"Axis Bank's Q3 & Nine-months ended FY20 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen and welcome to the Axis Bank's Conference Call to discuss its Q3 & Nine months ended FY20 results. Participation in the conference call is by invitation only. Axis Bank reserves all 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 the 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 '*' and then '0' on your touchtone telephone. 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; 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: We welcome you all to a discussion on Axis Bank's Financial Results for the third quarter of financial year 2020. I am joined here by my colleagues – Jairam Sridharan, Group Executive and CFO; Rajiv Anand, Executive Director and Head of Wholesale Banking, and Pralay Mondal, Executive Director and Head of Retail Banking.

Let me start with some views on the current macro environment:

The financial sector remains subject to headwinds from credit quality issues. RBI's easy monetary policy stance over the past twelve months along with the host of measures announced by the government should partly offset downside risks to growth. The structural changes in corporate tax rates are likely to help boost capital investment and consumption in the medium-term. Further improvement in global trade will likely support the domestic activity and help in sustaining growth in the medium-term. This in turn is likely to alleviate the stress on financial sector.

In this context, let me now offer a brief synopsis of Axis Bank's Q3 Results:

Our quarterly operating performance has been steady. Adjusted for a one-off large recovery in Q3FY19, the Bank's operating profit has grown by 22% YOY. The environment remains challenging with banking sector loan and deposit growth at 8% and 10% respectively. In this context our domestic business growth has been healthy, NIMs have improved QOQ while operating expenses have grown as we continue to take opportunity of this environment to make investments in branches and employees. On the asset quality front, slippages remained elevated, as we had anticipated and mentioned previously. After the elevated levels of slippage in the last three quarters, the stock of our BB rated portfolio has declined substantially and is now in line with normalized levels. We have continued to focus on what is in our control - strengthening our balance sheet and being conservative when it comes to rating downgrades, asset classification, and provisioning. The Bank now holds Rs. 2,558 crores of additional provisions for various contingencies which is not considered in PCR.

Over the past decade, we have built up an incredible Retail lending franchise and continue to steadily grow our market share across most products in our portfolio in this business, both secured and unsecured. As market forces have marginalized some players in this space, while some have chosen to vacate the space, the opportunity in Retail remains large. We have continued to invest in widening our reach, while upholding the highest standards in terms of credit quality and underwriting. Risk adjusted returns from the business still looking very good, and our belief and desire to grow Retail remains very strong.

On the wholesale side of our business – domestic corporate loans grew 16% even as we continue to maintain a cautious stance in the SME space. We continue to remain selective and focused on higher rated clients for business. We have also added senior talent in the wholesale Bank with the Head of Mid Corporates joining us recently.

During the first nine months of the fiscal year, we have opened 365 branches – our highest in the last 6 years – to take the Bank's overall domestic branch network to 4,415. We are on track to open around 550 branches this fiscal - the largest number of branches in any fiscal year. Branch banking remains an integral part of our growth strategy and we continue to make investments in building a high quality liability franchise.

We have also undertaken efforts to deepen the Axis Franchise in rural and semi-urban areas, in order to increase our market share in these regions and simultaneously help in further complementing our Priority Sector Lending business.

Our Digital Banking effort has been progressing well and we have more than 400 highly skilled employees working in that space now across our digital and fintech platforms in the group. We remain focused on creating fully digital end-to-end journeys for our customers using advanced analytics and intelligent automation across business operations. These investments are starting to show tangible results across the Bank.

Our subsidiaries continue to deliver strong operational performance. We have made significant senior talent infusions across our subsidiaries in Axis AMC, Axis Capital, Axis Finance, and Retail brokerage businesses with the objective of improving our market share and simultaneously attaining scale in the respective businesses. The AMC business has been doing exceedingly well with 37% growth in AAUM backed by over 50% growth in the SIP book and close to 30% growth in client folios in the last 9 months. In a tough period for the industry, Axis Mutual fund has stood out with its focus on quality portfolios and sustainable investment performance. Axis Capital continues to maintain leadership position in equity capital markets business. We continue to gain traction in implementing our 'One Axis' strategy across the group and see tremendous potential to leverage the franchise to gain market share.

During the quarter, we also launched Burgundy Private, our most exclusive offering, which caters to the high- and ultra-high net-worth segment of clients. With the "One Axis" approach, Burgundy Private will bring together the combined expertise of the Axis group to cater to the distinct needs of this niche client segment.

I am delighted to share that we have launched our new brand philosophy, called "OPEN" a couple of days back. Multiple customer studies have shown that our customers see us as down-to-earth, caring and empathetic, and no one reflects this better than our branch employees. The Open philosophy is meant to reflect this reality.

As you all are aware, Jairam is moving on, after having served the Bank for almost a decade. He has been instrumental in building our Retail Lending franchise, one of the best in the country and we wish him all the best in his future endeavors. We will make appropriate disclosures about his successor at the right time.

There have been few other role changes in the senior management team as well during the quarter:

Amit Talgeri, who has over 24 years' experience handling diverse roles and was earlier the Head of Credit Risk (Retail & Commercial Banking) has now taken over as the Chief Risk Officer of the Bank. Under his leadership, our focus will be to continue strengthening the risk management capabilities of the Bank.

I am also pleased to announce that Naveen Tahilyani, who brings with him 22 years of experience in financial services in both operating and consulting roles, has recently joined us, as the Group Executive and Head of Banking Operations and Transformation. Naveen will lead Operations, Technology, Strategy and Business Analytics verticals for the Bank.

It has now been exactly one year since we laid out our three year GPS'22 strategy for ourselves. Many important initiatives have been taken up in 2019 – strengthened teams across the group, made necessary changes to the organization structures, carved out a separate vertical for Mid Corporate / MNCs, launched Burgundy Private, launched One Axis Values and our new branding theme OPEN. But most importantly, we have inculcated a culture across the Bank to adopt conservatism in all our policies and practices towards creating a sustainable franchise going forward. We have supported these soft changes with investments in hard infra like our accelerated branch openings and investments in technology. And to enable all these, we raised a significant amount of capital during the year. Overall, I believe we remain on track on our GPS strategy. That said, we recognize that we do need to improve in a few areas. The Bank's slippage numbers continue to remain elevated and our CASA growth needs to improve. We expect both these trends to improve in the coming quarters.

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

Jairam Sridharan: Thanks Amitabh. Ladies and gentlemen, good evening. It is my pleasure now to take you through the detailed financial performance of the Bank during Q3FY20.

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 5 themes that summarize our Q3 performance:

1. After elevated slippages, BB pool has reached normalized levels;
2. Operating performance continues to move in the right direction;
3. Loan book growth remains healthy while Deposit franchise had a steady quarter;
4. Retail business momentum remains strong;
5. Continued leadership across digital products;

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 #1 - Asset Quality. Please refer to the Asset Quality section starting Slide #49 in the Earnings Presentation.

- Gross slippages from the loan book during the quarter were Rs. 5,124 crores, Slippages from the Investment book were Rs. 1,090 crores. Please refer Slide #50.
  - Of the total Gross Slippages, corporate segment slippages including loan and investment book, were Rs. 3,891 crores.
  - 81% of this came from loans and investment exposures to clients rated BB & below at the end of the previous quarter
  - Slippages from the investment book were predominantly from one holding, of bonds issued by a significant housing finance lender.
  - During the quarter, Rs. 410 crores of advances slipped due to technical reasons and also got upgraded during the same quarter. The net slippages were Rs. 3,792 crores, compared to Rs. 2,770 crores in Q2FY20 and Rs. 2,124 crores in Q3FY19.
  - Of the Net Slippages, Rs. 2,850 crores came from Corporate, Rs. 220 crores from SME and Rs. 722 crores from Retail and Agri segments.

During the quarter, RBI completed the annual inspection process of the Bank. The magnitude of Asset Quality divergence as of March 31, 2019 was well below disclosure thresholds. Any asset classification impacts have been given full effect in the financials this quarter.

Let us turn now to Slide 51 for a look at the Bank's BB & Below book. As you can see here, the Bank's BB & Below fund-based book reduced from Rs. 6,291 crores at the end of Q2 to Rs. 5,128 crores at the end of Q3. As you can see from the table, there has been an increase in the BB or below rated NFB pool. During the quarter, we downgraded one large account in the

Telecom sector to BB rating in light of recent developments on AGR dues. On the Loan book, we also downgraded one account in the Broking space, in light of recent developments. As you can see in the table, the Investments portfolio rated BB & Below declined materially, driven by the slippage of the HFC investments I mentioned earlier.

If you flip to Slide #52, you will see that BB and Below now forms 2.6% of the Bank's corporate loan book, down from a peak level of 12.6%. We are now close within the range in which we saw the BB portfolio during more benign periods in our history.

Moving beyond Corporate Lending, our Retail asset quality continues to remain under control. Net NPA ratios in Retail remain around 0.5%. Slippage ratio in Retail was marginally higher than Q3FY19, on the back of higher slippages in the Commercial Vehicles portfolio. As we evaluate our portfolio in Retail, we are seeing steady risk metrics close to long-term lows in Home Loans, LAP, Personal Loans and Credit Cards. There are two businesses in which there are signs of increasing risk – Commercial Vehicles and Microfinance. The silver lining is that the problem is in 2 states, Assam and parts of Karnataka where we have less than 10% of our MFI book.

We ended Q3FY20 with a GNPA ratio of 5.00% and Net NPA ratio of 2.09%.

GNPA at the Bank level was at Rs. 30,073 crores at the end of Q3FY20. Net NPA of the Bank was at Rs. 12,160 crores.

Moving onto Provisions, I request you to refer to Slide #56. Specific Loan Loss Provisions for Q3 FY20 were Rs. 2,962 crores, compared to Rs. 3,352 crores in Q3 last year and Rs. 2,701 crores in Q2FY20. Other provisions include Rs. 535 crores towards the ongoing provisioning for land assets, for which the Book Value hit has already been taken by the Bank in Q4 FY19. With this, we have now fully undertaken the 100% provisioning of Rs. 2,209 cr against the land parcel. We now have approximately 350 acres of non-banking land assets on the book, held at a net value of zero.

The Bank's Provision Coverage on Non-Performing Assets stands at 78%, compared to 75% at the end of Q3FY19 and 79% at end of Q2FY20.

The Bank currently holds additional provisions of around Rs. 2,558 crores towards various contingencies. This is over and above the NPA provisioning included in our PCR calculations, and the 0.4% standard asset provisioning requirement on regular assets.

SMA 2 level at the Bank is under 0.35% of loans.

During the quarter we received one significant repayment in cash against Security Receipts. With that, the outstanding value of SRs now stands at Rs. 2,230 crores compared to Rs. 2,878 crores at the end of last quarter.

If you move to Slide #54, you can see the credit cost trajectory of the Bank over the last few quarters. To give you a sense of seasonality, we have added a new chart this quarter, which depicts the trend in credit costs for the first 9 months of the fiscal year. You will notice that Credit Costs for 9MFY20 stood at 1.95% compared to 2.17% in the 9MFY19 of last year.

As we look forward to Q4, there are two important monitorables that would influence credit costs. The first is Recoveries, where there is a significant pipeline of large cases that have been in the resolution process for a while. The nature of resolution would have a meaningful impact on credit costs. The second monitorable is Provision Coverage. We continue to evaluate our Provision Coverage to identify opportunities to strengthen it even further in the spirit of conservatism in provisioning. Any actions we take in that direction would also have a bearing on Q4 credit costs.

Over the medium-term, we continue to expect our credit costs to be below our long-term average.

Let us move now to Theme #2 - the Bank's Operating performance. I request you to refer to the section starting Slide #11 in the earnings presentation.

Pre-Provisioning Operating Profit for the quarter was Rs. 5,743 crores. You might recall that in the third quarter last year, we had talked about a significant recovery in the Iron & Steel sector, which contributed Rs. 800 crores to the Operating Profit that quarter. Adjusted for that one-off recovery item, PPOP in Q3 grew 22% YOY.

PAT for Q3FY20 was Rs. 1,757 crores, up by 5% YOY.

NII for the quarter was Rs. 6,453 crores, a growth of 15% YOY.

I request you to refer to Slide #16. As you can see here, Net Interest Margin for the quarter improved 10 bps YoY and stood at 3.57%. This compares to NIM of 3.47% in Q3FY19 and 3.51% in Q2FY20. Domestic NIM was 3.70%.

If you refer to NIM waterfall chart, you will see that 6 bps of NIM expansion was on account of improvement in average lending spreads. Higher slippages, leading to higher interest reversals, compressed NIM by 7 bps, while higher capitalization levels contributed 7 bps, thus resulting in an overall NIM expansion of 6 bps qoq.

As we look toward Q4, LCR is likely to emerge as an important consideration in determining NIM trends. During the quarter, we have received some regulatory guidance on LCR calculation methodology. You would notice the slight reduction in overall LCR levels as well. Keeping up the right level of LCR buffer over regulatory minimums will likely be more expensive in the short term.

With that said, we continue to expect our NIM for FY20 to be higher than NIM in FY19.

Non-interest income for Q3FY20 stood at Rs. 3,787 crores. This comprises Fee Income and Trading Profit.

Fee income grew 6% YOY to Rs. 2,775 crores.

Please see Slide 18, where we have introduced a new Slide #this quarter on Fees to Assets. You will notice here that over the last few years, the Fee to Assets level of the Bank has re-calibrated to levels that are approximately 30 bps lower than what they used to be in years prior.

Fee income growth was led by 20% growth in Retail fee income. Corporate credit related fees declined by 25% YOY in Q3.

Trading profit stood at Rs. 515 crores during the quarter, primarily driven by gains booked in our equity and G-Sec portfolio.

Miscellaneous income for Q3 stood at Rs. 497 crores, largely comprising of Rs. 383 Crores recovery from written-off accounts.

Operating Expense growth rate this quarter has increased over recent levels, reflecting our investments in ramping up our branch network and employee strength.

You will see on Slide #14 that the Bank's Operating Jaws for 9M FY20 remain very favourable, with Revenue growth at 17% and Opex Growth at 6%.

For the third quarter, OpEx growth stood at 10% YOY.

During the quarter, we made one change in internal process on cost accruals in the spirit of conservative accounting – This change front loaded Rs. 120 cr of OpEx which would have in normal course accrued over time.

As highlighted during the last quarter, though we continue to remain focused on building cost consciousness across the Bank, we are also investing aggressively to widen our branch network and investments in key areas like staff strength and Digital.

Cost to assets ratio stood at 2.07% as of 9MFY20 as compared to 2.13% at the end of FY19.

As we look forward to Q4, an important determinant of Expense growth is likely to be the magnitude of the Bank's participation in the PSLC market. At the industry level, growth in PSL advances has lagged overall credit growth, and hence garnering adequate PSL credits is likely to keep getting harder and more expensive.

We expect the Bank's Cost to Assets ratio to consolidate before trending towards our goal of 2.0% in the medium-term.

Let me move now to Theme #3 - Growth. Starting with Deposits growth.

Please refer to Slide #5 in the presentation. Banking system deposit growth continues to hover around 10%. In that macro environment, the deposit performance of the Axis franchise continues to remain healthy.

On a quarterly average basis, CA, SA and Retail Term Deposits together grew 21% YOY. Within this, SA grew 12%, and RTD grew by 36% YOY on quarterly average basis. CASA and Retail Term Deposits together form 80% of total deposits.

If you move to Slide #7, we have introduced a new chart showcasing the medium-term growth performance of our SA franchise. You will see here that on an average balance basis, SA deposits at the Bank have grown at 16% CAGR in the last 5 years. We remain focused on improving our granular retail deposits growth, and our teams are working hard towards that goal. We expect SA growth to pick up from current levels in the coming quarters. Let me now discuss loan growth and the trends we are seeing across our key business segments.

Domestic loan growth for the quarter was 18% YOY. International loans de-grew by 7%.

Retail continued to be the key growth driver – growing at 25% YOY.

SME loans declined by 1% YOY. Lower utilization levels by SME clients and our cautious stance on the SME space are reflected in our growth numbers here. We expect SME growth rates to pick up in the next financial year.

In the SME segment, term loans grew by 6% while working capital loans de-grew by 2% YOY, respectively. 78% of SME loan book is working capital. 86% of non NPA outstanding is to clients rated SME3 or better.

In the Corporate segment, domestic loan growth stood at 16%, and the international book de-grew 21% YOY. If you refer to the Slide #40, we will see from the composition of corporate loan book that 40% of corporate loans are short tenure (less than a year) and these loans grew by 29% YOY.

Moving on to Theme # 4 – The momentum in our Retail business.

The Bank's Retail loan book has been growing at CAGR of 27% over the last 6 years, with significant diversification in portfolio mix.

Growth in Retail lending during the quarter was well diversified, with Home Loans, Auto Loans and Personal Loans each contributing 15-20% to the incremental growth QOQ, and Agriculture Lending, Loans Against Property, Loans Against Deposits and SBB lending contributing 5-11% each.

The Bank's strategy on retail assets continues to be centered on existing customers of the Bank. 79% of retail assets originations in Q3 were from existing customers. 92% of the Bank's credit card and 87% of personal loan originations in the quarter were from existing customers of the Bank.

Retail Fees continue to be the biggest contributor to total Fees of the Bank, with a 67% share. Retail fees grew by 20% YOY, with fees from our Cards business growing strongly by 26% YOY. Because of recent guidelines on merchant discount rate (MDR) and interchange fees, we estimate an adverse impact of about Rs 50 crores on our fee income every quarter.

Slide #25 highlights the strong growth of our wealth management business 'Burgundy'. We manage one of the largest wealth management businesses in India with assets under management of Rs. 1.56 Trillion as of the end of December 2019.

Let us move now to Theme #5 - Digital and Payments, where our strengths and leadership position continue.

Let us start with Slide #34, on credit cards:

The Bank had nearly 6.8 million credit cards in force at the end of Q3, making us the 4th largest credit card issuer in the country. In Q3, over Rs. 67,000 crores of card spends went through the Axis Bank network across our Issuing and Acquiring businesses.

Slide #36 highlights the rising contribution of digital channels to business growth. 82% of all financial transactions were digital, 59% of all savings accounts opened in Q3 were through Tab banking and 41% of personal loan disbursements in Q3 were through digital channels. The high levels of digitization in customer transactions, we believe, will help the Bank normalize at lower Cost to Assets levels than in years past. This transition does require significant Capital Expenditures, and we remain committed to making them as appropriate.

Slide #37 highlights our strong position in the Unified Payments Interface (UPI) space. During this quarter, we saw 526 million UPI transactions with total transaction value growing over two times YOY to Rs. 54,814 crores. We have a registered VPA base of over 75 million and a market share of 14% in terms of transaction volumes for the quarter. This huge base of customers, and extensive transaction information are expected to form the targetable base for our cross-sell strategies of the future.

During Q3, Axis Bank customers undertook transactions worth Rs. 1.57 Trillion on the Axis Bank mobile app, a YOY growth of 56% in transaction value. The Axis Bank mobile app continues to feature amongst the highest ranked Banking apps with a user rating of 4.7 on Google Play Store and 4.6 on Apple Store. Moving on to the Bank's capital position that remains strong.

The Bank's CET 1 ratio at the end of Q3FY20 (including profit for 9-months) was 14.33%, with a Tier 1 Capital Adequacy ratio of 15.54%

BVPS as on 31st December 2019 increased to Rs. 306, from Rs. 298 as on 30th Sept. Over the last 5 years, which have been among the more challenging ones in the history of the Bank, BVPS has grown at a CAGR of 11%. A quick look now at our subsidiaries, where we remain focused on strengthening the team, building scale and gaining market share.

Our NBFC business has a loan book of Rs. 7,591 crores. The business continues to deliver great returns with ROE of 19.5% and NIM of 4.8% for 9MFY20. The Gross NPA ratio of the business stood at 2.21% as we saw two accounts in the Real Estate sector slip into NPA this quarter.

Axis Capital has executed 12 deals in the 9MFY20 period and maintains its strong position in the equity capital market deal rankings chart.

Axis AMC - The Mutual Fund business continues to perform very well, with a 51% YOY growth in average AUM for Q3FY20 led by 42% YOY rise in number of client folios. Equity and Hybrid businesses comprise 53% of this AUM.

Invoicemart –The Bank's digital invoice discounting platform 'Invoicemart' continues to do very well and enjoys a market share of 42% among all TReDS platforms. We currently have more than 4,300 participants on the platform and have clocked more than Rs. 5,900 crores in financed throughput by e-discounting over 4 lakh invoices.

Freecharge: The Quarterly Active user base of Freecharge was approximately 11 Mn as at end of Q3FY20. We continue to gain 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.

Finally, let me quickly reiterate our outlook for the remainder of the year:

1. We continue to expect our loan growth to be 5-7% faster than industry.
2. We reiterate our medium-term range of 3.5%-3.8% on NIM. We expect FY20 NIM to be higher than FY19.
3. Cost to Assets ratio is likely to be impacted by accelerating investments in Branch network. Over the medium-term, we expect to reach Cost to Assets of 2%.
4. Q4 credit costs will hinge on recoveries from a pipeline of large cases and on any choices we make to increase PCR.

With near normalization of BB and SMA2 levels, we remain confident of credit costs moderating to long-term averages over the medium-term.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: Question was on the composition of the BB. So from the breakdown that you have given, it appears that media does not form a part of the BB, is that the correct understanding?

Jairam Sridharan: Yes, it is. I do not know what you are hinting at, Mahrukh, it does not, yes.

Mahrukh Adajania: No. So basically in the first quarter we stopped disclosing that, but when you had given 7 stressed group, media was probably part of it and then, there was a downgrade of media accounts by rating agencies in December.

Jairam Sridharan: Yes. So related to the group that you are speaking about, all the accounts that we believe are stressed are indeed part of our BB book. The outstandings have changed a little bit since our disclosure in Q1, but all those accounts are part of our BB wherever we believe there are signs of stress.

Mahrukh Adajania: And the other question I have is on the telecom sector, this is more a general question. Sir, if a telecom company is in NCLT, what happens to the spectrum guarantees because most banks seem to have given annual spectrum guarantees. Do they get extinguished or how does it work?

Rajiv Anand: So this is a slightly difficult question in terms of when the account goes into NCLT and so let us say for example, there is a guarantee till June and a company goes into NCLT in March, what we understand legally that guarantee continues to be active till June and so therefore, at that point in time if the DoT comes in and invokes that guarantee, we will need to pay.

Mahrukh Adajania: If it goes into NCLT later then you do not have to pay?

Rajiv Anand: If the guarantee is invoked before that, then either we extend the guarantee, or we invoke and therefore we pay off DoT and the company needs to pay at that point in time. If the company does not pay, it is an event of default and therefore by definition, that would drive the company perhaps to NCLT.

Moderator: Thank you. The next question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: One feedback and full question. Amitabh, unfortunately even under your tenure, some of the numbers are out before the results and I think this happened even under your predecessor and we want a stronger compliance with respect to your financial accounting departments because this is really a serious issue and we do not want SEBI to get into this matter, right. So please do investigate as to what exactly is happening there. Second point is on the issue of 15,000 people quitting and all those stuffs. Can you let us know how many people have resigned in the last 9 months. What is your thought process with respect to overhauling the branch system. Where exactly are people leaving, that is the second question. And the third question is we still see slippages being outside of the BB and below book and even if I were to back calculate, the gross additions with the BB and below book are about Rs 2000 odd crores. Now my point here is, is this attributable to the cyclical factors in the economy in the sense that in case the economy continues to be at current levels, there is a possibility that we could see elevated slippage, right, for you, or these could be some one-offs structural issues and older legacy accounts which is creating a problem. Thanks for this.

Amitabh Chaudhry: I think I do want to respond to your first statement. We have put in a lot of processes in place to ensure that none of the results leak out. I don't know what you are referring to.

Suresh Ganapathy: No, it has got leaked out. Because just to give an information some of the numbers were there.

Amitabh Chaudhry: Suresh, I did not interrupt you, please don't interrupt me, let me finish. The call is being recorded, please let me finish. You have spoken, please let me speak mine. So, we have put a lot of procedures in place. I will ask one of my team members to reach out to you and understand and compare what exactly supposedly got leaked out. Obviously, we treat this issue extremely seriously. As far as we are concerned, when the results are being discussed, there is a war room, there is a control, all that is happening. So I am really surprised. Thank you for sharing your feedback. And I will obviously try to find out what exactly happened. But we will, obviously, take this extremely seriously.

You talked about the number of people. The article which you are referring to talked about 15,000 people leaving us in a span of few months, that data is wrong. We have had net hires of 12,800 to the nine months in comparison to 3,000 in the same time period last year. Our attrition rate has crept up, but it is still around 19% for the overall Bank, which is a couple of percentage points lower than what we believe our peer banks are operating at. So, there is, firstly, no such real sign of concern. But yes, our attrition has crept up, so we do look at that data, we are evaluating where exactly things could be going wrong. The initial part of the attrition in the Bank came because we had announced a new structure, we had broken up branch banking into deepening the current relationships and going after new relationships, it took some time to settle down. We have some other specific areas we lost some people, most of it is settling down as we speak. So, I don't see this as such a big problem as maybe it was interpreted based on that particular article.

Your last point about the BB book and below, let me just ask Jairam to kind of comment on it. But at a very macro level, our BB and below book continues to represent where you should expect slippages to come from. The only slippage which has happened beyond the BB and below book is something which has come from a direction from RBI and it has been done across various banks, otherwise it will not have happened. You should expect that to continue going forward in the future. Yes, in this economy, and in this environment can you have unexpected slippages or unexpected things getting added with BB, yes, it is possible, very difficult to predict. And some of the corporate frauds which have happened, again, very difficult to predict as to where the new fraud could come from. We obviously continue to evaluate our book on a consistent basis. And as Jairam has highlighted in his commentary, the number has come down to historical lows. On a very, very consistent basis, if nothing else, our slippage are coming from the BB book, at least 80% to 85% have tended to come from that book on a very consistent basis. We have disclosed in a very transparent basis, our numbers are NFB and investment book also, unlike lot of others don't do that. We have also been bringing down the size of our corporate bonds book, which has now come down to Rs. 24,000 crores.

So if you look at the data points across our portfolio, our confidence that going forward in the future, the slippages, given our stock should reduce, is only increasing Yes, obviously, with a disclaimer clause that in this economy and what is going on, very difficult to predict where the new names will come from. Jairam, you want to add?

Jairam Sridharan: Yes, the one point that I would add to that is, in terms of gross additions to the BB and below book, so Suresh, I am not really sure the back of envelop. So, let me just tell you very clearly, in the fund-based book, we started with a BB book of Rs. 6,291 crores, if you calculate from that 81% of wholesale slippages, what you will find is that slippage from the BB book was about Rs. 2,000 crores, Rs. 2,100 crores so thereabout. And about Rs. 900 crores was the net addition to the BB book, which results in a closing book of Rs. 5,100 crores. So that's the net addition that has happened on the fund-based book. On the non-fund-based book, clearly we have mentioned that there is one significant account in the telecom sector, on which we only had non-fund based facilities, which we downgraded during the course of this quarter, and that is the addition of roughly Rs. 1,300-odd crores that that you are seeing in the numbers. And the investment stuff, of course, comes down because of the slippage of the HFC into NPA. So that's the movement on the BB book on all three fronts – fund based, non-fund based and investments.

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

Vishal Goyal: I think, referring to your corporate bond for the specific that BB and below books is 2.6 and we have seen fair bit of NPL formation in the last nine months as well. So, should we expect the slippage to normalize from here, because I think we are clearly running at like 1% kind of slippage per quarter? And I am sure the peer banks are doing 50 basis points. So like when should we expect the slippages to normalize?

Jairam Sridharan: The way I would frame this is, the normalization of the BB level and the normalization of the SMA-2 level certainly gives us confidence that the mother loan is of a much more manageable size now, and back to more sort of historical benign period level. Clearly, unless something deteriorates in the economy, that should reflect in going forward a reversion to more standardized slippage levels, which would be, you are right, roughly one-half of where the current slippage levels are or a tad lower than that. So that's where one is headed, but the timeframe very hard to say. And your guess on this is probably just as strong, and we would continue to watch the economic environment to see if there is any further deterioration. But yes, we get confidence from the fact that our source material has reverted back to normalize levels. So let's see how things pan out over the next quarter or two, as we get a sense of how long it takes for slippage ratios to normalize.

Vishal Goyal: Okay. And the other question in on the expenses. I think you mentioned there is Rs. 120 crores of expenses which you kind of front-loaded. So, should we not expect that in the next quarter that Rs. 120 crores expense should be lesser by Rs. 120 crores next quarter?

Jairam Sridharan: No, that Rs. 120 crores would have actually gotten spread over the next five to six quarters, which is what has gotten front-loaded here.

Vishal Goyal: That's what I am saying, so you already took Rs. 120 crores, right? Just as a recurring expense or…?

Jairam Sridharan: No, that one-timer you should not expect to recur, no.

Vishal Goyal: Yes. So that extent you should see operating expense lesser by Rs. 120 crores, and whatever organic growth you had said?

Jairam Sridharan: Exactly.

Moderator: Thank you. We take the next question from the line of Adarsh from Nomura. Please go ahead.

Adarsh P: Two questions. The first one is on some of the one-off cost that you mentioned, which is likely to come through. So first one was the LCR impact on NIMs, which seems to be a change of calculations through a kind of recurring liquidity that you will need to take in the balance sheet. Similarly, PSL you did mention that you will probably have drag some PSL. And then maybe front-ended cost is okay, because that's more a one-off now. So, can you just quantify how material this would be in terms of NIMs and the OPEX?

Jairam Sridharan: So, we are not putting specific numbers as a guidance on this, Adarsh. But what I will say is that, given some of the trajectory that we are seeing with respect to yields, etc., let me step back. If you look at how our underlying yields and spreads have done, you see that spreads have actually improved quite materially during the course of the quarter. Had it not been for the higher interest reversals, our net interest margin would have increased a whole lot more. So looking at those higher spreads, you might anticipate a much stronger continued improvement of NIM with some of the things like changes in LCR, etc., certainly put a brake on. And that's why when we updated our NIM guidance last quarter to say it is going to be higher than last year, we are not re-updating it and we are staying with that same guidance. We are saying that NIM will be higher than last year and not going any more aggressive on that NIM, is where I will leave it.

As far as PSL certificates, etc., are concerned, and the fact that PSL is getting more expensive, that is certainly an important component of where costs could end up going. In the first nine months of this financial year, you have seen costs at the Bank have actually not grown that much at all, nine months to nine months. It has been a 6% growth, so it's actually been very, very modest growth. But you might see some catch up happening as we get into the next quarter. We still expect from a full year perspective, that the cost-to-assets will be better than last year. We still expect that your overall cost growth would be under where we expect the loan growth to look like. So, you should continue to expect the trajectory on OPEX-to-assets towards the 2% that we spoke about. But there is a temporary, sort of, one quarter swing that you might see if things pan out the way if some of the negatives that we have pointed out, do play out. So we are working on it, we will see how that is, we are not quantifying a specific number at this point.

Amitabh Chaudhry: Adarsh, you also have to understand that whatever we do on the PSL side, on the certificate side, ultimately in the long-term there will be an advantage, because we will have to take slightly lesser RIDF bonds, hopefully and that would reflect positively on our NIMs. So the others are very difficult to quantify, I think we just thought it was important that we highlight this point so that all of you are aware of it. But at the Bank level, we are monitoring that whole strategy around it very, very closely.

Adarsh P: And Amitabh, the second question is to you. When we look at a corporate Bank, right, the fee is being contracting for like five years now and it still contracted this quarter. So you talk about, maybe the competitive intensity there, where your growth fees have gone down, you are still having like 4% slippage which may normalize. But, I am just trying to think about when you take a two year view from where we are today, how good or how bad is the profitability of even the corporate book even on a normalized level, right, considering that corporate books still falls, there is very little growth and where do you normalize on slippages or credit cost for the corporate Bank?

Amitabh Chaudhry: Adarsh, a couple of things. One is that if you look at Slide #18, we have tried to bring out the fact that our fees to average assets was at a certain level and now it is normalizing around 1.35% to average assets. That's point number one. Point number two, please understand and appreciate that as we are pivoting the wholesale Bank to higher-end credits, you can either get the money in NIMs or you can get the money in a combination or even in fees. And, we obviously are trying to go in a certain direction. Also, if you look at the proportion of one year loans and how it has moved in this year, in comparison to last year, you will see a pretty substantial change. While we are showing good growth there, you don't earn substantial fees for doing shorter tenure loans. That's one part of the story.

Second is that, as we are trying to push Axis Bank to be doing more with its wholesale banking clients, over a period of time, we expect the fee income to start picking up. We have started that journey, we are going and having conversations with our clients that Axis should get its rightful share in the fee side of the relationship. We do expect that it will improve. And so, over a period of time, you should see some upside coming from there. We, again, are not quantifying it. But if you look at combination of cash management, FX, LCs, trade finance, and stuff like that, you should see an improvement.

Other thing, which has kind of hurt us a little bit is that we are a very, very large player on the syndication and the debt capital market side, we remain a very large player. But we are very focused on ensuring that the syndicate it out very, very quickly. Now, there are two strategies there – earlier you were sitting on it, we could own more. Now, we are getting it out much quickly to ensure that our overall risk profile is under control. So you do that, that also impacts your fee. So there are a combination of factors at play. On a trend line basis we are doing all the right things. And as we keep doing them, hopefully, the fees will become more granular and will start growing. Rajiv, you want to add anything to it. Rajiv says he doesn't want to add anything.

Moderator: Thank you. Next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Just a few questions. One, again, to Rajiv, on the question which was asked earlier with respect to the LCs. Just wanted to understand, in the past when you have seen how investors have (Inaudible) Videocon, can you just give us some clarification as to what you have seen out there as to when and how does the LC get invoked in such instances where a company chooses to not continue its operations?

Rajiv Anand: We have got another example as well where a company like RCom is in NCLT, there are some guarantees, the guarantees have expired. So, what exactly is the question that you are asking?

MB Mahesh: The question is, how long the contract is live?

Rajiv Anand: See, first and foremost, you know, there are some guarantees which have an expiry date. There are some guarantees which are auto renewal, but most guarantees have a clause there where the Bank has the right not to renew at any point in time if there is deterioration in the assets, etc. But in general, the guarantees typically are valid for a period of one year from the date of expiry.

MB Mahesh: And irrespective of whether the company is there or not, the government can choose it even if the due date falls after the company is not in operation?

Rajiv Anand: So, I mean, you are now talking about sort of litigation, etc. But now as far as the guarantee is concerned, it is an unconditional and irrevocable guarantee. And so, therefore, just because a company is in NCLT does not mean that the guarantee is invalid.

MB Mahesh: Second, on the same question, can you give us some color as to what you have in the BB and below today in terms of sectors?

Jairam Sridharan: Yes, in BB and below, the non-funded side I mentioned earlier is predominantly the telecom one. The funded side, the big three sectors are infra, power and hotels, which together are about 60%.

MB Mahesh: Perfect. And my last question, again, Jairam, for you. You initially mentioned that there was a change on LCR from, at least the advisory came from RBI. Could you just give us some color as to was it specific to your Bank?

Jairam Sridharan: No, it was a general advisory which is applicable to everybody. This is about certain categories of deposits and what the runoff rate assumption on those categories should be, and that got updated, which actually made some of the lower runoff categories a bit smaller in size, which is the impact that you see in a slight reduction. And you saw that our LCR number for the quarter fell from 119 to 113 or something of that order. And which means that towards the last few days of the quarter, there was a meaningful drop in LCR because this rule got updated in our system towards the last few days. So, all of us, of course, want to steer well clear of the 100% line and so we have a little bit of a buffer that we try to maintain. And that buffer then is, needless to say, sort of negative carry or zero carry. So, there is an expense associated and NIM cost associated with maintaining that buffer, which increases if low runoff categories on the deposit side reduce, which is what has happened.

MB Mahesh: And you have been able to quantify that impact on margins?

Jairam Sridharan: We have but we have not disclosed it. The overall margin disclosure for us remains the same, that full year margins will remain higher compared to last year's medium-term margin guidance 350 to 385.

Amitabh Chaudhry: So, just to clarify, Mahesh, we have to take short-term measures to ensure that LCR is at a certain level, which we have done. But we are also working towards some of the medium-term and long-term measures. So in a way, it's sometimes very difficult to quantify also what the impact would be. Because it depends on how well some of these measures play out. So rather than giving a guidance, we have just kept it at a macro level. But we are letting you know that something like this has happened.

MB Mahesh: Understandable. I just wanted to just check what was the nature of the change. Thanks.

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

Kunal Shah: If I heard you correctly, you highlighted that in Q4 the credit cost would also be dependent in terms of the stance on the provisioning coverage? Or maybe you look to inch up the provisioning coverage further?

Jairam Sridharan: Yes.

Kunal Shah: So, currently we are almost at 78%, 79%, and excluding technical write-off, we are at 60%-odd. You clearly said like, there are significant recoveries which are there in the pipeline, which would further provide comfort and there is a contingency provisioning of Rs. 2,600 crores. So, what is the reason to further inch it up from the current level where we have contingency as well as we are seeing the recoveries in the pipeline as well, we are at 78%.

Jairam Sridharan: Kunal, see, if you hold the rest of the audience on this call, I am sure you will hear a lot of commentary that the Bank does need to increase provision coverage in some pocket. You are right, it's not like provision coverage in the Bank is weak, it is not, at 78% we feel fairly good about where things are. However, if a certain amount of recoveries come in in the fourth quarter, it gives us an opportunity to use the proceeds to actually enhance the provision cover of some of what is left. I will point out that in sort of "the best of times" Axis' provision coverage used to be in the low 80s, 80% to 82%. We are almost there now, but not quite. So, there is a little bit of room for us to improve ourselves on that ratio. We will see depending on how the recovery environment goes in the fourth quarter and how some of the developments of NCLT, etc., progress.

Kunal Shah: And on the power sector side we have seen resolutions of late, so in one or two accounts, one account we have been the lead banker with a significant exposure. So, maybe particularly on the power side, are we seeing the overall resolution picking up the pace and we expect that to continue for a while?

Jairam Sridharan: We saw some in the second quarter, you might recall that we had two significant recoveries and upgrades in the second quarter from the power sector, this quarter not much story to tell. There is one significant account in the next quarter, which we are watching closely, let's see how that plays out. But as we all know, it has been a perilous start to try and predict NCLT timeline. So we will not attempt that.

Kunal Shah: And thirdly, in terms of the SME, so currently also the run rate on the SME in terms of the slippage has been quite controlled. But we are seeing maybe a slightly conservative stance. So what are we looking, maybe, is there the SME dispensation benefit which is currently setting which will accrue in our next year, we would be worried about? And how are you aware of this entire SME space?

Jairam Sridharan: See, the dispensation benefit does not accrue to us in the SME business, because what we call SME tends to be slightly larger businesses than the ones that you are referring to, those will actually show somewhat in our retail business under the category that we call SBB. In SME, in general, we are seeing kind of the week economic activity has meant that when somebody upstream in the value chain is actually facing some trouble or lack of sales, etc., a lot of people down the down the chain are facing their own issues. The most stark example being, let's say, the auto value chain and dealerships, etc., who are facing a brunt of some of the auto sales issues that we see in the market. So we have been, as you have rightly pointed out, very cautious with respect to growing this business over the last five quarters or so. This quarter we actually de-grew Y-o-Y in size. So far, we haven't seen significant increase in slippage ratios, net slippage ratio right now continues to be at levels that we have seen in the last couple of years. But we are watching that space closely and we will let you know if there's anything else. Rajiv, you want to add something.

Rajiv Anand: So, I agree with what Jairam said. I mean, I think the underlying economy is weak and the relatively smaller balance sheets continue to struggle in this environment. However, we have been fairly proactive within this portfolio. And so therefore, we have not seen any large slippages at this point in time. I must mention that we have cut lines, particularly in the supply chain finance, which is part of our SME business. From a growth perspective, we are also seeing that working capital utilizations are actually significantly lower as compared to what we saw last year or even the year before. I think clearly that is the manifestation of the fact that the underlying business momentum is relatively low. And some of these factors just go out to say that it makes sense for us to be a bit more cautious on the SME sector for a bit longer.

Kunal Shah: Okay. And then just lastly to Amitabh, maybe when he joined in, I think most of the metrics if we look at it, be it in terms of OPEX to assets or credit cost, it is still hovering high. So is the overall ROE target getting pushed back much further than what we envisaged earlier?

Amitabh Chaudhry: No, we are sticking to the target which we laid out in GPS 22. I think what has happened is that we have seen because of the frauds and the economic cycle, some of the assets slipping into NPL, which was not expected. I think once the economy recovers, I do believe that at least some of these assets will come back. But, even if you look at on a year-to-year basis, I expect in the next two years we should be getting normalized levels we have been talking to the market about. I necessarily do not agree that our metrics have not improved. I do believe that a number of operating metrics are moving in the right direction, our loan growth is quite good, if you look at our capital ratio, if you look at our NIM, if you look at our OPEX-to-assets, there are a lot of things which are moving. If you look at, for example, the SMA-2, it has come down to levels which a lot of the best quality peer banks are seeing.

So, if you look at number of operating metrics, I think there is real, calibrated, and consistent improvement across the last four quarters because of all the work which the Bank has been doing over the last few years, and what we have been trying to do in the last 12 months also. And by the way, we have created a pretty large cushion also this year in terms of our provisioning and what we have in our kitty in terms of extra provisions which we did not have earlier. We have written-off the land which was sitting in our books for a long period of time and now we have more than 350 acres of land at zero cost. So there are lot of things which have moved in the right direction. But yes, there are areas which we ourselves pointed out which we need to work on, and we will continue to work on them as we move forward.

Moderator: Thank you. Next question is from the line of Nilanjan Karfa from Jeffries. Please go ahead.

Nilanjan Karfa: Want to delve on a question if you could clarify which segment's weightage has been downgraded because it has not come out in the public domain. So, little more clarity on that will help. That's the first one. Second is on PSL, now PSL target is something based on last year's balance sheet, right? So why did we leave it to the fourth quarter, was it a strategic mistake to that extent?

And a data question, if you look at last three quarters, what was the gross slippage into the below investment grade book, if you can tell me that? Thank you.

Jairam Sridharan: Alright. So, your first question, Nilanjan, on LCR. The LCR effect is about taking a category which was at a low runoff rate and actually defining the scope of that category a little bit more narrowly than was originally defined. I don't think RBI is going to release a circular on this, this is a privilege communication that regulator has had with banks. I don't think I am in a position to actually talk about the details of that. So let's just sort of leave it at that. I will reiterate that while we wanted to bring out that there is something that has happened here, I don't want to overblow the importance of this one item. Our NIM guidance has not changed from last quarter, we continue to feel confident about where NIM is headed. So, let's not sort of overanalyze that LCR point.

On PSL, yes, you are right that PSL applies on last year's ANBC. But remember that PSL is now done on a quarterly basis, unlike the past where PSL was an annual affair, now PSL requirements change every quarter, based on what the four quarters ago ANBC was. So year-end is actually no different than any other quarter end. So at any point of time when you have the realization that, "Hey! You know what, the asset growth of a year ago has gotten to a point where the delta from a PSL perspective needs to be caught up through commercial measures", you will need to go ahead and take those actions.

I will also reiterate the point that Amitabh made in a prior response, which is that, PSL is expensive either way you do it, either you do the PSL business by booking higher risk, some higher risk assets, or you go ahead and purchase PSL from the market taking some of the similar risks or kind of offering much better yields to the issuer or you take it as OPEX by buying PSL certificate, that is a cost associated with PSL. Sometimes it comes as OPEX, sometimes it comes as margin compression, we are trying to optimize in our minds what is the best way to do it.

There was a question that you had as well on…

Nilanjan Karfa: On the data of gross additions to the below investment group…..

Jairam Sridharan: I will say for this quarter that, the BB book sort of net addition was about Rs. 900 crores, the gross was give or take about Rs. 1,200-ish crores, somewhere in that range, and the net was sort of the balance reduction or upgrades out of that.

Moderator: Thank you. Next question is from the line of Ravi Singh from HSBC. Please go ahead.

Ravi Singh: My first question is on domestic loan growth. It's been quite healthy for four quarters. So if you could highlight few key things you have done, which is driving this growth? And your view on the sustainability of domestic corporate loan growth.

And secondly, is on the auto loans growth, again, very strong contrast with underlying industry trends and some of the other peers numbers. So if you could comment on these two things, please.

Jairam Sridharan: Domestic loan growth in the corporate book, we have been identifying certain segments in which we have been not at present in the past. And we have started some lines of business there. We have been talking a little bit about mid corporate, we have been talking about this now for three quarters that mid-corporate is a segment where we have had no presence at all and we want to take some exposures there, and you see some opportunities in that space. We also continue to see market share gain opportunities by consolidation, that is happening and refinance opportunities that are turning up. We are still not seeing any large sort of CAPEX or new credit that is being written. So to a large extent, we are still in the refinance domain, but with much better rated corporate and as you can see in our rating distribution.

One of the things that has also happened in corporate is that the granularity is actually getting better. A point which I didn't mention in the opening remarks, but some of you might have seen in the earnings presentation, is that the top 20 single borrowers as a percentage of Tier-1 capital continues to fall and has now fallen to 86%. The lowest it has been pretty much since we started tracking this metric about 10 years ago. So, clearly we are getting much more granular within the corporate business as well. So there are no large sort of big wins or sort of big sixes that Rajiv and team have hit that we want to talk about here, because there's a lot of granular work that has gone on.

There was a question that you had on auto and sort of what's going on in the auto business. Firstly, I will reiterate something that I said before in terms of where is growth coming from? In retail, its coming all across the board. We have good growth in auto, we have good growth in home loans, we have good growth in small business lending and sort of pretty much across the board. In auto loans, we are increasing our share of used cars, used cars are now up to 15%. We started a few years ago from a very low base here, so that is something that is helping us. So even as the new car market is going through some troubles, the used car market is doing quite well.

And the other thing that I will point out is, given the size of the book that we have in auto, the disbursement growth versus portfolio growth can sometimes be misleading. In auto, for example, our portfolio growth is in the mid-30% kind of range, but our disbursement growth is about 20%. So, just over 20% is what our disbursement growth is. But because we don't have a large book, which we need to continue, which has repayments coming in, so we don't need to run as hard to stay in the same place. So disbursement growth while we have had solid growth, but nothing as large as what our portfolio growth has been.

Ravi Singh: And this overseas loans, will it remain flat at current levels or do you expect that to further decline?

Jairam Sridharan: In absolute terms, yes, I think we have found the bottom here.

Moderator: Thank you. We take the last question from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just one quick question. You said the security receipt book has declined due to the cash repayments. So there are no P&L implications for this, right, I'ts just redemption of SRs?

Jairam Sridharan: Yes, correct.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to turn the conference over to Mr. Jairam Sridharan for his closing comments. Over to you, sir.

Jairam Sridharan: Thank you, everybody, for taking interest in the third quarter earnings of Axis Bank. I wish you all a very good evening.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Bank, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.