"Axis Bank Conference Call to discuss Q1'FY21 Financial Results"

July 21, 2020

MANAGEMENT: **MR. AMITABH CHAUDHRY – MD & CEO, AXIS BANK LIMITED**
MR. RAJIV ANAND – EXECUTIVE DIRECTOR (WHOLESALE BANKING), AXIS BANK LIMITED
MR. PRALAY MONDAL – EXECUTIVE DIRECTOR (RETAIL BANKING), AXIS BANK LIMITED
MR. AMIT TALGERI – CHIEF RISK OFFICER, AXIS BANK LIMITED
MR. PUNEET SHARMA – CHIEF FINANCIAL OFFICER, AXIS BANK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Axis Bank's conference call to discuss the Q1 FY'21 Financial Results. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation has not been sent. And authorized dissemination of the content 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 and 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

On behalf of Axis Bank, I once again welcome all the participants to the conference call. On the call we have Mr. Amitabh Chaudhry – M.D. and CEO; Mr. Rajiv Anand -- Executive Director, Wholesale Banking; Mr. Pralay Mondal -- Executive Director, Retail Banking; Mr. Amit Talgeri -- Chief Risk Officer, and Mr. Puneet Sharma -- CFO.

I now hand the conference over to Mr. Amitabh Chaudhry – M.D. and CEO. Thank you and over to you sir.

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

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

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

The recovery ahead is likely to be slow and gradual and it is uncertain how quickly dislocations and labor availability and supply chains can be smoothened out. The large state economies contributing almost 42% of GDP which are more impacted by the virus will go through multiple localized start and stop phases. This will continue to impact the ability of businesses across sectors to come back to pre-COVID levels.

We continue to remain cautious and thus have been creating additional provisions and shoring up our provision coverage, maintaining adequate surplus liquidity, conserving capital and prudently managing credit and operations risk.

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

We continue on our journey of being a more prudent and conservative franchise. This is demonstrated through our actions quarter-after-quarter. During the current quarter, we have done the following three things to continue to move the needle: One, changes in accounting policy related to fee recognition. Second, increase in provisioning on standard investments, red flagged accounts and COVID-related provisions. Third, conservative stance on interest recognition for net interest income. With these changes we believe we are now at the conservative end of accounting choices. The aggregate impact of the aforementioned changes on Q1FY'21 pre provisioning profit, PBT and PAT is Rs.307 crores, Rs.660 crores and Rs.513 crores respectively. Puneet will later in the call explain these changes in further detail.

In these uncertain times, our balance sheet strengthening continues. The cumulative value of provisions (additional plus COVID-19) aggregate to over Rs.6,898 crores (this number as of March '20 was Rs.5,983 crores) implying 1.56% of our standard loans. Over and above, our provision coverage ratio improved to 75% as of June 30, 2020 from 69% as of March 2020. On an aggregated basis, if we include specific plus standard provisions, additional provisions, and our COVID provisions put together, our provision coverage ratio stands at 104% of GNPA as at June 30, 2020. Our capital position is strong and the bank is well capitalized with a capital adequacy ratio of 17.47% and CET1 of 13.5% as on June 30, 2020. However, we continually evaluate various capital raising initiatives from time-to-time for our business. We have an enabling resolution from our board, pending approval from our shareholders that will allow us to raise funds over the next one year.

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

With this, let me now offer a brief synopsis of Axis Bank's Q1 FY'21 Results. Our operating performance is steady with NII recording a healthy growth of 20% YoY. The Bank has made progress on its cost optimization initiatives with cost to assets ratio declining from 2.09% to 2% QoQ. Our net profit adjusted for one-time changes provisions is up 19% YoY.

I would also like to touch upon the trend in fee income this quarter. The Bank's total fee income in Q1FY'21 was down 38% YoY, almost 60% of the decline was due to lower processing fees on retail loan disbursements which were down 74% and card fees (down 53%) impacted by lower new card issuance related fees and interchange income. Other fee items which have also got impacted are service charge waivers pursuant to regulations, cash management fees and syndication fees. We have been focusing on building granularity across our different fee generating businesses, both in the wholesale and retail segment. Some of the benefits are visible as even in this environment there were certain fee line items, which grew on a YoY basis. The top segments are insurance, distribution fees, merchant forex income and transaction banking and retail digital banking fees. Though Retail remains a major contributor to fees, we are seeing signs of momentum build up in several wholesale and transaction banking segments. Our deposit book remains resilient and grew by 19% YoY and 5% QoQ on a quarterly average basis. Our focus on building a stable and granular deposit franchise based on average balances continues to progress well with healthy growth of 20% YoY and CASA and RTD balances which now comprise 81% of total deposits. The Current Account deposits grew by 8% YoY and we can see granularity building here. Savings Account deposits grew by 15% YoY, in which retail savings account deposits grew 19% YoY led by higher customer engagements that has helped in deepening the balances. The salary and NRI segments within saving deposits grew by 26% YoY and 21% YoY respectively.

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

Our loan book grew by 13% YoY while including TLTRO investments grew by 17% YoY. Retail loan book grew 16% YoY. Loan originations in April was severely impacted by the countrywide lockdown and we also prefer to be cautious and increase our risk filters.

As the economy started to open up partially, activity started to pick up; May disbursements were 3.4 times April driven by rural which was 44% and June was 3.2 times that of May, rural grew by 30%. Overall demand in smaller towns and regions is recovering faster as compared to metro and urban cities. However, activity levels in the economy still remains below pre-COVID levels.

Our June ‘20 disbursements in home loans and personal loans were 68% and 37% of last year, clearly reflecting the incremental growth coming from the secured book in line with our strategy.

One of the important strategies for the Bank is a Deep Geo Project, which is an asset led strategy for the Bank in semi urban and rural geographies. June rural disbursements were at 90% of last year levels.

Corporate loan book (including TLTRO) was Rs.18,000 crores and grew 26% YoY. Disbursements including TLTRO grew 62% YoY. Our top-30 loan disbursements during the quarter was spread out evenly over all three months, two thirds of which were short term working capital loans, 20% related to CAPEX, rest refinancing and general purpose loans. The disbursals were well diversified across sectors.

We continue to leverage on our long-term relationship with better rated corporates that has resulted in strong 77% and 13% growth in loans to triple A and double A clients respectively. 82% of our outstanding loans now are ‘A minus and above.’ Further, we have added 52 new relationships during Q1 spread across strategic clients, large corporates, mid corporates, MNCs and government coverage group. We continue to deepen our relationships across our wholesale banking and are seeing the benefits of our One Axis strategy playing out. We have a penetration of nine or more products or services across our top corporate relationships.

On our government business, we won many mandates and our market share in GST payment collections has now gone up to 10% as on June 20 from 7% in June’19.

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

We have reviewed and optimized our overseas operations in line with the overall corporate strategy. We are consolidating the services related to corporate banking, trade finance, treasury and risk management solutions through our Dubai, Singapore and GIFT city branches. Overseas operations in Hong Kong, Shanghai and Colombo are in the final stages of closure while winding up of our UK subsidiary operations has been initiated. Overseas corporate loans stood at 14% of corporate book wherein we primarily deal with top Indian corporates and quasi sovereign entities.

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

We have made considerable progress on our digital banking strategy. We are focused on select themes in our digital journey -- to scale digital direct to customer products, enable our staff digitally and to build and scale digital channels. We have now added 100 employees in our digital team comprising product managers, developers, designers, digital marketing specialists, etc., and 80% of our digital team now comes from non-banking background such as consumer internet, fin tech, etc., We have also made significant progress in simplifying our core tech architecture, becoming cloud native and moving to an agile mode of development. Digital products now contribute a significant portion of the Bank sales with 78% of savings accounts, 75% of FDs, 65% of personal loans, 51% of credit cards and 48% of new mutual funds in Q1 sourced digitally. During the quarter more than 2.12 lakh digital savings accounts were opened. We have launched a video KYC based 'Full power Digital Savings Account' that can be opened instantly and provides access to 250 plus services online. Onboarding for the full suite of banking products, leveraging video KYC will be launched in a phased manner over the year. This quarter we also introduced a number of digital products, offering new investments, loan and insurance options for customers. We have also ramped up our digital collection infrastructure and capabilities.

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

We have also made significant progress towards enabling our employees digitally, we launched a "Bring Your Own Device" program that is now being rolled out to 36,000 frontline sales staff. We have also enabled access to critical systems such as CRM to our frontline on mobile devices enabling the vast majority of our team to be active during the COVID times as well. Our digital channels help us serve our customers during the COVID period. After an initial dip, activity and transaction volumes of digital channels are now back to pre-COVID levels. In fact, in certain areas, such as fixed deposit and MF, we saw growth of 20%-plus on the digital channel through the COVID period.

We have made good progress in our aspiration to scale up and create value in our subsidiaries. The significant senior talent infusions across our subsidiaries and our "One Axis" focus has started yielding results. Domestic subsidiaries reported a total net profit of Rs.459 crores for FY'20 and Rs.124 crores in COVID impacted Q1'FY21, up 58% YoY.

I want to touch upon the key highlights in our major subsidiaries. Let me start with Axis AMC.

Axis AMC: It is the fastest growing AMC in the industry with its AUM growing 31% YoY. Within equity funds, Axis AMC has built up an industry-leading franchise and has grown its equity AUM by 43% in the last 12-months. Current AUM market share is now 5.5%, up from 4% at the end of June '19. Client folios are up 50% to 6.4 million in last one year. Monthly SIP book has almost doubled in the last 15-months. FY'20 PAT was at Rs.121 crores. In Q1'FY21, its PAT was Rs.39 crores.

Axis Securities: It has moved to being a full service broker from discount brokerage model earlier last year and is focusing on building an advisory model. It has one of the highest mobile adoption rates in the industry with over 75% of the volumes coming from mobile in Q1'FY21. 45% of the clients traded through "Axis Direct" mobile app. Total profit for the subsidiary in FY20 was Rs.16 crores. For Q1'FY21, they have made Rs.35 crores PAT.

Axis Finance: We are following a conservative provisioning policy here. In line with our conservative stance, we have stepped up provision charges sequentially which is up 26% QoQ in ECL on our entire loan book, which includes 14% increase in provision charged on standard assets and 37% increase in provision charges on Stage-III assets. We have provided 100% on accrued interest on Stage-III accounts till March '20. Further, no interest is being accrued on these accounts post-March '20. For this fiscal, we have provided 100% accrued interest in standstill accounts over and above the 10% provision charge on principal amount. We are cautiously optimistic on growth. Though we remain cautious, we are utilizing this opportunity to ramp up the mass retail business. We had a net hiring of 488 people in FY'20 on the retail business. Today, retail accounts for 12% of incremental business month-on-month. The retail book has grown to Rs.300 crores in the last couple of quarters. Notwithstanding the retail ramp up, cost-to-income ratio continues to be lowest in the industry at 21% for FY'20.

We continue to have a higher CAR at 25% as on 30th June 2020. Just want to say that the morat numbers for Axis Finance for both morat-1 and morat-2 are at 7% which we believe is one of the best across the NBFC sector. The IGAAP for FY'20 PAT was Rs.193 crores, and for Q1FY21, it was Rs.32 crores. Puneet will provide more details on the additional provisions which we have made.

Axis Capital: It has been a leader in equity and equity linked deals over the last decade. In FY20, we continued to maintain this position. Obviously, the performance of the subsidiary has been impacted because of lack of issuances in the first quarter. The FY20 PAT was Rs.100 crores. In the first quarter, they made a PAT of Rs.8 crores.

On the Axis Bank and Max Financial Services Limited transaction, which we had announced earlier, we just want to state that since then the parties have approached the regulators for approval of this transaction, the queries and discussions which we have received are in the nature of routine ongoing discussions for transactions of such nature. We believe we continue to be on track and both the parties remain committed to the transaction.

Very quickly on moratorium-2, the moratorium-2 numbers showed a declining trend and stood at 9.7% by value as on 30th June 2020. There was a reduction across customer segments of retail, SME and corporate. It has been a good progress which we have made between morat-1 and morat-2 and shows the resilience of the portfolio, our focus on recovery of moratorium -1 accounts and review and approval-based approach to moratorium -2. This is evident in the single-minded focus in which the Bank approached moratorium -2 in comparison to moratorium -1.

During the last 3-4 months, the Bank has also significantly enhanced its collection capabilities including work from home for collection staff, increased dialing capacity and feet-on-street, to increase collection focus.

Please do note that the customers will continue to have an option to request for moratorium -2, while we continue to be judicious in granting moratorium based on COVID impact on customers. Amit will later in the call give you more details.

Overall, the quarter has been decent with steady core operating profits and healthy deposit growth driving loan growth. We have continued to build on our conservative stand and subsidiaries are well on track to scale up. There are going to be a few challenges for the sector related to surplus liquidity, muted loan growth due to economic contraction and general risk aversion and asset quality. In such an environment, large banks with healthy operational performance, strong balance sheet and capital position, superior operational capabilities and digital prowess are better placed to withstand the challenges. We as a Bank have quickly adopted to the new normal and have transformed the way we bring in greater efficiencies. We are confident of emerging from the crisis stronger and remain committed to achieving our medium-term aspirations.

With that, let me hand it over to Amit to take you through the Bank's risk segment in detail.

Amit Talgeri: Thank you, Amitabh. Good evening, everyone. Let me now give you some risk insights into the portfolio:

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

Let me start with our strength in Risk Analytics:

The Bank over the years has invested heavily in risk analytics to build proprietary scorecards, which continue to provide a significant edge in decision-making. These scorecards based on internal and external data sources have performed significantly better than single model or standalone external ratings and scores. They continue to display significant from almost two to three times discriminatory power over external ratings and bureau scores across different segments observed historically.

Specific to Corporate segment, our internal rating models consider more relevant and recent information available across relationships, account conduct and information specifically available to the Bank than external agencies. Performance of these models have been tested historically, and are statistically sharper than the external ones. Given the prolonged lockdown, we have introduced new analytical models in Retail to calibrate both our sourcing and collection strategies on the Retail side. COVID risk model incorporates current variables like conduct through moratorium, bureau information besides the existing risk models, and is very effective in segmenting the COVID vulnerable population. The Collections segmentation models incorporating payment rates, contactability in high risk and moratorium-opted customers allows us to take targeted action to increase payment rate and resolution.

Let us now look at each of the business segments starting with the Wholesale portfolio:

The Wholesale Banking portfolio continues to see significant change over the last 18-months with tightening customer selection and underwriting standards. 82% of the book is now in the rating category of 'A- and better.' 95%. of the incremental advances in the last 12 to 15-months were in the 'A- and better' rating category with around 70% in the AA- and above category. We have reduced our concentration risk in the portfolio with exposure to top 20 borrowers as a percentage of tier-1 capital now standing at 102% which used to be over 110% in FY19. We continue to have a strong customer connect through this period to assess the impact of the crisis on the businesses, ensure recovery of moratorium-1 if they have availed it, and have a clearly defined strategy for each of them.

Moving on to the Commercial Banking portfolio which is basically the SME business:

We continue to maintain a very cautious approach in this business primarily due to the difficult operating environment over the last 12 to 15-months reflected in our portfolio having reduced by 10% over the last one year in line with our cautious outlook. 87% of this book is SME-3 or better which is the equivalent of 'A minus' rating. 88% of the portfolio is secured and balance is Supply Chain Finance, with linkages to large and well-rated corporates. This portfolio is very granular in nature with average ticket size of around Rs.3.5 crores spread over 35 broad sectors and geographically well-diversified in over 120 locations across the country.

The Proprietary EWS, which is the Early Warning Signals model has been enhanced with new conduct and cash flow monitoring variables given the COVID environment to monitor the COVID impacted portfolio much more closely. This model using advanced analytics have been successful in predicting early stress in around 80% of the NPAs in the last six months. This helps the Bank monitor for borrowers showing stress well in advance for effective actioning especially during these times.

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

Let me now turn our focus to Retail. Before we move to the portfolio insight, let me take you through our approach on Retail through this period and especially with respect to new acquisitions. The Bank has been tightening credit underwriting standards over the last 12-months given the market conditions pre-COVID. Commencing Jan, we have further strengthened the gating criteria, recalibrated our scorecards and ensured enhanced front end screening. We have paired our pre-qualified bases down to 20% of pre-Jan levels across product segments. Consequently, the new acquisitions were down by 80% in April, May from March levels across retail products. Post partial lifting of lockdown in some parts in June, there has been a marginal increase in acquisitions primarily in the secured businesses of mortgages and rural lending. We continue to remain cautious in the unsecured products and sourcing is restricted to existing Bank customers with stringent credit filters.

Coming to the overall Retail portfolio: Almost 81% of the retail portfolio is secured consisting primarily mortgages, wheels and rural lending portfolio. Our retail unsecured portfolio is around 19% of the retail book. 84% of this book is from the salaried segment which has a very low default rate and over 80% is existing customers having banking relationships, providing comfort over cash flow and relationship visibility. Over 67% of the salaried are from premium corporates, government and MNCs and a majority of them are corporate salaried relationships with the Bank. And more importantly, we have not seen any significant job losses or salary cuts so far. We are however closely monitoring this portfolio in the coming months.

Asset quality performance for 90 DPD is 10% to 20% better than industry for unsecured portfolio, and by 50% to 80% for secured portfolio and better than peer banks across most retail products based on bureau information.

Let me now provide you with a quick update on the moratorium offered: The Bank has adopted an approach of recovery of moratorium-1 rather than the extension of the moratorium. Only customers impacted by the COVID crisis and through a review approval-based approach have been extended the benefit of moratorium-2. As Amitabh mentioned earlier, the total portfolio under moratorium as of 30th June is 9.7% by value. We extended the moratorium 2 benefit only for the retail MFI customers given the profile of the customers and this portfolio is less than 0.5% of the Bank's total portfolio. The moratorium value of 9.7% mentioned above includes this retail MFI portion also.

Just to give you some color around the moratorium:

90% of the customers in moratorium-2 are common from moratorium-1 across all the segments. The overall value reduction of portfolio under moratorium is largely due to the active customer connect of the relationship managers on the Wholesale and Commercial banking side and focus on collections and recovery in Retail. The borrower profiles of customers in moratorium are across all rating categories, industry incumbents, scores and geography. Most customers opting for the moratorium are still opting for moratorium to protect cash flows and conserve liquidity in view of the continued lockdown in most parts. Around 78% of the portfolio under moratorium is secured. Collections from moratorium-1 customer has been over 80% in Corporate and Commercial banking segments and around 70% in Retail in the month of June. In Retail, collections from non-moratorium customers has been over 95%. I mentioned retail MFI customers being offered an extension of the moratorium earlier. 67% of this customer base actually paid in June despite us offering moratorium to this segment. In addition, customers with portfolio value of around Rs.4,600 crores paid in the month of June despite opting for moratorium-2 and both of these are not part of the 9.7%. While the overall values have come down significantly as of June, we continue to offer this benefit to customers till August as per the guidelines and customers may actually opt for this benefit in the coming months in view of the lockdown extensions and continued uncertainty.

Let me now also give you some insights into collections:

We have significantly beefed up our collections infrastructure over the last 12-months, more so in the last quarter itself. We have added capacity which includes reskilling sales teams and we now have 8,000 members strong team on the field collecting. Over and above this, we have close to 1,500 agents working from home in a secured environment making customer calls. This is an area we will continue to invest in. We have also enabled digital and contactless collections and these contribute to 25% of the unsecured recoveries which has been a big differentiator during these times. On resolution rate, we have seen early bucket resolution rates reach 60% to 70% of pre-COVID levels while recoveries from written off accounts in June have already reached 65% of pre-COVID levels and are double of what was recovered in April and May thus exhibiting pick up in momentum starting June. Collections is a key strength for the Bank and together with extensive use of analytics and digital initiatives ensures that the Bank is well poised to manage the challenges ahead.

In summary:

Given the continued lockdown in most parts, it is difficult to ascertain the exact impact on the portfolios. Our portfolio choices made in favor of secured lending in Retail and Commercial banking, higher rated book on the Corporate side and higher share of salaried and existing Bank customers in the unsecured book, provide comfort in navigating through this crisis. We will continue to assess the situation and monitor the portfolio very closely.

With that I now hand over to Puneet for the Financials update. Thank you.

Puneet Sharma: Thank you, Amit. Good evening, ladies and gentlemen. Thank you for joining us this evening. The salient features of the financial performance of the Bank for Q1 FY21 will be discussed by me focusing on the following five areas of - our journey of becoming a more prudent and conservative franchise, capital and liquidity position, growth across our deposit franchise and loan book, operating performance and asset quality and provisioning.

We continue to take actions that enable us to progress on our journey of being a more prudent and conservative franchise and operate in a manner that strengthens our balance sheet on a sustainable basis. In that direction, we have taken actions in the current quarter across accounting policy changes, reserving on the NII line and additional provisions around COVID. Some of these have a bearing on our reported numbers and comparability to previous quarters.

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

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

The Bank was recognizing net depreciation and ignoring net appreciation within a class of investments in its profit & loss account in accordance with the RBI guidelines. During the quarter, the Bank has made two changes to its practice of recognizing depreciation and investment. The first change, the Bank has elected to recognize net depreciation on each class of investments under the residual category of others, i.e., the category where we record mutual funds, PTCs, security receipts, etc., without availing the benefit of offset against another class of investment within the same category. To explain this better illustratively, gains on mutual funds are not offset against say losses on PTCs. For standard investments classified as weak based on the Bank's internal framework, the Bank has elected to recognize net depreciation on such investments without availing the benefit of set-off against depreciation within the same clause of investments that is permitted by RBI. As a result provisions and contingencies for the quarter ended 30th June are higher by Rs.209 crores, with the consequent reduction in profit before tax.

NII Reserve: We have derecognized interest in the quarter towards various items, including but not limited to future derecognition. I emphasize and reiterate that this reserving has been done on income on standard assets earned during the quarter ended 30th June 2020. This has impacted our NIM percentage by five basis points for the quarter.

The cumulative negative impact of the aforementioned accounting practice changes and NII reserves for Q1FY21 on operating profits was Rs.307 crores and on PBT was Rs.660 crores. I request you to look at Slide #53 in the investor presentation that shows the performance for the quarter with and without accounting changes and NII reserves for ease of comparison.

COVID provisioning: The Bank has made an incremental provision for an amount aggregating Rs.733 crores towards COVID risk during the quarter. With this, the Bank as at 30th June 2020 carries an overall COVID provision of Rs.3,733 crores, of which only Rs.659 crores is required for exposures that are under moratorium as at 30th June 2020.

While I will discuss in detail our reported operating performance after factoring the aforementioned accounting policy and practice changes in the later part of my commentary on the results, On a like for like basis, our performance is as follows: Net interest income grew 22%YoY; on a sequential basis it grew 4%. NIMs for Q1FY21 stood at 3.45% growing 5 bps on a YoY basis. Non-interest income stood at Rs.2,652 crores, representing a YoY decline of 31.5%. Of the non-interest income, fee income stood at Rs.1,716 crores, representing a decline of 35.6%. The decline in fees can be attributed to fee waivers pursuant to regulations, lower disbursements and velocity of throughput of transactions. There were some green shoots on fees which Amitabh discussed as part of his earlier commentary.

Operating expenses to average asset ratio on 30th June 2020 stood at 1.99%, lower by 9 basis points on a YoY basis and 10 basis points on a sequential basis. Cost-to-income ratio as at 30th. June stood at 36.9%, lower by 241 basis points on YoY basis and 887 basis points on a sequential QoQ basis. Core operating profit grew 9.3% YoY and declined 1% on QoQ basis. PAT grew by 19% on YoY basis. Our capital adequacy is comfortable, and we remain and carry adequate liquidity buffers. We believe this places us in a strong position in uncertain times. Our overall capital adequacy ratio stood at 17.47% as at June 30, same period June 2019 our capital adequacy was 16.06%. Our CET ratio is at 13.5%, up from 13.34% as at March and 11.68%, as at June 2019. We have accreted 141 basis points and 182 basis points to our capital adequacy and CET-1 on a YoY basis. During the quarter, we maintained surplus liquidity which is reflected in the average LCR ratio increasing from 113% in the last quarter to 120% for this quarter. The excess liquidity that we carried has impacted our NIMs for the quarter by 9 basis points.

Towards the end of the quarter, in light of the outlook on funding availability, we reduced our excess liquidity. Our excess SLR stood at Rs.26,640 crores.

Our deposit book has remained resilient, growing 16% YoY in line with our granularization strategy. Our retail term deposit grew 27% on a YoY basis. We consciously degrew our corporate term loan book by 2% on YoY basis. Our focus was and continues to remain on quarterly average balances instead of month end because that reflects the strength of the franchise.

The total deposits on a quarterly average basis grew 19% YoY and 5% on a sequential quarter basis. Our CASA balances stood at 41%, similar on a YoY basis and QoQ basis. If we decompose the growth in our deposits, then on a quarterly average balance basis, SA grew by 15% YoY and 5% QoQ, our current account balances grew 8% YoY and were flat QoQ. Combined CASA grew 13% YoY and 4% QoQ. Our retail term deposits grew 27% YoY and 7% QoQ. Our corporate term deposits or non-retail term deposits grew 14% YoY and 3% QoQ. On the savings side, our strategy of premiumization and deepening are playing out well which is reflected through the numbers I spoke about earlier.

Our overall loan book including TLTRO grew 17% YoY and 1% on a QoQ basis. Granular secured retail loans, high quality large borrower relationships are the key driver to our loan growth. Our SME loan book degrew 7% on a YoY basis and declined to sub-10% of our overall loan book including TLTRO investments. Retail advances constitute 53% of the overall advances of the Bank. We continue to recalibrate our risk parameters, scorecards and strengthen our risk management and collection framework around this book. The Retail loan book grew 16% YoY, declined 2% on a sequential QoQ basis. The Retail book continues to be well-diversified across product and geography. 81% of the book is secured as at Q1FY21 versus 80% of the book at Q4FY20. Our unsecured book is 19%. Our entire PL book comprises salaried customers. 65% of the credit cards comprise salaried customers.

The LTVs on our mortgage business are low and stand at 61% for our home loan business and LAP at 37% providing a sufficient cushion on our collateral. The Bank's strategy on Retail assets continue to be centered around existing customers. 76% of our Retail asset originations by count in Q1 were from existing customers, 99% of the bank's credit card and 96% of the Bank's personal loan originations for the quarter were from existing to Bank customers.

Our Deep Geo Strategy is taking root and 11% of sourcing of loans in the quarter were from Deep Geo locations.

On the Corporate side, "One Axis" initiative is gaining traction. Overall corporate book grew by 16% YoY, 1% QoQ; however, it is meaningful to note that 96% of our incremental sanctions in

Q1FY21 were 'A- and above.' 37% of our book is for a tenor less than one year. Our total standard fund, non-fund and investments outstanding to NBFCs is Rs.23,658 crores. 83% of the same is rated 'A and above', and none of them have been granted moratorium. Our MFI book stands at Rs.5,097 crores as at June 30.

Our small and medium enterprises business which is our Commercial Banking business is 88% secured, well diversified and with approximately 76% of the book being of short tenor. 91% of this book is self-funded. The book shrinking is attributable to our cautious stance on supply chain finance and overall SME outlook. And it is not a stance that we have taken on this quarter. Given the problems that we identified in the economy early and have consciously been reducing it over the last five quarters.

Reported Operating Performance: In this section, the numbers that I read out will be comparable on a reported-to-reported basis. Our operating profit for Q1FY21 is Rs.5,844 crores flat YoY and QoQ. Our PAT for the quarter stands at Rs.1,112 crores. Our NII was Rs.6,985 crores with representing a YoY growth of 20%. NIMs were at 3.40% flat on a YoY basis. I have previously explained the sequential drop in NIMs of 15 basis points attributable to 5 basis points for prudence related changes and 9 basis points for surplus liquidity and product mix.

Non-interest income comprising of fee, trading income and other income was Rs.2,587 crores, declining 33% on a YoY basis. Fee income stood at Rs.1,651 crores, declining 38% on a YoY basis. The decline in fees is attributable to fee waivers, lower disbursement velocity and throughput of transactions.

Trading income stood at Rs.622 crores representing a YoY decline of 25%. This is driven by our cautious stance on reducing our corporate bond portfolio and we have not switched the investments from HTM to AFS despite it having attractive outcomes in the quarter.

We have made progress on our cost initiatives that we discussed on our previous call. Operating expenses stood at Rs.3,728 crores at June 30, representing a YoY decline of 2%. On a sequential quarter basis, costs have declined by 25%. Operating expenses to average assets ratio on June 30, stood at 2%, lower by eight basis points same period last year.

Credit costs for the quarter were 2.26% as compared to 2.06% for the quarter ended June. It is important to note that the credit costs for the current quarter is impacted by provisions that led to improvement in our PCR (~1.09%), higher provision on net slippages and risk-based classification of exposures as NPA. And I will cover that as part of our asset quality review.

Moving on, asset quality is showing improving trends. At June 30, 2020, our Gross NPA stood at 4.72%, net NPA stood at 1.23%, declining by 53 bps and 81 bps respectively on a YoY basis and 14 bps and 33 bps respectively on a sequential basis.

The Bank's NNPA and fund-based 'BB and below' book as a percentage of total customer assets improved by 110 basis points from 2.2% at June 2020, down from 3.3% that we reported in June '19. Sequentially the improvement is 50 basis points from 2.7% as at March '20.

The Bank's provision cover without technical write-offs improved significantly to 75% at June 2020 compared to 62% at June 2019 and 69% at March 2020. In fact, if we look at it on a segmental basis, we have shown considerable improvement across each of our segments. Our wholesale coverage improved from 66% to 80% on a YoY basis, our CBG coverage improved from 49% to 54% and our retail coverage improved from 53% to 63%. We have provided segmental disclosures of gross, net NPA and PCRs on slide #35 of our 'Investor Presentation.'

Slippages for the quarter is an important number. Gross slippage is for the quarter were Rs.2,218 crores, dropping 54% on a YoY basis and lower than Q4FY20 by 43%. Of the gross slippages in the quarter, 21% of the gross slippages for the quarter were considered as NPA based on credit and risk assessment criteria and not based on 90-day DPD ageing. Further, on this judgmental downgrade to NPA, we have created 100% provision on these assets. Other than this, 42% of the slippage related to a single group. We have created 100% provision on the said group in the current quarter. Net slippages in the quarter were Rs.1,610 crores. The Bank made provisions aggregating to 92% of the value of net slippages within the quarter. I must state that slippages for the quarter are not reflective of a normal quarter due to moratorium, and one will have to wait for slippages and asset quality performance to be viewed in the context of further regulatory forbearance or moratorium outcomes.

Overall, our balance sheet strengthening continues. During the quarter we reserved Rs.1,028 crores on standard assets under various heads. The cumulative value of provisions additional plus COVID-19 plus other reserves aggregate to Rs.6,898 crores as at June'20. This number was Rs.5,983 crores as at March. Our standard asset coverage ratio including the aforementioned provisions has nearly doubled from June'19. Our number at June'19 was 0.80%, currently it stands at 1.56%. On an aggregated basis (specific + standard assets + additional provisions + COVID provisions), our provision cover stands at 104% of our gross NPA as at 30th June'20 against 75% in June'19.

BB & Below Book: During the quarter our 'BB and below' fund-based, non-fund based and investments book declined marginally from Rs.10,996 crores in March 2020 to Rs.10,753 crores in June 2020. During the quarter, we in aggregate collected and upgraded Rs.516 crores from the 'BB and below' pool. During the quarter, we downgraded on a gross basis Rs.1,313 crores comprising of fund-based facilities of Rs.796 crores, investments of Rs.314 crores and non-fund based facilities of Rs.203 crores. There is no significant or large exposure or group that was downgraded in the quarter. Slippages from 'BB and below' book for the quarter were Rs.1,041 crores, mainly on account of the one group that I spoke about, on which we now carry 100% provision. The top four sectors in our 'BB and below' book are cement and cement products, infrastructure construction, power generation and distribution and hotels.

In summary:

The salient features of our quarter performance were our operating performance is healthy, reflected through our NII and core operating profit growth. Our capital position remains strong. We carry adequate liquidity buffers reflected in our LCR and our 13.5% CET-1 capital ratio. Our deposit book remains resilient. Our mix is improving with a significant percentage of new originations coming from better-rated corporates. Shorter tenor loans are increasing in the overall book composition. Our asset quality has improved, as reflected in the decline in the 'BB and below plus the net NPA book. Our prudence is demonstrated through choices that we continue to make in derisking and strengthening our balance sheet. Even in so far as our subsidiaries is concerned, Axis Finance carries meaningful excess provisions on its balance sheet and has a capital adequacy ratio of 25% with one of the lowest moratoriums in the NBFC space. We reiterate our stance of stopping guidance till clarity on COVID-19 emerges.

With that, I come to an end of my comments. We thank you for your patience and would be glad to take questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: I have a couple of questions. So this NII reserving is done mainly on accounts that you think would slip and would that be a one-time thing?

Puneet Sharma: So, like I said the reserving on NII has been done on standard assets. We have taken a prudent outlook in stepping back and creating provisions. This is on the same philosophy. It is not attributed to specific assets and consequently it is on portfolio basis.

Mahrukh Adajania: But it would be largely one-time?

Puneet Sharma: We will continue to evaluate this as we move forward. Like I said, as part of my early comments, we are on a journey of being more prudent. This is one of the steps that we have taken and we will continue to reassess this on a go-forward basis also.

Mahrukh Adajania: Again, I just wanted one clarification. You said that Rs.4,600 crores by value of loans paid in June. Was that or was not that a part of the moratorium?

Amit Talgeri: Let me just clarify. The total value of portfolio which is under moratorium is 9.7%. The point that I mentioned earlier is customers who had opted for moratorium-2 and still paid their June installments is not part of this 9.7%. We have not added for the simple reason that the customer has continued to be in moratorium-2 but they have paid the June installments.

Mahrukh Adajania: Just one more clarification that today Indiabulls Housing file their shareholding pattern and your name appears as a new shareholder with 1.1% stake. So, any comments?

Rajiv Anand: We are a professional clearing member of the F&O segment of the National Stock Exchange. So, in our capacity as a PCM, we accept securities from trading members as margin. So, in the set capacity among other shares, Axis Bank has accepted Indiabulls Housing Finance shares as margin from its trading members. So, as of today that holding is now 24,687 shares of Indiabulls Housing Finance. So, it is only what we have received as margin and not as primary shareholders. I am sure you know this is now changing from 1st August. SEBI has made some changes to rules. These shares will no longer come through our account but rather will be pledged to us as we go forward. So, Axis Bank has no holding in Indiabulls Housing Finance.

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

Kunal Shah: Sir, as you highlighted maybe from morat-1 to morat-2, in fact we have reviewed all of them and only when there was a need, we have considered that. But would there be accounts wherein there would have been a delay or something now and which are currently not even the part of NPL, but we suspect that there could be stress out there, so maybe something in say SMA-1 or SMA-2 or even SMA-0, what would be those accounts or how much would that quantum be?

Amit Talgeri: Like I mentioned, Kunal, the Bank has adopted approach on recovery of moratorium-1. So as far as we are concerned, if a customer has opted for the moratorium-2, then the recovery efforts does not happen on moratorium-2 customers. The recovery efforts only continue on moratorium-1 customers and wherever we would like to believe that this customer has requested for a moratorium and based on our criteria around the fact that he has been impacted by COVID, we would offer him that moratorium. Otherwise, normal collections and recovery efforts will continue. And from a pure numbers point of view, I think I mentioned that during my opening remarks wherein collections from the morat-1 customers have been over 80% on the corporate and the commercial banking side, and 70% on the retail in June. So effectively, this is the collections and recovery efforts on all of those customers unless we look at them for moratorium.

Moderator: Thank you. The next question is from the line of Shagun Verma from Goldman Sachs. Please go ahead.

Rahul Jain: Hi, this is Rahul here. Just again, continuing from the previous question on the moratorium, on the 1st of June when the first moratorium got over, we essentially did not offer the window as such to anyone to apply for moratorium unless of course we were satisfied from moratorium-1. So is it fair to understand that 30% of the retail customers, where the recoveries could not happen and 20% of the corporate customers where the recoveries could not happen are sitting under moratorium and no fresh or very little fresh moratorium has been considered in the second phase?

Amit Talgeri: No, that is not right. Let me just clarify that. So the way it worked was that moratorium-1 ended on May 31st. 1st of June, the second moratorium started. Effectively what happens is simple that any customer in moratorium-2 who opts and applies for it, based on the criteria that we have looked at in terms of impact on COVID is offered that moratorium, especially on the retail side. Secondly, on the moratorium-1 customers, collections efforts continued. And as far as we are concerned, there is no question of somebody getting a moratorium, the recovery continues on those moratorium-1 customers. So whether it is a 30% or the 20%, as far as we are concerned the collection efforts are continuing.

Rahul Jain: So, let us say if 100 customers have applied for moratorium-1 on the 1st of June, how many eventually ended up getting? So if that absolute number is let us say 100, what would be the denominator because I think as a prudent policy you adopted an approval based mechanism wherein only if you are satisfied, you would give a moratorium, so what would the denominator number be, how many applications you received for a moratorium and how many got approved is essentially the question I am asking?

Amit Talgeri: So clearly, the way we looked at it is that, every customer who applied for a moratorium need not have got a moratorium. We looked at criteria for each of those customers, wherever we felt there was a requirement for on account of COVID impact, we offered that moratorium. One thing you have to keep in mind the rules for moratorium-1 were a little different. When we entered moratorium-1, we were bang in the middle of a lockdown. In moratorium-2, large parts of the country have opened up and to that extent, some amount of economic activity has started. And hence it was important for us to ascertain through customer connect by all the relationship managers of the wholesale and the commercial banking teams specifically on the wholesale and CBG side, and only after assessing the requirement and impact of COVID were these moratoriums offered. We have been kind of focusing on collections and recovery of moratorium-1 rather than looking at extension of those moratorium just because the customer asks for it.

Kunal Shah: Thanks a lot. The other question is on the early bucket movements. So, can you just help us understand how the trend has been since the 1st of June compared to the pre-COVID levels particularly, in the unsecured and the loans against property bucket?

Amit Talgeri: I mentioned that very briefly on the call. April and May were very, very muted in terms of what was happening on the collections side. We had beefed up collections quite considerably. One of the things which we did invest during April and May was to build on analytical models around payment behavior, moratorium performance, bounce, information, etc., to look at if and when the lockdown ends, field collections gets activated. And that has really helped us in the month of June. So if I were to really give you numbers, early bucket resolutions have currently hit somewhere in the region of 60% to 70% of pre-Covid levels, depending on the products from the retail side. Similarly, from a recovery point of view, we have already hit 60% to 65% on a pre-COVID level, both of these numbers are almost double those of April and May. So clearly we see that momentum increasing substantially in June.

Kunal Shah: Let us say if the bounce rate earlier was 5% 6%, would it be down in the month of June?

Amit Talgeri: It would be fair to say that, between April and May and June, there has been a considerable improvement, but not yet back to the pre-COVID levels.

Moderator: Thank you. The next question is from the line of Vishal Goyal from UBS. Please go ahead.

Vishal Goyal: A question on this morat book of 9.7%. Is it possible to get some more color on two parameters – one, segment like salaried versus SME and corporate? And also within that, how well you are protected in terms of, are you seeing salary credits happening or you are seeing cash flows, for the borrower, any color that can help us?

Amit Talgeri: Vishal, one is we are not giving segmental break up of morat book, but it would be reasonable to estimate that a large part of this is the retail portfolio. Just to kind of look at from a retail perspective itself, almost 78% of this portfolio is secured. Again, a large part of this portfolio was 70% is existing Bank customers when they started off. Historical default rates on these portfolios has been low. More than 70% of the customers are bureau prime scores. And obviously our scorecards are a lot more stringent. If I look at specifically on the mortgages side, which is where again a large part of this moratorium in retail is the mortgages between home loans and LAP, nearly 80% of the borrowers are in ready properties which reduces the construction risk. Around 77% customers have LTVs of less than 75% and 90% of the mortgage customers have bureau vintage more than three years, just gives you a flavor of the reason behind why we would like to believe that the comfort around security cover, salaried cash flows and credit tested profiles is helping us in this book. With regard to your question on unsecured, again, we see some amount of benefit that we get from the fact that a large part of our portfolio is salaried and existing Bank customers with historically low default rates. 95% of the credit card customers were zero dpd. 98% of the customers have bureau vintage more than 12-months. In Personal loans, all of them are salaried. And we have not yet seen significant changes in terms of salary reductions or job losses, etc., But I will only put a caveat here to say that we are still in the middle of lockdowns in large parts of the country. We do not know how that will pan out in the coming months and we kind of continue to monitor this portfolio closely. What gives us comfort is the fact that our current book is mostly salaried, credit tested, with large percentage of existing Bank customers and has historically low default. And that is really what is playing out right now as well.

Vishal Goyal One clarification. So 9.7% includes Rs.4,600 crores, right?

Puneet Sharma: 9.7% is customers that have opted for a moratorium by value. Out of this 9.7%, for the month of June, we have collected Rs.4,600 crores.

Vishal Goyal Rs.4,600 crores worth of loans have been paid, right, or you have collected already?

Puneet Sharma: Rs.4,600 crores worth of loans have paid the EMI in the period. So, let me write this out for you and for abundant clarity on this call as a numerator, denominator exercise. Total value of loans outstanding for which moratorium has been flagged in our system is the numerator. The loan book is my denominator in arriving at the 9.7%. Of cumulative value of outstanding loans of Rs.4,600 crores, we have had collections in the month of June.

Vishal Goyal One question we are getting and I am sure you are also getting from a lot of investors is, the senior management exit especially the ones who have been recently hired by Amitabh himself, if you can give some color on that, that will be really helpful?

Amitabh Chaudhry: We mentioned four hires; one was Sumit Bali who joined us as a head of Retail lending; one was Ravindra Rao who has come in as head of Retail Collections. We had lost these two positions in the last quarter. And over and above that, we have done two additional hires on the wholesale banking side. We had a new Government coverage head. The existing Government coverage person is no longer with us. And he is DK Das, who comes to us from TCS. And then we have Vivek Gupta who has joined us as head of Wholesale Banking products, who joined us from Grindlays. That is part of a normal exercise. We will keep hiring the right kind of talent across the industry wherever required, if we believe that adding them to our set of senior management will allow us to reach our strategy faster. So that process will continue. You will continue to hear Axis Bank adding to its bench strength if and when necessary. So that is a regular exercise.

Vishal Goyal Maybe I can take it offline, Amitabh. I think the question is that why people are leaving. I am sure you have a lot of ability to hire people. But what is causing kind of people going away -- is it that too much pressure that they cannot handle or there are some other personnel reasons for them?

Amitabh Chaudhry: I think in some cases, we have had some very specific personal issues and people had to find or look for other alternatives because of some specific personal issues they might have. In some cases, people have moved out because they have found an alternative or an opportunity outside which they thought could potentially be bigger in the long run, people have worked and served Axis for a long period of time. Yes, obviously, with the strategy which we are driving there is additional pressure and there is also a clear movement and focus on meritocracy and transparency. And in the process, some people will align to it. Some people might not align to it. Some people will be asked to go. I mean, you will have all those combinations there. And we will be relentless in pursuit of our strategy. And we continue to hope that people will continue to get aligned to it. Some people are not able to do that. We might end up losing some people. So that is part of normal corporate life. We need to get used to it. The good news is that we have now enough bench strength and we can absorb some of these people leaving now and that does not change the momentum, that does not change what we intend to do, and that does not change our ability to hire also. So, I guess it is part of normal corporate world we live in.

Moderator: Thank you. The next question is from the line of Udit Gadia from Khazanah Nasional. Please go ahead.

Udit Gadia: In the last call, management had mentioned that based on stress testing, we do not see the need for the capital at that moment. Subsequently, we saw approvals to raise capital and we have been very aggressive in comparison to peers in creation of the contingency provisions coupled with the conservative accounting policy. Do we foresee significant stress in our loan book?

Amitabh Chaudhry: So as far as capital is concerned, in my remarks I was quite categorical, that we have taken a resolution and we keep evaluating the need to raise capital at any point in time. That is exactly and that is all that we are going to say. The provisions are based on what we see in our stress models and what we know today. We have continued to emphasize that we will continue to move the needle on being conservative and that journey continues. Your specific question was, "Are we seeing some stress and because of that we are making those provisions?" No, we are making provisions at a generic level. In spite of the fact that our moratoriums have come down materially, there are a lot of people in terms of value have taken moratorium, and it is important for us to be cautious. So, no, we are not seeing any specific stress which we are not sharing with you. And just to repeat what we said in the last call, we also made a statement that based on our stress models which we have shared with our Board, our current capital continues to be sufficient to manage through the crisis and that stance remains. So I am giving you all kinds of inputs. You need to obviously make your call in terms of what that means. But this is all the data which we can give to you at this point in time.

Moderator: Thank you. The next question is from the line of Akalp Gupta from ICICI Prudential Life Insurance. Please go ahead.

Akalp Gupta: My question is again with regard to the moratorium, so you mentioned that our collection is close to let us say, 70%, 80% of the morat-1 clients. So my question is what about the remaining 20%, 25% where we are not able to collect -- so are these clients whom we are not able to reach or they are not able to pay, so would it be a fair judgment to say that let us say 20%, 25% of the morat-1 clients, so that comes to around 4% or 5% of the overall book, this is a particularly sticky NPA kind of a book, would that be a fair assessment?

Amit Talgeri: That is not true. The reason why I say that is because if we look at the profile of those customers it is across all rating bands, it is across all bureau scores, it is across all industries, it is across all geographies. I gave you a color of some of the customers who are part of that morat book. Clearly, what we see is that the easiest thing for us was to offer the moratorium. What we are doing is the difficult thing which is to ensure that we do collections and recovery from those customers. And that approach is something which is a marked difference from the approach in morat-1. And that is the reason why if you see what we are currently focusing on is purely collections and recovery efforts. Yes, these are linked to the external environment in terms of the economic lockdown, some of these industries taking time to recover, some of the shopkeepers taking time to open the shutters. So all of that is reflected in what is happening on the ground. And as far as we are concerned, our collections and recovery efforts continues even for those customers where we have not given them moratorium.

Akalp Gupta: The remaining balance 25% which is not being collected right now, you are saying potentially there is a fair chance that this can get collected over the period of time?

Amit Talgeri: Absolutely.

Adarsh: This is Adarsh from CLSA. A question on morat, right. So we started off with 26-27% and the number is down to nine now. So the 18% of the book which would have been in morat over from 1st June to 21st of July, would have had either one or two installments that would have come their way which if they do not pay, they would be in SMA-1 I believe, correct. So I just wanted to understand if you can give some more color around SMA-1 that gives us a comfort that the fall from 27% to 9% or 8% specifically because 1% is actually coming from outside, these guys most of them have paid because most of them would have either got at least one installment to be paid in June or many of them would have actually got paid because we have completed like 20 days of July. So if you can give some color, it will really help to kind of bridge the gap between the 26, 27 that we had and where we are, so this 17%, 18% all of it was just cautionary and they are relatively safe customers?

Amit Talgeri: I mentioned that in terms of the fact that a large part of it is related to collections and recovery of these customers. A lot of them are still conserving cash flows and liquidity. Even in our retail books, for example, we see large portions of customers where salaries are coming, they are still looking at conserving capital and opting for moratorium. We are being a little careful with offering some of these customers moratorium. So, from collections and recovery of the balance portion, and I think I mentioned that earlier as well is that as far as we are concerned, if the customer is not impacted by the COVID crisis, we will continue and collect and recover from these customers. And as far as we are concerned, if these collections and recovery efforts continue over a period of time, based on how the lockdown lifts up and the collection activities commences in a lot more sustained manner, we will collect from these customers.

Puneet Sharma: Let me give you a specific answer to your question. As at 30th June 2020, our reporting to CRILC for SMA-2 book was less than or equal to 0.4% of our total loan book.

Adarsh: What will really help in this case because June would have been only one month, would the pre-COVID SMA-1 to pre-COVID like Feb or December SMA-1 to SMA-1 in June end, right, because you started for 18% of the book, the payment if you are not in morat started only in June, right, so, essentially you could have been due maximum for one month at best, for example. SMA-1, any sense, that will be more useful than SMA-2 in this case?

Puneet Sharma: Let me clarify two things to you. In terms of the analysis, the SMA-2 would be equivalent because if you had aged going into the moratorium, you will come out of the moratorium with the same aging. Technically, SMA-2 would be 60-plus. And therefore if I went into moratorium at 30-plus, I would have come out of moratorium at the end of the month at 60-plus, and that is the number I am giving you which is 0.4% of total loan book. That is good proxy of where we stand. So far as your other ask for data point, currently we are not sharing the SMA-1 number.

Adarsh: The only reason to ask this is while I understand that it is absolutely correct that the bank should be offering customers a moratorium where we can actually sense from activity level or cash flow level that whether they need or not need moratorium. What I am just trying to understand is in your need to be a little choosy about who you want to give, some of this 18% could end up slipping over the course of the next couple of quarters. You have talked about 70%, 80% collection. But I just wanted to understand that, in your opinion, would this 17% 18% of book would be now because they have not opted for morat to be similar in asset quality, not a material difference versus the rest of the book or we will still have to test that?

Amit Talgeri: So you are right. We do not see it as materially different from our existing book to a large extent. And like I said, I gave you some color around what the book has been and the morat performance of that book has been, etc. But let me be very honest with you, at the end of the day, some of it is linked to the fact that you would have some slippages which will happen, but that is part of normal collections recovery efforts. By giving the moratorium, we are only delaying the inevitable. You rather get into collections mode quicker and which is the approach that we have adopted in moratorium-1 customers and which is what you see. Will all of it slip? Clearly not. I think we mentioned that entering COVID crisis, the profile of these customers has been good. Even as of today we see the profile of these customers has been good. I gave you enough data points around that. All we are saying is that today because of lockdown, you could probably have some mismatches around field collections, some mismatches around customers, not able to pay off immediately. By ensuring that our efforts around collections and recoveries continue through this cycle, yes, the whole objective is to ensure that while we collect from wherever it is possible, whatever slips through is something which we are envisaging in terms of our stress test scenarios which we have actually put through. And that is the incremental provisions that Puneet has been taking over a period of time.

Parag Jariwala: Continuing about the question on morat, when you say 70% collection for retail and 80% for corporates and SME, are you referring only for that month of June or are you referring from April, May and June?

Amit Talgeri: Whatever was due is what we are referring to.

Parag Jariwala: So due for the month of June?

Amit Talgeri: That is right. So effectively what happens is if a customer was in moratorium-1, effectively, he did not have to pay any installments for March, April, May. His first installment after that period when he got out of moratorium started in June. That is the installment that we are referring to. Or similarly on the wholesale and the CBG side, if there was an installment due in the month of June, that is the installment or if there were interest payments due, that is the payment that we are referring to.

Moderator: Thank you. The next question is from the line of Jay Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: More or less same question here. The one minus collection efficiency, so 20%, 25% of the portfolio which was under moratorium in one, they are now no longer under moratorium and they would be classified as overdue or standstill. Is that understanding correct?

Puneet Sharma: Accounts that are not in moratorium will continue to age as per normal process, like all accounts did even prior to moratorium.

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

MB Mahesh: Rajiv, if you could just give us some color on how are you now looking at the balance of the corporate portfolio in terms of stress? Do you continue to see high slippages on that front

Rajiv Anand: So what we have been guiding investors towards is the BB book which I think Puneet and team have put together I think on slide 35. That gives you a good indication on where the risk sits at this point in time which is I think a little over 10,000-odd crores and in percentage terms that has really come off at this point in time.

MB Mahesh: Just to clarify that, see, the problem which we have is that the book remains constant, but what comes in and goes out of the book remains very high, making it harder for us to understand that book in the first place.

Rajiv Anand: The way that this actually works is that BB book is in a sense is dynamic. So yes, there will be some stuff coming in, there will be some stuff going out and there will be some stuff which is going to get upgraded/repaid as well. But on a net-net basis and thinking about the portfolio on an incremental basis, that is the overall pool that you should be looking at.

Moderator: Thank you. The next question is from the line of (Dhaval) from Jefferies. Please go ahead.

Prakhar: Hi, this is Prakhar. just wanted to check with you, this morat number of 9.7% is it like to like with the 25% to 28% or the definitions are now wider than that one?

Puneet Sharma: The 9.7% number takes the all moratorium divided by total advances of the Bank. We had clarified that the 25% to 28% was only opt-in moratorium.

Moderator: Thank you. The next question is from the line of Sri Karthik Velamakanni from Investec. Please go ahead.

Sri K Velamakanni: Could you reclarify about your NII reserving accounting change once again?

Puneet Sharma: We have gone, and reserved interest income recognized in the quarter on standard assets on a prudent basis for potential future reversal. So that is what we have done so far as the NII reserving is concerned. That NII reserve will cover items like interest on interest, would cover future derecognition, contingencies, etc., It is a prudent provision that we have gone ahead and made in so far as reversals that may occur at future date.

Sri K Velamakanni: Would it be fair to say that in the product categories where the interest rates are unusually high like maybe an MFI or is it across about all products?

Puneet Sharma: It is on the Axis Bank loan portfolio. It is not targeted to a particular product or a particular loan or a particular customer category.

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

Nilanjan Karfa: Rajiv, going back to an earlier question, you want is to focus is the BB book, the problem is, there are flows which keep on from let us say structural book that I think is the problem one, because the numbers are still fairly large. Can you clarify how should we look or rather do you want to talk a little bit about the triple book itself?

Rajiv Anand: So, a couple of quarters ago we had guided that, we thought that this book would sort of wind down sooner than later but because of the fact that the situation is what it is, we have actually guided that this BB book both in terms of numbers as well as in percentage terms will continue to be where it is for longer rather than shorter period. So I think we will have to wade through some of these conversations that we have been having around moratorium and how the book will behave post moratorium. But fundamentally at this point in time, I would continue to guide you towards BB book.

Amitabh Chaudhry: And I can add to what Rajiv is saying, what we are definitely seeing is that the size of exposures which are getting into BB, forget about the total amount, but the size of exposure per borrower is definitely coming down slowly, gradually. That is a trend one is definitely seen.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: So could you just elaborate how many percentage of people who were denied moratorium are not paying or are not current, out of say 27% that was previously and 90% of them have continued, so remaining customers that were obviously out of moratorium, right, so those who are out of moratorium, that are not present in current or previous are not paying or are not current as of June 30?

Amit Talgeri: So the way we look at that number is that when we started off at a 70% number, 30% will keep coming down gradually as collections continues, right. So while we start off with 70%, having paid moratorium, one, the balance 30% over a period of time will start reducing that number given the collection effort which is happening on the ground which is why the emphasis that I have been laying around the fact that instead of giving moratorium for those customers and happily sitting in that moratorium book, we are focusing on collections and recovery. Whatever does not get collected or recovered as per the normal dpd movement, we will ensure there is provisions which will happen based on the normal accounting regulatory provisions required.

And that is really the approach that we have taken to moratorium-2, and I think Puneet clarified that in terms of the movement of all of that.

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: I have one clarification to ask for. This number at 9.7% includes 90% from morat-1 and then 10% got added. So, our original number of morat was around 28%. So, if I work with 90% of that, assuming the same loan value then probably 3% further reduction could have happened from the morat pool. I am asking this because the range that we are now looking at is very small, come down to single digit. So, if we can get this morat-1 number could have come down to six, it is really a case as I ask to have these morat-1 customers can be relatively more riskier than morat-2? On the second part in terms of how do you rate these customers differentiate between their perceived quality?

Amit Talgeri: We answered that initially, but just to kind of reiterate, like I said, there are a whole host of data points around that in terms of the credit performance of some of these customers, the profiles of these customers, the fact that a large part of this book is salaried, the large part of this book is secured backed by property collateral, credit tested customers, let us take for example, on the mortgages side, which is a significant portion of the retail book under morat-2, I mentioned a large part of that book 80% is ready properties, so the construction risk does not exist there. 77% of the customers have LTVs which are less than 75%, 90% of these customers are with bureau vintage of more than three years with good scores. So a large part of these are good customer profiles. And that is really what we would like to believe is holding the portfolio in terms of where we stand. Also, just to kind of give you a data point, a large part of the moratorium mirrors the portfolio in terms of existing to Bank customers and salaried customers where traditionally we have had low default rates on the retail side. The wholesale and the commercial bank book has dropped dramatically. It is a very small percentage of the new morat-2.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Mr. Puneet Sharma for closing comments.

Puneet Sharma: Thank you, ladies and gentlemen for taking the time to join our quarterly results call. We appreciate your time and patience and the questions that you have asked. Abhijit would be happy to engage with you if you have any future questions. Thank you. Have a good evening and stay safe.

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