ICICI Bank Limited

Earnings conference call - Quarter ended December 31, 2020 (Q3-2021)

January 30, 2021

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Moderator:

Ladies and gentlemen, good day and welcome to ICICI Bank Q3-2021 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 Q3 of FY2021. Joining us today on this call are Vishakha, Anup, Sandeep Batra, Rakesh and Anindya.

Thank you all for joining us today. We hope that you are safe and in good health. India has embarked on what we hope would be the last stage of its fight against the Covid-19 pandemic with the launch of the nationwide vaccination drive. We would like to extend our gratitude to the relentless efforts of the medical and research fraternity, healthcare staff and all essential service providers who have helped to put up a strong fight against Covid-19. I would also like to take a moment here to thank our employees for their service to customers in these challenging times.

The Bank's Economic Research Group's proprietary Ultra Frequency Index, which comprises several high frequency indicators, reached a record high of 106.3 for the week ending January 17. The index has remained above 100 for the last four weeks indicating that economic activity has crossed pre-COVID levels. Several high frequency indicators such as rural unemployment rates, rail freight revenues, power consumption, e-way bill generation and electronic toll collections were above the pre-Covid levels consistently in the last four weeks. The month of December registered the highest ever monthly collections of GST primarily on the back of festive season sales and rise in collections on imports. The record agricultural output across kharif and rabi seasons last year, steady rise in rabi crop sowing in the current season and increase in tractor sales point towards a strong rural economy. There has also been an uptick in property registrations in December compared to September.

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

The core operating profit increased by 14.8% year-on-year to 80.54 billion Rupees in Q3 of 2021. The profit after tax increased by 19.2% year-on-year to 49.40 billion Rupees in Q3 of 2021 from 41.46 billion Rupees in Q3 last year.

2. Further enhancing our strong deposit franchise

Deposit growth continued to be strong, with 22.1% year-on-year growth in total deposits at December 31, 2020. During the quarter, average current account deposits increased by 26.5% year-on-year and average savings account deposits by 15.9% year-on-year. The liquidity coverage ratio for the quarter was 146%, reflecting significant surplus liquidity. Our cost of deposits continues to be among the lowest in the system. Our 360-degree customer coverage, digital platforms and efforts towards process decongestion have played an important role in the growth of our deposit franchise.

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

The continued pickup in economic activity and tailwinds from the festive season, combined with the Bank's digital initiatives and extensive franchise reflected in an increase in disbursements across retail products during this quarter. Mortgage disbursements increased further in this quarter over the previous quarter driven by our efforts to offer a convenient and frictionless experience to customers by digitising the entire underwriting process, with instant loan approvals. Disbursements of auto loans have continued to increase from the September levels and have crossed pre-Covid levels in December. Till January 27, 2021, we have disbursed about 120 billion Rupees under the ECLGS 1.0 scheme and about 6 billion Rupees has been disbursed under the ECLGS 2.0 scheme. The overall retail loan portfolio grew by 15.4% year-on-year and 6.8% sequentially. The growth of the performing domestic corporate portfolio was 9.6% year-on-year and 8.5% sequentially. Overall, the domestic loan portfolio grew by 13.3% year-on-year and 7.5% 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

We have continued to reimagine existing digital journeys in order to decongest service delivery and enhance the customer experience. The ICICI STACK helps us to curate and offer hyper-personalised solutions to our customers suiting their life-stage and business needs. During this quarter, we expanded our state-of-the-art mobile banking app, iMobile, to iMobile Pay which offers payment and banking services to customers of any bank. iMobile Pay can be used for making payments using UPI and also offers instant banking services such as opening savings account, investments, loans and credit cards. We have seen about half a million activations of iMobile Pay from non-ICICI Bank customers since it was launched just two months ago. We offer bespoke digital solutions for corporate and institutional customers which enable us to tap into their ecosystems. The steady increase in adoption of these solutions and fund flows through our digital financial supply chain and trade platforms have contributed to the growth of our deposit franchise. We have launched an online platform called 'Infinite India' offering not only banking solutions but also other value added services for foreign companies looking to establish or expand business in the country.

5. Protecting the balance sheet from potential risks

The indicators around economic activities have been positive and this reflects in the trends of our portfolio. The trends in collections and overdues across loan portfolios continued to improve during the third quarter of the current fiscal year. Rakesh will expand on this later.

Loans amounting to 82.80 billion Rupees at December 31, 2020, compared to 14.10 billion Rupees at September 30, 2020, were not classified as non-performing pursuant to the Supreme Court's interim order. In addition, the total fund based outstanding to all borrowers under resolution as per RBI's framework, not included in these proforma NPA numbers, is 25.46 billion Rupees or about 0.4% of the total loan portfolio at December 31,

2020. These are in line with or better than our expectations of NPA additions and loans under resolution.

During Q3 of 2021, the Bank made contingency provision amounting to 30.12 billion Rupees for borrower accounts not classified as non-performing pursuant to the Supreme Court's interim order and utilised 18.00 billion Rupees of Covid-19 related provisions made in earlier periods. Accordingly, the Bank held aggregate Covid-19 related provision of 99.84 billion Rupees at December 31, 2020 compared to 87.72 billion Rupees at September 30, 2020. This includes contingency provision for proforma NPAs amounting to 35.09 billion Rupees at December 31, 2020 compared to 4.97 billion Rupees at September 30, 2020.

On a proforma basis, the provisioning coverage continued to be robust at 77.6% as of December 31, 2020.

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. Our contingency provisions on proforma non-performing loans during the quarter also takes into account this revised policy. The provisions during the quarter were higher by about 21 billion Rupees due to this more conservative approach.

To summarise on asset quality: The provision coverage ratio on a proforma basis is robust. Less than 90-day overdues above the normal pre-Covid level are substantially lower at end-December compared to end-September. We are confident that the Covid-19 provisions we hold as of end-December will completely cushion the balance sheet from potential credit losses which may arise due to the pandemic. As we have stated earlier, we expect credit costs to normalise in fiscal 2022 based on our current expectations of economic activity and portfolio trends.

6. Maintaining a strong capital base

The capital position of the Bank continued to be strong with a CET-1 ratio of 16.79% including the profits for nine months of the current fiscal year. This strong capital position does not include the market value of the Bank's investments in listed subsidiaries, of about 764 billion Rupees.

Looking ahead, we see optimism in the economy supported by the indicators of resumption of economic activity and continued growth in digitisation. We believe our extensive franchise, high quality digital platforms and solutions, our approach of 360-degree customer centricity, our prudent risk management practices and our strong capital ratios put us in a good position to capture opportunities that will arise in the near and medium term. 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 10.0% year-on-year at December 31, 2020. The domestic loan portfolio grew by 13.3% year-on-year and 7.5% sequentially at December 31, 2020. The retail portfolio grew by 15.4% year-on-year and 6.8% sequentially. Within the retail portfolio, the mortgage loan portfolio grew by 15.0% year-on-year, business banking by 39.4%, rural lending by 24.6%, commercial vehicle and equipment loans by 8.1% and auto loan portfolio by 6.9%. Growth in the personal loan and credit card portfolio was 9.1%. This portfolio was 636.56 billion Rupees or 9.1% of the overall loan book at December 31, 2020.

The disbursements in the retail portfolio have increased substantially in Q3 compared to Q2. Sandeep has already talked about the trends in the mortgages and auto loans portfolios. While the disbursements in the commercial vehicle and personal loan portfolios have increased in Q3 compared to Q2, they continue to remain below pre-Covid levels. Credit card spends have reached pre-Covid levels in December led by increased spends in categories such as health & wellness, electronics and e-commerce. These trends resulted in healthy sequential growth across portfolios.

The SME business comprising borrowers with a turnover of less than 2.5 billion Rupees grew by 24.6% year-on-year to 270.93 billion Rupees at December 31, 2020.

The growth of the performing domestic corporate portfolio was 9.6% year-on-year and 8.5% sequentially, driven by disbursements to higher rated corporates to meet their working capital and capital expenditure requirements. While various sectors and corporate clients contributed to this growth, some focus segments were highly rated PSUs and large established corporate groups.

The overseas loan portfolio declined by 25.7% year-on-year in US dollar terms at December 31, 2020. The overseas loan portfolio was 6.2% of the overall loan book at December 31, 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 48.0% year-on-year and 14.1% sequentially at December 31, 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 15.9% year-on-year and average current account deposits increased by 26.5% year-on-year during the quarter. Total term deposits grew by 26.1% year-on-year to 4.8 trillion Rupees at December 31, 2020.

B. Credit quality

Loans aggregating to 82.80 billion Rupees, compared to 14.10 billion Rupees at September 30, 2020, were not classified as non-performing at December 31, 2020 pursuant to the Supreme Court's interim order. Of the 82.80 billion Rupees at December 31, 2020, 75.21 billion Rupees was from the retail portfolio and 7.59 billion Rupees was from the corporate and SME portfolio. The reported gross NPA additions during the quarter were 4.71 billion Rupees.

Recoveries and upgrades, excluding write-offs, were 17.76 billion Rupees in the current quarter. There were recoveries and upgrades of 9.33 billion Rupees from the retail portfolio and 8.43 billion Rupees from the corporate and SME portfolio. The gross NPAs written-off during the quarter were 27.36 billion Rupees. The gross NPAs sold during the quarter were 0.88 billion Rupees.

The net non-performing assets were 48.61 billion Rupees at December 31, 2020 compared to 71.88 billion Rupees at September 30, 2020. The gross NPA ratio was 4.38% and the net NPA ratio was 0.63% at December 31, 2020. The gross NPA ratio on a proforma basis was 5.42% at December 31, 2020 compared to 5.36% at September 30, 2020. The proforma net NPA ratio was 1.26% at December 31, 2020 compared to 1.12% at September 30, 2020.

We had mentioned in our previous quarter's earnings call that the corporate loans under resolution via the framework announced by RBI in August would be less than 1% of the total loan portfolio of the Bank. Excluding proforma NPAs, the total fund based outstanding to all borrowers under resolution is about 25.46 billion Rupees or about 0.4% of the total loan portfolio at December 31, 2020. Of the above fund based outstanding, 8.37 billion Rupees was from the retail loan portfolio. The Bank holds provisions of 3.85 billion Rupees against these borrowers, which is in excess of the requirement as per RBI guidelines. Going forward, the asset classification of corporate and SME borrowers under resolution would depend on the timing of implementation of resolution schemes and payment performance in the interim. As you are aware that there is time till June 30, 2021 to implement the resolution. Resolution has also been invoked for proforma NPA loans amounting to 8.88 billion Rupees.

Compared to the normal pre-Covid trend, the percentage of the retail EMI products and credit card portfolio which was overdue for less than 90 days was about 1.5% higher at December 31, 2020 compared to about 4% higher at September 30, 2020. The percentage of the performing rural portfolio which was overdue at December 31, 2020 was about 1.5% higher than the normal pre-Covid trend compared to about 1% higher at September 30, 2020. The percentage of the SME and business banking portfolio overdue for less than 90 days was similar to the pre-Covid levels at September-end and remains so at December-end. In the domestic and overseas corporate loan portfolio, less than 2% of the portfolio was overdue for less than 90 days at December 31, 2020 compared to less than 3% at September 30, 2020.

C. P&L Details

Net interest income increased by 16.0% year-on-year to 99.12 billion Rupees. Interest on income tax refund was 1.96 billion Rupees this quarter compared to 0.26 billion Rupees in the previous quarter and 0.16 billion Rupees in Q3 of last year. We have reversed the interest accrued on proforma NPAs and the same is reflected in the net interest income for the current and previous quarter. The net interest margin was at 3.67% in Q3 of 2021 compared to 3.57% in the previous quarter and 3.77% in Q3 of last year. The impact of interest on income tax refund and interest collections from NPAs was about 11 basis points this quarter compared to about 3 basis points in the previous quarter and about 10 basis points in Q3 of last year. The domestic NIM was at 3.78% this quarter compared to 3.72% in Q2 and 4.04% in Q3 last year. International margins were at 0.34%. The cost of deposits was 3.97% in Q3 compared to 4.22% in Q2.

Non-interest income, excluding treasury income, declined by 3.0% year-on-year to 39.21 billion Rupees in Q3 of 2021.

- Fee income was 36.01 billion Rupees in Q3. Compared to a decline of 30.8% year-on-year in Q1 of 2021 and 9.7% year-on-year in Q2 of 2021, fee income grew by 0.1% year-on-year in Q3 of 2021. The sequential growth in fee income was 14.7% reflecting the continuing normalisation in customer spending and borrowing activity
- Dividend income from subsidiaries was 3.56 billion Rupees in Q3 of 2021 compared to 3.67 billion Rupees in Q3 of last year

On Costs: The Bank's operating expenses increased by 3.7% year-on-year in Q3. The operating expenses increased by 12.6% sequentially. The employee expenses increased marginally by 0.4% year-on-year. The Bank had 92,103 employees at December 31, 2020. We expect the employee count to increase during Q4 of 2021. Non-employee expenses increased by 5.5% year-on-year in Q3 of 2021 due to increase in retail business related costs and technology related expenses partly offset by decrease in advertisement and sales promotion expenses. We would expect business related expenses to increase in future quarters as business volumes increase further from the current levels. We continue to make investments in technology and to grow our franchise.

The core operating profit increased by 14.8% year-on-year to 80.54 billion Rupees in Q3 of 2021. The core operating profit grew by 15.9% during 9M of 2021.

The treasury income was 7.66 billion Rupees this quarter compared to 5.42 billion Rupees in Q2. The treasury income this quarter includes 3.29 billion Rupees from sale of 2.2% stake in ICICI Securities compared to 3.05 billion Rupees in Q2. These stake sales were undertaken to meet the minimum public shareholding requirement by March 2021, as required by applicable regulation.

During Q3 of 2021, the Bank made contingency provision amounting to 30.12 billion Rupees for proforma NPAs. We utilised 18.00 billion Rupees of Covid-19 related provisions made in the earlier periods. Accordingly, the Bank held aggregate Covid-19 related provision of 99.84 billion Rupees at December 31, 2020 compared to 87.72 billion Rupees at September 30, 2020. This includes contingency provision for proforma NPAs amounting to 35.09 billion Rupees at December 31, 2020 compared to 4.97 billion Rupees at September 30, 2020. On a proforma basis, the provisioning coverage continued to be robust at 77.6% as of December 31, 2020.

At December 31, 2020, the total outstanding Covid-19 related provisions, provisions for non-fund based outstanding to NPAs, general provisions on standard assets and other standard asset provisions were 164.01 billion Rupees or 2.3% of loans. This includes contingency provisions of 35.09 billion Rupees on proforma NPAs.

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.

The profit before tax increased by 11.2% to 60.78 billion Rupees in Q3 of 2021 compared to 54.65 billion Rupees in Q3 last year. The tax expense was 11.38 billion in Q3 of 2021 compared to 13.19 billion Rupees in the corresponding quarter last year. The tax expense declined due to lower effective tax rate in Q3 of 2021 mainly because of higher gains from sale of stake in subsidiaries in fiscal 2021 which are not subject to tax. The profit after tax grew by 19.2% to 49.40 billion Rupees in Q3 this year compared to 41.46 billion Rupees in Q3 of last year.

The consolidated profit after tax was 54.98 billion Rupees this quarter compared to 48.82 billion Rupees in Q2 and 46.70 billion Rupees in Q3 last year. The consolidated RoE was 14.6% this quarter.

D. Capital

The CET1 ratio, including profits for 9M of 2021, was 16.79% at December 31, 2020 compared to 16.54% at September 30, 2020. Including profits for 9M of 2021, the Tier 1 ratio was 18.12% and the total capital adequacy ratio was 19.51% at December 31, 2020.

E. Portfolio information

We are focused on growing our loan portfolio in a granular manner with a focus on risk and reward. Our retail 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. We have given further information on our portfolio in slides 31 to 34 of our investor presentation.

The loans and non-fund based outstanding to corporate and SME borrowers rated BB and below (excluding proforma NPAs) was 180.61 billion Rupees at December 31, 2020 compared to 161.67 billion Rupees at September 30, 2020, details of which are given on slide 35 of the investor presentation.

Other than four accounts, two in construction and one each in the telecom and power sectors, the maximum single borrower outstanding in the BB and below portfolio was about 6 billion Rupees at December 31, 2020.

On slide 36 of the presentation, we have provided the movement in our BB and below portfolio during Q3 of 2021. In Q3 of 2021:

- The rating downgrades from investment grade categories were 22.39 billion Rupees. The downgrades were largely from the construction sector;
- There was a net decrease in outstanding of 1.45 billion Rupees;
- There was a reduction of 1.50 billion Rupees due to inclusion of some borrowers in the proforma NPAs and devolvement of 0.77 billion Rupees of non-fund based outstanding to NPAs; and
- There were upgrades of 0.27 billion Rupees from NPA to below investment grade categories

Except one lease rental discounting account, all corporate and SME borrowers under resolution as per RBI's framework were rated below investment grade at December 31, 2020.

The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was 225.57 billion Rupees at December 31, 2020 or 3.2% 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 December 31, 2020 was either rated BB and below internally or was classified as non-performing.

The total outstanding to NBFCs and HFCs was 576.29 billion Rupees at December 31, 2020 compared to 501.31 billion Rupees at September 30, 2020. The total outstanding loans to NBFCs and HFCs were about 6% of our advances at December 31, 2020. The details are given on slide 38 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 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 financial institutions 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 5.20 billion US dollars at December 31, 2020 compared to 5.47 billion US dollars at September 30, 2020 and 8.62 billion US dollars at December 31, 2019. 69% of the outstanding at December 31, 2020 was to Indian corporates and their subsidiaries and joint ventures. 16% of the outstanding was to non-India companies with Indian or India-linked operations and activities. The portfolio in this segment is well-rated and the Indian operations of these companies are target customers for the Bank's deposit and transaction banking franchise, and we would continue to pursue risk-calibrated opportunities in this segment. 6% of the outstanding was to companies owned by NRIs or PIOs. 9% 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 63-68 in the investor presentation.

Value of new business of ICICI Life was 10.30 billion Rupees in 9M of 2021 The new business margin increased from 21.7% in fiscal 2020 to 26.0% in 9M of 2021. The new business margin was 25.7% this quarter. The protection based annualised premium equivalent was 7.03 billion Rupees and accounted for 17.8% of the total annualised premium equivalent in 9M of 2021. The new business premium was 78.99 billion Rupees in 9M of 2021.

Gross Direct Premium Income of ICICI General increased by 9.2% year-on-year to 40.34 billion Rupees in Q3 of this year compared to 36.93 billion Rupees in Q3 last year. The combined ratio improved to 97.9% in Q3 of 2021 compared to 98.7% in Q3 of 2020. The profit after tax grew by 6.6% year-on-year to 3.14 billion Rupees this quarter from 2.94 billion Rupees in Q3 last year.

The profit after tax of ICICI AMC was 3.58 billion Rupees in the current quarter compared to 3.05 billion Rupees in Q3 of last year.

The profit after tax of ICICI Securities, on a consolidated basis, was 2.67 billion Rupees in the current quarter compared to 1.37 billion Rupees in Q3 of last year.

ICICI Bank Canada had a profit after tax of 5.1 million Canadian dollars in the current quarter which was at a similar level compared to Q2 and 22.1 million Canadian dollars in Q3 of

2020. The profit after tax was higher in Q3 of 2020 due to recoveries from India-linked impaired corporate loans. The loan book of ICICI Bank Canada at December 31, 2020 declined by 7.5% year-on-year and 3.7% sequentially.

ICICI Bank UK had a profit after tax of 2.2 million US dollars this quarter compared to 8.0 million US dollars in Q3 of last year and 4.9 million US dollars in Q2 of 2021. The loan book of ICICI Bank UK at December 31, 2020 declined by 28.9% year-on-year and 11.6% sequentially.

ICICI Home Finance had a profit after tax of 0.03 billion Rupees in the current quarter which was at a similar level compared to Q3 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 questions-and-answer session. the first question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania:

Congratulations. Could you give the breakdown of proforma slippages?

Rakesh Jha:

We talked about the fact that the actual slippage was Rs. 4.71 billion and the proforma as of December 31, 2020 was Rs. 82.80 billion, which was an increase of Rs. 68.70 billion compared to September position. So, the increase of Rs. 68.70 billion and Rs. 4.71 billion, i.e about Rs. 73 billion is what we have seen during the quarter. A large part of this has been from the retail portfolio.

Mahrukh Adajania:

Okay. But would there be any breakdown on how much is from unsecured and how much is from secured, any such breakdown?

Rakesh Jha:

So, Mahrukh, normally on the retail side we give the aggregate additions and deletions on the portfolio. To give a sense, I think we have seen slippages across portfolios. If you are comparing it to an earlier period, of course, it is higher across products. I think during this quarter we have seen the entire portfolio getting tested for payment because it has come out of moratorium. So, the increase that we have seen on the NPA or the proforma NPA is largely in line with what we were expecting across portfolios or slightly better in some of the portfolios. So, that is the colour that we can give on this. Going forward, we expect to see some bit of lower addition, I am taking proforma as the comparable number, as the moratorium period has got over, and the full impact has been seen in the December quarter.

Mahrukh Adajania:

Okay. So, going forward, you said some bit, as in on the Rs. 67 billion, shouldn't it be substantial?

Rakesh Jha:

Mahrukh, we don't want to really comment on how that number will pan out, but it should be lower than where we are in the December quarter in terms of additions. I think that's the reason we also gave a colour on the portfolio which is overdue. We had talked about that in September also. We have seen there that the trends have improved on the retail EMI products and cards portfolio, now we are about 1.5% higher than the pre-COVID normal trend compared to 4% which was the case in September. So, overall, the overdue portfolio also has come down. So, yes, we should see improvement going forward. How substantial it is, we will have to see how it plays out, there are a lot of moving parts there. But again to reiterate what we said, Mahrukh, I think we have taken provisions upfront in March and June quarter. We have utilized some of that provision this quarter, about Rs. 18 billion. We have tightened some of our provisioning policies to take more provision on NPAs. So, overall we are quite comfortable with the trends that we are seeing on the portfolio, and especially the one variable which was there in October was around the restructuring or the resolution pipeline. As you see that number is pretty much similar to actually the pipeline we had in October and we have not seen much of an increase there. So, these are the trends which give us some comfort that going forward the numbers should decline. But again, the numbers will be high for March quarter, and that will be the case because the overdues are currently higher than the normal pre-COVID level.

Mahrukh Adajania:

Got it. And whatever is downgraded in BB, does that overlap with the restructuring invoked?

Rakesh Jha:

So, there will be an overlap there. If you look at the corporate and SME portfolio of Rs. 180 billion rated BB and below, it includes all the corporate and SME restructuring, other than one account which I mentioned. It's not a large account. It's an LRD account. It continues to be rated in the investment grade category. The downgrades that we saw of Rs. 22 billion during the quarter would also have come largely from the restructuring proposals that we have received and we have invoked. There would be a couple of other smaller size accounts also which have got downgraded. That's why that number is Rs. 22 billion for the quarter.

Mahrukh Adajania:

Got it. But most of the restructuring is corporate only?

Rakesh Jha:

So, of the total, about Rs. 25 billion is the set of accounts which are not overdue for more than 90 days, on December 31st, because those which are overdue we are anyway counting in the proforma. So, we don't want to double count there. Of the Rs. 25 billion which are less than 90 days overdue, Rs. 8 billion is retail and about Rs. 17 billion fund based is corporate.

Mahrukh Adajania:

Got it. And just one last question on the provisioning policy, what policy has changed?

Rakesh Jha:

So, what we have looked at is that we have made our provision policy for some of the NPAs more conservative. So, essentially increasing the provisioning on the early buckets and also prepone a bit when we reach the 100% provision level. That's the reason you would see that on the proforma NPAs for the quarter of Rs. 82 billion, we have already made provisions of Rs. 30 billion. Of the Rs. 35 billion of provision between the Rs. 5 billion we did in September and Rs. 30 billion we did in this quarter, we are pretty much at 40% in the first quarter itself. We have kind of increased the early bucket provisioning for the NPAs. This is not a one-time change in policy, this is something that we will continue with in future as well.

Mahrukh Adajania:

So, now the first bucket will be around 40%, is it? Or this is just because of mix?

Rakesh Jha:

Mahrukh, that varies. The first bucket will vary across portfolio. It will definitely be different for, say, a mortgage or a car loan or an unsecured retail or corporate portfolio. I was saying that, because this quarter will have an impact on the stock. The entire book impact will be there in this quarter. So, we have increased the provision that we take in the early buckets on the NPAs.

Moderator:

Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.

Jai Mundra:

Thanks for the detailed disclosure. If I were to look at the proforma GNPA number of Rs. 82 billion, this is just the net number, right? So, the slippages for the quarter should be Rs. 82 billion plus Rs. 18 billion of recoveries plus Rs. 27 billion of write-off? Is that the right way to look at it?

Rakesh Jha:

No, that's not right. So, the table that we have on Slide 26, if you have it in front of you, we have given the movement in NPA based on the reported NPA as per the current guidelines of RBI and not classifying accounts which are more than 90 days overdue as NPA. So, the total reported gross addition is Rs. 4.71 billion. That is the gross addition which has nothing to do with recoveries and write-offs. So, in addition to that Rs. 4.71 billion, we also had Rs. 82.80 billion of loans which were overdue for more than Rs. 90 days on December 31, 2020 and we did not classify them as NPAs because of the Supreme Court ruling. The corresponding number to the Rs. 82.80 billion number at September 30, 2020 was Rs. 14.10 billion. So there was a Rs. 68.70 billion increase in the 90-day overdue, which we were not able to classify during the quarter. So, the Rs. 68.70 billion plus the Rs. 4.71 billion, that's Rs. 73 billion, would reflect as the gross addition that you are looking at. Then you would have had the recoveries of Rs. 17.76 billion and write-offs and all of that. So, that is how one has to look at it. And this Rs. 82.80 billion, again just to clarify, this is loans which are at a borrower level outstanding for more than 90 days. So, if a borrower has two or three accounts, even if only one account is more than 90 days overdue, all the accounts are categorized as proforma NPA in this number.

Jai Mundra:

Right. In Q2, the closing balance was Rs. 404 billion, plus, let us say Rs. 72 billion, minus recovery and write-off, that comes to Rs. 431 billion. So I think that is clear that way.

Rakesh Jha:

Yes.

Jai Mundra:

And second question is on BB and below book. Now, we have been carrying this book for so many quarters. I think in the last six months this was further tested and probably only a small portion has asked for restructuring. So, how should one look at the riskiness of this book going forward? Or would it be too early to sort of comment there?

Rakesh Jha:

As I have said earlier, it is below investment grade for us. So, by definition, this is relatively higher risk and ideally we would want it to be zero, but in banking business that can never be zero. So, I think the level at which it is right now, it's not a number that we over-worry about. If you look at the Rs. 180 billion, out of that, Rs. 44 billion is non-fund based outstanding to NPAs. So it's not really BB and below, it's non-fund based outstanding to NPAs, on which we already hold provision of about Rs. 14 billion and we disclose that number on a quarter-on-quarter basis. If you remove that, the rest of it is Rs. 135 billion. A lot of it is granular, Rs. 40 billion is to borrowers with outstanding less than Rs. 1 billion. So, as a part of the overall portfolio, you will always have some amount of BB and below. And we call out the larger exposures. We have four accounts which are larger than Rs. 6 billion within this BB and below, out of which one is an account in construction sector that has sought a restructuring. It got included in this quarter in the BB and below. There is one non-fund based outstanding for a construction company which is already classified as NPA and then there is one each in telecom and power where we have been getting the payments. The telecom one is non-fund based and the power one is where we have been getting payment but with some delays. It belongs to a large promoter group as well. So, overall, of course, it's a risky book. I don't want to say we are comfortable, but that is the colour of the book which we can give.

Jai Mundra:

Sure, sir. And just last clarification, the Rs. 17 billion restructuring requests which have come from BB and below book, they are sitting at both, right? So if one were to add restructuring and BB and below, this Rs. 17 billion of restructuring are actually part of BB and below?

Rakesh Jha:

So, if you look at the position at December 31, 2020, you are right that Rs. 180 billion already includes the corporate and SME restructuring request that has come, other than one account, which is a lease rental discounting account, which is still investment grade. The downgrades that we have seen during the quarter of Rs. 22 billion, that would include a few cases which were investment grade and would have sought restructuring. But at the end of December, the BB and below includes all the restructuring, barring one case.

Moderator:

Thank you. We take the next question from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal:

My question is again on the BB and below book. Now, we have not seen as much of slippages or restructuring requests as to how much one can really expect this book to throw up, because despite all the focus on this book, it's still around Rs. 180 billion. It has been like pretty sticky and increasing very marginally. So, are we being too conservative there in terms of our classification? Because our peers have actually reported a decline in the actual size of the book.

Rakesh Jha:

So, I think we have a pretty standard process which our risk team runs for the rating of the portfolio. Of course, the risk team is completely independent of business, the business team may have a different view on some of these accounts. But it's a very consistent process. So, I don't think we have become overly conservative on these ratings. I gave you an example of the larger accounts. There are some challenges or the other in each of these accounts and we review the portfolio regularly. So, even as we speak between December 31 and now, there would have been some accounts which would have got upgraded during this period and some may have gotten downgraded. So, it's a continuous process which is there and at the end of the day, there will always be a certain amount of book which will be there in the BB and below bucket. I think largely it is not lumpy, other than the accounts I talked about. So, it is not something which we overly worry about.

Nitin Agarwal:

Okay. And two clarifications, one is on the margin, like we have reported a 10 basis point sequential improvement, but both our domestic and overseas margins have expanded by 6 basis points and 8 basis points. So, what am I missing here? What is driving this blended 10 basis points improvement? And secondly, our tax rate for the year so far is around 19%, moving between 18% and 19% every quarter. So, where do we expect this from a year end for FY 2022?

Rakesh Jha:

So, on the tax rate, this year, as I said, I think we have got the benefit of the lower tax which is applicable on the capital gains, and we had a good amount of capital gains in the nine-month period, especially in Q1, from the sale of share in the subsidiaries. As you know, the tax which we provide every quarter, or the nine-month period is based on the full year estimated tax rate. So, the tax rate for this nine-month period is what you can extrapolate as our estimate for the tax rate for the full year. Going forward, next year, I think, we will be at marginal tax rate. We get some amount of benefit of 1-1.5% because of dividend income and all of that. So, the tax rate will go up next year. It will be very difficult to give the exact amount by which it will go up because it will still be a function of the composition of the income. On the net interest margin, Nitin, don't do this domestic and overseas and try to tally that. As you would appreciate, we have lending from domestic into overseas also, so it will not always net off. The domestic and overseas margins here are the gross ones. When we report at the Bank level, if there is some lending from domestic to overseas, that would get netted off. So, that's why a few basis points up and down will always be there. The overseas net interest margin is on the gross book. There is the inter-branch elimination that will happen. That's the only reason.

Moderator:

Thank you. The next question is from the line of Parmeshwaran S from Jeffries. Please go ahead.

Prakhar:

Hi, this is Prakhar. And congratulations to all of you for being able to manage in such tough times. Just a couple of things on the retail side, Rakesh. You did indicate the split of slippages across retail and corporate on a proforma basis. Just to get a hunch, would it be fair to assess like your peer group in this quarter, the unsecured slippages would have been elevated much more. So, peers have seen something like 4% to 5% of the unsecured book slip into NPL, hopefully it normalizes. So, would it be fair to assume that the numbers would be somewhere in that handle or probably even lower because we have been fairly conservative on the lending side?

Rakesh Jha:

So, Prakhar, actually in a response to an earlier query in terms of how the numbers are, I think we have seen slippages across the portfolio, like, on the secured side also we have seen slippages to be there. For example, on mortgages, the instalment amounts are large, so at times customers are not able to make those payments. I think we have to just see over the next few months how it kind of eventually plays out. But we have seen it's not that unsecured is a very disproportionate contribution to the gross NPA additions. We have seen additions on the secured side also. And again, like I said, when we had done our analysis, we were assuming that on the secured side also we would see slippages. For example, in car loans, the proportion of salaried customers are generally lower, so we would have had some slippages coming from that portfolio. Mortgages, I said, the EMI levels are higher, so people take some more time to kind of become current as well. It is spread across portfolio and it is in line with our expectation. In some of the portfolios, like rural, business banking, SME, corporate, it is better than what we would have estimated.

Prakhar:

Sure. So, just a connected question on this one. Now that the portfolio has broadly behaved well and within your expectations, it's great to see that last quarter you didn't make any provisions, from now on you have the comfort to start digging into it. So, would it be fair to also assume that, from a strategy perspective you don't need to really make any material changes in terms of new client acquisitions and the level of leverage you have, etc., on the retail loans? Would that be a fair assessment?

Rakesh Jha:

Yes. I think the fact that the growth that you are seeing across portfolios on the retail side, business banking, SME, corporate, that reflects the comfort and the confidence that we have in terms of the framework that we have for underwriting. So, there we are pretty comfortable. Of course, we have tightened some of the parameters based on the current environment. The entire focus is to ensure that we get a set of customers who we are comfortable with in terms of return of capital and that's the philosophy across all portfolios.

Prakhar:

And just one last question. The credit card part, nice improvement and probably supported by the festive lending or usage. Has the level of revolvers come down in this period or are they different in some other way because there is a lot of pay later stuff that is happening in the market. So, would the proportion of revolver be stable as it used to be? Or would it have moved a little more than usual?

Rakesh Jha:

I don't think in a period of three months much changes. I think the growth that you see on the credit card book, please look at it in the context that in the festive season, in the December quarter, every year that growth is there. So, indeed it has grown by 10% this quarter, but it would have been similar to last year December over September. So, there is nothing different there.

Moderator:

Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani:

In the restructuring number that you have given, is this all invoked restructuring or whatever you have actually accepted?

Rakesh Jha:

The invoked and accepted will be same, Amit. So, these are loans which are invoked. So, these will get restructured.

Amit Premchandani:

Are there any proposals still left?

Rakesh Jha:

No. December 31 was the last day for actually invoking. So, on the retail and corporate piece, anyway, there will not be any increase. I think on the MSME piece, there is time till March 31. We have not seen much restructuring there. So, it will not change materially from here for sure.

Amit Premchandani:

And any DCCO extension for the real estate projects, which are not part of this restructuring number that you had given?

Anup Bagchi:

DCCO extensions have been normal pre-COVID also and post-COVID. In fact, I must add that post RERA, I think things have become just more organized. So, two things have happened, one is, it has become more organized. Second, certainly it is moving towards stronger builders. People certainly are more conscious about completion of projects on time and things like that. But I don’t think there has been much DCCO extension because of COVID. In fact, if at all, sales have only increased, you must be reading it everywhere. So, DCCO extension, whatever was there was there.

Amit Premchandani:

But sir, still, if you can answer the question. Of the builder portfolio of Rs. 220 billion, what was the DCCO extension done in the last nine months?

Rakesh Jha:

I don't have the number off-hand. What I can say is that it's not something which is abnormal or which will have any impact on the portfolio. I think we are comfortable with the portfolio, we talked about some of those details in terms of the granular nature of the portfolio and wherever we have slightly larger exposure, those are to well established builders. So, overall, we are comfortable with that portfolio, Amit.

Anup Bagchi:

Because of COVID I don't think we have done any material DCCO extension.

Moderator:

Thank you. The next question is from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh:

Sir, a question on the corporate and the SME growth. You have grown the corporate portfolio by about 8.0% quarter-on-quarter and about 16.0% quarter-on-quarter in SME segment. Could you just comment on the quality of the book you are originating in the corporate segment and how do you see the ROA profile of these loans? So, that's one. The second is essentially on the international book. Where do you think the overseas net interest margin can go? Or should we just assume it to be flattish from this level going forward?

Rakesh Jha:

On the corporate portfolio, the growth that we are seeing is largely from the new business that we have done during the quarter and is predominantly from clients rated A-minus and above internally. It is a mix of short-term and long-term lending that we have done during the quarter and about half of it would have been short-term in nature, meaning less than one-year maturity, balance would have been longer term loans. These longer term loans are all floating rate loans. On pricing, when the credit is good, pricing is always competitive. For us, the cost of deposits is also pretty low, you have seen during the quarter also the cost of deposits has come down. So, this lending is not looked at as a standalone lending. In almost all the cases it is looked at from a client profitability point of view. So, what we track for each of the clients is the client level return on equity and that is something where we are happy with the numbers that we have. Of course, there is a lot more that we can do to improve. We have seen good amount of growth on the transaction banking side, FX and the current account deposits during the quarter and year on year. A lot of that has come from the corporate clients. So, on an overall basis, Saurabh, we are comfortable with the returns which are there. But, yes, the markets are very competitive. So, we get to look at all the deals where we believe it would make sense for the bank, from a return perspective. Sometimes from a liquidity deployment perspective, we go ahead with those transactions. So, that is how we have looked at it.

On the SME, business banking, I think, if you look at the last couple of years, we have been growing quite well. I think the moratorium tested the portfolio and it has come out pretty well. These are portfolios where our market shares are generally lower than what we have on an average. There is a lot more that we can do. There is a lot of synergy outcome that we have seen as we do more and more of this business through our branches. We have talked about all the digital initiatives that we have taken during our Analyst Day. We have made the process, the underwriting and all of that, much more decongested. So, I think all of that is contributing to this growth. Again, if we go back to last year, this was the growth trend which was there for these portfolios.

On the overseas margins, Saurabh, difficult to say. I think, you should just assume it would be around the level where it is now. Because we will not be doing corporate lending there and actually doing a lot of trade finance, loan against FD or those kinds of businesses where the margins will be lower and the capital deployed will be lower. Overall, the book has now come down to about 6.0%- 6.5% of total loans. So, it's difficult to give further guidance on the margin per se. That's not a specific focus area for us to be able to project that.

Moderator:

Thank you. The next question is from the line of Manish Shukla from Citigroup. Please go ahead.

Manish Shukla:

On the ECLGS disbursement of about 120 billion rupees, how much would have been under the SME segment and how much will the retail segment, the way you report it for your loan book?

Rakesh Jha:

So, if you look at SME, business banking, I think both put together would have been about one-third of the ECLGS disbursements and the balance would have been across the rest of the retail portfolio.

Manish Shukla:

Okay. The other question is that on the retail book for the last two quarters you have had fairly phenomenal growth. In the previous quarter the sequential growth was about 6.0%. During this quarter it is almost 7.0%. Just wanted to understand, I mean, what are the challenges in your view to sustain this kind of pace of growth because you have amongst the largest retail balance sheets in the country?

Rakesh Jha:

Here again, the Bank is not very focused on a particular number of growth, per se. I think the opportunity is there. As we have seen, at least in the last few months, the economy has been recovering, there has been demand. If the demand sustains and from our point of view the pricing is appropriate, the customer profitability is appropriate, we believe we are very well-positioned to grow. We have talked about all that we have done on the process of underwriting, on the digital enablement, especially in the mortgages. So, from a growth point of view, we would be happy to grow as long as it meets our return criteria. On the risk part of it, we are very clear in terms of what we want to underwrite and what we don't want to underwrite. We have also started looking at customers on a 360-degree basis. So, as we drive some of these business through our ecosystems. For example, we have seen a very good amount of growth coming in from the corporate ecosystem, the corporate salary accounts that we have, we have had a lot more focus on the liabilities there, we are also doing a lot more on lending there. All of this, we believe, are things that we can do without taking any undue risk or diluting our returns. Of course, in the near-term liquidity surplus is there, you can see in our balance sheet also we are sitting with significant surplus liquidity. LCR is 140%-150%. So, some of it on pricing and all will always be a tactical call also in the near-term. But from a growth point of view, that is how we look at it. There is no specific number that we are chasing on retail or on corporate side.

Anup Bagchi:

Also I will add, Rakesh, that we track our shares in each of our micro markets. They are quite low in some, I mean, they are below 5% actually for these businesses. Because of ecosystems, 360-degree banking, there is a lot more colour we have on underwriting. We have enabled and empowered our branches quite a bit. So, I agree with Rakesh that there is a headroom for us to grow in these markets. In fact, across most products we have headroom to grow. Because if you look at our market share, compared to the potential that we have, I must say that we have not done justice to the potential that we have. We should do more justice to the potential that is there in the market.

Manish Shukla:

Sure, just one clarification. When you say that you expect FY2022 to be a normalised year on credit cost, do you think it will be closer to your medium-term target of provisions to PPOP what you have articulated in the past?

Rakesh Jha:

Yes. So about 25.0% of core operating profit is what we would be looking at as a number, and that would translate to 1.2-1.3% of average loans.

Moderator:

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

Mahesh:

Rakesh, just a few clarifications in the presentation. On slide 28 which you have given, what is the provisions available to you which is outside the proforma numbers? Is it Rs. 64.75 billion and Rs. 13.97 billion? Is that correct?

Rakesh Jha:

The Rs. 35.09 billion rupees is the provision that we hold against the pro forma NPAs which is 82.80 billion rupees, against which we cannot take an NPA provision. Rs. 64.75 billion rupees is the balance COVID related provision which is against the entire other portfolio. During the quarter, the movement has been that we have taken about Rs. 30.00 billion provision on the proforma NPAs. So the provision of Rs. 4.97 billion on proforma NPAs at September 30, 2020 has become Rs. 35.09 billion and we utilized Rs. 18.00 billion from the other COVID provisions. So, Rs. 82.75 billion has come down by Rs. 18.00 billion. Is that clear, Mahesh?

Mahesh:

Yes. If I remember, last quarter you had indicated that the ECLGS was at Rs. 160 billion rupees. This quarter you have kind of indicated Rs. 120 billion.

Rakesh Jha:

The Rs. 120 billion is the disbursements made till date. Rs. 160 billion was the sanctioned amount.

Mahesh:

Okay. So, the sanction still remains at Rs. 160.00 billion or has that gone up this quarter?

Rakesh Jha:

I don’t have that number right away, Mahesh.

Mahesh:

Okay. No issues. I just need one clarification on slide 60. At September-end, you had a gross retail NPA of Rs. 92.63 billion and at December-end it was Rs. 68.88 billion. So, the difference between the two essentially represents the upgradation and write-offs?

Rakesh Jha:

Yes, because to the Rs. 92.53 billion rupees we have added Rs. 4.71 billion only. So rest of it will be the upgrades and the write-offs.

Mahesh:

So, now if I just move from Rs. 92.60 billion at September-end to Rs. 144.09 billion at December-end and I just do the back calculation again based on the initial numbers which I said, it shows that the slippages in the retail book should have been about 75 billion rupees, almost indicating that there were no slippages in the corporate side. I am saying there will be a few aberrations in the numbers, but is that logic correct?

Rakesh Jha:

We have given you the movement, Mahesh, that will just tell you the numbers actually. So, if you look at it, we have given the break of reported gross NPA additions of Rs. 4.71 billion in terms of retail and corporate. We have also given the breakup of Rs. 82.80 billion in terms of retail and corporate. So, of the Rs. 4.71 billion, Rs. 3.94 billion rupees is retail. Of the Rs. 82.80 billion, about Rs. 75.00 billion rupees is retail. So, indeed, most of the slippage during the quarter, as expected, has come from the retail side. So, right.

Mahesh:

Perfect. And last question to Anup. On the housing portfolio specifically, this massive shift that you are seeing today, is it because of, refinancing which is happening or is it new loans? Also, has the portfolio yield correction completely taken place in your books? That's it. Thanks.

Anup Bagchi:

So, first, let me take the portfolio yield correction. I think broadly, yield correction has happened, because everybody has put out so much of advertisements that even if you were putting shades and glares you will see it. I don't think there is anybody who has not seen that the rates have come down. I think everybody has seen. Certainly there is some element of balance transfer, but not much, because everybody is matching the rates. So, if you are giving it to new customers, why will you not hold on to your portfolio by correcting it. So, that is the second thing that by and large people hold on to their portfolio. Certainly, there is a demand in the market. We are also seeing a shift in shares because of our processes, better distribution and better analytics of our own customers who have taken loans from others and engagement levels are much better. So, I would say that partly demand, a little bit of balance transfer, certainly not a majority or anything like that and a large part because of our distribution process. Because we are seeing that the gap is decreasing, otherwise it would have been a parallel stuff with everybody else. So, shares are increasing.

Moderator:

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

Adarsh Parasrampuria:

Rakesh, question on margins. You said it has held up well and this has the NII reversal as well. So, can you talk about outlook on margins, given that you are indicating that the back book repricing is almost done? Where are we in the cycle?

Rakesh Jha:

Adarsh, during the quarter, we have seen the yield on advances has come down by about 44 basis points. It is there on Slide 49. But the yield on overall interest earning assets has not come down as much because the yield on investments has not come down as much. Further, advances have grown. As the liquidity is getting deployed, the rest of the portfolio has not grown. So, going forward, I think we should hopefully see improvement in margin. But again, there are so many variables which are there, one of course is the interest reversal itself. In March quarter we will still see new NPL additions that would clearly be higher than any kind of a normal level. So, there will be some amount of interest reversal which will be there. But I think more and more the liquidity will also start declining for us. The LCR numbers that you see should come down in the March quarter. That should help the margin. I talked that on the lending side, the market is extremely competitive. So there the pricing pressure is definitely there on the new loans that we are giving. In short, Adarsh, we are not giving any guidance there. But I think the objective is to improve our margin and we hopefully should be able to do that.

Adarsh Parasrampuria:

And Rakesh, did you quantify the interest reversal impact on NII? You have taken it in the NII line, right, so how much was that absolute number?

Rakesh Jha:

We don't disclose that separately. Interest reversal is there in every quarter whenever NPA addition happens.

Adarsh Parasrampuria:

Rakesh, just the only point I want to understand is, this quarter would have been a little different that some accounts are under moratorium for six months and then they have become NPA. So, the reversal is, the easier question to ask, the reversal should have been materially higher than past quarters, because the reversal could be for eight months, nine months.

Rakesh Jha:

Yes. That is possible. I think one thing which is there, Adarsh, right now is that across all banks things are a bit difficult to compare because of this pro forma basis which is happening and moratorium and all of that. So, I think in terms of the interest treatment itself during the period of moratorium, in some cases you have accrued that as income, in some cases you have put that as a deferred interest term loan. So, the reversal when it happens, happens only for a 90-day period. So, I would say that it is not something which will result in a very sharp increase going forward. Of course, there will be a positive going forward because this quarter was slightly higher than normal.

Adarsh Parasrampuria:

Got it. And Rakesh, the last question from my side would be on, how are you seeing the ECLGS portfolio, right? It is Rs. 120 billion disbursements and let's say, Rs. 60-70 billion of ECLGS book. This portfolio, I think, it is fair to say that we don't really know the debt servicing, what's happening there. So, how do you look at the risk in this portfolio on the lending that we were having outstanding at February or March 2020? This is a portfolio which could have its own stress next year, right, when all other portfolios normalise?

Rakesh Jha:

That is a possibility. We believe, where we have extended credit under this scheme, it is not that these are bad loans where we have kind of extended this scheme. So, it is not something that we are overly worried about, about this portfolio where we have lent. Will there be some challenges that could come up? Definitely, because these borrowers would have got impacted by COVID, generally speaking. So, I think in the outlook that we give, for example, Adarsh, for next year, say, credit cost getting normalised, this is factored in and we don't believe there is going to really be any material impact for us going forward, which is getting postponed due to this.

Anup Bagchi:

Also, actually, we have to see the disbursement to sanction ratio and you will see that for stronger banks the disbursement to sanction ratio is lower. So, that is one marker. The second marker we always see is that, in general, on the portfolio how is the limit utilisation. If economic activity has not picked up, but limit utilisation is happening very fast, that is also not a very good sign. So, these are the two big markers. When we look at these two markers, it looks okay at this point of time for us. I mean, there are no such red flags in that portfolio. These are the two markers that we will have to see. Also, now we are seeing one by one sectors are coming back. As Sandeep had said that, if you look at our ultra-high frequency index, it has been above 100 for a few weeks now which also means that if you are not there in those sectors which have not come up, rest is all business as usual. It is also showing up in the fact that 1-90 days or 0-90 days above your business as usual has also declined sharply. Which basically means that people are now getting cash flows and they are paying up.

So, all in all, I would say that things are okay. Now, the other thing that one can always surmise is that, how much of it is by way of refinancing, how much of this is by way of balance transfer and how much of it is by way of pent-up demand. All those are very difficult to say. Of course, whenever interest rates suddenly fall, there is some activity on balance transfer and refinancing, that is for sure it happens. But interest rate from here on, we do not think it is going to fall that much. So, the balance transfer activity will come down. So, shift of portfolio from one bank to the other will come down. We don't think that there will be much of a pent-up demand for long, because now the economy has been open for four-five months. Last quarter also we had good disbursements and good book growth. This quarter also we had good disbursement and good book growth. We look at market shares, as I said, at a micro market level. It is okay, I mean, still quite a bit of unsaturation is there for our customers and their needs. So, that is what it is. We have spoken to the ECLGS customers. We have called all of them and we have spoken to them as well. They seem to be okay.

Moderator:

Thank you. The next question is from Abhishek Murarka from IIFL Securities. Please go ahead.

Abhishek Murarka:

Congratulations for a great performance this quarter. So, most of my questions have actually been answered. Just sort of a small data point. So, this debit card trend that you show on Slide 21, there is quite a bit of a drop in the number of cards in the last quarter. Is there anything particular in terms of trend that you see there? I mean, anything to read into it. How do we understand this drop? Because it follows a number of quarters of increase.

Rakesh Jha:

So, last quarter some removal of inactive cards would have happened, nothing more to read there.

Anup Bagchi:

But in general, Abhishek, just to give you some sense on the payment landscape that is happening. Very clearly UPI is coming up. It will first cannibalise debit card and credit card is a separate animal because you get credit free period. So, that is coming up. Credit card in its physical format is getting replaced by card not present transactions as e-commerce is going up. So, payment system landscape is moving. The good thing for banks like us is that, while everybody talks about other PSPs, the fact is that all those transactions also go through the bank at the backend. So, if someone says that we have got Rs. 100 million transactions happening through us, we should also, by corollary, understand that Rs. 100 million is also going through the banks. So, it is now up to us to input that data also in our underwriting and in profiling and make sure that we are able to utilise it better. I would also go on to the extent to say that many of them may not have fully utilised use cases. Banking system has use cases, because you can lend to them and you can cross-sell to them with that data.

So, I would say that the data quality and the throughput of the data is certainly helping in understanding the client in a much deeper way. That also certainly is one of the drivers of our higher disbursement. It also helps us in pre-underwriting cases and that is increasing. So with data analytics it does have an impact on the way you underwrite, the speed at which you can underwrite and take to the transaction and reduce in a way cost of acquisition. I think we are in a decent position. It helps us in liabilities and assets and it helps in cross-sell. So, data, whoever utilises, will have a better chance.

Abhishek Murarka:

Sure. And Anup, just a quick follow-up on the growth question. I know you said that most of the pent up demand is now already in, so how do we look at this 7% Q-o-Q? I mean, what part of this would be a normalised kind of growth number?

Anup Bagchi:

No, it is very, very difficult to say actually. This pent up also we don't know, who knows when demand falls off. I will only say, Abhishek, that our market share is low. So, we have headroom to grow. I would fall back more on market share rather than the demand coming up. Of course, if there is demand, it is easier to grow, as you know. It is difficult to see what is pent up. For example, stamp duty reduction, work from home and other factors are leading to demand for housing. If we look at our ticket sizes which are moving, that is also increasing. We were looking at our own data on salary, if you look at the number of people who are filing income taxes and if you look at the gradation of that on the salaries very clearly you can compute what kind of ticket sizes will move on housing and what kind of ticket sizes will move on auto and then if you have good micro market data, which we have, then you can allocate your resources, attention and energy to that and get some shares. So, in general, that's the format that we are pursuing. We have been reasonably successful so far. I feel that if we continue, we will gain market shares as well. So, that is how I will put it, Abhishek.

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 today on a Saturday evening. Wish you all healthy new year ahead. Thanks.

Moderator:

Thank you very much. On behalf of ICICI Bank Limited, that concludes the conference. Thank you for joining us, ladies, and gentlemen. You may now disconnect your lines.