“Axis Bank Limited Q1 FY16 Results Conference Call”

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Moderator: Ladies and gentlemen, good evening and welcome to the Axis Bank Conference Call to discuss the Q1FY16 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. Unauthorised dissemination of the contents or the proceedings of this 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, Executive Director and Head (Corporate Banking) and Mr. Sanjeev Kumar Gupta, Executive Director, Corporate Centre, & CFO. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the 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. Sanjeev Kumar Gupta, Executive Director, Corporate Centre & CFO, Axis Bank to begin with the presentation. Thank you and over to you sir.

Sanjeev Kumar Gupta: Thank you and good evening, ladies and gentlemen. I welcome you to our Conference Call for a presentation on the Bank's performance for the first quarter of this financial year. I have with me in this call my colleagues, Mr. V. Srinivasan, Executive Director and Head (Corporate Banking), Mr. Rajiv Anand, Group Executive (Retail Banking) and Mr. Jairam Sridharan, President and Head (Retail Lending & Payments). At the end of this presentation, we will be glad to respond to your questions. The Bank's core franchise has continued to perform well, and I will now outline the highlights of the Bank's financial results for the first quarter. Net Profit for the quarter grew by 19% to ₹1,978 crores from ₹1,667 crores last year. CASA grew well and increased by 14%, in which Savings Bank deposits grew by 14% and Current Account deposits grew by 15%. As on 30th June 2015, CASA constituted 43% of total deposits. Retail Term Deposits also grew well and increased by 18%. Net Advances grew 23% to ₹2,84,649 crores, contributed by retail and corporate segments. Total Deposits grew by 13% to ₹3,07,784 crores at the end of the quarter. Total Assets grew by 19% to ₹4,52,492 crores. Net Interest Income (NII) grew strongly at 23% YOY and the Net Interest Margin (NIM) remained healthy at 3.81%. Other income increased by 36%, in which fee income grew by 13% driven by Retail, Treasury and Corporate Businesses. Core Operating Revenue of the Bank grew by 20%, while Operating Expense grew by 7%. As a result, the Core Operating Profit showed a healthy growth of 31%. The Bank's asset quality remained stable with a Net NPA ratio of 48 bps and provision coverage ratio of 78%. Return on Assets stood at 1.78%, while the Return on Equity was 18.15%. The Bank is well capitalised with a healthy Capital Adequacy Ratio (including the net profit for Q1 this year) of 15.05% and Tier I CAR of 12.15%.

Let me now take you through the business performance and the financial results of the Bank in greater detail. As on 30th June 2015, our Branch network stood at 2,589 branches compared to 2,421 last year. We are currently present in 1,714 centres in 552 districts across the country, against 1,647 and 537 districts last year. For the current financial year, we expect to open ~200 branches. In addition, the Bank has a network of 12,179 ATMs as on 30th June 2015. The Bank's balance sheet grew 19% YOY and stood at ₹4,52,492 crores at the end of June 2015. Net advances grew 23% YOY and stood at ₹2,84,649 crores. Advances growth was primarily driven by Retail and Corporate segments. Retail loans grew by 26% and Corporate loans grew by 27%. SME loans including the non-retail agriculture loans grew by 6% YOY, in which SME loans grew by 11%. The composition of the loan book was as follows: Corporate loans were 46%; Retail loans were 40% and SME 14%. If we were to include SME loans that qualify as regulatory retail, the share of retail loans to total loans would be 46%. Retail loans have grown by 26% YOY and stood at ₹1,15,204 crores. Secured loan products accounted for 87% of retail loans. Home loans accounted for 48% of retail loans, retail agricultural loans accounted for 15%, auto loans 8%, loans against property 8%, personal loans and credit cards were 10%, while non-schematic loans comprising loan against deposits and other securities accounted for 11%. In the credit card business, the Bank is the 5th largest credit card issuer in the country with a card base of over 18 lac. The Bank continued to increase its geographical reach for sourcing retail loans and the reach of the retail assets business expanded to include 100% of the Bank's branches and 143 Asset Sales Centres. For unsecured lending products, the Bank focused predominantly on the existing customers of the Bank. The Bank's strategy on the retail lending continued through cross-selling to internal customers. Overall, more than 40% of incremental retail loans were sourced through branches and existing liability customers contribute around two-third of this incremental business.

The credit quality of retail loans remains healthy. Over the medium term, we expect the retail loan portfolio to re-balance with an increased focus on higher yielding retail loans, while continuing our emphasis on the quality of the portfolio. Our SME business continues to perform well and the portfolio behavior remains healthy. However, as indicated earlier SME advances including the non-retail agriculture loans grew by 6% YOY, in which SME loans grew by 11%, and stood at ₹38,242 crores. The SME loan-book remains well-diversified and carries lower concentration risk. In the SME segment, 83% of the loans were rated between SME 1 and SME 3, which corresponds to a single 'A' rating. As on 30th June 2015, Corporate loans grew by 27% YOY to ₹1,29,566 crores on a low base. Sequential growth in corporate loans is at 3% QOQ. Presently, 60% of the outstanding Corporate loans were rated 'A' and above.

The Bank's exposures to groups that are perceived to be highly levered has come down to 8% from ~10% of the outstanding fund based exposures of the Bank in last two years. The cyclical nature of the iron and steel sector has resulted in some concern for many investors and analysts with respect to the Bank's exposure in this sector. We would, therefore, like to make the following observations: The Bank's exposure to the iron and steel sector is currently at 3.4% of which 64% of such loans are rated "A" and above.

We would also like to highlight that a major proportion of these exposures relate to large integrated players with stronger balance sheets that are better equipped to meet the challenges faced by the sector. We continue to diversify our corporate loan book with greater focus on working capital lending and transaction banking businesses. For the current financial year, we expect the Bank's Credit growth is likely to be in the range of 18-20%.

Let me now move on to funding side of the Balance sheet. We continue to witness healthy trends in savings account and customer acquisition. Our cross sell metrics have been steadily improving, which is substantiated by strong retail asset growth, retail fee income growth and distribution income from investment and insurance products. The Bank's deposit base grew 13% YOY and stood at ₹3,07,784 crores as on 30th June 2015. Low-cost CASA deposits continue to grow well at 14% YOY, with Savings Bank deposit growth of 14% YOY, while Current Account deposits grew by 15% YOY. As on 30th June 2015, CASA constituted 43% of total deposits against 42% last year. On a daily average basis, CASA deposits grew 13% YOY, with Savings Bank and Current Account deposits both growing at 13%. As on 30th June 2015, CASA constituted 40% of total deposits similar to the levels reported a year ago. The Bank continued its focus on increasing its share of Retail Term Deposit, which grew 18% YOY and stood at ₹1,10,054 crores. Retail Term Deposits to Total Term Deposits constituting 62% of the total term deposits compared to 60% a year earlier. As on 30th June 2015, CASA and Retail Term Deposits constituted 79% of total deposits compared to 77% last year. The domestic CASA and Retail Term Deposits constituted 80% of total domestic deposits against 78% a year ago. The Bank is one of the largest debit card issuers in the country, with a customer base of 144 lac. During Q1, the total spends on the Bank's debit and credit cards increased by 30% YOY to ₹7,174 crores. The Bank is also one of the largest acquirers of point-of-sale terminals in the country with an installed base of 2.49 lac. The Bank has implemented the Liquidity Coverage Ratio (LCR) guidelines issued by RBI effective from 1st January 2015. The Bank's average LCR ratio for Q1 was 75% against the RBI's requirement of 60% by January 2015 and 70% by January 2016, respectively. The Bank is comfortably placed to achieve the LCR requirement as per the phased transition plan.

Now let me give you some details on our Investment book. The Bank's investment portfolio as on 30th June 2015, was ₹1,07,863 crores, of which ₹77,941 crores were government securities, and ₹22,993 crores were investments in corporate bonds, the balance ₹6,929 crores comprised investments in other securities such as equities, preference shares, mutual funds, certificates of deposits etc. 83% of the government securities have been classified in the HTM category, while 97% of the bonds and debentures portfolio have been classified in the AFS category and 3% in HFT category.

Let me turn now to the revenue and profitability figures for Q1. The Net Profit of the Bank grew 19% YOY to ₹1,978 crores in Q1 from ₹1,667 crores during the same period last year. The growth in net profit has been supported primarily by a strong growth in net interest income, other income and slower growth in operating expenses. NII during Q1 grew 23% and stood at ₹4,056 crores, constituting 64% of the operating revenue. Net Interest Margin (NIM) during Q1 was 3.81%. Domestic NIM during Q1 was 4.11%. We were able to maintain healthy NIM through continued focus on CASA and optimum utilisation of borrowings. The cost of funds during Q1 was 6.12% compared to 6.26% in Q4, and 6.21% in Q1 last year. We expect the NIM for FY16 to be well above our medium term projection of 3.50%. Other income comprising fee, trading profit and miscellaneous income during Q1 grew by 36% YOY and stood at ₹2,298 crores. During the same period, fee income grew by 13% YOY and stood at ₹1,551 crores. The main business contributor to fee growth during the quarter was Retail Banking which grew 17%, treasury which grew 52%, SME which grew 18% and Corporate banking which grew 10%. Fee income from the Retail business segment of ₹608 crores constituted 39% of total fees compared to 38% a year ago. Within this, fee income from Retail Assets grew by 28% YOY to ₹310 crores, while fee from third-party products grew by 31% to ₹158 crores. Fee from Corporate credit contributed 24% of total fees and stood at ₹370 crores. Fee income from Treasury and DCM contributed 14% of total fee income and stood at ₹214 crores. Fee income from SME grew by 18% to reach ₹58 crores, while fee from Transaction Banking declined by 10% and stood at ₹300 crores. We expect that the fee income growth in FY16 will likely be in the mid-teens. During the quarter, the Bank earned a trading profit of ₹646 crores against ₹260 crores last year, driven by higher contribution from Government Securities and Bonds segments. Miscellaneous income stood at ₹101 crores against ₹53 crores last year. The total operating expenses grew 7% over previous year, of which staff costs grew 8% and other operating expenses grew 7%. The Cost-Income Ratio of the Bank stood at 35.6% in the quarter compared to 42.1% in Q1 last year. On a full year basis, we expect our Cost-Income Ratio to be around 40% for FY16. Provisions and contingencies other than tax for the quarter were ₹1,122 crores against ₹387 crores last year, of which provision for loan losses were ₹796 crores, provisions for standard assets including unhedged foreign currency exposures of ₹46 crores and depreciation on investments were to the tune of ₹27 crores. During the quarter, the Bank has also created a contingent provision of ₹250 crores against advances and other exposures as a prudent measure. As on 30th June 2015, the Bank has a cumulative Contingent Provision balance of ₹1,250 crores.

Let me now discuss asset quality. During the quarter, additions to Gross NPAs were ₹1,186 crores, up-gradations and recoveries amounted to ₹120 crores and write-offs including prudential write-offs were ₹925 crores. Consequently, the net addition to Gross NPA during the quarter was ₹141 crores. Gross NPAs, at the end of the quarter, stood at ₹4,251 crores constituting 1.38% of the gross customer assets. The Net NPA ratio for the quarter ended 30th June 2015 was 0.48% (48 basis points). The provision coverage at the end of June 2015 stood at 78%. During the quarter, loans amounting to ₹740 crores were restructured. The cumulative value of net restructured advances as on 30th June 2015 stood at ₹8,515 crores, which constituted 2.80% of net customer assets. During the quarter, we have not sold any loans to ARCs against SRs. However, we have sold small amount of loans against cash. Credit cost for the first quarter was 104 basis points. We expect the credit cost for FY16 to be around 80-90 basis points.

Some key metrics for Q1 FY16 that I would like to mention are as follows: Return on Assets remained stable at 1.78% compared last year, while the Return on Equity was 18.15% against 17.89% in last year. The EPS (diluted) for Q1 was ₹33.25 against ₹28.31 last year. The Bank's capital adequacy position is healthy. Under Basel III, the overall capital adequacy and the Tier-1 capital adequacy ratio of the Bank as on 30th June 2015, excluding net profit for Q1, was 14.50% and 11.60%, respectively. If the net profit of ₹1,978 crores for Q1 is included, the total CAR and Tier I CAR as on June 2015 under Basel III would be 15.05% and 12.15%, respectively.

Now, I would like to highlight few points on our digital strategy. Our digital strategy encompasses four key areas viz. customers, employees, branches and internal processes. We have introduced a number of innovative digital solutions for our customers, including our award winning mobile app which now includes online booking of lockers and fixed deposits, instant personal loans to pre approved customers and a full view of the customer's relationship including demat balances. The launch of Ping Pay, a multi social payment app has been well received by our customers. We see healthy traction in our digital initiatives and observe an increasing preference amongst customers towards transacting through digital channels. During Q1 total financial transactions undertaken by individual customers of the Bank increased by 7% YOY of which digital transactions have grown at 24% YOY while transactions at ATMs and branches have both declined by 5% and 1%, respectively. Of the total financial transactions undertaken during Q1 by the individual customers of the Bank, digital comprised 47% while ATMs and branches were at 42% and 11%, respectively.

To sum up, we are satisfied with the Bank's performance across all our businesses and financial parameters in an environment that has continued to remain challenging for a prolonged period. The Bank is well-poised on both the retail and corporate business segments to avail opportunities that are likely to emerge as growth comes back to the economy. And meanwhile we continue to build our infrastructure, invest in infratechnology and human capital to support business growth.

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

Mahrukh Adajania: In terms of your guidance for stressed loans does that remain the same, you had given a guidance at the end of the fourth quarter that stressed loans formation will be lower for FY16 relative to FY15. So does that still stay?

Sanjeev Kumar Gupta: That still stays. Last year stressed assets formation was ₹5,700 crores and we expect formation this year will be lower than last year. As indicated earlier, the credit cost for the full year will be around 80 to 90 basis points.

Mahrukh Adajania: In terms of slippages, would you be able to give break up on how much was Corporate, non-corporate (retail) and SME combined?

Sanjeev Kumar Gupta: We are not giving that, but I will tell you that ₹1,186 crores of fresh slippages was there. It is not to one particular segment and is across Corporate Banking, SME and Retail segment. Corporate Banking accounts for a major proportion and slippages are spread across various industries and accounts.

Mahrukh Adajania: Okay, there is no concentration in the industry because for most banks it's either road construction or metals. So there is no such concentration in your Corporate NPL?

Sanjeev Kumar Gupta: There is no specific concentration bias within Corporate Banking and road construction or metals don't account for a large proportion of NPLs.

Mahrukh Adajania: Your exposure to the power sector has been growing a lot over the last two to three quarters. Can you add colour on that?

Sanjeev Kumar Gupta: Are you looking at the fund based exposure?

Mahrukh Adajania: Yes.

Sanjeev Kumar Gupta: Overall exposures are not increasing. There could be some conversion of non-fund based into fund based exposures.

Mahrukh Adajania: What would be your brand strategy or overall consumer strategy? Also, you have not added any branches over the last nine months so what would be the branch additions in the next few quarters?

Rajiv Anand: We have not added branches in the first quarter. Typically, there is some spill over from the approvals that we got in the previous year and which gets completed in the first quarter. For example, if you see we opened 19 branches in the first quarter last year and 84 branches in the second quarter. By the end of H1 last year, we opened about 103 branches. We think that we will open more than that by the end of this H1.

Sanjeev Kumar Gupta: I will just add to what Rajiv is saying if you will see we have added 84 branches in the second quarter last year, 53 branches in the third quarter and 31 branches in the fourth quarter. For the full year, as Rajiv was saying, we expect to add around 200 branches and it may be 80-90 branches for the next quarter.

Moderator: The next question is from the line of Alok Shah from Edelweiss Securities. Please go ahead.

Nilesh: Last time on this call, we had said that the total stressed assets to the group are 9-10%. How is that exposure panning out going forward, given that we have already seen today one downgrade to default category of a group so how confident are we in managing the overall stress formation of ₹57 billion?

Sanjeev Kumar Gupta: About two years back, our fund based exposure was 10% to highly levered groups, which has come down to around 8%.

V. Srinivasan: As you are aware, we are closely monitoring these groups and as Sanjeev said our exposure to these groups is not increasing and on a percentage basis, it is coming down over a period of time. We are conscious of the risk associated with these exposures and are managing them appropriately.

Nilesh: Sir, are we very confident in terms of the guidance that we have given for the total formation of stressed assets being less than ₹57 billion because 8% is obviously a high number in that context?

V. Srinivasan: Based on the information and exposures on our books, we are comfortable with the view that the overall stress formation this year will be less than what we had last year and credit cost would in the range of around 80-90 basis points. As we go through the year and as the situation improves, we will come back if there is any change to our view on credit quality outlook.

Nilesh: On operating expenses, there is obviously a spill over and for the year we are expecting to open around 200 branches. Sir can we expect run rate in terms of operating expenses to move up from here and what is the steady state number that we can work with?

Sanjeev Kumar Gupta: I think that the operating expenses growth will move higher from the current base. But we are confident that cost-income ratio will be less than 40% for the full year somewhat lower than what we had witnessed in the previous year.

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

Pankaj Agarwal: How much of your restructured assets slipped into NPA this quarter?

Sanjeev Kumar Gupta: Over ₹465 crores of restructured assets have turned into NPA this quarter.

Pankaj Agarwal: Of the total restructured assets, what trends are you seeing? Do you see those Corporates improving or what kind of trend are you seeing in the restructured portfolio?

Sanjeev Kumar Gupta: Since 2008-09, we said about 25% of the restructured assets may turn into NPA. On a stock basis, 18% of restructured assets have turned into NPA. On a 2 year lagged basis, around 22% of assets restructured have turned into NPA. Going forward, we believe around 25-27% of restructured assets may turn into NPA, but not immediately but over a period of the time.

Pankaj Agarwal: You highlighted a bit on how the iron & steel sector portfolio? Are you seeing early signs of stress in that portfolio? It would be very useful if you can give some colour on that.

V. Srinivasan: As of now, our exposure to 'A'-rated companies and above is about 64% and the behaviour of this portfolio is stable.

Pankaj Agarwal: So you are not seeing any early signs of stress in terms of SMA-1 or SMA-2 in this account?

V. Srinivasan: No we have not seen any marked signals of stress.

Moderator: The next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead**.**

Manish Karwa: Our CASA growth has been fairly slower than peers and slower than historic trends, and this has been there for few quarters now. Is it because of the fact that we have slowed down all our branch openings?

Rajiv Anand: As Sanjeev mentioned, the core component of SA continues to grow strongly in terms of balances, customer acquisition, products per customer, cross sell etc. However, we are seeing some volatility in the wholesale component of SA and that is something that has effected growth over the last couple of quarters. But I do believe that things should improve even in that segment from here on.

Manish Karwa: When you say wholesale, are you referring to the trust accounts?

Rajiv Anand: Typically from the government side.

Manish Karwa: Do you think that the higher rates offered by competition is probably taking that away?

Rajiv Anand: Not really.

Manish Karwa: On OPEX, you are doing very well from a cost-growth perspective. But is there any risk of making lesser investments for future growth because 7% is too low a number considering the inflation figures?

Rajiv Anand: We are not compromising on investments and we are making investments on a regular basis. The lower growth in this quarter is because we did not open new branches. Also, there were no carry forward from the previous years. We are continuously focusing on improving operational efficiency in the last four to five years and that is showing result. But we should not say 35% will be cost-income ratio in the future. There will be an uptick and it may come to 39-40% by the end of this year. And we will open branches from the next quarter itself.

Sanjeev Kumar Gupta: On a daily average basis, the CASA-total deposit ratio is around 40%. In the last two years, it is hovering around 39.50-40% on a quarter-to-quarter basis and there is not too much of the volatility.

Manish Karwa: The balance sheet funding is increasingly happening from borrowings or the borrowings are growing very fast. Is it because of the tax free bonds or some other borrowings?

Sanjeev Kumar Gupta: We have raised around ₹5,700 crores from infrastructure bonds last year. We look at stability and cost-effectiveness for selecting financing options. It is not that funding is on a very short term basis from these resources. These funds are more stable than the term deposits.

Manish Karwa: When you say 80-90% of credit cost, do you also include contingent provisions?

Sanjeev Kumar Gupta: We have done ₹250 crores of contingent provisions during the quarter which are not included in the credit cost. Contingency provisions are against specific assets which are currently standard.

Rajiv Anand: Just to add to what Sanjeev has said. If you look at deposit, 78% still comes from the Retail side and that continues even in this quarter. So it is not as if there is a change in focus there.

Moderator: Thank you. The next question is from the line of Ruchi Jain from Morning Star. Please go ahead.

Ruchi Jain: Sir, you said that the 5% sequential decline in deposits is mainly on account of wholesale from government entities?

Sanjeev Kumar Gupta: Decline in deposits is largely owing to reductions in current account balances on an end date basis. On 31st March 2015, the Bank had received larger float balances in the current account which was temporary in nature and the decline is primarily due to this.

Ruchi Jain: Sir, is it just general economic activity and cyclicality?

Sanjeev Kumar Gupta: It is because of general economic activity and no other reason.

Ruchi Jain: Could you share your risk-weighted asset number YOY?

Sanjeev Kumar Gupta: Sure, RWA was ₹3,60,242 crores in the June quarter this year against ₹2,96,600 crores in the same period last year.

Moderator: Thank you. The next question is from the line of Rohit Gajare from UTI Asset Management. Please go ahead.

Rohit Gajare: Currently what is the percentage of your asset which are linked to the base rate that are floating in nature and how much were this last year?

Sanjeev Kumar Gupta: On domestic loans about 85% of our assets are linked to the base rates. And last year also it was in the same range.

Rohit Gajare: Your Retail books have grown significantly although 50% of it is still housing loans. Should that not lead to the increase in the fixed rate assets in the book?

Sanjeev Kumar Gupta: Housing loans are there and that is on a floating rate basis.

Rohit Gajare: Are your non-housing loans on floating rate basis? What is the non-housing exposure in Retail Banking business?

Jairam Sridharan: Apart from housing, most exposures are on fixed rates. Housing and LAPs (loans against property) are on floating rate basis and together they constitute about 60% of incremental disbursements. Actually the ratio is 60:40 for a base rate linked in Retail and it is 85:15 overall. The Retail proportion will shift slowly over time. But the proportion of Retail has been pretty steady at about 40% over the last two or three quarters. So the base rate proportion has not changed dramatically.

Rohit Gajare: You mentioned about the regulatory Retail exposure within SME, what is the nature of this exposure? Are we talking about CV/CE exposure or something else?

V. Srinivasan: Regulatory retail within SME relates to collateralized lending to very small sized SME clients and small business clients.

Rohit Gajare: On less than BBB-rated exposure in large Corporates that has increased 25% QOQ, are these rating downgrade or have we added more clients in the bucket?

V. Srinivasan: It is all rating downgrade. We do not take incremental fresh exposure to lower rated client.

Sanjeev Kumar Gupta: Rohit, if you will see in the last two years, roughly 80% of the incremental sanctions in Corporate Banking is to companies rated 'A' and above. Whatever the slight shifts are that can be attributed to ratings downgrades.

V. Srinivasan: Where are you getting that 25% increase then (-BBB) exposure?

Rohit Gajare: We have 11% of less than BBB rated this quarter, while it was 9% in the March quarter. And that has led to a significant jump quarter-on-quarter.

Sanjeev Kumar Gupta: That is basically from rating downgrades.

Moderator: Thank you. The next question is from the line of Anish T from Barclays. Please go ahead.

Anish T: This quarter the slippages have been slightly higher and there has been no big lumpy slippage. If it is a gradual deterioration then why are we so confident that it will not recur for the full year? If it was lumpy it would be easier to understand that in one account say can we do not expect that to recur?

V. Srinivasan: The slippages have been across segments this quarter and some of them have been a bit bunched up. So slippage is not just in Corporate but also in SME and Retail which we believe is going to be lower in the subsequent quarters. And we expect the credit cost to be around 80-90 basis points for FY16.

Anish T: Is that building any substantial improvement in the underlying fundamental economy or is it just unique to your portfolio?

V. Srinivasan: It is not building any substantial improvement in the underlying fundamental economy. We believe this year is not going to be very different from the last year. Considering that same backdrop, the Q1 slippages are slightly elevated and some lowering of that could happen in the successive quarters since there was a bit of bunching in couple of segments.

Anish T: The ₹400 crores that came from the restructured assets, is that likely to change substantially going forward or do you have more stock or was there a lot of stuff that came out in the moratorium this quarter and slipped?

Sanjeev Kumar Gupta: No. Our guidance for stressed asset additions builds in slippages from restructured assets as well.

Moderator: Thank you. The next question is from the line of Shashin Upadhyay from ICICI Securities. Please go ahead.

Shashin Upadhyay: From ₹8,515 crores worth of restructuring outstanding, what is the proportion which is largely under a complete moratorium and an interest only moratorium?

Sanjeev Kumar Gupta: I do not have data on percentages of loans under moratorium. Offline we will give you that. Out of that what we have outstanding restructured 90% value of the accounts we have both principal deferment and interest rate concession we have given. But this is a cumulative value. There may be certain accounts which have come out from that moratorium.

Shashin Upadhyay: Sir wanted some colour on your restructured book in terms of what is the proportion that is likely to complete two years in FY16?

Sanjeev Kumar Gupta: About 15-16% of the restructured book has come out of the moratorium which has a satisfactory track record of more than two years.

Shashin Upadhyay: And that is likely to be upgraded in FY16?

Sanjeev Kumar Gupta: Yes, some are likely to be upgraded this year; while some will be in the next year.

Shashin Upadhyay: What is the comparable investment book for March 2015?

Sanjeev Kumar Gupta: ₹1,17,550 crores.

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

MB Mahesh: The CD ratio now stands at about 93%. You have seen some amount of reduction in the investment portfolio. You had the benefit of cost of funds declining in this quarter yet NIM remains more or less flat. How do we read this kind of a number?

Sanjeev Kumar Gupta: About 30 basis points uptick in the margin is on account of the two factors – One, the excess capital which has given an uplift of margin of about 20 to 22 basis points. Another in October 2013, we have raised about $1.6 billion worth of the FCNR deposit. With Balance sheet leverage, share of these relatively lower cost resources would shrink and will cause some margin compression. This forms the base for our FY16 net interest margin guidance being higher than our medium-term guidance of 350 basis points. On the question why the reduction in cost of funds has not been margin accretive, the reason deals with the Bank needing to transmit the benefits of lower policy rates through base rate reductions to borrowers.

MB Mahesh: What will be the domestic loan-to-deposit ratio that you will be carrying right now?

Sanjeev Kumar Gupta: Domestic loan-to-deposit ratio will be around 80%.

MB Mahesh: You've reclassified the fee income line. Is it that there is one line item for transaction banking? Because some part of the transaction banking should also be part of the retail business, right, assuming that if it was related to the payment-related work?

V. Srinivasan: Transaction banking primarily affects cash management revenues which are from Corporate clients but includes some segments that are small business and proprietorship.

Sanjeev Kumar Gupta: But it does not include the Retail.

MB Mahesh: You had indicated that the overall exposure to the power side has not increased on a QOQ basis. But there is an increase of 70 basis points over a quarter and about 140 basis points increase over the last couple of quarters indicates a substantial jump in execution of power related projects. Is that the way we need to look at this because there was not that it does not seem to have seen that kind of activity on the ground?

V. Srinivasan: I would need to come back to you on this later because I do not have the data right now.

Moderator: Thank you. The next question is from the line of Hiral Desai from iAlpha Enterprises. Please go ahead.

Hiral Desai: Last three quarters, we have seen pick up in the Corporate Loan Book. Sir, can you highlight two or three sectors where we have seen some kind of refinancing activity or some activity broadly?

V. Srinivasan: Year-on-year growth of 27% is slightly misleading owing to the lumpy nature of refinancing that happened during the second half of the previous year. Quarter-on-quarter growth has been relatively muted.

Hiral Desai: Any specific sector where we are at least seeing some improvement at the ground level?

V. Srinivasan: Actually it is continued to be low across sectors.

Hiral Desai: And the other was the Agri Retail book that you have is about ₹17,000 crores. Sir, apart from Kisan Gold cards which are the other large loan products there?

Rajiv Anand: Yes, in agriculture lending direct lending to farmers in terms of OD facilities against their land is the primary product what we call Kisan Credit. Apart from that, the other important categories are commodity financing for both farmers and traders and gold and microfinance.

Hiral Desai: We have said that it (fee income growth in FY16) would grow broadly at mid-teens. I wanted to get some flavour on Retail fee income?

Rajiv Anand: Total fee income is primarily been driven by the Retail asset fee, commission on sale of third party products — which are basically insurance & mutual funds — and on credit card spends.

Hiral Desai: As the growth rates have been in excess of 20% over the last couple of years. Are we expecting these growth rates to sustain?

Rajiv Anand: I think our guidance of higher fee growth is predicated on lower penetration levels on most of these products. We believe sustainable Retail fee growth of about 20% in the medium term is achievable.

Hiral Desai: In continuation to what Mahesh had asked earlier. If I look at the share of Transaction Banking within fee income this quarter is 19% versus 8% or 9% earlier reflected as a part of Business Banking?

Sanjeev Kumar Gupta: Transaction Banking is more than that Business Banking.

Hiral Desai: Okay, there are some because the treasury and DCM share has gone down and the business by Transaction Banking share has gone up?

V. Srinivasan: Okay FX was previously shown as treasury which has come as a part of Transaction Banking.

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

Suresh Ganapathy: Just a quick question. Have you done any refinancing under the 5:25 structure?

V. Srinivasan: During the quarter, we have completed one transaction under the 5:25 structure.

Suresh Ganapathy: Is it possible to quantify the amount?

V. Srinivasan: It would be around ₹500 crores.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Can you share what is your cost of deposits, what is your domestic NIM and international NIM?

Sanjeev Kumar Gupta: The domestic NIM is 4.11% and the overseas NIM is 1.3% and cost of funds is 6.12%.

Anand Laddha: This is cost of domestic deposit?

Sanjeev Kumar Gupta: It is the overall deposit.

Anand Laddha: And what is your cost of domestic deposit?

Sanjeev Kumar Gupta: Cost of domestic deposit is 6.58%.

Anand Laddha: Sir, I missed the explanation on provision cost; can you give the breakup of the same that will be great?

Sanjeev Kumar Gupta: Provisions and contingencies other than tax for the quarter were ₹1,122 crores; NPA ₹796 crores; standard assets ₹30 crores; depreciation on investments ₹27 crores; UFCE ₹16 crores and contingent provisions for advances is ₹250 crores and others of around ₹3 crores.

Anand Laddha: On treasury gain, what is the contribution of G-Sec?

Sanjeev Kumar Gupta: Our trading profit is roughly about ₹400 crores in G-Sec.

Anand Laddha: Is there any capital repatriation gain in this quarter?

Sanjeev Kumar Gupta: No.

Moderator: Thank you. The next question is from the line of Anurag Mantri from Jefferies. Please go ahead.

Anurag Mantri: So just a data point question. Do you have the daily average balance for the savings account deposits for the quarter?

Sanjeev Kumar Gupta: 13% growth.

Anurag Mantri: Sir, do you have the absolute balance number?

Sanjeev Kumar Gupta: Yes, it is roughly about ₹79,500 crores.

Anurag Mantri: Can you give us the movement of the provisions for NPA, I belief that has probably been changed in terms of representation from the previous quarter to this quarter?

Sanjeev Kumar Gupta: I have just indicated that out of ₹1,122 crores, provision for NPA is ₹796 crores.

Anurag Mantri: What about the write-back or the write-off from the provisions for NPA?

Sanjeev Kumar Gupta: ₹925 crores has been the write-offs during the quarter.

Anurag Mantri: And sir, the opening balance of the NPA provision for this quarter was?

Sanjeev Kumar Gupta: Opening NPAs?

Anurag Mantri: Opening balance of provision of NPA?

Sanjeev Kumar Gupta: ₹2,086 crores.

Moderator: Thank you. The next question is from the line of Prashant Kumar from Credit Suisse. Please go ahead.

Ashish: Your exposure to over-leverage group is 8% and couple of years back it was 10%. If I recall about a year ago you had mentioned it was 8% and since then your loan book has grown 18% to 20%. Does that mean that your absolute exposure to them is growing at about that pace or I am miscalculating it?

Sanjeev Kumar Gupta: Ashish, I am not giving the figures up to the last decimal point and the exposure to that leverage group is reducing.

Ashish: Do you have any pipeline for 5:25 or you mentioned one account had been done and that is pretty much it?

V. Srinivasan: There are discussions on with banks relating to multiple counterparties and one cannot rule out more 5:25 structure transactions.

Moderator: Thank you.

V. Srinivasan: Mahesh from Kotak had a question on power sector exposure which jumped up about 70 basis points, he had said. That is only fund based exposure. There is a reduction in non-fund based exposure. If you take both, which is what I think we told Mahrukh also that the exposure over the last one year from June 2014 to June 2015 has actually come down.

Moderator: Thank you so much for answering that. The next question is from the line of Ashish Sharma from ENAM Asset Management. Please go ahead.

Ashish Sharma: On the digital slide you have given. The ₹6,296 crores overall spends that is only from the digital channel which will include all the platforms been paid through your Mobile App?

Rajiv Anand: The ₹6,200 odd crores is not digital; but is mobile. Therefore yes, that would include both Axis Mobile App as well as Ping Pay.

Ashish Sharma: When we say digital, is the net banking platform also included or is that excluded?

Rajiv Anand: It is included.

Ashish Sharma: On the SME book could you elaborate on the ticket size between the two groups. I think in the annual report you have mentioned there are two groups — small emerging groups and the medium emerging group. What will be the ticket size in those two predominantly big segments of SME book?

Sanjeev Kumar Gupta: When we are talking about that small group, it has a ticket size of roughly ₹5 crores.

Jairam Sridharan: When we spoke earlier about looking at the SME business in to kind of two components the really small SME's in to what we call the emerging enterprises and the regular SMEs. The line we draw is based on revenue and that is roughly around ₹5 crores to ₹6 crores. However, in terms of ticket sizing exposure in the really small group which is the emerging enterprises group we would usually take ticket sizes up to ₹2 crores.

Moderator: Thank you. Ladies and gentlemen, due to time constraint we take up the last question that is from the line of Roshan Chutkey from ICICI Prudential. Please go ahead.

Roshan Chutkey: What is the sequential growth in SMA from the last quarter?

V. Srinivasan: SME or SMA?

Roshan Chutkey: What is the sequential growth in SMA2 specifically?

V. Srinivasan: We will come to you on that.

Roshan Chutkey: What is the impact on NIM because of slippages?

Sanjeev Kumar Gupta: Whatever the slippages are there, whatever the interest reversal are there, that we have taken in to our account.

Roshan Chutkey: What is the amount sir, how many bps?

Sanjeev Kumar Gupta: For individual account-wise, it will not be available. It depends upon how much interest has been applied and how much we have collected out of that. It's very difficult to point out, how much that is accounting for NIM.

Roshan Chutkey: What percentage of the GNPA book is standard?

Sanjeev Kumar Gupta: GNPA book is sub-standard. When we declare an asset as an NPA, it becomes sub-standard; it goes out of the standard book.

Roshan Chutkey: No sir, out of your total GNPA, what is standard out of that?

Sanjeev Kumar Gupta: The entire thing is a GNPA and non-performing assets. If it is a standard asset, we cannot call it an NPA.

Management: Thank you once again for being on this call. We hope we have been able to address all your questions satisfactorily and really appreciate your taking time out late in the evening for this call. Thank you once again.

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