"Axis Bank Q1 FY19 Results Conference Call"

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Moderator: Good day, ladies and gentlemen and welcome to the Axis Bank Conference Call to discuss Q1 FY19 Results. Axis Bank team is represented by Mr. Jairam Sridharan, Chief Financial Officer. 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. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's briefing session. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jairam Sridharan to brief all the guests on the Q1 FY19 Results. Thank you and over to you, sir.

Jairam Sridharan: Thank you, Margaret. Ladies and gentlemen, good evening. I welcome you to Axis Bank's conference call for a presentation on the bank's performance in the first quarter of the financial year 2019.

On this call with me are my colleagues, Mr. V. Srinivasan – Deputy Managing Director and Mr. Rajiv Anand – Executive Director, Retail Banking.

During this call, we do expect to refer to some slides in our investor presentation, so you might want to keep them handy.

Jumping right in, allow me to start with asset quality:

Please refer the slides #48 through 56 in our 'Earnings Presentation'. NPA ratios for the bank improved sequentially in this quarter with GNPA and net NPA reducing by 25 basis points and 31 basis points, respectively. Slippages as well have reverted to a more moderate level after the highs we saw in the fourth quarter of financial year '18. Gross slippages in this quarter were Rs.4,337 crores, of which Rs.2,218 crores was from the corporate segment. Net slippages were Rs.1,420 crores. Slippages came predominantly from our previously disclosed stress book. Of all corporate slippages in this quarter, 88% came from the BB and below pool disclosed previously. Total rating downgrades from BBB into the standard BB and below book were Rs.4,609 crores in the first quarter. With this action and after these downgrades, we now believe that rating downgrades have now normalized.

If you look at Slide #52, you can see that the downgrade cycle being substantially completed, the BB and below book now stands at Rs.10,396 crores or 2.1% of gross customer assets. This is a level less than one-third of the 7.3% peak that it reached two years ago. We have also in this quarter increased our provision coverage on NPAs to 69%. Our steady state target for PCR continues to be the 60-65% range.

Let us move now to the bank's earnings:

I request you to refer the slides #3 through 18 of the 'Earnings Presentation.' Net profit for the quarter stood at Rs.701 crores as compared to a loss reported in the fourth quarter FY'18. NII for the quarter grew 12% YoY.

If you refer to Slide #15, you can see that the net interest margin for the quarter stood at 3.46% with domestic NIM at 3.67%. This is a material improvement sequentially. It is important however to mention that the NIM in this quarter is boosted by a one-off interest item coming from interest realization from recovery of an account from the first list of IBC. I think you can see on the same slide, cost of funds have been inching up over the last two quarters. If you look at the next slide, you see that the yield side of the equation is also showing strong signs of increase. The bank's MCLR has increased by 35 basis points in the last two quarters and 50% of our advances are now MCLR-linked. If you look at the pie chart on MCLR duration, you can infer that over the next few months, existing MCLR accounts will continue to be reset at higher levels of the rate. This dynamic along with lower slippages and consequent interest reversals gives us confidence that margins are likely to see decent support through the rest of this year. As we mentioned in the beginning of this year, we expect NIMs in FY19 to be broadly in line with the full year margins of the previous year. Other income which comprises fee, trading profit and miscellaneous income declined 2% YoY. Retail fee income within this grew at a healthy 18%. This line now constitutes 61% of the total fee income of the bank.

If you slip to Slide #17, you can see that the composition of our fee income line has fundamentally altered in recent times with the contribution of corporate credit driven fees reducing significantly. Corporate credit which used to contribute 24% of our fees at the end of the first quarter FY17 now contributes 13%. That contribution has been picked up by our cards business and other retail businesses. With this significant shift, we believe the transition in our business model on the fee front is nearly complete. In line with this business model shift, corporate banking fees de-grew by 24% YoY in this quarter. Overall, fee income grew by 6% YoY. Trading income contribution was much lower for the first quarter FY19 at Rs.103 crores, down from Rs.824 crores or down 88% YoY. This quarter saw sharp rise in yields across the G-Sec yield curve. Consequently, the bank registered MTM provision of Rs.135 crores during the quarter. We have taken the entire hit in this quarter and have not utilized the RBI dispensation that allowed for taking this over four quarters.

Operating expense growth for the quarter moderated to 12% YoY. The annualized operating expenses to average assets ratio stood at 2.16%. We continue to be on track for the below 2% number that we have targeted over the next three years. Core operating profit rose 23% YoY. Operating profit for the quarter stood at Rs.4,372 crores, up 19% on QoQ basis; however, flat on YoY basis. Provisions and contingencies for the quarter increased by 43% YoY and decreased by 54% QoQ to Rs.3,338 crores. For a detailed breakup of the provisions, please refer Slide #56.

Miscellaneous income during the quarter was Rs.705 crores compared to Rs.173 crores in the first quarter of FY18. This line is made up of two major items – dividend payment from subsidiaries and recoveries from written off accounts. During Q1, we saw some significant recoveries from previously written off accounts outside of the IBC process which was one of the key drivers of a higher miscellaneous income during this quarter. This is an important dynamic that is worth spending a few moments on.

Over the last four quarters, the bank has recovered a total of Rs.703 crores from written off accounts. This corresponds to approximately 13% of our prudential write-off book as of June 2017, i.e. one year ago. This is a ratio that we internally call annualized recoveries on a lagged PWO book. As you can see on Slide #56, the size of our PWO book at the end of the first quarter FY'19 is now Rs.14,832 crores.

Let me move now to a Discussion on our Retail Franchise:

The retail franchise for the bank continues to deliver well. Overall deposit growth for the bank for the quarter stood at 14% YoY. On a daily average basis, CASA deposits for the quarter grew 15% YoY and comprised 46% of total deposits, a rate at which they have been quite steady over the last four or five quarters. Savings Account and Current Account balances grew by 18% YoY and 8% YoY respectively on an average basis. CASA and retail term deposits continue to form a strong base of funding and together they stood at 81% of total deposits. Term deposits had a strong quarter, growing by 19% YoY. Retail term deposits grew 14% while growth in wholesale term deposits was higher at 28%. Retail fees, as we discussed before, have increased quite a lot and have also become more granular and annuity-based. Cards' fee grew strongly by 29% YoY and contributed 43% of overall retail fees in the first quarter.

We would also like to highlight that starting this quarter we have reclassified international retail banking fees including things like forex card fees, retail remittance fees, etc., from transaction banking to retail banking. We have accordingly restated previous period data. The bank strategy on retail assets continues to be centered around existing customers of the bank. 69% of retail asset originations in the first quarter was from existing customers of the bank. 97% of the bank's credit cards and 75% of personal loan originations in the quarter were from existing customers of the bank. 47% of the overall sourcing happened through our branches

Given our internal sourcing strategy, we believe the branches remain essential for new customer acquisition and hence continue to make investments in developing an extensive branch network. We opened 76 branches during the quarter with the total network now of 3,779 branches. As mentioned in previous quarters, the newer branches continue to get smaller in size.

In the recent past, during our interactions with the investment community, we have received some queries on the trends and asset quality on our retail book. There is some contextual information in this space that you might find useful. During the second half of financial year '18, the bank tightened its process for recognition of NPAs in the retail segment. As per our new practice, accounts are downgraded to NPA immediately on reaching the 91st day of delinquency. Previous to this, recognition happened at the end of the corresponding month in which the account reaches 90-days of delinquency. This new practice accelerates recognition compared to the past. Correspondingly it also sets a higher bar for subsequent normalization of the account because now you need three EMI payments for the account to become standard rather than one. This change in practice resulted in an elevation of gross slippages in retail during the third and fourth quarter of FY'18, though the increase in net slippages was more modest. The elevated levels have since settled at a slightly lower level as you can see in this quarter.

The retail loan book of the bank is very well diversified and risk in each product segment is managed very dynamically based on the latest emerging data. Looking at the available early warning data, we track in this business, as of now we are not witnessing any material deterioration in retail asset quality.

Let us move now to Digital where our strength in leadership position continue:

If you refer to Slide #29, you will notice that the bank has a strong market share across most digital and tech payment product categories.

Slide #32 speaks to our leadership in the Mobile Banking space. In Mobile Banking, as per the latest RBI data, Axis is again ranked #1 in the country by transaction value. Mobile Banking spends in the first quarter reported a growth of 90% on YoY basis. The bank had 4.7 million credit cards in force at the end of the quarter, making us the fourth largest credit card issuer in the country with the market share of 12%. Credit Card spends in the first quarter increased by 51% YoY to Rs.14,414 crores and debit card spends grew by 28% YoY to Rs.10,169 crores. The bank is the second largest acquirer of point-of-sale terminals in the country with an installed base of over 0.51 million point-of-sale terminal. We continue to witness strong traction in adoption of digital channels by customers.

If you refer to Slide #33 in the earnings presentation, you will see that 58% of the bank's active customers are now digitally active. The share of digital transactions in the overall mix has also increased now getting to 70% while branch transactions continue to trend downwards in number terms.

If you flip over to Slide #34, this showcases increasing contribution from digital channels to businesses growth. 56% of all Savings Account opened on our source through tab banking. Also, 31% of Personal Loans disbursed in the first quarter were originated through digital channel.

We launched our Online Instant Savings Account offering called Axis ASAP in November 2017. This product has witnessed strong response from customers. With 0.4 million ASAP accounts opened in the first quarter, taking the cumulative ASAP customer base to over 0.6 million in a little over six months. ASAP is a key new customer acquisition channel as it primarily attracts customers who are not existing clients of the bank. In the first quarter, 86% of ASAP accounts were new to bank.

Slide #36 highlights our capabilities and strong positioning in the Unified Payment Interface or UPI space. During this quarter, we saw 79 million UPI transactions with the total transaction volume of Rs.9,706 crores and a 10% market share. We also increased our UPI customer base to 19.9 million. At present, we have 14.6 million virtual payment addresses created across our various apps.

Let us now discuss loan growth and the trend we are seeing across various business segments. The bank's loan growth for the quarter stood at 14% and our loan-to-deposit ratio at 99%. The retail loan book continues to grow strongly at 21% with significant diversification and portfolio mix.

If you refer to Slide #23, the growth in retail loans in the first quarter was led by Personal Loans, Credit Card and Auto Loans which grew by 41%, 33% and 27% respectively.

Our previously disclosed new engines of growth like personal loans, small business lending and education loans continue to see strong momentum. The momentum in the SME segment continued during the quarter with the 19% YoY loan growth. Term loans and working capital loans grew by 11% and 21% YoY respectively. Share of working capital to overall SME loan book currently stands at 78%. The focus here remains on building a highly rated SME book and at present 88% of our standard outstanding exposure is to clients rated SME-3 or better. The domestic corporate loan book grew at 8%. The international book grew at a much slower 2% in line with our strategy.

With the focus on risk management in the corporate segment, we continue to focus our strategy along four dimensions – Reduce concentration risk, build a higher rated lending book, increase the share of working capital loans and transaction banking revenues and finally prepare for a move towards deeper bond markets through our DCM franchise. In line with these focus areas, you will notice a few factors on Slide #41 through #44. 78% of non-NPA outstanding exposure in corporate lending is the companies rated A or better compared to 68% a year ago. New client acquisition continues to be focus on highly rated customers with 94% of new sanctions in the first quarter going to clients rated A or better.

On Slide #44, you can see that concentration risk in the book continues to reduce. Our exposure to the top-20 borrowers which at one point of time was closed to 300% of tier-1 capital has consistently come down and now stands at 118%. Our business mix in corporate lending continues to move towards working capital loans. On working capital loans, we saw growth of 32% YoY in this quarter, as you can see on Slide #42. Working capital loans now form 29% of total corporate loans.

The impact of all these moves on the risk management front in corporate credit can be seen most clearly on two metrics: On the fee side, as we discussed before, this shows up as much more modest fee generation from the lending side of our corporate business. On the RWA front, this shift in strategy shows up as a noticeable lowering of our RWA to assets ratio in the corporate book which gets us to a discussion on the bank's capital position. The RWA to assets ratio of the bank improved to 74% at the end of Q1. Driven by this improvement, the bank accreted 14 basis points of capital to CET-1 during the quarter after incorporating profits in the quarter. The bank's CET-1 ratio at the end of Q1 was 11.86% with the tier-1 capital adequacy ratio of 13.22%. Our capital position continues to be strong and is sufficiently robust for us to pursue growth opportunities over the next two years.

Finally, let us move to the performance of our key subsidiaries: The bank subsidiaries have started a scale to a level where they are now able-complements to the bank's overall strategy.

Let me start with Axis Finance. Axis Finance is the fast growing NBFC and complements the bank strategy by offering financial solutions to retail and wholesale customers who have unique financial requirements. The loan book of Axis Finance grew by 47% YoY in the first quarter. Our important strategic thrust here is to grow the share of retail loans in this book. This share stands at 18% at the end of the first quarter.

Axis Capital, our investment banking business, the institutional equities and investment banking franchise has been a leader in equity and equity linked deals over the last decade. Overall capital market activity in Q1 was muted, driven in part by increased volatility in the market. Axis Capital, however, executed nine transactions during the first quarter including a QIP and OFS and three advisory deals.

Axis Securities: Axis Securities is one of the fastest growing stock brokerage firms in India. It currently ranks #3 among brokerages in India in terms of total client base. It also has one of the highest mobile adoption rates in the country with over 60% of the volumes coming from mobile. The cumulative client base rose 29% YoY to 1.9 million.

Axis AMC, the mutual fund business continues to perform well. The AMC reported 25% YoY growth in average AUM for the first quarter led by 32% rise in number of clients' folio.

Invoicemart. Axis Bank in partnership with mjunction was one of the three entities allowed by RBI to set up trade receivable discounting system and electronic platform for discounting invoices, thus facilitating cash flows for MSMEs. This is the three-sided ecosystem platform which brings together buyers who are typically large companies, sellers who are typically MSMEs and financiers that are interested in lending to these MSMEs. The banks' digital invoice discounting platform Invoicemart has done exceedingly well in its first few quarters of existence and now enjoy the market share of about 40% among all platforms. We currently have more than 550 participants on the platform and have clocked more than Rs.660 crores in finance throughput by e-discounting of 29,000 invoices.

Finally, Freecharge. Axis Bank consummated the acquisition of one of the top payment fintechs in the country Freecharge in October 2017. The progress on Freecharge since then has been extremely strong. Payment throughput is up 68%. New customer acquisition has increased to 3x of its old levels, monthly active user numbers are up significantly and spend per user is up 46%. The transaction profile of customers has improved significantly as well as you can see on Slide #67. From a point where customers were largely undertaking just recharge transactions, we now see recharge customers using the platform for many different usage categories, thus making the data footprint significantly richer. Freecharge is an important component of the bank strategy in the fintech and payment innovation space and you will see significant investments in making it a powerful financial platform over the coming years.

As I close my comments, allow me to resummarize some of the key themes of the quarter. The slowing of new NPA formation and the reduction in NPA ratios increases our confidence and the belief that the NPA recognition cycle is nearing its end. Having increased provision coverage significantly, we continue to believe that we should see credit cost normalization in the second half of this year. Core profitability metrics are starting to gain strength. Improved RWA ratios have strengthened our capital position and we do not expect to need any infusion of capital in the next two years. We continue to see strong growth opportunities on both retail and corporate segment and will pursue them vigorously within the construct of our risk and portfolio threshold.

With that, I come to the end of my opening comments. We would all be glad to take your questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. We will take the first question from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: My first question is on can you give me the non-fund exposure associated with your BB & below pool?

Jairam Sridharan: Rs.2800 crores or thereabouts.

Mahrukh Adajania: When you say that the downgrades into BB & below rating pool will normalize, did you have a tough look at the book or how is it to be interpreted?

Jairam Sridharan: You might recall that we have been seeing an elevated level of about Rs.2,500 crores of downgrades from BBB to BB & below QoQ for the last many quarters and you might recall we were mentioning in the previous quarter that I think there is another two quarters worth of downgrade likely, based on our understanding of the weakness in underlying assets. We have gone ahead and looked at all of those accounts in this quarter and as I mentioned on the call downgraded about Rs.4,600 crores of that, that is what I mean by saying that the kind of level that you are seeing in terms of downgrades into BB & below, is pretty much over.

Mahrukh Adajania: And then these slippages have moderated quite well this quarter, so does it mean that while the watch list has expanded, is the probability of slippage now from the overall pool BB and everything else, is much lower than what you saw say in the fourth quarter or even in the third quarter, is that a fair assumption now?

Jairam Sridharan: That is the base case, Mahrukh, but let us see how the next few quarters pan out and based on that we can cement the decision.

Mahrukh Adajania: There is a talk on one power account where you are the lead and haircut there based on private bidding was some 72% or 73%. Also on the other hand, banks are working on schemes like Samadhan, to resolve power assets, where the haircuts are expected to be low. So, what will be the likely resolution as in that will banks wait for better value to emerge or will some big power account still be resolved at 70, 72% discount?

V.Srinivasan: Outside of NCLT, you need 100% consent of lenders and clearly if you look at what is happening through whatever, Samadhan sort of framework, resolutions are unlikely to happen without 100% lender consent unless it is part of the framework or conforms to that framework. So, you should look at it that way.

Mahrukh Adajania: Just a question on corporate loan growth. Sequentially that has been weak and even housing growth has moderated and so has growth in savings deposit, so any particular reason there or just a lean season, how is it going to pan out going ahead?

Jairam Sridharan: Overall from a growth perspective, Mahrukh, you should look at growth of loans and deposits sort of hand-in-hand, we said that we have loan-to-deposit ratio right now at 99%, we would not want to grow loans too far out ahead of our deposit growth. So, that is one thing that you should keep in mind. Now in that context, we will try to chase the growth opportunity where we have the highest return on capital and that is something that we have pursued over this quarter. Corporate growth opportunities are there for us, similarly in retail as well. There are lots of opportunities right now. So, purely from a growth perspective the opportunity to grow in the high-teens or even higher is quite high in the market. It is a little bit about the appetite that you want to set for yourself in terms of return on capital and loan-to-deposit ratio and different banks will make different choices in that regard. What we have chosen to do in this quarter, what you are seeing in front of you, as we have been talking on the mortgage piece, etc., while we love the business and there is a lot of positives we have had in that business from return on capital perspective, you want to not have too much of that business and there is a little bit of emerging niggling concern that we have always had about certain markets where that business might have risk building up. So, we will moderate our growth, but this is not strategy that we will hold on to all the time. So, it is tactical depending on what opportunity you see in the quarter at that particular time.

Mahrukh Adajania: But you improved loan-deposit ratio, would you increase your savings rate or rate term deposits or how will it pan out?

Jairam Sridharan: All options are on the table, Mahrukh.

Moderator: Thank you. We will take the next question from the line of Manish Karwa from Deutsche Bank. Please go ahead.

Manish Karwa: On the slippages front, we had a reasonable amounts of higher slippages coming from outside the corporate book especially retail and SME. While some other banks have also seen a similar trend, how are you seeing this trend – is it a one-off thing or you think that given a very strong growth over last many years, retail slippages may see some pickup this year?

Jairam Sridharan: Manish, look at the net numbers, not the gross numbers. Your point is right, gross slippage outside of corporate book has been about Rs.2,100 crores or thereabouts but if you look at the net numbers, retail and SME put together, have had something like Rs.800 crores of slippages, so nothing much at all, this has not actually grown whole lot. I did refer in my comments to the tightening of recognition practice that we have had particularly in retail, that elevates the gross number materially and slightly elevates the recoveries as well. So, it is new normal that will get established as this practice fully gets incorporated in our system. That is what you are seeing right now, but the impact on the net level is actually not very high.

Manish Karwa: My second question is on the coverage ratio. Now since you seem to be comfortable with 60-65% coverage ratio but now you are at 69% coverage ratio and probably with some better recoveries likely in the upcoming quarters, does it mean that now you may not want to increase your coverage ratio from where you are, and incremental provisioning probably should be in line with whatever the increase or decrease is on the gross NPL?

Jairam Sridharan: Yes, that is broadly the base case, you might see a little bit more, it is tough to be very precise about this, Manish, but yes, broadly that is the basis, we do not want to be too far out from our comfort zone, but let us see, what the next couple of quarters bring. In general, what you are likely to see is in good times we will build up a buffer from a provision coverage perspective and use up that buffer a little bit as we enter bad times, but in general, our comfort zone is going to be 60-65.

Manish Karwa: You have not given your subs profitability especially Axis Finance and Axis Securities?

Jairam Sridharan: We have not. The way we have actually looked at this quarter is we have actually looked mostly at the operating performance of all the subs. So, let us see, maybe we will do it on a half yearly basis or maybe on a full year basis, we have not fully made up our minds on that. Remember that there are some new subs that we have created where measuring them on PAT is not actually the best thing to do. So, we wanted to actually keep the focus on the operating side of the businesses and hence for all the subs we have actually made that choice. We will show the numbers certainly of course on a full year basis but maybe on a half yearly basis as well, we need to think about that.

Moderator: Thank you. We will take the next question from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: My first question is on the movement of the BB and below. If you look at that number, you started off with about Rs. 90 billion at the start of the quarter. You indicated there is fresh addition of Rs. 46 billion, the slippages suggest that there have been about Rs. 20 billion reduction here which means that the difference is about Rs 13 billion. How would you explain that?

Jairam Sridharan: Rs. 13 billion were upgraded from BB to BBB. In the previous quarter we had seen one or two upgrades happen from out of BB and I had said that it looks like going forward we are going to see both downgrades and upgrades from the BB pool and the upgrade cycle seems to have started as well. You saw that gaining a little bit of momentum in this quarter, you are absolutely right, about Rs. 13 billion worth of upgrades happened from BB out into BBB and above.

MB Mahesh: Also to continue if there has been Rs. 46 billion addition, you also indicated that some of it will move from the NPA line to the sub-investment grade as well, how much would that be?

Jairam Sridharan: This quarter there is not anything material.

MB Mahesh: The second question pertains to what is the total quantum of NCLT cases that you have including those which are part of the NCLT-1 and 2 and those which you have initiated on your own?

Jairam Sridharan: The NCLT-1 and 2 cases we have about Rs.4,600 crores fund-based and about Rs.400 crores non-fund based. So, that is basically what we have in NCLT-1 and 2. Outside of that, there is a host of cases in which we will take the NCLT route over time to try and recover, I do not have readily available number on that, Mahesh.

Moderator: Thank you. We will take the next question from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: Just to kind of go back to the same question again, the BB and below, how should we track the number? At the end of the day then, we will have to wait for your commentary to see how much of slippages have happened from the top to bottom, that is where we are more focused on and if historically this number has been on a quarterly basis Rs.2500 crore or on an annualized basis let us say anywhere between Rs.9,000 to 11,000 crores and if you are saying that this is now going to normalize, does it mean on a quarterly basis we are only going back to like Rs.1500 level or do you expect like Rs.500 level?

Jairam Sridharan: Much lower number, certainly not four digits.

Nilanjan Karfa: The current quarter you are saying?

Jairam Sridharan: Yes, starting Q2.

Nilanjan Karfa: Then I am a bit confused because to an earlier question where you said we want to wait for two, three quarters, I think that is probably the right thing to do but you said at least on the normalization of credit cost, you basically said let us wait for a few more quarters, then are you not holding onto the normalization of credit cost starting second half of this year?

Jairam Sridharan: We are very much holding on to that, Nilanjan. I actually do not fully recollect what the previous answer was. Let me reframe, as far as downgrade from BBB to BB are concerned, we think that the Rs.2500 crore pace was very high compared to what one expects normalized number to be. Normalized numbers are not going to be anywhere near that, they are not going to be four digit at all. We think we are as normal now after the Rs.4600 crore worth of downgrades that we did in the first quarter I think we are pretty much done with that accelerated pace and you are going to go back to fairly low levels of downgrades, that is one. Second, as far as slippages into NPA are concerned, we will probably see one more quarter of elevated level of slippages and then it should come down materially as well. Put these together with the fact that existing PCR is already quite high, that should get you to a normalized credit environment in the second half.

Nilanjan Karfa: To revisit that retail SME gross slippages, did you just say that technically we could have gone up to 119-days and not recognized as a slippage in the retail segment?

Jairam Sridharan: Right now, the account is recognized as NPA on the 91st day, that is where I would like to stop that comment.

Nilanjan Karfa: But then we are just about 9 or 10-quarters of data that you have given publicly, if I look at the net slippages to gross slippages in the retail plus SME, it has been very-very volatile, understandable, but then how should I look at that ratio or is it not worthwhile to even look at that?

Jairam Sridharan: No, actually the way we look at it internally, Nilanjan, let me just tell you that and maybe you will find it useful is we look at net slippage ratio, net slippage to advances but smoothed over four quarters because there is strong seasonality. If you look at it on every quarter basis the number will just jump up and down and you will find it very hard to actually make sense of it. But if you smooth it over four quarters you will see a very nice clean and strong trend on what net slippages to four quarter old outstanding, etc., are, you will find a very strong sense, that is a good metric to keep track of.

Nilanjan Karfa: But on that metric, we have actually kind of increased, right because that ratio in '16 was roughly about 1.1% give or take, it increased to about 1.4%, 1.5% in FY17 & FY18?

Jairam Sridharan: This is not a net number, net number is actually half of what you are saying, but you are right. Let me just make a point for you, the net slippage ratio has indeed increased over the course of last year and the practice change that I was speaking about before is the primary driver there of why that increase has happened. But it is a new normal that has actually got into and we think it is a better place to be that even at roughly 1% net slippage ratio, it is a good place to be because you are recognizing a little bit sooner, your ability to recover will be a little bit more and generally it is more prudent to actually recognize it at this level.

Nilanjan Karfa: The data-keeping question, you mentioned about Rs.2800 crores in the non-funded BB and below. Could I have the same number for the total vulnerable book which is about Rs.11,000 crores as well as the NPLs, and if you can the SME5-8 rated book, three data points?

Jairam Sridharan: The non-fund based NPA book is Rs.3,400 crores…

Nilanjan Karfa: Was that Rs.1,000 crores last quarter?

Jairam Sridharan: Not materially different from this number of the total NPA.

Nilanjan Karfa: What about the vulnerable?

Jairam Sridharan: There is not much in addition to what we have said on BB & below, pretty much the same.

Nilanjan Karfa: Do you have an exposure on the SME side as well, rated five to eight essentially?

Jairam Sridharan: I will take that number up.

Moderator: Thank you. We will take the next question from the line of Arash Arethna from India Infoline. Please go ahead.

Arash Arethna: A couple of questions; Firstly, could you please give us the breakup of the NPL by corporate, retail, SME and Agri? Second is the non-fund based power exposure that you disclosed, could we please have the rating mix? Also, on the NCLT basis, could you give us the PCR on fund-based and non-fund-based?

Jairam Sridharan: On your question on power book and rating mix, we have got the overall rating mix of the power book on Slide #46, so that is of course on the fund-based business, the non-fund-based I do not readily have but I have no reason to believe that it is going to be materially different from what is here. So, if you just make a same assumption, you are not going to be way off at all. Your other question on NPA breakup, retail is about Rs.2,700 crores or so, SME is about Rs.2,500 crores or so, corporate is the rest, Rs.27,000 crores something.

Arash Arethna: Just the provision coverage you have on the NCLT cases fund and non-fund-based?

Jairam Sridharan: PCR on Fund-based NCLT exposure is 83%, non-fund is less than 10% of our fund-based exposure.

Arash Arethna: Could you give the absolute amount of the interest reversal that you mentioned, 17 bps in the Slide #3?

Jairam Sridharan: Rs.249 crores.

Moderator: Thank you. We will take the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Just a couple of questions from my side. On the other miscellaneous income, can you provide some clarity. If you can quantify what has been the dividend income and what has been the recovery from written off asset? Also, if you can give some clarity like last year how much was the recovery from written off pool?

Jairam Sridharan: Dividend income is about Rs. 130 crores, recoveries are roughly Rs. 550 crores. That is the break up. As far as total recovery from write-off over the last year, I mentioned during my call that we have made Rs.703 crores of recovery from writen-off over the last four quarters.

Anand Laddha: What was the corresponding number for other income excluding fees last year same quarter?

Jairam Sridharan: Total trading and miscellaneous total was Rs.997 crores.

Anand Laddha: Last year what was the dividend income for the full year?

Jairam Sridharan: I do not know. We will try and take it up, Anand. By the way, I have to also correct myself on something, my team points out that during this call last quarter when the question came on non-fund-based exposure to NPL account, I want to correct myself, the non-fund base exposure is around Rs.3000 crores on NPA, not Rs.1000 crores.

Moderator: The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Just a question on power sector, in the Slide #46 you have kind of hinted that the coverage is around 42%, but the net NPA is 30% and gross is 42%, the coverage seems to be 29%. So, how have you calculated that?

Jairam Sridharan: There must be some write-off as well from the full pool.

Amit Premchandani: Which implies that the gross NPA if that is kind of added back would be much higher than say 50%. Is it safe to assume that?

Jairam Sridharan: Yes.

Moderator: The next question is from the line of Vishal Goyal from UBS Securities, please go ahead.

Vishal Goyal: The question is actually on the whole this news around RBI AQR and the list of 240 accounts, I do not know how much of it is true, but can you give some color on what is actually happening and what can be potentially impact for us?

Jairam Sridharan: Vishal, we have not heard anything about it, I mean the ticker is the first thing we heard on this issue, we have our annual RBI inspection and that will largely happen during this quarter, and certainly no official communication that I am aware of, so to be perfectly honest, this is somewhat news to me and we have got to figure out whether there is some fire where the smoke is coming from or it is just all smoke.

Vishal Goyal: Could it be just the annual inspection which is happening now like throughout the banks?

Jairam Sridharan: That is what it seems to be, but there is no like mega list of 240 accounts or anything that I am aware of.

Vishal Goyal: Maybe I think that 240 list we can keep it aside. For our bank since we have already disclosed BB and below and all the NPA, any potential impact of annual inspection you see like outside of what we are discussing already?

Jairam Sridharan: I would be very surprised if there is. In general, the weakness in accounts we have tried to capture as closely as possible in the readings which we have all been talking about, so even if accounts are not classified as NPA the fact that they are BB is well disclosed to you all. So, whether someone is going to find weaknesses outside of the BB list, I would seriously doubt it, but never say never, let us just wait for the RBI process to get down and we will get to know for sure.

Moderator: Thank you. The next question is from the line of Manish Shukla from Citi Group, please go ahead.

Manish Shukla: Just going back to your PCR target, that is including the write-off number, right?

Jairam Sridharan: Yes, it is.

Manish Shukla: So, this specific coverage if I exclude write-off is around 54% then it is fair to assume that that number is unlikely to move up meaningfully from current levels.

Jairam Sridharan: Manish, even I have spoken about this in the past, our belief is that when an account becomes fairly high LGD expectation, we tend to move the account to 100% from a provisioning coverage perspective and then do provisional write-off on that just to get the appropriate tax benefits on it. So, it is our belief that the only appropriate way of looking at provision coverage is including all those accounts on which you have made 100% provision because those are indeed your worst account and that is why we tend to disclose or talk about and internally monitor PCR including PWO. So, we will continue to monitor that. PWO book itself is likely continued to increase as we write off some more over the next couple of quarters, but that overall coverage is what we are talking about when we say targeting 60 to 65.

Manish Shukla: And if we refer to Slide #53, if I take the total stress pool as gross NPA plus vulnerable, the specific coverage number which is 54 looks more like 40 and that is where this question was coming from.

Jairam Sridharan: But Manish that math, what you are essentially saying is that the probability of default of the vulnerable pool is 100%, that is implied when you add GNPA and vulnerable pool, the implication is that the PD is 100%, now you could make that choice, but I am saying at least you would want to do some sensitivity analysis around that and think about how big BB are you going to have even in end state. It is unlikely that in the end state, the bank has BB pool of zero, right. So, there is always going to be something there and that is the sensitivity analysis that one should do, or another way to say this is, take the GNPA, and multiply PD to the vulnerable pool and then look at the overall coverage, that would work too.

Anand Laddha: Lastly on you power sector exposure, all your gas-based exposure is NPA, is that fair assumption because there is no gas in the Slide #46?

Jairam Sridharan: Yes.

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

Kunal Shah: Sir, firstly in terms of this entire performance on the SME side, so how have been the downgrades out there, if we look at it towards the lower rating, so we had seen in terms of few downgrades coming in on the corporate side, but how would have been the behavior on the SME?

Jairam Sridharan: Nothing very material Kunal, we have not actually seen anything material on that front.

Kunal Shah: That pool is relatively behaving well?

Jairam Sridharan: At this stage yes, but we are watching it very closely. I know there have been a lot of chatters on this and it is appropriate for there to be chatter given some of the stress at this segment particularly the lower end of the SME segment and the more cash dependent part of the SME business has been. Our business has largely been towards what you can call organized sector SME and so far we have seen less of an impact on them from demonetization and GST, but we are watching that space closely.

Kunal Shah: Secondly, in terms of normalization of credit cost which you highlighted last time of 100 or 110 basis points, so does that very much continues in terms of the guidance for the second half.

Jairam Sridharan: We have continued to use the language of normalization of credit cost. You are right that the last 16-year average of annual credit cost for the bank is 110 bps, somewhere in that vicinity is where we believe normal is.

Kunal Shah: In terms of the domestic corporate growth, so there has been the moderation, so what is the outlook out there may be in terms of now may be larger part of stress being classified and may provide it for as well, so what is the outlook on the corporate credit now?

V Srinivasan: I think what we have been doing is to focus on the highly rated corporate. I think if you look at the rating distribution which on the standard book that clearly reflects that and the opportunities which we get in that bucket is surely something which will go aggressively after and that is what we will try and do.

Kunal Shah: In terms of this downgrade, so were there any large ticket items in this when we look at the downgrade towards the BB and below and that is why there may be some cases which were there at the borderline that has finally happened and now we are pretty confident that now we will not see any major downgrades towards BB and below?

Jairam Sridharan: The latter of what you said. I think there were a bunch of cases which we have been watching closely and with the turn of the financial year and their numbers from the previous quarter being available we reevaluated them and in many cases chose to downgrade them to BB, these are not any specific large account that we are targeting, it is just the full pool and just taking a good hard look after seeing that Q4 numbers at what might be the case. The bulk of the accounts here are going to be in the Rs.100 crores to 250 crores kind of range, that is going to be the biggest part of the value here.

Moderator: The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management, please go ahead.

Roshan Chutkey: Just two questions. What is your SMA-1 and SMA-2 right now and how has it trended if you could want to quantify it?

Jairam Sridharan: We have not disclosed trends of SMA-1 and 2, I had mentioned the last time that our SMA-2 book is around 50 basis points of loans that continues to be true in this quarter as well.

Roshan Chutkey: What about SMA-1?

Jairam Sridharan: SMA-1, we have not talked about it in the past, so I would rather not make a specific disclosure here.

Roshan Chutkey: Even BB and below book has increased, if you can comment on this, one of the corporate banks have really done well in SMA-1 and SMA-2 and does that inspire confidence?

Jairam Sridharan: That is good feedback, may be from next quarter.

Moderator: Thank you. The next question is from the line of Krishnan ASV from SBICAP securities, please go ahead.

Krishnan ASV: Just to take you back to the commentary that you made on the retail portfolio, just wanted to understand what triggered the change in Axis Bank approach in terms of impairment recognition as well as higher threshold for upgrading these accounts?

V Srinivasan: Basically, it is a question of recognition on the corporate side, it always happens on ninety first day, we decided to make it uniform for the retail side too.

Jairam Sridharan: As far as the recognition is concerned, once an account become NPA, automatically the upgrade requires three EMIs to be regularised. All irregularity to be repaired, so 90-days irregularities is three EMI.

Krishnan ASV: All I am trying to understand is what did you observe in the retail book that triggered this change in your approach?

Jairam Sridharan: Nothing really, like we just want to be ahead of the curve.

Krishnan ASV: My second query is around the granularity that you are building in your retail book as well. Could you just throw some color on the internal customers, there are certain asset classes where internal customers are not a very big part of your portfolio, so I just wanted to understand how you are chasing customers in these portfolios?

Rajiv Anand: The book is like you rightly said is predominated at serving existing customers and even from a channel perspective the focus is to increase the amount of business that we are generating from the branches. So, therefore if you look at those numbers, today about 70% of the customer base on the retail lending side comprises existing to bank customers and little under 50% of the business is sourced from the branches. Having said that obviously the unsecured side of the business on credit cards or 97% of business is sourced from existing customers, similarly on the personal loan side, it is close to 75%; however, for home loans and auto loans that number would be about 50%.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities, please go ahead.

Manish Ostwal: My question is that the operating expenses growth and the branch addition outlook going ahead because this quarter we added 76 branches, so what kind of branch addition we can expect? Secondly operating expenses growth in FY19?

Rajiv Anand: I think last year as well we guided that we would be opening about 400 branches, that is the number that we did last year. The expectation is that the number for this year as well would be in the vicinity of between 350 to 400.

Jairam Sridharan: As far as operating expenses is concerned, you saw our OPEX growth 12% YoY which is one of the lowest growth that we have had in the last many quarters, you saw our OPEX-to-assets ratio fall to 216 basis points. If you recall the presentation that we had uploaded last quarter called execution strategy in that we had said that from the 217 basis points cost to asset annualized, over the next three years we want to come down to 200 basis points or lower, i.e., eke out about 17 basis points of cost efficiency to asset over this two to three-year period. You saw us come down one basis point on that path in this quarter and we expect to continue to go down that path in the forthcoming quarters as well.

Manish Ostwal: The second question I have was on the long-term credit cost of 110 basis points and your two comments, one is the slippages will be significantly lower than the last year and secondly the credit cost normalization. So, it is fair to assume, our full year credit cost will be under 2% or close to 2%?

Jairam Sridharan: I will let you do that math, I mean, I think we are going to have elevated levels in the first half and then we are going to come close to normal in the second half, I do not want to add any further guidance on top of that.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Jairam Sridharan for closing comments.

Jairam Sridharan: I know it is quite late. Thank you, everybody for being with us on this call. Have a very good evening.

Moderator: Thank you. On behalf of Axis Bank that concludes the conference call. Thank you for joining us and you may now disconnect your lines.