"Axis Bank Q1 FY20 Results Conference Call"

July 30, 2019

MANAGEMENT: **MR. AMITABH CHAUDHRY – MD & CEO, AXIS BANK**
MR. JAIRAM SRIDHARAN –GROUP EXECUTIVE & CFO, AXIS BANK
MR. RAJIV ANAND – EXECUTIVE DIRECTOR AND HEAD OF WHOLESALE BANKING, AXIS BANK
MR. PRALAY MONDAL –GROUP EXECUTIVE AND HEAD OF RETAIL BANKING, AXIS BANK
MR. GANESH SANKARAN – GROUP EXECUTIVE, WHOLESALE BANKING COVERAGE GROUP, AXIS BANK

Moderator: Ladies and gentlemen, good day, and welcome for the Axis Bank Conference Call to discuss the Q1 FY20 results. Participation in the conference call is via 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 the briefing session. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference call is being recorded.

On behalf of Axis Bank, I once again welcome all the participants to the conference call. I now hand the conference over to Mr. Amitabh Chaudhry, MD and CEO, Axis Bank. Thank you and over to you, sir.

Amitabh Chaudhry: Good evening, everyone. Thanks for joining the call. We welcome you all to a discussion on Axis Bank's Financial Results for the First Quarter of Financial Year 2020. I'm joined here by my colleagues, Jairam Sridharan – Group Executive and CFO; Rajiv Anand – Executive Director and Head of Wholesale Banking; Pralay Mondal – Group Executive and Head of Retail Banking; and Ganesh Sankaran, Group Executive, Wholesale Banking Coverage group.

Before we get into the discussion on financial performance, I would like to start by updating you all on the execution strategy that we had articulated at the beginning of this year. Our execution strategy 2022 is centered on delivery of three vectors; growth, profitability and sustainability. While all three are important, the starting point of our strategy has always been sustainability. We intend to build sustainability in our business performance and operations with disciplined execution and conservatism at the core to sustainably deliver 18% ROE. This quarter saw us continue from the previous one in terms of our focus on sustainability. We continue to invest in our conservative stance on provisioning, compliance and risk. Last quarter, you saw us voluntarily make some additional provisioning in certain select areas. We built on that in this quarter, with more additional provisions toward special situations. With these efforts, the Bank now holds additional provisions of around ₹2,358 crores, for various contingencies, over and above what is counted in our provision coverage calculations and the 0.4% standard asset provisions. Jairam will take you through some of these facts in detail later in the call.

The second element of GPS 2022 is growth. Our philosophy on growth is to allow growth rates to be an outcome of deliberate, cautious and conservative choices around sustainability rather than directly target specific growth rates themselves. If we consistently make such choices, there could be quarters in which our growth rates would be modest and others in which it would be brisk. We also believe that if we continue on this part, the growth will come. We are equally okay anyway with both.

Domestic growth conditions remain soft, with weaknesses seen in multiple high-frequency indicators. Auto sales are weak and demand for capital goods remains slack. That said, there are enough high-quality market opportunities available for us to deliver domestic loan growth 5% to 7%

over the industry growth rate for the next couple of years. In line with that, our domestic loans grew 19% YOY this quarter. With the election uncertainty behind us, transmission of lower interest rates, coupled with easier liquidity conditions, we believe will boost credit offtake and trigger a revival in private sector capex demand over the next couple of quarters. Continuing weakness in the NBFC sector is also helping increase banks' share of domestic lending.

On the profitability vector, the most important development during the quarter was the significant improvement in operating efficiencies. Operating profit was up 35%. We have also laid out a goal of reducing our cost to assets ratio to 2% through the course of GPS 2022, and this quarter was an important step forward. Our operating jaws were very favorable during the quarter and resulted in a fall in cost to assets down to 2.08%.

This quarter also saw some important moves in the Bank from a talent perspective. To drive greater focus on new customer acquisition on the CASA and RTD side, we created a new vertical structure in the liability sales in April 2019. During the quarter, Narendra Kumar Dixit has joined the Bank to head this function as Head of Liability Sales. Establishing Axis as a Digital Bank is another important dimension of GPS 2022. During the quarter, Sameer Shetty, ex McKinsey, who will lead our digital banking initiatives, joined us. Finally, we had Neeraj Gambhir, joining the Axis family during this quarter as Head of Treasury and Markets. With this, we now have the full team in place to turn our aspirations into reality over the next few years.

Two important product launches during the quarter are also worth a mention. In the credit card business, we have had strong growth and leadership position for some years now. We added an important feather in that cap during this quarter, as Axis Bank launched an exclusive co-branded "Flipkart Axis Bank Credit Card", a card that offers best-in-class benefits for the digital customer and we aspire to build this card to be one of the largest card co-brands in the industry. The initial signs post launching the card have been very positive.

During the quarter, we also launched Trade@20, a disruptive brokerage plan on Axis Direct whereby our customers can avail unlimited trading at Rs. 20 per order, but is also expected to add to our liability franchise because our customers are expected to maintain a certain minimum balance.

Axis Bank remains committed to deliver consistent performance quarter after quarter, year after year. During Q1FY20, our operating performance was strong. Our growth metrics were healthy. Asset quality metrics continue to improve, and we have further strengthened our balance sheet and improved provision coverage. With that, let me hand over to Jairam to take you through the Bank's financial performance in detail.

Jairam Sridharan: Thank you very much, Amitabh. Ladies and gentlemen, good evening. It is my pleasure to take you through the detailed financial performance of the Bank during Q1FY20. As always, do keep the Investor Presentation handy as we do expect to refer to various slides there.

There are five key highlights of our performance during the quarter:

1. Asset quality – Asset quality metrics are progressing well and are in line with expectation.
2. We continue to strengthen our balance sheet and our provision coverage quarter after quarter.
3. Our growth metrics in the quarter were healthy, led by Retail.
4. The deposit franchise had a strong quarter once again
5. Finally, operating profit, which grew 35% YOY with a very strong trajectory on most revenue and cost line items.

Let me start with Asset Quality and Balance Sheet strength. Please refer to the Asset Quality section starting slide 49 in the earnings presentation.

NPA ratios for the Bank remained stable during the quarter. We ended Q1 FY20 with a GNPA ratio of 5.25% and Net NPA ratio of 2.04%, both slightly lower than corresponding numbers at the end of March. GNPA at the Bank level was at ₹29,405 crores compared to ₹32,662 crores at the end of Q1 FY19. The GNPA book has now reduced in absolute terms for five consecutive quarters. Net NPA of the Bank was at ₹11,037 crores, compared to ₹14,902 crores at the end of Q1FY19. Net NPA book of the Bank has also now reduced for five consecutive quarters. Gross slippages in the quarter were ₹4,798 crores, compared to ₹4,337 crores in Q1FY19, and ₹3,012 crores in Q4FY19. Slippages in Q1 tend to be seasonally higher at the Bank compared to Q4. Gross Slippage ratio in the quarter was broadly flat with the Gross Slippage ratio in Q1FY19. We were at 0.94% compared to 0.95% last year.

Of the total Gross Slippages, corporate segment slippages were ₹2,128 crores. Net Slippages in the quarter were ₹2,621 crores, compared to ₹1,420 crores in Q1FY19, and ₹636 crores in Q4FY19. We had two chunky accounts, one in the Power sector and another in the Shipping sector, together contributing ₹850 crores, that we downgraded into NPA this quarter. Both these accounts were in the BB & below list previously. You will recall that in FY19, Q1 saw a large IBC driven recovery which made the Net Slippage number extremely low. We witnessed no such chunky recovery during Q1FY20. Of the Net Slippages of ₹2,621 crores, ₹1,318 crores came from Corporate, ₹414 crores from SME and ₹889 crores from Retail and Agri segments. 79% of the Net slippages in corporate book came from the BB & below portfolio.

Let's take a quick look at movements in the BB & below portfolio. This quarter, we took another hard look at the ratings of our corporate exposures, to identify accounts that might merit rating downgrades in the newly weak economic environment. Looking through our entire corporate book, with special focus on groups that are showing recent signs of stress, we identified and downgraded ₹2,242 crores into the BB & below book. The downgrades came largely from groups that have newly displayed signs of stress in recent months. Importantly, we also witnessed ₹1,007 crores of reduction in balances with prior period BB accounts. At the end of these movements, the Bank's BB & Below corporate lending book remained largely stable, at ₹7,504 crores, compared to ₹7,467 crores as at end of Q4FY19. This book is down 28% YOY.

Stressed groups:

The credit environment in the Corporate segment continues to be challenging. We continue to witness sudden and sometimes dramatic rating downgrades in many companies across various sectors. We would like to share some color on the Bank's exposure to a few old and some newly stressed groups. In particular, I'd like to discuss, without naming them, 8 stressed corporate groups and diversified conglomerates. These groups are engaged in the areas of infrastructure finance, infrastructure, power, telecom, housing finance, travel and tourism, commodities, molded plastics and media-related sectors. If you look at these 8 groups, our exposure is detailed, are as follows.

I will split this into 3 parts:

Loan Outstanding, Investment Outstanding and Non-Fund-Based Outstanding:

Our loan outstanding to these 8 groups is around ₹7,000 crores. Of this, ₹1,000 crores is already NPA. Another ₹2,900 crores is now in our BB & below book. Of the remaining ₹3,100 crores, about 2/3rd is with one operating media account. All the rest is made up of various small exposures to operating entities. So, that was a ₹7,000 crores loan outstanding.

Coming to investments: On the investment side, we have an outstanding of ₹2,200 crores towards these 8 groups. Of that, ₹200 crores is already NPA. Of the remaining ₹2,000 crores, we have mark-to-market a provision of ₹400 crores.

Finally, NFB exposure: We have an NFB exposure of ₹3,000 crores to these groups. The 1/3rd of that ₹3,000 crores exposure is already NPA or in the BB & Below pool. The remaining 2/3rd is to one account in the telecom space, where we have a BG which has expired, but we do not have physical guarantees returned to us.

We do have a credit enhancement from a credible third-party on this account and initial judgments in the judicial process that are underway have been in our favor. We continue to track this position closely.

So, in summary, our NPA exposure to these eight groups is limited and mostly in the already disclosed BB & Below pool. Investment exposure are adequately mark-to-market, and there are only two material exposures outside the above categories - a disputed BG with a telecom client and a loan exposure to an operating media company. These two together form 0.75% of our customer assets.

Moving on beyond corporate lending, I'd like to spend a minute to highlight some facts on retail asset quality. Gross NPA ratio in retail continues to be modest. In Q1, gross NPA ratio in retail was lower than that in Q1FY19, which in turn was lower than in the Q1FY18. Net NPA ratios in retail have largely remained around the 0.6% mark, similar to where they have been for most of the last 2 years.

Net slippages in retail are higher than in Q1FY19. This is mostly driven by the exceptionally low new net slippages number you saw in Q1FY19. If you go back, you'll find that net slippages in Q1 FY20 are practically the same level in absolute rupee terms as in Q1FY18 on a book that is 47% larger. Net slippages in Agri was at around the same level as last year and the same level as the year before, in absolute rupee growth terms.

I draw your attention now to Slide #56, and the table in the lower half of this slide. You see on the bottom right, that the total provisions and contingencies for the quarter were ₹3,815 crores compared to ₹3,338 crores in Q1FY19. You will also notice that in the last 2 quarters, the Bank has been setting aside significantly higher levels of provisions towards categories other than loan loss provisions. This is towards the balance sheet strengthening that Amitabh has been speaking of consistently. More of this in a minute.

You will also see on the slide that the Bank has an accumulated prudential written off portfolio of ₹21,317 crores. Of this, 86% has been written off in the last 9 quarters. We want to point out that over the last 12 months, we have recovered 9% of the opening PWO pool and this ratio has been broadly consistent quarter-on-quarter.

If you move back one slide to Slide #55, you can see the credit cost trajectory of the Bank over the last few quarters. Credit cards for the quarter stood at 2.06% on a gross basis. This compares with 2.45% in Q1FY19. SMA 2 level at the Bank remains benign at around 0.4% of loans.

In our earnings call last quarter, we enumerated several steps the Bank has taken towards further strengthening our provisioning process. That push continued through this quarter. The Bank provisioning coverage on nonperforming assets stands at 78% compared to 69% at the end of the first quarter last year and 77% at the end of Q4FY19. On NPA provisioning, the Bank continues to adopt conservative norms, including daily stamping of NPA across the entire portfolio and 100% provisioning for unsecured credit in Retail at the 90 days past due stage itself.

The Bank also increased provisioning on certain non-banking assets held on our books. The context regarding this provisioning was explained in detail during our Q4FY19 earnings call in April. This was an additional provision of ₹535 crores during this quarter. You might recall that 100% provisioning on this asset has already been passed through reserves last quarter, and this incremental provision of ₹535 crores that were done in this quarter, are book value neutral in nature.

This quarter, we also started making specific provisions for non fund-based exposures we have towards borrowers that are either already NPA or are showing weakness and are in the BB & Below pool. As we transitioned towards this new regime in this quarter, we made an additional provision of ₹459 crores during the quarter. Overall, through various measures over the last few quarters, the Bank now holds additional provisions of ₹2,358 crores towards various contingencies. This is over and above the NPA provisioning, which is included in our PCR calculations, and the 0.4% standard asset provisioning requirement on regular assets. This ₹2,358 crores of additional provision for contingencies includes ₹510 crores for BB & Below or SMA 2 accounts, ₹459 crores for non fund-based exposures, ₹1,389 crores for various stressed sectors and other situational provisions. Please note that the ₹1,138 crores of extra provisions made towards land parcels in the last 2 quarters is not included as part of the ₹2,358 crores.

So, that was a detailed discussion on asset quality. Let's move now to a discussion of deposits. You've observed that the Bank has been disclosing deposits on a quarterly average balance basis for the last few quarters. The rationale behind publishing the QAB numbers is to highlight our focus on maintaining and tracking stable, non-volatile deposits and minimizing the amount of hot deposits during quarter end. This is another step in our journey towards building a sustainable franchise at the Bank.

Please refer to Slide #6 in the presentation. On a quarterly average balance basis, CA, SA and retail term deposits together grew 24% YOY. Within this, SA grew 10%, CA grew 12% and retail term deposits grew by 43% YOY on a quarterly average balanced basis. CASA and retail term deposits continue to form a strong stable base of funding and stood at 80% of total deposits.

Slide #23 highlights the strong growth of our wealth management business, Burgundy. We manage one of the largest wealth management businesses in India with assets under management of ₹1,36,789 crores as of the end of June 2019. We continue to open branches steadily. We expanded our total network to 4,094 domestic branches during the quarter by opening 44 new branches.

Let me now discuss loan growth and the trends we are seeing across key business segments. Domestic loan growth for the quarter stood at 19% YOY. The international loan book de-grew by 34%. Retail continues to be the key growth driver, growing at 22% YOY. The Bank's strategy on retail assets continues to be centered around existing customers of the Bank. 83% of retail asset originations in Q1 was from existing customers. 98% of our credit cards and 93% of personal loan originations in the quarter were also from existing customers of the Bank.

A couple of quick comments on the Bank's auto loans business. Our auto loans portfolio has grown by 36% YOY and now stands at around ₹30,900 crores. The growth is fairly evenly spread across the country. Auto loan disbursements have grown by 19% YOY in the first quarter. We continue to leverage our branch coverage and digital capabilities to grow our auto business without compromising on pricing or credit filters.

Roughly 45% of incremental car loans are originated from our branches. 90-day delinquency ratios in our car loans business remain near 2-year lows at levels well south of 0.5%. SME lending growth was tepid at 8% YOY. Term loans and working capital loans grew by 3% and 9% respectively. 79% of our SME loan book is working capital and 85% of our non NPL outstanding is to clients rated SME 3 or better. In the Corporate Bank, domestic loan growth stood at 16% and the international book de-grew 39% YOY.

Moving now to the Bank's profitability metrics:

I request you to refer to a section starting Slide #10 in the earnings presentation. Operating profits grew 35% YOY, with contribution from all revenue and cost line items. NII for the quarter was ₹5,844 crores, a growth of 13% YOY. It is important to note that in the NII number of Q1FY19, there was a onetime impact of ₹249 crores due to the recovery of a large IBC case during that quarter. In this quarter, we have not seen any large recovery fructify. Non-interest income for the first quarter grew 32% YOY to ₹3,869 crores. This was driven by fee income, which grew 26% YOY to ₹2,663 crores. Fee income growth was led by a healthy 28% growth in retail fee income and some contribution from Treasury. I will note that some part of the fee income increase is seasonal, particularly in Treasury. We are seeing favorable impact of some fee repricing measures as well that we undertook in certain pockets of our business, particularly in retail liabilities, that part is structural. Within retail, fees from our Cards business grew strongly by 28% YOY. The Cards business constituted 27% of the total Bank level fees in Q1FY20.

Investment products and other distributions fee grew by 5% during the quarter. Transaction Banking fee growth was at 7% and Corporate Credit related fees were down 1% YOY. We had trading profits of ₹832 crores during the quarter, driven primarily by G-sec gains. Miscellaneous income for the quarter stood at ₹373 crores, primarily coming from dividend from subsidiaries and recoveries from written-off accounts.

Let's take a look for a moment at Slide #15. You see here that the net interest margin for the quarter stood at 3.4%. This compares to a core net interest margin of 3.29% in the Q1FY19 after adjusting for the 17 basis points of one-off during that quarter. Domestic NIM during this quarter was 3.56%. For FY20, we continue to expect margins to remain broadly flat YOY with an upward bias.

If you flip back to Slide #13, this has the story on operating expense. Operating expense growth has been a major positive during this quarter. OpEx growth stood at 3% YOY. Cost to assets came down significantly in the quarter to 2.08% as compared to 2.13% at the end of Q4FY19. Some key sources of improvement during the quarter included rationalization of outsourced manpower, rationalization of security expenses through expanded use of command center and other such technologies, digital initiatives in sourcing, resulting in lower mid-office and back office expenses and some seasonal elements like lower expenses on business promotion and advertising during the first quarter. As stated in our previous earnings calls, we intend to continue improving our cost efficiency and build cost consciousness across the Bank. Much of the cost efficiency gains are likely to be front-loaded, and that is what we're assessing currently. We expect to consolidate around the current levels of cost-to-assets before restarting our downward trajectory towards our goal of 2% in the medium term. We will also reiterate that while improvement in our cost metrics is welcome, we expect to continue investing heavily in areas that require material capital investments, in particular, our Digital strategies.

Profit after taxes stood at ₹1,370 crores during the quarter, up 95% YOY. I would like to draw your attention to the overall impact of this profitability on the book value per share of the Bank at the end of the first quarter. Book value per share as on 31st March 2019 stood at Rs. 259, which increased to Rs. 272 as on 30th June. Two factors primarily contributed to the increase. First, ₹2,563 crores got added due to the full conversion of warrants issued during the preferential allotment in December 2017. And second ₹535 crores of provisions relating to land parcels got released, as we provided for the same through the P&L during the course of this quarter. And hence, your BVPS went up from Rs. 259 to Rs. 272 per share.

Let's move now to Digital and Payments where our strengths and leadership position continue. A quick look at Slide #33 on credit cards. The Bank had nearly 6.2 million credit cards in force at the end of Q1, making us the fourth largest credit card issuer in the country with a market share of 12.6%. In the first quarter, nearly ₹56,500 crores of card spends went through Axis Bank network across our issuing and acquiring businesses.

Slide #36 highlights the rising contribution of digital channels to business growth. 59% of all savings accounts opened up through Tab Banking, 46% of personal loan disbursements in the first quarter were through digital channels compared to 31% a year ago.

Slide #37 highlights our strong position in the UPI space. During the quarter, we saw 256 million UPI transactions, with total transaction value growing nearly 4 times YOY. We have a registered VPA base of over 40.6 million and a market share of 11% in terms of transaction volumes for the quarter. In Mobile Banking, we witnessed a YOY growth of 73% in transaction value. Axis Bank mobile app continues to be featured on the highest ranked banking apps with a rating of 4.6 on both Apple Store and Google Play Store. Last quarter, the Bank's customers undertook transactions worth ₹1,23,547 crores on the Axis Bank mobile app.

Let's talk now about the Bank's capital position:

CET1 ratio increased by 41 basis points during the quarter. 45 basis points of capital was infused during the quarter through conversion of warrants exercised by investors. There were also 2 risk-weighted assets related regulatory changes in this quarter. Unrated exposures to clients, greater than ₹200 crores in borrowing from banks and undrawn CC/OD exposure for borrowers greater than ₹150 crores from the banking system. Both of these drove a one-time use of 31 basis points of CET1.

There was also a 9-basis point consumption during the quarter due to seasonal increase in operational risk RWA, which happens in the Q1 of every year. The two regulatory changes also contributed to 2% point increase in RWA to total assets and ops risk contributed to another 0.6% point. The Bank's CET1 ratio at the end of Q1FY20 was 11.68%, with a Tier 1 capital adequacy ratio of 12.9%. The Bank's Board has recently approved an enabling resolution to raise equity capital of up to ₹18,000 crores. This enabling resolution, if approved by shareholders, would be valid for one year. Key shareholder return metrics saw stability, ROA and ROE for the first quarter were at 0.69% and 9.19% respectively. We continue to remain focused on our GPS 2022 strategy with a goal of reaching a sustainable 18% ROE over that period.

A quick look now at our subsidiaries. Axis Finance, our NBFC, had a growth of 17% YOY and now has a loan book of ₹7,962 crores. The business continues to deliver great returns with an ROE of 18.5% and net interest margin of 4.8% for the first quarter. The gross NPA ratio of the business stands at 0.36%. Axis Securities is one of the fastest-growing stock brokerage firms in India, currently ranking third in terms of total client base. The cumulative clients' base rose 12% YOY to 2.13 million. Axis Capital, our institutional equities and investment banking franchise, has been the leader in equity and equity-linked deals over the last decade. During the quarter, Axis Capital executed 10 transactions across investment banking. Axis AMC, our mutual fund business continues to perform well, with a 29% YOY growth in average AUM to ₹102,221 crores for the first quarter, led by 45% YOY rise in the number of client folios. The equity and hybrid businesses comprised 57% of this AUM. Invoicemart, the Bank's digital invoice discounting platform continues to do exceptionally well and enjoys a market share of 41% among all TReDS platforms. We currently have more than 2,700 participants on the platform and have clocked more than ₹3,750 crores in financed throughput by e-discounting over 2.5 lakh invoices.

Freecharge, our fintech company is being positioned by the Bank as an engine that generates a large base of new to bank customers that are young and digitally native. The quarterly active user base of Freecharge was approximately 13 million at the end of the first quarter FY '20.

Finally, a couple of comments on our outlook for the future:

The Bank is committed to our 3-year execution strategy, based on the pillars of Growth, Profitability and Sustainability with an aspiration of delivering 18% ROE sustainably. In alignment with that aspiration, we would like to reiterate the following.

We expect domestic loan book of the Bank to grow 5% to 7% faster than industry. We expect credit cost to stabilize below the long-term average over this period. Cost to assets should continue to trend down towards our stated goal of 2% by FY22. We expect NIMs to settle in the range of 3.5% to 3.8% over the medium term. For FY20, we expect margins to remain broadly flat YOY with an upward bias. As we close, allow me to re-summarize the key themes of the quarter.

Overall, this was a steady, strong quarter for the Bank. Growth parameters, both on deposits and loans were steady. Operating profitability was strong. Asset quality trends progressed as per our expectations and provisioning was further strengthened. That about sums up our quarter. With that, I come to the end of our comments, we'll be glad to take your questions at this point.

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

Mahrukh Adajania: Thank you for the disclosure on the 8 stressed groups, that is really helpful. I just had a question that there are other companies that are facing bad debt related downgrades practically every day. So, is there risk to BB only from these 8 groups? Because that's hardly any downside risk. Have you had a tough look at the portfolio? And now, therefore, can we expect the BB portfolio to stabilize at these levels?

Amitabh Chaudhry: So, we have looked at our corporate book, entire corporate book is not definitely from the 8 groups that Jairam talked about. Obviously, it goes beyond that. But as you pointed out, that the economy is going through a bit of a stress. We are watching it closely. Our Risk group is assessing on a daily basis other changes that are happening in the marketplace. And on that basis, we are looking at our ratings and generally being conservative. So, I think the reason why we want to be transparent and have given this data is to make everyone understand that, firstly, in our BB & Below book, there are assets which have been in that book for some period of time. And as some of the promoters run out of liquidity and as liquidity become tight in the system, some of these assets will fall into NPL as has happened in this particular quarter. I mean, they have tried, they have not been able to raise funds. From one side, you've seen that. On other side, you are seeing some companies falling into BB because of the stress they might be seeing at the promoter group level. At the same time, we are seeing some resolution, hopefully, with the bill being passed yesterday, some resolutions happen at a faster pace than before. So, there's a combination of factors that are at work. And as we said, for us, the stability is more important. And as Jairam pointed out, that we have a pretty large contingency provision, which we have already created. And this is not linked to any group. This is at a portfolio level, and we'll continue to evaluate any changes and if anything else which requires to be created over a period of time. That objective will not change there.

Mahrukh Adajania: And just reconfirming the corporate slippage gross is ₹2,128 crores, correct?

Jairam Sridharan: That's right.

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

Kunal Shah: So, apart from these 8 industries or 8 accounts which you highlighted pertaining to these few industries. I just want to get a sense in terms of NBFCs, HFCs and real estate. So, I think these 3 are not there in the particular sectors you mentioned, have you not missed out on any of them?

Jairam Sridharan: Yes. So, Kunal, this is not a sectoral view. This is of specific groups. As it happens, there is an HFC in group in this, but we have not taken a sectoral view. We have looked at the groups that are stressed. We do take a look at every sector on an ongoing basis. Last quarter you might recall that we had done some specific provisions towards stressed sectors and some of the sectors we are mentioning, were specifically called out as sectors that we had internally tagged as stressed and made additional standard asset provision on. So, we are doing that already. As far as specific problematic accounts, and our exposures are concerned, as Amitabh mentioned before, we took a good look at the entire portfolio once again, given the news flow that has happened during the course of the last few months. We looked at the entire portfolio again to get a sense of what else is out there that might merit a downgrade into the BB pool. Whatever merited it, whether it was because of the sectoral issues or promoter leverage issues or operating profitability issues or whatever it might be, whatever merited a downgrade into BB, we have attempted to put it down into BB & Below during the course of Q1. And so, what you see, the ₹2,242 crores that we spoke about as incremental downgrades to the BB & Below book that have happened during the course of this quarter, that came from across various sectors. And the reasoning was very different in each of those situations.

Kunal Shah: So, this ₹5,000 crores of investment in financial companies, in particular, have been down by, say, from ₹21,000 to ₹16-odd thousand crores, so this is a run down? Or even there is some markdown which would have happened?

Jairam Sridharan: This is all rundown. If you see our overall corporate bond book itself has come down by ₹10,000 crores during the course of this quarter. And some of that just happens to be from the financial services sector. This is not a mark to market effect.

Amitabh Chaudhry: Just to add to what Jairam said, we are very clear in our minds that we do not want to be holding such a large investment book as far as corporate bonds are concerned. We have been a leader in this space in terms of debt capital markets for, I think, last 10 years, if not more. We want to maintain the leadership position, but we will turn it over much faster than what we've done in the past. So, you will see a continued push towards pushing our overall book down in terms of what we hold in our books. And this is part of that strategy.

Jairam Sridharan: You will notice, Kunal, that our corporate bond book was about ₹40,000 crores at the end of last quarter. It's about ₹30,000 crores now.

Kunal Shah: Yes, it's come off. And lastly, in terms of real estate, out of ₹13,000-odd crores, if you can just give the breakup in terms of how much is in NPL? And how much is in BB & Below?

Jairam Sridharan: This ₹12,900 crores is all standard advances.

Amitabh Chaudhry: Our exposure to real estate side is not something substantial to be worried too much about. I mean, we obviously have been monitoring this sector for the longest period of time. Let me ask Rajiv to add a little bit more color there.

Rajiv Anand: By and large, the portfolio is either LRD or loans to top-notch builders across some of the primary markets. Second is, we don't do construction finance; and third is, remember that we have a large mortgage portfolio on the retail side, so therefore, much of the exposure to the real estate side comes from that side.

Jairam Sridharan: We have mentioned this a little bit on one of the prior calls, Kunal, and nothing has much changed on that front for us to reiterate. Under construction, residential project finance is, for us very small. It's something like ₹1,500 crores or something, it's just not a material amount. We do have a little bit of exposure to some of these and even though that exposure is to the very top developers in the residential space. We have a little bit of exposure in our NBFC and the one NPA that we have had so far, in our NBFC is in the real estate space. But the overall exposure there as well is very small from the larger bank context.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: So, a couple of questions. One is, if I look at your provisioning, and obviously, I'm not looking at ₹1,000 crores, which you have done for specific instances. But if I look at the ₹2,800 crores odd, that works out to almost 200-plus bps of loans. So, is there any chunky element there? Or in that context, how soon before we get to that normalized long-term level of 110-odd basis points of provisioning?

Jairam Sridharan: So, Abhishek, you're right, if you look at the pure NPA provisions, that is 206 basis points, which is annualized. And of course, it does tend to be higher in the first quarter. If you look at last year, first quarter was 245 basis points. And we ended last year at a full year level at about 191 odd basis points. So, if you are going to start the year high and the trajectory is going to be of a particular kind, Q1 is going to be the high. So, as opposed to 245 bps last quarter, we are at 206 bps this quarter. We do not have a specific guidance for credit cost for this year. So, I encourage you to make your own sort of assumptions on how the seasonality would play out through the rest of this year. We have stated, and we reiterate that in our GPS 2022 strategy, we expect to be under our long-term average of 100 bps, and we are well on track towards that.

Abhishek Murarka: Okay. And secondly, given your commentary on the corporate operating environment in the large corporate or mid-corporate space, do you think that the downgrades to BB & Below could intensify? And therefore, do you think the BB & Below pool could sort of increase given the current operating environment?

Jairam Sridharan: Abhishek, your guess is as good as ours. We are all sort of watching the same developments as they are taking place in the environment. If the level of volatility that we have been seeing in the last few months continues, we have to keep reevaluating our portfolio, and we keep looking at it. As of now, we have done a thorough assessment of the pool. Knowing everything we know now, we have done a thorough scrub to figure out whether any account merits going into BB and when in doubt, we have downgraded them into BB. And hence, you see a large number i.e. ₹2,242 crores of downgrades into BB & Below pool. But honestly, we just can't, kind of look too far out and make an assessment of whether something is going to change over the next 2 quarters.

Amitabh Chaudhry: Just to add to what Jairam is saying, all the incremental funding or incremental lending which we are doing on the corporate side, a lot of it is coming from A and above. So, I think what you have to think through is that when you look at what our kind of historical book was and what we are adding to it gradually, slowly year after year, the highly rated portion is only increasing over a period of time. So, first, understand that the weighted average rating of the book is changing, and that's for the positive. But yes, as Jairam said, given the economy is slowing, how long will it last? One doesn't know, obviously. All of us are watching it very, very closely. We are cautious. We are being very careful, but if some unexpected events do happen and some of these unexpected corporates do see stress. You could see some corporates going there, but today what we are saying is that the book reflects what we see today, for sure.

Abhishek Murarka: Just one quick data keeping question. You said 79% of the net slippage in the corporate book was from BB & Below. Can you give the same number from the gross slippage?

Jairam Sridharan: No, there is a specific reason why I avoided talking about the gross slippage numbers because there have been some accounts that have slipped and got regularized. I mean, they slip for technical reasons and have regularized during the course of the same quarter. So, looking at it, as that percentage is less meaningful, and that's why we talked about from a net perspective.

Moderator: Thank you. The next question is from the line of Saikiran P. from Haitong Securities. Please go ahead.

Saikiran P: Just moving away from the corporate asset quality challenges. What is it you are seeing on the retail side, especially on the unsecured book? I do understand you said that the NPAs are controlled, but looking forward what is your view because couple of companies have exercised the caution.

Amitabh Chaudhry: So, I will say a couple of lines and the real content will be given by Pralay. I just want to rather reiterate what Jairam said that we have as yet not seen any sign which tells us that it is going to deteriorate. But the external factors are telling us that there is a possibility. And some of the banks have been talking about it, that they are seeing signs of the portfolio deterioration. And obviously, external factors seem to indicate that there could be an impact and there could be deterioration. And yes, obviously, the leverage of individual is rising. So, let me just ask Pralay to kind of pick it up from there.

Pralay Mondal: So, yes, in the ecosystem, people are talking about it, but I have looked at our data very hard with all kinds of possibilities, and whichever way I see, the quality of the portfolio is only looking up, whichever way we look at it. And now whether it is 30 day past due delinquency levels, early mortalities and various factors. But at the same time, I do understand when the whole ecosystem has an issue, there will be marginal issues with everybody in the ecosystem. Based on that, I have told the team to do a stress testing on the portfolio based on superimposing a scenario in a slightly worse ecosystem environment and then show me how it looks, because I'm not able to find any problem. But in the ecosystem, people are talking about it. Having said that, let me highlight why probably we are a little more safe and secure vis-à-vis some of the other ecosystem; 2-3 things. One is, a) we do almost 80% to 90% of the businesses depending on which unsecured product we are talking about with our internal customer base; b) Our analytics engine is extremely strong, not only when we are underwriting, but we also do a lot of post underwriting, constant scrubbing and constant other kind of analytics to ensure that our portfolio remains strong, and we do keep changing things whenever it's required on which we are basing our analytics model etc. Even for resolution, for example, businesses like credit cards you can do limit upgrade, you can do limit reduction also. So, all of those models are available with us. And the third important thing which sometimes amuse is we are only looking at growth of the book which we have. But when you look at even within our retail book, the unsecured book is still not touched 20%. Even if I look at the business loans, credit cards or the personal loans, whichever way I look at it, including the SME unsecured etc. it is reasonably below 20%. So, given that perspective, our risks are well-distributed between secured, unsecured, home loans and all of the products and services. So, to that extent, I think we are in a safe zone right now, but we need to be cautious, and we will continue to be cautious at a customer level. As we are talking, we are actually raising the bar in terms of credit quality and underwriting.

Saikiran P: Got it. And the second question is on the SME side, when I look at SME 3 and above, which is at 85% of the overall loan book compared to that a year back, it was around 88%. Would you like to comment on any trends, which you are seeing on the SME side?

Rajiv Anand: I think on the SME side, there are no real worries from a book perspective. However, you have seen that growth has been a bit muted. I think, to a certain degree, that part is really the supply chain finance side of our business, which is seeing some slowdown as a result of the well-articulated issues that we see on the auto side. But from a book perspective, at this moment, we are not worried.

Jairam Sridharan: So, the one thing, if I may add to what Rajiv just said is that when growth slows, it is the higher or the better-quality clients that are going to continue to stay away. So, what we are seeing in the SME businesses, what was yesterday in your SME, let's say, 4, 5, 6 continues to be with you. But SME 1, 2 and 3, which was growing at a particular rate are growing more slowly now. And that optically just looks like a greater proportion of your book is now in worse rated. So, it's a growth story, not an asset quality deterioration story. As Rajiv mentioned, we have continued to look for good risk adjusted returns in SME. However, in recent quarters, it has been a little bit of a challenge and growth has been hard to come by.

Amitabh Chaudhry: But I think you also need to appreciate that it reflects a bit of a cautious stance which we have taken on the SME side, as we have seen, the economy is slowing down. I mean, our growth numbers itself should be telling you that we are being quite cautious here. We want to grow our book, but it cannot be at the expense of the quality. We are very clear entirely; and the entire management team is aligned to that. So, I think you need to look at both these factors when you look at our SME book.

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

Suresh Ganapathy: I have 2 questions. One is on the ₹75 billion BB & Below book, which is flat QOQ, if I were to look at the movement, Jairam has said ₹22 billion got added and ₹10 billion got upgraded, right?

Jairam Sridharan: Yes, there was a ₹10 billion movement, which was either upgrade or repayment that came in. That was together ₹10 billion and about ₹12 billion were slippages.

Suresh Ganapathy: Correct, ₹12 billion slippage. So, in that sense, if we were to look at it, the total slippage of about ₹48-odd billion, almost ₹36 billion actually came outside of this and ₹12 billion number from the BB & Below book, right?

Jairam Sridharan: I would frame it differently. I'd say that the base that you should look at is not ₹48 billion, the base is ₹21 billion, which is essentially the slippages in corporate because this is only for the corporate book. And in that, there were some accounts which slipped and got regularized during the course of the same quarter, and hence, they don't show up. What shows up in this ₹1,200 crores is what slipped and stayed slipped as NPA. So, ₹1,200 crores slipped from here and stayed NPA. Outside of this ₹1,200 crores on the corporate side, from a net slippage perspective, there was basically around ₹100 crores more that came from outside the BB list.

Suresh Ganapathy: Yes. I agree with that point, Jairam, but everybody looks on a gross number basis. On a gross number basis if I were to compare your slippages this quarter, outside of the BB & Below book, the run rate has been 3% annualized. And if I were to compare with your peers also, their reported numbers on a gross basis are far lower. So, that's the reason I'm a bit worried because, though you might have seen that it got regularized in the same quarter, the gross numbers are not enthusing at all. So, that's where the worry that comes from, what happens if it doesn't get regularized next quarter, if you have something like this happening?

Jairam Sridharan: Suresh, there was exactly 1 account in gross, which was from outside BB, which slipped and got regularized. So, this is not a big issue. So, I'm not sure about the math and what comparison sort of you're doing here, but there was exactly one account, which was, in fact in that kind of zone of any materiality.

Amitabh Chaudhry: If you want to Suresh understand, we can take it offline.

Suresh Ganapathy: Fine. It's perfect. I think the explanation is perfect. The other thing I had is on your 18% ROE target. The problem, Amitabh, is that your margins are just not improving. I mean, there is some reason or the other, but the margins have just got stuck-up in one zone. And you're also thinking of raising a billion dollar plus capital. If I were to do the math, it's a mathematical impossibility that you guys are going to have 18% ROE in the next 3 years. If I factor in a capital raising and if the margins necessarily don't improve. So, I'm just wondering how realistic is your 18% ROE target?

Amitabh Chaudhry: Suresh, obviously if the margins don't improve, it is a mathematical impossibility. If you take one of the most important drivers of 18% ROE out, obviously, it will not happen. So, yes, you are saying that margins are not improving. We are working towards it, I mean, the numbers have been quite volatile when we look at CASA, when you look at RTD, how the RTD has been priced. On one side, you have seen lowering of interest rates. On the other side, you're not seeing the RTD deposit rates go down. SBI has just announced yesterday that they are lowering the deposit rates. I think as the some of the transmission happens, we will see a change. I mean, we have a roadmap and a glide path. Yes, we do believe, and we continue to maintain that our aspiration is to get to 18% ROE, which keeps us awake at night, which keeps us asking the same question, and my comments are how we will get there. We have a glide path. We are not obviously going to detail everyone what the glide path is, but you will see movement in some of those areas. If you look at what we've done with expenses, what we've done with the fees. There is a movement on that. Yes, NIM has to improve. Yes, we have talked about a capital raising and we've got approval for the next one year. And by the way, end of the day, the recent capital raising, there is a feeling that when we raise it, it is related to growth. So, growth will also help us. And obviously, we believe that we'll be one of the few banks as the last man standing, and you will see a positive impact on NIM. Jairam, you want to add?

Jairam Sridharan: Yes sort of just a math thing to add to what Amitabh is saying. Clearly, if you ask yourself the question, assuming a certain size of capital raise, what does it take for us to get to 18% ROE? And sort of compare that with what we delivered in FY19 already, what's in the book. Clearly, net interest margin has to be at the very high end of the medium-term range that we've spoken about. So, somewhere in that 380 range as opposed to the 350, 360 range. So, it needs to be there. Fee to average assets has to be a few basis points higher than what we delivered in the last year. And the cost to average assets has to go down to under 2%. And of course, credit costs have to be under 100 basis points. With that and with the high levels of provision coverage that we are carrying with us now, the math for us, in some version does work. You're right, that it is not a certainty. There are many possibilities of that this might not pan out, but there is a version in which it does work out, and that's the version that's being rolled out as goal and target internally in the organization. And we recognize the element of stretch here, but that is the goal that we have rolled out to everybody internally, and that we are all uniformly pursuing.

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

Nilanjan Karfa: Just few questions. So, in this stressed group that you talked about on the investment part, I reckon we only took about ₹400 crores of provision. How confident are you on the rest of the investment book? So, that's one. Second is, when we look at the below investment-grade book, I believe this is just the loans. Would you have a comparable number, if we include all the investments in the book as it stands today?

Jairam Sridharan: I didn't understand the second part of your question, Nilanjan. What is the loan you're talking about?

Nilanjan Karfa: No. Below investment grade book, my guess is that's only loans, right?

Jairam Sridharan: ₹7,500 crore. Yes. But there is about ₹2,500 crores non-fund based outstanding as well in the BB & Below corporate portfolio.

Nilanjan Karfa: No. Not non-fund, I'm talking about, let's say, the bonds. The bond portfolio?

Jairam Sridharan: Yes. So, on Slide #69, you see our bond portfolio. And you see the investment book there. Your first question on the investment book in the stressed groups. And the fact that we have ₹200 crores as NPA, let's put that aside. We have ₹2,000 crores of non-NPA investments; against that we have a ₹400 crores mark to market provision. Is ₹400 crores sufficient? We'll have to keep looking at it. We'll have to keep evaluating how this pans out, Amitabh you want to add?

Amitabh Chaudhry: So, Nilanjan, you have to understand one thing, which is very important. We have a large investment book. And we said that we're running it down. But you also have to appreciate that the interest rates are declining. There are other parts of the book, which are well-rated, where you will get a positive MTM also. So, I understand and appreciate where you're coming from in terms of what the MTM on this could be when it's there in the market, and we understand you concern that in some cases the liquidity might be limited. But you have a positive side to this also. So, we obviously are evaluating it very closely. We do believe that, overall, if you look at our investment book, we have disclosed the numbers to as much as we can.

Nilanjan Karfa: Okay. Fine, I'll probably take it offline. One or 2 other data keeping questions, Jairam. What would be the non-funded exposure on NPAs? And beyond this BB & Below book, is there something on the restructured, all the RBI restructuring schemes and is it all overlapping with that? Or there is something additional outside it? So, 2 questions.

Jairam Sridharan: Yes, there is ₹2,800 crores, Nilanjan, which is non fund based on NPA side and restructuring, there's nothing over and above those BB side.

Moderator: Thank you. Ladies and gentlemen, we take the last question for today from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: What do you think are the key reasons behind slowing CASA growth for you as well as the industry?

Jairam Sridharan: So, that's a long question to end the day, Pankaj. But I'll point out a couple of factors, and then I'll request Pralay to jump in. There are a couple of things happening. One is at sectoral level; you're seeing household savings go down. So, that's an important element of what drives down CASA. We are also seeing stiff competition from small savings, which are at fairly high rates compared to CASA. So, that continues to take away money from the sector. And internally, within the sector, if you see, while money is not flowing as much into mutual funds etc. as they were in the previous year. There is still within the banking industry, there are term deposits, which are very attractive instruments right now for customers to put money into. And hence, money is flowing in there preferentially. And those 3 things at a macro level are impacting your CASA. But I'll request Pralay to jump in if there is anything else?

Pralay Mondal: No, I think, Jairam has covered most of it, but just to give a flavor to this, what does CASA do? First of all, there are two different kind of reasons to have those CA and SA balances.I think the systemic CASA which is primarily the whole flow through the consumer accounts, are going down to some extent. Also, some of the high net worth customers are moving that into some of the wealth businesses, but it's a function of basically is that savings is coming down, transactions are not growing as much as it was happening for EMIs or some of the other things, which generally SA and CA is used. Generally, overall business environment in SME as well as in some of the retail and on the consumption side is not as good as it was a year back. So, I think a lot of these factors are combining.

Pankaj Agarwal: Okay. And sir, do you see a scenario where you might need to match SA rates offered by some of your competitors probably couple of quarters down the line?

Pralay Mondal: See what happens is that SA rates are going in both ways, some people have given SA rates which are higher, some people are bringing it down etc. We are keeping it more or less constant where we are. And if you look at people who are giving higher SA rates, if you divide into two parts, some are not exact SA, some are SA but how much is really moving to that? So, I don't think the rates is an issue here. That's very tactical. That's very short term. But the larger piece is that I think there is an ecosystem, transactions are moving down. Or reasons for keeping balances in the SA is not high. And also the savings itself is coming down in the ecosystem. I think it's the combination of these things. Also I've seen that capital market when it does well, sometimes builds in balances into SA balances at times. So, I think some of these things are not playing out. Rest is not going to make a difference in my view.

Moderator: I now hand the conference over to Mr. Jairam Sridharan for his closing comments. Over to you, sir.

Jairam Sridharan: Thank you, Karuna . Thank you, everybody, for participating in Axis Bank's quarterly earnings call, and thank you for all your questions. I wish you a very good evening.

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