Axis Bank's Q1 FY23 Earnings Conference Call

July 25, 2022

MANAGEMENT: **MR. AMITABH CHAUDHRY – MD & CEO, AXIS BANK**
MR. RAJIV ANAND – DEPUTY MD, AXIS BANK
MR. PUNEET SHARMA – CFO, AXIS BANK
MR. SUBRAT MOHANTY – GE, BANKING OPERATIONS & TRANSFORMATION, AXIS BANK
MR. RAVI NARAYANAN – GE, RETAIL LIABILITIES, BRANCH BANKING & PRODUCTS, AXIS BANK
MR. SUMIT BALI – GE, RETAIL LENDING, AXIS BANK
MR. MUNISH SHARDA – GE, BHARAT BANKING, AXIS BANK
MR. AMIT TALGERI – CHIEF RISK OFFICER, AXIS BANK

Moderator: Ladies and gentlemen, good day and welcome to Axis Bank Conference Call to discuss the Q1FY23 Financial Results.

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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 - MD and CEO, and Mr. Puneet Sharma – CFO.

I now hand the conference over to Mr. Amitabh Chaudhary, MD and CEO. Thank you, and over to you, sir.

Amitabh Chaudhry: Thank you so much. Good evening and welcome everyone. Apart from me and Puneet we also have on the call Rajiv Anand – Deputy M.D, Amit Talgeri – Chief Risk Officer, members of the Bank's Leadership Team -- Subrat Mohanty, Ravi Narayanan and Sumit Bali and Munish Sharda.

We continued to move forward with clarity and intent in a quarter where the external signals were mixed. The system credit growth picked up with double digit credit growth for last four months. Consumption has continued up, working capital demand is strong and together with refinance requirements are driving credit growth. However, higher than expected inflation rate and the global headwinds will mean further rate hikes and tightening of liquidity. There could be some moderation in the short-term. However, we do believe that the medium-term opportunity for Axis Bank is significant. We continue to grow faster and gain market share in our identified segments that provide better risk adjusted returns.

We remain focused on three core areas of execution to move forward on our GPS strategy.

A. Deepening a performance driven culture
B. Strengthening the core
C. Building for the future

Let me now discuss each one of these in further detail:

A. Performance driven culture

First, we have lifted the growth trajectory and consistently gained market share:

We have lifted the growth trajectory across various business segments and now have strong market position in multiple businesses.

- On deposits, we have gained over 100 bps market share in last 5 years to reach 4.7% as of Jun'22
- On advances, our incremental market share has been closer to ~ 9 to 10% over last 5 years and closing market share stood at 5.7% as of Jun'22
- In credit cards, we continue to be ranked 4th largest with over 17% incremental market share in the last six months and 12% market share on period-end basis
- In Merchant Acquiring Business, we are now the 2nd largest, up from rank 4 in March 2021
- Our Burgundy AUM has grown 3x in last 5 years and we are the 4th largest player in wealth management business
- On the payments side, we continue to have strong positioning with 16% market share in UPI and 15% in Mobile Banking

As discussed above, it is evident that our digital footprint is 3 to 4 times our market share in our traditional businesses. Similarly, on the Wholesale side, we are now 'transaction bank of choice' with market share gains in transaction-oriented flow businesses – We have doubled our foreign LC market share from 5% to over 10% in last three years. Our GST and RTGS market share continue to be strong at ~9% in Q1FY23. We have been the leading player in the DCM space over the last decade

On deposits, refer to slides 17 – 21, our customer acquisition remains strong. In Q1, we added 2.2 million new customer accounts a growth of 22% YOY. The strong growth in our granular deposits continues with average CASA balances up 16% YOY. Our liabilities strategy driven through premiumization, granularization and deepening remains on track, reflected in average Savings Account balance growth of 16% YOY and 4% QOQ.

We continue to see improvement in the quality of our deposit franchise. We are leveraging our wide suite of product portfolio to offer customized solutions for specific markets. We have started seeing traction in our corporate salary acquisitions led by our One Axis approach and productivity lift across the channels.

- 100% plus YOY growth in new salary labels acquired in Q1.
- Our Ultima salary programme has seen significant adoption in our customer base.

On Current Account, we remain focused on driving value and relationship led core CA growth. Our strong positioning in the transaction flow businesses and our wide suite of transaction banking APIs have helped to drive acquisitions and balances growth. On a QAB basis, we grew Current Account balances by 15% YOY.

In term deposits, our growth has been higher than the industry and our cost of deposits remains extremely competitive. Our term deposits grew at 13% YOY on QAB basis. The growth in our non-retail term deposits was led by non-callable high value deposits that are LCR accretive.

Digital remains an important acquisition engine across deposit products. We sourced 26% of non-salary SA accounts and 55% of individual CA accounts digitally through VCIP. Further 68% of individual retail term deposits by volume and 46% by value were acquired through fully digital channels. Our credit cards acquisition in the quarter was up 4x YOY at about 1 million cards. We are the fastest growing card acquisition franchise.

In Q1, we witnessed strong momentum across our focused Retail and SME business segments that grew 25% YOY and 27% YOY, respectively. Overall loan book grew 14% YOY. We have built a well-diversified and high-quality SME book in the past 2 years. We have replicated the learnings from SME segment to similar businesses like Small Business Banking (SBB) on the Retail side and Mid Corporate (MC) book on the Corporate side. Mid Corporate book grew 54% YOY and 5% QOQ.

The SBB segment delivered strong growth of 74% YOY led by our innovative product offerings like Digital Business Loans, Merchant Cash Advance, small ticket Suvidha loans, new Account Aggregator product variants, along with our end-to-end Digital fulfilment capabilities. The combined portfolio of these three segments (i.e. Small Business Banking, SME and Mid-Corporate) grew 41% year-on-year and now constitutes 19% of the loan book, up ~500 basis points in the last two years.

Formalization of MSME lending and high contribution of MSME segment in India's GDP offer tremendous opportunity. We continue to invest in the MSME space, extending our distribution and service footprint across India. Within corporate segment we brought down the low yielding offshore trade book during the quarter and chose not to pursue low yielding deals in line with our focus, on driving profitable growth.

Our government business performance remains strong. As we continue to add new mandates and gain market share, the government business has transitioned from being deposit centric to being more solution centric. We deliver and deploy holistic customer specific solutions for payments, collections and liquidity management across single and central nodal agencies. Over the last 18 months we have deepened our relationships across various government businesses, and signed MoUs with Indian Army, Indian Navy, Police and Forest Department among others. Within the private sector banking landscape, we have been a pioneer in government business offering, competitive products and solutions to the institutional and retail customer.

The second point on our deepening a performance driven culture. We continue to focus on Improving Profitability Metrics. While Puneet will provide granular details let me highlight the key metrics.

- Net interest margins improved 11 bps QOQ and 14 bps YOY to 3.60% in Q1FY23.
- NII grew 21% YOY and 6% QOQ, Fee income was up 34% YOY with Retail fee up 43% YOY.
- Our core operating profit grew by 17% YOY. PAT was up 91% YOY.
- The combined Q1FY23 annualised PAT of our domestic subsidiaries stood at Rs 1,082 crores, up 10% YOY.
- The Bank's standalone RoE at 15.07% up 596 bps YOY

Third was around fostering a winning mindset. Our winning mindset is reflected in our strong business performance and multiple external recognitions we received during the quarter. As highlighted earlier, customer acquisitions remained strong. We opened 1.1 million new SA accounts in Q1FY23; up 50% YOY. The number of new current account opened were also up 68% YOY.

Led by innovative product offerings across all asset classes and our One Axis approach, the Bank won "Best Private Bank for Client Acquisition, Asia" at the 5th Annual Wealth Tech Awards. We continue to see traction in our cards segment with 33% YOY growth in number of outstanding cards. 31% of credit cards were acquired through Known to Bank partnerships across Flipkart, Google Pay, Freecharge, Airtel and others.

The Bank won 'The Retail Banker's International Asia Trailblazer award' for Trailblazing Use of AI and Machine Learning in Financial Services space. We also won the Economic Times DataCon awards for Modern and Agile Data Architecture and Infrastructure. Maximus, our digital lending product grew over 50% YOY driven by introduction of new programs and new products with end-to-end digital PL and BL contributing over 50% to overall sourcing. The Bank's initiative on the digital lending project 'Maximus' was recognized at the Finnoviti Awards 2022.

B. Strengthening the Core.

Our strong balance sheet lends support to our aspirations. Our asset quality is now among the best-in-class with a net NPA of 0.64%, high provision coverage of 77%, and standard asset coverage of 1.7%.

We continue to work towards building our next generation technology architecture, strengthening the organizational core and technological capabilities along with the focus on execution.

The impact of significant investments in digital banking, adopting cloud-first technology and analytics driven decision making, have helped us deliver a strong core operating performance. Our in-house engineering team has now delivered over 20 digital products, including Credit Card Servicing, BNPL, MCA, Bill Pay, and several other products. These products are all built in a cloud native, microservices based modular architecture and in an API oriented manner. Our dev-sec-ops framework including our CI-CD pipelines are now tested in multiple situations and have significantly enhanced our go to market speed and ability to be agile and customer centric.

We are seeing strong traction in Project Neo that is aimed at building a world class Digital Corporate Bank. We have built a best-in-class suite with 70+ corporate APIs live and many more under development that are capable of addressing complex use cases across trade, payments, collections, treasury and account information. We witnessed strong corporate interest with significant increase in digital payment transactions done by newly on boarded customers onto our corporate APIs in Q1.

C. Building for the future

Digital continues to see strong progress. The impact of this is now visible across the business segments. In Q1, we completed the rollout of our new Internet Banking and we launched our new Mobile Banking app in pilot mode. Our app continues to see strong growth with MAU of 9.7 million this quarter.

We launched Account Aggregator based lending programs late last year. In this quarter disbursals through this program have grown by 250% compared to the last quarter. The Digital Merchant Cash Advance (MCA), our unique proposition wherein we were the 1st private sector Bank to offer an integrated Digital Current Account & Unsecured Term Loan proposition along with QR continues to see strong traction. The product which was launched in Dec 2021 in partnership with Freecharge helps small businesses to grow their businesses by providing loans upto Rs 5 lakh with a unique daily instalment repayment methodology. During the quarter, MCA delivered 2.7x and 2.2x QOQ growth in number of loans and number of CA accounts opened, respectively.

We continue to have bank-wide programs to build distinctiveness. We are making strong progress through our focus initiatives around ‘Bharat Banking’ and ‘Customer Obsession’.

Bharat Banking continues to scale up strongly. The formalization of the economy via GST, evolution of the technology stack, efficient delivery of various government schemes in the Retail and MSME space, and growing internet penetration have provided strong tailwinds to the Bharat markets.

We have enhanced our distribution network significantly in rural regions, led by a strong partnership with CSC and India Post Payments Bank. During the quarter we added 12,000 VLEs to take our overall CSC VLE network to 52,450 that would act as extended arms for our 2065 Bharat branches. In Quarter 1, we also entered into partnership with Airtel Payments Bank to offer greater convenience and faster solutions to a vast customer base in the rural regions of the country.

We are also focused on developing strategic partnerships with agri-corporates and OEMs to scale up rural enterprises segment and capture entire rural value chain. The strategy is to embed banking in the digital ecosystem of clients, pursue co-lending opportunities for PSL and leverage the tax stacks and leverage the data to better underwrite customers. As a result of our focused approach, we achieved strong YOY growth in disbursements across all the major product segments and delivered 42% YOY growth in rural loan book.

We are progressing well on ‘Sparsh’ which is our customer experience transformation initiative. Several ground level interventions have been set in motion to drive distinctive customer delight for bank customers.

Our subsidiaries continue to create significant value. The ‘One Axis’ approach is now embodied across the Axis group and is reflected in robust performance of our subsidiaries. As I mentioned earlier, the total annualized PAT of our domestic subsidiaries in Q1FY23 was up 10% YOY.

Axis Finance continues to perform exceedingly well with its PAT up 59% YOY. Axis AMC reported 18% growth in overall quarterly AAUM with 20% growth in its PAT. Axis Capital and Axis Securities reported PAT of Rs 34 crores and Rs 39 crores, respectively.

On Citibank consumer business integration, we are awaiting CCI approvals, and we expect to close the transaction by fourth quarter of fiscal 2023. The Integration Management Office with a steering committee is in place with nominees from both sides. Within the constraints of applicable regulation, we are working on key work streams around people, technology and business operations.

In closing, this was another quarter of a strong and steady performance across multiple identified areas of focus. I have mentioned about the positive cultural change in the Bank and our coming together as a winning team. We remain optimistic on the growth opportunities in the Indian economy while keeping an eye out on the global headwinds.

We believe that the strong franchise we are building is well placed to deliver sustainable and profitable growth.

I will now request Puneet to take over.

Puneet Sharma: Good evening and thank you for joining us this evening. We continue to make meaningful progress on strengthening our core business performance and ensuring that our balance sheet is resilient across cycles. I will discuss the salient features of the financial performance of the bank for Q1FY23, focusing on our operating performance, capital and liquidity position, growth across our deposit franchise and loan book, asset quality restructuring and provisioning.

Our core operating performance in the current quarter is strong, with meaningful improvement in NIMs, growth in NII, core operating profit, benign credit costs and significant improvement in our ROA and ROE.

- NII for Q1 FY 23 stood at Rs. 9,384 crores, growing 21% YOY and 6% QOQ
- NIMs for Q1 FY 23 stood at 3.60%, growing 14 bps YOY and 11 bps QOQ.

We had clearly articulated the drivers for our NIM improvement journey over the next 8 to 10 quarters. The progress against the key drivers in the quarter is as follows:

- Improvement in Balance sheet mix to loans and investments from other assets. Loans and investments comprised 87% of total assets at June 22 as compared to 84% at March 22 and 84% at June 21;
- Within advances, INR denominated loans comprised 93% of total advances at June 22 as compared to 91% at March 22 and 89% at June 21;
- Within advances, the retail and CBG segment comprised 69% of total advances at June 22 as compared to 67% at March 22 and 63% at June 21; and
- Low-yielding RIDF bonds declined by Rs 5,816 crores YOY and Rs. 402 crores sequentially.

The Bank continues to improve the risk profile of its loan book. Our NII as a percentage to average risk weighted interest earning assets, stands at 7.26%, improving 30 bps YOY and 15 bps QOQ. Our fee income stood at Rs 3,576 crores, growing 34% YOY. 93% of the fee is granular. Total retail fee grew 43% YOY. Digital and mobile banking fees grew 121% YOY and 3% QOQ. Fees from retail cards and payments grew 62% YOY and 13% QOQ. Fees from third party distribution grew 27% YOY, Transaction banking, forex and trade related fees together grew 22% YOY.

Trading Loss for the quarter stood at Rs 667 crores for the quarter compared to a profit of Rs 231 crores in the previous quarter and profit of Rs 556 crores for same quarter last year. The MTM is largely in our corporate bond book. 79% of which is rated AA+ and above and 98% is rated A- and above. We do not expect an economic loss on this book. MTM on the book had an adverse impact on bank's standalone ROA and ROE for the quarter of 16 bps and 172 bps respectively.

Operating expenses for the quarter stood at Rs.6,496 crores, growing 32% YOY and declining sequentially by 1%. The YOY increase in rupee crore expenses can be attributed to the following reasons: (i) 40% linked to volume; (ii) 14% growth investments (iii) 11% technology and digital; (iv) 6% attributable to collections expenses, (v) 5% statutory costs, (vi) one time is 5%, (vii) balance 20% to BAU.

Expenses sequentially declined by Rs 80 crores or 1%. This is attributable to (i) reduction by Rs. 103 crores due to one-time items reported in the previous quarter (ii) Rs. 372 crores is due to lower collection expenses, lower volumes and operating efficiency offset by an increase of Rs. 395 crores in growth, technology, statutory costs and manpower expenses due to annual increments and ESOP costs.

Technology and digital spends grew 42% YOY and constituted ~9% of total operating expenses. Staff costs increased by 18% YOY and 16% QOQ. We have added over 6,150 people from the same period last year mainly to our growth businesses and technology teams. We have continued to maintain the social security code provisions. The cumulative social security provision in the books of the bank stands at Rs 227 crores.

Operating expenses to average assets stood at 2.24% for Q1FY23 higher by 19 bps YOY and 7 bps QOQ. Given the strong momentum across our businesses; we remain committed to consciously invest in our focus business segments. The lower credit cost over the past few quarters has provided some headroom to run operating costs at a slightly elevated level. This has not affected our ROE delivery trajectory. We have demonstrated our ability to improve the cost ratios having brought them down our cost to assets ratio to below 2% in the past and continue to demonstrate the same through a sequential decline in expenses. We remain committed to achieving around 2% Cost / Assets in the medium term.

Operating profit for Q1 FY 23 is Rs 5,887 crores, declining 5% YOY, largely due to MTM loss in the current quarter. Core operating profit for Q1 FY 23 is Rs 6,554 crores, growing 17% YOY and 5% QOQ.

Provisions and contingencies for the quarter were Rs 359 crores, declining 89% YOY and 64% QOQ. The Bank has not utilized any of its COVID-19 provisions in the current quarter, this is entirely prudent and in no way a reflection of the credit risk on the books of the Bank.

Annualized credit cost for Q1 FY23 is 0.41%, declining by 129 bps YOY. Profit after tax stood at Rs 4,125 crores, growing 91% YOY and 0.2% QOQ. Consolidated annualized ROA for Q1FY23 stood at 1.48%, improving by ~60% or 55 bps YOY. Subsidiaries contributed 4 bps to the consolidated ROA. Consolidated annualized ROE for Q1FY23 stood at 15.66%, improving by 60% or 587 bps YOY. Subsidiaries contributed 59 bps to the consolidated ROE this quarter, 68 bps in same quarter last year

The cumulative non NPA provisions at June 30, 2022 at Rs 11,830 crores, comprising (i) Covid19 related at Rs 5,012 crores; (ii) Restructuring provisions of Rs 1,259 crores, unsecured retail at 100% provision and the rest at first bucket NPA rates, (iii) standard assets provision at higher than regulatory rates of Rs 4,141 crores and (iv) weak assets & other provisions of Rs 1,418 crores.

Our provision coverage [(all provisions NPA + Non NPA)/ GNPA)] stands at 133.51%, improving 1,587 bps YOY and 182 bps QOQ. Our standard assets provision cover stands at 1.70% as on June 30th 2022.

The Bank is well capitalized and is carrying adequate liquidity buffers. Our total capital adequacy ratio including profit for the quarter ended June 30, 2022 is 17.83% and our CET-1 ratio is 15.16%. The prudent COVID provision translate to a capital cushion of 58 bps over and above the reported capital adequacy. Our average LCR ratio of the quarter was over 116%. Our exit LCR was ~ 123%. Our excess SLR was Rs 75,636 crore. The RWA% of the Bank at June 30, 2022 stands at 65%.

Growth across our liabilities and loan franchise

Amitabh has discussed the progress in customer acquisitions, growth in the liability and loan franchise in his opening remarks. Please refer slide 17 to 21 for details around the quality of our liabilities franchise and the slides on our loan franchise.

In line with our articulated strategy, our loan book continues to get more granular and balanced with retail advances constituting 59% of the overall advances, corporate loans at 31% and CBG at 10%.

69% of our loans are floating rate which positions us well in a rising interest rate environment. Break-up of the of the floating rate loan book by benchmark type and MCLR re-pricing frequency is set out on Slide 10 of the investor presentation.

Moving to our Retail business, Q1FY23, Retail disbursements were up 77% YoY, Small Business Banking, Rural and PL disbursements were up 111%, 177% and 42% YoY. SBB cards and rural loan portfolio grew 74%, 42% and 42% respectively.

Retail loans represent healthy characteristics with 79% being secured. Disbursements to unsecured products continue to grow proportion of unsecured disbursements, total disbursements being 22% this quarter as compared to 18% in the previous quarter.

Credit card spent for Q1FY23 grew 96% YoY. Industry spends growth is being driven by pickup and commercial card spends. We have consciously focused on growing on profitable retail card segment.

We are progressing well in our endeavor to build a profitable and sustainable Corporate Bank. Details of rating composition, incremental sanction quality is set out on slide 36. The offshore wholesale advances are largely trade finance related and primarily driven by our GIFT city branch. 96% of the overseas standard corporate loan book in GIFT city branch is India linked and 95% is rated A and above.

The quality of our Commercial Banking franchise is reflected through the strong relationship approach that we are rolling out. 4% of the CBG book got migrated to the Wholesale Banking Coverage team during the quarter, reflecting the scale up of our customers and hence the quality. CBG, Current Account deposits on a quarterly average balance basis grew 26%. Our CBG fees increased by 30% YOY.

Coming to the performance of our subsidiaries, detailed performance of our subsidiary is set out on Slide #61 to #67 of the Investor presentation.

Domestic subsidiaries reported a total net profit for Q1FY23 of Rs. 271 crores, up 11% YoY. This translates into a Return on Investment of 45%, and subsidiaries now contribute 4 basis points to consolidated ROA and 59 basis points to consolidated ROE.

Axis Finance delivered strong growth as a full-service customer focused franchise offering retail as well as wholesale lending solutions. In Q1FY23, overall book grew 59% YoY and 11% sequentially. Retail book grew three times and now constitutes 36% of the total loans up 4% in the last two years. Within wholesale, focus remains on well distributed and a granular book. 97% of the corporate book disbursements within Axis Finance were to corporates rated A- and above, and cash flow backed businesses.

AFL's book quality continues to be strong, net NPA at 0.46%, negligible restructuring and Stage 3 assets at 0.36%. Axis Finance Q1 PAT grew 59% to Rs. 95 crores, with an ROE of 15.4% and a CAR of 19%.

Axis AMCs average AUM grew 18% YoY in Q1FY23 and the equity average AUM was up 29% YoY. It's Investor folios grew 50% YoY during the quarter, to take it's total Investor base to 13. 2 million. In Q1FY23 PAT grew 20% YOY to Rs. 88 crores.

Axis Capital completed 10 Investment Banking transactions including five Equity Capital Market transactions in Q1FY23. Its PAT stood at Rs. 34 crores.

Axis Securities continues to see strong traction in new client additions that stood at 0.18 million up 148% YoY, the broking revenues for Axis Securities grew 7% in Q1FY23, and Q1FY23 PAT stood at Rs. 39 crores.

Asset quality provisioning and restructuring:

The GNPA, NNPA and PCR ratios for the Bank, and segmentally for Retail, SME and Corporate is provided on slide # 53. We have nil net exposure to ILFS entities, 3 Future entities, SREI entities that are being reviewed by RBI.

- GNPA% was 2.76%, improved 109 bps YOY and 6 bps QOQ.
- NNPA% was 0.64%, improving 56 bps YOY and 9 bps QOQ.
- Healthy PCR of 77%, improving 751 bps YOY and 253 bps QOQ.
- We have not sold any non-performing loans in the quarter.

The Bank has a time driven rule based write off policy for retail and CBG portfolios. The net slippage in the quarter adjusted for recoveries from written of pool was negative Rs 17 crores. Hence net slippage for retail, CBG and wholesale was Rs 475 crores, Rs 14 crores and negative Rs 506 crores respectively.

Recoveries from written off accounts for the quarter was Rs 744 crores improving YOY and QOQ by Rs 456 crores and Rs 25 crores respectively. Reported Net NPA slippage for the quarter was Rs 727 crores declining by 82% YOY. Net NPA slippage ratio for the quarter on an annualized basis is 0.41%, improving 219 bps YOY. On a segmental basis reported net slippage for retail was Rs 869 crores, for CBG was was Rs 38 crores and for WBCG net NPA slippage was negative Rs 180 crores.

Gross slippages for the quarter were Rs 3,684 crores, lower by 43% YOY and 7% sequentially. Gross loan slippage ratio for the quarter stood at 2.05%, improving 210 bps YOY and 33 bps QOQ. For the quarter ~ 45% of the gross slippages are attributed to linked accounts of borrowers which were standard when classified or have been upgraded in the same quarter.

Standard Covid restructuring stands at Rs 3,402 crores and is 0.45% of GCA with provision cover thereon at 24%. We collected ~ 5% from the opening standard restructuring book during Q1 FY23.

BB and Below pool of the bank declined 38% YOY and 13% sequentially. Upgrades and recoveries in the quarter aggregated Rs. 652 crores constituting 7% of opening BB and below book. New downgrades in the quarter were Rs 113 crs, down 91% YOY. More details of BB and below pool and restructuring have been provided on slide 54 of our investor presentation.

To summarize:

- Our balance sheet resilience is visible through strong capital adequacy, NNPA at 0.64%, overall coverage at 133.51% of GNPA and limited covid restructuring at 0.45% of GCA.
- Early improvements in the quality of granular liability growth is visible through reduction in outflow rates. As we have indicated previously this will take 8 to 10 quarters to fully play out with some inter quarter fluctuations. The average CASA balance to average deposits ratio has improved to 43% YOY.
- Focus growth segments like retail, SME and Mid Corporate with better RAROC continue to grow faster at 25%, 27% and 54% respectively.
- The reported consolidated Q1FY23 annualised ROE of 15.66%, is in striking range of our commentary of visible ROE of 16% to 16.5% over our medium-term plan.
- We continue to closely monitor geo-political outlook, inflation and liquidity risks and resultant government policy action its impact on our business.

We would be glad to take your 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 Edelweiss Financial Service. Please go ahead.

Mahrukh Adajania: My first question is on loan growth outlook, so of course you have done very well on your focus segment. However, if you look at overall loan growth then I mean, what would be the outlook for the next 9 to 10 months? I mean, will we be able to do double digit YOY growth? Is that a fair assumption? Because that is key to constructing an earnings model, right. Obviously, our margins are improving and that should help us?

Amitabh Chaudhry: We have delivered double digit growth; I mean we have always stated that we will continue to grow faster than the market. We have given a range of how much we will grow faster than the market and we continue to maintain that particular guidance. In this particular quarter and in the last couple of quarters, we have been saying repeatedly that the pricing in sub-segments of the wholesale side don't make so much sense for us.

We do expect with all the rate hikes that have happened and that might happen in the future and with what we are seeing in terms of behavior by other banks, that hopefully more discipline will return on pricing, both for the working capital side and the term loan side. And hopefully that should fit into our loan growth going forward.

Just to show a growth in our advances and have a consequent impact on our NIMs did not make sense to us. We have very clearly outlined strategy on delivering a certain

ROE. As part of that we have said that you need to deliver a certain NIM, certain cost ratio, certain credit costs. And that's what we are focused on.

We do believe that as we continue on this journey, the loan growth will come when the prices return to normalcy. And because we have an extensive corporate franchise, we are one of the key banks to the Corporate India. And frankly, when you look at, want to look for that data, you please see our growth on the fee income side, you see our foreign LC market share, our GST market share, the traction, we are getting is positive. So, we are not too worried about getting that loan growth back at the right time. We are just waiting for the right pricing to resume which we believe should happen in the next couple of quarters, if not earlier.

Mahrukh Adajania: My next question is on deposits. So, basically, last quarter you had talked about reclassification of some deposits from retail to wholesale, all that is done or is something pending there?

Amitabh Chaudhry: Small amount is still pending at the end of FY23, but most of that work is almost done, but small amount of deposits are still pending at the end of FY23 and is referenced to total deposits. And that's why you would see that we, you are seeing growth in the deposits coming from an NRTD rather than RTD side. If you look at the number of NRTDs which have been opened and compare year-to-year, there is clear growth which is visible from our perspective. And again, as we have said, we are quite confident that the granularity in the franchise is there for people to see. We continue to work on our Triumph project. And we expect to continue to see this granularity coming through in the future quarters also.

Mahrukh Adajania: My last question is just on opex. So, obviously, the opex improvement has been good this quarter, you did explain the delta as well. But that's all, I mean any near-term target, I no longer term is 2%. But your opex tend to be very volatile, like in the 4th Quarter, we had guided to some uptick in opex, so what is a stable ratio in the near term that we could look at. And any comments why employee expenses have risen so sharply, QoQ, that has happened even for ICICI, so asking.

Puneet Sharma: Let me break my response into three parts. To the point that we had said last quarter expenses will go up. Our cost to assets was 2.17 when we closed Q4, which was a reported number. Our cost to assets has gone up in-line with our commentary to 2.24% which is principally led by the investments that we continue to make in our growth business. So, the cost trajectory is reflective of the commentary that we provided as at Q4.

To the second part of your question, which is do we have confidence in our ability to manage our cost base adequately, to deliver on the medium-term guidance of around 2% cost to assets, the answer is absolutely 'yes'. We have delivered below 2% in the past. We have been able to deliver a sequential decline in cost which is effectively against trends that are visible today. So, we remain confident, Mahrukh we don't, we cease to offer short term, costs to assets guidance. We don't intend to bring that back currently. So, the only comment that we have to offer is over the medium term, we will get to around 2% cost to assets. And we feel confident about that.

Mahrukh Adajania: And employee expenses?

Puneet Sharma: Mahrukh, on employee expenses, on a year-on-year basis, we have added 6,150 people to our growth businesses as well as our technology and digital teams. Second impact is the RBI instructions on accounting for ESOPs came through in Q2 of last year. So, there was no ESOP cost in Q1. That is reflected currently. So, there is a full-year effect of last year hiring plus ESOP cost, plus annual increments that have paid out in the current quarter that are showing you the cost growth, on the staff cost line.

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

Abhishek Murarka: My question was on NIM, a couple of quarters back, you had given a sort of medium term outlook of 20 bps to 30 bps improvement in NIMs driven by several factors -- in the last two, three quarters. So, what is the outlook from here? And also, if you start growing again, in corporate and maybe international loans, does that, that would be a drag as well. So, how do you counter that?

Puneet Sharma: So, Abhishek, what I had commented two quarters ago is, when we were at NIMs of 3.4%, we had said that we have a NIM improvement journey of 30 to 40 basis points that we want to cover. So, that we get to a NIM range of 3.7, 3.8, that helps us deliver the aspirational ROE. That commentary and that trend, or execution against that commentary continues.

We are two quarters from when we made that statement. From the 3.4 levels, we are up to the 3.6 level. We haven't built the NIM accretion by drawing down on our LCR, so our LCR remains consistent over the quarters. This is business led NIM improvement. We stay committed to getting to the 3.7, 3.8 over the next 8 to 10 quarters, which is the residual period of the comment we made earlier. And the direction to deliver that in addition to the four variables I spoke of was improving the quality and the composition of our liabilities franchise, which is work in progress. As we stand today, we stick to what we said 3.7, 3.8 over the next 8 to 10 quarters, in terms of improvement is what we should be able to get.

Abhishek Murarka: The other one is on opex, again. So, basically, in the medium term, you do expect it to come down from current levels. But given your growing retail and maybe CBG more, what would drive the opex down, because these would incrementally be a higher opex to asset business compared to let's say large corporate.

Puneet Sharma: So, couple of things, Abhishek, one is, we have said that we are making investments, the productivity gains from that investment need to play through the P&L, because investments are not made for the sake of making investments, so that's one.

Second is while we grow the granular business, we are also building on how the sourcing composition of that business can be which is also a meaningful cost driver. So, if you change the sourcing mix, you do get cost optimization even as you build granularity. So, the cost journey will be a function of productivity gains from investments made, plus tactical actions on our businesses. We do think it is achievable and therefore we are sticking to what we have said, previously medium term around 2%.

Abhishek Murarka: And that is also, that in medium term would be 8 to 10 quarters just like NIM.

Puneet Sharma: We do a 3 year medium-term plan. So, Abhishek I think around 2% would be an FY25 number.

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

Kunal Shah: So, firstly in terms of Retail TD, if you can just highlight in terms of on a like-to-like basis, how would have been the overall growth? And the context is when we look at in terms of the hikes that we would have taken over past three to six odd months compared to the other players, we are relatively on the lower side. So, should we see catch up on the rate side to further gather pace on the Retail TD?

Ravi Narayanan: So, as we mentioned, the entire focus is on getting the LCR accretive business moving, and basis the constitution wise approach that we were doing. If I were to look at it on a like-to-like basis, I think the RTD figures would be somewhere around the 13% growth YOY. So, that is where it would be.

Kunal Shah: In terms of the Retail TD rate, the way we have seen the increase is relatively lower compared to that of the other players. So, do we plan to catch up and get the Retail TD growth relatively at a faster pace?

Ravi Narayanan: So, Kunal, this is something that we are watching very keenly in the market. And we would like to analyze and study as to where the market is moving. At this point in time we feel that where we are for the particular tenors that we are offering our rates. I think we will continue to hold on to those, and watch and wait and see how we play our game.

Kunal Shah: And secondly, in terms of Wholesale or Corporate advances, maybe at least on the advances side, it is declining, but have we built up the position in the investment portfolio or the credit substitute, because there is significant rise in the investment book. So, if we have to look at Corporate plus Credit substitute, how would have been the overall growth?

Rajiv Anand: There was no, Kunal this quarter, there has been no material addition to the corporate substitute book. So, what you are seeing on the decline that you are seeing on the corporate loan book is what it is. And as Amitabh spoke about in his opening comments, our focus segments are growing very strongly. And I think incrementally in other parts of the wholesale bank, as and when we see profitable growth, we will certainly chase after that. I think the quality of the franchise is unquestionable. We are gaining market share across various parts of the Corporate Bank.

We are actually serving the customer across the capital structure, which means that there are loans that we do, there are bonds with which we do domestic bonds, offshore bonds, much of that we originate and distribute and earn a fee. We are serving Corporate India from Axis Capital almost 40% of all IPOs last year were left led by Axis Capital. And so therefore, the use of the balance sheet is only one part of the relationship strategy that we have with the corporates.

Kunal Shah: And lastly on Citi acquisition integration you have highlighted Steering Committee and integration on say, people, processes and technology. But otherwise, when we look at it, how has it been compared to what the expectations were any positive, negative surprise and maybe any read through in terms of how credit cost or any incremental expense that would be incurred towards the integration when we are expecting it to complete by Q4.

Puneet Sharma: Kunal, absence the CCI approval, we do not have full and complete access to Citi information, for all the right reasons. Basis what we are able to track publicly because some data points are published, publicly, the Citi performance is trending in line with the assumptions we made at the time of the investment. That is all that I can say at the moment. Our best-case estimate is CCI approval should come through in four to eight weeks from today. At which point in time, we will have better clarity on data we you could offer incremental comments, assuming it's come through pre quarter 2 to report.

Moderator: Thank you. Next question is from line of Adarsh. Please go ahead.

Adarsh P: Yes, hi Puneet. Question on the liability side, Retail TD, you indicated that large part of the reclassification is done. Now, just hard to understand over the next couple of years, getting Retail TD momentum back will be key to sustainable growth for the bank. So, can you just highlight what steps are we taking, you can have a pricing play, you indicated about customer additions, can you talk about the account deepening, what's happening to your corporate salary build up?

Ravi Narayanan: The overall piece in which we are looking at it is in terms of sweating the franchise, to start with. And the way we are going about it is if you would have seen our Slide #17, you would see that we are moving in multiple vectors. One of them clearly states that how we are facilitating our staff, the frontline staff in terms of enabling them to free them up from routine operation work so, if you see 65% of our branch service transactions have moved digital, and 94% of them are straight through which gives us the lever to increase engagement with customers.

So, similarly, we have ensured that we are emphasizing our KRA changes for our staff where entire focus is on ensuring that there is, as Amitabh mentioned in his opening comments, the focus towards delivering an engine which is focused on growth. The productivity whether you look at it in unit terms or value terms, is also moving quite strongly and over the last couple of years it has moved by nearly 30% at a resource-by-resource level.

Similarly, the product penetration that we are focusing on comes through the fact that and that is why salary as a focus segment comes into play. And you would have seen that our engine on the efforts of salary we have doubled the number of Corporates that we have signed up, as well as rejigged our Corporate program, the Ultima Salary program.

And at the same time, again coming back to the ability to onboard the customer better, we have the digital elements of saying that whether it is non-salary, we have moved 26%; individual current sourcing, we have moved 55%. And similarly, RTD coming back to your earlier question, we are seeing 68% to 70% of the individual RTD onboarding going on to the digital. So, a combination of freeing up service to sales capacity, ensuring that there are enablers which are in place, KRAs which are changed to reflect this aspiration of ours to create the growth engine. And then delivering the quality of growth that we are looking for, whether it be in terms of premierization, whether it be in terms of granular deposits, whether it be in terms of LCR accretive. So, all of that are coming into play and helping us move in that direction as Puneet mentioned, this is a long-term play that we are at. And the effort is to ensure that we are moving in this direction.

The RTD book per se, I think the question on rates and how we are looking at it, as I mentioned earlier too, this is a market dynamic element, I do believe that we will wait and watch and see how competition, this is the interest rate up cycle. But we do not want to be the leader as of now. We will wait and watch and see how competition moves. But the idea is to be in front of customers. And to see that we are able to get the better and better wallet share.

Rajiv Anand: So, just to add to everything that Ravi just mentioned in terms of what we are trying to do, in the physical space, 68% of our individual RTD comes digitally. And so therefore, to that extent, we have improved the journeys digitally to ensure that that if you are seeing drop-offs, how can we ensure that drop-offs reduce, and so on so forth.

We really literally run hundreds of campaigns, you know, to our base for Retail Term Deposits. And each of these campaigns is run digitally based on data analytics that we have. And many of them are very successful, some of them don't work, and really what we are looking to do is increase these hundreds of journeys into hundreds of campaigns into literally thousands of campaigns, and we are building out capabilities to be able to do that.

We are also trying to optimize the funnel, meaning 68% of individual TDs come digitally. But we also need to ensure that as the customer is looking to redeem on maturity rate or looking for prepayment, is it possible for us to hold him back in some manner, by making him an offer for a personal loan, for example, or a OD/FD product, are some of the journeys that have already got constructed. And so therefore, the digital team is looking at through data analytics, not just at increasing the top of the funnel, but ensuring that leakages don't happen as well.

Adarsh P: My only observation and just a follow up on this is, first of all the large brand banks there is a certain Retail TD attrition that normally happens, when you build on it either through rates or through efforts and then there is an extra momentum that gets built in. What I am just trying to understand is underlying there was reclassification. So, ex that reclassification, how large that number was? How is the momentum, because it looks like somewhere the underlying momentum has been quite weak, right and we have to do a lot more on -- run on the treadmill to kind of get an organic accretion which is there for some of the larger banks out there.

Ravi Narayanan: So, I wouldn't disagree with you at all. I mean, this is a market where everybody has to be on the treadmill, given that it's an interest uptick cycle that is coming through. And as I mentioned earlier, that excluding the reclassification etc, we would be somewhere ballpark around the 13% to 14% mark.

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

Rahul Jain: Just taking the previous conversation forward on deposits and bringing in the element of branches. So, on one hand, we see the CD ratios are elevated at 87% to 88%; capital is fair enough 13% to 14%, but branch expansion is just one, in this quarter, if I saw the numbers correctly. So, how do you all thinking about it and on one hand, we have got HDFC Bank, which is talking about massive expansion of branches. On the other hand, we are looking at higher LDRs and then rates are rising. So, what is the strategy around that particular element?

Ravi Narayanan: So, as I mentioned the number of branches, opening in Quarter 1, you should take it with a pinch of salt, because we are kind of looking at places and identifying. But let me come back to what the Bank is weighing in. As I mentioned, the focus is on sweating the franchise at the same time, we are also cognizant of white spaces in different states across the country. So, a combination of both these will come to bear on the way we are looking or the direction we take. The whole idea is to see that how I can get each of my existing branches own more and more of the catchment, and take a better wallet share. And to that extent, we track it at a district-by-district level and see how we are moving across the 670 districts that we are present in across the country.

So, both in terms of the existing branches, sweating as well as any white spaces available across these districts, is where we are focusing on. And I think that will determine the way we look at it over the next two to three years of how our distribution footprint should be.

Rajiv Anand: Just to put that in context as well, our mobile app today has 9.7 million customers who come to the mobile app on a monthly basis. And transact somewhere in the vicinity between 10 to 12 times, which means that there are 100 million visits to the mobile app on a monthly basis. So, therefore, as we think about our physical strategy, I think the strength of our mobile app is something that we would super impose upon that and think through in terms of the number of number of branches that we require over the next two to three years, as Ravi mentioned, to be able to fill white spaces, some of it physically, and some of it digitally as well.

Rahul: Just another question is on the growth sequentially. So, of course, the headline numbers are sort of indicating a sort of marginal decline, led by corporate. But when I look at the retail book, also, the secured portfolios have seen a slower quarter-on-quarter accretion; maybe some seasonal factors could have been there. But just trying to understand, did we see any pricing pressure there to or how has the repayment rates trended in those portfolios, or it's a calibrate, or sort of conscious decision to sort of calibrate more towards unsecured and go a little slow on secure? How do you think about the mix changing going forward, and what has happened in this quarter.

Sumit Bali: So, overall, as we have guided that we would be directionally moving towards bit more of unsecured than what we have done. So, our disbursement this quarter was about 22% unsecured versus say, average 19% for last year, that journey continues. This quarter has been all about rate transmission, increasing fee and at the same time ensuring that the volumes do come in, being a bit of a timing difference in terms of rate hikes, we have been acutely aware that we would like to transfer the rate increase to the customer. That's why you see numbers which are there. But overall, the year-on-year growth over 25% is a pretty healthy growth. And this momentum is going to continue in the remaining of the year.

Rahul: And would you say that the repayment rates or the prepayment balance would have been normal that you have witnessed otherwise?

Sumit Bali: Yes, it's been a normal year in terms of repayment. So, there's nothing extraordinary there.

Rahul: And just wanted to squeeze in one last question in terms of credit cards, very strong momentum there. Can you just throw some light around what would be a revolver rate? What would be the EMI portion out of the spends that you all have?

Sanjeev Moghe: See revolver rates have reduced for us and for the entire industry right. So, that has gone down, which essentially means that a lot of revolvers went out with the credit cycle, which we saw a couple of years back. Apart from that we are seeing behavior where customers were revolving couple of years back and are now displaying more of transactional behavior.

We believe this always happens after a credit cycle. Last time it happened in India in 2007, it took almost four years for the industry to recover to the normal revolver rates. Our sense is this time is going to be faster, because the growth rate is much faster, right. Having said that, our strategy is pretty clear, the book is clean. We see opportunity in the market organically we see opportunity in the form of partnerships, we will grow our franchise. The rates will organically recover over time. We are not unduly worried by the fact that revolver rates are low right now.

The balance sheet and the business can earn money, which are reasonable even in the context of lower revolves. So, we will stay with the strategy we are playing out right now.

Rahul: Your revolve rates would be below industry levels or would be at par with industry?

Sanjeev Moghe: There is no published metric on this, so very difficult to say what the industry is that we believe everybody is lower than where they were by a certain level. There is no published metric on this, so very difficult to comment.

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

Mahesh MB: Just a couple of questions, first is on the on Slide #10 with respect to the spread improvement that you have reported this quarter, how much do you think would you attribute to the loan mix that is sitting out there? Either loan mix or the balance sheet changes?

Puneet Sharma: We haven't split the 13 basis points but the 13 basis points will be a mix of repricing effect on our floating rate book, plus the mix effect but we haven't called out which driver has constituted what amount?

Mahesh MB: No, the question is more in the sense that is it fair to say that the decline in wholesale book would have contributed to the margin expansion or you think that's incorrect assessment there?

Puneet Sharma: So, the decline in wholesale book would have contributed to the Bank margin expansion, because we ran down the trade book. So, that is a correct assertion. However, to take that assertion to the conclusion that that is the only driver of margin expansion in the current quarter would not be correct. There are drivers like our CBG book and Retail book delivering superior growth and superior pricing. The fact that we have had a reprice, that has taken place in the last quarter that is to fully play out. The mix shift between INR loans and foreign currency loans.

So, the four drivers that I keep talking about the reduction in the RIDF book, all have contributed in parts to make sure that the spread has expanded by 13 bps. So, I would not like you to leave with the conclusion that, or if I were to frame or paraphrase your question, I don't think I will lose this spread once I start doing my wholesale book. So, that's the other way to answer your question.

Mahesh MB: Second, if I were just look at the same slide and just kind of look at how do you see the pricing of the loan book changing over the next couple of quarters given the yield moment for your portfolio?

Puneet Sharma: So, Mahesh about 70% of my entire loan book to be precise 69% is floating rate linked, of which roughly about 39% is repo. We have had one cycle of repo rate hikes happening in the current quarter. Assuming that another rate cycle happens, we should see that repricing take place. MCLR if you look at how we have actually put out data for you to make an independent assessment, we have a pretty broad spectrum reprice on the MCLR of the 23% about half of it three prices over a 12 month period. So, the MCLR reprice is going to be the more out in time, the repo repricing will be faster.

There is going to be a component of the 31% Fixed Rate book that pays itself through the next 12 months, which will also reprice. So, that's how I am looking at the repricing effect on the book over the next 12 months.

Mahesh MB: But just if I would ask one last question, Slide #14. You have seen an improvement in the LCR on a QOQ basis, you say that the exit LCR is 123. There has been no material change in the balance sheet on the asset side. If anything, there has been a reduction in cash balances. Just trying to understand what could explain an improvement here.

Puneet Sharma: Mahesh, I have articulated previously that we had two levers to improve our NIIM the composition of our liabilities and the quality of our liabilities. The relative quality of our liabilities has improved on a quarter-by-quarter basis. So, if we look at the LCR disclosure, the outflow rates would have come down, which therefore results in an improvement in LCR. The 123 is the exit number. It is the journey that we set out that we will get to.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Just two questions, one is, the mark-to-market, so I am assuming this is mostly coming from your corporate bond book. So, could you just highlight what is the duration here? So, that's the first one. And second is on your fee to assets so how should we think about it, because if I look at from pre-pandemic level, it's growing at about 10.5% odd. So, has the unsecured mix size, should one reasonably assume fee to asset to improve, these are the two questions.

Puneet Sharma: We have called out the color of the rating profile of our corporate bond book. So, we have said that 98% of the book is A- and above and 79% of the book is AA and above. We haven't called out the duration of the book but it is not a short duration, per se. So, if your question is the pull to par duration, the pull to par duration is a multi-year duration versus a one-year duration or a shorter period, that one may assume.

Saurabh Kumar: So, in this quarter, you were not exposed to the short end of the call that was the question.

Puneet Sharma: That is correct. So, all of it is, in fact, if I were to make an assessment, nearly all of this is corporate bond book. And I mean, nearly I mean, it's tending towards 100% is the corporate bond book. We have explained to you there is no economic loss, and it will be a multi-year pull to par.

Saurabh Kumar: Second on fee to asset.

Puneet Sharma: Look I think, we don't offer guidance on fee to assets I think historically performance would be the best reference that I would like to draw to. We really don't have – fee to assets currently.

Moderator: Thank you. I now hand the conference over to Mr. Puneet Sharma for closing comments.

Puneet Sharma: Thank you, everyone, for taking the time to speak with us today. If we have left any questions unanswered, we would be very happy to speak with you offline in the course of the meeting today. So, please do reach out to Abhijeet for any further questions or clarifications. Thank you very much for spending your evening with us.

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