**OPENING REMARKS – Q1FY21 EARNINGS CONFERENCE CALL**

We welcome you all to a discussion on Axis Bank’s Financial Results for the first quarter of financial year 2021. We also have on the call – Rajiv Anand, Executive Director and Head of Wholesale Banking, Pralay Mondal, Executive Director and Head of Retail Banking, Amit Talgeri, Chief Risk Officer and Puneet Sharma, CFO.

As the world continues to grapple with the unprecedented pandemic, global economic prospects continue to remain uncertain. The COVID crisis in India also continues to worsen apace. Forecasts of a contraction of India’s FY21 GDP are clustering around 4-5% (the first time a contraction of this magnitude since 1980). Inevitably, this will result in multiple challenges across almost every sector of the economy and lead to weaker economic and consumer confidence.

Government, including states, and RBI have responded with a broad spectrum of counter measures. Economic activity has gradually improved, helped in the near term by the calibrated unlocking of restrictions on social interactions and commercial enterprises. The agricultural and rural picture appears relatively brighter, with good sowing and a normal monsoon, more limited COVID disruptions, as well as rural focused government stimulus. This would promote a gradual pick-up in the economy.

The recovery ahead is likely to be slow and gradual, and it is uncertain how quickly dislocations in labour availability and supply chains can be smoothened out. The large state economies (contributing almost 42% to GDP) which are more impacted by the virus will go through multiple localised start and stop phases. This will continue to impact the ability of businesses across sectors to come back to pre-Covid levels. We continue to remain cautious and thus have been creating additional provisions and shoring up our provision coverage, maintaining adequate surplus liquidity, conserving capital, and prudently managing credit and operations risk.

In response to the COVID-19 situation, we have fine-tuned our GPS strategy and launched various initiatives to ensure we are well prepared and are among the earliest to capitalise on the opportunities. We have initiated around 20 projects, aligned to our GPS framework, but with more near to medium term outlook. These projects put conservatism and sustainability at the core to drive profitable growth within appropriate risk frameworks.

We continue on our journey of being a more prudent and conservative franchise. This is demonstrated through our actions quarter after quarter. During the current quarter we have done the following 3 things to continue to move the needle:

1. Changes in accounting policies related to fee recognition  
2. Increase in provisioning on Standard Investments, Red flagged account, Covid related provisions  
3. Conservative stance on interest recognition for NII

With these changes, we believe we are now at the conservative end of accounting choices. The aggregate impact of the aforementioned changes on Q1FY21 PPP/PBT/PAT is Rs 307 crores / Rs. 660 crores and Rs. 513 crores respectively. Puneet will later in the call explain these changes in further details.

In these uncertain times, our balance sheet strengthening continues. The cumulative value of provisions (additional + covid 19) aggregate to over Rs 6,898 crores (March 20 : Rs 5,983 cr) implying 1.56% of our standard loans. Over and above, our provision coverage ratio improved to 75% as of June 30, 2020 from 69% as at March 20. On an aggregated basis (specific+ standard+ additional + Covid), our provision coverage ratio stands at 104% of GNPA at June 30, 2020.

Our capital position is strong and the Bank is well capitalized with a capital adequacy ratio of 17.47% and CET 1 of 13.50% as on June 30, 2020. However, we continually evaluate various capital raising
initiatives from time to time for our business. We have an enabling resolution from our Board, pending approval from our shareholders that will allow us to raise funds over the next one year.

During the quarter, we have continued to strengthen our management team. On the Retail side, Sumit Bali has joined us as the Head of Retail Lending and Ravindra Rao has joined the Axis family as Head of Collections & Underwriting. On the Wholesale side, we had D K Das and Vivek Gupta joining us to lead our Government Coverage Group and Wholesale Banking Products respectively.

With this, let me now offer a brief synopsis of Axis Bank’s Q1 FY21 results. Puneet will later take you all, through the results in details. Our operating performance is steady with NII recording a healthy growth of 20% YoY. The Bank has made progress on its cost optimisation initiatives with Cost to Assets declining from 2.09% to 2.00% QOQ. The Bank’s pre-provision core operating profit grew 3% YoY for the quarter.

I would also like to touch upon the trend in fee income this quarter. The Bank’s total fee income in Q1FY21 was down 38% YoY. Almost 60% of the decline was due to lower processing fees on retail loan disbursements (down 74%) and card fees (down 53%) impacted by lower new card issuance related fees and interchange income. Other fee items which also got impacted are service charge waivers pursuant to regulations, cash management and syndication fees.

We have been focusing on building granularity across our different fee generating businesses both in the wholesale and retail segment. Some of the benefits are visible, as even in this environment, there were certain fee line items which grew on a YoY basis. The top segments are insurance distribution fees, merchant forex income in transaction banking, and Retail Digital Banking fees. Though retail remains the major contributor to fees, we are seeing signs of momentum build up in several wholesale and transaction banking segments.

Our Deposit book remains resilient and grew by 19% YoY and 5% QOQ on a quarterly average basis. Our focus on building a stable and granular deposit franchise, based on average balances, continues to progress well with healthy growth of 20% YoY in CASA and RTD balances which now comprise 81% of total deposits. The current account deposits grew by 8% YoY and we can slowly see granularity building here. Savings account deposits grew by 15% YoY within which Retail savings account deposits grew 19% YoY led by higher customer engagements that has helped in deepening the balances. The Salary and NRI segments within savings deposits grew by 26% and 21% YoY respectively.

Our focus on premiumization of deposit franchise remains on track. It revolves around, increasing the contribution from premium segments by delivering faster growth and deepening existing portfolio, while continue to improve account quality of the non-premium segments. We are witnessing better trends, both from a new customer acquisition and balance build up in the Premium segments like Prestige and Burgundy Private. The Prestige balances have gone up by 26% YoY while the Burgundy Private balances have gone up 48% QOQ on a small base. Total assets under management for Burgundy stood at ‘1.56 Trillion as of the end of June 2020, which is among the largest wealth management businesses in the country. Last year we had identified a gap in our savings account segmentation and curated the Prestige segment which is doing very well. Similarly our aspirations to provide banking and related services to the ultra-high net worth individual led us to launch our Burgundy Private proposition which too has now scaled up very well. In a span of around six months since launch in December 2019, the portfolio covers over 980 families with assets of nearly ₹ 19,000 crores. The prime segment grew by 19% YoY.

Our loan book grew by 13%, including TLTRO investments it grew 17% YoY. Retail loan book grew 16% YoY. Loan originations in April were severely impacted by the countrywide lockdown and we also preferred to be cautious and increased our risk filters. As the economy started to open up partially, activity started to pick up - May was 3.4x April driven by Rural (44% of overall monthly disbursements) and June was 3.2x May with Rural (30%). Overall demand in smaller towns and regions is recovering
faster as compared to Metro and Urban cities. However activity levels in the economy still remains below pre-Covid levels. Our June 20 disbursements in Home Loans and Personal loans were at 68% and 37% of last year, clearly reflecting the incremental growth coming from the secured book, in line with our strategy. One of the important strategies for the Bank is the 'Deep Geo' project, which is an Asset led strategy for the Bank in Semi- Urban and Rural Geographies - June Rural disbursements were at 90% of last year levels.

Corporate loan book including TLTRO of ~Rs 18000 crores grew 26% YOY. Disbursements including TLTRO grew 62% YOY. Top 30 loan disbursements during the quarter were spread out evenly over all three months - 2/3rd of which were short term Working Capital loans, 20% related to Capex, rest refinancing and general purpose loans. The disbursals were well diversified across sectors.

We continue to leverage on our long term relationship with better rated corporates that has resulted in strong 77% and 13% growth in loans to ‘AAA’ and ‘AA’ rated clients respectively, 82% of outstanding standard loans are A - and above. Further we have added 51 new relationships during Q1, spread across strategic clients, large corporate mid-corporate, MNC and Government coverage group. We continue to deepen our relationships across our wholesale banking and are seeing the benefits of our One Axis Strategy playing out. We have a penetration of 9 or more products/services across our top corporate relationships. On our government business we won two major Agri mandates in North India. We are one of the six empanelled bankers for eNAM (A government initiative of digitizing agriculture mandis). Our market share in GST payment collections has now gone up to 10% as on June 20 from 7% last year.

On the SME side, we have been cautious in growing the book in the last couple of years and are entering this challenging period with a much de-risked book. It is 88% secured by hard collateral and 91% self-funded, with 76% of outstanding being working capital loans, and 55% qualifying for PSL lending. The book is also very well diversified across 35 sectors and 120 SME centres spread across the country. The book was down 7% as the overall utilisation rates of working capital limits remain low. As of 30th June 2020, we have sanctioned nearly Rs. 1,330 crores under the ECGLS scheme with 80% of our SME + SBB book being eligible for the scheme. During the quarter, focus has been on further strengthening the risk framework and driving collections while deepening relationships through liability and transaction banking products.

We have reviewed and optimised our overseas operations in line with the overall corporate strategy. We are consolidating the services related to corporate banking, trade finance, treasury and risk management solutions through our Dubai, Singapore and GIFT City branches. Overseas operations in Hong Kong, Shanghai and Colombo are in the final stages of closure while winding up of our UK subsidiary operations has been initiated. Overseas Corporate loans stood at 14% of Corporate Book wherein we primarily deal with Top Indian Corporates and Quasi Sovereign Entities.

Our asset quality is improving as reflected in lower BB + NNPA book which declined to 2.2% from 2.7% QoQ and provisioning coverage at 75% up from 69% showing an improving trend. Puneet in his section later will give you further details.

We have made considerable progress on our Digital Banking strategy. We are focused on select themes in our digital journey - to scale digital direct to customer products, enable our staff digitally and to build and scale digital channels. We have now added 100 employees in our digital team comprising product managers, developers, designers, digital marketing specialists etc. 80% of our digital team comes from non-banking backgrounds such as consumer internet, fintech etc. We have also made significant progress in simplifying our core tech architecture, becoming cloud native and moving to an agile mode of development.

Digital products now contribute a significant proportion of the Bank’s sales with 78% of SA, 75% of FDs, 65% of PLs, 51% of credit cards, and 48% of new MFs in Q1 sourced digitally. During the quarter more
than 2.12 lakh digital savings accounts were opened. We have launched video KYC based ‘Full Power Digital Savings Account’ that can be opened instantly and provides access to 250 + services online. Onboarding for the full suite of banking products leveraging Video KYC will be launched in a phased manner over the year. This quarter we also introduced a number of digital products offering new investment, loans and insurance options for customers. We have also ramped up our Digital Collections infrastructure and capabilities.

We continue to maintain our strong positioning in digital payments space. We are now the second largest remitter & PSP bank in the UPI ecosystem and the second largest remitter bank in the IMPS ecosystem. In credit cards, the monthly spends have reverted to 75% of pre-Covid average spends.

We also made significant progress towards enabling our employees digitally. We launched a BYOD program that is now been rolled out to 36,000 frontline staff. We also enabled access to critical systems such as CRM to our frontline on mobile devices enabling the vast majority of our team to be active during the COVID times as well.

Our digital channels helped us serve our customers during the COVID period. After an initial dip, activity and transaction volumes on digital channels are now back to pre-covid levels. In fact in certain areas such as Fixed Deposits and MFs, we saw growth of 20%+ on the digital channels through the covid period.

We have made good progress in our aspirations to scale up and create value in our subsidiaries. The significant senior talent infusions across our subsidiaries and our ‘One Axis’ focus have started yielding results. The domestic subsidiaries reported a total net profit of Rs 459 crores for FY20 and Rs 124 crores in Covid impacted Q1FY21 up 58% YOY which is 26% of FY20 profits. I want to touch upon the key highlights in our major subsidiaries, let me start with -

**Axis AMC**

- Fastest growing AMC in the industry with its AUM growing 31% YOY
- Within equity funds, Axis AMC has built up an industry leading franchise and has grown its equity AuM by over 43% in the last 12 months.
- Current AuM market share of 5.5%, up from 4% at the end of Jun'19.
- Client folios up by over 50% to 6.4 mn in last one year. Monthly SIP book almost doubled in the last 15 months.
- FY20 PAT stood at Rs 121 crores | Q1FY21 PAT is at Rs 39 crores

**Axis Securities**

- It has moved to being a full service broker from discount brokerage model earlier last year and is focusing on building an advisory model.
- It has one of the highest mobile adoption rates in the industry with over 75% volumes coming from Mobile in Q1FY21.
- 45% of Clients traded through Axis Direct mobile app.
- FY20 PAT of Rs 16 crores | Q1FY21 PAT : Rs 35 crores

**Axis Finance**

**Conservative Provisioning Philosophy**
In line with our conservative stance, we have been stepping up provision charges sequentially (26% Q-on-Q increase in ECL on entire Loan Book):
- 14% increase in provision charge on Standard Assets
- 37% increase in provision charge on Stage III Assets

Provided 100% on accrued interest in Stage 3 A/cs till Mar 20, further no interest is being accrued on these accounts post Mar 20
For this fiscal, provided 100% of the accrued interest in standstill A/cs over and above 10% provision charge on principal amount

**Cautiously Optimistic on Growth**

- Remain cautious, but utilizing this opportunity to ramp up the mass retail business, net hiring of 488 people in FY20.
- Retail contributing 12% of incremental business M-on-M. The retail book has grown to Rs 300 crores in over 5 quarters since its launch.
- Notwithstanding retail ramp-up, cost to Income continues to be lowest in the Industry at 21% for FY20.
- In the Wholesale business, loan mix undergoing major shift with cash flow backed and higher rated companies contributing 85%+ of incremental business.
- Continues to have very high CAR at 25% as on 30th June 2020.
- Moratorium granted for Axis Finance stood at 7%
- IGAAP – FY20 PAT of Rs 193 crores | Q1FY21 PAT : Rs 32 crores

**Axis Capital**

- Has been the leader in equity and equity linked deals over the last decade.
- In FY20, it maintained its position at the top with highest number of transactions (17 transactions across IPO, QIP and Rights).
- Has been focusing on growing its institutional equities business and strengthened the leadership team recently.
- FY20 PAT of Rs 100 crores | Q1FY21 PAT: Rs 8 crores – performance impacted due to market conditions.

On the Axis Bank and MFSL transaction which we had announced earlier, since then, the parties have approached the regulators for approval of the transaction. The queries and discussions are in the nature of routine ongoing discussions for transactions of such nature. We believe we continue to be on track and both the parties remain committed to the transaction.

The Moratorium 2 numbers showed a declining trend and stood at 9.7% by value as on 30th June 2020. There was reduction across customer segments of retail, SME and corporate. It has been a good progress and shows the resilience of the portfolio, our focus on recovery of Moratorium 1 accounts and review and approval based approach to Moratorium 2. This is evidenced in the single minded focus and rigor with which the entire bank approached Moratorium 2 compared to Moratorium 1.

During the last 3-4 months the Bank has significantly enhanced its collection capabilities including WFH for collection staff, increased dialling capacity and feet on street, to increase collections focus. The Bank has been in constant touch with customers to explain the nuances of the Moratorium and its impact.

Despite, these positive developments during the quarter, we remain cautious since the country continues to deal with partial lockdown. Customers will continue to have an option to request for moratorium 2, while we continue to be judicious in granting moratorium based on Covid impact on customers. Amit later in the call will give more details.
Overall the quarter has been decent with steady core operating profits, healthy deposit growth driving loan growth. We have continued to build on our conservative stance and continued to create value in our subsidiaries. There are going to be few challenges for the sector related to surplus liquidity, muted loan growth due to economic contraction and general risk aversion and asset quality. In such an environment, large banks with healthy operational performance, strong balance sheet and capital position, superior operational capabilities and digital prowess are better placed to withstand the challenges. We as a Bank have quickly adapted to the new normal and have transformed the way we work bringing in greater efficiencies. We are confident of emerging from the crisis stronger and remain committed to achieve our medium term aspirations.

With that let me hand it over to Amit to take you through the Risk segment in detail.

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Thank you, Amitabh. Good evening, everyone.
Let me now give you some Risk insights into the portfolio.

- Strengthening the risk management framework over the last 18 months has helped us through these unprecedented times – Recalibration of the Risk appetite, Separated underwriting operations from Business segments, prudent policies, raising the credit filters, extensive stress testing and proactive risk interventions all began during pre-Covid
- We mentioned this in the last call. Just to reiterate - The Bank entered this phase on the back of improvement in the Corporate book, continued cautious outlook on the SME business over the last 12-15 months and strong performance in Retail evidenced by key risk indicators which are significantly better than industry and peer bank benchmarks
- Our proactive efforts over the last quarter has only enhanced our ability to respond to the external environment much better and provides confidence to come out of this crisis stronger

**Let me start with our strength in Risk analytics**

**Analytics/Rating models**

- The Bank, over the years, has invested heavily in risk analytics to build proprietary scorecards which continue to provide a significant edge in decision-making
- These scorecards, based on internal and external data sources, have performed significantly better than single model or standalone external ratings and scores. They continue to display significant (ranges from 2 to 3 times) discriminatory power over external ratings and bureau scores across different segments observed historically
- Specific to Corporate, our internal rating models consider more relevant and recent information available across relationships, account conduct and information specifically available to the Bank than external agencies. Performance of these models have been tested historically and are statistically sharper than the external ones
- Given the prolonged lockdown, we have introduced new analytical models to calibrate both our sourcing and collections strategy on the retail side
  - **Covid Risk Model** – incorporates current variables like conduct through moratorium, bureau information besides existing risk models and is very effective in segmenting the Covid vulnerable population
  - **Collections segmentation models** - incorporating payment rate, contactability in high risk and moratorium opted customers allows us to take targeted action to increase payment rate and resolution

*Let us now look at each of the business segments starting with Wholesale*
Wholesale
The Wholesale banking portfolio continues to see significant change over the last 18 months with tightening customer selection and underwriting standards:

- 82% of the book is now in the rating category of A- and better
- Around 95% of incremental advances in the last 12-15 months were in the A- and above rating category with 75% in AA- and above category
- We have reduced our concentration risk in the portfolio with exposure to top 20 borrowers as a % of Tier 1 capital now at 102% which was over 110% in FY19
- We continue to have a strong customer connect through this period to assess the impact of the crisis on businesses, ensure recovery of Moratorium 1 (if availed), and have a clearly defined strategy for each of them.

Moving on to the Commercial Banking portfolio, which is the SME business

- We continue to maintain a cautious approach in this business primarily due to the difficult operating environment over the last 12-15 months. Reflected in our portfolio having reduced by 7% over last year in line with our cautious outlook
- 87% of the book is SME 3 or better (equivalent of A-) rated borrowers
- 88 % of the portfolio is secured and balance is Supply Chain Finance with linkages to large and well rated corporates
- The portfolio is granular with avg ticket size of around Rs. 3.5 crs
- The portfolio is spread over 35 broad sectors and geographically well diversified in over 120 locations across the country
- The proprietary EWS model has been enhanced with new conduct and cashflow monitoring variables given the Covid environment to monitor the Covid impacted portfolio much more closely. This model using advanced analytics has been successful in predicting early stress in around 80% of the NPAs in the last 6 months. This helps the Bank monitor borrowers showing stress well in advance for effective actioning

- Emergency Credit Line Guarantee Scheme (ECLGS) for SMEs – The Bank has been actively reaching out to all the eligible customers to provide funding through the ECLGS. We have an eligible base of around 1 lac customers with eligible loan value of Rs. 12,000 crs and as of 30th June, we have sanctioned Rs. 1,330 crs. The momentum has picked up since and we have crossed sanctions of Rs. 3,000 crs and disbursed over Rs. 1,100 crs under this scheme as of last week with more in the pipeline

Let me now turn our focus to Retail

Retail
Before we move to portfolio insights, let me take you through our approach on retail through this period and with respect to new acquisitions:

- The Bank has been tightening credit underwriting standards over the last 12 months given the market conditions pre-Covid. Commencing Jan, we have further strengthened the gating criteria, recalibrated our scorecards and ensured enhanced frontend screening.
- We have pared our pre-qualified bases down to 20% of pre-Jan levels across product segments.
- Consequently, the new acquisitions were down by 80% in April-May from March levels across retail products. Post partial lifting of lockdown in some parts in June, there has been a marginal increase in acquisitions primarily in secured businesses of Mortgages and rural lending. We
continue to remain cautious in the unsecured products and sourcing is restricted to existing bank customers with stringent credit filters

- Coming to the overall Retail Portfolio, almost 80% of the retail portfolio is secured consisting of Mortgages, Wheels and rural portfolio
- Our retail Unsecured portfolio is around 20% of the retail book. 84% of this book is from salaried segment which has a very low default rate and over 80% is existing customers having banking relationship providing comfort over cashflow and relationship visibility. Over 67% of the salaried are from premium corporates, government and MNCs and majority are corporate salary relationships with the Bank and we have not seen any significant job losses or salary cuts so far. We are closely monitoring this portfolio
- **Asset quality performance (for 90+dpd) is 10-20% better than industry for unsecured portfolio and by 50-80% for secured portfolios and better than peer banks across most retail products based on bureau information.**

Let me now provide you with an update on Moratorium offered:

**Moratorium Update**

- The Bank has adopted an approach of recovery of Moratorium 1 rather than extension of Moratorium. Only customers impacted by the Covid crisis and through a review/approval based approach have been extended the benefit of Moratorium 2
- **As Amitabh mentioned, the total portfolio under Moratorium as of 30th June is 9.7% (by value)**
- We extended the moratorium 2 benefit for only Retail MFI customers given the profile of customers which is less than 0.5% of the Bank’s total portfolio. **The moratorium by value of 9.7% mentioned above includes this Retail MFI portion also**
- 90% of customers in Moratorium 2 are common from Moratorium 1 across all the segments
- The overall value reduction of portfolio under Moratorium is largely due to the active customer connect of the Relationship Managers on the Wholesale and Commercial Banking side and focus on collections and recovery in retail
- The borrower profiles of customers in moratorium are across all rating categories, industry, income bands, scores and geography. Most customers are still opting to protect cash flows and conserve liquidity in view of continued lockdown in most parts
- Around 78% of the portfolio under Moratorium is secured
- Collections from Morat 1 customers has been over 80% in Corporate & CBG and around 70% in Retail in June
- In Retail, collections from non-moratorium customers has been over 95%
- Incidentally, 67% of the microfinance segment (MFI) customers have paid in June despite us offering moratorium to this segment
- In addition, customers with portfolio value of around Rs. 4,600 crs paid in June despite opting for moratorium 2 and this is not part of 9.7%
- While the overall values have come down significantly as of June, we continue to offer this benefit to customers till August as per the guidelines and customers may opt for the benefit in view of lockdown extensions and continued uncertainty

Let me now provide some insights into Collections

**Collections:**

- We have significantly beefed up our collections infrastructure over the last 12 months, more so in the last quarter
• We have added capacity (which includes reskilling sales teams) and we now have a 8000 member strong team on the field collecting
• Over and above this, we have 1500 calling agents working from home in a secured environment making customer calls. This is an area we will continue to invest in
• We have also enabled digital and contactless collections and these contribute to 25% of unsecured recoveries which has been a big differentiator during these times
• On resolution rates, We have seen early bucket resolution rates reach 60-70% of pre-Covid levels while recoveries from written off accounts in June have already reached 60-65% of pre-Covid levels and are double of what was recovered in Apr and May thus exhibiting pickup in momentum starting June
• Collections is a key strength for the Bank and together with extensive use of analytics and digital initiatives ensures that the Bank is well poised to manage the challenges ahead

In summary, given the continued lockdown in most parts, it is difficult to ascertain the exact impact on the portfolios. Our portfolio choices made in favour of secured lending in retail and CBG, higher rated book in Corporate and higher share of salaried and existing bank customers in unsecured book provide comfort in navigating through this crisis. We will continue to assess the situation and monitor the portfolio closely.

With that, I now hand over to Puneet for the financials update.

Thank you.

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Thank you Amit.

Good evening ladies and gentlemen. Thank you for joining us this evening. I will discuss the salient features of the financial performance of the Bank for Q1FY21, focusing on our:

1. Journey of becoming a more prudent and conservative franchise
2. Capital and liquidity position
3. Growth across our deposit franchise and loan book
4. Operating performance; and
5. Asset quality and provisioning

Prudent and conservative franchise

We continue to take actions that enable us to progress on our journey of being a prudent and conservative franchise and operate in a manner that strengthens our balance sheet on a sustainable basis.

In that direction we have taken actions in the current quarter across (i) accounting policy changes, (ii) reserving NII (iii) additional provisions around COVID, some of which have a bearing on our reported numbers and comparability to previous quarters.

Prudence driven changes in accounting practices: Our accounting practices were and remain fully compliant with the applicable accounting standards and regulatory framework. In the current quarter, we reviewed our accounting practices and revised them to achieve more prudent and conservative outcomes. The broad areas where changes were implemented in the current quarter were (i) Fee and expense recognition and (ii) Provisions of standard investments and red flagged accounts
The Bank had a practice of recognizing non-refundable fees upfront on Letters of Credit and annual fees of Debit Cards. During the quarter, the Bank changed this practice, from upfront recognition to amortization over service period. As a result, other income for the quarter ended 30th June 2020 is lower by Rs. 65 crores with a consequent reduction to the profit before tax.

The Bank continues to classify exposures as ‘Red Flagged Accounts’ in accordance with its prevailing internal framework. During the quarter, the Bank has introduced incremental provisioning on such exposures based on a time scale and on occurrence of predefined events. As a result, provisions and contingencies for the quarter ended 30th June 2020 are higher by Rs. 144 crores with a consequent reduction to the profit before tax.

The Bank was recognizing net depreciation and ignoring net appreciation within class of investments in the Profit and Loss Account in accordance with RBI guidelines. During the quarter, the Bank has made two changes to its practice of recognizing depreciation on investments. (i) The Bank has elected to recognize the net depreciation on each class of investments under the residual category of ‘Others’ (i.e. mutual funds, PTCs, security receipts etc.), without availing the benefit of offset against another class of investment within “Others”. Illustratively, gains on mutual funds are not offset against say losses on PTC etc. (ii) For standard investments classified as weak based on the Bank’s internal framework, the Bank has elected to recognize the net depreciation on such investments without availing the benefit of set off against appreciation within the same class of investments that is permitted by RBI. As a result, provisions and contingencies for the quarter ended 30th June 2020 are higher by Rs. 209 crores with a consequent reduction to the profit before tax.

NII reserve: We have reserved / derecognised interest in the quarter towards various items including but not limited to future derecognition etc. It should be noted that this reserving is done on income on standard assets earned during the quarter ended at June 30, 2020. This has impacted our NIM% for the quarter by 5 bps.

The cumulative negative impact of the aforementioned accounting practice changes and NII reserves on Q1 FY 21 operating profit is 307 crore, and PBT is Rs 660 crore. Please see slide 53 in the investor presentation that shows the performance for the quarter with and without the accounting changes and NII reserves for ease of comparison.

Covid Provisioning:
The Bank provided an incremental amount of Rs 733 cr towards Covid risks during the quarter, with this the Bank at June 30, 2020 carries an overall Covid provision of Rs 3,733 crore, of which only Rs 659 crore is required for exposures that are under moratorium at June 30, 2020.

While I will discuss in detail our reported operating performance after factoring aforementioned changes, later on, some key performance parameters when compared on a like for like basis are as follows in this discussion:

- NII YOY growth of 22%, sequential QoQ growth of 4%.
- NIMs for Q1 FY 21 stood at 3.45%, growing 5 bps on YOY basis.
- Non-interest income stood at Rs 2,652 crores, representing a YOY decline of 31.5%, of which Fee income stood at Rs 1,716 crores representing a decline growth of 35.6%. The decline in fees can be attributed to fee waivers pursuant to regulations, lower disbursements and velocity of throughput of transactions. There are some green shoots on the fee income side that I will touch upon later.
Operating expenses to average assets ratio on June 30, 2020 stood at 1.99%, lower by 9 bps on a YOY basis and 10 bps on a sequential QoQ basis.

Cost to Income ratio on June 30, 2020 stood at 36.9%, lower by 241 bps on a YOY basis and 887 bps on a sequential QoQ basis.

Core operating profit growth of 9.3% on a YOY basis and declined by 1% on sequential QoQ basis.

PAT grew 19% on a YOY basis

Capital and liquidity position

Our capital adequacy ratio is comfortable and we are carrying adequate liquidity buffers. We believe this places us in a strong position in the current uncertain times.

- Our capital adequacy ratio is 17.47% (as compared to 16.06% as at end of June 2019) and our CET-1 ratio is 13.50% (11.68% as at end of June 2019 and 13.34% at March 2020). We accreted 141 bps and 182 bps to our capital adequacy and CET-1 on a YoY basis.
- During the quarter, we maintained surplus liquidity, which is reflected in our average LCR ratio of 120%. The excess liquidity impacted our NIMs for the quarter by 9 bps.
- Towards the end of the quarter, in light of our outlook on funding availability, we reduced excess liquidity, enabling us to reduce drag. We exited the quarter with an LCR of 110%. Our excess SLR was Rs 26,640 crores.

Growth across our deposits franchise and loan book

Our deposit book has remained resilient growing 16% YOY, in line with our granularisation strategy our retail term deposit book grew 27% YOY and our corporate term deposit book degrew 1.88% YOY. We prefer to focus on quarterly average balances, instead of month end balances for our liability franchise.

- Total deposits on a quarterly average balance basis grew by 19% YOY and 5% on a sequential quarter basis.
- Our CASA ratio on end balance basis remained stable at 41%, similar on a YOY basis and QoQ basis.
- If we decompose the growth in deposits, then on a quarterly average basis
  - SA grew 15% YOY and 5% QOQ
  - CA grew 8% YOY and was flat on QOQ basis
  - CASA grew 13% YOY and 4% QOQ
  - Retail TD grew 27% YOY and 7% QOQ
  - Non Retail TD grew 14% YOY and 3% QOQ
- On the savings side, our strategy on premiumisation and deepening are playing out well as reflected through numbers above.

Our overall loan book (including TLTRO investments) grew by 17% YOY, and 1% sequentially QoQ. Granular secured retail assets and high quality large borrower relationships being the key driver of our loan growth. Our SME book degrew 7% YOY and declined to sub 10% of the overall loan book (including TLTRO investments).

- Retail Advances constitute 53% of the overall advances of the Bank. We continue to recalibrate our risk parameters, scorecards and strengthen the risk management and collections infrastructure.
Retail loan book grew 16% YOY, declined by 2% on sequential QoQ basis.

The Retail loan book continues to be well diversified across product and geography, 81% secured in nature at Q1 FY 21 versus 80% at Q4 FY 20.

Of our unsecured book, which is 19% of the total retail book, our entire PL book comprises salaried customers and 65% of credit cards comprise salaried customers.

The LTvs on our mortgage business and LAP are 61% and 37% respectively, providing us sufficient cushion on collateral.

Our Bank’s strategy on retail assets continues to be centered on existing customers of the Bank. 76% of retail assets originations by count in Q1 were from existing customers. 99% of the Bank’s credit card and 96% of personal loan originations in the quarter were from existing customers of the bank.

Our deep geo strategy is taking root and 11% of the sourcing of loans in the quarter were from deep geo locations.

Corporate advances – “One Axis” gaining traction,

- Our corporate loan growth stood at 16% YOY and 1% QQQ.
- 96% of our incremental sanction in Q1 FY 21 were from A- and above book, 69% of the incremental sanctions were to those rated AA and above.
- 37% of our book is for a tenor less than 1 year.
- Our total standard fund, non-fund and investments outstanding to NBFCs is Rs 23,658 crores (83% of the same is rated A or above) with none of them being granted moratorium, MFI is Rs 5,097 crores, and Real estate is Rs 16,859 crores.

Small and Medium Enterprises – 88% secured, well diversified, with 76% shorter tenor.

- Our SME loan book de-grew by 7% YOY, 91% is self-funded.
- Book shrinking is attributable to our cautious stance on the Supply Chain Finance and overall SME outlook.

Reported Operating Performance

Our operating profit for Q1 FY 21 is Rs 5,844 crores flat YOY and QoQ. PAT for the quarter is 1,112 crores. Adjusted for accounting policy changes and NII reserves above, the operating profit and PAT for the quarter would have been Rs 6,151 crores and Rs 1,626 crore respectively, growing by 4% and 19% on a YOY basis respectively.

- NII stood at Rs. 6,985 crores, representing a YOY growth of 20%. NIMs for Q1 FY 21 stood at 3.40%, flat on a YOY basis. The sequential drop in NIM by 15 bps is attributed to 5 bps on prudence which I have spoken about earlier and 9 bps to surplus liquidity in the quarter.

- Non-interest income comprising fee income, trading income and other income stood at Rs 2,587 crores, representing a YOY decline of 33%.

- Fee income stood at Rs 1,651 crores representing a decline growth of 38%. The decline in fees can be attributed to fee waivers pursuant to regulations, lower disbursement and velocity of
throughput of transactions. We are however seeing some green shoots on the fee line in certain types of FX income and our third party distribution revenue increased on a YOY basis.

- Trading income stood at Rs 622 crores representing a YOY decline by 25%. This is driven by over cautious stance of reducing our corporate bond portfolio and we have not switched investments from HTM to AFS, despite attractive outcomes.

- We have made progress on our cost initiatives. Operating expenses stood at Rs 3,728 crores at June 30, 2020, representing a YOY decline of 2%. On a sequential quarter basis the costs have declined by 25%. The operating expenses to average assets ratio on June 30, 2020 stood at 2%, lower by 8 bps as compared to 2.08% on June 30, 2019. This is not a normalized quarter, some part of savings is attributable to lower volumes, which will come back as business environment improves.

- Credit cost for the quarter is 2.26% as compared to 2.06% for the quarter ended June 2019. The credit cost for the current quarter is impacted by provisions that led to improvement in PCR (~1.09%) and higher provision on net slippages and risk based classification of exposures as NPA.

Asset quality showing improving trends

At June 30, 2020, our Gross NPA stood at 4.72%, net NPA stood at 1.23%, declining by 53 bps and 81 bps respectively on a YOY basis and 14 bps and 33 bps respectively on a sequential basis.

- The Bank’s NNPA + fund based BB & below book as a percentage of customer assets, has improved by 110 bps to 2.2% at June 2020 from 3.3% at June 19. Sequentially also there has been an improvement of 50 bps from 2.7% at March 20

- The Bank’s Provision Coverage ratio (without technical write-offs) improved significantly to 75% at June 2020, compared to 62% at June 2019 and 69% at March 2020. Each segment showed a considerable improvement in PCR%. WBG improved from 66% in June 2019 to 80% in June 2020, CBG improved from 49% in June 2019 to 54% in June 2020 and retail improved despite being a predominantly secured book, PCR improved from 53% to 63%. The segmental GNPA, NNPA and PCR for the Bank’s Retail, SME and Corporate is provided on slide # 35

- Gross slippages in the quarter were Rs. 2,218 crores dropping by 54% on a YOY basis and lower than Q4 FY 20 by 43%. Off the Gross Slippages for the quarter, (i) 21% have been considered as NPA based on credit and risk assessment criteria and not ageing and 100% provision has been created on these assets. (ii) 42% related to a single group on which the Bank has created 100% provision.

- Net Slippages in the quarter were Rs.1,610 crores. The Bank made provisions aggregating to 92% of the value of net slippages within the quarter.

- Slippages for the quarter are not reflective of a normal quarter due to moratorium.

- Our balance sheet strengthening continues. During the quarter we reserved an amount of Rs 1,028 crores on standard assets under various heads. (The cumulative value of provisions (additional + covid 19 + other reserves) aggregate to over Rs 6,898 crores (March 20 : Rs 5,983 crores). Our standard assets coverage ratio including the aforementioned provisions above is 1.56% of our standard loans as against 0.80% in June 2019.
On an aggregated basis (specific+ standard+ additional + Covid), our provision coverage ratio stands at 104% of GNPA at June 30, 2020 as against 75% in June 2019.

Commentary on BB book

- During the quarter, the BB and below (fund-based, non fund based and investments) book declined marginally from Rs 10,996 crores in March 2020 to Rs 10,753 crores in June 2020.
- During the quarter, we in aggregate collected and upgraded Rs 516 crores from the BB and below pool.
- During the quarter, we downgraded on a gross basis into the BB book Rs 1313 cr, comprising fund based facilities aggregating to Rs. 796 crores, investments aggregating to Rs. 314 crores, and non fund based facilities aggregating to Rs. 203 crores. There is no significant or large exposure / group that was downgraded in the quarter.
- Slippages from BB & Below book in the quarter were Rs 1,041 cr, mainly on account of one group.
- Top 4 sectors (Cement & Cement Products, Infrastructure Construction, Power Generation & Distribution, Hotels) comprises 62% of the fund based BB & below outstanding.

As I close, allow me to re-summarize the salient comments for the quarter:

- Our operating performance is healthy, reflected through our NII and core operating profit growth
- Our capital position is strong and we are carrying adequate liquidity buffers, we believe this places us in a strong position in the current uncertain times;
- Our deposit book has remained resilient, with granular deposits growing and we continue to focus on quarterly average balances, instead of month end balances for our liability franchise;
- Our book mix is improving along with a significant % of new originations being better rated originations and short term loans;
- Our asset quality is improving as reflected in lower BB + NNPA book and provisioning coverage at 75%;
- Our prudence is demonstrated through the choices we continue to make in derisking and strengthening our balance sheet. Our provision coverage stands at 75%, the cumulative additional provisions we carry is Rs 6,898 crores, resulting in our standard assets provision being 1.5% (including all additional reserves). In addition Axis Finance carries meaningful excess provisions on its balance sheet and has a capital adequacy ratio of 25%.
- We reiterate our stance of stopping guidance, till clarity on Covid-19 emerges.

With that, I come to the end of my comments. Thank you for your patience and we would be glad to take your questions now.

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The conference call replay is available till 28th July 2020 and can be accessed by dialing +91 22 71945757 or +91 22 66635757 and playback code: 02845 
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