“Axis Bank’s Q3FY23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Axis Bank Conference Call to discuss the Q3 FY'23 Financial Results for the quarter ending, as on 31st December 2022.

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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 briefing session. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

I now hand the conference over to Mr. Amitabh Chaudhry, MD & CEO. Thank you, and over to you, Sir!

Amitabh Chaudhry: Good evening and welcome everyone. Happy New Year to all of you. We have on the call apart from Puneet, Rajiv Anand, Deputy MD, and other members of the Bank's leadership team.

This quarter we continued to build the momentum on our GPS strategy. We are gaining market share in our focus segments; we continue to have a disproportionate share in digital channels and products and are now among the best-in-class on operating and earnings metrics. We delivered strong and balanced growth in domestic advances led by market share gains in Bharat and SME segments. We got better on granular and premium deposits; our Credit Cards business has delivered industry leading performance for 4 quarters now. Neo - our cutting-edge digital product for corporate banking - is seeing strong traction among clients and Axis mobile app continues to be the #1 rated banking app in the world. Delivery across the key initiatives undertaken by the Bank is visible and we continue to invest in 19 specific bank-wide transformation initiatives whose results are yet to fully play out.

We are monitoring the external environment closely. We are well positioned to take advantage of the trends that are emerging in India: the 'China+1' MSME opportunity; the next-gen public digital infrastructure like account aggregator, OCEN and ONDC; and Bharat being an engine of growth for India. We remain alert to the global macros and its impact on the economy. We will ensure that this customer-focused, consistent and industry leading performance will sustain through cycles. On balance, we are feeling good and confident.

Our financial performance reflects the balance sheet strength with meaningful shift in trajectory in the last 5 quarters. There has been fundamental improvement in ROE, driven by higher NIMs as we stay on course on three core areas of execution of our GPS strategy namely:

A. Embedding a performance driven culture

B. Strengthening the core

C. Building for the future

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

A. Performance driven culture

1. Improving profitability metrics:

Our consolidated annualized ROE for Q3FY23 stood at 19.81%.

While Puneet will provide granular details, let me highlight the key trends.

- Net interest margins improved 73 bps YOY and 30 bps QOQ to 4.26% in Q3FY23, which is a lifetime high.
- Operating profit grew by 20% QOQ and 51% YOY, highest in last 13 quarters.
- Opex growth of 8% in Q3 further moderated from 14% in Q2 on a YOY basis
- PAT at Rs 5,853 crores was up 62% YOY and 10% QOQ.

2. **Lifted the growth trajectory and consistently gained market share:**

- **We have strengthened market position across key segments.**
  - ✓ On advances, we grew faster than the industry with domestic loan book (gross of IBPC sold) up by 18% YOY & 5% QOQ, higher than the system credit growth.
  - ✓ In credit cards, we issued over 3 million cards in 9MFY23, nearly ~2X of that issued in 9MFY22. We had a 16% growth in incremental CIF market share in Q3
  - ✓ During the quarter, we crossed the milestone of 3 million cards in force for Flipkart Axis Bank Credit Card, making it one of the fastest growing co-branded credit cards in the country.
  - ✓ The Bank's Burgundy Private offering that we launched 3 years back continues to scale greater heights with AUM of nearly Rs 1 trillion up 22% YOY. Burgundy Private proposition now includes 30 of the Forbes 100 richest Indians as its clients and manages wealth for over 4,400 families across 27 cities pan country.

- **Coming to Customer acquisition trends and Deposit Quality**
  - ✓ Our customer acquisition remains strong. In Q3, we added 2.9 million new customer accounts a growth of 34% YOY and 3% QOQ.
  - ✓ Our district level segment strategy to build high quality deposits is progressing well. This is reflected in ~140 bps YOY improvement in share of premium SA segment to overall retail SA deposits.
  - ✓ The quality of deposits too saw improvement. The lendable term deposits from Retail and Small Business customers were up 15% while deposits that attract higher outflow rates were down 20%.
  - ✓ The CA deposits on QAB basis grew 10% QOQ led by broad based growth across segments including Branch Banking, Large Corporates, and MSMEs.

- **On Asset, focus segments delivered strong growth and corporate banking activity increased meaningfully**
  - ✓ In Q3, we continued to witness strong momentum across our focused MSME segment, which continues to remain a key growth driver for the Bank. The Mid Corporate book grew 42% YOY and 11% QOQ. The SME book grew 24% YOY and 5% QOQ. The SBB segment delivered strong growth of 60% YOY and 8% QOQ. The combined portfolio of these 3 segments grew 35% YOY and now constitute 20% of the loan book, up ~510 bps in last 8 quarters.
  - ✓ We remain a banker of choice for Corporate India with our ability to serve across their capital structure. The domestic Corporate franchise grew 12% YOY and 11% QOQ while simultaneously improving its margins. We are seeing a broad-based growth in corporate loan demand. There's strong

activity in segments like renewables, roads, chemicals, urban energy distribution, commercial real estate, and healthcare. Capacity expansion projects are picking up especially in consumption driven sectors. Pricing has seen improvement compared to what we were seeing 2-3 quarters back. We continue to choose opportunities that meet our returns threshold.

- ✓ Retail loans grew 17% YOY and 1% QOQ. Unsecured Personal loans and Credit Card advances grew faster at 21% YOY and 39% YOY, respectively.
- ✓ We saw market share gains in NEFT payments of 180 basis points YOY to 12%.
- ✓ We are also the largest clearing member in the listed derivative space with the market share of around 18%, while maintaining our leadership in equity capital markets and debt capital markets.

3. Fostering a winning mindset

- Our winning mindset is reflected in multiple external recognitions we received this quarter.
- Like I mentioned earlier, Axis Mobile app is the World's highest rated Mobile Banking App on the playstore, with rating of 4.8. It has over 16 lakh reviews, which is the highest across 59 global banks, 8 global neo banks and 50 Indian fintech apps. The app now handles over 65% of all service requests by volumes.
- The Bank also won Red Hat APAC Innovation award for India for Digital transformation and cloud native development during the quarter.
- We also retained our leadership position in Rupee denominated corporate bond issuances for the 16th consecutive year based on Bloomberg league table for India bonds.

B. Strengthen the core:

1. Strong balance sheet with self-sustaining capital structure

- Our balance sheet remains resilient. Our asset quality is now among the best in class with net NPA of 0.47%, high provision coverage of 81% and standard asset coverage of 1.53%.
- Our internal accrual is now largely sufficient to fund the business growth with CET1 capital accretion of 195 bps in last 9 months as compared to 164 bps of growth-related consumption during the same period.

2. Building next generation technology architecture, for wholesale digital banking

With client-centric design at its heart, NEO is enabling multi-product, multi-channel end-to-end digital experience for our corporate clients. About 100+ open banking APIs are now operational across the product suite. NEO allows us to integrate various API product suite via an ERP agnostic single utility. We have partnered with leading fintechs to offer connected banking experience. Within a short span, we have 1000+ corporates on our Axis API developer portal. I'm bullish on what NEO is doing and what it can do to transform our transaction banking franchise.

C. Building for the future

1) **Our Digital Banking unit is now operating at scale.** While our current digital banking platform has delivered strong outcomes, Axis 2.0, our next-gen mobile bank platform, is beginning to fire at MVP [Minimum Viable Product] stage. Axis 2.0 is a significant leap both on technology and business model. It will focus on

"true digitally generated business" with zero paper, zero touch and zero intervention. Axis 2.0 will operate as a digital bank within the bank. CASA balance through Axis 2.0 sourced accounts has grown nearly 3 times on a YOY basis. FDs sourced have grown by 61%. Similarly, the overall loan book of Axis 2.0 has grown 52% in the same period.

On digital lending, we introduced several new capabilities on account aggregator-based underwriting, eNach and eSign based approvals. The bank today is underwriting a loan or a credit card to any citizen of India digitally, without any physical documents or any human intervention.

Also, we have built very successful digital partnerships that we spoke about during the Analysts' Day. We are setting up and scaling a few more strategic partnerships.

2) Bank-wide programs to build distinctiveness

Bharat Banking growing from strength to strength

As a result of our focused approach, we delivered 27% YOY growth in rural loan book while the deposits growth in Bharat markets stood at 16% YOY.

During the quarter, we added ~6,000 VLEs (village level entrepreneurs) to take our overall CSC VLE network to 60,200+, they would act as extended arms for our 2,065 Bharat branches. The disbursements through CSC network were up over 5x YOY in Q3FY23.

Our subsidiaries continue to create significant value

The 'One Axis' approach now is reflected in robust performance of our subsidiaries. The total annualised PAT of our domestic subsidiaries for nine-months of FY23 stood at Rs 1,252 crores. During the quarter, we further strengthened our presence in the retirement solutions segment with the launch of Axis Pension Fund. Capitalising on 'One Axis' approach, the company has become the fastest private Pension Fund to cross Rs 100 crores of AUM.

On Citibank Consumer business integration:

Citi acquisition and integration process is progressing well, customer base and business performance remains steady, on expected lines. We are extremely happy with the response received from Citi customers and employees alike. We already have 96%+ acceptance rate from the employees of Citibank who will be joining us shortly. We look forward to adding this high-quality customer base and workforce to the Axis family. The opportunity to build on this base is tremendous on the back of our fast-growing wealth and cards franchise.

In Closing:

The domestic demand and economic activities continue to remain resilient when global economic growth is staring at a slowdown. Our leading indicators suggest that economic momentum remains strong, with minor moderation, despite the rapid transmission of the repo rate hikes and liquidity tightening on a broad spectrum of interest rates. The economic resilience, particularly for the micro and small businesses, is pleasantly surprising. We, at Axis Bank, remain optimistic on the growth opportunities in the Indian economy and our ability to support and take advantage of them.

I will request Puneet to take over.

Puneet Sharma: Good evening and thank you for joining us this evening.

Thank you Amitabh.

Good evening and thank you for joining us. We continue to make progress on our endeavour to be a stronger, consistent and sustainable franchise. I will discuss the salient features of the financial performance of the Bank for Q3FY23 focusing on our:

1. Operating performance
2. Capital and liquidity position
3. Growth across our deposit franchise and loan book
4. Asset quality, restructuring and provisioning

Our operating performance remains strong. We have now shown consistent NIM improvement, delivered robust growth in NII, growth in granular fees and controlled our operating expenses. The resultant strong core operating profit growth coupled with relatively benign credit costs, resulted in a strong YOY improvement in our ROA and ROE.

- NII for Q3 FY 23 stood at Rs. 11,459 crores, growing 32% YOY and 11% QOQ
- NIMs for Q3 FY 23 stood at 4.26%, growing 73 bps YOY and 30 bps QOQ. Domestic NIMs stood at 4.41% during the quarter.
- Reported NII and NIM's for the quarter include a one-time interest recovery on restructuring of an existing NPA account aggregating Rs 149 crores, contributing approximately 5 bps to the current quarter NIMs.

We had clearly articulated the drivers for our NIM improvement journey, the progress against the key drivers in this quarter is as follows:

- Improvement in Balance sheet mix: Loans and investments comprised 87% of total assets at December 22 as compared to 84% at December 21, improving 300 bps YOY;
- INR denominated loans comprised 93.3% of total advances at December 22 as compared to 90.4 % at December 21, improving 290 bps YOY;
- Retail and CBG advances comprised 67% of total advances at December 22 as compared to 65% at December 21, improving 195 bps YOY;
- Low-yielding RIDF bonds declined by Rs 8,425 crores YOY and Rs. 3,246 crores sequentially. RIDF comprised 2.7% of our total assets at December 22 compared to 3.8% at December 21. We currently estimate to be PSL compliant across all sub segments and at the headline level in FY 23.
- Composition of liabilities measured through average CASA% improved 18 bps YOY

Quality of liabilities measured by outflow rate improved ~ 400 bps YOY

The Bank continues to improve the risk / return profile of its loan book. Our NII as a percentage to average risk weighted interest earning assets, stands at 8.14%, improving 89 bps YOY and 39 bps QOQ.

Our fee income stood at Rs 4,101 crores, growing 23% YOY and 6% sequentially. 93% of the fee is granular.

- Total retail fee grew 30% YOY and 8% QOQ
- Fees from retail cards grew 44% YOY
- Conventional transaction banking fee grew 25% YOY

Trading profit for the quarter stood at Rs 428 crores compared to a loss of Rs 86 crores in the previous quarter and profit of Rs 367 crores for same quarter last year. 46% of the trading profit for the current quarter is attributable to reversal of MTM losses previously recognized on the corporate bond portfolio due to rate movements. This is in line with our previous commentary that we did not expect an economic loss on our corporate bond book. 85% of the corporate bond book is rated AA+ and above and 99% is rated A- and above.

Operating expenses for the quarter stood at Rs. 6,847 crores, growing 8% YOY and 4% sequentially.

- The YOY increase in rupee crore expenses can be attributed to the following reasons: (i) 12% linked to volume; (ii) 40% technology and growth related (iii) 30% wage increments and (iv) balance 18% to BAU.
- Technology and digital spends grew 11% YOY and constituted ~8% of total operating expenses.
- Staff costs increased by 18% YOY and 5% QOQ. We have added over 1,309 people from same period last year mainly to our growth businesses and technology teams. We have continued to maintain the social security code provisions. The cumulative social security provision in the books of the bank stands at Rs 227 crores.

Cost Income ratio for Q3FY23 at 42%, improved 822 bps YOY and 358 bps QOQ. Operating expenses to average assets stood at 2.24%, higher by 9 bps YOY and declining by 1 bps sequentially.

Given the strong momentum across our businesses; we remain committed to consciously invest in our focus business segments. The lower credit cost over the past few quarters has provided some headroom to run operating costs at a slightly elevated level. We remain committed to achieving around 2% Cost / Assets in the medium term.

Operating profit for Q3FY23 is Rs 9,277 crores, increasing 51% YOY and 20% QOQ.

Core operating profit for Q3FY23 is Rs 8,850 crores, growing 53% YOY and 13% QOQ.

Provisions and contingencies for the quarter were Rs 1,438 crores, up 8% YOY. In the current quarter the bank made non-recurring, one time / prudent provisions aggregating Rs. 340 crores or equal to 24% of the provisions and contingencies for the quarter. Excluding such prudent/ onetime/non-recurring provisions, provisions and contingencies would be down 18% YOY. The Bank has not utilized any of its COVID-19 provisions, this provision is entirely prudent.

Annualized credit cost for Q3FY23 is 0.65%, adjusted for non-recurring / prudent provisions would be 0.54%

Profit after tax stood at Rs 5,853 crores, growing 62% YOY and 10% QOQ

Consolidated annualised ROA for Q3FY23 stood at 2.00%, improving by 57 bps YOY and 13 bps QOQ. Subsidiaries contributed 8 bps this quarter.

Consolidated annualised ROE for Q3FY23 stood at 19.81%, improving by 465 bps YOY and 91 bps QOQ. Subsidiaries contributed 47 bps to the consolidated ROE this quarter

The cumulative non NPA provisions at December 31, 2022 at Rs 11,633 crores, comprising (i) Covid19 related at Rs 5,012 crores; (ii) Restructuring provisions of Rs 928 crores, unsecured retail at 100% provision and the rest at first bucket NPA rates, (iii) standard assets provision at higher than regulatory rates of Rs 2,146 crores and (iv) weak assets & other provisions of Rs 3,547 crores.

Our provision coverage [(all provisions NPA + Non NPA)/ GNPA)] stands at 139%, improving 952 bps YOY

The Bank is well capitalized and is carrying adequate liquidity buffers

Our journey to be self-sufficient on capital is progressing well, we accreted CET-1 net of all consumption by 41 bps this quarter and have net accreted 31 bps over 9MFY23.

Based on the current capital position and RWA intensity of our existing business, the CET-1 consumption on the Citibank acquisition is estimated at ~180 bps.

We raised Rs 12,000 crores of tier 2 capital in the form of bonds in the current quarter. This improved our overall capital adequacy by ~150 bps as on 31 December 2022.

Our total capital adequacy ratio including profit for the nine months ended December 31, 2022 is 19.51% and our CET-1 ratio is 15.55%. The prudent COVID provision translate to a capital cushion of 55 bps over and above the reported capital adequacy.

Our average LCR ratio of the quarter was ~ 116%. Our excess SLR was Rs 60,568 crores.

The RWA% of the Bank at December 31, 2022 stands at 65%, improving by 61 bps QOQ.

Growth across our liabilities and loan franchise

Amitabh has discussed the progress in customer acquisitions, growth in the liability and loan franchise in his opening remarks. Please refer slides 20 and 21 for details around the quality of our liabilities franchise and slides on our loan franchise.

Our CASA ratio on QAB basis was 44.1%, improving 18 bps YOY and 48 bps QOQ

We continue to improve the quality of our core loan franchise. Our loan book continues to get more granular and balanced with retail advances constituting 56% of the overall advances, corporate loans at 33% and CBG at 11%.

~68% of our loans are floating rate. ~45% of our fixed rate book matures in 12 months. Break-up of the of the floating rate loan book by benchmark type and MCLR re-pricing frequency is set out on Slide 11 of our investor presentation.

Retail book

Retail advances grew 17% YOY and 1% sequentially, Unsecured disbursements for the quarter constituted 22% of total disbursements in the quarter.

- Cards and PL portfolio grew 39% YOY & 21% YOY respectively.
- The retail loan book represents healthy characteristics with ~ 79% being secured.
- The credit card spends in Q3FY23 grew 42% YOY.

Wholesale Banking Coverage

We are progressing well in our endeavor to build a profitable and sustainable Corporate Bank. Details of rating composition, incremental sanction quality is set out on slide 37.

Corporate loan book gross of IBPCs sold grew 12% YOY and 9% QOQ. We found profitable opportunities to lend within the risk framework we have chosen operate in. Our mid corporate business grew 42% YOY.

The offshore wholesale advances are largely trade finance related and primarily driven by our GIFT city branch. 97% of the overseas standard corporate loan book in GIFT city branch is India linked and 95% is rated A- and above.

Commercial banking

The commercial banking book grew 24% YOY and 5% sequentially. The quality of the CBG franchise we are building and strong relation led approach is reflected through:

- CBG CA deposits on QAB basis grew by 22% YOY.
- Overall fees from CBG increased 16% YOY.
- 87% of CBG loan book is PSL compliant.

Coming to the performance of our subsidiaries

Detailed performance of the subsidiaries is set out on Slides 65 to 71 of the investor presentation.

The domestic subsidiaries reported a total annualized net profit in 9MFY23 of Rs 1,252 crores. This translates into a return on investment of 50%.

- **Axis Finance**: Delivered strong growth as a full-service customer focused franchise offering retail as well as wholesale lending solutions.
  - ✓ In Q3FY23, overall AUM grew 38% YOY. Retail book grew over 2 times and now constitutes 44% of total loans up from 13% two years ago.
  - ✓ AFL's asset quality continues to be strong with net NPA of 0.37% and negligible restructuring.
  - ✓ AFL's 9MFY23 PAT grew 35% to Rs 340 Crores, with RoE of 17.7% and healthy CAR at 22.2%.
- **Axis AMC:** Investor folios grew 17% YOY to take its total investor base to 13.1 mn. Its 9MFY23 PAT grew 16% YOY to Rs. 292 crores.
- **Axis Capital:** It's PAT for 9MFY23 stood at Rs 110 crores
- **Axis Securities**: For the 9MFY23, new client additions were up 71% YOY, broking revenues were up 10% YOY and PAT stood at Rs 151 crores.

Asset quality, provisioning and restructuring

- The Slippage, GNPA, NNPA and PCR ratios for the Bank, and segmentally for Retail, SME and Corporate are provided on slide # 56.
- Reported GNPA% was 2.38%, improved 79 bps YOY & 12 bps QOQ.
- Reported NNPA% was 0.47%, improving 44 bps YOY and 4 bps QOQ.
- PCR at 81%, improving 876 bps YOY and 89 bps QOQ.

We have not sold any non-performing loans in the quarter. Recoveries from written off accounts for the quarter was Rs 608 crores.

Reported Gross slippages for the quarter were Rs 3,807 crores, lower 8% YOY. This includes slippages attributable to non-recurring and / or prudent items aggregating Rs 410 crores. Adjusted for the aforesaid, gross slippage by value was Rs 3,397 crores, down 18% YOY. Further, for the quarter ~ 36% of the reported gross slippages are attributed to linked accounts of borrowers which were standard when classified or have been upgraded in the same quarter.

Reported Net slippages for the quarter were Rs 1,719 crores. This includes slippages attributable to non-recurring and /or prudent items aggregating Rs 402 crores. Adjusted for the aforesaid, net slippage by value was Rs 1,317 crores.

Reported Net slippage in the quarter adjusted for recoveries from written off pool was Rs 1,111 crores. On a segment basis, net slippage for retail was Rs 1,040 crores, CBG was Rs 26 crores and wholesale was Rs 45 crores

In summary, the non-recurring and / or prudent items adversely impacted reported Gross slippages by 22 bps, reported net slippages by 22 bps and reported credit costs by 11 bps. This is more clearly reflected on 56 of our investor presentation.

Details of BB and below pool and restructuring have been provided on slide 57 of our investor presentation.

To summarise, Axis Bank is progressing well to be a stronger, consistent and sustainable franchise:

- Our balance sheet is strong and resilient, visible through strong capital adequacy of 19.51%, covid provision buffer of 55 bps of capital, overall coverage at 139% of GNPA, and limited and better than regulatory provided covid restructuring at 0.30% of GCA.
- Consistent delivery across our key initiatives and disciplined execution in our focus segments has resulted in consolidated annualised ROE for the quarter standing at 19.81%, improving by 465 bps YOY and 91 bps QOQ.
- The franchise is getting more sustainable, as visible through net CET-1 accretion over 9M FY 23 of 31 bps. Our QAB CASA ratio at 44.1% at December 31, 2022 and early improvement in the quality of granular liability growth, visible through reduction in outflow rates gives us comfort that we have laid a good foundation for our liability journey. Our assessment is that improvements planned over the next 8-9 quarters should deliver results with some inter quarter fluctuations which are normal for a business of our scale and size.

While we are well placed in the current macro environment, we continue to closely monitor geopolitical environment, inflation both domestic and international, liquidity risks and its impact on cost of funds, resultant policy action, its impact on our business and our clients businesses.

We would be glad to take your questions now. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Nuvama Wealth. Please go ahead.

Mahrukh Adajania: So, my first question is on loan growth. Now do you get any sense say, maybe from the disbursals in November, December or even in January, if at all, there is a slowdown in secured retail in response to rising rates?

Sumit Bali: So, we have started seeing that customers are taking a longer time from the inquiry to closure of the loan. That's what's been observed in the previous quarter. Early trends are similar in this month also, and we'll have to wait and watch how this progresses further.

Mahrukh Adajania: Got it. Because the overall loan growth has been very good, but home loan growth is 2%. So, that's why I was just checking.

Sumit Bali: Yes. So, that's the reason I mentioned that.

Mahrukh Adajania: Right.

Sumit Bali: And that's what we've observed on the ground.

Mahrukh Adajania: And the other question I had is that the credit card thing is because of the festive season, right? You've mentioned a note in your presentation, but the reason why credit card outstanding was flat was because of the festive season being across 2 quarters?

Sumit Bali: Yes, you're right. So, the big billion-day sale of Flipkart was in September end, that's when we saw a bump up. And during the quarter, we saw festive season in December, it's reverted to normal. It's still up about 40% year-on-year.

Mahrukh Adajania: And my next question is on the Citi deal. So, when we had made the initial presentation, we had talked about a Rs. 15 billion additional OPEX over 2 years. Would that cause any lumpiness in cost in the fourth quarter? Will a large part of that OPEX come into the numbers in the fourth quarter? I mean you had not mentioned any quarter, so I'm just asking.

Puneet Sharma: The Rs. 1,500 crore number is post-tax. A large part of that is a time linked payment for services that we would receive post LD1 (legal date 1). So, it's only gradual. We will be incurring some expenses as we ride up to the actual transaction closing, which would get upfronted, but I don't think there will be material lumpiness on the cost as we move forward.

Mahrukh Adajania: And my last question is again on the outlook on deposit and loan growth. Of course, near-term, maybe the next 2-3 months, but also longer-term in FY '24 now that the system has also hit a very high base

Puneet Sharma: We don't offer short-term guidance. I think we stick by what we've said previously. We feel confident that the franchise will grow at 500 to 600 basis points faster than industry credit growth on advances. We've also said previously that for the current financial year, we expect to grow at or about the industry credit growth. That's the only comment I would offer there. We don't have guidance for the next quarter or multiple quarters thereafter.

Moderator: The next question is from the line of Adarsh from CLSA. Please go ahead.

Adarsh: Question is again on the mortgage growth. It's not been just a quarter where our mortgage growth has been slow. It's been about 2, 3 quarters since 4Q. So, this 9-month YTD mortgage growth is quite slow. And I don't see this kind of trend in most other banks. So, I just wanted to understand, have we seen a lot of balance transfers out or disbursement trends are weaker? What is happening, if you can just highlight?

Sumit Bali: So, there's nothing abnormally high in terms of balance transfer. This quarter, particularly, as I said, we have seen customers taking a longer time to convert an inquiry into the loan. Hopefully, that trend should stabilize and things should improve this quarter, but we'll have to wait and watch.

Adarsh: Yes. Again, I'm just reemphasizing that the mortgage growth in 9 months was like 4%, 5%. So, it's a little bit surprising to see this lower growth.

Sumit Bali: First quarter was okay. The second quarter was slightly slower, and third quarter is when it's slowed down to about 1% growth. Q4 historically has been good. So, let's wait and watch how our Q4 pans out.

Adarsh: Got it. So, your sense on market share in mortgages, disbursements, all are doing fine, is it?

Sumit Bali: No. So, disbursements also have been affected. So, that's how the book has not grown the way we expected it to. So, it has got impacted.

Adarsh: And the second question was on OPEX. Puneet and team, sequentially for 3 quarters now, we've had a more stable OPEX after the investments we've done in the last 2 years. And I understand that you'll have guided to 2%. So, when you guide 2%, now does that include the merger or that's just the Bank alone and hence, we would see a bump up if you look at post-merger basis?

Puneet Sharma: So, Adarsh, thanks for the question. What we've said is around 2% and not an absolute 2%. The around 2% is for Axis Bank excluding the Citi acquisition. We did put out pro forma disclosure on what the cost to assets of that business is. And yes, there will be an impact on cost to assets on the integration. But if you look at the flow-through to the bottom line, we've also called out in the same breadth that the transaction is ROE accretive. So, yes, on the cost to assets variable, there will be an adverse impact when we add the Citi franchise. We also need to incur the implementation expenses, which is the one-time cost that we've talked about over an 18-month period, but that's temporary. So, those 2 variables will play through the P&L post-integration.

Adarsh: I'll just squeeze in 1 more question is on corporate growth. When you've seen this kind of growth after kind of remaining low on that business, have the incremental spreads improved quite materially for you to take the call that we will do this business a little bit more proactively now?

Rajiv Anand: I think spreads in this business have certainly improved over the last couple of quarters. I think the way to think about that perhaps, Adarsh, is also that despite the fact that the corporate book has grown, NIMs have improved as well.

Moderator: The next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: I have 1 question around the treasury performance this quarter. This seems particularly strong. So, anything which has driven this performance?

Puneet Sharma: My apologies, we were not able to catch the question. Would you be kind enough to repeat it, please?

Nitin Aggarwal: So, the question is around the treasury performance this quarter and the outlook, if you can talk about this.

Puneet Sharma: So, like I called out specifically, 46% of the trading profit performance is the write-back of MTM losses that we have recorded in the earlier part of the year when rates had moved adversely on our corporate bond book. At that point in time, also, we had specifically said that we will not incur an economic loss on the portfolio. And the corporate bond book, 85% of it is rated AA+ and 99% is rated A- and above. So, we don't think we will incur an economic loss even for the residual MTM, which is the difference of what we took in quarter 1 versus what we have gotten back because of rates this quarter.

Obviously, further MTM write backs will be a function of how rates play out. So, difficult to call at the moment. What I can tell you with certainty is we maintain that we will not incur an economic loss on that portfolio. Also, to give you better clarity, the duration of the book we had previously said was 4 to 5 years. So, assuming that there is no further movement, that would be the timeframe by which the residual MTM should come back into the P&L.

Nitin Aggarwal: And secondly, just 1 small clarification around the standard plus additional provisions that we have. In the press release on Page 3, you mentioned the additional provision standard plus additional other than NPA of Rs. 5,000-odd crore. So, this seems to be like a misplaced number. So, if you can just verify this.

Puneet Sharma: The Rs. 5,012 crores that I called out was our COVID provision, which we have either utilized, not of the current quarter. We believe that provision is entirely prudent.

Nitin Aggarwal: And the total number is?

Puneet Sharma: Rs. 11,633 crore, which is also set out on if you look at the investor presentation, Slide 1 or Slide 2 of the investor presentation.

Nitin Aggarwal: If you just consider the number that was mentioned for the additional plus standard on Page 3 of the press release, which seems a bit odd.

Puneet Sharma: Sorry, just give me one second. Please read that as a typographical error, please. So, we have a correction issue. The amount is like I called out, Rs. 11,633 crore. That Rs. 5,012 crore number that you're reading on Page 3 of the press release should be read as Rs. 11,633 crore. We will issue a revised press release to that effect. Thank you for bringing that to our attention.

Moderator: The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, if I look in the Citi Financials for the business that Axis is acquiring for FY22, the PAT there is around Rs. 420 crore. And in the presentation that we had issued at the time of announcement of merger, the normalized PAT that we were looking at was Rs. 840 crore. So, just wanted to understand how should we look at this difference. Is it the cleanup that is happening? And does the Bank remain confident on its position for Citi business post-merger? That's the first.

And second was on the retail term deposits. And if you look at the last 4 to 5 quarters, the absolute value has not changed much. So, what's happening there? Are there any challenges in raising retail term deposits because of nonretail term deposit size is rising? So, those are the 2 questions.

Puneet Sharma: So, on the Citi Financial numbers, unfortunately, I do not have the Rs. 400 crore number that you're referencing. But just for clarity, we are buying the Citi Consumer business, which is part of Citibank India NA.

Rohan Mandora: Actually, sir, the number that Rs. 420 crores that I'm taking is from the Citi India Financials where they are giving a separate disclosure of discontinued financials. And there, they are giving that number of Rs. 420 crores as part of discontinued business, that is likely to be sold off, that's why they are giving this. So, I'm assuming it to be the entire business that Axis is purchasing, and that's I think is given on the second last page of the Citi India Financials.

Puneet Sharma: Understood. The only clarification I can offer there at the moment is on the discontinued business, we need to see whether the discontinued business profitability is on a transfer price basis, or on an actual profitability basis. I will have a look at the disclosure and come back to you. The way our pro forma was prepared was it was Citi Bank India branches consumer business plus Citi Finance India Limited, which is the NBFC entity. We are buying both businesses. When we looked at the pro forma therein, ex certain costs. So, if you look at the footnote, we had clearly called out that we expect certain costs to disappear. On top of that, we had called out synergy benefits. That is an Rs. 840 crore number that we had called out. We'd be very happy to look at this disclosure. And once we've consummated the acquisition, we can build a bridge for you. But at the moment, I can't comment on how Citi has quantified its discontinued business' profitability. We stand behind our pro forma disclosure. We think it was well articulated and thought through, please.

Rohan Mandora: And on the retail-term deposits?

Ravi Narayanan: Thanks for that question on retail-term deposits. As Puneet had mentioned in his opening comments, retail-term deposits also determine the kind of outflow improvement that we have seen. Puneet had talked about 400 basis points improvement there. So, we continue to stay focused on ensuring that we use the retail-term deposits to improve the quality of franchise as we go ahead.

Even in the individual term deposits over the 9-month period, we have seen a growth of 13%. So, it also indicates that we are moving in the right direction. Having said that, we continue to work hard to ensure that we look at these retail-term deposits as a focus area for us. So, the indicators in terms of the way we are moving and the quality of franchise that Amitabh also alluded to in his opening statement, these are the ones where we continue to focus. Thanks.

Puneet Sharma: Thanks for your question. Just to supplement your answer while Ravi was answering your question, I've had a chance to look at the disclosure. I would guide you to look at the segmental disclosure that's referenced in the note. There is treasury profitability which sits there. So, that's on a funds transfer price basis, not an actual profitability basis. So, that may be the principal reason for the differential. Like we said, we stand behind our disclosure.

Rohan Mandora: Sir, sorry, if you repeat the last part.

Puneet Sharma: Yes. So, if you look at the geographic segment disclosure that Citi has put out, which is Page 70 of document you were referencing, at the head of the document, you will see that the segment is treasury, corporate banking, retail banking, other banking business. So, effectively, when you look at all Bank segmental disclosures, the businesses are disclosed on a funds transfer priced basis, not actual cost of fund basis. So, that's the principal cause of difference. So, you would need to read that disclosure holistically with our disclosure, please? But we will reemphasize this for you once we integrate.

Moderator: Next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir, you mentioned that you are PSL-compliant on marginal basis. So, does it mean that on price disbursement you are doing, you are doing 40% in PSL as well?

Puneet Sharma: Thank you for the question. What we said is we expect to be PSL-compliant for FY23. Our PSL compliance is a combination of organic business plus PSLCs.

Pankaj Agarwal: So, there's still a shortfall on PSLCs, right?

Puneet Sharma: There is no shortfall anticipated at a subsegment or headline level for FY23. The compliance will be organic PSL aided by PSLC purchases. So, there is no shortfall that we have indicated as of now.

Pankaj Agarwal: Sir, my question was more related to your RIDF bonds. So, if you continue to meet your PSL requirements, this number will come to 0 in a couple of years?

Puneet Sharma: So, we have previously stated that the door-to-door maturity of our RIDF portfolio is 4 to 5 years, and therefore, you would have to look at that tenure for the number to get to net zero. Obviously, in the same breadth, what I would say is no large franchise runs at net zero. So, we will need to wait and watch, but our endeavor is to get the number to the lowest possible value.

Pankaj Agarwal: And you said that the quality of your liabilities has improved. But if I see on a QOQ basis, your bulk deposits have gone up. So, what I'm missing here?

Puneet Sharma: So, I think what Ravi was indicating is the way we measure quality of liability is outflow rate for LCR purposes. What you are seeing is a change in the composition of liabilities. For composition of liabilities, we look at proportion of CASA and TDs in the total book. So, Ravi's point was the quality of the stock liability has improved. We do take your feedback that NRTDs have grown faster than the core liabilities, but that's a composition effect, not a quality impact.

Pankaj Agarwal: But Puneet, that outflow should be a function of your retail and bulk deposits, right? More bulk deposits, more outflow, right? This is how the calculation needs to be done.

Puneet Sharma: That is correct. But in bulk deposits, you also have to factor noncallable bulk deposits. And again, if you look at the quality parameter, we have improved on the noncallable bulk deposit side also. Therefore, you will see a cumulative quality improvement.

Moderator: Next question is from the line of Saurabh from JPMorgan. Please go ahead.

Saurabh: Sir, just 2 questions. One is on your recovery. Was there any chunky recovery in this quarter?

Puneet Sharma: Thank you, Saurabh, for your question. No, no chunky recovery this quarter.

Saurabh: Sir, just on this third-party fees, how should we think about this momentum going ahead? I mean quarter-on-quarter it's pretty good. How would you think about the growth here?

Ravi Narayanan: I think while it would be difficult to give a future looking guidance on that. But in terms of the fact that as you have seen, we have maintained robust growth on the third-party fee line. It's a combination of multiple products. So, there will be always one or the other at play at all times. And therefore, we continue to believe that what we have demonstrated in terms of the growth indicates the strength of the franchise. Thank you.

Moderator: Next question is from the line of Prakhar Agarwal from Elara Capital. Please go ahead.

Prakhar Agarwal: Just 2 bits on my side. One, in terms of your slippage that you'd probably talk about one-off of prudential in nature. And in that context, you have made around Rs. 315-odd crores of provisions as well. Which segment does it belong to? What I do essentially mean is when I look at your overall retail segment GNPA of that has gone up. And in that context, when I look at your LAP portfolio, from a growth perspective, that has also gone down. Is there something write-off that we have taken in that segment? If you could just highlight this.

Puneet Sharma: Thank you, Prakhar, for your question. The prudent onetime nonrecurring items are large accounts. So, they don't affect the retail segment.

Prakhar Agarwal: The second is, when I look at your retail growth, which is around 1% on a sequential basis. And when I look at your fee growth, which probably even adjusting for this third party, which is around 11%. What is driving and what is our outlook on that particular line item?

Puneet Sharma: So, I think Prakhar, the way you should think about retail fees is the product mix that we are delivering. So, while the headline growth has been 1% sequential quarter and 17% year-on-year, the mix has seen a positive shift that continues to yield better fees for us. And that's why you're seeing a divergent performance between fee growth and asset growth. And like Sumit said, in our assessment, it is a function of timing of disbursement. And Sumit earlier alluded on the call saying that let's monitor how this progresses through Q4.

Prakhar Agarwal: And just 1 last bit, if I can squeeze in. On the margin, so if we don't expect any further rate hikes from RBI, when do you see your margin is probably peaking out? Or probably the other way of saying is when you see your cost of funds picking over probably incrementally negating the benefits of margin yield?

Puneet Sharma: So, Prakhar, we don't offer short-term NIM guidance. But broadly speaking, if you look at the contributors to our NIM improvement, there are 3 big contributors. One is the structural drivers for NIM improvement, which I discussed earlier in the call. The second is the pricing discipline that we have brought through across all of our businesses. And third is the cyclical rate hikes where asset repricing has led liability repricing in this cycle.

We fully appreciate and we ourselves have indicated that we expect deposits to reprice through quarter 4 of the current financial year and further in quarter 1 of the next financial year. The outlook that we are offering is we've built a cushion over our structural NIM. 2 of the 3 drivers of our NIM journey still have an ability for us to control and that should serve as some offset to the rate pressure that we see on the deposit side coming forward. That's how I would request you to think about our NIM journey. We do not have specific guidance for a point in time NIM as we speak.

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

Rakesh Kumar: Just 2 questions. Firstly, like how do we read this that our total investment portfolio having gone up as a percentage to NDTL broadly on a sequential basis on the last 5 quarters. And the non-retail deposits has gone up by 21%. So, what is happening there basically on the asset and liability side? So, why so much frictional liquidity that we are keeping on the book?

Neeraj Gambhir: This is Neeraj Gambhir here. So, our investment portfolio largely comprises government securities. And there is some bit of corporate bonds as well. It's basically high-quality liquid assets that we need to maintain for our LCR. And if you look at our average LCR over the last 4 quarters, it has been between 114% to 120%, 121% average. So, essentially, the size of the book is moving in line with the LCR requirement of the balance sheet, which is a function of how the deposit book grows.

Rakesh Kumar: And secondly, the similar kind of things, if you look at the excess SLR number, that has gone up actually in this quarter on a sequential basis to Rs. 60,000 crore from Rs. 55,000 crores. So, like is there any plan to reduce IDR ratio and increase like CD ratio is already on the higher side. So, what is your plan? How are we planning to reduce this IDR?

Neeraj Gambhir: So, main decision point on the liquidity is basically the LCR. Excess SLR is basically a disclosure that we give. Now the major driver of liquidity management is LCR ratio. And therefore, I would guide you towards looking at the LCR ratios to look at what is the liquidity on the balance sheet. As I mentioned, over the last 4 quarters, we have been ranging between 114% to 121%. So, it's very well sort of within a range kind of LCR that we maintained.

Rakesh Kumar: And would it be right to understand that this kind of excess SLR we will have to continue considering the previous quarter, NSFR number and LCR number of this quarter?

Sumit Bali: So, the LCR dynamic is different from SLR. SLR is a fixed percentage, 18%, whereas the LCR requirements are dependent upon the deposit composition. Depending upon how the deposit composition changes, the LCR requirement moves up and down. Suffice it to say that for most banks, including us, the LCR requirements are higher than what is the kind of government securities are required to be held for SLR.

Moderator: Ladies and gentlemen, we'll take the last question from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir, first, if you can elaborate this one-off or nonrecurring prudent item, which has impacted slippages and provisioning? Because I remember we had already boxed all the risky assets, and we had provided adequately there.

Puneet Sharma: Thank you for your question, Jai. This is not an ad hoc provision. The one-off item is illustratively and let me explain one of the items for you, so you get full color. It's an account which is not 90 days past due. This is our risk assessment. We have prudently downgraded that account, and we have applied our rule-based provisions to that downgrade. And therefore, the only prudent decision was to downgrade an account that was not 90 days past due. Other than that, our rule engine kicks in and makes provisions. There is no discretion beyond that. So, this is nothing to do with legacy assets. Our legacy assets are fully provided for as we have called out. This is an action that has happened in the current quarter.

Jai Mundhra: And this is funded exposure, right? Nothing to do with guarantee, et cetera.

Puneet Sharma: This is funded exposure. There is linked non-fund-based exposure also. And like I said, our rules apply to both, fund plus non-fund, and therefore, provisions would have got triggered for both.

Jai Mundhra: And second question, Puneet, on the sustainability of the ROA, right? So, our GPS strategy also emphasizes a lot on sustainability. Over the last, let's say, 4 quarters, we have seen ROA now coming to 1.9% versus 1.3%, 1.4%. And the same delta has come or even higher delta has come from margins, which are now, let's say, historic high. As we go forward over the next 4 quarters, probably these margins will decline, then how do you address the sustainability of the headline ROAs.

Amitabh Chaudhry: So, Amitabh here. Whatever we've been trying to do since we launched the GPS strategy is to build a sustainable business. And what we are very conscious of is that while we had broadly talked about the ranges on NIM, we have never given a guidance on ROA, but we had definitely given a guidance on NIMs and ROE. Our intention is once we get to a certain zone to work very hard to stay there, this is not something which we're trying to do in the short-term and hope that when the numbers come down, we'll do nothing about it.

So, we are obviously continuing to work on all our levers possible, looking at what might happen in the market in the future and ensure that we can sustain the overall performance. I'm not guiding ROA, I'm not guiding anything else. I'm just saying that the idea was to hit 18% ROE, and we will work very hard to stay there. We fully well know that there are factors which are working against it also in terms of the rising cost of deposits, but we are trying to going to use every possible lever to ensure that we sustain the performance. And again, this is not a guidance for next quarter or next year, just saying how we are looking at the business and how we're sustaining it.

Jai Mundhra: And Puneet, just to understand this one-off, this is the entire exposure you have already put out and have provided 100%. And if you can also mention the sector because this is like on a large scale, this is coming for the first time in the last 1-2 quarters across banks. So, if possible, if you can share the sector of that exposure.

Puneet Sharma: Thank you. We don't comment on sector or name specific exposures. To your first question on whether it's fully provided, I will go back to a comment I made earlier. It's been provided as per our rule engine, and our rule engines are reasonably conservative. That's where I leave that response.

Moderator: Thank you very much. I now hand the conference over to Mr. Puneet Sharma for closing comments.

Puneet Sharma: Thank you, Nirav. Thank you, everyone, for taking time this evening to speak with us. It's been a pleasure. If there are any questions that remain unanswered, our teams will be available to assist you with those. Good evening and have a nice day.

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