Axis Bank's Q4FY24 Earnings Conference Call

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Moderator: Ladies and gentlemen good day, and welcome to the Axis Bank Conference Call to discuss the Q3 FY24 financial results. Participation in this conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation has not been sent. Unauthorized dissemination of the contents or the proceeding of the call is strictly prohibited, and prior explicit permission and written approval of Axis Bank is imperative.

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

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

Amitabh Chaudhry: Thank you, Neerav. We have on the call, Rajiv Anand – Deputy MD, Subrat Mohanty – ED, Munish Sharda – ED and other members of the leadership team.

We have had another strong year of performance built on our GPS strategy that has set Axis Bank firmly on the path to become a resilient all-weather franchise. We have delivered our aspirational return ratios with better quality and consistency of earnings, while maintaining a strong balance sheet position.

During the year, we maintained the growth trajectory across our focus business segments including MSME, Bharat and Retail Assets; and improved the quality of our deposit franchise. We also scaled up the branch network as we crossed milestone of 5000 branches and opened record 475 branches in FY24. We also improved our NPS (Net Promoter Score) ranking to 2nd among large peer banks as per benchmarking study undertaken by independent agency Kantar for Axis Bank. Our flagship digital properties, 'Open' and 'Neo', continued to lead the market in Retail and Wholesale segments.

Our current position of strength is the result of consistent execution rigour and investments made in building blocks across our people, processes, technology, and several multiplicative projects over the past five years. This has helped us to not only surpass the GPS commitments we had made, but also deliver distinctiveness and differentiation across our focus business segments as we continue to build new sources of competitive advantage.

In Q4FY24

- The Bank delivered consolidated ROE of 20.87% and has now delivered ROEs of greater than 18% for the past 7 quarters.

- The Bank is well capitalized with organic net accretion of 44 bps of CET -1 capital in FY24.

We stay focussed on three core areas of execution of our GPS strategy namely:

A. Becoming a resilient, all-weather franchise

B. Creating multiplicative forces to build competitive advantage

C. Building for the future

As you will see there is a slight change in narrative through FY24. The earlier themes of high-performance culture, a winning mindset and strengthening of the core are now an integral part of Axis Bank's DNA.

I will now discuss each one of these areas.

A. Becoming a resilient, all-weather franchise

I will talk about deposits first. Over the last couple of years, we have in deliberate, planned steps shifted the quality and strength of our deposit franchise in a marked manner. We have shared the trend on growth of granular deposits, reduction in LCR outflow rates, premiumisation through Burgundy and Burgundy Private platforms and embedding of Siddhi, our employee superapp, and Sparsh, our customer experience transformation program into the DNA of the branches. These initiatives have improved the health of our franchise significantly and the impact of this was seen progressively every quarter in FY 24 in our deposits market performance. We are carrying this momentum into FY 25.

I will now take you through performance highlights of Q4.

- ✓ We continue to drive higher growth in LCR accretive (retail and small business) deposits that stood at 18% YOY, 500 bps higher than our overall deposits growth.
- ✓ We have improved our LCR outflow rates by ~500 bps in the last two years, which is among the best in the sector today.
- ✓ CASA deposits grew 8% QOQ and our CASA ratio as percentage of average assets for Q4FY24 stood at 32%, which is among the best in the sector today.
- ✓ We have further improved the growth trajectory of retail term deposits, with 17% YOY growth that stood at 13 quarter high.

- On the Corporate Salary side, we have redesigned our Corporate Salary product proposition under 'Suvidha' to win employer mindshare and get higher employee wallet share. Further, access to 1600 Suvidha corporate labels from the Citi acquisition, with pan India coverage (as compared to few cities earlier) is also aiding the corporate SA growth.

- Our Premiumization strategy has performed well with Burgundy AUMs growing at a CAGR of 32% in 5 years. Burgundy Private launched 4 years back now includes 35 of the Forbes 100 richest Indians as its clients and manages wealth for over 10,650 families across 27 cities pan country.

- On the wholesale segment, project NEO is helping to drive higher transaction banking flows leading to better current account balances. Our NEFT market share (in terms of value) has increased to 12% in Q4FY24 as compared to 9% in Q4FY23. This was possible due to large CMS wins in the Fintech / Payment aggregation space.

- Our deposit mobilization strategy has been led by 2 large transformation initiatives - Siddhi (a super app for our employees) and Project Triumph, leveraging the various business segments within Retail, Bharat and SME, continues to progress well.

✓ We have empowered 80% of the on-roll employees with 'Siddhi' that now supports 24 product and service journeys along with 41 types of nudges and notifications for them to have deeper and more meaningful customer engagement.

✓ The improvement in branch productivity is reflected in 49% increase in LCR accretive (Retail and Small business) deposits per branch in the last 5 years.

All round growth across businesses. Market leading growth in our focus segments

- Refer to slide no 8 of the investor presentation. Our higher yielding focus segments including SME, Mid Corporate, SBB, Rural, Personal Loan, Credit Cards together have grown at a CAGR of 25% in the last 4 years and now constitute 43% of the total advances, up by over 1,210 bps during this period.

- We will continue to focus on driving growth across our business segments while following capital efficient RAROC model. Refer to the slides 10 and 11, we have delivered growth and profitability without compromising on the risk which is reflected in our RWA to total assets trend that have seen improvement as compared to the past, barring periods of risk weight changes. The fee profile is among the best in the industry today with granular fee comprising 93% of overall fee, up 600 bps since Mar'19.

- On the Merchant Acquiring Business, we moved from no 2 to leadership position during the year with terminal market share of ~ 20% as of Mar'24.

Strengthened the Core

- While we have strengthened the balance sheet and capital position significantly, we have also been consistently building and investing in the entire technology backbone, data analytics, digital and tech teams.

✓ We have early leadership in microservices based Cloud adoption and are the 1st Indian Bank to be ISO certified for its AWS and Azure Cloud security.

- ✓ As part of our commitment to Open API ecosystem, we now offer wide stack of 410+ APIs on the developer portal. Our investment in emerging tech is demonstrated through creation of 3500+ RPA bots and leveraging Microsoft Generative AI use cases focused on conversational banking, automation, and AI-service enablement.
- ✓ This year we have also embarked on further strengthening our enterprise class systems of engagement with Salesforce journey that will further aid in making the systems more scalable and future ready.

B. Creating multiplicative forces to build competitive advantage

- Our readiness to partner with innovative fintech ventures has created a dynamic ecosystem that fosters innovation, enhances the customer experience, and sets new industry standards globally. We believe we are well placed to play all the socio-economic mega trends of the next decade and beyond. The multiplicative forces that we have built through unification of One Axis, **100+** partnerships and new age tech platforms give us the "right to win". Slides 13-16 provide more details.

Citibank Consumer business integration remains on track:

- Deposits are largely stable while there has been strong growth in retail assets and wealth management led by improvement in cross sell metrics.
- We are now live with the first change in the migration journey for the transitioning customer base with IFSC (Indian Financial System Code) migration, enabling payments to Citi Bank accounts using Axis Bank IFSC. This has been made live in March'24.
- We have successfully completed the migration of the CV/CE Loans portfolio in March'24 and the customers have now fully migrated from Citi systems on to the Axis systems. The integration of the other Assets and Liabilities remain on track.

C. Building for the future

We have tried to be ahead of the curve towards building a Bank for the future with deep investment of management time and resources in our chosen areas of distinctiveness, namely, Digital, Bharat Banking and Customer Obsession. We have started seeing early results of these investments even as we remain focused to further drive scalability and productivity across the organization.

Digital Banking performance continues to remain strong

- Open by Axis Bank balance sheet continues to deliver strong growth with 33% increase in deposits and 74% increase in loans.
- Open by Axis continues to be the highest rated mobile banking app on the Google play store with a 4.8 rating. On the iOS Appstore too, the rating has increased to 4.8 this quarter.

- Keeping with the ethos of Dil Se Open, Open by Axis is now available in multi-lingual mode. Four languages are now supported by both our mobile app and our internet banking portal. In FY 25, the bank intends to take further steps to increase accessibility of its digital channels.
- Neo for Business, our MSME proposition, now has 60k customers onboarded over the last 2 quarters. Neo for Corporates is being scaled up with customer migration currently underway. The migration here will continue to scaleup till Q3 while we continue to launch additional capabilities. With full rollout of NEO, Axis remains on track to become the Operational Bank of choice for our Wholesale Banking clients.

Bank-wide programs to build distinctiveness

Our bet on Bharat is growing from strength to strength

- The FY24 disbursements sourced by Bharat Banking were up 30% YOY, rural advances up 30% YOY and deposits from Bharat Branches up 12%; thereby aiding the PSL and profitability metrics.
- In rural advances, the balance sheet added in the last 24 months (Mar'22-Mar'24) is 1.7 times the size of the balance sheet added in the previous 4 years (Mar'18-Mar'22).
- We have expanded our multi-product distribution architecture to 2,482 branches complemented by 64,550+ CSC VLE network across 683 districts and 80+ partners across the industry.
- It has also contributed significantly to the Bank's overall PSL achievement at 46.37% for FY24.

Sparsh, our customer obsession program, is helping improve relationship and transaction intensity with our customers

- Our Gen AI conversational chatbot is empowering frontline employees to efficiently address queries on core products.

In Closing:

- The Indian economy continues to remain a bright spot with its favourable macros backed by strong and stable domestic policy environment, which bodes well for the banking sector.
- In the near term, the geopolitical tensions continue to pose risk to the food and commodity prices. We retain our stance of policy rates staying higher for longer and foresee the system credit growth to converge towards deposit growth of around **~13**% for the fiscal.
- We will continue to be differentiated and distinctive in our journey to improve our service and performance levels for all our stakeholders. We remain focused towards building 'an all-weather institution' that will stand the test of time.

I will now request Puneet to take over. I will now request Puneet to take over.

Puneet Sharma: Thank you, Amitabh.

Good evening and thank you for joining us. We continue to make good progress towards building a stronger, consistent, and sustainable franchise. The salient features of the financial performance of the Bank for FY24 and Q4FY24, across (i) Operating performance; (ii) Capital and liquidity position; (iii) Growth across our deposit franchise and loan book and (iv) Asset quality, restructuring and provisioning is as follows:

In Q4FY24 and FY24, our operating performance was strong across NIMs, fee and credit cost lines. We discuss key metrics **for FY24, on a reported basis**:

- FY24 NIM was 4.07% up 5 bps YOY, in line with our consistent commentary that NIMs should be compared on a 12 month basis.
- NII stands at Rs 49,894 crores, YOY growth of 16%
- Fee stands at Rs 20,257 crores, YOY growth of 28%, granular fee at 93% of total fee
- Operating profit stands at Rs 37,123 crores, YOY growth of 16%;
- Cost to income stands at 48.68%, improving 1,803 bps YOY
- Credit cost at 0.37%, lower 3 bps YOY
- PAT stands at Rs 24,861 crores, increasing 160% YOY
- GNPA at March 24 was 1.43%, declining 59 bps YOY
- NNPA at March 24 was 0.31%, declining 8 bps YOY
- Standard asset coverage ratio of 1.26%, All provisions by GNPA ratio of 159% improving 13.73% YOY
- Consolidated ROA% at 1.84%, improving 99 bps YOY
- Consolidated ROE% at 19.29%, improving 1,003 bps YOY

For Q4FY24, on a reported basis:

- Consolidated ROA% at 2.07%, Consolidated ROE% at 20.87%, Subsidiaries contributed 7 bps to the consolidated annualized ROA and 52 bps to the consolidated annualized ROE this quarter
- Banks CET-1 including profits stands at 13.74% improving 3 bps QOQ. Organic CET-1 accretion in FY24, including profits was 44 bps, change in regulations adversely impacted CET-1 by ~72 bps. Prudent COVID provision of Rs 5,012 crores has not been utilized or written back to P&L. It has been reclassified as other provisions to be largely utilized for ECL transition. This provision has not been reckoned in the capital computation and translates to a capital cushion of ~41 bps over and above the reported capital adequacy ratio. The reported CET -1 ratio at March 31, 2024 of 13.74% is after fully incorporating the impact of the Rs 1,612 crores investment in Max Life funded in April 2024 and proposed dividend at the rate of 50% or Rs 1/- per share.

- The Bank assesses it capital position on two pillars i.e. growth and protection. We reiterate that we do not need equity capital for either pillar. The Bank is proposing to take a purely enabling resolution for equity capital and borrowing from its shareholders in the normal course.
- NIM at 4.06%, improved 5 bps QOQ. Yields on interest earning assets have improved 11 bps QOQ. This increase sufficiently addressed increase in cost of funds of 8 bps QOQ.
- NII at Rs. 13,089 crores, growing 11% YOY, 4% QOQ
- Fee at Rs. 5,637 crores, growing 23% YOY and 9% QOQ, granular fee at 93% of total fee
- Operating profit at Rs. 10,536 crores, growing 15% YOY and QOQ
- Cost to income at 46.94%, declining 252 bps QOQ
- Net credit cost at 0.32%, increasing by 4 bps QOQ, 10 bps YOY, driven mainly by lower recoveries and upgrades.
- PAT at Rs. 7,130 crores, increasing 17% QOQ, YOY PAT growth is not comparable due to reported loss attributable to exceptional items debited in the P&L of Q4FY23 relating to the Citibank acquisition transaction.
- GNPA at 1.43% declining 15 bps QOQ, NNPA at 0.31% declining 5 bps QOQ
- The Bank's own assessment is that we are PSL compliant at a headline level and at each sub segment level in FY 24

Our progress on structural NIM drivers continues, with improvements across all variables on a YOY basis:

- Improvement in Balance sheet mix: Loans and investments comprised 88% of total assets at March 24, improving 168 bps YOY;
- INR denominated loans comprised 96.2% of total advances at March 24, improving ~ 130 bps YOY;
- Retail and CBG advances comprised 71 % of total advances at March 24, improving 303 bps YOY
- Low-yielding RIDF bonds declined by Rs. 9,007 crores YOY. RIDF comprised 1.5% of our total assets at March 24 compared to 2.3% at March 23.
- Quality of liabilities measured by outflow rate improved ~ 500 bps over last two years, MEB CASA ratio at 43% continues to be amongst the highest in the large private sector banks universe, improved 85 bps QOQ.

Our fee performance was strong, reflected in a fee growth of 9% QOQ.

- Total retail fee grew 33% YOY and 12% QOQ
- Fees from TPP grew 59% YOY and 44% QOQ
- Retail cards and payments fees grew 39% YOY
- Retail Assets (excluding cards and payments) fee grew 20% YOY

Trading profit and other income at Rs. 1,128 crores was higher by Rs. 909 crores YOY and grew by Rs. 743 crores sequentially, mainly on account of better DCM and trading performance and reversal of MTM booked in the previous quarters.

Operating expenses for the quarter stood at Rs. 9,319 crores, growing 27% YOY and 4% sequentially. It is pertinent to note that there were only one month Citi BAU expenses in Q4 FY23. We have opened 125 new branches in the quarter and 475 new branches through the year.

- Integration expenses contribute ~3% of the YOY growth in % terms and ~ 11% of the YOY cost growth in rupee terms;
- The balance YOY increase in rupee crore expenses other than above can be attributed to the following reasons: (i) negative 2% linked to volume; (ii) 51% technology and growth related and (iii) balance 40% to BAU.
- Technology and digital spends grew 32% YOY and constituted ~ 9.3% of total operating expenses.
- Staff costs increased by 35% YOY. We have added 12,735 people from same period last year mainly to our growth businesses and technology teams.
- QOQ increase in operating expenses is largely attributable to staff costs and technology and growth related expenses. We added 4,983 people in the quarter.

Provisions and contingencies for the quarter were Rs. 1,185 crores, higher by 15% QOQ, largely attributable to higher coverage of ~ 1% QOQ. The Bank continues to prudently carry 100% provision on its AIF investments.

The cumulative non NPA provisions at March 31, 2024 is Rs. 12,134 crores, comprising (i) Provision for potential expected credit loss of Rs. 5,012 crores; (ii) Restructuring provisions of Rs. 535 crores, (iii) standard assets provision at higher than regulatory rates of Rs. 2,029 crores and (iv) weak assets & other provisions of Rs. 4,558 crores.

Growth across our liabilities and loan franchise

Please refer slides 36 to 38 for details around the quality of our liabilities franchise and slides on our loan franchise.

Total Deposits on a QAB Basis grew 16% YOY and 5% QOQ. CASA ratio on QAB basis stood at 40.74%. NRTD grew 29 % YOY and 5% sequentially. The outflow rates of our deposits improved by ~100 bps YOY indicating improvement in the quality and lendability of our retail and non-retail deposits.

In order to ensure like for like comparison of deposits growth with peer banks, the Bank will only report total deposits growth as part of its disclosures in FY 25, along with the LCR quality of deposit metric.

The Bank sold IBPCs in the current quarter aggregating to Rs. 4,564 crores, grossed up for IBPC sale, the QOQ loan growth was 4% and YOY loan growth was 15%.

Our loan book is granular and well-balanced with retail advances constituting 60% of the overall advances, corporate loans at 29% and CBG at 11%.

~70% of our loans are floating rate. ~47% 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 28 of our investor presentation.

Retail book

- Retail advances grew 20% YOY and 7% sequentially, ~ 72% of the book is secured
- Q4FY24 Retail disbursements (including Bharat Bank) grew 8% QOQ. Unsecured disbursements were 25% of retail disbursements for the quarter as compared to 24% in the previous quarter. Disbursement growth in LAP was 23% YOY and 9% QOQ, Retail agri was 18% YOY and 25% QOQ, PL was 49% YOY and 11% QOQ.

Wholesale Banking Coverage

- Details of rating composition, incremental sanction quality is set out on slide 55.
- Grossed up for IBPC sale the domestic corporate loans book grew 10% YOY and flat QOQ.
- 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 is India linked and 93% is rated A- and above.

Commercial banking

- The commercial banking book grew 17% YOY and 5% QOQ. The quality of the CBG franchise we are building and strong relation led approach is reflected through:
- CBG New to Bank book grew by 14% YOY
- 83% of CBG loan book is PSL compliant.

Coming to the performance of our subsidiaries

Detailed performance of the subsidiaries is set out on Slides 86 to 93 of the investor presentation. In FY 24, the domestic subsidiaries reported a net profit of Rs. 1,591 crores, growing 22% YOY. The return on investment in domestic subsidiaries was ~ 54%.

Axis Finance:

- Overall AUF grew 38% YOY. Retail book constitutes 45% of total loans
- FY24 PAT grew 28% YOY to Rs. 610 crores, and healthy CAR at 19.24%.
- Strong asset quality with net NPA of 0.28% and negligible restructuring.

Axis AMC: Overall quarterly average AUM grew 14% YOY to ~ Rs. 2,74,265 crores, FY24 PAT stood at Rs. 414 crores

Axis Securities: Broking revenues for FY24 grew 58% YOY to Rs. 1,143 crores and PAT grew 48% YOY to Rs. 301 crores

Asset quality, provisioning and restructuring

Asset quality continues to improve with gross and net NPA in rupee terms and % terms declining sequentially and YOY. The Slippage, GNPA, NNPA and PCR ratios for the Bank, and segmentally for Retail, CBG and Corporate is provided on slide 78 of our investor presentation.

- Gross slippages in the quarter were Rs. 3,471 crores, declining 7% QOQ. Gross Slippages segmentally were Rs. 3,110 crores in retail, Rs. 163 crores in CBG and Rs. 198 crores in WBCG
- Gross slippage ratio (annualized) stood at 1.48%, declining 28 bps YOY and 14 bps QOQ.
- For the quarter ~ 35% of the gross slippages are attributed to linked accounts of borrowers which were standard when classified or have been upgraded in the same quarter.
- Net slippages in the quarter were Rs. 1,317 crores. Net Slippages segmentally were Rs. 1,616 crores in retail, Rs. 51 crores in CBG and negative Rs. 350 crores in WBCG.
- Recoveries from written off accounts for the quarter was Rs. 919 crores.
- Net slippage in the quarter adjusted for recoveries from written off pool was Rs. 398 crores declined 17% QOQ. Segmentally retail was Rs. 1.061 crores, CBG was negative Rs. 62 crores and WBCG was negative 601 crores.

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

- Consolidated ROA and ROE for FY24 1.84% and 19.29% respectively, an outcome of disciplined execution.
- The Bank has ample and sufficient liquidity, visible in the average LCR ratio of 120% which improved by 171 bps QOQ. Deposit growth could be the key constraint for growth in advances growth in the short to medium term. In the medium term to long terms we believe our advances can grow 300 – 400 bps faster than industry.

- We are well placed in the current macro environment, we continue to closely monitor the geopolitical environment, inflation, liquidity, cost of funds and its impact on our business.

We conclude our opening remarks and would be happy to take your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Chintan Joshi from Autonomous. Please go ahead.

Chintan Joshi: Hi, thank you. I have two questions, one on NII and one on costs. On NII, if I can start with that last quarter, when we were discussing how NII developed. I got a sense that there would be more pressure on the liability side and that NIMs would be a little lower than what you have reported, which is a good thing. But I just wanted to understand, was there anything that helped alleviate any pressures or help post better-than-expected NII performance this quarter? So therefore, what was the underlying improvement since the third quarter commentary and how should we think about the future?

On costs, just a broad question. Help us on how we should think about cost to asset evolving in FY25?

Puneet Sharma: Chintan, thank you for your question. On net interest margins, I can simply answer the question by saying there are no one-offs in our net interest margin or net interest income for the current quarter. The improvement in net interest income and net interest margins is on account of disciplined execution. We have had a book mix shift, and we have had pricing improvements across the portfolio that have driven this outcome.

To your second question on cost to assets and outlook. We do not offer guidance or outlook on the cost to assets metric. We have consistently maintained that as long as we can deliver the 18% return -- in and around the 18% return on equity on a consolidated basis, we would like to continue to invest in the franchise. That is where I would leave the response. We do not offer sequential annual or forward-looking guidance on cost to assets. Thank you.

Chintan Joshi: Just on the margins, if I can...

Amitabh Chaudhry: Chintan, can I add, Amitabh here. Chintan, I just want to add to what Puneet said, while obviously we have been consistent about the fact that if you look at what is happening in the market, the trend line would be that the deposits are still getting repriced while the asset repricing has happened, but that does not mean that we have some levers at play in our hands. And I think what we have been just trying to do as an enterprise is to just use those levers and see how we can maintain margins and continue to try to improve them.

So as and when opportunities arise, we will obviously try to grab them and try to ensure that we do not go south in terms of margins, but we maintain or improve them. I am not trying to give you any guidance, but I am just trying to say that the intent of the management team is to obviously continue to deliver, as I said in my opening remarks. So I just want to leave that thought with you. Sorry, you were asking a question.

Chintan Joshi: I have got exactly what I was asking. So thank you so much.

Moderator: Next question is from the line of Mahrukh Adajania from Nuvama Wealth. Please go ahead.

Mahrukh Adajania: Congratulations. My first question is on LDR. So would you have a broad framework in mind on, say, peak LDRs, like would you want the LDRs to stay at 90% or 89% or any such peak or cap you have in mind on LDR?

Amitabh Chaudhry: So Mahrukh, we have a clear strategy in mind on the LDR side, not that something which we are guiding towards or talking to the market about. But there is a clear strategy. If you look at our LDR ratios, they have trended in a particular direction.

Our hope is that we would like to maintain it within a zone and ensure that we understand and appreciate where the regulator is coming from. And at the same time, have flexibility to grow at a certain rate going forward in the future. Obviously, none of it can happen without deposits coming at a certain growth, right? So broadly, that is what -- how we are thinking about LDR.

Mahrukh Adajaniya: But for the next few quarters, should we assume that deposit growth would outpace loan growth?

Amitabh Chaudhry: So yes, I cannot take away the fact that deposit growth will be an important determinant in driving credit growth. Without that, being able to showcase credit growth would be quite difficult. But that is something which we have been saying even before all the noise started in LDR.

We have been talking about for quite some time that at some stage, the deposit growth and the credit growth needs to converge. This cannot -- this gap cannot continue forever. I think we have been saying that for quite some time.

Mahrukh Adajaniya: Okay, got it. My final question is on cost of funds. So obviously, for most banks, there has been some quarter end deposit mobilization. You, of course, transparently disclose what is MEB and what is QAB, but given that and given obviously intensive competition, can we assume that cost of funds have peaked because they look very resilient over the last two quarters for you, assuming that there are no further policy rate changes?

Puneet Sharma: Mahrukh, thank you for the question. We have previously stated that if the marginal cost of funds remains where it is today, given the current status of our book, we should finish back book repricing in Q2 of the current financial year.

Mahrukh Adajaniya: Okay. Thanks a lot. Thank you.

Moderator: Next question is from the line of Rikin Shah from IIFL. Please go ahead. Due to no response, we move on to the next participant. Next question is from the line of Pranav from Bernstein. Please go ahead.

Pranav: I have two questions. First is on the deposits.

There has been a phenomenal improvement in the quality of deposits over the last few years. Is it fair to say that you have reached a certain level or the target state in terms of the quality of deposits. And therefore, now the growth could once again start being much higher than the system growth, like what the long-term guidance has been.

And the second question is more on the third-party fees. There has been a punchy growth QOQ. Is that one-off? Or is this a new level of third-party fees that we should expect going forward?

Subrat Mohanty: Pranav, this is Subrat. So the journey to continue to improve the quality of the deposit franchise is ongoing. I mean we have highlighted over the last three years how the trends have improved in some of the key metrics that we track for deposit quality. We still do not think we have reached anywhere near a plateau in terms of improving these metrics.

There is also another lever of productivity that we are continuing to work on. We have mentioned Triumph program that we are working on to improve deposit productivity across the board as well as working on making sure that the Bank becomes the primary bank for a lot of our deposit account holders. So I think the progress is satisfying so far. But like I said, we still believe we have levers left, which we will continue to work on over the next four quarters.

Rajiv Anand: If I can just add to what Subrat mentioned. As I think about savings in three buckets; retail, corporate and government, retail, as Subrat mentioned, there is work that is going on in terms of improving productivity, improving distribution and continuing to grow on our digital capabilities.

We spoke -- Amitabh in his opening comments spoke about SUVIDHA, which is a new improved version of our corporate salary program, including the 1,600 corporates that have come to us, thanks to the Citi acquisition. On the corporate side, we are working on multiple fronts, salary accounts, given the fact that corporate India is cash surplus at this point in seeking out franchise deposits and finally driving flows through NEO.

And finally, the government side of the business has increasingly become a lot more solution-oriented, which actually plays to our strengths, and we are now able to chase across multiple programs, both at the central and state government, they are able to chase money from the Consolidated Fund of India all the way down to the beneficiaries. And that also is a partnership that is working well between our government business on one side and Bharat Banking and the distribution that is getting built on the other side.

Pranav: Thank you. That is very helpful.

Moderator: Next question is from the line of Kunal Shah from Citi. Please go ahead.

Kunal Shah: Yes. So once again to touch up on margins. So as you indicated, there is not much of an interest reversal benefit, even though this time we have combined both interest reversals as well as spreads together in 5 basis points. But when we look at it in terms of the incremental spreads, so given that cost of deposits have also gone up by 8-odd basis points.

Are we seeing the entire mix shift and the overall -- when we look at it, the pass on in terms of the lending rates, leading to this kind of improvement in spreads as well and does it give the flexibility to increase the deposit rates I think in less than Rs 2 crores, we are still below many of the -- many of our peers. And to just shore up the retail deposits, should we do that in terms of the deposit rate hike?

Puneet Sharma: Kunal, thank you for the question. I just would like to clarify interest reversals on GNPA when booked and interest reversals on GNPA when upgraded on a realization basis we treat as normal course of business. So for us, exceptions would be something like an income tax refund or some one-time income that has come through. On account of a large recovery, etcetera, is what we would call an exception. So my response that we do not have a one-time interest income in the current quarter should be read in that context. To your second question…

Kunal Shah: Sorry, anything reversal within this -- any interest reversal within this, which is in the normal course because we are seeing a good recovery as well?

Puneet Sharma: Look, Kunal, we have recoveries and upgrades every quarter. So like I said, it is in the normal course, we have no exceptional item and I will reiterate that for you. We have no exceptional item in the net interest income line for the current quarter.

To your question on our ability to pass on increase in cost of funds, we had an 8 basis point increase in cost of funds on a sequential quarter basis. Our yields on interest earning assets moved up by 11 basis points. So that should address your question on incremental spreads.

On a full year basis, we had a roughly 95 to 97 basis points increase in cost of funds and we had a 97 basis points increase in yield on interest earning assets on a full year basis. So the quarter on an exit basis is better than the full year. But even on a full year basis, we have been able to pass on our cost of deposits.

Kunal Shah: Sure. And secondly, with respect to the composition of the retail book, so that is also more towards the high yielding. In fact, when we look at the mortgage that has grown nearly at 5-odd percent compared to 20% growth in retail assets. So would that strategy continue? And what would be our plan with respect to the home loans?

Because most of the other segments, we are seeing like the overall rural banking as well as SBB and all growing at a rapid pace compared to that of the home loans. So is it more like trying to manage the margins and that is the reason why home loan is growing at a certain rate or it is maybe the competitive environment?

Amitabh Chaudhry: So I think we have shared our strategy on how do we decide in a constrained environment on which assets we need to grow. We use RAROC, risk-adjusted return on capital as a measure to drive that decision. And if you look at RAROC on mortgage business, if mortgage is the only thing I do with the customer, it tends to be much lower than a lot of other asset classes.

So I think what you see on ground or what you see in our numbers is a reflection of that strategy. And if we continue to remain in a deposit constrained environment, that strategy would ensure or would continue to force us to ensure that we grow some of the lower RAROC asset classes at a lower rate than some of the others.

So I think we have been very consistent about how we go about our loan growth across weighted asset classes. And depending on what the environment is, we will continue to drive our strategy accordingly.

Sumit Bali: Just to add to what Amitabh said, I think as a system, we have the ability to grow asset classes faster, but all depends how the borrowing environment is. And in the right time, we can grow each of the asset business. Our overall asset growth this quarter is about 7% QOQ, which is a fairly strong growth. And if the economics is right, deposit situation or the liquidity is fine, you will see all asset classes growing.

Kunal Shah: Okay, got it. Thank you.

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

Piran Engineer: Team, congrats on the quarter. Some of my questions have been answered, but I have a few clarifications. Firstly, did we mention at the end that we will now grow 300 to 400 bps faster than the industry?

Puneet Sharma: Piran, thank you for the question. We mentioned that we will grow 300 to 400 basis points faster than the industry over the medium to long term, Medium to long term being defined as 3 to 5 years -- sorry, 300 to 400 basis points.

Piran Engineer: Yes. So that is -- I mean, our stance has changed because the industry is growing faster or because you want to reduce LDR or like over the medium-to-long term I do not think LDR should be an issue. So just wanted to understand why the change in stance?

Puneet Sharma: Piran we heard your question. Thank you for your second question. I think what we -- we have not changed our stance. What we are saying is in two parts. In the short term, deposits growth will drive advances growth. Our expectation is deposits will grow 13% next year and advances, therefore, being driven by deposit growth should be in the same range for the industry. That is the first comment we made on the call and that is an industry level comment not a bank level comment.

The specific bank level comments we have made on this call is to say, we have the confidence in the franchise to grow 300 to 400 basis points faster than industry in the medium-to-long term. I hope that sets context, right with respect to both responses.

Piran Engineer: Okay. Perfect. No, that clarifies it. Secondly, and I know you cannot maybe share too much of details, but if you can just give some sort of comfort on in the last -- in the recent past has RBI in discussions with you highlighted any sort of tech deficiencies, KYC issue, customer on boarding, etcetera, et cetera because in the last 3 months we have seen RBI been pretty active and we saw something today also. So I just wanted to get some sort of comfort on this front, if you do not mind?

Subrat Mohanty: Yes, sure. This is Subrat. I mean, look, listen, we cannot disclose what communication goes on between us and the regulator. However, if you remember even during the Analyst Day that we had in November, we spent considerable amount of time talking about our tech architecture, the focus on resilience and availability because those are the cornerstones of the strategy that we have put together within our technology landscape.

What that means is in terms of making sure that we are partitioning some of our core banking systems, moving some parts of it to cloud to make sure that some of the high-velocity, low-value transactions are separately managed. We continue to build fairly industrial strength back-end infrastructure, update the end of life, end of support applications and operating systems.

All of that is part of what we think are very integral, apart from all the cutting-edge work that we do on the digital side to keep the shop running and running at a fairly resilient and predictable manner. So we continue to do that, and we will continue to give you the update.

A lot of questions in the past have been asked about the investment in tech that we do. A lot of it has gone into resilience and availability. So we will continue to be on that path. Like I said, this is an area that can surprise you any day. So we are being very, very careful about this.

Piran Engineer: Got it. Okay. Thank you Subrat. Just my last question on yield improvement. So one part is loan mix, but simply driven by pricing how much further can yield improve?

Puneet Sharma: Piran, thanks for the question. Honestly, pricing is market dynamics, very difficult to call out. The rate increase has not been fully passed on to customers. So it will be a function of how our peer banks and market behaves on incremental price pass on our customers.

Piran Engineer: Okay. But how much has been the incremental amount? That is really my question. So the repo-linked book obviously has not changed that half of your book, but the fixed rate book which is about 30% what sort of rate hikes would be have taken in Q4 and I understand that only on the fresh disbursement, but still?

Puneet Sharma: Understood. Since we do not put out the data on rate hikes on the quarterly disbursement basis, but I can give you a pointed answer to your question. Our yield on interest-earning assets has moved up by 11 basis points in Q4 against an 8 basis points increase in cost of funds.

Piran Engineer: Okay. Thanks a lot for answering my questions and all the best for the coming quarters.

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

M.B. Mahesh: Just two questions. One is there has been a slowdown in the credit card outstanding on a sequential basis while the sale book has kind of done reasonably well, if you could just kind of qualitatively call upon as to what has happened on these two products?

Arjun Chowdhry: Yes. Thanks for the question. This is Arjun here. Actually what we have seen is that credit card spends have moved in line with the cyclical patterns and we have also seen that the overall outstanding in the industry the growth rate has tapered, but I would not say they have slowed down. This is a reflection of two factors.

We have been calling out for a long time that the revolve rates in the industry have been coming down and as that happens, we see that people pay down more of the balances and therefore the balance is left outstanding at the end of any statement cycle come down. So that is one qualitative aspect.

You will also note that we have not slowed down on the pace of acquisition, and this is for the seventh quarter in succession we have done and in fact this quarter we did 1.24 million cards. So we have continued to grow our cards acquisition and we are doing that in a thought-through calibrated fashion.

We will be building out the balances in a combination of spending and lending as we have done in the past to build those back. But we do not see this as any kind of a protracted slowdown or an indication of a slowdown in the industry at a gross level.

M.B. Mahesh: Arjun just to clarify, qualitatively, some comment from the asset quality side of it?

Arjun Chowdhry: Sorry, -- some comments on the asset quality of cards is it?

M.B. Mahesh: Cards and the unsecured loans.

Arjun Chowdhry: So they remain within our guard rails. And as I mentioned, our growth is in a calibrated and thought through fashion which one aspect of that calibration includes assessment of how we see early risks moving and we are fairly dynamic in the way we change our policies in response to what we see.

Both on cards and on personal loans we continue to do that. We have not seen anything worrisome on the asset quality. Having said which, we continue to keep a close eye on it because we obviously understand the nature of these two portfolios to be what they are. So we are not taking any -- we are not stepping back on anything, but we are keeping a close eye and we will continue to do so on so far.

M.B. Mahesh: And Puneet, Amitabh, on this quantification that you have done with respect to raising capital, it does not look like next year's loan growth seems to be very high. Aspirationally, the number on ROE still looks fairly healthy. If you could just kind of comment what the rationale around this possible capital raise?

Puneet Sharma: Mahesh, thank you for the question. What we simply said is we assess our capital position on two pillars, growth and protection. We reiterate that we do not need capital for either pillar. These are purely enabling resolutions for the financial year.

Moderator: Thank you. The next question is from the line of Param Subramanian from Nomura. Please go ahead.

Param Subramanian: Thanks for taking my question. Most of my questions have been answered. Just one on deposit growth. So if you see this year we closed at about 13% which is in line with the sector, 13% YOY.

And even last year if we adjust for what we got from Citi we grew 10% YOY. So, of course, we have improved the quality of the franchise quite a bit and the outflow rates have come down, but do we start becoming a market share gaining entity from, say, next year onwards that you are talking about sectors growing at 13% deposit growth in FY25, what number would you have in mind for the Bank?

Munish Sharda: This is Munish. So I would not be able to give you guidance on the deposit growth rate for next year, but like Amitabh shared in his address there are a number of things that we are doing to improve the quality and the market share gain that we are running for through a number of structured programs that we are running across the franchise.

We continue to hope that we will -- our growth rates will be in line with the -- with our front trends and we will continue to invest in the growth of the franchise through distribution expansion, through our tech initiatives for enablement of our sales force. So difficult to say a number how much market share we will gain in the next few quarters here.

Param Subramanian: Okay. Fair enough. Thank you and all the best and congrats for the great quarter.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JPMorgan. Please go ahead.

Saurabh Kumar: Just two questions. So one is could you just comment on the net slippages both in corporate and SME that continue to be negative. So how long would you expect that situation to last?

And the second is I just want to confirm on this borrowings number. I just want to get to how much is the refinance. The number I am getting basis your disclosure is about INR1.1 trillion. I just want to confirm if that number will be about right like the total refinance borrowings of the total borrowings. These are two questions?

Puneet Sharma: Thanks Saurabh for your question. On the refinance number, give me a couple of seconds to come back to you. Sorry, I missed your first question, if you would be kind enough to repeat that, please?

Saurabh Kumar: Yes. Just on the refinance, is this considered like for an adjusted LDR calculation, will this be -- because this would be backing certain assets. So is there like an adjusted LDR which you do taking out refinance or not?

Puneet Sharma: Saurabh, at the end of the day the LDR is a prescribed formula. So it is total loans by total deposits. If a loan is financed by refinancing it will still sit in the numerator, but will not be in the denominator if the denominator has not been classified as the deposit, I hope that clarifies. On the amount, I will come back to you on what the amount is and the second question that you have.

Saurabh Kumar: Net slippages on corporate and SME how?

Puneet Sharma: I think we have had -- if you look at the performance that the Bank has delivered, we have had negative slippages on the wholesale book in Q4 last year, Q3 this year and Q4 this year. So the wholesale book is actually on mend and quality has improved. But let us be honest, wholesale recovery is episodic. So will that consistently continue and repeat itself every quarter, difficult to say.

Our CBG book has behaved well. We did recognize a set of assets during the COVID period and we are seeing recoveries come back from that class of assets. It is small but likely to continue. We are not seeing a divergence there from a recovery performance standpoint.

On the refinance number, I think we called out a INR1,10,000 crores. The exact number is about INR1,14,000 odd crores.

Saurabh Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Rikin Shah from India Infoline. Please go ahead.

Rikin Shah: Just one question, Puneet, if you could provide some color on the nature of trading gains in this quarter. And I also observed that in the investment breakup the HTM proportion has gone down to HFT. So does that have to do with the new investment norms and how should we think about the financial impact in the quarters to come back?

Puneet Sharma: Rikin, thank you for the question. The new investment norms are applicable 1st April. So the 31st March balance sheet is prepared and reflected under the old norms. On trading gains, to your question, we have trading profit and other income of about INR1,128 crores, again that grew by INR743 crores sequentially. A large part of that gain has come through our debt capital market, our treasury trading performance and MTM, a reasonable size reversal of MTM losses booked in the last quarter.

Rikin Shah: All right. Puneet just to clarify on this, while I am aware that these norms kick in from 1st April, is the investment book positioning in anticipation of that? And if you could also help us think about what could be the potential implications on the financials in the coming quarters, this is the new norm? That would be helpful.

Neeraj Gambhir: This is Neeraj Gambhir here. There is no positioning ahead of these norms. We basically are take the existing book and reclassify the existing book basis, what works from the overall strategy perspective.

To your question about how it will affect the overall -- the overall pattern of investments by the banks. I think it is too early to say -- as you would know that the ability to move bonds from HTM to AFT at the start of the year has gone away. While we, as a Bank, did not use it in the last several quarters. I think several other banks in the market did use that. So whether that will change the trading pattern of the banks, I think that remains to be same.

Rikin Shah: Got it. Thank you very much.

Moderator: Thank you. Next question is from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Yes. Good evening, everyone. So wanted to understand on core fee-to-asset ratio, which has been improving and has improved quite substantially from 1.1% to 1.2% and now to 1.35%. Of course, we have had some changes in the loan mix. But how -- but given now, as of now, I mean how should one think at this ratio? Could this be a part of your ROA expansion, if you were to see that?

Puneet Sharma: Thank you for the question. We operate at fee to assets higher than equivalent private sector to your banks. We do not -- please do not estimate or expect further optimization on the fee-to-asset ratio on a go-forward basis.

Jai Mundhra: Right. And lastly, this basis previous question on the new investment norms, I think all banks were supposed to redraw our balance sheet on 1st April. I mean if whatever -- if you can share, does that mean an accretion to CET1 capital and maybe the rough quantum within that? And do you also have to sort of do such things for your subsidiary also.

Puneet Sharma: Yes. Thank you for that question. We have redrawn the balance sheet position as a 1st April. We are, however, unable to discuss its impact currently. We will discuss that as part of our quarter 1 commentary when we report Q1 FY25 results. There was a question around CET1 accretion. I would just like to flag off that the guideline is -- has multiple balancing factors. While appreciation goes into AFS reserve, some of the risk weights on classes of investments also move up. So it will be a function of specific portfolio positions as at reporting date. Therefore, we would not like to comment on it as of today.

Moderator: Thank you very much. Ladies and gentlemen, we will take the last question from the line of Sameer Bhise from JM Financial.

Sameer Bhise: Congrats on a good set of numbers. So I think good job on reducing the RIDF concentration in the overall pie. Can you elaborate on how the bank is positioned on PSL with respect to some of the subsegments?

Puneet Sharma: For FY24, the Bank's own assessment is that it is compliant on PSL at the headline level and at each subset level.

Sameer Bhise: Okay. And most of that has been primarily organic or -- I mean, in terms of PSLC acquisition. Some details will be helpful.

Puneet Sharma: It is a mix of organic and PSLC. Our organic performance has improved YOY. But yes, we do incur a PSLC cost, which is reflected in our cost to assets ratio. It is a combination of both that has got us to the achievement with organic now contributing more than it did in the last financial year.

Sameer Bhise: Okay. That is helpful. Finally, could you share the gross slippage number across wholesale and retail segments.

Puneet Sharma: Our gross slippage number for the quarter is Rs 3,471 crores. It declined 7% on a QOQ basis. Rs 3,110 crores is retail, Rs 163 crores is our CBG business and Rs 198 crores is our WBCG business, which is wholesale.

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

Puneet Sharma: Thank you, Neerav. Thank you, everyone, for taking the time to spend the evening with us. I hope we have been able to address all of your questions today. If any questions remain unaddressed, please do reach out to Abhijit and the IR team. We would be very happy to take questions on a one-on-one basis and offer further clarifications. Good evening and have a good day.

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