"Axis Bank Limited Q2-FY17 Earnings Conference Call"

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Moderator: Good Evening, Ladies and Gentlemen, and Welcome to the Axis Bank Conference Call to discuss the Q2 and H1 FY 2017 Results. As a reminder, all participant lines will be in the listen-only mode. Please note that this conference is being recorded.

Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation is not sent. Unauthorized dissemination of the contents or the proceedings of the call is strictly prohibited and prior explicit permission and written approval of Axis Bank is imperative.

Axis Bank team is represented by Mr. V. Srinivasan -- Deputy Managing Director; Mr. Jairam Sridharan -- CFO; and Mr. Rajiv Anand -- Executive Director; and Mr. Sidharth Rath -- Group Executive, Corporate Relationship Group and Transaction Banking.

There will be an opportunity for you to ask question at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone.

On behalf of Axis Bank, I once again welcome all the participants to the Axis Bank conference call. I would now like to hand the conference over to Mr. Jairam Sridharan -- CFO, Axis Bank to begin with the presentation. Thank you and over to you, sir.

Jairam Sridharan: Thank you, Karuna. Thank you ladies and gentlemen. Good evening on this busy results day. My colleagues Mr. V. Srinivasan, Mr. Rajiv Anand, Mr. Sidharth Rath and I welcome you to our conference call for a presentation on the Bank's performance for the second quarter and half-year of the financial year 2017.

At the end of this presentation, we will be glad to respond your questions. For parts of this call, we do expect to refer to slides in our quarterly earnings presentation. So you might want to keep the presentation handy.

Let me start with the key themes for the quarter's performance.

Number one, crystallization of the watch list. 32% of the watch list has slipped into NPA this quarter leading to a material rise in asset quality metrics.

Number two, strong growth on both sides of the balance sheet, growth momentum was healthy with deposit and loan growth at 17% and 18% respectively.

Number three, steady operating earnings, where underlying earnings quality remains steady with operating profit margin at 2.95% of average assets.

Net profits have been suppressed on account of three factors: NPA provisions, the consequent interest reversals, and growth in OPEX. As we continue to invest for the future in people and branches.

Number four, strong performance on the retail franchise. The retail franchise of the Bank had another good quarter with savings account growth of 20% year-on-year and core retail loan growth of 26%, net of FCNR (B) related accounts.

CASA balances grew at 19% and the CASA ratio was 45%. The share of retail advances excluding FCNR (B) deposits is at 40%. We are now the fourth largest credit card issuer in the country with a card market share of 10%.

And the final theme, that is our strong capital position where despite lower earnings for the quarter we continue to remain well capitalized with our Tier I ratio at 12.03%. I shall dwell on these five themes in greater detail as we go along.

Let me begin my detailed comments though with some perspective on the macro situation as we see it for Indian banking today.

The operating environment for banks continues to remain challenging. Credit off-take and demand is tepid with reported system growth being even lower due to the shift of electricity DISCOM loans. RBI liquidity injection and prospects of further rate cut have facilitated growth in non-bank sources of borrowings. Despite asset sales by some leveraged entities there has not been material improvement in operating cash flows in most sectors. This along with modest capacity utilization levels has impeded fresh CAPEX demand.

On the economic front, the macro theme is largely favorable and there have been some significant policy progress. Some large reform measures like the Bankruptcy and GST Bills have been passed and they form a long-term favorable narrative for the country. However, implementation will take time and the positive effects are likely to be visible only in the coming years.

Global trade weaknesses are likely to keep export growth flat as well. The government has taken steps to revive stranded projects but evidence of projects restarting or coming on track is still patchy. A well distributed normal monsoon for the first time in three years will likely improve agricultural output and prospects for rural demand for financial year 2017.

Consumption demand will also likely improve during the festive season. That said, private sector CAPEX revival will probably take a while, even if RBI further cuts the policy repo rate. Post monsoon, the pace of construction projects and some government funded sectors can also be expected to accelerate and cash flows might improve. We remain optimistic on India's prospects in the medium-term.

With this macro backdrop, let me now discuss the Bank's performance of the quarter in greater detail starting with asset quality.

In April 2016, we published what we then called a watch list. These were accounts that the management assessed to be the key source of stress in our corporate lending book over the next two years. We indicated then that around 60% of the portfolio could slip into NPA in this two-year period. In the six months since the publication of our watch list we have witnessed four material developments.

One, the operating environment of many borrowers continues to be stressed.

Two, our expectation that new tools for structuring of stressed assets would result in movement on many borrower accounts have actually fallen below expectations.

Three, with increasing number of lenders recognizing some of these assets are stressed the operating environment for these borrowers have turned further adverse.

And four, while the asset monetization plans have indeed gathered some momentum recently, leverage at group levels has improved but specific assets continue to remain stressed.

Consequent to some of these developments, gross slippage from the corporate portfolio has increased significantly this quarter and our watch list has correspondingly come down. Slippage from the corporate lending book stood at Rs. 8,193 crores for the quarter. 89% of these that is Rs. 7,288 crores came from the watch list portfolio. That resulted in reduction of the watch list size to Rs. 13,789 crores. Net slippage in retail and SME stood at Rs. 168 crores and Rs. 163 crores respectively. Total gross slippage in the quarter was Rs. 8,772 crores with total recoveries and upgrades at Rs. 1,073 crores.

Slide #24 of the earnings presentation clearly enumerates the impact of these slippages. The gross NPA ratio of the Bank has increased to 4.17% at the end of September 2016 up from 2.54% in June 2016.

The watch list has correspondingly reduced to 3.5% of customer assets in September, down from 5.4% in June and 6.2% in March. Provision coverage has decreased at the end of the quarter to 60%. On the watch list, we now have a provision coverage including standard assets and contingent provisions of 5%.

If you flip to slide #26 in the presentation, you will see that the fund-based watch list outstanding have reduced to Rs. 13,789 crores and non-fund based outstanding to Rs. 1,899 crores. As the waterfall chart indicates, much of the reduction has happened because of slippage into NPA. However, in this quarter, we had our first exits out of the watch list, with two fairly small accounts being repaid in full. The total dissolution of the watch list since its composition has been 39%.

On slide 27, you will see that the sectorial distribution of watch list outstandings has changed noticeably from last quarter with much lower contribution now from iron and steel and textile sectors.

At the first-half year mark since the creation of the watch list we have also undertaken an effort to reground this list. After studying the results of this exercise, we are reiterating the existing watch list. We continue to believe that the watch list in current form would be the primary source of stress in corporate lending in the near future.

Given recent observations however, we are updating our estimate of slippage from this watch list. We now believe that a materially higher than 60% of the original watch list portfolio could turn NPA by the end of financial year 2018.

We continue to watch the operating and resolution environments closely and will update you as more clarity on this front emerges. We have already witnessed 39% slippage in the first two quarters what we have referred to as cumulative dissolution rate of the watch list.

Our annualized credit cost for the second quarter stood at 409 basis points. For the first-half of the year, the annualized credit costs were 305 basis points. In the second-half of the year, we expect slippage levels to be materially lower than H1.

However, we would like to use this opportunity to improve our provision coverage ratio from current levels. This might result in credit cost for the second-half of the year to be somewhat similar to what we had in the first-half.

As we consider the likely future trajectory of credit cost for the bank it is instructive to reflect upon the long-term historical trajectory that we have had.

To give you a good sense of that it is useful to look at slide #28 in the earnings presentation. The chart here shows the credit cost trend of the Bank for the last 14 completed years from financial year 2003 to financial year 2016.

As you can see, the long-term average of the Bank's credit cost in this period through the cycles has been 81 basis points. Based on the level of recognition in the first two quarters and our outlook on the corporate lending portfolio we do expect financial year 2017 to be the peak level of slippage and credit cost in this particular credit cycle.

You might recall our assertion in earlier presentations that most of the watch list exposure was created through underwriting decisions made in financial years 2010 through 2012. It is useful to reflect here on some of the risk management actions and lessons the Bank has incorporated in our underwriting policies, processes, and governance since then. Slides #29 and slides #30 in the presentation cover these aspects.

I would highlight here a few important observations. The loan portfolio composition has diversified significantly. 42% of the Bank's advances now come from retail lending compared to 29% in financial year 2012. Our concentration risk is materially lower. Exposure to Top 20 borrowers as a percentage of Tier I capital of the Bank has halved to 1.4x versus 2.8x in financial year 2010.

In addition, these concentrated positions are now with much better rated corporates. 92% of the Top 20 exposure is rated A or better now compared to 57% in financial year 2012. New sanctions in our corporate loan book post financial year 2012 have been increasingly skewed towards higher rated corporates engaged in non-stressed sectors. This is particularly clear on slide number 30.

Here you see the outcome of some of these underwriting changes implemented in the corporate lending book in recent years. Early delinquency metrics, an early sign of the health of the portfolio being booked have improved significantly in the years since financial year 2012.

We believe this improvement will hold us in good stead as we work our way back to long-term mean reversion on credit costs and as we navigate this the next credit cycle as and when it might come.

To round up our discussion on asset quality, some final metrics.

During the quarter, the Bank implemented SDR in two standard accounts, the underlying loan amount was Rs. 386 cores. The Bank has also implemented 5:25 Scheme for two accounts where the outstanding loan amount was Rs. 387 cores. The cumulative outstanding value of the underlying loan amount for SDRs and 5:25 undertaken by the Bank so far is around Rs. 1,059 crores on SDR and Rs. 5,074 crores on 5:25.

During the quarter, the Bank sold assets with a gross outstanding of Rs. 2,316 crores and a net book value of Rs. 1,128 crores to asset reconstruction companies against a net sale consideration of Rs. 822 crores comprising Rs. 159 crores in cash and Rs. 663 crores in Security Receipts value.

The net NPA for the Bank stood at 2.02% at the end of this quarter, up from 1.08% in the first quarter of financial year 2017.

Let me move on quickly to the next theme that of continued strong growth. Aggregate loan growth remains healthy at 18% year-on-year. Retail lending continues to grow strongly with a Y-o-Y growth of 26% this quarter excluding loans against FCNR (B) deposits.

A few details on this, our retail lending growth has been led by auto loans, unsecured personal loans, and credit cards. Internal customers continue to be the mainstay of the Bank's strategy for sourcing retail assets with over 70% of incremental acquisitions coming from the Bank's existing deposit customers. 94% of the Bank's credit cards and 83% of personal loan originations in the quarter were from existing customers of the Bank. Roughly half of the overall sourcing happened through our branches and the credit quality of retail loans continues to be healthy.

During the third quarter of financial year 2017, the loans against FCNR (B) deposits are likely to mature. This will reduce headline retail loan measures in the third quarter. Our corporate advances portfolio had a Y-o-Y growth of 14%. The overall market growth for corporate credit continues to be tepid and most growth opportunities are continuing to be from refinance transactions. 80% of new sanctions in the corporate book were to companies rated A or better and presently 63% of outstanding corporate loans are to companies rated A or better.

In FY 2017, we expect the Bank's credit growth to be around 18% to 20%.

Moving to the Bank's earnings profile, I request you to refer to slide number 15 in the earnings presentation.

Operating profit for the quarter was at Rs. 4,100 crores, a growth of 13% over the second quarter last year. Operating profit margin was at 2.95% compared to 3.11% in Q2 last year. NII growth was 11% on the back of interest earning asset growth of 17%. Net interest margin for the quarter was 3.64% with domestic NIM at 3.93%.

As you can see from the chart on slide number 16, NIM was compressed by 21 basis points in this quarter mainly due to higher interest reversals compared to the same quarter last year.

For the half year, our net interest margin has been 3.71%. We expect full year net interest margin to remain above 3.6%.

Cost of funds during Q2 was 5.68% compared to 5.81% in Q1 FY 2017 and 5.99% in Q2 last year.

Fees grew by 7% and constituted 27% of operating revenue. Granular fees continued to grow at a steady pace with retail fees showing a growth of 17%.

Mirroring our continued move towards higher and better rated corporate clients, corporate banking fees in the quarter declined by 4%.

The interest rate environment in the quarter has been conducive to significant gains in the trading portfolio of the Bank.

During the quarter, trading income stood at Rs. 536 crores, up 220% year-on-year.

Operating expenses in the quarter increased by 19% Y-o-Y. The key driver of this increase is our accelerated investment in recent quarters in our branch network and staff strength.

The cost to income ratio of the Bank was at 42% for the quarter and 40% for the half-year. On a full year basis, we expect our cost-to-income ratio to be around 40%.

Provisions and contingencies increased by 412% year-on-year due to the higher slippages witnessed during the quarter. During the quarter, we have utilized contingent provisions of Rs. 320 crores held against the set of accounts under the corporate lending book as these accounts have turned NPA during the period.

The significant jump in provisions resulted in profit after taxes declining by 83% on a Y-o-Y basis. The annualized ROA and ROE for the quarter stood at 0.23% and 2.43% respectively.

The fourth theme is the continuing build out of our retail franchise. Please refer the slide #19 in the earnings presentation. The digital journey of the Bank continues to progress steadily. Based on the RBI data our market share in mobile transaction stands at 13.2%, significantly higher than our market share in overall deposits.

Mobile banking spends in the second quarter reported a growth of 120% on a year-on-year basis. In terms of transactions, digital channels are outpacing every other channel by a wide margin. Electronic channels, i.e. digital and ATM now constitute 88% of all customer induced transactions in our retail base.

While we grow digital channels at a rapid pace, we plan to keep up the elevated level of investment in opening new branches and broadening of physical network footprint.

You will see on slide #20 that during this quarter, we opened 100 domestic branches. We expect to continue our increased pace of branch openings through the year and plan to open 350 to 400 new branches.

Savings account balances at quarter-end grew at a strong 20% year-on-year. Current account balances also had a healthy performance with a growth of 16% that is driving an overall CASA growth of 19% Y-o-Y significantly outpacing system growth in deposits.

Our overall CASA share in deposits was 45% at the end of the quarter, 45 basis points higher than the second quarter last year. CASA deposits on a daily average basis for the quarter grew 19% and comprised 41% of total deposits. On a daily average basis, SA deposits grew by 18% and CA deposits by 21%. CASA and retail term deposits continue to form a strong base at 81% of total deposits. The Bank had 28 lakh credit cards in force at the end of the quarter making it the fourth largest credit card issuer in the country. The credit cards portfolio saw a substantial increase in spends by 46% year-on-year to Rs. 6,351 crores up from Rs. 4,340 crores for the second quarter last year.

The fifth and final theme relates to our capital levels.

As of September 30, 2016, our total capital adequacy ratio including H1 profits is 15.2% with a Tier I capital adequacy ratio of 12.03% compared with the Tier I ratio of 12.38% as of Q1 FY 2017 and 12.21% as of Q2 FY 2016.

During this quarter, RBI issued guidelines about risk weights for unrated claims on corporate having aggregate banking system exposure of more than Rs. 100 crores. Claims which were earlier rated and subsequently have become unrated will attract a risk weight of 150% compared to the 100% earlier.

As it is shown on slide number six of our earnings presentation this change has impacted our Tier I ratio by 15 basis points and our total capital adequacy ratio by 19 basis points in this quarter.

With effect from June 2017, all unrated claims on corporates having aggregate exposure of more than Rs. 200 crores from the banking system will be attracting a risk weight of 150% compared to the 100% earlier. This is likely to have a further impact on capital adequacy ratios of the banking system overall in fiscal 2018.

As you see on slide #six growth consumed 81 basis points of Tier I capital. The new guidelines around risk weights consumed 15 basis points and the gross accretion to reserve was 48 basis points making for a net consumption of 48 basis points of capital in this quarter.

The annualized H1 FY 2017 return on equity and return on assets were at 7.29% and 0.70% respectively. As the impacts from higher slippages recedes and benefits of higher investments in branches and employees kick in, we expect these ratios to normalize.

Moving on from these major themes, I would like to highlight a couple of other metrics you might find useful in understanding the Bank's performance this quarter.

SME loan growth stood at 14%. We have seen some pick up in pace here, and now expect SME growth to be better than in financial year 2016.

In recent months, we have received questions from some of you on our loan to deposit ratio. We have attempted to answer some of these on slides #12 and slides #13 in our presentation.

Slide #12 shows the detailed long-term trend in our loan to deposit ratio. LDR have clearly increased over the last 10 years from 56% in March 2006 to 93% in September 2016. The waterfall chart underneath explains the contribution of various driver metrics to this change. As you can see the increase is driven by three major factors - emergence of an international book which is largely funded by borrowings, change in the lending portfolio mix from investment to advances, and the lowering of SLR over this period.

On slide #13, if you look at the shifts in our funding mix itself, it shows a stable CASA ratio, increasing retail term deposits and a reduction in wholesale funding. Instead of a gross LDR metric we prefer managing funding profile through finer metrics that measure liquidity and stability of our funding mix.

Slide #13 shows you the trend in our liquidity coverage ratio, which as you can see is very healthy and well above BASEL III requirements.

Risk weighted assets for the Bank stood at Rs. 437,129 crores and grew by 17% on a year-on-year basis.

Finally, I would also like to highlight some of the achievements of our key subsidiaries which have continued to add significant value to the customers across the Axis family.

The Axis AMC had 48% year-on-year growth in average AUM, among the highest in the industry. Axis long-term equity fund which crossed Rs. 10,000 crores in AUM, is now the largest fund in the industry in the ELSS category and also among the Top 10 equity funds in the industry.

Axis Direct, our retail broking franchise continues to show steady growth. As per data published by NSE, Axis has jumped to the Number 6 position from Number 11 among all broking houses in terms of unique traded customer count. Adoption rate for customers trading on the mobile platform remains among the best in the industry.

Axis Capital, our investment banking franchise continues to perform well. During Q2, it successfully co-managed IPOs in the roads, healthcare, banking and staffing sectors after successfully managing the first two IPOs in the small finance bank space during Q1.

As I close, allow me to re-summarize the key themes of the quarter.

Number one, asset quality, significant part of the watch list portfolio has crystallized this NPA in the quarter reducing our watch list portfolio while increasing GNPAs sharply.

Number two, business growth. Growth momentum is healthy with loan growth at 18% and CASA growth at 19%.

Number three, earnings. Underlying operating earnings quality remains healthy, while high provisions costs hurt PAT level performance.

Number four, strong performance in the retail franchise. Retail franchise of the Bank had another good quarter with savings account growth of 20% year-on-year and core retail loan growth of 26%.

And finally, strong capital position, with capital consumption increase driven by a one-time impact of regulatory changes. However, we remain well capitalized to pursue growth opportunities with a Tier I capital ratio of 12.03%.

With that, I come to the end of my comments and at this point, we would be glad to take your questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Suresh Ganpati from Macquarie. Please go ahead.

Suresh Ganpati: So, there are going to be a lot of questions in asset quality. So, just let me begin by asking only two questions. First, at the end of first quarter, you landed up giving a guidance of 125 basis points to 150 basis points credit cost and maintain a 60% slippage. In just three months, things have gone a bit haywire. So, I just want to understand what has actually transpired in the three months that the management could not anticipate such kind of an issue happening, (a)Secondly, is this an Axis specific issue or an industry issue because most of the lending happened in a consortium basis. RBI had already done an asset quality review and we are still seeing such kind of slippage in numbers? Should you think this is really a very system specific issue?

Jairam Sridharan: Suresh, thanks for your question. As you look at the asset quality environment and how it has been progressing, our intent through the period has been and will continue to be to share with the investment community our best estimate of where we see asset quality issues panning out. As I mentioned in the opening remarks, the key developments during the course of the quarter were around the continued stress in the operating environment plus through some of the newer resolution tools not quite panning out over the course of the few months. These things take time to develop as you can well imagine and it has not been a sudden event that has happened. If you look at the distribution by industry sector that we have shared, you will see that some of these sectors like iron and steel, textiles, etc have seen downgrade of significant size. Specific large accounts which have been under stress for a while have in this quarter been downgraded to NPA status. Those few large accounts is what constitutes the large number in terms of slippages and hence the proportionate increase in the percentages that you speak about so, that is broadly the situation.

Now, to the question of whether this is Axis specific or a kind of industry level overall, there is no easy way to answer that. I would say that the kind of the stress in the operating environment and the lack of strong resolution mechanisms taking off is true for everybody. However, the specific accounts which are or are not classified as NPA yet are going to be different in different Bank’s books and that difference in starting position is going to have differential impact on the level of slippages that you are going to see in quarter-on-quarter basis from different banks.

V. Srinivasan: Yes, Suresh, I just like to add one more thing. I think for some of the larger accounts resolution tools viz. SDR, S4A etc. were pursued. However, our expectations that these may lead to workouts did not materialize.

Suresh Ganpati: Okay, so just one last thing, for example on the iron and steel sector now we have been hearing that the minimum import price has been raised and all those kinds of issues or rather the advantages but then still you have actually seen that. So, seeing slippages coming from iron and steel, so do you think the bigger issue with these guys is the capital structure of the firm and does it matter how all these MIPs in fact whatever you do inevitable that these guys are going to fail?

V. Srinivasan: Again, let me answer this slightly differently. If you look at the three largest slippages as far as this quarter is concerned; the operating revenues, EBITDA levels, and capacity utilizations are much higher than what it used to be six months back. But still, I think there is need to alter the capital structure to make sure that even at these operating levels, things are serviceable and that was something which we were hoping will happen which has not happened.

Moderator: Thank you. Next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: If I look at the corporate slippages excluding watch list, the number was Rs. 330 crores and it has moved to Rs. 901 crores this quarter, correct me if I am wrong. What led to almost 3x increase in corporate slippages outside the watch list?

Jairam Sridharan: Yes, Amit, the way I would think about this is actually our quarter-on-quarter basis if you slice the portfolio into smaller and smaller components you are going to see some lumpiness. I would not read broad trend into it. If I look at the overall non-watch list credit costs that we have had in this quarter which is non-watch list corporate accounts, retail, SME, etc everything put together that number has been kind of roughly 89 basis points there about. So, overall the way I would think about this is there is a watch list which is clearly kind of under stress, which will resolve whichever way it resolves and then there is a rest of the pool which as the cycle moderates will get to sort of a moderate and below our long-term average credit costs over time. So, beyond that sort of breaking it and looking at it every quarter is going to be just hard, it is going to be not productive to try and explain every variation in the numbers there they are going to be lumpy.

V. Srinivasan: I will just add one more thing, clearly, if you look at what other banks are doing I think slippages even post AQR continue to stay elevated and that happened in Q1 and we will have to see what happens in Q2 for most of the banks considering that slippages continue to be elevated even post AQR I think this is something which is a natural consequence.

Amit Premchandani: And on the SDR and 5:25 portfolio can you help us with the outstanding standard numbers in these portfolios?

Jairam Sridharan: Yes, SDR is Rs. 1,059 crores and 5:25 Rs. 5,074 crores.

Amit Premchandani: All are outstanding standard?

Jairam Sridharan: Yes.

Amit Premchandani: And last question from my side, the margin correction with a Rs. 8,000 crore slippages has been very muted so, shall we expect a sharper correction over the next half on account of higher slippages?

Jairam Sridharan: Sorry, I did not catch this question, can you repeat? Sorry.

Amit Premchandani: So, the margin on account of interest reversal the margin correction is only 10 basis point. Assuming Rs. 4.5 trillion of interest earning assets every quarter the correction on account of interest reversal should be around clearly would be around assuming 11% rate would be around Rs. 220 crores as per my numbers Rs. 8,000 crore slippages. So, it appears that the correction is only Rs. 100 crores this quarter. So, this run rate of margin compression because of interest reversal should actually go up or it is at peak now?

Jairam Sridharan: Yes, see the way I think about this is the margin compression because of interest reversals will continue as long as the slippages in the quarter are materially higher than corresponding slippages in the same quarter last year. So, the delta in slippages between the two quarters is what determines the interest compression or margin compression. So, if we get to let us say the latter half of this year when the comparative from the year prior are already quarters of elevated slippage numbers, then the margin compression might be a little bit lower.

Amit Premchandani: So, correct me if I am wrong, I may have missed it, you will continue with 3.5% kind of margin guidance or you are changing that?

Jairam Sridharan: We have said that margins for the full year will be above 3.6% and that guidance stays.

Moderator: Thank you. Next question is from the line of Nilesh Parekh from Edelweiss Securities. Please go ahead.

Nilesh Parekh: The question again one of the things that you mentioned of increasing slippages this quarter is that normalization some of the other banks had recognized some of these accounts. So, are we done with that normalization in terms of what the others have recognized in the system and where we are with the corporates?

Jairam Sridharan: See this is an ongoing process. Now, we will have to see where the system is at, at the end of Q2 which we will get to know as the CRILC (Central Repository of Information on Large Credits) database gets updated. But yes, clearly you have seen with Axis a material acceleration in that process in this quarter and a lot of that quote-unquote catch-up should have happened.

Nilesh Parekh: Typically the system actually saw a significant increase in Q3 and Q4 of last year, right? So, somewhere I think in Q1, we probably could have got a sense in terms of that this increase was coming, right?

V. Srinivasan: Again, I go back to the previous thing I think Q3 - Q4 was AQR and you also saw a lot of measures from RBI in terms of tools. We were hoping all through Q1 that some of these tools would sort of help in resolving some of these assets.

Jairam Sridharan: But when you wait for a while and the resolutions do not seem forthcoming, it is at some point prudent to move on.

Nilesh Parekh: Okay. The other part is the outside of watch list, that is running higher. Now as you mentioned earlier in your comments that this is probably the peak. FY 2017 could be the peak in terms of the watch list. Also for the slippages and the credit cost, is it fair to assume that these also start tapering off in FY 2018?

Jairam Sridharan: See, that would be the hope, I do not want to make any specific guidance commentary on FY 2018 at this point but fundamentally, we do expect FY 2017 to be the peak both in terms of actually lot of the watch list getting actualized as well as the kind of operating environment stress that we see.

Moderator: Thank you. Next question is from the line of Vishal Goel from UBS Securities. Please go ahead.

Vishal Goel: So, clearly I think tough environment for you guys. I think, my question is actually on the whole watch list which was prepared under a premise of some expectations around your recoveries and whatever below triple BBB, etc. So, now what is the risk that this watch list itself increases?

Jairam Sridharan: Yes, see, as I mentioned in our commentary, we did redo the exercise of the watch list and applied the same rules again now to see whether if we were to prepare the watch list today if we come up with a different list, right, as it happens the list that we came up with was fairly similar with where we are today so, we have bit of a minor changes but really not anything very material so we are actually not changing the watch list construct and keeping it as it is.

Vishal Goel: So there has been no addition in last six months in the watch list?

Jairam Sridharan: So if we were to do the exercise today there might be some swaps, but really not material enough for us to throw out the watch list construct and redo a new watch list, so in that sense, nothing very significant. There is a sort of corollary of your question which I might ask as well which is that, okay if the watch list as per the same criteria broadly seems to be the same set of players, the same set of accounts now as it was six months ago. But clearly the environment around those accounts seems to have worsened but what about the accounts which did not make the cut to be on the watch list, do they continue to look as benign or does the level of stress on them look a little bit higher as well? And on that second part of the question I would say that, clearly the last six months one thing has become clear which is that the operating environment has not improved and the lack of good news has essentially meant that clients which were weak their weaknesses are increasingly getting exposed because the operating environment pick up which is necessary for their operating numbers to improve is not quite happening, so that is certainly playing a part in our assessment of what is happening outside of the watch list and we are looking at it closely. But going back to the specific watch list numbers itself on the criteria that we had used six months ago those criteria are yielding pretty much the same names now as they were six months ago.

Vishal Goel: Okay. And on this ARC sale which we did this quarter how is it accounted in the gross slippage and upgrades?

Jairam Sridharan: It is included the amounts see, to the extent that some of the accounts in the sale were already NPA of course it sort of does not matter but to the extent that there were certain accounts which were made NPA during the course of the quarter and were then sold to ARCs that is included in the gross slippages number and that number is roughly a Rs. 1,000 crores.

Vishal Goel: Rs. 1,000 crores?

Jairam Sridharan: Yes.

Vishal Goel: Yes, because the security receipt number would go and upgrade the recoveries, correct?

Jairam Sridharan: Yes, correct.

Vishal Goel: Okay and that number would be how much?

Jairam Sridharan: The upgrades and recovery number is Rs. 1,073 crores.

Vishal Goel: No, ARC, because of ARC.

Jairam Sridharan: For the SR Rs. 663 crores.

Moderator: Thank you. Next question is from the line of Mahrukh Adajaniya from IDFC Securities. Please go ahead.

Mahrukh Adajaniya: Just a few questions. Firstly that you answered it in part now would you think that most of your watch list would slip or would get front-ended in FY 2017 itself given that the slippage is already running higher than earlier estimates?

Jairam Sridharan: As we said, clearly 40% of the watch list or about 40% of the watch list has slipped in the first in the two quarters. The acceleration that we are seeing let us see how much of that sort of continues or how much we continue to take on in the coming few quarters but clearly we would like for the watch list crystallization to happen as soon as prudent. So, we will see how it plays out, you have to continue to watch the operating environment as well as the resolution environment before we get a more precise idea. That is why while we have stated that we expect the slippage percentage from the watch list to be above or more than the 60% that we had originally indicated, we have stayed away from kind of anchoring a new number out there because we are watching this environment and want to make sure that we fully understand how this is playing out.

Mahrukh Adajaniya: The other question was that see, once you crystallize the watch list maybe fourth quarter this year or first quarter next year whichever that is, at what level do you expect the slippages to settle down then. So it is Rs. 8700 crores this quarter it was Rs. 3200 crores last quarter you know mainly it will be Rs. 2000 – 2500 crores next few quarter but where would it settle down?

Jairam Sridharan: Without getting too specific about kind of far out in FY 2018 and all what the slippage numbers are going to be, let me just say that like the long-term credit cost trajectory we shared this quarter precisely for this reason, which is that you look at the long-term history of the Bank last 15 year history of the Bank right and there is a particular cadence to how credit cycles are played out at the Bank. That should give you a reasonable sense of how this particular cycle might play out as well.

Mahrukh Adajaniya: Got it. And just in terms of resolution mechanisms, so obviously the resolution mechanisms have fallen short of expectations but then RBI did promise in the credit policy to come out with more relaxed S4A norms. So, you did not think it appropriate to wait till such norms come out or the accounts could not be saved till such norms came out or would the coming out of these norms or the publication of these norms get some of the accounts that you have classified this quarter upgraded very soon.

V. Srinivasan: See, I think Mahrukh, let us distinguish between recognition and resolution. Continued weak performance of certain accounts has eventually led to crystallization of NPAs. As regards resolution, I think the available tool kits and plausible changes to regulations, hopefully will help us a bit in finding better resolution for some of these difficult accounts.

Mahrukh Adajaniya: Okay and just one last question, there has been a rise in oil watch list, so that is largely conversion?

V. Srinivasan: Yes.

Mahrukh Adajaniya: Okay and can I slip in just one last question?

V. Srinivasan: Carry on.

Mahrukh Adajaniya: Your FCNR is how much?

V. Srinivasan: Rs. 6,724 crores

Moderator: Thank you. Next question is from the line of Adarsh P. from Nomura. Please go ahead.

Adarsh P.: Just two questions. The first one is on the credit cost guidance and when you yourself say that slippages will not continue to the extent you had in Q2 but credit costs would, and that means you want to go to your 65% - 70% kind of coverage range. Just wanted to understand, is this a conservative number of your assessment of the loss given default that you could have in some of these accounts because some of these are hard assets some of these accounts especially in sectors like power you may not see accounts where you lose $0.70 to a dollar . So, I am just trying to understand the need to go to a 70% cover or maybe higher than 60% where you are in second-half?

Jairam Sridharan: Yes, thanks for the question. If you look at our historical experience on loss given default, you will see that the historical averages have been materially lower then these percentages so more in the mid-50s in terms of LGD. However, there are a couple of things that are different about this cycle. One, the most important one in my mind is that the ticket sizes in this cycle are much larger than ticket sizes in prior cycles in terms of NPA size and hence resolution is a little bit more complicated and monetizing some of the securities you have is a bit more complicated so, that is a really big and important issue and the number of potential buyers or potential people of interest who might help in recoveries is actually not very large you know. In my mind, it is quite possible that the LGD that we experience in this cycle is meaningfully different and higher than that experienced in prior cycles and hence we are indeed keen to make sure that the balance sheet is positioned well as we get into financial year 2018 and beyond and hence it is going to be our desire to err on the side of higher PCR than we have at the end of Q2**.** So yes, indeed we are going to increase PCR from here.

Adarsh P.: And would the answer be different across sectors or if you can you give us some indication because we know four - five of the larger constituents of the watch list so, including the ones that have slipped in this quarter so would the answer be very different for a mining, steel or a power exposure or do you think that this thing….

V. Srinivasan: I think as Jairam was saying if you start doing it sector by sector in terms of how much provision coverage it becomes very difficult. I think let us keep it simple. We will keep as high a provision coverage as possible get it to where we have always been around 70% and then as the assets resolve it automatically sorts itself out.

Adarsh P.: Perfect. The second question relates to when you started up the watch list you said there were some subjectivity involved in trying to come to the list. So, just in light of that I just wanted to understand that again we have had an example of an account where they have been able to sell a refinery and some parts at least media reports highlight that some parts of loans are getting repaid to banks including yours. Was that included in the watch list or you would think that you already would have thought that you have some good collaterals and hence, because of this subjectivity not included those kind of loans in your watch list?

V. Srinivasan: See, I think the watch list is at an individual asset level and not at a group level. We are not classifying group exposures as watch list exposures. When you look at a particular group you look at each asset and take a call whether this is weak and whether it based on whatever criteria we have put out should be part of the watch list. The asset you are referring to was not part of the watch list.

Adarsh P.: So, obviously oil was doing well but what I am saying is there was a group holding company debt, which I think according to newspaper reports have got paid. So, you would say even that holding company debt was not included in the watch list?

Jairam Sridharan: Yes, it was not included. Basically we had mentioned it at that time that where we have line of sight to some sort of monetization which will result in that exposure getting cleared and where we have clear line of sight, I think, two examples of such situations, those were not part of the watch list. This happens to be one of them.

Moderator: Thank you. Next question is from the line of Parag Jariwala from Religare. Please go ahead.

Parag Jariwala: I think traditionally given what part of your SDR and restructured asset is not included in the watch list because you began with 72% included in I think in fourth quarter last year, then first quarter you would brought it down to 61%, what would be the percentage right now?

Jairam Sridharan: Sorry, I did not understand the question, percentage of what?

Parag Jariwala: The percentage of your SDR and standard restructured asset not included in the watch list?

Jairam Sridharan: Not included in the watch list. I do not have that readily, Parag I will look it up. I will see if we can get it to you by the end of this call.

Parag Jariwala: Okay. And so, have we restructured any account this quarter or I mean these normal standard restructuring what was the movement in the standard so, entire reduction is the devaluation to NPA?

Jairam Sridharan: The restructured book is now down to 1.74% of advances so, no, there are no restructurings this quarter.

Parag Jariwala: Okay. And you utilized contingent provision of around Rs. 320 crores which you said so what would be the outstanding now?

Jairam Sridharan: Rs. 160 crores.

Parag Jariwala: Okay, thanks. If you can give that number….

Jairam Sridharan: We are working on it. I will just announce it on the call.

Parag Jariwala: Okay. And 5:25 is anyways is not included in the watch list, right?

Jairam Sridharan: There is a small overlap between 5:25 refinance and our constructed watch list.

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

Nilanjan Kafra: While you are looking for the data can I add it will be helpful to the see the overlap of the current watch list the SDR, the 5:25 under restructured.

Jairam Sridharan: The SDR book has a complete overlap. As regards 5:25 refinancing, around 23% has an overlap with the watch list.

Nilanjan Kafra: Okay, what about restructured?

Jairam Sridharan: Within restructured book the overlap is around 63%,

Nilanjan Kafra: Okay and when we talk about that restructure that 1.7% number I am guessing it is not included in 5:25 and SDR.

Jairam Sridharan: Now, I do not know, you are asking too many cuts I do not know exactly how to answer that.

Nilanjan Kafra: Okay, now, I will get to the bigger question, Jairam, could be a bit harsh, I mean do not take it otherwise. But it is like every quarter we keep on discussing for 60 minutes - 75 minutes just on asset quality. Why do not you just clean it up? I mean what is the Bank facing a problem about, just report a loss one quarter and clean it up.

Jairam Sridharan: No, it is a fair question, appropriate for you to ask. See, let us say, the general sort of text book answer is one has got to live by the laws of recognition -- which is IRAC -- actually points you to particular outcomes you do that you might on the margin have some flexibility, but really you do not have infinite flexibility of doing the stuff. So, yes, the intention is to be on the margin kind of lean towards conservatism in terms of recognizing and getting the problem behind us and we will continue to do that in the quarters ahead. Hopefully, you have seen in the last two quarters the strength and the desire of the organization to make some of these hard calls and move forward. But remember there is not infinite flexibility on this.

Nilanjan Kafra: No, you can always build up a provision, right. I am not asking you to declare it as an NPA. I mean IDFC Bank, I did not want to take names, IDFC Bank, Standard Chartered, I mean they all had big problems they build provisions. I mean I do not see why we should be doing this every quarter, I mean, it makes no sense. I mean, if I can step back into that watch list, the additional presentation that we had in Q4 we had step one and step two, I am just looking through it. It just seems like many of these things probably did not work out and probably you were also guessing, we are also guessing. I mean the credit environment is not the same. It is just easier for everyone, I think, just take your mind off this entire problem and focus on the business.

Jairam Sridharan: See, I appreciate your viewpoint. But there are multiple stakeholders you got to think about and I appreciate and respect your view. But as I said, like this is a call that one has to take keeping in mind the best interests of not just investors; but the rest of the stakeholder community as well and within the existing regulatory regime what is possible and what is doable. Think beyond the investment community in terms of the stakeholder group that we have at play, and you will realize the pushes and pulls in that direction.

V. Srinivasan: One thing I wanted to assert is that this has not come at a compromise of operating metrics. I think, our core operating metrics continue to be strong, whether its deposit, loans performance, I think all that continues to be strong. So, at an operating level, I do not think so this has got any correlation in terms of what our focus on building core franchises.

Nilanjan Kafra: Right, I appreciate that Srini. Probably just a last question, if I look at that Q4 release there were some matrix of percentage outstanding on the watch list by projects and operating business it seems if I look at the watch list then and I look at that 19% by projects, do we see any material increase in those outstanding sanctions that we have at which might continue to add into the watch list now.

V. Srinivasan: No material increase in sanctions and in terms of incremental disbursements within the watch list is minimal and not very material.

Jairam Sridharan: And its disclosed in the waterfall chart that you would see.

Moderator: Thank you. Next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.

Manish Karwa: I think on asset quality, most questions have been answered, but just a couple of things more. So as of March, if I look at it and if I just add your gross NPA and watch list it was like Rs. 28,000 odd crores. Now this number is about Rs. 30,000 odd crores, so we have actually only seen a 5% increase in overall stressed portfolio. I am actually just keeping aside the restructured loans and 5:25 for now maybe because there will be a lot of overlaps also there which means that 54% of the assets are now actually being classified as NPL and the remaining classification at a margin should decline as what you are already saying as well. Is that a fair assessment or am I missing something over here?

Jairam Sridharan: No, I think broadly your math works.

Manish Karwa: Okay. And in terms of credit cost then it seems that while this year you will have almost 270 basis points to 300 basis points of credit cost. But then next year roughly, it should mean that your credit cost should fall to your long-term averages as you have put up in that chart.

Jairam Sridharan: See, it is very hard for me to offer guidance on FY 2018 sitting here when its so hard to actually look even kind of three or six months out so, let us keep that aside. I do think sort of directionally we got to keep watching kind of the non-watch list environment continue to make sure that non-watch list accounts continue to do well and then we will see what FY 2018 brings for us.

Manish Karwa: Okay. And outside the watch list, these numbers have actually been rising for the last one or two quarters, I know you answered a few things in the initial questions. But what is the outlook there? Do you think that will just settle down or it is just a one-off thing in these quarters.

Jairam Sridharan: See, the way to think about this is there is a business as usual sort of component, where we have not done an account to account level analysis, which predicts the slippage of a certain account. Then there is the sort of exposures which are collected as a "bad bank equivalent. Viz. the Watch list. The Watch list portfolio will resolve itself one way or the other based on some of the developments that we spoke about before. The rest of the portfolio will continue to see risk which is akin to business as usual and which is a very large portfolio. So on that portfolio, you will see quarterly variations and as you go further, the non-watch list portfolio in proportionate terms will contribute more to slippages. This is on expected lines as the watch list itself in absolute terms keeps reducing.

Manish Karwa: Okay. And the total SR on books is how much?

Jairam Sridharan: Some Rs. 1,547 crores or thereabouts**.**

Moderator: Thank you. Next question is from the line of Pranav Tendulkar from Forefront Capital. Please go ahead.

Pranav Tendulkar: I just had two questions. So, first of all, RBI had given, RBI had this harsh view about banks not classifying NPAs. So RBI in 2010 - 2011 had come with a rule that if an account is an NPA in one account then it has to be classified in all the other accounts that was one. Second, RBI had given all the banks a chance to wash their sins with AQR. So, you are saying that all the accounts that you are classifying as NPA now none of them was common in AQR classified accounts NPA in other banks?

Jairam Sridharan: No, actually we are not saying that at all. The first part of your assertion is actually not factually correct. RBI has never insisted that an account which is classified as NPA with one bank should be NPA in all banks, in fact, quite the opposite. All their public statements and pronouncements have said that the harmonization of recognition across all banks is not a requirement and in fact it is not something that RBI is specifically pushing for. The AQR process was more about identifying assets that on when we looked at on a systemic basis RBI thought had weaknesses and the specific banks that had exposure to those particular accounts RBI asked them to classify. It was not an exercise in harmonization of NPA status across the banking sector. Now, as this recognition process of some of these larger accounts continues to progress as we had mentioned when AQR was going on, there are some of these sort of second order effects that you need to think about such accounts which once they get classified as NPA by multiple banks then their ongoing intent and ability to continue to serve and be interested in the facilities changes or could change and some of that you are seeing an impact of that now. But fundamentally, there is no sort of regulator driven harmonization of recognition status.

Pranav Tendulkar: Right. So, I was just going through your key management personnel ESOPs. So, I have this data around from 2015 because it is available in BSE and 77% of the ESOPs or other ways of acquisition that the key management personnel has done on Axis shares almost around 77% quote plus or minus 2% - 3% have been sold immediately in last six months. So, if your management does not have a confidence in the ESOPs why should the common shareholder should have?

Jairam Sridharan: So, I do not know how exactly to answer this question because individual people have their own interest and have their own personal financial management to take care of and their personal capacity to hold concentrated positions in one stock where they also earn their salary. So, I do not know exactly what to read from that to be perfectly honest with you. Now, is there any sort of information value in there, I do not think so.

Moderator: Thank you. Next question is from the line of Sanjay Parekh from Reliance Mutual Fund. Please go ahead.

Sanjay Parekh: Just to summarize, can we say if I were to look at this year and next year as one period, then the only thing on the slippages that has changed is the probability of that going 60% has become 80%?

Jairam Sridharan: Well, I did not say the number 80% but yes, the proportional slippage from watch list we do believe will be materially higher, yes.

Sanjay Parekh: Right. So, if I were to look this as one period then that is the only major change, right?

V. Srinivasan: Yes, as I said we are going to watch the environment over the next few months and we will come back to you as far as FY 2018 is concerned.

Sanjay Parekh: Perfect. And the second part is I am just referring to the slide #27 and where you have given a breakup of industry wise watch list. So, I am just taking one is telecom oil and gas and infra, which has 2%, 13%, and 3% of the watch list and now when I go to slide #32, the non-fund based percentage in telecom is 9%, petroleum is 8%, and infra is 10%. Do you see a risk to these three sectors?

V. Srinivasan: Not really, I think you are aware of what happened in telecom. I think these are short dated bank guarantees which were for spectrum bidding, which are not long dated. This clearly is not something which should cause an increase in credit costs. As regards other sectors, I think they have been factored into the watch list which is being continuously monitored.

Sanjay Parekh: Right. So can I say that in the non-fund based, in the Top 10 percentages you don't see a spill over moving into watch list in future in a big way?

V. Srinivasan: I think as Jairam said, the watch list is a closed list. We are not looking to add anything to the watch list.

Moderator: Thank you. Next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: So, just have some clarification on the Slide #25 refinance you said outstanding amount is close to Rs. 5,074 crores and as I recollect, last quarter this amount was about Rs. 3,500 crores. So, are my numbers correct or the previous quarter number itself got freeze in last quarter, first quarter…

Jairam Sridharan: It was Rs. 4,687 crores.

Rahul Jain: Okay. So, anyway, I mean my number was about Rs. 3,500 crores anyway. So, this Rs. 4,687 crores has gone to Rs. 5,074 crores so whatever differential has been added in this…

Jairam Sridharan: Yes, some Rs. 390 crores or thereabouts.

Rahul Jain: Understood. Second point was again the qualitative statement that you have made about the slippages in the second-half to be materially lower. Now, what could change in the second-half for this number for this statement to again change? In your assessment when you have said that it could be materially lower can it be say the same level as of in the first-half and if yes, what needs to change?

Jairam Sridharan: Yes, see this is a bit of a hard question you are essentially asking me to say like, hey you are making a sort of a best guess right now but what could happen that could make your guess wrong? I do not know many things could happen which will make my guess wrong. But fundamentally, if we see a sudden and further deterioration in operating metrics of some of the clients then yes, we could see that . So, I do not want to actually get to walk down in, whether it is sort of significantly lower or materially lower or just a little bit lower I mean, I do think that given the sheer magnitude and the large size accounts that have been recognized in this quarter and just looking at the size of the accounts that remain on the watch list etc, it seems less probable that you will see this level of slippage in any of the coming quarters because basically such very large accounts, there are not that many of them left.

Rahul Jain: No, because the underlying point, I also wanted to mention was that RBI also seems to be changing its tone on the NPL resolution part. So, when you have made this statement would you have factored the possibility of that also happening or not?

V. Srinivasan: No, nothing changing.

Rahul Jain: All right. And another thing was on the PCR, of course, a lot of questions have been asked on that point. But earlier you had this guidance of 70 odd percent. Now, you are not really giving any number if I am not wrong. So would it be fair to assume that apart from the provisioning costs driven by the bucket movements you would still like to carry 5% -10% extra just in case of some additional haircut that might happen on some of these accounts?

Jairam Sridharan: Yes, so, Rahul, what we have been saying is that we believe that about 70% is the appropriate level of provision coverage to have and we would like to get there in the medium-term. Directionally, you will see us head in that direction though we have not clearly specified in this call how long it might take for us to actually work our way back up from 60% in that direction. But yes, directionally we do want to move that. Now, mechanically how do we achieve that? There are many different ways to achieve that, but yes, conceptually you will just provide a little bit more than you absolutely have to.

Moderator: Thank you. We take the next question from the line of Sri Karthik from Investec. Please go ahead. Sri Karthik from Investec your line is unmuted. Please go ahead.

Shri Kartik: Question on a slightly different topic apart from asset quality if you would look at your long-term return ratios where do you see them settling?

Jairam Sridharan: Our return on equity has broadly been in the 17% to 19% kind of range and in the medium-term that is where we would like to get back to as we get to normalization of the credit cycle.

Shri Kartik: And given the higher capital consumption because of higher growth and lower ROE, do you see capital requirements post FY 2018 or before FY 2018?

Jairam Sridharan: See, we are at Tier I of 12.03% right now and as the year progresses with growth and with whatever level of dividend payment we have, you will see capital consumption happen. So, we at this point have over the regulatory requirement we have about 300 basis points of margin of safety, I think that is sufficient for us to operate for a while and continue to fund ourselves. If there is a need to use non-equity raise, ways of actually augmenting our Tier I, we might consider that. But an equity raise at this stage is not something we are considering as necessary.

Moderator: Thank you. We have next question from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: So, you said that how the share of digital transactions are going up in your overall transactions, but then what is the need to aggressively add branches and ATMs?

Rajiv Anand: Hi Pankaj, this is Rajiv. I think if you look at the numbers of customers who are, so there are two points here, one is the number of customers who are on digital still continues to be within the banking system somewhere depending upon which bank somewhere between 10% to 15%. So therefore, there is still 85% of customers who are still working non-digital. Two is if you look at the spread of cities and towns that we have we are in about 1,825 cities and towns in this country, out of which about 1,600 odd we have a single branch and as affluence has come to these cities these cities and towns have grown and so therefore where we had a branch in the center of town, the town has grown further and so therefore it becomes a necessity to open a branch closer to the customer base. So therefore, I think in the Indian context we will still continue to need the branch presence. However, I think the branch focus has moved towards, one, more acquisition and two, to be able to do the more sort of cross-sell sophisticated transaction selling mutual funds, insurance, home loans, credit cards, etc and not so much for servicing of transactions which are sort of increasingly going more and more digital and as a result of that what we have also seen is that the size of the branches have come down sharply. So, where we used to do 2,500 square feet branches the average size of branches is between 800 square feet to 1,200 square feet, which includes lockers which are also a big pull product for us.

Pankaj Agarwal: And are you closing any ATMs in metros or urban areas, you might be adding new ATM's in rural areas but Yes.

Rajiv Anand: So, remember that our ATM network, we do not own the ATM network, our entire ATM network is outsourced and in a sense it is a pay-per-use mode. But having said that so, therefore, the broad decisioning in terms of where an ATM should be or should not be is driven by the IAD in close coordination with what we want from our franchise perspective. So, therefore, whether the customer, whether the IAD is closing or opening branches is really a call that they make based on the density of our customers, the density of our branches and so on and so forth.

Pankaj Agarwal: Okay. And one final question on your OPEX growth, what kind of growth you are expecting for next three quarter - four quarter?

Jairam Sridharan: The OPEX growth number will probably be roughly around the same levels that you saw in the first-half and you will see a cost to income ratio roughly around 40% in the second-half as well.

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

Jairam Sridharan: Thank you, everyone. I know it has been a very busy day for you all given all the results. Thanks for taking the time and spending the evening trying to understand our Bank's results and have a very good evening.

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