“Axis Bank Q2 FY20 Results Conference Call”

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Moderator: Good day ladies and gentlemen and welcome to the Axis Bank Conference Call to discuss its Q2 and half year ended FY20 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 is not sent. Unauthorized dissemination of the contents or the proceedings 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. 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 '*' and 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; Mr. Jairam Sridharan – CFO; Mr. Rajiv Anand – Executive Director (Wholesale Banking); and Mr. Pralay Mondal – Executive Director (Retail Banking). I now hand the conference over to Mr. Amitabh Chaudhry, MD and CEO of Axis Bank. Thank you and over to you sir.

Amitabh Chaudhry: Thank you so much. We welcome you all to the discussion on Axis Bank's financial results for the second quarter of financial year 2020. I will start with some views on the prevailing macro environment. There are various challenges at play in the macro today, slowing economy, NBFCs and HFCs grappling with funding issues, leverage issues faced by certain promoters, certain other promoters under the lens of enforcement agencies, etc. All these create significant uncertainties for the banking business. If left unsettled, these factors will eventually have a bearing on stress seen in lending pool of banks. Adding to this, recovery and resolution in stress accounts has not seen material progress. Large IBC cases have remained unresolved for a considerable time delaying the much anticipated recovery cycle. Early news on pre-festival sales is also mixed but the context is not all gloomy. To deal with the challenging economic environment, both the government and RBI are taking bold aggressive steps. RBI maintains an accommodative stance, cut policy rates consistently and judging by the comments of the monetary policy committee is prepared for further rate cuts too, especially given benign inflation levels. The government on its part has taken strong policy measures in the last two months lifting sentiment. Liquidity in the system was adequate and monsoon trends have been favourable.

In this context, let me now offer a brief synopsis of Axis Bank's Q2 results. Our operating performance in the quarter has been strong – we saw strengthening of NIM, controlled OpEx, healthy business growth, reasonably steady asset quality metrics and a decline in stressed corporate loan pool. We have continued to focus on what is in our control - strengthening our balance sheet and improving provision coverage. Overall we remain firmly on track as far as our strategy is concerned as evidenced by almost all the operating metrics.

Having said all that, we recognize that we do need to improve in a couple of areas. The Bank's slippage numbers have remained elevated this quarter, reflecting the situation in corporate lending I spoke about earlier. Almost all of our corporate slippages came from previously disclosed BB and below rated clients. We have a residual stock of stress built up over the years. While slippages continue to come from this stock, the current macro environment is not enabling a quick run-down of the pool. To that extent, we expect slippages from this stock to remain elevated. The good news is, there are also some examples where slippages from this book are likely to be recovered in the next quarter.

In our business segments, we are seeing some signs of positive sentiment returning in consumer segments: In car loans and home loans, the number of credit applications are increasing on a sequential M-o-M basis. Structurally, we continue to see huge opportunities in Indian Retail banking. Consumer debt levels have gone up marginally in recent years, but remain significantly below developing country averages in almost every product category. Axis Bank's market share in these businesses has increased significantly in recent years, but is still not very large. So the opportunity and the desire on our part to grow this business remains strong.

Our focus on the retail customer has also led to sustained growth in our granular deposit franchise through our CASA plus RTD strategy. The Bank had strong deposit growth during the quarter at 22%. Despite this strong deposit growth, CASA is another area where we need to do better. We need to improve our CASA growth going forward and our teams are working hard towards that goal. During the quarter, we opened 190 branches – our highest in the last 24 quarters – to take the Bank's overall domestic branch network to 4,284. Branch banking continues to be an integral part of our growth strategy. Despite these investments in extending physical branch network, we have been able to keep opex growth under control at 6% YOY.

In the small business and MSME segment, there are some signs of stress in terms of delayed payments. We need to remain cautious as the funding issue in NBFCs could have a bearing on this segment too. The Bank's risk performance in this segment remains steady, but we are watching things closely for any adverse development. Given some of these conditions, the Bank is also being cautious about the growth opportunity in SME right now.

Our subsidiaries continue to deliver strong operational performance. In a very challenging environment for NBFCs, Axis Finance continues to thrive and has delivered strong returns with stable asset quality. Axis AMC has been gaining strong incremental market share with several of its funds among the top performing ones in their respective categories. Axis Capital continues to be a leader in equity capital markets having executed some of the marquee transactions during the quarter.

During the quarter, the Bank raised ₹12,500 crores of Capital through a QIP issue. We understand that this was the largest ever QIP by a private sector issuer. Successful closure of capital raising in the current tough market conditions is a strong indicator of investors' willingness to partner with Axis Bank in the country's long term growth journey.

Axis Bank is now in a position of great strength with capital, and most of the senior management team additions in place. With most of the asset quality issues behind us and strong competitive position in the current environment, we remain committed to delivering on our GPS strategy. We continue to invest in our conservative stance on provisioning, compliance and risk. We have a lot more to do on improving and automating our systems, controls and processes. It's a gradual process, it will take time, but we are working at it and improving every day.

With that, let me hand over to Jairam to take you through the Bank's financial performance in detail.

Jairam Sridharan: Thank you Amitabh. Ladies and Gentleman, good evening. It is my pleasure now to take you through the detailed financial performance of the Bank during Q2FY20. As always, do keep the Investor Presentation handy as we expect to refer to slides there.

Let me start with a summary of our quarter. There are five themes that summarize our Q2 performance –

1. Asset quality metrics largely stable, with decline in BB pool;

2. Strong Operating profit performance;

3. Healthy growth metrics, across both advances and deposits;

4. Continued leadership across digital products; and

5. Much stronger capital position in the wake of our recent capital raise

Over the next few minutes, allow me to walk through the details on these themes. Towards the end, we will also share the management's emerging outlook for the rest of the year.

Let me start with Theme No. 1 - Asset Quality. Please refer to the Asset Quality section starting slide 47 in the earnings presentation. NPA ratios for the bank improved during the quarter. We ended the second quarter with a GNPA ratio of 5.03% and a net NPA ratio of 1.99%, both lower than corresponding numbers at the end of June. Gross NPA at the bank level was ₹29,071 crores at the end of the second quarter. The GNPA book has now reduced in absolute terms for six consecutive quarters. Net NPA of the bank was at ₹11,138 crores. Gross slippages in the quarter were ₹4,983 crores compared to ₹4,798 crores in Q1FY20 and ₹2,777 crores in Q2FY19.

I request you to refer to slide 49 for some of the details. Of the total gross slippages, as you can see on the slide, the corporate segment slippages were ₹2,862 crores. I am referring to the chart on the bottom left. Of the ₹2,862 crores of corporate slippages, 97% came from loans and investment exposures to clients rated BB & Below at the end of the previous quarter. Net slippages in the quarter were ₹2,770 crores compared to ₹2,621 crores in Q1FY20 and ₹591 crores in Q2FY19. Of these net slippages, ₹1,806 crores came from corporate, ₹468 crores came from SME and ₹496 crores came from retail and agriculture segments.

Let us now turn to slide 50 for a look at the bank's BB & Below book. As you can see here, the bank's BB & Below book reduced from ₹7,504 crores at the end of Q1 to ₹6,291 crores at the end of Q2. The bank also has a non-fund-based outstanding of roughly ₹2,200 crores to these BB clients and an investment exposure of roughly ₹1,750 crores to them. As you can see on the chart, the funded BB & Below outstanding has reduced during the quarter to 1.1% of overall loans.

If you flip to the next slide, slide 51, you will see that this is 3.4% of the bank's corporate loan book down from a peak of 12.6%. We are now close to the range in which we saw the BB portfolio during more benign periods in our history, though clearly there is still a small gap for us to cover.

Moving beyond corporate lending, I would also like to spend a minute highlight some facts about the retail asset quality. Asset quality ratios in retail continue to be modest. Net NPA ratios in retail remain around 0.6% mark similar to where they have been through most of the last 2 years.

Moving on to provisions, I request you to refer to slide 55. Specific loan loss provisions for the second quarter were ₹2,701 crores compared to ₹2,686 crores in Q2FY19 and ₹2,886 crores in the Q1FY20. Including provisions for standard assets and other provisions, total provisions were ₹3,518 crores. These other provisions include ₹535 crores towards the ongoing provision for land assets, which we have spoken about in prior quarters. You might recall that the book value hit of this land asset provisioning has already been taken by the bank in its entirety in Q4FY19. The bank provision coverage on nonperforming assets stand at 79% compared to 73% at the end of Q2FY19 and 78% at the end of the Q1FY20. The bank currently holds additional provisions of around ₹2,600 crores towards various contingencies up from ₹2,358 crores at the end of June. This is over and above the NPA provisioning included in our PCR calculations and the 0.4% standard asset provisioning requirements on regular assets.

Please refer to slide 52 in the presentation. This is a new chart that we have added this time, where you will see that the bank has been recovering about 10% on an annualized basis from the prudentially written-off pool. We currently have a stock of ₹23,089 crores in the prudentially written-off portfolio. SMA 2 levels at the bank are currently under 0.5% of loans.

If you move to slide 54, you can see the credit cost trajectory of the bank over the last few quarters. Credit Costs for H1 stood at 1.95% on a gross basis respectively. This compares with 2.24% in the H1 of last year. As we look forward to Q2, over the last 6 odd years, the Bank has consistently witnessed credit costs in H2 to be lower than H1. Our H2 should be seen in that context. An important monitorable in this regard would be recoveries from large cases that have been in the IBC process for a while. Over the medium term, we continue to expect our credit costs to be below our long term average.

Let us move now to theme number 2, the bank's strong operating performance, which is visible across almost all revenue and cost line items. I request you to refer to the section starting slide #10 in the earnings presentation. Operating profit grew 45% YOY, with contribution from all revenue and cost line items. This is driven in part by a strong quarter on Treasury Income. However, even if we exclude those, the core operating profit grew 30% YOY. PBT for Q2FY20 was ₹2,433 crores, up by 109% YOY.

During the quarter, we saw a reduction in the corporate tax rate from 34.94% to 25.17%. This reduction is likely to have a strong positive impact on the Bank’s profitability as we go forward. However, in the quarter of transition, it does introduce a large one-time Tax Provision as we restate the Deferred Tax Assets held on the Bank’s Balance Sheet at the previously higher tax rate. In Q2, the Bank has recognized a one-time Tax

Provision of ₹2,138 crores in this regard, and with that, we have fully incorporated the historical DTA restatement required under the new tax structure. With this incremental tax provision, the Bank's Net loss for the quarter was ₹112 crores. If we exclude the impact of this DTA related tax provision, adjusted Net Profit of the Bank would have been ₹2,026 crores, a growth of 157% over Q2 FY19.

NII for the quarter was ₹6,102 crores, a growth of 17% YOY. I request you to refer to slide 15. As you can see here, Net Interest Margin for the quarter improved 11 bps QoQ and stood at 3.51%. This compares to NIM of 3.36% in Q2 FY19 and 3.40% in Q1FY20. Domestic NIM was 3.63%. The Bank has introduced new floating rate loans linked to RBI policy repo rate for retail customers and micro & small enterprises with effect from October 1st 2019. It is too early to predict the rate and customer behaviour impacts of this on the industry. During the transition phase, one can expect some margin volatility on this part of the portfolio. However, through the interest rate cycle, we don't expect significant change. We also expect banks to innovate on product design, both on the asset and liability side, to manage balance sheet impacts.

At the beginning of the year, we had indicated that we expect Net Interest Margin for FY20 to remain broadly flat to last year, with an upward bias. With our H1 performance behind us, and given our current liability and capital structure, we believe that the 'upward bias' scenario is more likely to play out. We now expect that our NIM for FY20 is likely to be higher than NIM in FY19.

Non-interest income for Q2FY20 grew 45% YOY to ₹3,896 crores. This comprises fee income and trading profit. Fee income grew 11% YOY to ₹2,649 crores. This growth was led by a 16% growth in retail fee income. Within retail, fees from our cards business grew strongly at 21% YOY. The cards business now constitutes 26% of total bank level fees in this quarter. Corporate credit-related fees grew by 13% YOY in the second quarter. Trading profit stood at ₹809 crores during the quarter, primarily driven by gains booked in our G-sec portfolio. Miscellaneous income for the second quarter stood at ₹438 crores, largely comprising recovery from written-off accounts.

Operating expense growth continues to be an area of strength. OpEx growth for the quarter stood at 6% YOY. Cost to assets continues to reduce and stood at 2.06% as of the first half as compared to 2.13% at the end of FY19. We intend to continue improving our cost efficiency and build cost consciousness across the bank. However, given our branch opening plans, investments we continue to make in areas like digital and the steep improvement in the cost-to-assets metric in the last few quarters, we expect this metric to now consolidate around current levels before trending towards our medium-term goal of 2.0%.

Let me move now to theme number 3, growth, starting with deposit growth. Please refer to slide 6 in the presentation. It has been a tough quarter, tough period in general for deposits with deposit growth sectorally being around 10%. In this environment, the deposit performance of the Axis franchise has remained very strong. As you can see on slide #6, on a quarterly average basis, CASA and retail term deposits together grew 21% YOY. Within this SA grew 10%, CA grew 6% and retail term deposits grew by 36% YOY on a quarterly average basis. CASA and RTD together form 79% of total deposits. Amitabh mentioned this earlier, in spite of the tough market conditions and progress, we do believe that we need to strive to improve our CASA growth and our teams are working hard towards that goal.

Slide 23 highlights the strong growth of our wealth management business, Burgundy. We manage one of the largest wealth management businesses in the country with AUM of ₹1.4 trillion as of the end of September 2019.

Let me now discuss loan growth and the trends we are seeing across our key business segments. Our loan book grew by ₹24,318 crores in this quarter, the highest QOQ growth in the last 8 quarters. Domestic loan growth for the quarter was 19% YOY. International loans de-grew by 25%. Retail continues to be the key growth driver growing at 23% YOY. The bank's strategy on retail assets continues to be centred around existing customers of the bank. 85% of retail asset originations in the second quarter were from existing customers. 93% of the bank's credit cards and 88% of personal loan originations in the quarter were from existing customers of the bank. SME loan growth was tepid at 2% YOY. As indicated by Amitabh earlier, we remain a bit cautious on the SME space right now and that reflects in our growth numbers. Term loans and working capital loans grew by 4% and 1% YOY here respectively. 79% of SME loan book is working capital, 86% of the non-NPA outstanding here is to clients rated SME 3 or better. In the corporate book, domestic loan growth stood at 18% and the international book de-grew at 32% YOY.

Let us move now to theme number 4, digital and payments, where our strength and leadership position continues. Let us start with slide 31 on credit cards. The bank has nearly 6.6 million credit cards in force at the end of the second quarter, making us the fourth largest credit card issuer in the country. In the second quarter, over ₹55,000 crores of card spends went through the Axis Bank network across our issuing and acquiring businesses. We launched our premium credit card offering 'Magnus' during this quarter.

Slide 34 highlights the rising contribution of digital channels to business growth. As you can see, 58% of all savings accounts opened in the second quarter were with Tab banking and 43% of personal loan disbursements in the second quarter were through digital channels.

Slide 35 highlights our strong position in the UPI or unified payment interface. During this quarter, we saw 320 million UPI transactions with total transaction value growing over 3x YOY to ₹39,340 crores. We have a registered VPA base of over 56 million and a market share of 12% in terms of transaction volumes through UPI for the quarter.

During Q2, Axis Bank customers undertook transactions worth ₹1.36 trillion on the Axis Bank mobile app, a YOY growth of 60% in transaction value. The Axis Bank mobile app continues to feature amongst the highest ranked banking app with a user rating of 4.7 on Google play store and 4.6 on Apple Store.

Moving on to theme number 5, the bank's capital position, please refer to slide #57 in the presentation. The bank's CET1 ratio at the end of Q2 including profit at first half was 14.04% with a tier 1 capital adequacy ratio of 15.25%, CET1 ratio increased by 236 basis points during the quarter and 277 basis points during the half year. Equity capital raise of ₹12,500 crores during the quarter helped boost the capital adequacy by 225 basis points. Regulatory changes in the second quarter pertaining to lowering of risk rates and personal loans grew further 26 basis points of CET1 benefit. Book value per share, as of 30th September 2019 increased to ₹298 from ₹272 as on 30th June. The increase is primarily on account of the bank's capital raise during the quarter. Additionally, ₹535 crores of other provisions that we spoke about relating to land parcels further got released as we provided the same through P&L.

A very quick look now at our subsidiaries, Axis Finance, our NBFC business, now has a loan book of ₹7,360 crores. The business continues to deliver great returns with an ROE of 12.8% and a net interest margin of 4.9% for the second quarter. The gross NPA ratio of the business stands at 0.4%. Axis Capital, the institutional equities and investment banking franchise for the bank has been the leader in equity and equity-linked deals over the past decade. During the quarter, Axis Capital executed 6 transactions. Axis AMC, our mutual fund business, continues to perform very well with a 20% YOY growth in average AUM over Rs. 1 trillion for the second quarter of FY20 led by 33% YOY rise in the number of client folios. The equity and hybrid businesses comprised 57% of this AUM. 'Invoicemart', the Bank's digital invoice discounting platform, continues to do very well and enjoyed a market share of 42% amongst all TReDS platforms. We currently have more than 3,500 participants on the platform and have clocked more than ₹4,800 crores in financed throughput by e-discounting over 3.3 lakh invoices.

Freecharge, the quarterly active user base of Freecharge was approximately 11 million at the end of second quarter. This started to gain strong traction on our strategy of selling the bank's financial services products on the Freecharge platform to a new base of young digitally native clients. This platform is likely to be an increasingly significant part of the bank's digital strategy going forward.

Finally, let me quickly reiterate our outlook for the rest of the year.

1. We expect our loan growth to be 5% to 7% faster than the industry.
2. We expect Cost to Assets to consolidate around current levels. Over the medium term, we expect to reach Cost to Assets of 2%.
3. We now expect Net Interest Margin for FY20 to be higher than NIM in FY19. We reiterate our medium term range of 3.5%-3.8% on NIM.
4. On credit costs, a lot will continue to hinge on large recoveries currently in the IBC pipeline, as we look at H2 credit cost numbers.

As we close, let me be re-summarize the key themes for the quarter.

- Asset quality metrics largely stable, with decline in stressed pool;
- Strong Operating profit performance;
- Healthy growth metrics, across both advances and deposits;
- Continued leadership across digital products; and
- Much stronger capital position in the wake of our recent capital raise

With that, we come to the end of our comments. We would be glad to take your questions now.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: My first question is on your exposure to 8 stressed groups. How has that moved during the quarter?

Jairam Sridharan: Mahrukh, thanks for your question. We have stayed away from talking about those 8 stressed groups again. What I would emphasize is that in these stressed groups, we have seen some significant movement in terms of slippages, etc., and that has come in through from our slippage numbers. Also the overall exposures have reduced noticeably, though we are not disclosing specific numbers on those 8 groups this quarter. I will say that all the individual entities there that we are concerned about in terms of their asset quality position are all part of our BB portfolio either in fund-based, non-fund based or investment book.

Mahrukh Adajania: And just in terms of the investments associated with BB, you need to add that figure, right? And what would be the comparable figure last quarter?

Jairam Sridharan: Just a little bit more than this. We have disclosed ₹1,750 crores now and it was about ₹2,500 crores last quarter.

Mahrukh Adajania: And what was the MTM this quarter on investments?

Jairam Sridharan: ₹65 crores.

Mahrukh Adajania: And just one more question on life insurance, any further discussions with RBI on taking a stake in life insurance companies?

Jairam Sridharan: Nothing that we are in position to disclose at this point, Mahrukh. We are continuing to have conversations. We will let you know if there is anything worth talking about.

Moderator: Thank you. The next question is from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal: Sir, my question actually is on the margins and cost of fund progression. So we have seen decline in cost of funds in this particular quarter, despite slight increase in cost of deposit as highlighted on your slide 14, so is it because your borrowings which have declined almost 30%, 40% sequentially, is that the reason for cost of fund decline?

Jairam Sridharan: That is the main reason, also the fact that borrowings have been refinanced at slightly lower levels than what was held in the book.

Vishal Goyal: So any sense on like what is the cost of borrowing for us, as compared to the cost of deposits? Will it be very different?

Jairam Sridharan: Cost of borrowings will be little bit higher than cost of deposits, about a percentage point higher.

Vishal Goyal: So I think with the capital raise behind us, I am sure even if you look at, mathematically your margins would be higher, right? Should we not expect 20 bps plus kind of improvement in margin YOY? Any reason why are you refraining from any pointed guidance?

Jairam Sridharan: No, we have said that directionally we did change our guidance just now. Instead of saying that we are going to be roughly in the same range as last year, we are now saying that we will be higher than last year. Exactly how much higher, we can all do the math. Let the quarter, let next second half play out. Yes, your math is right, with the capital position and the overall liabilities structure right now, margin should be higher but we will also need to see, importantly, how the government and RBI push banks in terms of yields. On an ongoing basis, it is not something we want to extend ourselves too much on right away in terms of how much improvement we might expect. Yes, directionally, it would be better than where we are at right now.

Vishal Goyal: And just one last question, if I may ask especially on asset quality and I am sorry, I will be asking about 8 group because that reference is there in everybody's mind and among investors. So this investment book, which we are now showing both the slippage and the outstanding number, that was part of the 8 group, right, like we gave ₹20 billion kind of a number last time? Is it an overlap or that entire amount would be already reflected here?

Jairam Sridharan: Almost entirely. It is not exact but almost entirely. And from that original sort of investment book, some stuff slipped during the course of the quarter and what is remaining right now is the ₹1,750 crores that we disclosed.

Vishal Goyal: And I think in your BB & Below, there would have been little bit of repayment as well, but even in the 8 group, you need to give us some broad sense of whatever repayment, etc., would have happened that will help us?

Jairam Sridharan: I know, but it's a conversation, I really don't want to get into.

Amitabh Chaudhary: I think we have been very transparent with our numbers now. I think basically the message is, the stock (of stressed book) is coming down, all of it is broadly captured. We have given you as many details as we can and are comfortable with and the overall exposure to these so-called 8 groups is also coming down.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: So just in terms of the movement in the BB & Below, how would that have been in terms of the upgrades, downgrades and the slippages? So slippage is more or less known in terms of the corporate, we have highlighted how much is coming from the loan book, but any upgrades and downgrades within the BB & Below book?

Jairam Sridharan: Sure. It is the funded book that has moved a lot, ₹1,100 crores roughly of additions, roughly ₹1,,700 crores of slippages and the rest is balance movement.

Kunal Shah: Sorry, how much of the upgrade?

Jairam Sridharan: No, balance movement, I didn't talk about upgrades really. I am saying, slippage into NPA was about ₹1,700 crores and ₹1,100 crores of additions, and the rest was balance reduction in existing accounts.

Kunal Shah: And secondly, in terms of the arrangement with Bajaj for say this entire life insurance tie up, so how different would it be as compared to the arrangement which is there with Max at this point?

Amitabh Chaudhary: It is the beginning of a relationship. Let us see how that progresses. We will get to learn and know each other and how to work well with each other. Over time, we will get to see how much the business progresses, etc., we will keep you informed. Right now there is not much to talk about that.

Kunal Shah: But any key differentiation in the arrangement between Max and Bajaj at this point in time?

Amitabh Chaudhary: We are not disclosing terms, etc.

Moderator: Thank you. The next question is from the line of Krishnan ASV from SBICAP Securities. Please go ahead.

Krishnan ASV: So my question is to do with how you are reconfiguring your book, especially on the loan side, just in terms of the mix between SME and retail. There is a certain element of narrative that in the mid-corporate segment, the SME segment you have become extremely cautious in terms of shedding even “marginal business”, which would have been non-GST compliant, etc., and tighter controls in place in the SME space and far higher risk appetite on the retail space, so just wanted to understand what kind of changes have you made to the SME book, purely in terms of your controls?

Jairam Sridharan: The way, Krishnan, I would frame this – if you look back to what Amitabh and I have been talking about for the last 2 or 3 quarters, which is not being too fussed about a particular target end state in terms of what the book mix needs to be, but rather be opportunistic in terms of where the best or highest run-off opportunities lie in any given quarter. As it happens, right now, the best risk adjusted return is not available in SME. Either the risks are little bit more uncertain than what we are comfortable with, or we are not able to get the kind of rates that we would need to do that business. So in the last couple of quarters, you would have seen us go slow on that business, but there is no great sort of grand design here in terms of where we want to go. If tomorrow, the risk adjusted return metric moves and our expectation moves in that, we are perfectly happy to do that as well. So don't think of this as part of a grand strategy but rather sort of tactical choices being made on a quarter-on-quarter basis.

Krishnan ASV: And just on the retail bit, I mean, there has been a fair amount of acceleration that we have seen in this quarter, especially in light of how the rest of the book has moved, I think 23% growth in retail?

Jairam Sridharan: If you see our retail book, I mean, it has roughly been growing at this level for a long time. Actually, if you see one of our slides, slide 21, you will see that over the last 6 years, we have grown the retail book consistently at about 25% CAGR. So there is nothing sort of particularly different about this quarter. We have been growing at 20+% very consistently for long periods of time and we continue to see retail as a space in which demand continues to be stronger than supply and you will continue to see us participate. As I said, if at any point of time in any given product, we find that the risk adjusted return expectation is worsening, you will see us go a little bit slow on that whether it is, let us say, in today's environment maybe something like commercial vehicles or something like that, but in general, we are quite happy with the businesses we are in.

Krishnan ASV: My only point was given the shape of growth in the various businesses, is it fair to assume that you are seeing opportunities for comfortable risk based pricing in retail?

Jairam Sridharan: Absolutely, right.

Moderator: Thank you. The next question is from the line of our Adarsh Parasrampuria from Nomura. Please go ahead.

Adarsh Parasrampuria: Question on, again retail growth, one, mortgages growth has picked up in the last few quarters for us, so is there any buyouts or is this organic sales origination?

Jairam Sridharan: All organic, Adarsh.

Adarsh Parasrampuria: And in auto, just while I agree that the market share would be low in respective segments, OEM numbers have been down pretty significantly, system growth has been coming off sharply. In that context, can you explain market share gains product wise in terms of what is happening on the auto loan side?

Jairam Sridharan: Couple of things to note. One is that our auto business continues to be focused like most of our retail lending businesses on internal deposit customers of the bank. So we are continuing to see a decent penetration in all our branches. We are able to sell quite a volume, which is point number one. Point number 2, is starting point in terms of how large our market share is. As you rightly mentioned, our market share was low to begin with, so growth continues to be robust there. Number 3 is the used car business, where we have done some good work and we didn't have used car business a few years ago. And now we are starting to build some capabilities there and getting to about 10% contribution from that in our incremental business, so that is helping as well. Also because our existing book is not that large, in absolute rupee growth terms, the runoff we see is not that large and so from a disbursement basis, the largest player in the market might have 30+% of incremental disbursement but still their book size in auto might not grow, but for us, with 15% of the market disbursements, our book size will grow quite a bit. That is the math that you are seeing in play. Also we have started some of the other businesses related to the wheels side, example two-wheelers. We have started to do some of those businesses as well and you will hear more about it in the quarters to come.

Adarsh Parasrampuria: And one small clarification. When you were mentioning about your BB & Below book and the overlap of those top 8 accounts, you did make a statement that whatever one could consider to be stressed or difficult in terms of the progression, those accounts are broadly reflecting in the BB & Below book. Is that understanding of that statement clear, what I mean is?

Jairam Sridharan: Absolutely. Not broadly, entirely. Everything at the account level, all the accounts within those 8 groups or any other groups that we thought problematic are all part of our BB book, either in the funded, non-funded or investment portfolio.

Adarsh Parasrampuria: So how should one look at it, right? When I look at the pool of problem accounts in the last quarter and when I just take the top 8 exposures that you gave and with all the net-off that you provided, and now when I look at the book with the slippages, it seems to be a large drop, which means there are some accounts where versus last quarter, you feel more comfortable now? Or how should one read into those? I would like to get to specifics on two cases, one would be a funded media exposure, the other would be a non-funded telecom exposure, so this would be the 2 large elements there. So I just want to understand how should one look because it is a material drop. Is any name which one considers stressful is already accounted for in the BB & Below pool?

Jairam Sridharan: Two comments I would make. One is that there is a significant amount of slippages that have happened from those 8 groups, in the second quarter. So overall the total exposure there -- kind of fund based advances, non-fund based, investments, etc., have come down something like 25% because a lot of slippages has actually happened there into NPA, so not much is left. The second piece is the two specific situations that you mentioned, those 2 situations nothing much has changed in them in the second quarter.

Moderator: Thank you. The next question is from the line of Nilang Mehta from HSBC Global Asset Management. Please go ahead.

Nilang Mehta: Just wanted to get some sense on the credit cost guidance, which you have been giving. If I recollect the expectations earlier were that by second half, we should be normalizing to our long-term averages but Jairam, in your comment, you have said that is the expectation, but you can't guide for this year, so is our credit cost guidance getting pushed, normalization getting pushed back?

Jairam Sridharan: Not offered any credit cost guidance for this on an annual basis at all as we have only been talking about credit cost over the medium term, which we defined as FY22.

Nilang Mehta: What would be this medium term because this medium term is going on for last few years?

Jairam Sridharan: FY22, we have been very precise on that.

Amitabh Chaudhary: I do want to correct you there. When we announced in January, we have said by FY22, it will be below 1%, so please don't say that it has been going on for a long period of time. Very specifically we have given it.

Jairam Sridharan: As a general thing, for the short-term or an annual basis, we have not offered credit cost guidance for FY20 and the only thing that I will point out is what is there on slide 54, which is that in the first half of last year, the credit cost was roughly 225 basis points, in the first half of this year, credit cost is about 195 basis points. I will leave it there and not go any further in terms of offering specific guidance for this year.

Nilang Mehta: And in terms of key HR changes, while the team is in place, has there been any changes in the one downs below that, which are relevant to be known to the market?

Amitabh Chaudhary: Well, we will let the market know whenever those changes are happening. If we believe we are ready and we need to announce some of those changes, we will be the first ones to let you know and because we have not made any announcement, that means this is not the right time to talk about them, but I think as I said in the opening remarks that almost all the management team members at n minus 1 and n minus 2 levels are in their positions and hopefully, you will see stability from here on. There are 1 or 2 positions where we might have to make some changes, but that is part of normal change which you see happen in any large institution of this kind. For example, we have added a very senior resource in Axis Finance. We keep adding people here and there depending on where the requirement is.

Nilang Mehta: And one last question is on NBFC exposure, so some of the NBFCs which are currently in stress in public domain, have we included them in the stress, BB kind of a pool because public ratings are very high right now, so if we have exposures to them, have we already included them in our stress group or?

Jairam Sridharan: So let me put it this way. There are some NBFC exposures in our investment book, which are in our BB portfolio so that does include. I am not sure all the names you might be thinking of, but I can readily confirm that there are some NBFC exposures in our BB book.

Nilang Mehta: Currently, the market has been worried about some NBFC which tried to merge with the bank, so our exposure to them would be in the BB book or?

Jairam Sridharan: I can't talk specific account level stuff, Nilang.

Nilang Mehta: Okay, I just wanted to get comfort because when management is saying that they have looked at all the stress and disclosed it, so just wanted to understand how conservative are we in this assessment?

Jairam Sridharan: We have tried our best to be as realistic as possible in terms of looking forward for where slippages might come from and we will keep updating it as we get kind of newer and fresher information. Remember that BB & below book is a live book, every quarter you see an update to this book and as conditions keep moving up and down. As you saw during our last quarter, we thought the environment was getting worse, so we increased our BB book and downgraded a lot of accounts. This quarter, we downgraded a little bit but not as much, so we will keep doing that based on how the environment progresses.

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

Jay Mundra: Few clarifications, sir. One is, this ₹26 billion of outstanding contingent provision, this would include the land-related provisioning or this is separate?

Jairam Sridharan: No, the land related provisioning is not part of this.

Jay Mundra: And the second, sir, is this ₹11 billion of addition to BB & Below book, this is comparable with ₹22 billion that we did last quarter, right?

Jairam Sridharan: Correct.

Jay Mundra: And sir, secondly, if you can provide the non-fund based outstanding to already NPL account. I believe it was some ₹2,800 crores last quarter?

Jairam Sridharan: It is ₹2,500 crores now.

Jay Mundra: And one more thing, sir, this media and entertainment, now it has gone out of top 4 sectoral exposures in BB & Below. Does it mean that it has actually gone out of stress, or is it recovery? Or is it just that it does not figure in the top 4?

Jairam Sridharan: There is also slippage as a third possibility.

Jay Mundra: And sir, just a small clarification we have this ₹2,600 crores of contingent provision, could we not have utilized this in this quarter? Or I mean, is there something which stopped us from utilizing this contingent provisioning? And so we, of course, have taken a call that not to use this contingent provision and showing net loss but I am just trying to understand, was there any compulsion in utilizing that thing?

Jairam Sridharan: No compulsion, just internal policy stance. We want to be fairly predictable and formula based about how we do some of these provisions for various contingencies and don't want on an ad-hoc basis, depending on need in any given quarter sort of use it or create it. So we have tried to be as formulaic as possible in that, and if that means that we don't have a tonne of flexibilities in actually using it in a particular quarter just to get over optical problematic issues or whatever so be it, we are perfectly comfortable with it.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Nippon Indian Mutual Fund. Please go ahead.

Bhavik Dave: Sir, my question is regarding your retail term deposits, which have been doing quite well over the last 3-4 quarters and that you have been talking about it. I just wanted to understand, are we getting new customers? Or are the existing savings account customers being converted into term deposit customers?

Jairam Sridharan: There is a little bit of both. In any large bank with a very large network, when the entire network starts working on selling a product like FD, you can't be super precise about saying target this person but not that other person, so you will see some internal customers, whose money might have been lying in SA for example, that gets converted into FD at least in part, but there is a lot of new customer acquisition, particularly from PSU banks as well, where price sensitivity on the FD side is quite high and giving them good rate about 50 basis points higher than PSU banks gets us there. Rajiv, do you want to add something?

Rajiv Anand: There is one more nuance. There is money coming from existing customers, money coming from new customers and also money coming from existing customers who move money from some other bank into this account and then convert it into an FD as well and we see that happening quite a lot where money is moved from, let us say, a public sector bank, stays in our savings account for a few days and then converts into an FD as well.

Bhavik Dave: And my second question is regarding your insurance tie up that you have done recently and we incrementally added a new large player, so does this mean that our ambition of increasing stake in one of the existing players has been shot down by RBI? Or we are just expanding or increasing our revenue pool from via Bajaj Finserv?

Jairam Sridharan: The latter.

Bhavik Dave: So the first one remains as is, right? We are still in conversation with RBI and as and when things improve, we will get into it?

Amitabh Chaudhary: As and when we have anything to say on that matter, we will make a public declaration on it. Right now, there is nothing to talk about it.

Moderator: Thank you. We will take one last question from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: I just wanted to understand the movement in the BB & Below book.

Jairam Sridharan: We have disclosed all that we want to disclose on this matter. Take the total slippages in the corporate book, 97% of that has come from BB & Below clients between fund-based, non-fund based and investments. So that gives you a number of how much slippages came from BB & Below. You know where we started and as I mentioned, we have downgraded about ₹1,100 crores on a funded basis to BB & Below and the rest of your math should broadly work out. It is a fairly simple story that downgrades have been lower, much lower compared to last quarter, more like normalized levels, downgrade to BB have been closer to normalized levels, about ₹1,000 crores a quarter is what sort of we would deem as normal. That is what happened in this quarter. The entire delta that you see, the reduction that you see across funded, non-funded and investments, all the delta is because the downgrade is smaller than the slippages into NPA and a little bit of upgrades have happened out of BB as well.

Roshan Chutkey: And just one more question, last time, last quarter, you mentioned the total potential stress book to be about ₹20,000 crores, right, including the 8 best accounts, what does that number look right now?

Jairam Sridharan: We didn't disclose any such number. We gave all the component numbers exactly as we have given in this quarter. I don't know which one you are adding to get to ₹20,000 crores. I think you can just add those same numbers with this quarter's disclosures and come to whatever number it comes to. We will reiterate that for the corporate book, the key portfolio to watch is BB & Below, funded, non-funded and investments. We have given all 3 numbers on a single slide and so essentially, if you just look at that slide, slide #50 that should give you all that you need to know in terms of what we are talking about in terms of BB&below pool to watch within our corporate book.

Roshan Chutkey: And is there any MSME dispensation you have taken this time around?

Jairam Sridharan: No.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Jairam Sridharan for closing comments.

Jairam Sridharan: Thank you very much, Margaret. Thank you very much everybody for participating actively in this call and we wish you a good evening and a very happy Diwali. Thank you.

Moderator: Thank you. On behalf of Axis Bank, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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