forth. Of course, people have taken opportunities in the last two years to balance their capacities and do a normal capital expenditure or I would say a slightly more than the normal capital expenditure in the last nine months or one year, but really not anything to expand the capacity because typically the corporate would look at expanding the capacities and they see their existing capacity getting sweated on a consistent basis or a sustainable basis. So that kind of capital expenditure demand I must admit has not been seen from the private sector. As far as public sector is concerned, I think they continue to grow, they have their capital expenditure plans and we have seen robust growth and as we have said in our remarks, we have focused therefore on the large corporates, well rated corporates and the PSUs and you see a growth of almost 15% year-on-year in our performing domestic corporate book, excluding the builder portfolio.

Anup Bagchi:

Let me take the second part of the question, so one is on the Mastercard impact. The Mastercard impact on us is virtually negligible because for all the variants of Mastercard, we also have Visa, so we have shifted over to Visa and Mastercard is very little. Actually, it is in a few thousands per month and our flagship which is the Amazon card runs on Visa, so to that extent large part of the credit cards is also protected. The second question is very interesting which is the fintech and what is it that we get and what banks cannot do. I would say honestly that there is nothing technically which a fintech does that a bank cannot do. So, what are the positives there and what are the negatives and what are the learnings for banks. For banks like us, I think first there is a gap on the speed of imagining the solution. Fintechs, because they are very focused on a problem that they are solving for the customer, generally they are the first on the block to solve that problem. Banks like us look at large breadth and depth of customers and have many problems to solve,

so sometimes in prioritization, some fintechs, not all, are very focused on that customer segment and they move up the block first. What banks have to do is, we need to have our tentacles far and wide which we have, to see which problems are getting solved and are those problems relevant for our customer segments as well. If they are relevant to our customer segment, we have two choices, either we build the solution on our own or we partner. Generally, our approach is to partner because the fintechs are focused on that solution, they have done that solution and we have a much larger customer base to give and we can scale that up fast. Fintechs, we have seen, they solve the problem correctly, but most of them find it difficult to scale up, some of course scale up very well. So that is one thing. Second is that, how fast can a bank do it, because fintechs are very focused on a particular segment since they don't have the complexity of a bank. At times, they can be faster in solutions and they could be more flexible and agile, but in the fast and agile, we have seen in our experience, they find it difficult to make adjustments. They are not able to move into the adjacencies that easily which is that they focus on one customer segment, one problem and that is it and they are not able to move with us. And on the customer side if we see, a customer requires a full solution, so if a problem requires 10 solutions, if somebody is giving only four solutions, generally the adoption is not that good. From a bank's perspective we give four plus we add six, so that we are able to give 10, hence the customer's stickiness with us increases. We have seen it for example, in iMobile Pay, as Sandeep had also mentioned earlier, that within six months these are non-ICICI Bank customers, it is all in the pool and customers are taking it up on their own, so we are seeing almost 4 lakhs non-ICICI Bank customers per month coming in and it is accelerating. So, we look very closely on product and ecosystem and then our customer segment fit and that is what we are continuously looking and we partner with many fintechs. We of course do our own stuff as well, but we partner a lot of fintechs and we create our own solutions for that. From a banking perspective, the big advantage that we have which many fintechs may not have is, our ability to do KYC which is Know Your Customer and know their context which is much better than any fintech in a broader sense. In a narrow sense, sometimes banks miss on prioritization, but if we keep our tentacles on, then we don't miss on opportunities, then we become fast followers, we pick it up and we move fast. So, I would say that this game of fintech versus bank, one is certainly of partnership, second, our ability to also cross-sell other products to the same customer in banking system is higher than any of the fintechs. Fintechs are narrow in their definition of the problem and customer and solution

and as I said earlier, to move across other products. They build brand in a very narrow way, but bank branding is wider, so customers also expect that they can take a mortgage also from us and buy mutual funds from us and buy protection from us and give liabilities to us. It is a brand building exercise which is difficult, it takes some time to build that kind of broader appeal to the customer. So I feel that at this point of time, anybody who is agile and has tentacles open and is very focused on problem solving for the customers, will do reasonably well and that is what we are attempting to do and learn at all points of time and we see the product ecosystem fit and the customer segment fit and we keep on seeing the fit. There are many initiatives and many solutions we come out with, it doesn't move that fast, so we will let it be, we test and learn and get that feedback. The high frequency touch with us, with the bank is generally higher and so with the digital footprint, we are also able to use them at other places like underwriting, getting the context of the customer, helping them cross-sell, so overall I feel that if banks are agile, if banks are alert, if banks have their tentacles spread out, we do have a very good chance of winning this market for sure. So, I would say that is one. Of course, on the banking side, we are a regulated entity, many other fintechs are not regulated entities. To that extent, there is some short-term agility or flexibility that they will have, but as they grow up, there will be clamour for regulations to come in and regulations, they are sometimes good because they increase trust in the system, but sometimes they also open up some small arbitrages which makes them more flexible for some time at least, so that is the positive. So basically the game is evenly spread and banks have natural advantages and it is for incumbents like us to actually win this market and serve the customers well across their needs, across their spectrum in a broad way and in a deep way.

Sandeep Batra:

Just a supplement to what Anup said, Suresh, now the fundamental difference between a bank and fintech is the liability franchise that we have and that is a significant proposition. For us, it is trying to manage scale and complexity which is of a very different order. So as you are aware we have been focusing on this area and as a part of our disclosure. This time, you will see that we almost have about 10-11 slides that we have put across on various initiatives that we are taking and we will continue to work on this journey. It is a journey and we will continue to learn from fintechs.

Moderator:

Thank you. The next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka:

Three quick questions, one to Vishakha, so if I look at this resolution framework under Covid-19 the disclosure that comes in the notes to accounts and if I compare it to the last quarter, FY2021 end, it is higher by about Rs. 19 billion out of which about Rs. 16 billion is really coming from corporate loans plus on top of it is some ECLGS offtake as well in the quarter, so if you could just explain which segments within corporate are you seeing? Is it any particular segment or segments or some mid corporate or any kind of detail there would be helpful and I can come back to the other two questions?

Rakesh Jha:

Rakesh here, I will just take that question. In terms of the disclosure, it is of the cases where the resolution has been implemented. So that is the reason why that number has gone up. If you look at our disclosure that we have put out on slide 32, that gives the total fund based outstanding under various resolution frameworks which was about Rs. 48 billion, excluding the NPAs, compared to about Rs. 39 billion at March 31, 2021. Of the Rs. 48 billion of fund based outstanding at June-end, Rs. 22 billion is retail and about Rs. 26 billion is corporate. It is the same set, nothing incremental which has happened on the corporate side during the quarter in terms of restructuring. There were a few accounts which were NPA as of March-end where resolution got implemented in Q1 and those cases got upgraded. When we explained the increase in corporate and SME BB portfolio, we said that some of the NPAs where restructuring was not implemented by March 31, it got implemented by June 30 and have been upgraded to standard. Those cases show up in this table as well and also in our BB portfolio.

Abhishek Murarka:

The other question Rakesh is, in this retail slippages if I back out the jewel loan and the KCC portfolio, we still have about Rs. 46 billion there, so could you give some broad sense of how that is played, let us say between mortgages and auto?

Rakesh Jha:

We don't give a product-wise kind of breakup. So, I don't want to get into that. Like I said, I think that trend for mortgages is similar to what we saw last year. Commercial vehicles, basically vehicles is higher than last year specifically the commercial vehicle part of it. Personal loans and credit cards are better than last year as per the trends that we have seen in the June quarter on the retail additions other than rural part.

Abhishek Murarka:

And if we just look at the vintage of the retail slippages, not the segments, would it have come more from the book which is let us say underwritten in the last couple of years or anything like that?

Anup Bagchi:

Abhishek the loan tenure itself is short for retail loan except for mortgage which are longer loan tenure. Just to add to Rakesh's point, on the mortgage side, it was similar to last year and is a very large book for us. If you remember the moratorium on the mortgage book last year of the largest mortgage lender was substantially higher. The reason is because they are low cost and there are large EMIs and there is no prepayment cost. So, you know it is a very good case, if somebody wants emergency fund, I would much rather shift that payment a little bit than others, let us say, personal loan and credit card and other things which are more expensive. I am saying logically if a client is behaving logically, which normally they do, that would be the general behaviour of a client.

Abhishek Murarka:

So I was just trying to get whether the growth in slippages we saw in the last 1-1.5 years is due to seasoning of that portfolio?

Anup Bagchi:

No, I don't think seasoning is an issue actually, we have seen those cohorts. I don't think seasoning is the issue, it is just circumstances of the second wave and the anxiety and

all of it mostly. In the commercial vehicles, when the input costs are high and you cannot pass it on, there is obviously mismatch in the cash flows, but then we have not grown our book and it is not a very large book for us.

Moderator:

Thank you. The next question is from the line of Mahesh M B from Kotak Securities. Please go ahead.

Mahesh M B:

Just one question from me to Anup. Anup, just trying to understand and taking the previous question forward, in the recoveries that you have done this quarter, especially let us say in mortgages, have you had to see fairly large credit cost or do you think that the LTV was good enough that you had to make very limited provisions out there from write-off perspective?

Anup Bagchi:

No, in general, Mahesh, even in 2008, we didn't lose on the mortgage side. One, our LTVs are well controlled and number two, many of them, most of them in fact are either where customers are staying there, so it is an SORP, the self-occupied residential property or the source of income and customers would not want it to get mortgaged and sold. So essentially that is the situation actually on the mortgage side. So, there are no losses as such which have come in mortgage. Actually, we don't have to sell. In mortgages, the fact is that even in 2008, we didn't have to sell that much actually to recover and even when we had sold, again it is all past, because we will have to see if we have to sell what happens, there is no great loss or anything like that. Credit costs are very low plus our provision coverage ratio is very good. Actually, I would say that for a mortgage kind of business, this kind of provision coverage ratio certainly will do better with high probability and high confidence of course in the future.

Mahesh M B:

Second question, just that given the fact that you have been a little bit more, let us say, you are just kind of giving a little bit more of a helping hand to borrowers, if the customer

does remain in the NPL book, but is starting to repay the loans and given the fact that they may not be able to pay all the installments and upgrade to standard, your first option is to continue with the borrower or you would want to kind of take some actions on them?

Anup Bagchi:

What actions to take, I am not clear actually on the question?

Mahesh M B:

It is essentially a recovery activity through an auction of the underlying property or the vehicle, etc.?

Anup Bagchi:

Basically, the stand we have is not to take the collateral and sell and recover, that is not the first choice we have. Our first choice always is that customer should keep the collateral and they should pay us back and generally we have seen that is how it happens. So, there are cases, where we assess whether it is a complete loss of income or it is a temporary loss of income. If it is a complete loss of income and customer says that there is no way in which I can pay you and here is the collateral, you know I am willing to give them, then we will take that action, but that is not the preferred route for us. We have seen that in most cases, in fact in majority of the cases it is circumstantial and not intention to default. It is circumstantial and with the event flow it happens and people do pay back and we don't have to seize the collateral. In any case, economically also seizing a collateral and selling is a more involved process. If it is a vehicle, then it depreciates, if it is a real estate now, sale is low, commercial real estate sale will be slow, etc., so that is not our preferred mode of recovery. Our preferred mode is that customer should pay back.

Moderator:

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

Manish Ostwal:

I have only one question, in your initial remarks, you said that in Q2-2022 slippage will be lower and meaningful reduction will happen in second half of FY2022, so in this quarter we have some write-back and Covid-19 related write-back and there is some Rs. 11 billion of additional provision because of change of policy, so my question is, how do you read the write-back in the context of the dynamic situation of pandemic and our assessment of the overall credit slippage and the credit cost for the full year?

Rakesh Jha:

We would reassess the Covid-19 related provision that we hold on a quarter-on-quarter basis depending on the status of the pandemic. For example, in December quarter itself, we had utilized about Rs. 18 billion from this Covid-19 provision and till February we were actually, definitely thinking of or planning to utilize more in the March quarter. That changed post the second wave coming in towards the end of March and we actually made a further Rs. 10 billion of provision in Q4-2021. This quarter, we have re-assessed the Covid-19 provision and based on the portfolio trends, the NPA slippages that we have seen from the portfolio, the provisions that we hold there plus the expectations for the rest of the year, we believe that the provision that we are holding currently of about Rs. 64 billion or so is more than adequate. That is an assessment that we will have to do on an ongoing basis.

Manish Ostwal:

But since we have write-back, so can we reach the current quarterly trend of the provisioning? Will it sustain in the coming quarter, so how one should read it?

Rakesh Jha:

Indeed, in this quarter, we had an additional provision like you said of Rs. 11 billion also coming in because of the change in the policy that we have for NPAs, that is not something which one would be doing on an ongoing or a recurring basis. So aside from that hopefully, in the second half of the year, one should see provisions coming off, but it is very difficult to say. Our approach is that at all points of time, maintain a balance sheet which is strong in terms of coverage ratio and net NPA levels. So that is something

that we will continue to factor in. Directionally given what we are saying on the NPL additions, it should mean that the gross provision should also come off.

Moderator:

Thank you. The next question is from the line of Adarsh Parasrampuriah from CLSA. Please go ahead.

Adarsh Parasrampuriah:

So, my question was on margins, it has been exceptionally strong, so just wanted to understand sectoral growth is low, asset pricing is weak and we had a very strong improvement in margin may be because of loan mix and liability, are we at peak margins, we expect the bank can sustain these levels of margins?

Rakesh Jha:

On the margins, I think like we have been saying, our approach is to kind of see what best we can do. I think the most important part of the margin is the deposit franchise and the cost of funds and cost of deposits that we have. We have seen that decline in the June quarter as well, the decline in cost of deposit is about 15 basis points. I think the cost of deposits is now coming down to a bottom because incrementally the deposit rates have not come down for a while. So it will bottom out soon. Yields have been very competitive. I think across retail and corporate, the business teams have been very conscious about the tradeoff which is there between growth, margin and profitability and of course the risk part of it is well. Especially on the corporate side, we have looked at the growth in a manner which is supportive of margins and operating profit, so that is something that we will continue to do. This quarter, I guess some of the liquidity did come off for us and that would have helped a bit. We also got some bit of higher yield on the surplus liquidity as I mentioned earlier in response to Mahrukh's query that we had put some of our liquidity through FX swaps where the yield was a bit higher. But those are not very significant numbers in the overall context. I think the risk to margin will continue to be from competitive pricing and secondly, in our balance sheet now we have fair bit of market benchmark linked loans. If we see any change in our funding cost or deposit rate without commensurate change in repo rate by RBI, that could be a risk factor as well.

Adarsh Parasrampuria:

The SME portfolio has got a lot of dispensation in the last few quarters and it continues now, so what is the risk from this portfolio in the second half of FY2022 when retail normalizes, how are you reevaluating? Any context to how those portfolios are performing there?

Rakesh Jha:

If you look at the business banking and the SME portfolio, we have described how that portfolio has been constructed. In the business banking portfolio, the ticket size is pretty low and it is pretty well collateralized. In the last year through the moratorium and after that also the trends were quite stable and continue to remain the same. The overdue levels in that portfolio are pretty much the same as we have had in the past. So, we are quite comfortable on that. SME is slightly larger ticket size than the business banking portfolio, the collateral levels are not at the 100% level that we have in business banking. So, to some extent, SME does have a bit of higher risks than business banking. But again in terms of the numbers that we are seeing till now, there is nothing that we are finding which would be of big worry. There has been some increase in the overdue book in the June quarter compared to where we were in the March quarter, but that was expected and there are lot of them in the early bucket and we would expect that to resolve also. So, we are quite comfortable on this book as we are seeing it currently.

Moderator:

Thank you. We take the last question from the line of Jai Mundra from B&K Securities. Please go ahead.

Jai Mundra:

One question on merchant acquisition business which you have given reasonably good detail and looks like this is a clear focus area, if you can highlight what is the existing merchant base, how much is the addition on a monthly basis and do you think that you are the late entrant here and if you could also talk about the digital store management, it looks very interesting, are you managing this thing or this is through tie-up with some other Fintech? First question is on this merchant acquisition business?

Anup Bagchi:

I will just expand your question a little bit. See there are three kinds of large flows that are happening. There is a large corporate ecosystem where the flow happens, dealer-vendor, their own working capital that flow happens. Second one is the flow that happens on our business banking, SME and our trade customers who may have taken credit, may not have taken credit, but both of them are essentially B2B type. Now, you have this merchant, which is the B2C, when I am saying C it is the last leg, is essentially with consumers and there is a payment leg involved, so you will see that most of the solution on the merchant side essentially happens on the payment side. So, with the payment, first the flow happens to you, so that is one movement that happens. So, there is a large consumption basket which moves from savings account to current account or reduction in OD, etc., essentially to the business side every month and that is where the flow is. We have a decent market share there, so it is not right to assume that we have low market share, we have decent market share, but the other players were stronger than us for sure in this place. One big opportunity that is now coming is that there is a divergence because the number of payment modes have increased, number one and number two, if you look at the consumer behaviour that we are seeing, we are seeing scan to pay, pay to contact, UPI payment, etc., those are also expanding, so P2M transactions are expanding and as Sandeep talked about it in the opening remarks how our P2M is moving and sequentially it is jumping. The other thing that we can do the new merchant STACK that we have come out with and the super current account, we are giving instant settlement. Our instant settlement is something which is of great value to the customer and the reason why we are able to give instant settlement also is because the whole ecosystem belongs to us, both on the saving side as well as on the current account and the merchant side. So that is the one way of capturing this because there are new modes of payment which is happening that opens up newer ways of capturing that opportunity. The second one of course is that to aggregators, one captures that opportunity and you tie up with aggregators and there you partner with aggregators and then you capture this. Third of course is the traditional POS method. We think that from a POS perspective, they will be with very large retailers. As you go smaller and smaller, things will move towards scan and pay and other more contactless methods and that is where one big opportunity is there. From our perspective, that is the way we will be sort of thinking through this thing and making sure that the smaller

merchants have a very strong proposition why they should deal with ICICI Bank, we will partner, we will create our own solutions and we will make them more efficient and effective and we will have more digital footprint, we will be able to lend them, so essentially everything we will be able to do as against some other players who might just be helping them with payment or some other players who will be helping just with lending and at this point of time, banks will be slightly better placed on lending, if one has digital footprint and underwriting methods because we have more data about our own clients. At this point of time, it is moving at a fast pace I think it is a very interesting area and an evolving area and not fully solved for. So that is the problem that we are trying to solve for and we think that there is a good play there.

Jai Mundra:

Sir, any vision, what is the merchant base as of now and how big could it be?

Anup Bagchi:

Merchant base, just to give you some sense, there is no sort of direct data available, but we would think that there will be close to 20 million merchants of all shapes and sizes, small, big, very large, etc., of which may be 8-10 million would be of a reasonably size, however there is no clear estimate available. We are sampling and I am just giving you a data, it may be of 2% here and there, but there is no real data available, but I think that would be the size. Our also estimate again, take it with a pinch of salt, because there is no such data available. The monthly movement from savings account on the consumption per month ranges between 2-2.5 trillion per month, so that is the kind of movement that happens on the savings account to the merchant account every month across all payment modes. So, this is across all payment modes. We might not have captured some, but that is our best estimate. We don't know, this estimate could be higher, certainly not lower, but it may be slightly delta high. So that is the kind of money movement that is happening. But as you know payments in itself is not a profitable business. Payments generate a profit pool in terms of data which can then be used for underwriting, cross selling other products. We are in a unique position because we have deposit float and with that float we make some money which other players in the market may not be able to do as they don't have a similar type of liability franchise. So I thought I will just give you some sense, may be 20 million merchants in total. Of it, 8-10 million

could be some estimate. Don't hold me to estimate because these are the estimates from our own sampling. This will give you some sense and certainly two trillion plus movement on consumption from savings account to merchant accounts per month across all payment modes. I am just trying to estimate the size of the market for that.

Jai Mundra:

Second question that is on floating rate book, so I think Rakesh mentioned that now the floating Repo rate/T-Bill linked loan is around 54% and that is a huge number, limited understanding suggest that I think Rakesh also mentioned that this should be NIMs accretive in a hardening cycle, provided RBI also increases the Repo rate, but any thoughts as to what could be the unwanted consequences because I suspect that the liability may not be this dynamic at this point of time?

Rakesh Jha:

So, the risk here is essentially that our deposit rates or deposit costs go up prior to RBI increasing the Repo rate, the lead and lag problem will be there and over the cycle hopefully it should average out. It is not something which should happen anytime soon, but when the tightening happens the market rates could go up before the repo rate at points of time specially on the wholesale deposit side. That is the risk of mismatch because on the liability side, like you rightly said, that is all fixed rate deposits or CASA deposits. There are no floating rate liabilities which are there. So we will have to manage that as and when that plays out. As I said over a period it should average out, but there could be a lag in that.

Jai Mundra:

And last thing on business banking and SME, you have cut out business banking from retail, as of now the proportion is around 5% of the book I am not a guidance, but what is your 2-3 years vision? How big can this be? Business banking and SME if you have a number as to what could be their proportion of the total Bank's loans?

Rakesh Jha:

In terms of proportion, we don't have a target there. In terms of the business opportunity for both the business banking and SME segment, we believe there is huge opportunity. Our own market share in this segment in the past has been somewhat lower than the share that we have in other businesses. We have been taking a lot of initiatives on the technology and digital side and Anup talked about many of them. I think these initiatives are really enabling us to grow not just on the lending business, but also on the current account and FX and transaction banking side. So it is a portfolio in which we believe there is lot of opportunity. We don't have any specific growth target or portfolio composition that we want to reach there.

Jai Mundra:

And the last data keeping question Sir, if you can bifurcate restructuring, so you have given the outstanding restructuring, what was restructuring done in 1.0 and 2.0 and is there any residual pipeline for 2.0?

Rakesh Jha:

On slide 32 we have the aggregate restructuring under various frameworks such as Covid 1.0, Covid 2.0, extension of DCCO to projects under implementation, MSME schemes, etc. As there are so many schemes, we thought that it is better to give an aggregate number of fund based outstanding to performing borrowers which are loans which are under resolution. Going forward, I think like we mentioned that we will see some restructuring happening in the Covid 2.0 framework on the retail. For example, it could be for some of the existing NPAs or for new loans. So in the September quarter we will see some increase on account of that.

Moderator:

Thank you, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Rakesh Jha:

Thank you everyone. It got a bit late today on Saturday. Sorry for that and for any follow-on questions, you could reach out to us. Thank you.

Moderator:

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