“Axis Bank Q2 FY22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Axis Bank Conference Call to Discuss the Q2 FY'22 Financial Results. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation has not been sent. Unauthorized dissemination of the contents or the proceeding of the call is strictly prohibited, and prior explicit permission and written approval of Axis Bank is imperative.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of the briefing session. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

On behalf of Axis Bank, I once again welcome all the participants to the conference call. On the call we have Mr. Amitabh Chaudhry – MD and CEO, and Mr. Puneet Sharma – CFO. I now hand the conference over to Mr. Amitabh Chaudhry – MD and CEO. Thank you and over to you, Sir.

Amitabh Chaudhry: Thank you everyone. Thanks a lot for joining the call. We welcome you all to a discussion on Axis Bank's financial results for the quarter ended June 2021. Apart from me and Puneet, we also have on the call, Rajiv Anand – Executive Director and Head of Wholesale Banking, Ravi Narayanan – Group Executive, Branch Banking, Retail Liabilities and Products, Sumit Bali – President and Head of Retail Lending and Payments and Amit Talgeri – Chief Risk Officer.

The past 18 months were tough for the nation and the economy. The Bank has emerged stronger out of this, thanks to our colleagues who kept their focus on serving our customers. The rapid pace of vaccination, continued support from the regulator and the government and the receding threat of a third wave give us confidence. We expect the strong pace of economic recovery to continue in second half of this year.

The strong, granular growth in our liabilities franchise continues. This engine is humming now. We opened 2.3 million new liabilities accounts in Q2, highest ever in a quarter.

In retail assets too, the number of customer who chose us for LAP, car loans and small business loan were the highest ever for any quarter. Retail disbursements were up 54% on both YOY and QOQ basis.

We added 5.5 lakh credit cards in this quarter, a growth of 132% QOQ. The festive season has begun well and we expect further momentum. Also, we took the Mastercard portfolio migration during this quarter in our stride.

In Corporate Bank, we won multiple new mandates with strong performance in transaction banking (Wholesale Banking fee income grew 15% YOY). We became the

First Private Sector Bank to do a Secured Overnight Financing Rate (SOFR) linked trade credit transaction for one of our marquee clients.

On asset quality and earnings:

We saw a sequential decline in retail slippages by 23%, resulting in lower provisions in credit costs. Net slippage trend is lower with better recoveries across all segments. Retail net slippages declined 81% QOQ. Restructuring at 0.64% of gross customer asset, is lower than larger private banking peers. 93% of retail restructuring is secured.

Overall, fee income growth was 17% YOY and 21% QOQ remains healthy. Our Q2 earnings have grown by 86% YOY and 45% QOQ.

The 'One Axis' approach is bearing fruits with our subsidiaries sustaining their superlative performance. The combined first half PAT of our domestic subsidiaries stood at Rs.513 crores, up 61% YOY.

If I were to take a consolidated view of the past 18 months, we have put our legacy asset quality issues fully behind us, strengthened our balance sheet, invested deeply in digital and technology capabilities and we are now clocking strong growth in retail, SME and transaction banking businesses. We have been careful about picking up business within corporate bank opting for granularity and better rated corporates and shorter tenor exposures.

The 8 key transformation initiatives that are underway and the upfront investments in digital technology and people that we have made give us confidence that there's more headroom for growth.

Increased granularity, continuing loan mix change, lower credit costs and market share gains will gradually lead to margin expansion with NIM growing over 4-6 quarters. Puneet will take you through financial performance in greater detail later.

Let me elaborate further. On deposits, CASA deposit growth in recent quarters is trending above medium-term industry growth of 17%. The persistency of our deposits, defined as average CASA deposits as a percentage of period end balances, improved 600 basis points from 86% to 92% in the last 10-quarters. In Q2, our average SA balances grew 23% YOY and 5% QOQ, while the average CA balances were up 18% YOY and 3% QOQ.

The rigor and rhythm across distribution channels and key projects **-** Triumph and Aarambh - now show up in new to bank (NTB) performance. 71% YOY and 58% QOQ growth in new retail savings customers. 1.2 lakh SA accounts opened via VCIP in Q2FY22. 36% YOY and 58% QOQ growth in new current account customers. ~150 bps

YOY improvement in the share of premium segments as a percentage of overall ETB retail SA balances

On premiumization, combined AUM within wealth segment is in excess of Rs.2,58,300 crores, up 52% YOY. Burgundy Private now manages nearly 2,790 HNI families, up from 1,225 families last year. The total AUM here is in excess of Rs.75,950 crores, up from Rs.34,591 crores last year.

On Retail Assets, we have improved our straight through journeys and reduced cycle times for disbursements to our customers. The business momentum has increased month-on-month and we expect stronger H2 growth.

Demand for homes is back as Interest Rates continue to be low and real estate prices stable. Builders have reported reduction in inventory and a good demand for new projects. Our Asha Loans portfolio (Affordable Home Loans) crossed Rs. 10,000 crores in the quarter.

Auto Loans have been hit due to supply side disruptions. But we continue to on-board new dealers in our dealer financing portfolio. The passenger car sales industry de-grew by around 40% YoY while we grew by 37% YOY in the month of Sep'21.

Q2 also witnessed growth in Gold Loans, Working Capital, Farmer Funding and Microfinance. Collection efficiency improved for this portfolio too.

On Credit Cards & Payments:

The Axis - Flipkart cobranded Card saw highest ever monthly acquisitions through Flipkart platform in Sep'21. We see growth continuing through both organic acquisitions and partnerships. On the back of increased card spends, the cards book was up 11% QoQ.

The Google Pay, Freecharge and other partnerships are also contributing to the growth in new cards acquisition. Over 25% of cards sourced in Q2FY22 were through Known-To-Bank channel as compared to 21% in FY21. We also have few large partnerships in the pipeline that will add to the momentum.

Bharat Bank progress

Our Bharat focused 2,065 branches saw 45% growth in disbursements in Q2FY22. The rural deposits also grew at 19% over previous year. We have added new partners to create multiple agri-focused ecosystems. Our overall count of VLEs is at approx. 19,500.

'Bharat' is the big opportunity of this decade as the farm sector reforms, infrastructure investments and digital inclusion story plays out in rural India. We have created a growth focused 'Bharat Bank' unit to build for Bharat. During the quarter, Munish Sharda joined us as Group Executive for Bharat Banking. Munish has over 27 years of rich leadership experience in financial services and has managed large, distributed teams.

On Wholesale Banking

Over the past two years we have demonstrated industry leading underwriting standards, deepened our talent pool in products and digital and focused on transaction banking, mid corporate, government and MNC businesses. The Corporate Digital Bank programme (Project Neo) that we initiated in April is starting to bear results.

Our focus segments, mid corporate and commercial banking business grew 32% and 18% on YOY basis. They were up 10% and 7% on QOQ basis respectively. The Current Account deposits from the commercial banking segment grew 10% YOY, with 50% growth in average balances per new to Bank (NTB) customer accounts, reflecting the quality of strong relationship led franchise we are building. The asset quality and risk metrics have been better than our expectations here.

During the quarter, large corporates continued to deleverage and working capital utilization levels remained below pre-pandemic levels. The overall corporate loan book therefore stood nearly flat on a YOY basis

Like I said earlier, we are investing in Project 'Neo' to build a world class Digital Corporate Bank. There are over 70 colleagues working in 16 pods in an agile mode to deliver this. We saw strong digital adoption of corporate APIs with growth of 45% in this quarter.

On Digital

We witnessed best ever growth in our digital business:

- The number of customers acquired for the digital Buy Now Pay later product were up 14x QOQ
- Our VKYC insta savings account product crossed Rs. 1,000 crores in SA balances in less than a year of launch
- On WhatsApp banking, we have ~ 1.9 million customers within nine months of launch
- We maintained our strong position in UPI with a market share of 15% as Payer PSP (by volume) and 19% in UPI P2M Acquiring (by throughput).
- About ~85% of customer service requests in branches are now digitally available and served through a proprietary cloud-based system

- Our mobile banking app continues to have the highest rating from users among banks in India and we have ~ 5 million non-Axis Bank customers using our Axis mobile and Axis Pay apps.
- We upgraded our developer portal, which now has among the largest set of Open banking APIs in the industry with over 250+ APIs live

On Tech transformation and capability

- Over 1000+ people are now dedicated to the digital Bank with cross functional squads and pods working on 30+ key initiatives that are transforming the core and building future ready capabilities. We had shared a detailed document on this earlier, which is there on the Bank's website.
- On Cloud – our leadership continues. We are the first Bank to create 3 landing zones to support our multi-cloud strategy. We have ~50 applications on Cloud and the migration is getting quicker every quarter.
- We are leveraging our inhouse product, design and engineering teams to create proprietary digital products. We launched 'Jarvis', our in-house developed, cloud native, API oriented lending platform that powers the BNPL platform.
- We are working on Data Architecture 3.0 where we are building alternate data platforms to auto-underwrite the next 100 million customers. This will be critical when Account Aggregator model picks up. We are also integrating unconventional and unstructured data for risk-moderated business expansion. The impact of these initiatives is already visible
- We won the 'Best in Future of Operations' award at the first ever International Data Corporation Future Enterprises Awards.

On ESG and Diversity:

We became the first financial institution in India to set up an ESG Committee of the Board and we raised USD 600 mn in India's first ESG compliant Sustainable AT1 Bond in the overseas market

We made a set of commitments to achieve the Sustainable Development Goals (SDGs), supporting India's commitments under the Paris Agreement.

- A target of incremental lending of Rs. 30,000 crore over 5 years to sectors with positive social and environmental outcomes.
- Incremental disbursement of Rs. 10,000 crores by FY 2024 for affordable housing, and increasing share of women borrowers
- Reaching 30% female representation in our workforce by FY 2027
- The steps we have taken in diversity, equity and inclusion are widely recognized as pioneering in India. We won the 'Leadership in Social Impact'

and the 'Leadership in Transparency' awards at the ESG India Leadership Award 2021.

In Closing:

We believe consumer and business confidence will continue to trend upwards in H2 as the vaccination coverage rises and the economy opens up with pent-up demand and spends materializing.

Pandemic notwithstanding, we continued our progress on our strategy in the past 18 months. We have sorted legacy book issues, our underwriting has stood the Covid test, growth in multiple retail business segments in Q2 was at all-time high and credit costs are moderating fast. We have significant headroom for growth based on our distribution strength, continued digital leadership, the 8 transformation projects that are underway and the business we are choosing not to pick. We are looking forward to H2.

Let me now hand over the call to Puneet.

Puneet Sharma: Thank you, Amitabh. Good evening, ladies and gentlemen. Thank you for joining us this evening, I will discuss the salient features of the financial performance of the Bank for Q2 FY'22 focusing on our operating performance, capital and liquidity position, growth across deposit franchise and loan book, journey of becoming a more prudent and conservative franchise asset quality restructuring and provisioning.

During the current quarter, the RBI issued a direction that resulted in change in the classification and presentation of certain P&L items. These changes have adversely affected reporting revenue and profits and are marginally positive on credit costs. We request you to please see slide #69 of our presentation to better understand the impact.

Our operating performance is healthy, reflected through continued buildup of granular fee and PAT growth. We continued to invest in the franchise to be able to capitalize on market opportunities once COVID stabilizes.

Net interest income for Q2 FY'22 stood at Rs.7,900 crores, representing a YOY growth of 8% and a sequential QOQ growth of 2%.

NIM for Q2 FY'22 stood at 3.39%, representing a decline of 19 basis points YOY and 7 basis points QOQ. NIM on a YOY and QOQ basis are impacted by product mix. For example, growth in our overseas loan book, interest reversals have impacted NIM on a YoY basis, increase in LCR by 3% and 5% on a YOY and QOQ basis, has contributed to the NIM. Timing impact of our Tier-1 capital raise, market pricing pressures in the wholesale segment and mortgages business are the key contributors.

Improvement in NIMs over the medium term will be driven by loan mix changes, continued improvement in low-cost deposits and the quality of our deposit franchise and reduced share of our RIDF bonds which currently stand at 4% of our balance sheet size.

We saw a strong growth in average CASA YOY and QOQ resulting in a decline in cost of deposits by 68 bps and 9 bps respectively. There is no incremental allocation of RIDF due to PSL compliance in FY'21 through organic loan origination and PSLC purchases. Hence, we have moved on one of the structural drivers for NIM improvement.

The Bank has been improving the risk profile of its loan book. If we look at our NII as a percentage of average risk weighted assets, it stands at 6.95%, improving 10 bps YOY.

Our fee income stood at Rs.3,231 crores, growing 17% YOY and 21% QOQ. 63% of our fees is from our retail business, the balance coming from the wholesale franchise. Granular fee is 90% of our total fee.

We continue to see good traction in our CMS, FOREX and trade finance businesses that have resulted in an 18% YOY and 15% QOQ growth in non-credit related fees in the wholesale segment.

Commercial banking fees grew by 6% on a YOY basis and 34% QOQ. Fee on cards grew 19% YoY and 21% QOQ. Fee from our digital channels grew 42% YOY and 39% QOQ. Trading income stood at Rs.473 crores, degrowing 36% YoY, mainly on account of lower government security sales and consequent profits. Other Income stood at Rs.95 crores grew 24% YoY basis post reclassification of recoveries from written off pooled accounts.

Core operating revenue grew 11% YOY and 6.5% QOQ. Operating expenses for the quarter stood at Rs.5,771 crores, growing 36% YOY and 17% QOQ.

Staff cost increased by 36% on a YOY basis. The increase in staff cost is not comparable as Q2 FY'22 has an impact of increments for two years. If you recall, we had offered increments last year effective 1st October and this effect neutralizes itself from the third quarter reporting.

We have added 10,322 people from the same period last year, mainly to our growth businesses and our technology teams. We have continued to top up the gratuity expense for the social security code, something that we have taken ahead of others.

The Bank has in the current quarter booked an ESOP cost of Rs.72 crores on account of the change in the RBI guidelines for accounting for such costs.

Other operating expenses grew 37% YOY, mainly attributed to higher business volumes, higher collection expenses, IT expenses, statutory costs comprising of PSLC certificate purchase and DICGC premium.

If I was to look at the sequential cost increase in rupee crore terms and break that up for you, the growth can be attributable to the following reasons: 30% of our cost growth sequentially is driven by volume. We upfront loan origination cost as an expense while income comes through the life of the loan. 20% of our cost increase sequentially is for future growth and technology. We are confident that the franchise can grow well and we are investing in it today. 30% of our cost growth is attributable to collection expenses, COVID expenses, and statutory expenses. Collection expenses have more than paid for themselves through the lower provisions that I will discuss later on the call. 20% is our business as usual expense growth.

On a holistic basis, about 7.5% of the sequential quarter growth is from one-off items that are not likely to repeat.

Operating expenses to average assets stood at 2.12% for Q2 FY'22, higher by 15 bps YOY and seven basis points on a sequential quarter basis. The adverse impact of netting of the balance sheet that we commenced from Q1 of the current year is 2 basis points of that ratio. We continue to believe that we will fall back to our long-term target of 2% cost to assets in the next few quarters as growth accelerates.

Core Operating profit for Q2 FY'22 was Rs.5,456 crores, de-grew 7% YOY and 3% QOQ. The decline on a YOY basis is mainly on account of expenses growth, which I have discussed previously. The decline in core operating profit sequentially is entirely attributable to the re-classification. I would request you to see slide #69 of our presentation.

Provisions and contingencies for the quarter were Rs.1,735 crores, declining 60% YOY and 47% QOQ. The Bank has not utilized any COVID-19 provisions in the current quarter. The provisions and contingencies include an amount of Rs.525 crores of additional non NPA provisions made by the Bank during the quarter. The annualized credit costs for Q2 FY'22 stands at 0.54% declining 116 basis points QOQ. Profit before tax stood at Rs.4,193 crores, growing 81% YOY and 45% QOQ. PAT at Rs.3,133 crores, grew 86% YOY and 45% QOQ. Annualized Q2 ROE stood at 12.72% improving 477 basis points on a YOY and 361 basis QOQ.

The strength of our balance sheet is reflected through the cumulative non-NPA provisions as at 30th September standing at Rs.12,951 crores. The key components of these provisions are

- COVID-19 related provisions of Rs.5,012 crores. We have not utilized any provisions in the current quarter. The size of our provisions are not to be construed as our assessment of relative weakness of the quality of our loan book but purely prudence-led provisions.
- Restructuring provisions of Rs.1,455 crores are at first bucket NPA rates translating to 24% cover with 100% unsecured loans being fully provided for.
- Weak asset and other provision stand at Rs.6,484 crores.

Our standard asset cover which is defined as all non-NPA provisions by standard advances, stands at 2.11% improving six basis points sequentially. Our provision coverage, all provisions, NPA plus non-NPA divided by GNPA stands at 124%, improving 617 basis points on a sequential quarter basis. The Bank is well capitalized. We carry adequate liquidity buffers. Our overall capital adequacy ratio, including H1 profits is 20.04%. And our CET-1 ratio stands at 15.81%, improving 66 bps and 43 bps on a YOY basis respectively.

The prudent COVID provisions we carry as at 30th September provide us with an additional capital cushion of 67 bps over and above the reported capital adequacy I spoke off. Our average LCR ratio for the quarter is at 120%. Our excess SLR stands at Rs.85,580 crores.

The risk weighted assets of the Bank as at 30th September 2021 stand at 62% as compared to 68% as at September 2020. This improvement in RWA% is reflective of the quality of business being done by the Bank.

The Bank has a call date on its Tier-1 capital falling due in the next quarter. If the call is made subject to prior regulatory approvals, the Tier-1 capital will have an impact of 58 bps.

Moving on to growth across our granular deposits:

> We prefer to focus on quarterly average balances instead of month end balances. CASA grew 21% YOY and 5% QoOQ. CASA ratio stood at 42% improving 201 basis bps YOY on an average balance basis. SA growth was strong with 23% YOY growth and 5% QOQ. CA 18% YOY, 3% QOQ. Our term deposits on a quarterly average balance basis grew 15%, of which retail deposits grew 11% YOY and 3% sequentially. A large part of our incremental NRTD deposits over March '21 are LCR-accretive and non-callable.

Our focus on premiumisation continues with 69% YOY and 9% QOQ growth in QAB balances for Burgundy and Burgundy Private accounts. The NRI segment too witnessed 19% YOY growth.

Our salary segment QAB balances grew 13% YOY and 4% QOQ. A structured cadence between the Corporate and Retail teams is already in progress. We continue to leverage the WBG relationships and remain focused on increasing share in the top 100 marquee corporate names.

Our focus segments comprising retail assets, SME and mid corporate segments have been our key loan growth drivers. Our overall loan book grew at 10% YOY and 1% on a sequential quarter basis. The composition of the loan book continues to remain balanced with 56% of the overall advances being retail, 34% as corporate and 10% as CBG. The book represents healthy characteristics with 80% of the retail book being secured, 86% of the corporate book being rated A and above and the CBG book being well diversified across geographies and industries, 96% secured and 70% of shorter tenor.

Retail disbursement grew 54% on a YOY basis and sequentially. Our branch sourcing of retail loans was at 51% in Q2 FY'22.

The number of loan accounts opened in Q2 FY'22 across most retail secured assets like LAP, Car loans, SBB, gold loans were the highest ever, while home loans Q2 was the second-best quarter ever in disbursement. Home loan disbursements were 86%, up YOY and 54% QOQ with SBB disbursements up 103% and 72% YOY and QOQ respectively.

Domestic retail loans grew 15% led by secured products like home Loans growing 19% YOY, LAP 24% and small business banking 43%.

Over the last couple of quarters, we have become more comfortable in growing our retail unsecured book on an incremental basis within our risk framework. Personal loan disbursements were up 72% YOY and 21% QOQ.

The credit card spend for Q2 FY'22 were up 64% YOY and 34% QOQ and were trending above pre-COVID levels. We continue to drive growth in cards and unsecured lending via our Known to Bank and Existing to Bank franchise.

With strong partnerships and huge KTB customer base of over 140 million customers, we intend to grow our unsecured retail loan book faster over the next few years.

We continue to maintain our strong positioning in the UPI space with a market share of 15% and PSP by volume and 19% in UPI P2M throughputs. Our Bharat Banking coverage stands at 2,065 branches which Amitabh discussed earlier.

Our focus in corporate banking is to build a profitable and sustainable corporate Bank. Corporate disbursements were up 24% QOQ and flat YOY. 93% of the incremental sanctions are to A-minus or better rated corporates. We remain focused on delivering higher loan growth from our chosen segments. The mid corporate segment grew 32% YOY, 10% QOQ. Our commercial banking segments grew 18% YOY, 7% QOQ. These segments help us bring greater granularity to our books, reduce risks and meet our criteria.

Our letter of credit book grew by 48% YOY with a market share in foreign currency LC up 63 basis points on a YOY basis to 9.4%. We continue to have a strong position in GST and RTGS payments with a market share of 9% and 8.1% respectively.

The offshore assets grew by 42% YOY. The growth in our overseas corporate loan book is primarily driven by GIFT City branch exposures. 97% of our overseas standard book is India linked and 86% is rated A and above.

Commercial Banking disbursements rebounded strongly with a 76% QOQ growth, aiding a loan growth of 18% YOY and 7% QOQ respectively.

Early results of our tech led transformation on our commercial banking business is measurable through.

- CBG CA deposits now contribute 24% of the overall CA for the Bank and grew 10% YOY, reflecting the quality of the commercial banking franchise we are building.
- Non-asset fees in commercial banking grew 17%.
- The depth of our CBG relationships is demonstrated by the fact that our commercial banking group contributes 19% of our Private and Burgundy account acquisition.

Our subsidiaries have delivered a strong performance. Overall, the H1 profit stood at Rs.513 crores, up 61% YOY.

- Axis Capital continues to maintain its leadership position in ECM, H1 PAT up 72%.
- Axis Finance: Over the last two and a half years, it has been investing in building a customer focus franchise. Its retail book grew 5x YOY and now constitutes 23% of the book compared to 8% last year. Axis Finance book quality continues to be strong with near nil restructuring and net NPAs at 1.3%. Its H1 PAT grew 84% to Rs.138 crores and ROE stands at 18.5%.
- Axis Mutual Fund's quarterly AUMs were up 52% YoY, driven by fund performance. Axis AMC's H1 PAT was up 60% YOY to Rs.147 crores.
- Axis Securities added 0.12 million customers in Q2, up 43% YOY, its PAT was up 59% with an ROE of 42.4% for the quarter.

We are seeing an improvement in our asset quality metrics and we are well provided for known stress. The gross slippage for the quarter was Rs.5,464 crores, lower than Q1 FY'22 by 16%, retail and CBG gross slippages declined 23% and 46% respectively QOQ. At a Bank level 28% of the gross slippages on a same account basis were upgraded in the same quarter as compared to 22% for the last quarter.

On a segmental basis, the same quarter slippages and upgrades and retail were 31%, corporate 14% and CBG 46%. Therefore, it's better to focus on net slippages in so far as we are concerned.

Further, 23% of the gross slippages are attributed to linked accounts of borrowers that were standard when first classified.

Net slippages for the quarter are Rs.707 crores, down from Rs.3,976 crores, with 82% sequential quarter decline. The net slippage ratio for the Bank on an annualized basis stands at 0.46%, improving 214 bps QOQ. The asset quality on the wholesale business is holding up well with the net slippage of an absolute Rs.26 crores on the size of books that we have. Net slippages for SME book are negative for the quarter. We have negligible restructuring here and that has not contributed to the lower net slippages. Net slippages in retail stand at Rs.697 crores, down 81% sequentially. The net slippage ratio on an annualized basis stands at 0.83%, declining 370 bps QOQ.

On the collections front, cheque bounces remain marginally elevated in Q2 FY'22 as compared to pre-COVID levels. Our concerted collection efforts and investments in collections has resulted in demand resolution for the retail portfolio in the month of September being 98.8% which is better than levels we saw pre-COVID. This is a key trend we continue to remain focused on. Recoveries from written off retail accounts in Q2 FY'22 is 64% higher than Q1 and has been the best quarter in the last few months.

We expect the second half of the year to have lower net NPA additions as compared to H1 FY'22 given the collection intensity and moderation of delinquency outcomes. The intensity, length and time and government policy action emanating from COVID wave-III if any remains a key monitorable.

The Bank has undertaken prudent, limited and largely secured restructuring.

- The outstanding implemented fund-based restructuring (covid-1 and 2) stand at Rs.4,342 crores, representing 0.64% of our gross customer assets as of September 2021.
- Invoked but pending implementation COVID-1 and 2 restructuring stands at Rs.118 crores or 0.02% of our GCA.
- Hence, in aggregate, COVID restructuring will not exceed 0.66% of our GCA which we believe is lower than larger private sector banks.

- 96% of loans restructured are under COVID-1 and 2 are standard assets as at 30th September 2021.
- 93% of retail loans restructured under 1 and 2 are secured. The LTVs of secured loans range from 40% to 70%.
- On a segmental basis, COVID-1 and 2 restructuring on loan is 0.68% on the wholesale book, 0.8% on the retail book, and 0.02% which is near zero for the commercial banking book or the SME book.
- We were able to upgrade Rs.501 crores of restructured pool-1 and 2, that was NPA as on 30th June to standard as at 30th September.
- The linked non fund based exposure on restructured loans is Rs.1,002 crores.
- The net slippages from COVID wave-I restructuring stands at 3% of the Covid Wave 1 pool. Details of our BB and below book and restructuring are set out on Slide 48 of our presentation in greater detail.

The fund-based and investment BB book stood at Rs.7,307 crores declining Rs.1,370 crores on a quarter-on-quarter basis, which is a 16% QOQ decline.

79% of our corporate slippages in the quarter were from the BB and below book,

21% of the fund-based BB and below book is rated better by at least one external rating agency.

All accounts downgraded in the current quarter were individually less than Rs.80 crores and the average ticket size of accounts downgraded was Rs.12 crores.

The average ticket size of fund based exposures in the BBB+, BBB and BBB- is Rs.40 crores with no individual exposure in four- digit growth showing a granularity of book that we have been focused on. We request you to see Slide #48 of the investor presentation for more detail.

The GNPA of the Bank was 3.53% improving 75 bps YOY and 32 bps QOQ. GNPA is the lowest that the Bank has seen since Q2 FY'17. The net NPA stood at 1.08% improving 12 basis points QOQ.

The net exposure of the Bank to two NBFCs where RBI superseded the board in Q2 FY'22 is nil. The Bank has a healthy PCR of 70%, greater details are provided on Slide #47.

As I close, we summarize the Bank's journey so far and broad outlook on key performance drivers.

Our capital adequacy ratio at 20.04% is the best we've had in years.

Our balance sheet is resilient, visible through declining NPA ratio, stable provision cover, buildup of non-NPA provisions, prudent, limited and largely secured restructuring.

The average CASA balance to closing balance ratio has improved to 92%, showing the improvement in the quality of the CASA franchise we are building.

Annualized H1 FY'22 earnings of subsidiaries will cross Rs.1,000 crores for the full year. Our return on investments from subsidiaries now stands at 58%.

On ESG, Axis is now the first Bank to establish a standalone ESG Committee of the Board and is moving forward on its ESG agenda.

Our reported net interest margins have moderated though when adjusted for risk weighted intensity of assets we see an improvement over time.

We have clearly identified, discussed and are seeing traction on the building blocks for improving our reported margins in the medium to long term. We expect FY'22 net margins to remain at or marginally above H1 levels but will improve structurally over the medium to long term basis the initiatives that are in place today.

We will continue to invest in the franchise and have seen a short term cost escalation. The pace of growth and costs will moderate in the second half as base effect corrections like salary cost take place. While we stay committed to the cost-to-assets target of 2% in the medium-term; for FY'22 we will be between eight to 12 basis points higher than that. We believe our businesses are resilient and we are well equipped to capitalize on opportunities and are investing in the franchise to deal with contingencies such as pandemic may pose. We reiterate our stance of stopping specific guidance. We thank you for your time and we will pause now and we will be happy to take your questions.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: Sir two or three questions: One, on growth. Sir, your commentary is pretty strong. And I'm looking at the corporate portfolio, which has declined about 4% to 5% on a QOQ basis. So just can you give some color on what led to this, is it some end of period balance or is it something that you stayed away from, and what's the outlook on growth here, the retail and SME growth seems to be pretty good?

Rajiv Anand: Within the corporate side, SME, as you said, continues to grow strongly, even on a QOQ basis growth is strong in the sectors that we have chosen, mid-corporate, MNC growth continues to be strong. We've seen some deleveraging, repayments, prepayments, etc., But the one point that I want to make, which is I think important is the way that corporates particularly in the large corporate space are thinking about their capital structure and funding patterns is diversity, which includes bank loans. And so therefore, what they're choosing to use is offshore loans, offshore bonds, local loans, local bonds, and Axis is participating on each of those opportunities. Not all of those opportunities may convert into loan growth at a point in time, but most importantly, it will ensure that we are engaged with the customer across the capital structure, and will obviously ensure that we are driving fee incomes, etc., Our pre-eminent position on the DCM side is well known. We've been around for the last 13 years. On the debt capital side, we have a very, very strong loan syndication book. And we are now the only Indian bank that is focused on the offshore debt capital markets as well. And we've had a fair amount of success within this space. So the way to think about loan growth is I think one needs to look at it on a much wider basis, particularly in the large corporate space if one wants to engage with a set of customers that they have chosen to engage with.

Abhishek Murarka: Incrementally, when does this book start expanding, or what are the particular opportunities you see out there because I believe private CAPEX is still far away from picking up?

Rajiv Anand: What I'm very certain about is that the CAPEX cycle has bottomed out. We would have probably seen a stronger CAPEX cycle at this point in time, but two things have impacted that wave-2 and the probability of wave-3, I mean, there was various news reports that wave-3 would hit us in October, November, December, has probably held that back, as also whether the festive season will bring the kind of demand that we expect were some of the reasons why perhaps the CAPEX cycle has got postponed by anything between six to 12 months. But I think what one is certain is that the capex cycle has bottomed out, and we should certainly see that begin to kick in, there are various initiatives; national monetization program, PLI schemes, we are seeing small levels of CAPEX in chemicals, in steel, in cement and so on and so forth. Some of that is also being funded by internal accruals. We are also seeing that corporates at this point in time are preferring to deleverage, use their own cash flows to support CAPEX, but I think it's just a question of time before that begins to kick in.

Two is you will hear commentary from Puneet and you've already heard some of that is that the festive demand has been fairly strong. And what that means is that the working capital cycles which hitherto where utilization of our working capital lines were relatively weak, we think that will start to pick up in the second half of the year as well.

I think Puneet mentioned this point about the overseas book growing. I just want to reiterate that a few quarters ago, we mentioned that the overseas book will be only focused on India-linked names. So what we're really doing there is, is to follow the customer in terms of their client needs around transaction banking. So, if you look at trade finance, which is where predominantly the overseas book has grown, we are now 2.5x in terms of the size of that book as compared to some of the foreign banks who dominate this business at this point in time. We are getting increased franchise breadth, depth of client conversations and cross-sell opportunities across transaction banking as a result of the growth in our overseas trade finance book, The associated cross-sell revenues and balance arising is not factored into NIMs, but is certainly showing up in strong fee growth that you're seeing in our transaction banking franchise.

Abhishek Murarka: My second question is on NIM. So you've mentioned in your PPT that there's an adverse mix impact of 13 basis points. But if I look at a broad mix, retail SME has gone up, corporate has come down. So, why exactly is this mix impacting NIM unfavorably?

Puneet Sharma: Abhishek, thanks for the question. The way I requested to think about that number is the liability franchise has grown exceptionally well. The asset is now growing on an incremental basis. Given the fact that you originated liabilities in advance of assets, the surplus money which I called out earlier in the presentation about Rs.85,000 crores parked in excess SLR, the mix between investments and advances, which is a material contributor to that.

Abhishek Murarka: So how should we think about NIMs going forward just on a loan basis, are your spread improving?

Puneet Sharma: Structurally, the way to think about NIMs are there are three structural drivers to earnings; one is the loan mix change. So, one part of the mix change will come from the fact that as advances growth comes back, which you will see given the disbursement momentum, you will see the recalibration between advances and investments so that should aid NIM coming back. The second bit is we have improved the quality and the percentage of our low cost deposits. But as the quality of our deposits improves further, we should see a release of available liquidity to lend and that's going to be a driver. The third element that I would like to call out is 4% of our balance sheet is towards RIDF bonds. These are negative spread as we stand today. For the last year, we've incurred OPEX and purchased PSLCs which is why you also see OPEX cost increase. But what we're doing is we're solving for the RIDF problems, no incremental allocations, we should run off between three to four years on a weighted maturity basis. And thus this should be able to give us anywhere between 10 to 12 basis points uplift on NIM. And I'm not saying a full run-off, I'm saying run-off to the next closest peer bank. So as we work through each of these, you've heard us speak on where our loan growth is going to come from, you will see the NIM improve structurally over the coming quarters.

Abhishek Murarka: Just a question on slippages. So looking at the gross number, and I know you said you focus on the net, but just if I were to talk about the gross numbers still a little high right at about 3.9% annualized. So just where is this slippage really coming from and given the pick-up in the economy do you see this normalizing in two quarters or four quarters, what is your outlook there?

Puneet Sharma: We can annualize the slippages number and come to a percentage that you've computed. The first way I would request you to look at that number is I specifically called out in Axis context, we report on a gross-gross basis. So 28% of the gross slippages fell in the same quarter and recovered in the same quarter. So effectively, 1/3 of your computed number will disappear basis the same quarter upgrade-downgrade reference point. And I had also called out for your consideration this across product segments. So that plays through. Adjusted for the same quarter, upgrade - downgrade the inventory that got built up because of wave-2 is playing out. Just to give you context, in the retail business, our net slippage for the month of September was zero. So, we will continue to track asset quality and see how our net slippages move ahead, but we are reasonably positive that asset quality should improve in the second half of the year on the slippage front.

Amitabh Chaudhry: Abhishek, I will also request you to give us some credit for lower level of restructuring. If I do a lot of restructuring, I will not see these slippages. If I've taken the hit upfront, give us some credit. And I think it is coming through very clearly in the second quarter where we took the hits. They're going through NPL, but we're recovering also. So, I think you need to take into consideration that fact too

Abhishek Murarka: Sure, Amitabh, that part is very well appreciated actually. The only thing I was trying to figure is this inventory buildup and I understand 1/3 of it gets resolved quickly. This is happening from which sector, is it secured, is it unsecured, is it retail or should be mostly retail SME, so I'm just trying to figure out where it's coming from?

Puneet Sharma: So net slippages on the wholesale and SME segment is near zero. So of the Rs.707 crores net slippage that I spoke of, if I net down CBG and wholesale, that number is zero, so largely coming from retail. And like I said in retail, for the month of September, the net slippage is zero. So the 707 crores is a buildup of July and August.

Amitabh Chaudhry: The flow-through is coming from COVID to COVID, right.

Moderator: Thank you. The next question is from the line of Gautam Jain from GCG Financial. Please go ahead.

Gautam Jain: My question pertains to your one-off OPEX. Can you just elaborate in absolute number, what was that?

Puneet Sharma: What I called out was 7.5% of the sequential quarter opex-growth was on account of one-off items. The one-off items are in the nature of catch up on ESOP cost. We have listed tier-1 bonds in the current quarter where expenses on fundraising are charged to a P&L upfront, we do not amortize it over the life of the bond. So those would be one-off items that are not likely to repeat. And that constitutes about 7.5% of rupee crore expense growth in the quarter.

Gautam Jain: You did mention that credit cost in the second half will continue to fall. But can you just give us some qualitative comment on credit cost going forward on a sustainable basis? Would it be 1% or around 1%? Your comment would be appreciated.

Puneet Sharma: We don't specifically guide on credit costs on what it should be. The way we have structurally driven our balance sheet and created prudent provisions and provided foreseen risks, we believe that we have come to the end of our wholesale credit cycle. So there should be moderation from our long-term average. We don't offer a specific guidance on what that number would be for the next quarter or the next financial year.

Gautam Jain: But I look at your contingent provisions compared to your peer banks, we have the highest provision to our loan book. So if we don't see slippage going forward in next two, three quarters, will there be a case of some reversal in the provision what we provided already?

Puneet Sharma: So our COVID provisions are rule-based and the release thereof is also rule-based. The way we run our COVID prudent provision is we determine a risk threshold that the pandemic wave will throw at us. If that risk threshold is breached, we utilize the COVID provision, if the risk threshold is not breached, we continue to provide through the P&L. Basis the data points that we have today, we do not believe COVID wave-2 thresholds are likely to be breached. Therefore, these provisions will be carried forward on the balance sheet. If and when COVID wave-3 were to hit us, we will make a similar assessment at the right time. What I simply want to say is, it is structured and rule-based. We do not release or create provisions on a quarterly basis in an ad-hoc manner.

Gautam Jain: How soon can we reach to our peer level NIM around 4%?

Puneet Sharma: I don't want to comment on what level of NIM we will get to. Like I said, structurally, we think we have the right drivers to deliver a NIM expansion in the medium-to long-term. The three drivers specifically discussed were loan mix change, our RIDF reduction and improvement in cost and quality of our deposits. On CASA, you've seen improvements happening on a sequential quarter basis, RIDF, incremental allocations have stopped given our compliance with PSL requirements for the last year. Asset mix should play out as loan growth comes back in a meaningful way. And therefore, I would say structurally, all drivers in place, NIM journeys are multi-quarter journeys, but you will see us making the right directional improvements in the coming quarters.

Moderator: The next question is from the line of Mahrukh Adajania from Elara Securities. Please go ahead.

Mahrukh Adajania: My first question is on credit cost. There was a fair bit of discussion earlier on this, but the specific credit cost is down to 60 basis points, which is lower than the long-term average as well. At some point of time, will we be drawing down COVID provision maybe next year, may not be this year. So are we likely to see quarters of negative credit cost, have specific credit cost bottomed out now or is it going to remain volatile because it has got corrected more sharply than other banks, which is why I'm asking?

Puneet Sharma: Again, the way I'd like you to think about credit cost in our context is we consciously took the decision to recognize pain early and therefore we believe that should get us out of an adverse credit cycle early. Where we have restructured, we've ensured provisions cover us for first bucket NPA provisioning. To your point or observation on COVID provision release over the next few quarters, I will reiterate the comment I made earlier; the COVID provision is rule-based basis the risk outcomes, we do not see a release of that provision at least for COVID basis the data points visible to us today, we will continue to watch if there is a wave-3 or an impact thereof. The way I would request you to think about our credit cost is in a three-pronged manner. One is, let's start with our long-term average credit cost. We have moved to a provisioning level that is about 15% to 20% higher than historical provision covers that we have had. So you should see a marginal uptick from the long-term average credit costs because just the prudence that we've built around our provisioning rules, you will see an improvement from the long-term credit costs on account of the fact that our wholesale lumpy book is now granular, and the underwriting quality is much better. Structurally, as we do a little bit of more unsecured business priced for risk, the income comes above the line and the risk comes below the line, but adjusted for risk this business will be profitable, but you will see a uptick as we recalibrate from the 87% secured to 13% unsecured disbursement mix structurally as we move forward to a range of 80:20, 75:25. So very difficult to give you a precise number on where the credit costs will be. But I think the improvement both in underwriting and portfolio quality is visible on our balance sheet.

Mahrukh Adajania: So of those provisions of 129 billion, what would be the mandatory general provision?

Puneet Sharma: If you can just give me a couple of minutes, I will come back to you and give you that response.

Mahrukh Adajania: And again, it's on loan growth where you explained before. But the loan growth has lagged most other private banks, and, of course, there has been a change of loan mix, there has been a change of approach for you. But what is so risky that you're seeing that other banks are not seeing especially in the corporate segment, because that is one area where probably loan growth is slower and even in some other segments. So what really explains the consistent difference in loan growth between you and the private bank, say for the last three to four quarters?

Rajiv Anand: I'm not worried about that difference. If I want to bridge that gap between us and the peers at a price, it is very easy to do. So therefore, as long as we are meeting our underwriting standards and pricing standards, we will certainly put on those loans. Maybe they are not risky, but maybe the pricing doesn't work for us, which is why some of the stuff we've walked away from. But like I said, what is important to us is the depth of the franchise, right, I mean, there is so much more that we're doing with our customers; we're adding new customers within the wholesale and CBG franchise. We think that some of the pricing that we are seeing at this point in time is not pricing for risk. So we are willing to wait it out. I mean, you've seen, for example, on our CBG book, we were pretty much flat for a couple of years, we are now much more comfortable with that book and you're seeing growth, you've seen what about 7% growth even on a QOQ basis. So, I'm not really too worried about that there is a gap between us and the peers.

Puneet Sharma: Mahrukh, to answer your question on standard asset provisioning, you can assume that roughly Rs 3,000-odd crores of Rs.12,900 crores that we call out is regulatory standard asset provision.

Moderator: The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Sorry if I missed out but in terms of the movement of BB and below if you can highlight in terms of the upgrades, downgrades and how we are getting it lower by almost like Rs.1,300-odd crores?

Puneet Sharma: So, I think, Kunal, the way you should look at that number is of the Rs.1,300 crores, 50%- plus will be recoveries and upgrades and the balance Rs.680-odd crores were slippages.

Kunal Shah: No, sorry, I missed the last part. So in absolute term if you can just suggest in terms of this movement from Rs 8,000 crores to Rs 6,700 crores on the fund-based side of BB and below?

Puneet Sharma: Kunal, roughly like I said the difference is about Rs.685 crores of slippages and the balance is recovery.

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

Anand Dama: Staff cost has again gone up during the quarter and so has been our other expenses. So what did you explain that, are we doing ESOP expensing in the staff cost, number one? And in the other expenses, can you really highlight basically apart from the collection expenses, what other expenses would have gone up so that we have seen such a jump up in the other expenses on a quarter-on-quarter basis?

Puneet Sharma: Yes, we account for ESOP cost as part of our staff expenses, and therefore, that expense is sitting in the staff cost line item. The overall increase in staff cost, as I said, is we feel confident of emerging stronger post-pandemic. So we've added close to 10,000 people to our core growth businesses in September '20 to September '21, so that's about 10,000 people added to the franchise for our growth businesses across liabilities and assets. In terms of the sequential quarter growth and expenses, 30% of the expense growth is volume-led. You have seen our disbursements are higher as business momentum comes back. The expense loan origination cost is upfront, so that causes an expense escalation. 20% of the increase in expenses attributable to future growth and technology. We clearly have a large technology agenda that we are driving and 30% of the growth is attributable to collections, COVID and statutory costs. So the balance 20% is BAU cost increase given the franchise that we run. I hope that gives you a detailed break-up.

Amitabh Chaudhry: So I just want to add two or three threads. As Rajiv talked about the fact that as Indian economy starts growing, it will provide opportunity to the large banks to gain market share, and it is very, very important for us to ensure that from overall platform perspective, we invest today, and are ready for capitalizing the growth opportunities as we move forward. I've shared with you, Puneet has shared with you some of the things which we have created, we have 250 APIs now. So as we expand in various parts of the Bank in terms of investment in technology, analytics, generally the people, creating the franchise, investing in Bharat banking and some of the other stuff. I think money spent today will give good returns in the future as Indian economy starts expanding. Yes, it means that our expense ratios are looking a bit higher today, but we believe they will moderate in the future, and hopefully, the returns will also come through in the revenue line quickly. So that's how we are driving it. And that's why when you kind of break it down as Puneet has shown, you will see that some of it is obviously BAU, but some of it is related to obviously investment for the future and some of it is one-off or more a base effect impact.

Anand Dama: But, is it possible for you to share the technology expenses that typically we have in a P&L as a percentage of our revenue? How basically this is really going to convert into higher growth particularly into the non-mortgage book, because mortgage certainly that will be largely run through DSAs or through your branch models, but the non-mortgage or retail business, particularly consumer finance and all will need a lot of technology spends, so, how that is really going to convert into growth also if you can explain that will be great?

Amitabh Chaudhry: We are running a number of multi-year transformational programs through almost every business of ours. In my opening remarks, I said how we're doing on the wholesale side, we ran a similar project on the CBG side, we are running a couple of those projects on the retail liabilities and the assets side and it does not stop here, we are looking at architecture, we are looking at how employees can be enable. So there are many, many transformational programs going on in the Bank. And they're multi-years, they're not six months, nine months, it will take three years for us to land those programs completely. So as we do that, technology obviously is a very, very important component of it. The question we are asking ourselves is not only to be best-in-class,but look at things globally and see what is the platform we create which can take on some of the global practices. We cannot say anything beyond that at this point because it does not make any sense. We have to show you the revenues coming through and then we will talk about it as to what exactly we have done. We have shared some of those transformational programs with you, we are working on many transformational projects across various businesses. Our technology spend we shared with you is up 78% over the last two years. And that should give you a sense that the spend on technology has gone up significantly. I shared with you that 1,000 people are working on digital banking. So, obviously this needs expenses, this needs people and obviously leads to higher cost to assets ratio whichever way you want to look at it. But we believe that given how we are catching up and in some areas going ahead of the others, it will start reflecting in our business and on revenues and our numbers.

Anand Dama: We had one of our ED retiring. Any replacement that you have worked out?

Amitabh Chaudhry: We are not planning any replacement at this stage. The portfolio will be distributed amongst various senior leaders of ours. As again, I've been sharing that we have not only at the ED level, while one of them is going, we have very-very smart, young and senior leaders that are at group executive levels, I was sharing with someone that at the group executive levels, we have three people who are ex-CEOs of pretty large organizations, there was someone who was an ED of a large, midsize bank. So, we have very, very strong leadership level at the next level from ED which is the group executive level and all these people are part of management committee. Over a period of time, obviously, we expect some of them to move up. But at this stage, we are redistributing a portfolio. By the way those changes have already been announced.

Anand Dama: So we will operate with one ED at this point of time?

Amitabh Chaudhry: Yes.

Moderator: The next question is from the line of Rakesh Kumar from Systematix Group. Please go ahead.

Rakesh Kumar: My one question is related to the loans priced on external benchmark. So, like among the last three banks, we are on the lowest side and the progression also if we see from the March end to September end, the progression is also quite slow.. So, is it that just to protect margin, we are not progressing very fast on that front? What is the reason there?

Rajiv Anand: What the regulator has said is that incrementally all retail loans and some of the SME loans need to be externally benchmarked. So, that's done. And obviously, we are in compliance with that. If the question is, there is still some stuff that is at base rate or MCLR as the case may be, why is that not moving? There is a concerted conversation that is on with a customer and some of these customers have made the choice of staying either with base rate or MCLR as the case may be, because, remember that external benchmark rates are good when rates are going down, but when rates are going up, it will go up as fast because market rates typically will move very, very quickly. And in that sort of an environment, EMIs will increase quite sharply as well. So, therefore, some of the customers have chosen to be either at base rate or MCLR as the case may be. So, not sure what exactly the point that you're making.

Rakesh Kumar: The first point is if you see that in case of say ICICI Bank or some other large bank, they have got close to 50% of loans already linked to repo and we have close to around 31% So, is that a lower loan growth for us, that is the reason in those segments, where it is mandatory to price at BPLR there, we are not witnessing the growth, is that the reason or we are not asking customers to switch from MCLR to repo rate, so, that is one question? And second question is coming from your answer itself that we had the bottom of the kind of interest rate cycle. So when the rates are going up by having lesser proportion of loans on repo, it will hit margin for us on a relative basis as compared to other banks.

Puneet Sharma: Maybe I can respond to it in two different ways. First and foremost, I think if we look at the composition, let's start at the headline level of fixed versus floating. About 32% of our book is fixed and 68% of our book is floating, which is the disclosure we make on slide 12 of our presentation. Why is that? And within floating, we have compositions of repo, base rate, MCLR and foreign currency floating. The reason that you see our repo at 31%, since that's the number you picked up, effectively will be a function of the product mix and the segment mix that we run our book at. As far as we look at the interest rate cycle, all floating rate benchmarks should be accretive, it is just the pace of change of the floating rate benchmark that one will have to observe. As I stand today, I'm not sure repo will reprice faster than the other benchmarks on an upcycle. So I think it's a wait and watch. We are very focused on ensuring that our balance sheet on a fixed, floating basis is fully balanced. And we fundamentally believe that the interest rate upcycle should benefit us no less than what it should benefit our peers.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Puneet Sharma for closing comments. Thank you and over to you sir.

Puneet Sharma: Thank you, Janice for assisting us with this call. Thank you to the participants for having spent the evening with us. It's festival season, wishing your families a very Happy Diwali. We hope that you and your families stay safe and enjoy the festival. Thank you very much. And we'd be happy to answer any questions you may have. Please reach out to us. Have a good evening.

Moderator: On behalf of Axis Bank, we thank you for joining us. You may now disconnect your lines.