# "Axis Bank Q2 and H1FY16 Results Conference Call"

**October 27, 2015**

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| **MANAGEMENT:** | **MR. V. SRINIVASAN–DEPUTY MANAGING DIRECTOR, AXIS BANK LIMITED; MR. SANJEEV KUMAR GUPTA–EXECUTIVE DIRECTOR (CORPORATE CENTRE), AXIS BANK LIMITED; MR. RAJIV ANAND–GROUP EXECUTIVE & HEAD-RETAIL BANKING, AXIS BANK LIMITED; MR. JAIRAM SRIDHARAN–PRESIDENT & CFO, AXIS BANK LIMITED.** |

**Moderator:** Ladies and gentlemen, good evening and welcome to the Axis Bank Conference Call to discuss the Q2 and H1FY16 results. As a reminder, all participant lines will be in the listen-only mode. Please note that this conference is being recorded. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation is not sent. Unauthorised dissemination of the contents or the proceedings of this call is strictly prohibited and prior explicit permission and written approval of Axis Bank is imperative. Axis Bank team is represented by Mr. V. Srinivasan–Deputy Managing Director and Mr. Sanjeev Kumar Gupta–Executive Director, Corporate Centre. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. On behalf of Axis Bank, I once again welcome all the participants to the Axis Bank Conference Call. I would now like to hand the conference over to Mr. V. Srinivasan–Deputy Managing Director, Axis Bank for the opening remarks. Thank you and over to you sir.

**V. Srinivasan:** Thank you and good evening, ladies and gentlemen. I welcome you to our Conference Call for a presentation on the Bank's performance for the second quarter and half-year ended 30th September 2015 of this financial year. I have with me in this call my colleagues, Mr. Sanjeev Gupta (Executive Director-Corporate Centre), Mr. Rajiv Anand, Group Executive & Head-Retail Banking and Mr. Jairam Sridharan, President and CFO. At the end of this presentation, we will be glad to respond to your questions.

The last quarter saw macro fundamentals improving and the rate cut in end September clearly seems to have propped to sentiment. On the back of the 50 bps repo rate cut, we reduced our base rate by 35 bps to 9.5% p.a. We expect further moderation in deposit rates and lending rates during the course of this year. However, overall conditions continue to be challenging with the system growth of credit and deposits being lower than initially anticipated. Against this backdrop, our operational performance across all business segments has been good during the current quarter. With this, I will now request Sanjeev to take you through the Bank's financial performance for Q2 & H1FY16 in details.

**Sanjeev Kumar Gupta:** Thank you Srini and good evening, ladies and gentlemen. The Bank's core franchise has continued to perform well, and I will now outline the Bank's financial results for the second quarter. Net Profit for the quarter grew by 19% to ₹1,916 crores from ₹1,611 crores last year. CASA on a daily average basis increased by 14%, in which Savings Bank deposits grew by 14% and Current Account deposits grew by 13%. As on 30th September 2015, CASA on a daily average basis remained stable at 40% of total deposits. Retail Term Deposits continued to grow at 18%. Net Advances grew 23% to ₹2,98,066 crores, contributed by retail and corporate segments. Total Deposits grew by 14% to ₹3,24,101 crores at the end of the quarter. Total Assets grew by 20% to ₹4,72,725 crores. Net Interest Income (NII) reported a healthy growth of 15% YOY and Net Interest Margin (NIM) remained healthy at 3.85%. Fee income grew by 14% driven by Retail, Treasury and Transaction Banking Businesses. Core Operating Revenue of the Bank grew by 15%, while Operating Expense grew by 7%. As a result, the Core Operating Profit showed a healthy growth of 21%. The Bank's asset quality remained stable with a Net NPA ratio of 0.48% and provision coverage ratio of 78%. Return on Assets stood at 1.64%, while the Return on Equity was 16.62%. The Bank is well capitalised with a healthy Capital Adequacy Ratio (including the net profit for H1FY16) of 15.42% and Tier I CAR of 12.21%.

Let me now take you through the business performance and the financial results of the Bank in greater detail.

Our focused branch expansion policy has helped in sustaining a healthy growth of retail business, comprising CASA deposits, retail term deposits and retail loans. We have continued to expand our network and presence across the country, and have opened 154 branches during the quarter, taking the total number to 2,743 including extension counters. For the current financial year, we expect to open 250-300 branches. We are currently present in 1,796 centers in 580 districts across the country, against 1,686 and 544 districts last year. In addition, the Bank has a network of 12,352 ATMs as on 30th September 2015. The Bank's balance sheet grew 20% YOY and stood at ₹4,72,725 crores at the end of September 2015. Net advances grew 23% YOY and stood at ₹2,98,066 crores. Advances growth was primarily driven by Retail and Corporate segments. Retail loans grew by 27% and Corporate loans grew by 25%. SME loans including the non-retail agriculture loans grew by 9% YOY, in which SME loans grew by 11%.

The composition of the loan book was as follows: Corporate loans were 47%; Retail loans were 40% and SME 13%. If we were to include SME loans that qualify as regulatory retail, the share of retail loans to total loans would be 45%. Retail loans have grown by 27% YOY and stood at ₹1,19,448 crores. Secured loan products accounted for 86% of retail loans. Home loans accounted for 48% of retail loans, retail agricultural loans accounted for 15%, auto loans 8%, loans against property 8%, personal loans and credit cards were 10%, while non-schematic loans comprising loan against deposits and other securities accounted for 11%. In the credit card business, the Bank is the 5th largest credit card issuer in the country with a card base of over 19 lac. The Bank continued to increase its geographical reach for sourcing retail loans and the reach of the retail assets business expanded to include 100% of the Bank's branches and 143 Asset Sales Centres. For unsecured lending products, the Bank focused predominantly on the existing customers of the Bank. The Bank's strategy on the retail lending continued through cross-selling to internal customers. Overall, more than 40% of incremental retail loans were sourced through branches and existing liability customers contribute around two-third of this incremental business. The credit quality of retail loans remains healthy. Over the medium term, we expect the retail loan portfolio to re-balance with an increased focus on higher yielding retail loans, while continuing our emphasis on the quality of the portfolio.

Our SME portfolio continues to remain healthy. However, as indicated earlier SME advances including the non-retail agriculture loans grew by 9% YOY, in which SME loans grew by

11%, and stood at ₹39,702 crores. The SME loan-book remains well-diversified and carries lower concentration risk. In the SME segment, 85% of the loans were rated between SME 1 and SME 3, which corresponds to a single 'A' rating. As on 30th September 2015, Corporate loans grew by 25% YOY to ₹1,38,549 crores. Sequential growth in corporate loans is at 6% QOQ. The strong YOY growth in corporate loans has been on account of cost efficient re-financing of high quality assets and increased demand for non-rupee financing. However, despite the high growth numbers our focus continues to remain on higher rated corporates and accordingly around 80% of the new sanctions in the corporate book belongs to 'A and above' rated corporates. Presently, 61% of the outstanding Corporate loans were rated 'A and above'.

The price volatility across commodities appears to be stabilising. Certain steps by the Government to impose safeguard duty on iron & steel is a positive. As far as the Bank's exposure to the iron & steel sector is concerned, we wish to make the following observations:

The Bank's exposure to the iron & steel sector is currently at 3.8% of which more than 65% of such loans are rated 'A and above'. We would also like to highlight that a major proportion of these exposures relate to large integrated players with stronger balance sheets that are better equipped to meet the challenges faced by the sector. During the quarter, an increase in exposure to the metal sector relates to large well established players in the industry with strong financials. We continue to diversify our corporate loan book with greater focus on working capital lending and transaction banking businesses. For the current financial year, we expect the Bank's Credit growth to be around 20%.

Let me now move on to the funding side of the Balance sheet. We continue to witness healthy trends in savings account and customer acquisition. Our cross sell metrics have been steadily improving, which is substantiated by strong retail asset growth, retail fee income growth and distribution income from investment and insurance products. The Bank's deposit base grew 14% YOY and stood at ₹3,24,101 crores as on 30th September 2015. Low-cost CASA deposits on a daily average basis grew 14% YOY, with Savings Bank deposit growth of 14% YOY, while Current Account deposits grew by 13% YOY. During Q2, CASA, on a daily average basis, constituted 40% of total deposits similar to the levels reported in the preceding quarter and Q2 of the last year. As on 30th September 2015, low-cost CASA deposits constituted 44% of total deposits and continue to grow well at 13% YOY, with Savings Bank deposit growth of 12% YOY, while Current Account deposits grew by 15% YOY. The Bank continued its focus on increasing its share of Retail Term Deposit, which grew 18% YOY and stood at ₹1,15,194 crores. As on 30th September 2015, Retail Term Deposits constituted 64% of the total term deposits compared to 62% a year earlier. As on 30th September 2015, CASA and Retail Term Deposits constituted 80% of the total deposits compared to 79% last year and in the preceding quarter. The domestic CASA and Retail Term Deposits constituted 81% of total domestic deposits against 80% a year ago. The Bank is one of the largest debit card issuers in the country, with a customer base of 141 lac. During Q2, the total spends on the Bank's debit and credit cards increased by 33% YOY to ₹7,643 crores. The Bank is also one of the largest acquirers of point-of-sale terminals in the country with an installed base of over 2.5 lac.

Now let me give you some details on our Investment book. As on 30th September 2015, the Bank's investment portfolio was ₹1,13,681 crores, of which ₹82,392 crores were investments in government securities, and ₹23,494 crores were investments in corporate bonds, the balance ₹7,795 crores comprised investments in other securities such as equities, preference shares, mutual funds, certificates of deposits etc. 82% of the government securities have been classified in the HTM category, while 92% of the bonds and debentures portfolio have been classified in the AFS category and 8% in HFT category.

Let me turn now to the revenue and profitability figures for Q2. The Net Profit of the Bank grew 19% YOY to ₹1,916 crores in Q2 from ₹1,611 crores during the same period last year. The growth in net profit has been supported primarily by a healthy growth in net interest income, fee income and slower growth in operating expenses. NII during Q2 grew 15% and stood at ₹4,062 crores, constituting 67% of the operating revenue. Net Interest Margin (NIM) during Q2 was 3.85%. Domestic NIM during Q2 was 4.11%. We were able to maintain healthy NIM through our continued focus on CASA and optimum utilisation of borrowings. The cost of funds during Q2 was 5.99% compared to 6.12% in Q1, and 6.19% in Q2 last year. The sequential decline of 13 basis points in our cost of funds is primarily driven by moderation in the cost of term deposits. We expect the NIM for FY16 to be well above our medium term projection of 3.50%.

Other income comprising fee, trading profit and miscellaneous income during Q2 grew by 5% YOY and stood at ₹2,041 crores. During the same period, fee income grew by 14% YOY and stood at ₹1,813 crores. The main business contributors to fee growth during the quarter were Retail Banking which grew 19%, treasury & DCM which grew 47%, transaction banking which grew by 14% and SME which grew 8%. Fee income from the Retail business segment stood at ₹718 crores and constituted 40% of total fees compared to 38% a year ago. Within this, fee income from Retail Assets grew by 32% YOY to ₹352 crores, fees from the Retail Liabilities grew by 12% to ₹166 crores and fees from third-party products grew by 6% to ₹200 crores. Fee from Corporate credit contributed 26% of total fees and stood at ₹470 crores. Fee income from treasury & DCM contributed 10% of total fee income and stood at ₹180 crores. Fee income from Transaction Banking contributed 19% of total fee income and stood at ₹349 crores, while fee from SME contributed 5% of total fee income and stood at ₹94 crores. We expect that the fee income growth in FY16 will likely be in the mid-teens.

During the quarter, the Bank earned a trading profit of ₹168 crores against ₹271 crores last year. Miscellaneous income stood at ₹61 crores against ₹86 crores last year. The total operating expenses grew 7% over previous year, of which staff costs grew 6% and other operating expenses grew 8%. The Cost-Income Ratio of the Bank stood at 40.6% in the quarter compared to 42.2% in Q2 last year. The Cost-Income Ratio of the Bank for H1FY16 stood at 38.03%. On a full year basis, we expect our Cost-Income Ratio to be around 40% for FY16.

Let me now discuss the Bank's asset quality.

During the quarter, additions to Gross NPAs were ₹583 crores, up-gradations and recoveries amounted to ₹180 crores and write-offs were ₹203 crores excluding loss on assets sold to ARCs. Consequently, the net addition to Gross NPA during the quarter was ₹200 crores. Gross NPAs, at the end of the quarter, stood at ₹4,451 crores constituting 1.38% of the gross customer assets. The Net NPA ratio for the quarter ended 30th September 2015 was 0.48% (48 basis points). The provision coverage at the end of September 2015 stood at 78%.

The cumulative value of net restructured advances as on 30th September 2015 stood at ₹8,426 crores, which constituted 2.65% of net customer assets compared to ₹8,515 crores, constituting 2.80% of net customer assets on 30th June 2015. Provisions and contingencies other than tax for the quarter were ₹707 crores against ₹725 crores last year, of which provision for loan losses were ₹619 crores (including specific provisioning against loans sold to ARCs were ₹336 crores), provisions for standard assets including unhedged foreign currency exposures of ₹15 crores and depreciation on investments were to the tune of ₹73 crores. The Bank over the past couple of years had built up a Contingent Provision against certain identified specific assets. During the quarter, the Bank has sold two such assets aggregating ₹1,820 crores to ARCs (asset reconstruction companies) against SRs amounting to ₹550 crores and cash of ₹100 crores. Further, we have utilised around ₹850 crores out of contingency asset provisions to absorb the write-off against these loans. The utilisation of this amount is over and above the impairment provision provided against these assets. As regard these assets, we felt that it was prudent to sell the assets to an asset reconstruction company as there were no near term solutions in the anvil for these specific assets.

As on 30th September 2015, the Bank has an outstanding Contingent Provision of ₹400 crores. Credit cost for the half-year ended September 2015 was 92 basis points including impairment provision on certain accounts which have subsequently been sold to ARCs in the current quarter. We expect the credit cost for the current financial year to be around 90 basis points.

Some key metrics for H1FY16 that I would like to mention are as follows:

The Net Profit of the Bank grew 19% YOY to ₹3,894 crores in H1 from ₹3,277 crores during the same period last year. Return on Assets stood at 1.71%, while the Return on Equity was 17.37%. The EPS (diluted) (annualised) was ₹32.54 against ₹27.56 last year. The Bank's capital adequacy position is healthy. Under Basel III, the overall capital adequacy and the Tier-1 capital adequacy ratio of the Bank as on 30th September 2015, including net profit for H1FY16, was 15.42% and 12.21% respectively. The RBI in its recent circular on Rationalisation of Risk-Weights and LTV Ratios for Individual Housing Loans had lowered the risk weights and rationalised the LTV requirements on individual home loans. Due to this change there is likely to be an improvement in the Bank's Tier I CAR by around 20bps and around 25bps for total CAR.

Now, I would like to highlight few points on our digital strategy.

Our digital strategy encompasses four key areas viz. customers, employees, branches and internal processes. The Bank's mobile banking application continues to see strong growth trends with 2.3 million users. We are also delighted to share with you that Forrester Research has rated our mobile banking application as the best mobile application among five large Indian banks. Further the Bank has recently been awarded the Best Bank award for Digital Banking, Analytics and Big Data among Large Banks for the year 2014-15 by the Institute for Development & Research in Banking Technology, an Institute established by RBI. We also have Ping Pay, a multi social payment app, which has been well received by our customers. During the quarter, we also launched LIME – India's first Mobile Application integrating Wallet, Shopping, Payments and Banking needs of customers. We now also have a comprehensive suite of mobile and tablet based solutions for corporates, encompassing the entire gamut of transaction banking products and services. It will empower corporates to carry out payments, trade and forex transactions, while on the move. We continue to witness healthy traction in our digital initiatives and observe an increasing preference amongst individual customers towards transacting through digital channels.

During Q2, total financial transactions undertaken by individual customers of the Bank increased by 6% YOY of which digital transactions have grown at 21% YOY, while transactions at ATMs and branches have both declined by 5% and 6% respectively. Of the total financial transactions undertaken during Q2 by the individual customers of the Bank, digital comprised 47%, while ATMs and branches were at 42% and 11% respectively.

To sum up, our operational performance across all business segments has been good during the current quarter notwithstanding a challenging business environment. Going forward, we remain confident of the Bank's ability to leverage its strong retail and corporate franchises and take advantage of the opportunities that may emerge as growth comes back to the economy. And meanwhile we continue to build our infrastructure, invest in technology and human capital to support business growth.

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

**Mahrukh Adajania:** Sir, just on what you said that the Bank has sold two assets to ARCs amounting to ₹1,820 crores, does it represent fresh slippages?

**V. Srinivasan:** These two assets were standard assets on our book as on 30th June 2015. During Q2, these assets were sold to ARCs as Sanjeev mentioned during his speech. The book value of these assets was ₹1,820 crores. The realisation consideration was SRs worth ₹550 crores and cash realised worth ₹100 crores. There was an impairment provision of ₹336 crores and write down was ₹850 crores which came out of contingent provision.

**Sanjeev Kumar Gupta:** Mahrukh, if you recount our earlier calls, we had stated that contingent provisions created, would be put to use at some time against some assets. This quarter, we were trying to find a solution for these assets and we failed to find an appropriate solution. So, we decided to take a hit through utilisation of these contingent provisions.

**Mahrukh Adajania:** Yes I got that. And could you explain what ₹336 crores represents?

**V. Srinivasan:** Whenever we have given guidance on credit cost, we have given it in terms of what impact it will create on this year's P&L. We have counted the impairment provision of ₹336 crores, against the two assets sold as part of the credit cost. But what we have not taken into account is the write down of ₹850 crores which is taken out of the contingent asset provision.

**Mahrukh Adajania:** Was this ₹336 crores against an existing NPA?

**Sanjeev Kumar Gupta:** No, these assets were standard assets as on 30th June 2015 so there is no question of an existing impairment provision.

**Mahrukh Adajania:** Okay. Could you help me reconcile your slippage of ₹583 crores with disclosures made under Basel III for H1FY16?

**Sanjeev Kumar Gupta:** Sure, additions to Gross NPAs were ₹583 crores. About ₹1,820 crores represent assets that were sold to ARCs. Additionally, assets of ₹166 crores became NPA during the quarter and were recovered in the quarter itself.

**Mahrukh Adajania:** And what you sold to ARCs, can that be viewed as a one-time clean-up and therefore slippages being much lower in the coming quarters?

**V. Srinivasan:** You have to look at our guidance on credit cost which is around 90 basis points for FY16. I think that remains unchanged. As Sanjeev mentioned, the contingent provisions were created in anticipation of some of these events happening and we utilised these provisions. Whenever the opportunity arises, we will continue to build on these contingent provisions. Further, the residual contingent provision on the books is ₹400 crores and as and when we have the opportunity we would continue to build that back.

**Mahrukh Adajania:** Okay. What was the quantum of restructuring and 5/25 financing during the quarter?

**Sanjeev Kumar Gupta:** The additions to restructured advances were about ₹473 crores during the second quarter and this was basically on account of the shifting of the DCCO (Date of Commencement of Commercial Operations). During the quarter, we have also recovered and upgraded accounts from restructured to standard assets where there is a continuous repayment for more than two years post moratorium. As a result, net cumulative restructured assets have come down to ₹8,426 crores in the second quarter from ₹8,515 crores as on 30th June 2015.

**Mahrukh Adajania:** Okay. And sir, any amount that has been refinanced under 5/25 scheme during the quarter?

**Sanjeev Kumar Gupta:** We have sanctioned a couple of cases in 5/25.

**Mahrukh Adajania:** But the amount?

**Sanjeev Kumar Gupta:** It is a part of consortium, Mahrukh.

**Moderator:** Thank you. Next question is from the line of Sameer Bhise from Macquarie. Please go ahead.

**Sameer Bhise:** Just wanted to get a sense on these two assets: Any specific sector or are we the sole lenders or part of a consortium?

**V. Srinivasan:** Both are consortium lending and both are in the power sector.

**Sameer Bhise:** Both are power sector. Would it be gas or anything?

**V. Srinivasan:** Not gas.

**Sanjeev Kumar Gupta:** We will not name the asset. We are only stating that these stress assets are from the power sector.

**Sameer Bhise:** Okay. And ₹1,820 crores, does it refer to the gross exposure that we had to these assets?

**V. Srinivasan:** Yes.

**Sanjeev Kumar Gupta:** Correct.

**Sameer Bhise:** So there were no earlier provisions on this and ₹336 crores provision was taken in this quarter.

**Sanjeev Kumar Gupta:** Yes, earlier these two assets were standard assets, we had standard asset provisions. This quarter, we were trying to find an appropriate solution for these assets but we failed in this endeavour. This led us to consider selling these assets and realise the fair value.

**Moderator:** Thank you. Next question is from the line of Vishal Goyal from UBS Securities. Please go ahead.

**Vishal Goyal:** Sir, again the question is on these two assets sold in this quarter. Can we assume this belongs to one particular group, promoter group?

**V. Srinivasan:** Okay, it belongs to one particular group.

**Vishal Goyal:** Thank you. And what would be the overseas margin now?

**Sanjeev Kumar Gupta:** Overseas margin is roughly 1.6%.

**Vishal Goyal:** Okay 1.6%. Your operating expense growth is around 7% right now. Is this sustainable or there would be some spike or can we go back to the double-digit growth?

**Sanjeev Kumar Gupta:** We are expecting cost-to-income ratio to be around 40% for the full year. Earlier, we have indicated our cost-to-income ratio may come down to about 38% in the next three years. But operating expense growth of 7% is not sustainable in the future. Operating cost growth maybe in lower double-digits going forward. One should not only look at percentage growth in operating expenses but also consider cost-to-income ratio which is 38% at present.

**Vishal Goyal:** Okay. And sir my last question is on your guidance on impaired loans which is around ₹5,500 crores. Is this for the full year? And whether we should include around ₹1,800 crores in ₹5,500 crores?

**Sanjeev Kumar Gupta:** We should not include ₹1,800 crores, because it was not an impaired loan as on 30th June 2015. As stated earlier, we were finding a solution and when we did not find it, we realised that we should sell these assets to ARCs. Otherwise we are reiterating our guidance of impaired assets being lower than what was accreted in FY15.

**Vishal Goyal:** So should we assume that the guidance for impaired loans is a total ₹5,700 crores for the full year which excludes ₹1,800 crores of this particular quarter?

**V. Srinivasan:** You are right. We never said ₹5,700 crores. We have always said that our credit costs would be around 90bps for this year and the incremental stressed assets will be lower than what we added last year. The assets sold to ARC in the current quarter were standard assets on the books as on 30th June and do not exist on the books as on 30th September. Therefore, we have not counted these assets as part of incremental stressed asset additions for the current year. The impairment provisions created which impact the P&L in the current year are a part of the credit cost. The amount of ₹850 crores which has been taken out of contingent asset provisions is not included as a part of the credit cost for FY16. So including ₹336 crores, the credit cost for the first-half comes to 92 basis points and as I said our endeavour would be to try and build up the contingent provision as and when we get the opportunity.

**Moderator:** Thank you. Next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

**Amit Premchandani:** Sir, what is the outstanding amount on the SR book right now?

**Sanjeev Kumar Gupta:** We have ₹550 crores.

**Amit Premchandani:** Okay, sir. And how much was the amount of interest capitalised on these assets which were sold?

**V. Srinivasan:** We don't have the number as of now. But we will get back to you on that.

**Amit Premchandani:** Okay sir. Can you also give us some colour on corporate lending growth? After Q2FY15, your corporate lending growth has accelerated. In hindsight, do you think the revival of corporate India has played out and has led to the growth in corporate lending given that revival is still kind of far off?

**V. Srinivasan:** The overall systemic credit is below 10% even now and the retail segment continues to be driving this credit growth. Therefore on the corporate side and even for the system, the growth has been broadly flat or surely below 5%. So we have been growing corporate loans at around 20-odd percent YOY as at the end Q2FY16. This has come on the back of refinancing for highly rated corporates as well as some non-rupee financing which we do opportunistically; as we believe it is useful for the corporates and adds value to them. In case of the system growth, we continue to remain fairly sanguine. I do not think the credit growth as far as the system is concerned is going to be upwards of say 11% for the full year. But our endeavour would be to try and grow the overall loan book including all segments at around 20%.

**Amit Premchandani:** And sir, this refinance meaning generally project which are getting completed and getting refinanced?

**V. Srinivasan:** Not necessary. It can be old projects which are operational.

**Amit Premchandani:** Yes, exactly operational projects generally.

**V. Srinivasan:** Yes, as I said it will be very high. Over 80% of our loan sanctions are to companies rated 'A and above' now.

**Amit Premchandani:** Thank you sir. And your borrowings are 54% YOY and on a quarter-on-quarter basis, they are more or less flat. What is driving these borrowings and what is the share of infra bonds in these?

**V. Srinivasan:** We have not launched any infra bonds till now for the current financial year. We had launched ₹1,500 crores of Tier-II bonds earlier.

**Amit Premchandani:** Okay. And what is driving the growth in borrowings in short-term?

**V. Srinivasan:** In December last year, if I remember it right we had raised ₹5,700 crores through infra bonds. Further, if you take a year-on-year comparison, the infra bonds plus the Tier-II bonds raised last year and the recent tranche of Tier-II bonds issued would broadly explain the growth in borrowings.

**Moderator:** Thank you. Next question is from the line of Nilesh Parikh from Edelweiss Securities. Please go ahead.

**Nilesh Parikh:** Sir on these two accounts that were sold to ARCs, am I right in assuming that ₹1,800 crores would have been included in the guidance? From management's perspective, this is a large amount not to be taken as a part of their stress guidance. Out of your implied guidance, ₹1,800 crores is almost one-third; so would it be correct to presume that this sale to ARC could have been a part of management guidance and can I assume that excluding this stress, impairments would be much lower?

**V. Srinivasan:** We have been creating contingent provisions which are to take care of exigencies such as this. We were aware of the stress on these assets at the beginning of the year. The impairment provisions created which impact the P&L in the current year are a part of the credit cost. The write-down to fair value for these assets were budgeted for in the contingent asset provisions and have accordingly been adjusted against the same and which does not affect the current year P&L. If you look at most banks sales to ARCs, the write downs are amortised over a couple of years, something which we have not done. Rather we have taken the entire hit in one quarter itself to make sure that the hangover on earnings is not there at all.

**Nilesh Parikh:** From a P&L perspective, I think that is quite insulated. But from a stress formation perspective, is it fair to assume that should we exclude this ₹1,800 crores? Because ultimately it is a stressed asset right we have just taken it out from the NPLs (non-performing loans) and taken it as a part of the investments so just wanted to understand management thought.

**V. Srinivasan:** I would still like you to work with the 90 basis points credit cost for this year, that is the number I think you should work on in terms of the impact on P&L.

**Nilesh Parikh:** Right. So now, for the next couple of quarters if our specific numbers are lower, is there a possibility that the overall number could still be 90 basis points creating contingent provisions?

**V. Srinivasan:** I do not think it works that way. If we create provision to the extent of slippages and what we believe is the right provision coverage, I do not think we would try and build contingent provisions on the back of the way you said.

**Nilesh Parikh:** On savings growth, this is the fourth quarter running where we are seeing moderation in the saving deposit balances accretion. So just wanted to get Rajiv thoughts on this and what do we make of that because in the industry the larger players are still tracking close to 18-20% savings growth?

**Rajiv Anand:** Sure, there are two parts to this business. One is our retail franchise which continues to be reasonably strong; whether you look at it in terms of new acquisitions or growth. Also from the perspective of cross-sell ratios, retail asset sales, third-party product sales, etc., the retail business continues to chug along quite nicely. The one part that is witnessing outflows is our government business and I think it will just take a little while longer as we begin to replace some of that growth with higher retail growth.

**Nilesh Parikh:** Okay. Any indication of the share of government business in the overall savings pie?

**Rajiv Anand:** It is less than 15%.

**Moderator:** Thank you. Next question is from the line of Anish Tawakley from Barclays. Please go ahead.

**Anish Tawakley:** Sir just a follow-up on the previous question. Rajiv, if you could talk about what is the limiting factor to adding branch. For instance: Why not add more branches particularly when savings growth is sluggish? Is it to manage the cost-to-income ratio or is there no opportunity?

**Rajiv Anand:** Please recount that the number of branches that we are adding in the non-unbanked areas today is in a sense 75% of the residual expansion, because the 25% required in the unbanked areas have already been front-loaded. This year, we will certainly do about 300 branches and as we go forward we will continue to add somewhere in the vicinity of about 10-12% of new branches on a yearly basis which then comes to about 300-350 branches. I think that is a reasonable number to absorb on a year-on-year basis. Maybe if we push a little harder, we can do around 50 branches more. But I think around 10% growth in branches is something that we have been guiding and we will continue to guide.

**Sanjeev Kumar Gupta:** If you see in 2012-13, we have added 325 branches so we have the ability to grow the number of branches. Like in this quarter, we have added 154 branches. If there is potential, then we go and open the branches. As Rajiv was saying we are going to open around 300 branches this year and if normalised there will be around 400 branches. We believe that adding 400 new branches in a year is a good number.

**Anish Tawakley:** If government savings balances are down i.e. below 15%, then presumably the drag from this should significantly reduce. So should we expect a meaningful step up in the SA (savings account) growth rate?

**Rajiv Anand:** The drag from this business as it becomes smaller part of the savings franchise will certainly reduce. The government business continues to be a critical part in the Current and Savings and in the transaction banking piece. So, I do not want to sort of discount this business in any manner. We already have drivers in place to be able to sort of fill this gap which has in a sense got created. Burgundy which is our affluent franchise is growing pretty well. Although of a relatively lower base, I think that our trust business is something that we should be able to push in order to fill the gap that has been created by the government business. Even within the government business, there are various strategies that are now in place across various states. Different strategies for different states will begin to push these numbers as we go along.

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

**MB Mahesh:** In case of the Savings Account, branch transactions have declined 6% YOY, while the total transactions are up 10%. So effectively your per branch transactions have declined more than 15%. Is that a fair way to look at it? Also, why is the government deposit declining from the

Bank's savings account? And what is the peak deposit that you have in your Savings Deposits account?

On assets sale that you made, these assets were standard assets about a quarter back. When we try to put these assets into the market for sale, the asset clearances appears to be at 35% mark. So, what should be the overall book value for the industry at large? Are you trying to look for some consolidation for stressed assets? Also on the auto side, we have not seen any provisions made in the investment portfolio or in the NPL line. So what is happening on that front?

**V. Srinivasan:** The sale of assets should not be used as a benchmark for valuing any part of our portfolio in the system because this is a very specific case. And we have done it as a matter of prudence to make sure that we write it down upfront. We also wanted to ensure that impact of this sale on our future P&L account is as minimal as it can be. So it was done to remove the overhang of these assets. As far as the auto exposure is concerned, it is an investment and to that extent we would write it down in terms of fair value and that you will see over the course of the third quarter.

**MB Mahesh:** When I look at your Basel disclosures on provisions for investment that has not changed so how do we record the book value of such investments?

**Sanjeev Kumar Gupta:** Are you talking about SR?

**MB Mahesh:** No, this is not for the SR exposure but for your exposure in the auto segment. If there is a default which is triggered on an investment portfolio the provision should have changed against that, right?

**Sanjeev Kumar Gupta:** No.

**MB Mahesh:** So, are there no provisions made on the investment side this quarter?

**V. Srinivasan:** I don't know how transparent this appears to you. But in terms of overall valuation, there will be things which are in the money and which are below. Hence, you will never be able to see them. Therefore, I do not know how you can measure the provisioning impact.

**MB Mahesh:** No, I was trying to understand how do we look at this?

**Rajiv Anand:** Let me take up the questions that you had. One was the way you put it arithmetically that transactions are down 6% and branches are up 10%. Therefore the transactions are down 16% and the answer is 'Yes'. Arithmetically, it is correct. But there are two points. First, the new branches are not fully seasoned which means that transactions in these branches will go up as we go forward. Second, the kind of transactions that we are seeing in the branches is also changing. Transactions such as a request for a new cheque book, etc are moving increasingly to our digital platforms. While the number of branch transactions is falling, the quality of transactions is certainly changing. The third question that you asked me was on the government business and why that is falling. I think governments across the country are getting a little more efficient, it is not as if they are moving money out of Axis Bank. In most cases, they are moving into our Fixed Deposits or Flexi Deposits, etc. Therefore they continue to remain within the system but treasuries across various states are trying to sort of squeeze out as much as they can from their balances.

**MB Mahesh:** Sure. You had taken a base rate cut this quarter in June but we do not see the impact of that on the yields. What could possibly drive this argument?

**Sanjeev Kumar Gupta:** The base rate cut was 10 basis points in June and the yield on asset has come down by about 9 basis points. And the impact of the base rate cut, which is effective from 5th October, will be felt in the third quarter. But we have observed that with the reduction in the cost of term deposit and the funding cost, major impact of the base rate cut will be nullified.

**V. Srinivasan:** Just to clarify for the asset you mentioned in terms of write down, it is an investment and therefore mark-to-market is not something which is transparent. If you are looking at the provision number it will kick in only after the 90-day period otherwise it is just a mark-to-market write-down.

**MB Mahesh:** Okay. Then it should reflect in your provision for depreciation on investments. Does it?

**V. Srinivasan:** The portfolio includes a number of assets and not just one asset. We have around ₹20,000 crores of corporate bonds.

**Moderator:** Thank you. Next question is from the line of Adarsh P from Nomura. Please go ahead.

**Adarsh P:** This question relates to the assets sold to the ARCs. You had income recognition till June and does the NIM come off? I know it is around 0.5% of loans or 60 bps but that does have a NIM impact at some point. So should we expect that along with the base rate cut in the coming quarters?

**Sanjeev Kumar Gupta:** No, there will not be any impact on NIM in the coming quarter on account of the sale of these assets. These assets have gone out of our book so we are not going to recognise any income on these SRs till we have got any cash out of them.

**Adarsh P:** Yes, so till June you would have accrued interest on ₹1,800 crores of loans and that is not going to happen from hereon. Hence, there should be some NIM impact.

**V. Srinivasan:** There was no overall impact on NIM owing to sale of assets to ARCs. The asset book is growing otherwise. We are seeing 23% YOY growth in our loan book as on 30th September 2015, any offset in NIMs will come from there.

**Sanjeev Kumar Gupta:** The assets aggregating ₹1,820 crores which we have sold to ARCs are now not a part of advances. This means, they are not forming a part of the denominator or calculation of the NIM. So the question of the dip in the NIM does not arise on account of sale of these assets.

**Adarsh P:** Can you quantify the two accounts that were refinanced under 5-25 scheme?

**V. Srinivasan:** Around ₹1,500 crores.

**Adarsh P:** We are seeing partial refinancing of large exposures of various assets in the system. So, will this ₹1,500 crores be the total exposure to these two assets? Also, do you have other exposures which are not refinanced of the same two entities.

**V. Srinivasan:** I do not think there is any other exposure.

**Moderator:** Thank you. Next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.

**Manish Karwa:** The sale of assets should have some impact on the NIM because 60 basis points of your loan-book are not yielding anything increasingly. If you were earning 10% on this, you should have a NIM impact of at least 6-7 basis points.

**Sanjeev Kumar Gupta:** Yes, these assets which amounted to ₹550 crores were earlier residing in the advances. After we have sold them, they are no more a part of our advances and earning assets. Cash amount of worth ₹100 crores was realised and we have taken a note of this in the P&L.

**Manish Karwa:** Okay. And this ₹550 crores of SR that also would not be a part of average earnings assets or earnings assets?

**Sanjeev Kumar Gupta:** That will be a part of the average earnings assets and that will reside in the investment book.

**Manish Karwa:** Okay. And that will not yield you any interest?

**Sanjeev Kumar Gupta:** That will not yield any interest. I would say this has a negligible impact on our NIM as ₹500 crores out of ₹4 lakh crores will not have much impact.

**Manish Karwa:** Sure. You have cut your base rate by 35 basis points from 5th October so how much is the linkage on your loan-book? How much loan-book immediately reprises down?

**Sanjeev Kumar Gupta:** It is around 82% of our loans.

**Manish Karwa:** Okay, 82% of your domestic loans, right?

**V. Srinivasan:** Yes, domestic loans are linked with our base rate.

**Manish Karwa:** And how much of your loans international loans?

**Sanjeev Kumar Gupta:** About 16% of our loans are international loans.

**Manish Karwa:** Okay. On the international loans, do you have any loans which are restructured?

**Sanjeev Kumar Gupta:** No.

**Manish Karwa:** Okay. All are standard loans as such, no restructuring has happened there?

**Sanjeev Kumar Gupta:** No.

**Manish Karwa:** Okay. And what is the slippage from the restructured book during the quarter?

**Sanjeev Kumar Gupta:** It is around ₹90 crores.

**Manish Karwa:** Okay. And what is the domestic loan-to-deposit ratio?

**Sanjeev Kumar Gupta:** Domestic loan-to-deposit ratio is about 78%.

**Manish Karwa:** Okay. And lastly, the power exposure has declined. Is it largely because of the assets which were sold?

**Sanjeev Kumar Gupta:** Yes.

**Manish Karwa:** Okay. And can you give me the consolidated profit number?

**Sanjeev Kumar Gupta:** Sure. Consolidated profit number is ₹3,923 crores for the half year.

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

**Anand Laddha:** Sir, what is your domestic NIM during Q2?

**Sanjeev Kumar Gupta:** Domestic margin is 4.11%.

**Anand Laddha:** Okay. And sir on the retail loan growth, your mortgage loan growth is 15% compared to 20%-25% in the past. Is it that the sector is declining or is there something more relating to that?

**Jairam Sridharan:** Yes, the sector is a little bit slow but our home loan-book has grown 21% YOY and the loan against property book has grown 32% YOY. We are aware that these were a little bit higher in the past but we are fairly happy with this level of growth and we are able to achieve an overall 27% YOY growth in retail advances. In case of other businesses, our intention is to move the retail advances book away from home loan heavy portfolio to less home loan heavy portfolio and we are perfectly happy with the present state of affairs.

**Anand Laddha:** Okay sir. This quarter you have opened 150 odd branches but the number of ATMs has not increased. Is it that you are not opening new ATMs or what is the thought process? In the next one year, what sort of ATM additions is expected?

**Rajiv Anand:** In case of ATMs, there is a normal churn that happens i.e. new ATMs get opened and old ATMs get closed. One thing you need to know is what we call BNA (bulk note acceptor) machines which are cash deposit machines installed in our branches. So our branches have now been converted into 750 odd recycler ATMs, wherein the deposited money of the customer in BNA is available for cash withdrawal as well. Thus, recycler ATMs are where you deposit money and withdraw the same. Now, if you add these 750 recycler ATMs to our overall ATMs, we are closer to 13,000 ATMs as on 30th September 2015.

**Moderator:** Thank you. Next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

**Pankaj Agarwal:** Sir, what is the broad composition of your restructured book in terms of sectors?

**V. Srinivasan:** It is well-diversified. I will not say there is only one sector which consists of the restructured book. In fact, one sector contributes not more than 17-18% of our total restructured book. The sector list is wide and it includes power, infra and textile among others.

**Pankaj Agarwal:** Is this sector list broadly similar to your CDR (corporate debt restructuring) data in terms of outstanding restructured loans?

**V. Srinivasan:** I have not looked at CDR distribution, it is difficult to comment.

**Pankaj Agarwal:** Okay. And sir, what was the amount of your restructured book during the quarter in terms of fresh additions and upgradations?

**Sanjeev Kumar Gupta:** Net additions of restructured assets were about ₹473 crores. Around ₹500 crores worth of assets were upgraded and out of that around ₹90 crore of assets have turned into NPAs.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Gupta for his closing comments. Over to you sir.

**V. Srinivasan:** Before Sanjeev speaks, a lot of questions were asked on the sale of two assets to ARCs. I will recap what we have said. These were assets for which we wanted to find an appropriate solution. The fair market value of these assets was lower than their book value so we decided that it was better to sell them to ARCs at their fair value. These assets were independently valued and their normal impairment provision has been routed through the P&L which forms a part of the credit cost. Further, we have utilised around ₹850 crores out of contingency asset provisions to absorb write-off against these assets. We believe that it is necessary to do so in order to ensure that there was no overhang of these assets on our future P&L account. Thus, we did what we thought was the most prudent thing to do.

**Sanjeev Kumar Gupta:** To sum-up, our operational performance across all business segments has been good during the current quarter notwithstanding a challenging business environment. Going forward, we remain confident of the Bank's ability to leverage its strong retail and corporate franchises and take advantage of the opportunities that may emerge as growth comes back to the economy. With that, thank you once again and wish you all a very Happy Diwali in advance from Axis Bank. Thank you.

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