Analyst Day 2019

Session 1

Strategy FY20-22

Wholesale Risk and Credit Underwriting

Wholesale Banking

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Analyst Day 2019

Topic1 - Strategy FY20-22

MANAGEMENT: MR. AMITABH CHAUDHRY – MD AND CEO

Suresh: The question is infra lending, because one of your peers has taken a view that going ahead they will be extremely cautious in financing large Greenfield projects and basically perhaps infrastructure should be in the purview of government and development finance institutions. We wanted your view on, what is your approach going to be in the cycle towards infra lending? And the second question is on CEO compensation whereby RBI fixed the 200% variable cap. We are yet to see your FY'19 annual report which will come four, five months down the line. But the current compensation for the CEO in breach of the 200% cap or is there an issue with respect to that particular guideline per se?

Amitabh Chaudhry: As far as infrastructure lending is concerned, I think we tend to agree with the view which I think you published a couple of days back. It will be very difficult for banks to go and do the infrastructure lending of the kind which was done in the past unless the sponsors or the people who are setting up the project put in much more equity or the government is willing to sign up in ways and means which actually works for us or you can refinance the initial funding which might be coming from government only after certain things have been established. So yes, we are also very clear in our minds that we are not going to finance Greenfield limited equity, no recourse kind of project financing going forward in the future. I am sure Deepak and several can answer this question in more detail during their sessions. As far as compensation is concerned, I think it is the wrong forum to talk about whether we are going to get impacted or not. RBI has come out with a certain guideline. We have reviewed the guideline. Whatever issue if we have any will go back to RBI and discuss it with them and let us leave to the regulator to come to the right conclusion as far as it is concerned.

Mahrukh Adajania: I had a couple of questions. The first one is on corporate lending. There are few banks who have been growing aggressively in the past in the private sector and now they will probably slow down. So how would you view corporate growth from here if you have an opportunity to grow 30, 35%, would you take it or would you like to have a certain cap on your corporate loan growth? That is my first question and then I will ask few more.

Amitabh Chaudhry: I think our biggest constraint actually would be deposit growth rather than corporate growth. If the right opportunities come along, we will definitely go and take them on as long as our deposit growth can support that kind of advances growth. So no, we have not put any restriction on either our retail or the wholesale side that you can grow only that much but both of them understand that if we cannot get the deposits in place, then it will become a constraint in itself. So, what am I really saying, if the deposit is supported and if the returns are appropriate, if it is 30%, why should we not capitalize on that opportunity because we do believe that we are uniquely placed given all the kind of services we can provide on the wholesale side that we will get those opportunities as and when they come and we will obviously capitalize on that when they come our way.

Mahrukh Adajania: The other is on the group holding structure. Has RBI communicated anything about it and how would that impact, do you have any subsidiary which are not in the banking? In the meantime, your expansion plans on insurance to come?

Amitabh Chaudhry: We are continuously approached by a lot of groups to actually take a stake in their insurance ventures – life, general, health. Most important thing before we can move ahead is to get an understanding and blessings from the RBI in terms of what they will allow us to do.

Participant: What parameters will you monitor to ensure how you are doing on sustainability

Amitabh Chaudhry: Yes, you are absolutely right, there is not just one measure which you can use to measure sustainability. When we presented our score card to the board, we have talked about six, seven things which we want to monitor. When you look at say for example credit or risk management or compliance and stuff like that, you can definitely measure it in terms of output but that is bit of a lagged effect. Over and above that you have various mechanisms which are labeled internally, you have maker-checker, you have transactional audits, you have internal audits, you have all kinds of concurrent audits going on which keeps revealing to you if something is happening. So there is not one metric, there are 10-12 metrics which you monitor to ensure how you are doing on sustainability at least in comparison to what you have seen in the past and we are looking at that and some of those scorecards as we go down the line getting kind of reflecting some of those numbers very closely. But there is no one measure which is very simple to understand in some of the other cases. But we have come up with the list of 10-12 metrices which we will monitor very-very closely. By the way some of them are part of my scorecard also. My scorecard is also structured around GPS.

Gautam Chhugani: Sir, overall if we look at the sector, you have private sector banks struggling for deposits and clearly deposits have been fluctuating, and when you look at the state-owned sector, that do not have capital but they have some deposits. How do you see the landscape evolving what is the chances of projects happening, where you can get the deposits because the question is can you solve this organically?

Amitabh Chaudhry: Firstly, let me start by saying that was a theoretical question which led to a theoretical answer became news of itself. I just want to clarify that, there is absolutely no conversation going on at this point in time with the public sector bank. You are absolutely right, without deposits growth, we cannot get the advances through. I think Ravi in his session is going to talk about where we stand with respect to CASA and our treaty and what is the scope for us is. So I do not want to take that away. I fully understand and appreciate that we are where we are and if we do not grow deposits, we cannot get there. But we very strongly believe, I am using the word strongly, we strongly believe, given the franchise we have, and where we are in comparison to some of the competitor banks in terms of how many customers for example of Axis Bank have opened term deposits with us, I think the scope and headroom for growth for us is multiple times more than what some of the banks have.

Gautam Chhugani: Just a quick follow up to that, the other thing is deposits rate, which basically means you have to grow on the assets side to maintain your margins to get the rating, ROE and kind of risk up on the lending side?

Amitabh Chaudhry: Yes, if you look at the profile of CASA and RTD for most of the banks, even if you kind of trade up in terms of giving slightly higher return on the term deposits and let us say that is a big part of your growth story as far as deposits are concerned, we believe we have headroom on the CASA side also. I think given the profile of business we have, given the rate at which retail is growing and given what we believe there is opportunity on the wholesale side, the NIMs and what it could translate in terms of ROE for us, we are quite comfortable with where we are at this point in time. Again, when we have the last session, once you heard everyone, we can come back to this question all over again and walk you through why we believe that is the case. But you just hold the thought and hold this answer in your mind and then we will come back to you later.

Sameer Bhise: Hi, this is Sameer Bhise from JM Financial. So, you have highlighted focus on OPEX and productivity a couple of times in the last interaction. Can you just shed some light on what are like two, three key areas where really you think is easy picking because cost-to-income is more like an outcome or even cost-to-assets?

Amitabh Chaudhry: So first point is that I think the level of cost consciousness in Axis Bank can go couple of notches itself. That in itself is a big change. It is not that people do not worry about cost but yes, I think this whole understanding and institutionalization of the fact that there is a budget, there is a target, we need to save money on a continuous basis, needs to go down a couple of notches as far as the bank is concerned. That in itself is an important change and a big change and that will lead to saving on money. And then what we are doing is we are going and looking at every penny of expense of ours and really asking ourselves a question, is this necessary. That does not mean that overnight we will stop spending money. But as you go through each of those and peel the layers of onion, we are realizing that, yes, there are opportunities for cost savings which maybe we have not focused as much in the past which we should have. So yes, spreading the infrastructure and getting cost efficiency in place, will be an important play for Axis, I mean, on one side, we have not done well, it was maybe we have not been that focus but that in itself also presents a huge opportunity for us to actually reduce the cost-to-asset ratio, and that is why we have gone and talked to the fact that we will get to 200 basis points over a three year period because we believe that yes, there is an opportunity exist and they are clearly visible to us.

Rahul: Hi, Amitabh, this is Rahul from Goldman Sachs. So we get the top-down strategy pretty clean, but just to get some of the specifics on the bottom-up changes that you are planning to do from the branch level, can you just throw some more color?

Amitabh Chaudhry: For example, branch level, that is part of Ravi's presentation, so he will walk you through that, I do not want to take his thunder away, let him walk you through that in terms of what are some of the changes we are planning there. Please understand at a very conceptual level, it is not that we are a very solid #3 bank, it is not that everything we are doing was wrong, we are doing lot of things very-very well. The difference between #1 and #3 that you are not doing some things as well as the other bank. So the question is looking at Axis in this current context and seen what is our strength and then ensuring that the last mile 10% or 15% is done better than what we have done in the past at a conceptual level, let Ravi talk you about the specifics.

Rahul: If you look at how banking has moved in terms of building of assets, it is the concept that we need to have liabilities to drive assets. I think over the last 7, 8-years, moves into asset changing. Can you just elaborate top-down perspective?

Amitabh Chaudhry: Axis Bank has always believed in starting the relationship with savings account and then kind of building off from there. That has not changed substantially over the last 10-years. We have now started relationship with the customers with maybe a term deposit at best but starting with the liability side has been the way we have thought about creating customer relationships. That notion per se is not going to change dramatically over the next five to seven years at least because we believe as we said enough headroom for growth and again as Jagdeep talks from the retail lending side and what our thought process on risk is and why we are doing what we are doing and what the differences are, that difference will become hot, that strategy will become quite stark in your mind because I think we are going to show some data around it. There is this concept that while not only you want to go into more with the customers who are actually having accounts with you. There is also this notion that given the franchise which we have created, and we have Sangram who is going to walk you through Freecharge, as to how you can capitalize on freecharge to create a very different set of customers. So they might not be new to the bank, they might not be existing to the bank but these customers are known to you in some form. So rather than really going after asset-to-asset, as you mentioned, which are in a way new for us.

Kunal: Kunal over here from Edelweiss. Sir, particularly with respect to the strategy, in fact we have touched upon each and every aspect in terms of cost to income plus the process and finally going to ROE. But in terms of the external headwind or maybe the internal headwinds which would be worrying you, so maybe the external credit cost would be one of the technical determinants for getting ROE back but is the pain over and even maybe retail cycle kicking in? And what would be the other internal headwinds which you would be worried about?

Amitabh Chaudhry: So, external headwinds you people know better than I do, I mean, we also keep learning about it all the time. As far as headwinds are concerned, obviously the biggest, call it headwind or biggest thing we have to be cognizant of is this change management exercise, we are not trying to drive a different kind of agility or different kind of way of doing things as we move forward, and internally obviously people see this as a change. And to manage that change successfully, for example, we have brought some leaders from outside, we are going to announce a new structure in April in both retail and wholesale side, almost all the people will be from Axis but still a big change in terms of how we are going and approaching a customer going forward. So to manage that change will be an important headwind from our perspective. Second, please understand and realize that while we have done a lot of work on the broadly defined risk management side, be it operational, credit or otherwise, it is still work in progress and it is very-very important that we very proactively manage this as we go, because if we again run into a situation where something blows up, I think it will be a huge dampener to the management team and the people internally that in spite of all these change these things have not come through. So that would be another headwind in my mind. But I am very-very optimistic about what is possible with the Axis Bank franchise, that is why in many cases we would attract people from outside because they also see the same way. And since I have been here now for close to more than 90 days, I think my confidence in terms of what can be done, what the possibilities are has only increased rather than been dampening in any way or shift, whatsoever.

Kunal: And just on the product side, as you highlighted so considering what Axis has been doing all through, do you see any of the product based on this entire RAROC which needs to be discontinued or something**.**

Amitabh Chaudhry: So, RAROC was implemented more than a year back in stages, still the processes were getting implemented across all our businesses, but at least on the wholesale side the implementation started about a year back. So the wholesale side of the business is aware of what we are really trying to get here, the decisions are being taken on that basis, it is discussed in our process and it is not new to them in that way. So, already some decisions which we needed to take in terms of what businesses will not do or don't want to do or want to de-emphasis. I think are becoming obvious, project finance, guarantee kind of business. Axis Bank was a very big player in the guarantee side of the business, we are trying to reduce what we do there or at least bring the growth rates down dramatically. There are some other businesses also which, for example, we are relooking at the international side of the business and seeing whether the size and the scope of what we have makes sense for us, given the kind of returns we are making in that business. So all those questions are being asked, as and when we are ready with anything we will obviously reach out to all of you and let you know what exactly we have done. Keep watching the space, that's all I can say. Retail also, regarding the implementation, they are aware of each of the products on the retail lending side of what kind of returns they get, we want to take it to a branch profitability and customer profitability. That will take a little bit more time, and when that starts happening, I think very different, so people like Ravi and Jagdeep will kind of want to have a very different tool to take decisions at the relationship level which does not existing at this point in time but will happen in the next three to six months.

Avneesh: Avneesh from BNP. So where do you think Axis Bank in terms of what cross sell process you have

Amitabh Chaudhry: So we have not done much of cross-sell as much as you would like. I think if you look at the wholesale side of the business our subsidiaries which could be supporting each other I think were standing slightly further away than what was necessary, I will let Rajeev talk about that. Even on the cross selling on the retail side we have not done enough of it, especially on the asset classification kind of strategy we have not done enough of it. A lot of work is going on, when we are ready we will talk to you about it, but let me just say that that's another huge opportunity for us.

Avneesh: Sir, just wanted to understand your strategy on the fee-income, because there also we believe there is lot of scope of improvement as per Axis Bank is concerned. So what is our strategy in terms for enhancing fee income? Number two is that, we are talking about the growth coming back going forward, and certainly we will require capital somewhere down the line. So what is our broad strategy for next two, three years in terms of capital raising?

Amitabh Chaudhry: So, let me talk to you about the capital first and then we will come back to the first question. We are right now at CET1 of 11.77% as of December 31, 2018. We will have another 40 basis points or so coming exercise the warrants, they are in the money so hopefully they will. And on the other side of the argument, as we continue to grow we will obviously consume capital. We are looking at our capital strategy, but if you take into account kind of what growth rate we have in our mind and what we believe is possible in the market place, we do not see anything happening in the next 12 months, but post that we believe we will need capital raise. Now we cannot time everything, because when we need the capital maybe the money is not there or when the money is there we might not need capital. But as we stand today, this is where we are. We have capital required for next 12 months and beyond that we will need a capital raise.

Talking about fee income, I think the retail side continues to grow in fees, I think you will have sessions where they will walk you through it, both on the retail lending and the payment side of our fees has been growing quite healthily. And I talked about the wholesale side very briefly to you that for the first time in the last quarter we saw actually the fees decline tapering off, and if we can get the growth back in our wholesale business you should expect the fee numbers to start growing from here on. But at the same time, and in the same breadth I am saying, guarantee business is something which we don't want to emphasize too much going forward, we believe the RAROC returns make no sense and we will obviously try to reduce. We have to support our wholesale clients but we don't want to be kind of out there drumming that business. But overall the fee income growth should start coming back.

Avneesh: Sir, and we are also going to relook at some of our non-fund relationships that we have in the past where we have seen growth chipping in…

Amitabh Chaudhry: Yes, of course, absolutely. We have gone and looked at every page, we have done a page turner on every account rated BBB and below.

Mahesh: This is Mahesh from Kotak. Three questions from my side. One, on the wholesale business, while you kind of indicated that there are about five to seven banks who can do well offering entire suite of products. The question is, when you meet corporates today as compared to where it was six months back, is there a material change in how people perceive Axis Bank? And if you could just kind of highlight, there is a big perception in the market of Axis Bank as compared to some of the front-line banks which are trending at exclusive multiples, do you see the same thing when you are actually meeting the CFOs and CEOs out there?

Amitabh Chaudhry: I missed that part, there is a huge difference between banks and…

Mahesh: See, when you look at the equity markets they give a completely different market cap for two sets of banks irrespective whether the product deliveries are same. Just wanted to understand, when you speak to corporates do you see that there is a visible perception which is different than what the capital markets are saying?

Amitabh Chaudhry: On the wholesale front of the business I will let Rajeev speak, he has been in the bank for a long time but new to the wholesale business. I think every relationship I have met till now, I cannot say I have only met this relationship which feels good about Axis, has very-very strong and positive opinion about Axis Bank and what Axis Bank has done for them over the last 15 years. Now multiples is not reflecting, the reasons I think are very-very different, but as far as our depth of relationships are concerned on the wholesale side, the kind of transactions we have done with lot of these corporates, the kind of business gradually solely we are doing even on the flow side, Rajeev will talk through it, I believe we are quite uniquely positioned to capitalize on those relationships. And some of the pain which we have suffered with some of those relationships to actually go and demand our fair share of business. Now, have we demanded a fair share of business? Maybe not. And as we are doing that, Rajeev will talk about are we getting some positive indications or not.

Mahesh: Second question is on the retail branches, we have about 4,000-odd branches and if you again come back, the front line of these banks continued to add branches at some pace. And if you look back and ask the next set of bankers they are asking as to whether we really need to replicate what the front-line three banks are doing. Any thought process? Because what you see on the ground is completely different view on the way customers are behaving at the branch level, whether you continue to put so much amount of fixed cost around these branch network. What is the outcome? And at what point do you actually say that look it is time for us to change this strategy?

Amitabh Chaudhry: Mahesh, put yourself in the shoes of either those three banks which continue to add branches and then put yourself in shoes of the banks who cannot afford to add branches and you will get the answers. I mean, some of the smaller banks are not adding branches because it is perhaps just too expensive for them to create the branch network which the top three banks have created.. I am sitting in these top three banks, the answer we have to give which is the right answer is to say that you continue to add branches, you continue to create the gap. And yes, in lot of these markets unless you have a stake on the ground in terms of a visibility of a branch the customers are not willing to trust you beyond a point. I understand this whole strategy so we are not ignoring it, we have put up a separate box out there not for the sake of it because we intend to do a lot of work in that area. By the way, if you look at the kind of stuff which we have done on the digital side, we do stand out positively. We have these ASAP accounts which have been there forever, we are still opening couple of thousand accounts on a daily basis. So we are doing both, but we very strongly believe that we need to get to a 5,000 to 5,500 number on a steady basis and we do not want to get there tomorrow for us to have a presence all over India and be seen as a bank which is visible everywhere. Even today, for example, when we go to some of the corporates, they say you do not have a branch which is close to our office, as an example.

Forget about retail, even the wholesale relationships expect that to happen. So our view is that given deposit growth is a constraint, given we want to be seen as a universal bank, given the fact that we have the opportunity to get there, it is important to put those flags there. Yes, the formats will keep changing as we digitize more and more, but that does not mean that we will not add that. So in another couple of years for us to go to get to that level, after that I think it will start tapering off.

Mahesh: Is it possible that the next 1,000 branches come at an overall fixed cost which is currently what it is today?

Amitabh Chaudhry: No, they will come obviously at a lower cost because the format size is changing, for sure. I mean, it will not continue to be large size branches, we will continue to reduce the format size of that. We are reviewing it, as we speak, we are reviewing it in terms of what the format sizes we should be going with.

Mahesh: And the last question, what is the difference in reporting that you have done today as compared to what it was earlier?

Amitabh Chaudhry: There are a lot of changes. So, a couple of things which have happened. One, ED wholesale bank has now coverage team under him and a new head of coverage has joined Ganesh Shankar who was ED of Federal Bank, he has just joined us 10 days back so that is one change. Now we have removed the clutter as far as we also had some RMs in our product side, for example the transaction banking side, so hopefully effective April 1 all that will go away, the entire coverage will be managed by the coverage team under Ganesh and the product guys will support the coverage team. So that is one big change. We have pulled out underwriting completely from wholesale bank which is reporting to our CCO, Chief Credit Officer Deepak Maheshwari, I think he and Cyril are the next speakers, and Cyril is the CRO, so we are kind of pulling out underwriting for both the wholesale bank. And the SME is another big change which we have made. ED corporate center is same, CCO is new, CRO has remained the same. Head IT was reporting to head of wholesale bank earlier, now he reports to me directly. Head of digital banking never existed, that is a new position which has been created. We also have a new head of branch banking, Ravi, who is going to also be coming and speaking to you today. And there are some of the other changes which we have made, we will let you know over a period of time as and when these people join.

Abhishek: Abhishek from Deutsche Bank. Sir, just wanted to understand on the strategy bit on growth, profitability and sustainability. So, you said earlier in your piece that you would be pursuing growth ahead of profitability in several businesses. So just wanted to know that what is the threshold of pursuing growth?

Amitabh Chaudhry: So, it is coming from this notion that unless you are top four or five in that business segment, you will not. I mean, the disproportionate share of profitability is going, four or five is just a number, but I hope you understand what I am really trying to say. The disproportionate share of income is going to top four and five players for every slice of business we are creating in financial services industry. So unless we are in the top four or five in that business, either we exist or we get to that level. And so when each of the people will come here, especially on the lending side or the payment side or even on the wholesale side, if you are not in top four or five, for example investment banking, if you are not in top four or five it is very difficult to do that business profitably. Same applies to mutual fund, if you are not in the top three you cannot make enough money. So we have to ask ourselves that question as to what does it take to get to that level. And if we can get to that level will we make disproportionate income? And answer in many cases is yes. So there you have to, because we are profitable but we have to kind of say that let's ignore growth and profitability for some time, let's get the growth right, let's get to that level, profitability will come automatically because we are going to ensure that we build this growth in a manner that profitability comes automatically. But unless you get to that level you will remain a marginal player and you will see that as and when people come and speak.

Kajal Gandhi: Kajal Gandhi from ICICI Direct. Sir just wanted to know, you talked about this insurance venture which you have planned to do, so whether it would be a majority stake that you would be looking at in the company or a small stake?

Amitabh Chaudhry: So, as far as insurance thing is concerned, as I said earlier, most important thing before we can move ahead is to get an understanding and blessings from the RBI in terms of what they will allow us to do.

Analyst Day 2019

Topic 2 – Wholesale Risk and Credit

MANAGEMENT:
MR. JAIRAM SRIDHARAN – CHIEF FINANCIAL OFFICER
MR. DEEPAK MAHESHWARI – CHIEF CREDIT OFFICER
MR. CYRIL ANAND – CHIEF RISK OFFICER

Mahrukh Adajania: Hi, Mahrukh Adajania from IDFC Securities Sir. Sir I just have a couple of questions again over the last one to two quarters there will be many corporates, which seemed to be under stress, so is there any chance of our BB portfolio increasing from hereon, specifically would you see additions in real estates and because that is a sector the residential real estate is undergoing stress and thirdly on the telecom base you have nonfund exposure to the sector, are any guarantees likely to be going by next one to two quarters?

Deepak M: As far as BB portfolio is concerned, there could always be short-term fluctuation between one quarter and the next quarter, but on a long-term basis I am sure the BB portfolio will keep coming down because no fresh origination is happening in that sector and there is very little of fresh origination happening even in the BBB sector, so I think on a long-term basis the BB portfolio is expected to come down although there could be some variations between one quarter and the next quarter.

Now on the telecom sector whatever consolidation was to happen has already happened I believe. I do not see any risk of any large guarantees getting invoked in the next quarter or two that is where we are. The telecom sector has a lot of flexibility built-in because the number of subscribers is so large that you increase tariffs by just Rs.10 a month and you have thousands of Crores of money flowing in to each of the telecom companies. So I believe a point will be reached when telecom players will stop competing against each other, which is like wasteful competition or it is hurting everyone. I think going forward telecom sector should do better than it has done in the past.

So in residential real estate we have roughly INR 16000 Crores exposure to real estate of which very roughly about INR 10000 is commercial and little over INR 5000 is residential. As far as residential real estate is concerned, I think it is only about 30% or so which is for residential construction. So I do not see much of a stress there, we have financed largely developers with a good track record and which are leading developers in the states that they are present in. I do not see a significant deterioration there; in any case the exposure size is not very large.

Jairam Sridharan: Just to add a little bit on the real estate, a couple of things. I think the bank has put a clear framework in terms of what kind of real estate business it wants to do. So clearly the focus is more on commercial real estate. Again in commercial real estate the major part of our business in terms of LRD, in terms of Tier-I large class A building. On the residential I think we are very clear in terms of what kind of exposure we want to take, it is restricted to developers whom the bank has been dealing with in the past, the large developers, the execution risks have been low, so we do not see the real estate stress that you see in the industry kind of impacting our portfolio at this point in time.

Vishal Goyal: Hi, this is Vishal Goyal from UBS. Sir on this BBB part of our book, which is I think still 14% how do you think about that how much we should expect from that book into BB or into BBB and how thoroughly you looked at that part of it, if you can give some colour on that?

Cyril Anand: If you look at our BBB book today it is about INR 7400 odd Crores. From where I said what are the things that I look at. One what is the size of this book and I think if you look at the size of the book today it is about 1.4% of our total customer assets.

Vishal Goyal: Sorry Sir I think you are talking about BB and below.

Jairam Sridharan: Yes.

Vishal Goyal: I am talking about BBB, which is I think 14% of the book.

Cyril Anand: Yes, and I think on the BBB book, there is one which consistently look at our BBB book I think Amitabh spoke to you about how we look at each individual assets in terms of whether there is a stress underlying. So typically what should be concerned about, is the flow from the investment grade book into the BB book increasing and I think over the last three quarters we have kind of seen that flow to kind of taper down towards close to business as usual, so that is where we are. You will occasionally see slippages from the investment grade book to the BB book, but I would tend to believe that flow has tapered down and it is getting to close to business as usual levels.

Vishal Goyal: My assumption is that there should not be any slippages from the BBB or above into BB or very minimal and that is what I think you mean?

Cyril Anand: Yes, exactly.

Abhishek: Hi, Abhishek here from IIFL. Sir you are speaking quite a bit about the guard rails and sectors of which that you have put in place and when I look at your exposure, capacity exposure that you published. In the last nine months there has been a very sharp increase in exposure to NBFC real estate you touched upon that a little bit and also do iron and steel in real estate I think there has been a lot of increase in the non-fund based and so basically I just want to ask you what are the sectors in which you have put in place and how do you see risk in this incremental book that you have originated in the last nine months and also if you could give a little more breakdown of NBFCs and within residential real estates in terms of maybe luxury or mid size housing projects where the risk lies you can quantify?

Cyril Anand: I think one, see there is one thing that we have done over the last three years is to kind of reduce concentration across sectors. Couple of things in terms of Godrej that we have done from this perspective of a very clear single borrower limit, which is linked to the rating grade. On the industries again we have looked at, we look at industries in terms of which are positive, selective and cautious and set limits at the beginning of the year in terms of what kind of exposures we would like to take on each industry. I think the good thing is that this is being cascaded down to the business units, so limits have actually led to reduction in exposure in a sector that we want a reduction. You spoke about iron and steel I think clearly what we have seen is that we have seen movement from overall rated assets in this sector to better rated assets in this sector given the consolidation that has taken place. So while our exposures kind of remain fairly constant in that segment we have actually seen movement to a better rated asset in this sector.

On the real estate you spoke about residential Deepak M alluded to the quantum of our exposure to residential out of the total INR 16000 Crores close to about INR 5000 odd Crores versus that residential sector, but again on the residential there are couple of things that we are very clear about. We want to operate in markets where inventory levels are not a huge issue, we will deal only with promoters and developers who got a clear track record, especially the big ones and our exposure to the luxury segment is fairly small, it is largely in the mid market to smaller range flats that we operate and we also look at entering this residential segment at a more advanced stage rather than at a much early stage. So effectively I think we do not see too much of a stress coming from that end.

Abhishek: Sir in the last nine months whatever you would have originated in real estate would that be in commercial, in LRD or would that be in residential, what has been the origination in the last nine months?

Cyril Anand: While we have done a little bit on residential I think the focus is more on commercial and LRD as far as the real estate portfolio goes.

Abhishek: And Sir some cuts on NBFC?

Cyril Anand: Deepak M you want to take that I will then hand it to you.

Deepak M: We have about INR 27000 Crores exposures to NBFC's, HFC's that includes financial institutions like an IRFC or HUDCO or the likes. I would say at least 40% of this is to AAA entities, which have no difficulty in raising funds from the market today. There are a few NBFC's, which are struggling to raise funds, our exposure to them is not very large that is what I would say and we do expect the position to stabilize maybe from the next quarter onwards as the busy season comes to an end, but clearly the market has been shaken up by the turmoil in two large NBFC's, which has happened in the past and going forward yes the sector will certainly not have the kind of growth rates that it has had in the past and the stress is mainly in those NBFC's, which are focused on real estate and infrastructure.

Abhishek: Just one last question here so you mentioned that your single borrower limits, etc., were linked to rating especially in some of the stress sectors, can you mention what those let us say single borrower and sector limits are and the exposure in it?

Jairam Sridharan: we do not disclose such details.

Rahul: This is Rahul from Goldman Sachs. Three questions Deepak M I am going to start with you. The changes that you are putting in place, what kind of impact that you have on the business volume? That is number one. Number two is you talk about the asset quality being the key focus KRAs. Let us say three to five years out where do you see the trend kind of what kind of trend you would want to have, of course the answer would be really to be better than industry, but is that really possible and what kind of deviation that we have in that and the third one is you said that we do not disclose the sector or the company level limit, but when you talk about diversification can you just give us some qualitative aspect as to what is the maximum exposure, which will go to maybe -2%, 3% or whatever?

Deepak M: Sorry can you just repeat the first one again I just lost track of it.

Rahul: Yes, the changes that you putting in place on the credit side what impact it is going to have on the business volume so let us say if let us say 100 was being a little earlier what is the rejection rate now maybe I think you can use an example of HDFC Bank?

Deepak M: Yes, see as you would have noticed in one of the slides that this year in the first nine months so this year 94% of the originations in corporate and mid market loans were from A- or better rated companies. So I do not see the rejection rate going up sharply because that culture is already now steeped in to the bank that we will originate better quality loans. So there may be some variation in the rejection rate or the rejection rate may go up a little bit, but not by any significant amount. Which one was the second question about.

Rahul: The trends in asset quality.

Deepak M: Trends in asset quality. So obviously we have seen the trend for the first nine months so this year where the asset quality improvement has been fairly sharp. We expect the improvement to continue for the next few years in view of the fact that the new loans being originated are of significantly better quality. Yes, the old loans will continue to bother us for a little while, but hopefully the credit quality or the portfolio quality should stabilize in the long run over the next few years and sorry once again, what is the third one.

Rahul: The diversification point that you talk about, can you give us some qualitative colour as to what would be the maximum amount of exposure that the bank can take versus what regulatory requirements are or your own internal limits?

Deepak M: We have diversification limits across industries and across industry groups and those are reviewed from year-to-year depending on the outlook for the particular industry and it is not that we cannot make any exceptions, but we can make any exceptions only with the approval of the board or the committees of the board. I do not think these diversification limits lead to any constraints on business growth they are designed to ensure that we grow in a well diversified manner without any concentration to any one industry or any one sector or any one group.

Manish: This is Manish from Citi. One of the points that you mentioned is potentially there is a need for you to tighten the lending standards, if you were to apply that filter do you still believe that last nine-month origination will still be 94% or will it be lower in terms of if you work with right understanding or if you end up classify a lower number of loans as you remind us?

Deepak M: I would say in the corporate sector I think this 94% or let me not stick to 94% and let me take a round figure of 90% will probably stay, but we are creating a mid market business segment, which is currently a part of the large corporate segment, but we are separating it and creating a fresh segment where the majority of ratings will be BBB. In the mid market segment that is the characteristics of the segment you cannot help it, so that part of the business will have originations, which may be 50% of them might be BBB, but we believe it can be managed with better quality underwriting, better focus on cash flow lending and certainly a few of our competitor banks have managed that segment very well and that segment actually has lower NPA's than the rest of the corporate sector.

Manish: And let us say instead of 2019, EWS did indicate some glaring symptoms and you did not have the minimum targets as you said, what do you think options did the bank have, having taken those exposures reasonably chunk of exposure and seeing those EWS.

Deepak M: Once you have already taken the exposure whatever the EWS might tell you, you cannot get out of it easily if the project is in trouble, there is very little chance that you would be able to get out of it, but basically the underwriting system was not what it should have been.

Manish: Last thing how do you intend to link the EWS to the provisioning that you made these are on a stock basis or a flow basis?

Deepak M: We make provisioning on NPA's according to the RBI requirements in addition if we feel that any other accounts are likely to turn nonperforming in the next few quarters we have a thing called contingency provisions. So I think Jairam Sridharan would be able to explain that better.

Jairam Sridharan: I think the last investor presentation did talk a little bit about provisioning I think the bank is moving towards a more conservative provisioning policy and as part of our regular exercise you would look at assets wherever additional provisioning is required I think that is the way to go, currently the provision cover is about 75%. The other question that you asked about EWS and provisioning the EWS actually predicts the likelihood of a default in a particular account or likelihood of delinquency in a particular account over the next one year so I think there is a actioning around EWS that we have put in place in terms of reduced exposure, do I accept the account or do I take additional security and so on and so forth and I think what we track from an EWS is what actioning has taken place and I think that rigor has been built in over the last few years.

Gautam: Sir one thing which you did not address is the risk management involved in management incentives, how our business incentives being changed keeping the future in mind in terms of how we could behave in terms of origination in risk management?

Deepak M: No you are talking of management incentives in terms of remuneration or what it means.

Gautam: If you originate loan and originate business you get paid for it.

Deepak M: So that is more of an HR related question. Jairam Sridharan or Rajiv would be able to address is what I guess.

Cyril Anand: Yes, but if you look at scorecards of people in businesses and the second line and people who are taking decision clearly the stability aspects that we talked about our clear focus in these score card, so I think that will drive the change that we plan to it.

Rajiv: Gautam at a very basic level if you look at score cards for relationship managers today the weightage is very, very small we have given this change in structure that is happening there is much greater responsibility that is being accorded to the relationship manager itself hitherto what the way if you look at was that a relationship manager will be originator in the sales department thereafter would take care of the credit, now the responsibility of originating the credit, managing the credit rests with the relationship manager and therefore the percentage in KRA for risk is going to substantially increase from April 1, 2019 onwards.

Sachin: Sachin from ISEC. Just a quick question, general question on February 12, 2019 circular because RBI seems to be fairly inflexible on the terms of the circular, how do you see this playing out in the future in terms of the 100% unanimity required across lenders and the apparent discrepancy with the NCLT norms.

Deepak M: Well yes the latest is that the RBI is not willing to be flexible on February 12, 2019 circular I think that concern which was there on a one-day default has more or less played itself out and many of us have got used to seeing blue chip names in that one-day default list, which does happen from time-to-time and certain expected remittance they do not materialize. So I do not think that circular has created a very difficult operating environment and I think people have now got used to it and the feeling is that it is not that bad after all.

Sachin: So my question was more related to the 100% unanimity required between the lenders versus which always makes it more difficult to resolve an actual problem loan, potential problem loan versus the NCLT, which requires a much lower majority?

Deepak M: I think almost all the public sector banks and many private sector banks including us have agreed to that 66% formula, which is there they have signed an inter creditor agreement, which authorizes a decision to be taken on the basis of 66% maturity. In the other cases well if a company goes to NCLT and one lender is not willing to agree then the other lenders either have to reach a negotiated settlement with them or the NCLT will take a decision like it is happening in Essar Steel where Standard Chartered is not agreeing to the terms of payment by one of the groups.

Analyst Day 2019

Topic - 3 Wholesale Lending

MANAGEMENT: MR. RAJIV ANAND – EXECUTIVE DIRECTOR AND HEAD OF WHOLESALE BANKING

Suresh: Changes in the coverage structure that you have brought about because Ganesh has already joined but then earlier the entire coverage team used to report to the ED Wholesale Banking and now you have introduced a new layer. So, what has been the change?

Rajiv Anand: One is that the number of segments is increasing. Earlier we just had a SFG client group and a corporate client group and a government client group which is primarily focused on the liability side rather than the asset side. Now the number of segments is increasing. Two is that we used to have in a sense coverage team sitting within the product as well. There used to be a coverage team sitting in transaction banking which used to cover some financial institutions, but the focus of that coverage team was primarily to get transaction banking business but not a salary business for example. So, this whole thing has got cleaned up and will sit with Ganesh and therefore the entire coverage team reports to Ganesh, Ganesh reports to me as also the products including some of the businesses which sit in subsidiaries purely from a regulatory perspective.

Rakesh Kumar: Rakesh Kumar from Elara Capital. The question is regarding the funded working capital loan. Now there is some notification from RBI that for more than INR 150 crores, the loan component would be 40% and then 60%. How corporates will readjust themselves going forward?

Rajiv Anand: What is basically happening is that the burden of cash management so far was actually outsourced to the banks; so, therefore, corporates could drawdown cash-credit lines as and when appropriate. Now, the burden of cash management is going back to the corporates and so therefore he has to ensure that 40% of WCDL is drawn down and then he has to manage the cash as appropriate. He could use mutual funds or whatever it is to be able to do that.

Rakesh Kumar: But would this lead to CP market also? Is there a possibility? And the loan demand overall from them for WCL will come down?

Rajiv Anand: That is a function of pricing. Remember that yes, you can do CPs for 7 days, etc., but that is something that happens even today where corporates would arbitrage between a CC line and CP line based on which is cheaper at any point in time. So, therefore, if CP prices are below MCLR for example, they would use the CP market and vice versa. We have seen that happen, right? For almost a couple of years, CPs were cheaper than MCLR and therefore we saw this big move where corporates were raising truckloads of CPs. Today, that is not playing out. Therefore, that will happen from based on what happens to pricing.

Rakesh Kumar: Rajiv, your corporate loan growth domestically seems to be at about 13%. Now, where is the growth or the acceleration going to come from because underlying there is no private sector CAPEX that is really happening? So, is it just funding of extended working capital cycles or is it some market share that is seen from other sources coming through?

Rajiv Anand: As far as private CAPEX is concerned, I think there is no sort of very large INR 5000 cr and INR 10,000 cr, CAPEX that is happening but CAPEX in the INR 500 cr to INR 700 cr that we are certainly seeing sort of more and more. Two is increased working capital requirements. The third piece is like you said getting market share away from some of the other entities.

Participant: I had a question on the profitability. Like you say, 90% of the incremental funding goes to very well-rated corporates so that the NIM proportion will keep I don't know but coming down. Bridged that up with transaction fees and current account, where are you in the journey when you benchmark it with other banks? Probably, Jairam, is that one of the drivers to get into 18% ROE?

Jairam Sridharan: Absolutely. I think we recognize the fact that we are going to better-rated corporates, but I think this journey towards rebalancing credit to noncredit income is not something that started over the last 3 months. It is something that we have been pushing for over the last 12 to 18 months, but we are now certainly seeing traction on that as well. Like I said, there is a continued and renewed focus towards ensuring that every rupee of balance sheet that we are using, there is noncredit income that is coming through. And I think you will certainly see that. I think early signs are quite positive and ultimately you should see that convert into better profitability for the wholesale bank.

Participant: In that context, is it to say that over the course of next 12 months in terms of what we see when you all report a quarterly numbers, the corporate fee will start growing in line with say the bank or start doing better because only then you are driving more from the same rupee in terms of fees?

Jairam Sridharan: If you look at corporate fee in 2 parts, I think the transaction banking fees which is CMS, trade, forex, etc., I think that will continue to juggle out nicely in sort of double-digit growth. What you have been seeing over the last 2 to 3 years is that the corporate credit fee has actually been de-growing quite sharply over the last few years. I think one of the points that Amitabh made as well that in the last quarter after a long time on a Q-on-Q basis, it has been flat. My own belief is that the de-growth on corporate credit fee is perhaps behind us and we should start to see some growth on that in the next 12 months or so.

Participant: And that takes care of some businesses on guarantees which you till are relatively cautious of?

Rajiv Anand: Yes, the guarantee business I think Amitabh briefly alluded to this as well. I think guarantee business you cannot walk away from. Especially for a bank of our size, we can't say that we will not do guarantees for anybody. So, therefore we will push back to whatever extent possible but for key clients, we will continue to do guarantee business and for that guarantee, we will ensure that we are getting some other businesses as well.

Prakhar: Prakhar from CLSA. Rajiv, a couple of questions touching broader aspects of next 3 years. One is what will be the framework of building a sort of either a negotiating platform between the business team of wholesale banking and the credit and the underwriting team? They have a very different goal setting, so what is the framework? Second, basically what you want to do in the mid-market space and why you were staying away in this business? What was the reason and what you think is the headroom for Axis Bank? And thirdly, if you could give a framework of what the corporate it would look like 3 years from now in terms of size, in terms of mix, in terms of incremental share of high-rated corporates? If you could just give a color of what 3 years out the book could look like?

Rajiv Anand: On question 1, I would really worry if the relationship managers didn't complain about credit which means that Deepak and his team are being too lax and I think if they complain too much, sort of then perhaps it is an issue. I think the fact that we are certainly going to get some tension between the relationship guys and the credit guys, I think it is pretty much given, but for a large wholesale bank like us, I think that is good tension to have. I think it brings in a sense of discipline but from what little I have seen of Deepak and his team so far, I don't see them to becoming an impediment for our growth. I think it is fair to say that if they are turning down some proposals, it is probably not the kind of growth that we want to certainly see, but I assure you that there is going to be tension between the relationship teams and the credit team and I think in any organization, that in a sense is inevitable and we have got to certainly manage around that.

The mid-market space I think we have made some forays into this a few years ago, 5-7 years ago, with limited success and I think then as it got merged into the CCG segment. I think it's a function of focus rather than anything else and now what we are seeing is that there is going to be a relationship team which will have to live and die by the INR 250 cr to INR 1000 cr company and we do believe that the size of that opportunity is quite large and remember that it also builds a pipeline as some of these corporates go from the mid corporate space into the large corporate space and one of the things I have noticed which is as I met corporates from across the country may not necessarily be at a very large corporate space, but loyalty is a big thing within the corporate space, and I think we have numerous corporates who have grown onto become big businesses and big brands in this country who swear by the fact that when they were relatively small, Axis Bank helped them out and therefore we are pretty much everything that we do; my account, my wife's account, everything is with Axis Bank, and I think in that sense as we think of this business, I do believe that we will be able to create loyalty as many of these entities become much bigger in the next maybe 5 to 10 years and so and so forth.

Finally, your last question was on how does the corporate banking business look 3 years out, I think the large strategic choice is pretty much done meaning that today the retail bank is about 50% of the book, SME is about 15 odd percent and the rest is corporate, I think that choice in terms of where we want to be from a balance sheet perspective is pretty much done. What is going to drive hereon is really optimization of RAROC.

Rahul: Going back to the fee income bit, you said transaction banking fee is likely to juggle out. I wanted to understand the competitive landscape because all the large 3-4 banks are clearly going after that, particularly over the last few credit-rating profile of the borrowers. How do you see the Axis Bank will be able to grow at a double digit?

Rajiv Anand: Once again, Amitabh alluded to this and one of the things that I have noticed as well is that in many cases, I think relationship managers have in a sense been shy to ask for business and therefore when I go and ask for business, they say this – "Nobody had asked." That is one. Two is, I think the technology capabilities that we have built out – particularly on trade, forex, and cash management – is helping us win fairly large mandates across the country. Therefore, I think that should help us drive growth as well. And sort of the pressure that relationship managers are going to see like I said the fact that you are going to put a rupee out of balance sheet has to be that I certainly want to see a corresponding rupee of fee income pressure that is certainly being exerted onto the relationship managers.

Manish: (1) On the overall CASA, how much is the government CASA?

(2) Government CASA of late has actually become rate business and a reasonable part of the CASA profile. Would you be a part of that incrementally?

(3) Lastly, it has been that Axis Bank over the last few years has lost some share, however, you started off with a very high share. Other banks have now become very aggressive. How do you see that trend going ahead on that?

Rajiv Anand: I think from a government perspective on savings, it is about 15%, give or take a little bit. I think as far as the rates piece is concerned, I don't necessarily sort of buy that argument. As I have conversations with state governments particularly, there are 2 parts. One is all the mandates that you get from the central government that we get from the state governments. In the state governments, it is really 2 things that work for you. The fact that (1) you have a physical presence across the state and (2) is there a solution that you are providing as opposed to a rate? So, maybe 5 to 6 years ago, it was a relationship business, now it has become a solutions business. So, I can't think of very many cases where we have actually lost business because of a rate. Maybe somebody else has provided a better solution, but I would be very surprised if we have lost any business only because of rates.

Manish: Just a follow-up. Would you be hoping to pay higher rates?

Rajiv Anand: We are paying. For example, on savings accounts for balances over INR 100 crores, we pay 6%.

Manish: And you have also lost some share compared to banks who were erstwhile not present in the government business which is a large chunk. Do you see significantly higher competition?

Rajiv Anand: We are certainly seeing more competition within this space, but then like you rightly said, we had a disproportionately high market share within this business. More and more banks have come into this space and I think I am sure both Ravi and his team through branch banking and the solutioning team that we have, we are working hard to ensure that we gain back some of that stuff.

Nitin: Nitin from Motilal Oswal. My question is on the role of refinancing activity. Over past few years, refinancing has been like one of the major drivers for corporate loan book. Now with PSU banks coming out of PCA incrementally, how do you see the role of that in future will shape up because given at first like we are looking at a better RAROC rate. In that context, how do you see that?

Rajiv Anand: Let us say next 12 to 18 months, I think refinancing will continue to be an important part, may not be a significant part but an important part. What corporates are basically increasingly looking at is to be able to consolidate their banking relationships. Corporates have 12, 14, 16, in some cases I have seen 31 bankers and they are looking to bring that down to between 4 to 6 banks who will be able to provide not just a large sized balance sheet but also capabilities like I said in transaction banking, etc. So, I think refinancing will continue to be an important part at least for the next 12 to 18 months. The hope really is that as we go forward from there, private CAPEX will begin to kick in and then maybe refinancing at that point in time will become less important, but I think it is fair to say that for next 12 to 18 months it will continue to be important.