Axis Bank's Q4 FY21 Earnings Conference Call

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MANAGEMENT: **MR. AMITABH CHAUDHRY – MD AND CEO, AXIS BANK**
MR. PUNEET SHARMA – CHIEF FINANCIAL OFFICER, AXIS BANK
MR. RAJIV ANAND – EXECUTIVE DIRECTOR & HEAD OF WHOLESALE BANKING, AXIS BANK
MR. RAVI NARAYANAN – PRESIDENT & HEAD OF RETAIL LIABILITIES & PRODUCTS, AXIS BANK
MR. SUMIT BALI – PRESIDENT & HEAD OF RETAIL LENDING AND PAYMENTS, AXIS BANK
MR. AMIT TALGERI – CHIEF RISK OFFICER, AXIS BANK

Moderator: Ladies and gentlemen, good day and welcome to the Axis Bank conference call to discuss the Q4 FY21 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 content 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 with us 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 so much. We welcome you all to a discussion on Axis Bank's Financial Results for the quarter and financial year ended March 2021. Apart from me and Puneet, we also have on the call, Rajiv Anand – Executive Director and Head of Wholesale Banking. Ravi Narayanan – President and Head of Retail Liabilities and Products, Sumit Bali – President and Head of Retail Lending and Payments and Amit Talgeri – Chief Risk Officer.

FY21 was an extraordinary year for India. We, at Axis, adapted and persevered through once-in-a-lifetime crisis to fortify our balance sheet and deliver a healthy operational performance. This fiscal we witnessed strong sequential growth in deposits and advances with every passing quarter. This was driven by our strategy of delivering granular growth and a clear focus on staying close to the needs and aspirations of our customers.

Further, our efforts are also getting acknowledged by independent parties as well. During the quarter, Axis Bank was ranked No. 1 and was the only domestic bank in the Large Corporate (Institutional and Coverage Quality) leader category at the 2021 Greenwich Excellence Awards. We were also named the best digital bank in India by two publications, namely, Financial Express and Asiamoney.

We continue on path of sustainable growth on the back of a positive change in culture, bigger aspirations among our employees and strong focus on execution. We are monitoring the macro economic situation and the emerging health challenges of the COVID second wave in India. We have the requisite strength in the balance sheet and are well-prepared for the future. We will continue to be prudent and bold.

Before I go further, I would like to place on record my gratitude to all of my Axis colleagues and our partners who have gone beyond the call of duty during the year. They have been exemplary in their commitment.

Our ambition to build a sustainable future ready Bank is defined in the six focus areas within the GPS framework:

1. Strengthen the organizational core and quality of our balance sheet significantly
2. Invest in technology capabilities to deliver on our Transformation plans
3. Act with relentless focus on making Axis digital
4. Build granularity across all our business segments to drive sustainable growth
5. Deliver strong operating performance with improvement in return metrics
6. Create significant value among our key subsidiaries

Let me now discuss each one of these in further detail:

1. Strengthening the organization core and quality of balance sheet significantly

Sustainability continues to remain the foundation of the Bank's GPS strategy. In the last two years, we have taken concrete actions towards strengthening the core around policies, processes, controls, and operations. Our risk management framework is more mature and broad-based today. And this is reflected, for example, in the strength of our credit underwriting processes. This conservatism extends to our accounting policies as well.

We have made significant progress on legacy issues with the proportion of BB and below book having steadily declined over the years. The quality of new creditors relations has improved with 94% of the incremental corporate sanctions in FY21 coming from those rated A- and above.

We have been proactive and prudent, and we have built significant additional provisioning buffers with standard asset coverage ratio of 1.95%. The bank strong balance sheet and healthy capital with CET1 of 15.4% ensures that we enter this cycle from a position of strength. We have moved the needle on processes controls and execution rigor. The results are evidence of this. Though we will be the first to admit we have more distance to cover here.

2. Invest in technology capabilities to deliver on our Transformation plans

As far as investment in technology capabilities are concerned, technology is at the core of future-ready Axis we are building. The pandemic accelerated our technology investment plans. In the last 24 months, we have ramped up our OPEX and CAPEX spends in technology by 79%. We are modernizing the core systems at speed, scaling up the Cloud portfolio for supporting the 'Insta' and 'real-time' business models and building resilience in our

technology infrastructure as we respond to the increase in transaction volumes and the newer digital lines of business.

We have also shifted to an agile way of working with multiple pods and squads running the organisation-wide transformation programs. We have also made significant investment in the 'Business Solutions Group' to drive innovative technology solutions and build greater collaboration between business and technology. We started a multi-year technology transformation program this year that will accelerate our journey to place technology at the core of our future operating model.

We have taken a cloud-first approach for our digital banking platform. Our 50+ initiatives on cloud is an evidence of our early leadership in this area within the Indian financial service sector. We used this capability during the pandemic to enable one of the largest Work-From-Home programmes in the industry with over 20,000 concurrent users who were able to work remotely with access to all the Bank systems. We have signed up with a leading Cloud Service Provider to collaborate on core modernization, reimagining customer journeys and adopting global best practices in this area. We have also invested heavily in the areas of IT security and data privacy as we transition to cloud.

In FY21, we launched more than 220 high priority projects. We are broadly tracking to plan with 85% of the expected work finished, and more than 50% projects fully completed. We intend to invest significantly in customer experience through an optimal mix of tech and touch. The execution of these transformational projects remains on track with positive outcomes in the form of reduction in turnaround times, improved productivity and better customer experience.

3. Act with relentless focus on making Axis digital

Digital for us is not about making incremental changes. We had set up a distinctive Digital Banking Team with the objective of not only taking a fundamental relook and reimagining end to end customer facing propositions, but also transforming the operations and building innovative capabilities in the Bank which make us ready for a digital future.

During the year, we made 16 of these initiatives live taking the overall digital offerings to 28. Of the above offerings, many are industry first. For example, a Cloud native loan management system which has been built in-house. We also started seeing traction in the new account acquisition, leveraging the video KYC platform. We have opened over 30,000 video KYC based savings accounts in March 2021 alone and over 1.35 lakh accounts for FY21.

On WhatsApp banking as well, we have seen good traction with 5 lakh customers already onboarded in the first two months of launch. We launched a Buy Now Pay Later product along with Freecharge. Customers can enroll through a simple 3 click process and spend at over 400 merchants, both online and offline.

We launched a couple of fully digital products on the forex front. Customers can now send outward remittances in 100 currencies from our mobile app fully digitally. Similarly, customers can also avail a forex card from any of our digital channels.

4. Build granularity across all our business segments to drive sustainable growth

On deposits, over the last two years, we have reoriented the structure to drive rigor and rhythm, filled the product segment gaps and leveraged our distribution including alternate channels to improve the customer acquisitions. These continue to reflect in the growth numbers.

1.8 million new liabilities accounts were opened in Q4 up 10% QOQ, taking the overall number of new liabilities' accounts opened in FY21 to 6.7 million. New savings and current account acquisition grew 12% and 7% QOQ, respectively. Average retail savings balances for new accounts were higher by 11% YOY. New salary relationships added during the year grew 55% to 2700+ names. The Salary and NRI segments on a QAB basis grew by 24% and 22% YOY respectively.

Our Axis Virtual Centre (AVC) channel has around 1500 Virtual Relationship Managers managing relationship with our existing customers under affluent and other programs. It was always an important channel for us, but it has become more critical given the challenges of meeting customers in-person during the pandemic. Our customers have embraced our proactive approach through this channel and we continue to make significant investment here. AVC expanded to three new centres across Mumbai, Ahmedabad and Kolkata during last year and it is now present across the country with six centres and multilingual capabilities. We have plans to expand further in FY22. Today, we connect with more than 3 million customers every month through AVC.

As a result of the rigor and rhythm across our Branch Banking, Digital Banking and AVC, we have seen significant uplift in the sequential growth trajectory of our granular QAB deposits. SA and CA QAB deposits have sequentially grown on an average by 4% and 5%, respectively during the last 6 quarters as against average of 3% QOQ for the last 16 quarters.

Coming to advances:

After many quarters, the growth in advances has come from all segments, retail, CBG and corporate. Focus however, has been on quality growth across the 3 segments. The retail segment continues to see strong momentum with highest ever quarterly retail disbursements during Q4FY21. Domestic secured retail loans grew 13% YOY and 8% QOQ. Secured segments like HL, LAP and SBB continued to grow strongly with 45% QOQ, 51% QOQ and 42% QOQ growth in disbursements, respectively.

The overall Q4 retail loan disbursements were up 47% QOQ, and over 6 times of Q1 disbursements this fiscal. Our home loan logins & disbursements for Q4FY21, touched highest ever quarterly numbers driven by improved rigor and rhythm and reduced turnaround times as a result of project initiatives we are undertaking in this segment.

Our Deep Geo strategy continues to progress well with focus on expanding reach in rural and semi urban areas. During Q4FY21, we enrolled over 6300 Common Service Centre's (CSCs) taking the overall CSC count to over 13,500. The disbursements from Deep Geo branches grew 111% YOY and 61% QOQ. Overall rural loan book disbursements grew 47% QOQ, driven by farmer funding, gold and farm equipment loans. Our partnerships with agri corporates in rural ecosystem and top Equipment Manufacturers for tractor and other farm business is helping too.

On the commercial and the corporate banking segment:

Our commercial banking business (CBG) is a strategic priority for us as we bet on the strength and the future of the SME sector in India. It also remains one of the most profitable segments for us. We have spoken about tech-led transformation program, Project Sankalp, which aimed to reduce friction in customer journeys and improve sales productivity within the CBG business. The results of the program is reflecting in our performance here.

Lean and digitally enabled process streams across multiple customer journeys have reduced the loan approval time by 75% and improved the resource productivity by 2x. Further, leveraging the branch network and better collaboration between business, branch and operations teams, has resulted in 2x growth in originations from branch network. The granularity in the business is reflected in 80% YOY growth in the number of new customers added. On deposits, the current account deposits from CBG business grew by 27% YOY.

In the corporate segment, our focus has been to grow the book profitably, emphasizing on segments that offer high growth opportunities and better RAROC. We also remain focused on further deepening our relationships with better rated corporates through our transaction banking offerings and leveraging 'One Axis' capabilities across the Axis Group.

The corporate loan book (including TLTRO), grew by 16% YOY and 9% QOQ led by higher growth across our focused segments like Mid-corporates, Government Coverage and MNC that grew by 31%, 66% and 49% respectively on YOY basis albeit on a lower base. During the quarter, we have added 337 new relationships taking the overall relationships added in FY21 to 789.

Our market share in mid corporate space is not commensurate with our overall advances market share hence growing this book remains a top priority for the Bank. We have invested in building a strong team here, and we have created an operations play book to deliver strong growth over the next few years in this segment. Our presence in the key business centers

have increased from 15 to 20 cities and plan is to expand further in FY22. During FY21, 62% of the loans in this segment were rated A and above.

We have a unique opportunity to provide a complete range of solutions to corporates leveraging our corporate banking franchise and the strong capabilities of our subsidiaries. Different businesses of the Bank like Wholesale Banking products, Trustee services, Retail liabilities, Burgundy Private, Axis Securities and Axis Mutual Fund came together to offer One Axis solutions in 21 capital market deals executed by Axis Capital. These coordinated efforts are differentiating our value proposition and strengthening our relationships with the client.

Moving onto our cards and payments business:

If you refer to slide 27, you will see that, we have rationalized non profitable and high-risk segment of Commercial card business, impacting the overall market share. Our new card issuances have started to grow from Q4FY21 onwards and we expect this to continue and will reflect in retail spends share going forward.

During the year, the Bank's Partnership with Flipkart, Google Pay and Freecharge resulted in sourcing of over 2 lakh credit cards that contributed to 21% of overall card sourcing in FY21. Flipkart Axis Bank credit card crossed 1 million cards in February 2021.

On the UPI space, the Bank now has partnerships with all the major third-party UPI apps in the ecosystem including Google Pay, Amazon Pay and Phone Pe, with more than 186 million customer VPAs registered as on 31 March 2021.

On the wealth management side:

Our Wealth Management business 'Burgundy' continues to gain increasing traction with assets under management of Rs 2.13 trillion up 45% YOY across the regular and alternate investment solutions.

Burgundy Private continues to scale up very well, up nearly 3x YOY to cross Rs 50,000 crores in combined AUM. We now manage wealth for 1,666 families up from 853 last year.

5. Deliver strong operating performance with improvement in return metrics

As far as operating performance is concerned, in the face of adverse macro conditions in the first half of FY21, the Bank's FY21 NII growth of 16%, and operating profits growth of 10% represents a healthy performance and demonstrates resilience of its operating model. This has been the outcome of our rigorous execution of GPS strategy over the past 2 years and the initiatives that I just highlighted in the earlier four themes. Puneet will provide details of financial performance later.

6. Create significant value among our key subsidiaries

As far as our subsidiaries are concerned, we have spoken about our strategy to scale up our subsidiaries, so they start contributing meaningfully to the Bank's performance. Our subsidiaries continue to deliver industry leading performance during the quarter, with total FY21 profits of Rs. 833 cores up 75% YOY. If we annualize the H2 earnings of these subsidiaries, it would surpass the Rs 1,000 crores figure. The net worth and earnings of these subsidiaries have grown at a CAGR of 17% and 57%, respectively in last two years even as the Bank's investments in these subsidiaries stood flat at around Rs. 1,815 cores.

During the quarter, we also completed a couple of transactions that will help us deliver stronger value to our customers from a life insurance distribution and retail broking businesses. We completed the Max Life stake acquisition earlier this month, and now together with our subsidiaries, Axis Capital, and Axis Securities, we own 12.99% stake in the Company. We are now a co-promoter. We have shared a strong business relationship with Max Life for over a decade now. We will have a stronger strategic alignment with Max Life with this transaction that will make us more competitive in the fast-growing life insurance sector.

Axis Securities: With the acquisition of Karvy's customer trading accounts during the quarter, Axis Securities now has 3.6 million customer accounts and is the third largest player based on customer base. We see huge growth opportunities for us to accelerate these accounts, and an opportunity to cross sell various banking and financial products to these customers based on their needs. The broking revenues for Axis Securities grew 122% in FY21 to an all-time high. FY21 PAT was up 10 times and RoE improved from 15.5% to 41% in the last two years.

Axis Finance is poised for strong growth as a full-service franchise offering retail as well as wholesale lending solutions across the lending spectrum. Over the last two years Axis Finance has been investing on building a strong customer focus franchise. In FY21 disbursements grew 50% YOY, around 25% of the incremental disbursal are coming from retail now with retail book at 17% of total loans. Wholesale book composition has also undergone a massive shift over the last two years with focus on well-rated companies and cashflow back transactions. AFL's book quality continues to be strong. No accounts were required to be restructured under COVID restructuring scheme. Net NPA stands at 2%. Axis Finance FY21 PAT stood at Rs. 211 crores up 9% YOY with RoE of 14.6% and healthy CAR at 20.4%.

Axis Capital continue to maintain a leadership position in ECM and was at the forefront of revival in capital market activity during the year. It completed 52 ECM deals, highest ever in a year to top the ECM table for the fourth year. In FY21, PAT stood at Rs. 166 crores. RoE improved from 16.4% to 36.3% in the last two years.

Axis AMC, over the last two years, our mutual fund business has strengthened its market position, invested in its leadership team, and launched innovative products in equity savings portfolio including some global and sustainability theme-based investing strategies. Axis AMC has been one of the fastest growing AMC for the last 3 years with average AUM growth of 42% and 134% in FY21 and last 3 years, respectively. We have continued to leverage our distribution channels including digital to acquire new investors and improve customer experience. Axis AMC's full year PAT grew 100% to Rs. 242 crores.

Concluding remarks:

There's a trend of larger and better prepared players relatively doing better than others in almost every industry. In FY21 banking was no exception to this trend. A disruption like the pandemic often redraws the baseline. We see this as an opportunity to invest and get ahead in the game.

However, before I conclude, I would like to state that the spread of second wave of COVID has now intensified throughout the country. The interplay of the pandemic and mobility restrictions will, of course, have an impact on economic growth in the short term. We are hopeful this will be short-lived with coordinated action and support from all the relevant authorities.

We also believe that our building blocks are firmly in place. The rigor and rhythm that we have inculcated in our working is leading to a positive cultural change in the Bank. Our investments in technology, digital and multiple business transformation initiatives has set us on the right trajectory to deliver sustainably higher growth than the market across products and businesses. We are quietly confident about our future.

With that let me hand it over 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 Q4 FY21 as well as fully year FY21 focusing on operating performance, our capital and liquidity position, growth across deposits and loan book, journey of becoming a more prudent and conservative franchise, our asset quality restructuring and provisioning.

We have consistently stated that this financial year has been all about strengthening our core businesses and ensuring that our balance sheet is resilient across cycles. I am happy to state that we have been able to deliver on both objectives. Amitabh spoke at length on the progress made on each of our businesses. My focus hence will be on our financial performance.

For the full financial year FY21, our key numbers are as follows:

NIMs stood at 3.53%, YOY growth of 2 bps. Domestic NIM stood at 3.68%, a YOY growth of 3 basis points. Our NII stands at Rs. 29,239 crores, a YOY growth of 16%.

Operating profit stands at Rs. 25,702 crores, YOY growth of 10%. Operating Profit margin stands at 2.74%. Cost to Assets stand at 1.96% compared to 2.09% for the last financial year, reducing 13 basis points on a YOY basis. Cost to income at 41.7% improving 80 basis points YOY.

Credit costs at 1.87% improving 28 basis points YOY, despite FY21 seeing COVID-19 related stress and slippages.

PBT stands at Rs. 8,806 crores increasing 80% YOY. PAT stands at Rs. 6,588 crores, increasing 305% YOY.

GNPA at 3.7% declining 116 basis points YOY and NNPA at 1.05% declining 51 basis points YOY. The PCR stands at 72.4%, improved 340 basis points YOY.

In Q4 FY21, we have made prudent additional loan loss, investment depreciation provisions aggregating Rs. 1,882 crores. This has adversely impacted the PAT and PBT for the quarter by Rs. 1,409 crores and Rs. 1,882 crores, respectively.

The breakup of the additional provisions are as follows:

Rs. 803 crores towards voluntarily improving the provision coverage of our CBG book from 58% to 80%, which aligns it with the higher PCRs we hold in other segments. The existing provisioning policy was fully compliant with the RBI directives. The changes made in the quarter relating to rates will now apply on a consistent basis on all future recognition of NPAs in this segment. We have also adopted a rule based write off policy for loans in this segment.

Rs. 1079 crores toward securities receipts. With this provision, the Bank has fully provided for all security receipts on its balance sheet, i.e., the carrying value or security receipts on the balance sheet of the bank at 31st March 2021 is nil. Against the provisions made in the last two quarters on security receipts, the reported NAV of the security receipts stand at 1,393 crores.

In this backdrop, we will discuss our Q4 performance:

The reported NII for Q4 stood at Rs. 7,555 crores representing a YOY growth of 11% and a sequential QOQ growth of 2.5%. Reported NIMs for Q4 FY21 stand at 3.56% with a YOY growth of 1 basis points. The impact of interest-on-interest, penal interest waiver emanating from the Supreme Court judgment estimated basis RBI directions and IBA input aggregate to Rs. 163 crores. This amount has been debited to interest income.

Our Fee Income stood at Rs. 3,376 crores representing a YOY growth of 15% and a sequential quarter growth of 16%. 64% of our fees come from our retail business. 36% come from our wholesale business. Third-party distribution fee increased 43% YOY and 41% on a sequential quarter basis.

Commercial banking business which we have been investing in, fees grew 26% on a YOY basis and 51% on a sequential quarter basis. Transaction banking fees grew 19% on a YOY basis. Forex free grew 7% on a YOY basis. We have seen market share gains across our FX letters of credit and forex flows.

Trading income stood at Rs. 789 crores growing 198% YOY and 115% sequential quarter. The increase in trading profits for the quarter is attributable mainly to a sale of a strategic investment on which we recorded profits of Rs. 299 crores for the quarter. Other income stood at Rs. 503 crores flat on a sequential quarter basis. The recovery from the written-off pool on retail assets which sit as part of our other income improved 78% YOY, this gives us comfort that recoveries could hold up even if there were fresh slippages though with a lag.

Operating expenses for the quarter of Rs. 5,359 crores grew 8% YOY and 6% sequentially. 28% of the increase in cost on a YOY basis is on account of choices made for provisioning on the social security code. The balance in operating expenses growth YOY is attributable to our higher business volumes and our investments in technology.

Operating expenses to average assets stand at 1.96%. Cost to income for the quarter is 43.8% lower 200 basis points YOY and 150 basis points on a sequential quarter basis. Operating profit for Q4FY21 is Rs. 6,865 crores, YOY growth of 17% and sequential QOQ growth of 13%. Our operating profit margin for the quarter stands at 2.84% improving 22 basis points on a YOY basis.

Provisions and contingencies for the quarter, including Rs. 1,882 crores for CBG provisions in security receipts were Rs. 3,295 crores declining 57% YOY, and 28% QOQ. The bank has neither made nor utilized any of its COVID-19 provisions for the current quarter.

The reported credit costs for the quarter are 1.7% representing a YOY decline of 107 basis points and a sequential quarter decline of 160 basis points. The more appropriate way of looking at the credit costs for the quarter is excluding the catch-up provisioning on recognized NPA's due to the change in provisioning rules of our CBG portfolio. The credit cost for the quarter excluding CBG provisions stand at 1.21%, representing a YOY decline of 156 basis points and a sequential QOQ decline of 209 basis points.

Annualized Q4 credit costs, net of recoveries, from the written-off pool and one-time impact of catch up in CBG provisions stands at 0.99% compared to 3.02% for Q3FY21 and 2.34% for Q4FY20. Profit before tax was Rs. 3,570 crores representing a sequential growth of 139%. Profit after tax was Rs. 2,677 crores representing a sequential QOQ growth of 140%. The YOY picture for PBT and PAT is not comparable as we reported a loss in Q4 FY20 on account of our prudent COVID provisions.

Annualized RoE for the quarter stood at 11.72%, a 2.4x increase on a sequential quarter basis.

The strength of our balance sheet is reflected through the cumulative non-NPA provisions which now stands at Rs. 12,010 crores as at March 31, 2021. The key components of the provision are COVID-19 related Rs. 5,012 crores; restructuring, weak assets, and other provisions of Rs. 6,998 crores. The standard asset cover defined as all non-NPA provisions by standard assets stand 1.95% up from 1.38% at March 2020.

Our provision coverage ratio (all provisions for NPA plus non-NPA provisions / GNPA) stand at 120% compared to 95% as at March 2020.

Our capital and liquidity position:

The risk-weighted assets of the bank at 31st March 2021 stands at 64% as compared to 67% at March 2020. This improvement in RWA is reflective of the quality of the business being done by the Bank. Our total capital adequacy ratio is 19.12%. Our CET1 is 15.4%. Our capital adequacy and CET1 improved by 159 basis points and 206 basis points on a YOY basis. The prudent COVID provisions we carry at March 31st 2021 provide us with an additional capital cushion of 69 basis points over and above the reported capital adequacy. Our average LCR for the quarter was 115%, our excess SLR stood at Rs. 57,915 crores.

On growth across our deposit franchise:

On the savings side, we are focused on premiumization and deepening of our deposits franchise, and that has been playing out well. Amitabh has already spoken about in great detail. We will request you to refer Slide #23 of our investor presentation for further details.

On the deposit side, we have taken a conscious choice not to renew FCNR, the deposits that matured in the quarter. This has impacted sequential and YOY retail term deposit growth by 3%. We prefer to focus on quarterly average balances instead of month end balances for our liability franchise. On a quarterly average balance basis, CASA grew 18% YOY and 7% QOQ. SA grew 17% YOY and 6% sequentially. CA grew 18% YOY and 10% sequentially. CASA ratio is 42.4% compared to 39.2% as at 31st March and 42% as at 31st December. Our retail deposits grew 16% YOY and 5% on a sequential quarter basis.

The month-end balances, as is expected in a growing franchise show better trends than quarterly average balances on most parameters with CASA at 45% on an MEB basis growing 373 basis points YOY and 175 basis points on a QOQ basis.

Our overall loan book including TLTRO investments grew 12% YOY and 8% sequentially.

Our granular retail assets and high quality large borrower relationships have been the key driver for our loan book growth. Retail advances constitute 54% of our overall advances. Domestic retail loans grew 11% YOY and 7% sequentially. 81% of our retail book is secured. Our corporate loans constitute 35% of our overall advances. The book including TLTRO grew

16% YOY and 9% QOQ. 38% of our book is of a tenor less than one year and 85% of that book is rated A and above.

The SME book constitutes 11% of our total advances. The SME book grew 13% on a YOY basis and grew 10% on a sequential quarter basis. The book characteristics are well diversified. 89% of it is secured and 71% of it is of a shorter tenor.

We continue to see traction in our business sourcing as is visible through our disbursement numbers. Retail disbursements grew 47% YOY and 47% on a sequential quarter basis driven largely by our secured business. The secured disbursements in retail grew 70% on a YOY basis.

The secured retail disbursements for Q4 were 85% of our total retail disbursements. This translated to 12% better secured mix in total retail disbursements as compared to Q4 FY20. This is not a one quarter trend. We have seen this play out through all quarters of FY21. Our branch sourcing on retail loans was at 59% for Q4FY21.

Wholesale disbursements grew 8% YOY and 48% on a sequential quarter basis. The commercial banking disbursements grew 147% YOY and 49% on a sequential quarter basis. The growth in our overseas corporate loan book is primarily driven by our GIFT City branch exposure. 95% of our corporate loan book is India linked and 92% is rated A and above.

In FY21 we had taken actions across accounting policy changes, NII reserve, additional provisions around COVID, provisioning for estimated probable restructuring pool, change in provisioning policy on CBG and provisions on security receipts.

In terms of accounting policy changes, we implemented accounting policy changes in Q1 of FY21. The cumulative full-year impact on the PBT is Rs. 232 crores on account of policy changes. We have assessed and do not anticipate any further tightening of our provisioning rules or accounting policy changes in FY22 that could have a material impact on our reported numbers.

NII reserve has been utilized in the current quarter as it was created in FY21. COVID provisioning continues to stand at Rs. 5,012 crores despite a 50% reduction in the stress as compared to our stress models estimated last year at the start of COVID-1.

Restructuring under COVID-19 resolution scheme is at 0.3% of our GCA. We carry provisions of Rs. 499 crores against these assets against a regulatory requirement of Rs. 79 crores. The provision cover on restructured loans stands at 26%. The segmental picture is set out on Slide #50 of our investor presentation.

Security receipts: The bank holds security receipts of an aggregate value of Rs. 1,681 crores, these are 100% provided.

The one-time impact of the change in CBG provisions improve the PCR of that segment by 22%.

Our asset quality trends are as follows:

The gross NPA and net NPA and PCR of the bank and the segmental gross net and PCR are set out on Slide #49. On a headline number basis our reported gross NPA is 3.7%, declining 116 bps and 85 bps on a YOY and sequential basis. Net NPA shows improvement at 1.05%, declining 51 bps and 14 bps sequentially.

The gross slippages for the quarter were Rs. 5,285 crores. In line with what we had indicated in our previous calls, the gross slippage ratio declined 175 basis points on a sequential QOQ basis. Gross slippages in CBG and retail moderated on a sequential quarter basis.

Reported net slippages for the quarter are Rs. 1,822 crores compared to Rs. 5,831 crores in Q3 FY21, translating to a net slippage ratio of 1.28%. The net slippage ratio declined 273 basis points on a sequential basis. The asset quality of Axis Finance remains stable with net NPA of less than 2%.

I will spend a little bit of time clarifying the restructuring that we have done. The bank has been judicious around restructuring loans under the COVID-19 resolution scheme. At March 31st, 2021 fund-based restructuring invoked by the Bank stood at Rs. 1,848 crores or 0.3% of our gross customer assets. Of the amount invoked, Rs. 623 crores has been implemented at 31st March 2021, translating to a 0.1% of GCA. To clarify, the cumulative amount of restructuring that we could do is capped as 0.3% of our GCA The linked non-fund-based exposure for which there have been no change in original terms pursuant to any restructuring stands at Rs. 923 crores.

On a segmental basis, the restructured loans are 0.6% for the wholesale banking group, 0.14% for the retail banking group and negligible at 0.02% for our SME book. Our restructuring as part of the COVID restructuring package under the MSME scheme stands at a nominal value of Rs. 335 crores.

Collections, ECGLS outlook:

The demand resolution for the retail portfolio was over 98% for Q4 FY21, improving substantially from September 2020 and was higher than pre-COVID levels. The cheque bounce trends stay marginally above pre-COVID levels. However, the same month resolutions have improved due to our focused and strengthened collection efforts, both physical and digital. The investments we have made in collections in FY21, like building a 10,000 plus strong force will help us better deal with any impact of COVID wave 2.

With the Supreme court vacating its stay on classification, we should be able to pursue legal recourse, especially on our secured retail portfolio. However, given the onset of wave-2 we will monitor progress on this front.

Our overall approach to ECGLS was conservative. The total amount dispersed under ECGLS was approximately Rs. 10,400 crores, lower than our loan market share. We only granted ECGLS to our existing customer set, post full credit assessment. ECGLS was given to approximately 26,000 customers across the bank. 99% of these customers were sanctioned under ECGLS-1. We have chosen to identify the stress early in our portfolio, used ECGLS and restructuring selectively and hence recognized larger slippages in FY21 which places us well as we enter FY22 subject to the extent of impact of COVID wave 2.

BB Book: The fund-based BB and below book as a percentage of customer assets stands at 1.09% declining 28 bps on a sequential quarter basis. 38% of the BB and below book is rated better by at least one external rating agency. Rs. 419 crores representing 5.63% of the BB and below book could have been upgraded as it was proactively downgraded on estimated probable restructuring and the borrowers aggregating this value did not seek restructuring from the Bank. The average ticket size of our fund-based loans across BBB+, BBB and BBB- is now down to Rs. 40 crores with no individual fund-based exposure that is four-digit crores.

During the quarter in aggregate, we collected Rs. 1,404 crores out of our BB pool, upgraded Rs. 92 crores, Rs. 920 crores slipped and Rs. 961 crores was downgraded to the BB and below pool. We will request you to look at Slide #50 of our investor deck for more detailed commentary around aspects of BB, net NPA and restructuring pool.

As I close, allow me to re-summarize the salient points for the financial year ended March 2021:

Our operating performance improved; reflected in the PPOP growth and PAT growth of 305%. Improving efficiency in our business reflected through reduction of our cost to average assets from 2.09% to 1.96%. Legacy asset quality being proactively dealt with reflected in full provision for security receipts, PCRs improving by 340% YOY basis.

Gross NPAs declining 116 basis points and net NPA declining 51 basis points. Our prudence is demonstrated through the choices we continue to make to strengthen our balance sheet. The cumulative non-NPA provisions stands at Rs. 12,010 crores. The coverage on gross NPA now stands at 120%. The standard asset cover stands at 1.95%.

Our granular retail deposit book has remained resilient. Our granular deposits growing at 16% and we continue to focus on quarterly average balances. Our corporate book mix is improving along with 94% of new originations being rated A1 or better, and short-term loans constituting 38% of our book.

Amitabh spoke at length about our subsidiaries. Our return on investment on subsidiaries now stands at 39%. Axis Finance has a capital adequacy of 20.38%. RoE in excess of 14% and nil restructuring.

We reiterate our stance of stopping specific guidance. I would conclude by stating that our balance sheet resilience is visible through declining NPA ratios, improving provision cover, and buildup of non-NPA provisions. We maintain that based on facts today, the COVID provisions we hold are precautionary and are not reflective of the asset quality of our underlying loan book. We had undertaken a comprehensive accounting policy and provisioning rules review in FY21 to get us to best in class practices. We do not expect any material changes to accounting policy or provisioning rules in FY22. We continue to monitor the progress of COVID wave-2 across India, track government and regulatory responses based on our internal preparedness as on date. We believe that we shall be more nimble in responding to positive or adverse changes our operating environment provides.

With that I come to an end of my comments and we will be glad to take questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Elara Capital.

Mahrukh Adajania: Firstly, could you give us the breakdown of slippage for the quarter? And has the number for the Q3FY21 and even for the Q2FY21 changed for slippage?

Puneet Sharma: The slippages for Q3FY21 have not changed. The Rs 7,993 crores number that we have reported were the slippages that we had provided for under IRAC norms. The slippages for the current quarter were Rs 5,285 crores. 65% of that slippage is out of our retail book.

Mahrukh Adajania: And the other thing is that your core credit cost is around 1.2% for the quarter. I know that there is a second wave, but since you have provided and already changed your accounting policies and tightened new loan sanctioning policies, could we expect that to be a benchmark for the next few quarters?

Puneet Sharma: Like I specifically said, we are not providing guidance given the onset of wave 2. We have consistently strengthened our balance sheet and the performance that you see on the slippage as well as the provisioning front should give you a good indication of where our credit costs could be.

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

Kunal Shah: Firstly, in terms of the growth, last time we highlighted that on the corporate side there is a lot of competition which is there and maybe it is slightly margin dilutive and we are looking at RAROC. So, has anything changed particularly on the corporate side, there is a good quarter-on-quarter growth as well as the year-on-year, so should we say it is more technical year end effect or this is more kind of a sustainable book which we had written on the corporate side?

Rajiv Anand: So, if you look at what is happening on the corporate book as far as the mega corporates and the large corporates are concerned, there is a process of de-leveraging that is in a sense playing out and there is an element of repayment / prepayment that is happening. We have certainly seen that in Q3 and Q4 as well, maybe a little less so in Q4. However, what you are now also seeing with our corporate book is much stronger growth in some of the other segments. Amitabh spoke about the strong growth that we are seeing on our mid corporate business, on our government business, as well as the new focus that we have brought to the MNC sector. And that is helping us in multiple ways. Yes, it is one, providing us with new business models that we are in a sense going after. Two, it is de-risking the business away from the very large corporates. And three and most important, Amitabh mentioned the word granularity many times and the focus on building the mid-corporate business as well as our SME business is a function of bringing granularity to our corporate book. The average ticket sizes in the mid corporate book, for example, for our existing customer is about Rs 60-65 crores. For a new-to-bank customer is about Rs 30-35 crores. And that is really the focus that we have on the corporate side, which is to build greater levels of granularity, build the SME book and the other businesses, like the mid corporate businesses I just spoke about. It helps us in multiple ways, brings growth to us at the levels of profitability that we are looking for and the levels of underwriting standards that we have set for ourselves.

Kunal Shah: So, maybe given these initiatives and all, at least if there is an opportunity, then we can keep on tapping them on the corporate, maybe on the mid corporate and on the SME side. So that's going to continue for a while?

Rajiv Anand: It is very important for one to realize also that like every other industry, there is consolidation of the corporate banking business particularly among the large corporates in this country. And there are four or five large banks who are participating in every one of those opportunities. We are one of those banks who are sitting at the table with each of those opportunities. Whether we want to take them or not is a choice that we are making based on pricing, based on underwriting, etc. So, it is not as if we are walking away from some of the very large corporate business. Absolutely not. We will continue to gain market share within that space, but we will support that through our new initiatives around transaction banking to support RAROC in that category.

Kunal Shah: And last one, write offs. So, the write offs have been quite higher, and we said it is more as per rule-based policy which we have. So, how should we look at it? Are we done with major part of the write offs, maybe the rules based on which we are there currently, or we can see this kind of a similar run rate going forward as well?

Puneet Sharma: Kunal the way I would request you to think about this is, we get to a provision of 100% and then the rules kick-in for a time-based write-off. So, depending on the behavior of the underlying portfolio, you will see write-off come through pursuant to those rules on every reported quarter for us. The quantum will depend on incremental slippages, the stock of NPAs, the mix of the book, etc.

Kunal Shah: But any way to gauge because this quarter it was quite high, no doubt last quarter slippages were also the accumulation of couple of quarters. How should we exactly gauge that because it was almost equivalent to the incremental slippage?

Puneet Sharma: Kunal, I think the way I would request you to think about this is, for our unsecured business we provide early, like we said we provide 100% on the 91st day and consequently by the rule engine the write-offs should happen earlier. By virtue of our secured business given the underlying security, the provisioning happens on a time basis and that will get to 100% later and consequently get written-off later. So, it's going to be a function like I said, of the product mix of the slippages and therefore, there is no ballpark number that we can provide for write-off. What I would say is there is no discretion left with the management team on write-offs on the SME as well as the retail business. It is all rule-based.

Moderator: The next question is from the line of Anand Laddha from HDFC Mutual Fund.

Anand Laddha: I had a couple of questions. I'll just repeat my question and probably you can answer one by one. On slippages side, retail slippages if I have to annualize for this quarter, they are approximately 4%. So, if you can mention what is the retail slippage for the full year? Also on the retail slippages, if you can give some color, like what is the breakup between secured and unsecured, within unsecured what could be the further breakup between PL and cards. And what we understand is that we have been sourcing bulk of unsecured customers from our own internal customers. So, is there any color or understanding or learning which you can share? There's another peer bank which is the leader in personal loan and credit cards. We haven't seen that much slippages in those numbers. Second question, on the employee cost side, if I see the growth has been very strong. Is there any one off in this element? How should we read this? Third question, on the security receipt, we have provided 100%. Was it that you don't see any recovery chances in that that's why you have made it 100%? Sorry to say that we have been ultra conservative. Is there any rationale for being so ultra conservative, this impacting our profitability for the full year and so has our book value? Can you help me with any reason for being so ultra conservative? And fourth question on a non-funded basis…

Amitabh Chaudhry: I will forget the questions by the time you are done. Please let us answer those three. Don't mind it. You asked us about the restructuring first, you asked us about retail slippages which will answer. But I just do want to start, by saying that please understand that in case of retail slippages that happened because of COVID or what we went through in this last year, we did not rely on restructuring or the amount of restructuring which we have done on the retail side is minimal. So, whatever has slipped had to slip because there was no other mechanism which we used to so-call manage our portfolio. So that's why slippages were quite high. They have come down in the 4th Quarter as we predicted, but there is nothing else in comparison to some of the other players which you are referring to. Now Puneet can you just give the numbers and then you can talk about the security receipts. And Amit if you want to add little bit color.

Puneet Sharma: Let me take the questions one at a time. On retail slippages the annualized slippage is 3.73%. We don't provide a product-by-product slippage, but we did in the past say that there is a fair mix of secured loans in the slippage number. The unsecured slippage is dominantly coming from the cards book. So, it's been digested and therefore one has to look at that. When you annualize your are assuming that it is going to be continuous and consistent. No, that's not likely to be the case. Some of the slippages are one-time because that portfolio would have cleansed itself and moved on.

Amitabh Chaudhry: I will also add, one more thing that we have not sold any portfolio to any ARC from a retail perspective. Just wanted to be clear, less restructuring, no sale of any portfolio, go ahead Puneet.

Puneet Sharma: Just to contextualize that answer in rupee crore terms, the total retail restructuring is 0.14% of the book. I think a good way to draw relevant comparator analysis would be restructuring plus ECGLS to retail customers plus slippages looked at collectively to give you an apples-to-apples comparison on market book. Please do note that our restructuring and ECLGS to retail is negligible. The number has to be looked at on a like-to-like basis. On the employee cost, yes, we have a one-off item in the employee costs. You would recollect that we have taken provisions for the social security code. The cumulative provisions on account of social security code are Rs 218 crores and those provisions reflect in the growth of employee cost. The code isn't gazetted yet and as I understand we may be probably the only bank that has gone ahead and made that provision because it's provision for past service. So, that is the increase in employee cost.

On security receipts, well, one has to look at how security receipts are originated and how they get serviced. We do both a quantitative assessment as well as a qualitative assessment of our security receipts. Like I said earlier, the quantitative assessment of our security receipts does provide us with a positive net asset value of roughly about Rs 1400 crores. On qualitative assessment and the fact that we said we will strengthen our balance sheet and make it resilient across cycles, the provision has been made basis the qualitative assessment and make sure that we don't carry residual unknown risk into future periods.

Anand Laddha: The last two questions, if you permit me. On the gross NPA if you can share the non-funded based exposure to the gross NPA. In the retail books, we had indicated that 4% of the retail book is international exposure. What it means and which geography is it? And this quarter recovery and upgrades are pretty strong, any one-off in this recovery upgrade?

Puneet Sharma: In terms of recoveries upgrades, the BB book had an average ticket size that was larger in the past and therefore recoveries could be lumpy, but no one-off recovery upgrade to call out. Yes, we had one large account that resolved itself in the current quarter otherwise it is business as usual. Your second question was non-fund-based facilities to gross NPA. It's a very small number compared to the overall GNPA pool. It should be roughly about Rs 1800 crores of non-fund-based facilities attributed to the GNPA pool.

Anand Laddha: On the retail book, 4% is international. So, geography specifically like?

Puneet Sharma: On the retail book basically it represents the loans, it is a grossing up of the balance sheet we have FCNR (B) deposits, and we have loans. So, it's a balance sheet gross up. All of our retail book is domestic. It only from an accounting perspective, we gross up the two sides of the balance sheet.

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

Adarsh Parasrampuria: This is a follow up on the question. Historically we have had a very high because of daily stamping and upgrade and recovery that comes in with the slippages in retail. You did indicate a 3.7% number. Can you just indicate corresponding recovery and upgrade because that will give us a fair sense of the net number?

Puneet Sharma: Sorry Adarsh, could you repeat your question I could not catch it.

Adarsh Parasrampuria: I was saying that what is the recovery and upgrade percentage for retail? Because for our bank historically we used to report the net retail slippages because of the daily stamping we had a very high churn of accounts getting in and getting out. Just wanting the net slippages in the retail portfolio.

Puneet Sharma: Net slippages in retail is Rs 1,324 crores for the quarter.

Adarsh Parasrampuria: If you can give this number for the full year?

Puneet Sharma: Adarsh, I don't have it at the back of my head. I will circle back to you and give you that number.

Adarsh Parasrampuria: Second question is on the margins. The fact that last quarter we did have a large interest reversal which would have been lower in this quarter. So, what has impacted the NIM performance? Because for majority of our peer banks we have kind of seen a margin improvement of sorts.

Puneet Sharma: Adarsh, on a sequential basis we reported last time that we had 8 basis points on account of interest on income tax refund. So, if you back that out, we have a growth in our NIMs on a quarter-on-quarter basis. That's one reason why you are not seeing a sequential growth. And the other reason why you are not seeing the sequential growth is we have dialed up our average LCRs and given the nature of the instruments that sit in the HQLA bucket, they typically have an impact on NIM for the quarter. So, those are the two specific reasons that while there is an improvement you are not seeing as much of an improvement on a relative basis.

Adarsh Parasrampuria: Any views on margin outlook given that corporate pricing is still weak, but rest of the segments are okay. Majority of the interest reversals are kind of behind us. Any sense on margin outlook vis-à-vis our long term?

Amitabh Chaudhry: We are quite committed to continuing to push our margins up from where they are. We have talked about that, for us to get to the 18% target RoE, one of the levers that we need to work on is the NIM. They need to be closer to 3.7%-3.8% from where they are today. Obviously, this requires effort across all our businesses to get better NIMs. It also requires the effort across our deposits franchise. It also requires effort from our side to reduce some of the negative carry we have because the Priority Sector Lending. So, effort is being made across each of those dimensions and our objective remains to get there. Now obviously, we have to ignore COVID 2 but otherwise objective is to get there. So, we are working across all parts of our businesses which can have an impact on margin side to get to that number.

Puneet Sharma: Adarsh on the data point that you requested, the full year net slippages is Rs. 7,000 crores approximately.

Moderator: The next question is from the line of Nilanjan Karfa from Nomura.

Nilanjan Karfa: First question is on the incremental disbursals which obviously look quite strong. Any color on where we are originating? Previously we used to do almost probably what 60% of processing through one of our subsidiaries which was subsumed inside the bank. But given the structure of the market, which is changing more digitization at various businesses, are we doing more businesses internally or are we looking at more DSA based origination? And are we originating these businesses beyond like Tier-2, Tier-3? So, any color on that will help. That is the first question? I'll take the second question later.

Sumit Bali: As we had mentioned earlier, our focus on growing business from our retail liability branches continues. Just to give you some data point, in Q4FY21 we originated close to about 59% of our retail assets from the liability branches. For the entire year, the number was 58% compared to 47% last year. So, we continue to originate more and more business from our retail liability branches. We also had mentioned earlier about our deeper geography initiative, that initiative continues to scale up well and we have seen a good growth in disbursements coming in there which is almost 111% YOY and 60% QOQ. That remains our core strategy to mine more and more existing to Bank database, rely more on retail liability branches to originate customers and continue to expand our footprint in the deeper geographies.

Nilanjan Karfa: Second question is on, going back to that asset quality on retail, all banks currently do customer-based assessment. So, 3.7% kind of slippages what was mentioned, how much is it, maybe a credit card customer has slipped and therefore you had a home loan which slipped. Any color, how that has behaved specifically coming out of this COVID 1 and going into COVID 2. A related question could you also give the net slippage on the SME which you used to provide a year both on Q4 and full-year basis?

Puneet Sharma: Nilanjan, give us a few moments. Why don't we move ahead with the conversation, we will try and get you the data points that you requested for net slippage.

Nilanjan Karfa: Sure. The third question also, I guess you will have to answer again, it's a question on margin. So, if I look at the overall portfolio, the percentages of the mix has not changed between various products. In fact, even secured and unsecured also there are only very marginal changes, whereas our overall cost of funds has actually declined quite substantially, like almost about 90 odd basis points. So, yield, beyond all these interest reversals, would have moved like 5-10 basis points here or there. And I understand, we had discussed this LCR related drag at some point that would have come. But beyond that, there is still, it looks like a lot of softness on the overall yield on assets, is it? I think that was my first question. Are we originating slightly differently, different kind of assets, maybe because our underwriting policies have changed and therefore the yields are low, sort of a tie-up between question one and question three? And Amitabh talked about reaching a number on margin. What is that margin number that you think is probably reachable maybe in 2 years' time?

Amitabh Chaudhry: It is not that there's something new. We have talked about the fact that for our 18% RoE target we need to be between 3.5 to 3.8 and we need to be at higher end of the range to get there. And I said, 3.7-3.8 is what we are hoping to get to over a period of time. So that's something which we have shared quite openly. We also had a view that given the fact there is some pivoting which has happened to the secured portfolio in this year gone by, it takes time for it to get reflected in the portfolio. As you rightly said, the more you pivot to secured, the margins tend to be slightly lower, but we expect it to be a temporary phenomenon. I think there is a huge opportunity out there across the various asset classes. And we are focused on building up each of those businesses. It is a nimble playout of the combination as I said of number of things. Product mix is one such thing. The deposit franchise and what kind of CASA growth we get and all of that will ultimately impact our overall NIMs over a period of time. So, wish it was one thing. There are 7-8 things at play here. We are working on each in our own way.

Puneet Sharma: Nilanjan, the data point that you requested for SME net slippage for the quarter is Rs 94 crores absolute and the full year is Rs 690 crores absolute.

Nilanjan Karfa: On that retail question, customer basis versus product basis, I mean, if you can get some color?

Puneet Sharma: We actually don't comment on what is the linked exposure that's gone bad. Effectively we put out a composite number. The way you may want to think about it is, we have spoken about this that the card's linked exposure has gone bad. So yes, there would be linked exposure that does go bad, but we don't provide that detail.

Moderator: The next question is from the line of Saurabh from JP Morgan.

Saurabh Kumar: Two questions here. One is on Slide #18 your credit fees is up 40% quarter-on-quarter on the corporate and commercial banking fee. Given the understanding that in government and in large corporates the fee number is not very high, can you just say what's driving this? And secondly on the LCR, what's the policy? You want to be in this 110% and 120% range, or take it higher as the peer group obviously operates at a much higher number?

Rajiv Anand: I will take both the questions. I think to some degree I will try and answer Nilanjan's question as well, because it's in a sense related. What we are doing on the corporate side you have got to look at that in the context of the current situation that we are in. If you look at the credit growth, it is at 5%, deposit growth is at 10% and within that credit to industry growth is flat. Therefore, in that context, I think to have been able to hold margins, I think is a pretty good show. And I think it's just a question of time before we begin to see credit growth from the industry as well. And like I said, in an environment where corporate banking is getting consolidated, there is a strong likelihood that the kind of margin pressure that we are seeing today will to some degree dissipate. But having said that, the way that we are thinking about it is, like I said, from a portfolio perspective, yes, we want to participate in the relatively lower margin businesses at this point in time. But having said that, because we recognize the fact that we have done some of this low margin business, we have to drive and get other businesses from the corporate for us to be able to deliver the kind of RAROC that we have set for ourselves at a segment level, at a corporate level. That in a sense answers the next question that just come up in terms of why corporate fees are growing, is because of this renewed focus on fees. Remember that this is not the lumpy fees that we used to be known for. This is granular fees on the FX side, LCs, BGs cash managements and such like, we are under-represented. So, we are in a sense, getting to the natural market share that we should be in many of these products. In foreign LCs, in GST payments, in forex, even this quarter we have gained market share and we will continue to drive that as we go forward.

Saurabh Kumar: My question was on the credit link fees, actually why it's gone 40% quarter-on-quarter? I mean is this at the base impact or something else?

Rajiv Anand: The fees that you are seeing there is an amalgam of credit fees and that includes our LC, BG fees as well. So that would be included in that and the growth that we are seeing on trade finance has been very strong for us.

Saurabh Kumar: On LCR, what's the policy on the liquidity coverage ratio?

Rajiv Anand: The liquidity coverage ratio as you know, we are now back to maintaining 100% on a daily basis. Our internal limits are at 105%. Our ambition is to stay between 115% and 125% on a daily basis.

Moderator: The next question is from the line of Manish Shukla from CITI Group.

Manish Shukla: So, on wholesale, Rajiv mentioned that government, Mid corporate and CBG are the key growth drivers, these three segments put together would be what part of the corporate book today?

Rajiv Anand: Would be between 15% and 20% -- the MC and government business put together. Our commercial banking business is today about another Rs 70,000 crores.

Manish Shukla: The other thing is that there's a good growth in SME and CBG both, yet the RWA intensity keeps trending down. How should we read the two?

Puneet Sharma: Manish, the way you should think about it is, one is like I said earlier, if retail growth is coming from secured and in mortgages, depending on the type of mortgage we originate, we do get a RWA advantage. So that's one part of the answer. Second, even in the SME business our origination is of better quality and where we have liquid collateral, we are able to offset. And third is on the CRG business on rupee crore basis you see growth, but the composition is changing to higher rated corporates. And as we move up the credit spectrum, the RWA intensity declines meaningfully. So, it's a mix of the product mix in retail and the quality of sourcing in the wholesale that is giving us this net effect on RWA intensity.

Manish Shukla: Last question. Amitabh having concluded the Max transaction, what are your thoughts around inorganic opportunities either now or over the medium term across the businesses that you have within the group?

Amitabh Chaudhry: Well as we have said before, we will continue to evaluate opportunities that come our way and this does not apply just to Axis Bank, it applies to subsidiaries also. We will be prudent and very deliberate about it. We don't want to use our capital for just for the sake of acquisitions, but there are opportunities which are available, and we will continue to evaluate opportunities as and when they come our way, so our strategy remains similar.

Moderator: The next question is from the line of Aakriti Kakkar from Goldman Sachs.

Rahul Jain: Two questions. Again, coming back to the write-off numbers. This year particularly the number does stand out at about 2.2% of the loan book. Is it possible to get some more granular color across different segments, if you can provide as to how much was in corporate, retail, SME etc.?

Puneet Sharma: Rahul, we do not provide a segmental color of our write-offs. But what I leave with you as a leading thought is our unsecured business gets provided faster than our secured business. Because we have rule-based write-offs, that will be the part of the book that gets written-off faster than secured book.

Rahul Jain: But would that be a majority part of this 2.2% number? Because of the overall book, then it would imply a pretty large number of the unsecured that's getting written-off. That was the reason I was coming back to this number.

Puneet Sharma: I think, look, two things. If you look at how it will play out is, there are two effects at play. The first effect at play is we are coming off on the back of a corporate cycle. As those loans get provided through the books and as those issues get dealt with, those accounts will get 100% provided for and move through the system. The unsecured book gets provided for on an accelerated basis and that also moves through the system. That's how I would request you to think about it. I could just leave you with one additional color on this and not provide further details. For the current year you could use proxy of 50% corporate, 50% retail on write-offs.

Aakriti Kakkar: Just one more question, if I may. On this, deposits and the LCR side I remember, when we spoke last time, it was a conscious fact we would keep LCR on the lower side, but now it seems that the policy has changed, 115% to 125%. How should we reconcile the change of policy? And again, bringing in the margin element, as you move forward over the next couple of years, the expansion or the improvement would be driven by what, the liability side or it will be more asset side? Which part of the book will be more at play, keeping in mind the new LCR target that we have on mind?

Puneet Sharma: Maybe I'll start the answer on LCR and then request Rajiv to add on to this. I think there is no change in policy around LCR. We have consistently maintained that we will have a margin of safety above the regulatory limit. And you would recollect that in the last financial year, the regulatory limit was down ticked. We use the opportunity to optimize our balance sheet. Effective 1st April, the regulatory limit went up to 100% and we have consistently maintained our LCR in that band of safety that we would like to operate in. As the regulatory limit came back, obviously our LCRs moved up in line with our budget of safety, therefore, no policy change, just to clarify on that point. In so far as margins are concerned, I think we have both levers, the marginal cost of our deposits versus booked cost of our deposits we still have, if we have a supportive interest rate environment, I think we should get some benefit there. All in all, I think we have both a product mix lever. You will realize that we have a set of fairly priced business that is growing which is our mid-corporate business, our SME business, parts of our retail business. So, the asset mix, as well as the depository pricing and all of the initiatives Amitabh spoke about granularity, better CASA, etc., would be tailwinds to the NIM. Yes, there will be pricing pressure in certain segments and we have always called that out as a headwind, but on a net-net basis, we will have to work on both sides, the asset and liability side to get our NIMs to the target to which Amitabh mentioned earlier.

Moderator: The next question is from the line of M.B. Mahesh from Kotak Securities.

M.B. Mahesh: Two questions from my side, first question to Sumit. When you look at your, retail portfolio and compare that with the Credit Bureau data, if you would just kind of broadly give us some color as to how are you positioned on each product - where you are better or weaker? That is the first one. The second question is to Rajiv, if you look at the yield on the corporate book, have you completed the re-pricing of the loan book completely and the performance that you have seen on the current account side, has that also fully reflects changes to the guidelines?

Sumit Bali: Mahesh, when we look at our portfolio and compare it with the bureau and it's in line with the peer private sector banks, both on the secured and unsecured side, that's been consistently there, and we have been tracking it for a while. It's pretty much in line with what we see for peer side.

M.B. Mahesh: This is both secured and unsecured.

Sumit Bali: Yes, both secured and unsecured. There will be some amount of issue here given the kind of restructuring each one has followed, so it will be difficult to assess that. But as Puneet also mentioned, on restructuring, we were selective about it, we did a credit assessment before giving it, so to that extent you may see some differentiation in numbers, but we feel we are in line. The data which we had prior to that shows we are in line with the industry.

Rajiv Anand: As far as the current account circular is concerned, obviously that circular is now 3-4 months old. The market has fallen in line with that circular and so have we. As far as re-pricing is concerned, I am not sure what exactly that means. I mean, in a sense if you mean that if it is MCLR, that is an ongoing, because we don't have much fixed rate assets, most of them are either linked to external benchmarks or to our MCLR and that re-pricing is ongoing. Not clear what you mean by re-pricing.

M.B. Mahesh: What we see when you look at the MCLR data that is given RBI is that incremental book that is being written is still happening at a yield which is lower than what the back book is carrying today. Just trying to understand as to whether there is further compression in yields that we will have to factor into next year as well.

Rajiv Anand: So, this is not a new phenomenon, right? I mean, we have seen in an environment where liquidity is this easy, since April, loan rates have been actually significantly lower than bonds. Therefore, even in that sort of an environment, NIMs have held up. You have got to look at it once again, you have got to look at this on a portfolio basis rather than individual transactions. Yes, there will be individual transactions which have happened at low or in some cases no margin as well, but you have got to look at this on a portfolio basis. I think on a portfolio basis, yields are holding up.

Moderator: The next question is from the line of Jai Mundhra from B&K Securities.

Jai Mundhra: One question from my side, most of the questions have been answered anyway. If I look at your core operating profit trajectory on YOY basis, I see that there's a lot of volatility there. From for the last 4-8 quarters, it has ranged very widely. Now part of that is because you have been very prudent in some of the quarters, you have taken some hit which was on prudent basis, even till operating profit line item. But I just wanted to check, as you said, that from FY22 onwards there will not be any major accounting policy change, etc., and you have been building fair amount of granularity and sustainability as key theme. Just wanted to check your thought process on the predictability of the core operating profit line.

Puneet Sharma: Yes, with the granularization of fees and the elimination of incremental impact on account of any policy change, yes there should be a stability returning to the core PPOP. Like I called out earlier we have had exceptional expenses plus Rs 232 crores of impact at PBT level account of policy changes. All in all, I would agree with what you said that there should be stability in PPOP and core PPOP coming through in future periods.

Moderator: The next question is from the line of Nitin Agrawal from Motilal Oswal Securities.

Nitin Agrawal: I have two questions. Firstly, are we done with the rationalization activity in the credit card segment? And what sort of incremental market share are we looking at in new card acquisitions? In context to the card business, how do you look at the growth outlook and profitability construct of this 'buy now pay later' product? And second question is on Max Life, Axis being the core promoter of Max Life and have joined on Board also. So how will things change strategically and what will be the focus areas now?

Amitabh Chaudhry: First let me answer the Max question and then pick up the card question. Well, we have just joined the Board, so we are from a Board perspective going to get more involved in Max Life in the next couple of quarters to come, very early to say what is going to change now? It is ultimately, it has a very solid management team, and it has been a very high-quality Board with them. So, it's not on that suddenly we come and start making changes just because we are there. Sumit, you want to pick up the credit card question?

Sumit Bali: Sure. So, credit card is an important product for us. It is a profitable product. We want to grow it. We also are clear that we want to grow this product largely with the ETB customer base and also with our partners which are Flipkart and Google Pay. So, on these two sets, we will continue to grow this business. There have been learnings from past one year, but all those have been built in. And if I have to give you a bit of a granular color, last year almost 40% of our card issuances happened in Jan to March quarter, that is because we were bit calibrated in terms of opening up. Roughly about 90% of the cards still originate from our ETB customer base and this will be a focus product for us. It's a strong engagement product. It's a very profitable product and we intend growing it in a manner that it meets our risk and return aspects.

Nitin Agrawal: On this buy now pay later product, how do you see this in terms of growth potential, and profitability quotient in the long term? I understand it is very small as of now, but what sort of prospects do you look at for this?

Amitabh Chaudhry: Well, we have a large base of known to the Bank customers. We have a large base of existing customers. Our Digital Bank has obviously created this capability through Freecharge. We obviously will work very hard to make it a success, but too early to start commenting on what the size and shape of this could be. When we are ready to kind of share that, we will let you know, but right now it's a bit too early.

Nitin Agrawal: And two data points if I can ask. One is you have mentioned technology spends rising 79% over two years. So, if you can quantify this number? And secondly the cumulative non-NPA provisions that you have said Rs 12,000 odd crores, so barring standard provision, the entire amount is available for use towards any exigencies in FY22 or like a part of it is only available?

Puneet Sharma: Of the Rs. 12,000 crores, like we said, Rs 5,000 crores is COVID provisions, Rs 6,900 crores odd crores is weak assets plus standard assets. All of our provisions are rule based other than the COVID prudent provision that we carry. And consequently, depending on how the portfolio performs alongside the rules, they will be a top up or a top down of those provisions. We can't manage those provisions because the rules will drive the outcomes. So, if we have favorable outcomes on the rules, there will be a release of that provision. If they are unfavorable outcomes of those rules, there will be a top up to the provisions.

Nitin Agrawal: So that's Rs 5000 crores is discretionary part of the total wherein which is like what we can play with?

Puneet Sharma: There is no discretionary provision. Even the Rs 5,000 crores is created for COVID risk. We have previously commented on the fact that we would like to basis our assessment of the outcome of COVID Wave 2, sustainably carry forward balance sheet strength. Therefore, I would desist from stating that these provisions are discretionary. There will be rules around which these provisions will be sustainably carried forward depending on outcome of the Wave 2 assessment.

Nitin Agrawal: On the technology spend numbers if you can share that?

Puneet Sharma: We don't provide absolute numbers. The relative, what I can say very certainly is there is no low base effect for which the percentage was quoted. There is a meaningful CAPEX and OPEX that was incurred in the prior year that has been topped up for all of the measures that Amitabh spoke about, distinction, resilience, advantage, and the view that we have is we will continue to invest in digital data and technology on a go forward basis.

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

Anand Dama: We have the other retail portfolio which is about 8% of the total retail book. What is the composition of that 'others' in retail book? Does it include business banking portfolio?

Puneet Sharma: The SBB portfolio is called out separately. So, our SBB portfolio if you look at Slide #25 of our investor presentation is 5% of the total retail book. Others typically would be our gold loan business, our education loan business, our loan against FD. Those would be the dominant products that we have in the other segment.

Anand Dama: Earlier on we had said that we would have a strategy to step up our business particularly into commercial vehicles. So, any thoughts over there?

Puneet Sharma: My apologies if you could kindly repeat your question, we couldn't hear you very clearly please.

Anand Dama: Sorry about that. I wanted to check, do we have any strategy to enter into CV business or scale up that business if we are already doing that in a way?

Sumit Bali: We are into commercial vehicle and construction equipment segment. And in commercial vehicle, our strategy has been to be funding more of these strategic customers and that's by and large played out well even during the crisis time, and we intend to grow that business.

Anand Dama: Can you spell out the portfolio size?

Sumit Bali: For both commercial vehicle and construction equipment combined are close to about Rs 16,000 crores.

Anand Dama: Second, basically another question was about the SME growth. This quarter we have seen good growth particularly in the SME portfolio. Running into the second COVID wave, don't you think that there is lot of risk particularly with the SME customers with self-employed and this SME business will be impacted. And on the other hand, on the corporate banking front, where we are incrementally originating the better rated corporates, but we are still tightening our provision policy over there. So, can you explain what is our thought process over here?

Rajiv Anand: On the SME side, the best way to look at it is that it is a diversified portfolio across about 35 odd sectors and the business has been originated across about 120 odd centers across the country. Average ticket sizes would be in the vicinity of about Rs 5 crores or so. So, diversification is the best bet against this mitigation. And that is really what the policy that we adopt. Obviously, in these times of COVID even in 2021, yes, with a little bit of help from the ECLGS schemes, etc., the portfolio has held up pretty well and we continue to monitor it on a regular basis and as and when required the underwriting teams would look at each proposal and if necessary, tighten as and when required.

Anand Dama: So, as of now we are comfortable growing in the SME book?

Rajiv Anand: That's correct.

Anand Dama: On the corporate banking if someone can answer the question.

Rajiv Anand: On the corporate banking side, I think you have answered your question yourself. We continue to originate 94% of new loans at a rating of A- and better and that is the universe that we will continue to build our portfolio around. It's difficult to get A- and better in the mid-corporate space and so therefore, whatever BBB we would do, would be within the mid-corporate space and there once again, like I mentioned to you, ticket sizes for new to Bank would be in the vicinity of about Rs 35-40 crores and for existing customers would be about Rs 60-65 crores. There once again the focus is on granularity.

Anand Dama: So, is that the key reason why we are tightening our provision policy because we are growing much into the mid-corporate? Is that the right interpretation?

Rajiv Anand: No, I don't think so.

Amitabh Chaudhry: I am just saying that all that what we have said is exactly opposite of the conclusion you seem to be hinting at. Absolutely not. Provisions are what we believe is required to create a conservative sustainable franchise and lot of them are rule based. Depending on the rules automatically some of the provisions will get created and we have created a cushion accordingly. So no, we are not creating excess provisions because we are getting into mid-corporate or things for that matter. Actually in SME, our slippages have been the lowest for very long period of time. We have been continuing to improve our portfolio and credit risk underwriting across all parts of our businesses.

Moderator: Thank you. That was the last question I would now like to hand the conference over to Mr. Puneet Sharma for closing comments. Over to you, Sir.

Puneet Sharma: Janice thank you for managing this exceedingly well for us. Thank you to all the participants for having spent your evening listening to our comments. We hope we have been able to answer all your questions. In case there are any further questions that remain unanswered at the end of this call, please feel free to reach out to Abhijit and we will try and pick those up and get you the requisite answers. Thank you. It has been a pleasure interacting with you this evening.

Moderator: Thank you. On behalf of Axis Bank that concludes this conference. Thank you all for joining. You may now disconnect the lines.