“Axis Bank Limited Q2 FY 2019 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome for the Axis Bank Conference Call to discuss the Q2 FY 2019 Results. Axis Bank team is represented by Mr. Jairam Sridharan -- Chief Financial Officer.

Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation is not sent. Unauthorized dissemination of the contents of the proceedings of the call is strictly prohibited and prior explicit permission and written approval of Axis Bank is imperative.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of the briefing session. Should you need assistance during the conference call, please signal an operator by pressing '*' 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 Axis Bank Conference Call. I now hand the conference over to Mr. Jairam Sridharan to brief all the guests on the Q2 FY 2019 Results. Thank you and over to you, Sir.

Jairam Sridharan: Thank you, Karuna. Ladies and Gentlemen, Good Evening. I welcome you to our conference call for the presentation of the bank's performance for the Second Quarter of the Financial Year 2019.

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

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

I would like to start our conversation today with a discussion on asset quality. Please refer to slide #48 through slide #55 in the Earnings Presentation.

NPA ratios for the Bank improved sequentially with GNPA and net NPA reducing by 56 basis points and 55 basis points respectively. Slippages continue to remain at moderate levels after the highs seen in the fourth quarter of the financial year 2018.

Gross slippages in the quarter were Rs. 2,777 crores compared to Rs. 4,337 crores in the first quarter and Rs. 8,936 crores in the second quarter of last year. Slippages from the corporate segment were Rs. 1,089 crores.

Net slippages for the quarter were Rs. 591 crores compared to Rs. 1,420 crores in the first quarter and Rs. 7,888 crores in the second quarter of last year.

Corporate Slippages did come predominantly from our previously disclosed stress book. Of all corporate slippages in the quarter, 88% came from the BB and Below book.

During this quarter, we saw a net reduction of Rs. 1,536 crores in the standard BB and Below book. This information is on Slide #52, where you see the trajectory that the BB and Below book has taken over the last 2.5 years. You can see here that the BB and Below book today stands at Rs. 8,860 crores or 1.7% of gross customer assets. This level is less than one-fourth of the 7.3% peak it reached two years ago.

The various rating movements we saw during the course of quarter have strengthened our belief that the elevated rating downgrade cycle is now substantively completed.

Our provision coverage on NPAs has increased further this quarter to 73%. Our steady state target for PCR continues to be in the 60% to 65% range.

I would request you now to refer to Slide #54 that highlights the Bank's long-term credit costs over the last 16 years. If you have followed the Bank's Presentation over the last few quarters, you will notice a few differences here. You will notice that we have now disclosed two credit cost trajectories: the normal credit cost that we have talked about in prior quarters and, an additional one that is adjusted for recoveries from a write-off, what we have called net credit cost.

I would like to take a moment to explain this chart to you. Over the long-term, annualized credit cost for the Bank has averaged 110 basis points, as you can see in the burgundy line here. The Bank consistently writes off accounts into a prudential write off the pool, after making 100% provisions. And any future recoveries that happen on the prudential write off a pool of accounts are reflected in the miscellaneous income line under the broader non-interest income category, and not as a release of prior period provisions.

If we notionally net these recoveries from the credit cost line, the resultant "Net Credit Costs" that we have shown here in the grey line averages 97 basis points over the long-term. You will also notice that the gap between the two credit cost metrics tends to widen in the years immediately after credit cycle peaks. For example in the financial year 2005 to 2007 and financial year 2011 to 2014. Right now as we come off from the peak of last year, you might expect something similar going forward as well. We have seen some version of that in the first-half of this financial year. The Bank presently has an accumulated prudential write-off portfolio (APWO) of Rs. 16,502 crores of which 81% has been written off in the last 6 quarters.

During the quarter, liquidity concerns faced by the non-bank financial sector got accentuated with one of the infrastructure conglomerates defaulting on some of its payment obligations. If you refer to Slide #46, we have made a disclosure regarding our outstanding to an overall financial sector that consists of Banks, NBFCs, Housing Finance Companies, Microfinance Institutions, and other intermediaries. Out of total combined fund based outstanding of Rs. 19,971 crores to NBFCs and HFCs, 99.6% is rated A or better.

Before we close our discussion on asset quality, I would like to mention the Bank's outstanding to an infrastructure conglomerate that has been in the news recently. As of 30th September, we had an outstanding of Rs. 825 crores to this group, of which Rs. 238 crores is fund based including investments and Rs. 587 crores is non-fund based.

During the quarter, we have made a provision of 20% on the funded outstanding. Rs. 539 crores of the total outstanding to the group is currently rated BB & Below.

With that, let us move to the Bank's Earnings Profile. I request you to refer to Slide #11 through Slide #18 of the Earnings Presentation.

Net profit for the quarter grew 83% Y-o-Y to Rs. 790 crores. Net Interest Income for the quarter grew by 15% Y-o-Y. If you refer to Slide #15, you can see that the Net Interest Margin for the quarter stood at 3.36%, with Domestic Net Interest Margin at 3.59%. This compares with a 3.29% global NIM in the first quarter, adjusted for the one-off recovery on an IBC 1 client last quarter which we have disclosed.

If you look at the next slide, you see that the yield side of the equation is showing strong signs of improvement. The Bank's MCLR has increased by 50 basis points in the last three quarters and 54% of the advances are now MCLR linked. As you can see in the pie chart on MCLR duration, you can infer that over the next few months, existing MCLR accounts will continue to be reset at higher levels of new MCLR. This dynamic, along with lower slippages and interest reversals, give us confidence that margins are likely to see good support through rest of this year. As we mentioned at the beginning of the year, we expect NIMs in FY 2019 to be broadly in line with full-year margins last year.

Non-interest income excluding trading income for the second quarter grew 15% Y-o-Y. Of this retail fee income grew a healthy 24% and now constitutes 62% of the total fee income of the Bank.

If you flip to Slide #17, you can see that the composition of our fee income line has fundamentally altered in recent times, with the contribution of corporate credit driven fees reducing significantly. Corporate credit, which used to contribute 24% of our fees at the end of first quarter financial year 2017, now constitutes 12%. This contribution has been picked up by our cards business, and other retail businesses. With such a significant shift, we believe the transition in our business model on the fee front is nearing completion. In line with this business model shift, corporate credit fees de-grew by 36% Y-o-Y in this quarter. Overall Fee income grew by 9% Y-o-Y. Trading Income contribution was much lower for the second quarter at Rs. 136 crores from Rs. 377 crores in the same quarter last year. This quarter also saw a sharp rise in yields across the G-Sec yield curve. Consequently, the Bank registered MTM provisions on investments of Rs. 136 crores during the quarter.

Operating expenses growth for the quarter stood at 14% Y-o-Y and that for H1 stood at 13%. The annualized operating expenses to average assets ratio stood at 2.15%, continuing the moderating trajectory of recent quarters. We remain on track for our goal of cost to assets under 2% in 3 years. Core operating profit rose 16% Y-o-Y.

Provisions and contingencies for the quarter decreased by 7% and by 12% Q-o-Q to Rs. 2,927 crores. For detailed break-up of provisions, you could refer to Slide #55.

Miscellaneous income during the quarter was Rs. 166 crores compared to Rs. 38 crores in the second quarter last year. This income includes Rs. 153 crores of recoveries from written off accounts.

Over the last four quarters, the Bank has recovered a total of Rs. 809 crores from written-off accounts. This corresponds to an annualized recovery rate of 11% on four quarter lagged write-off. As you can see on Slide #55, the size of our prudentially written-off pool at the end of the second quarter stands at Rs. 16,502 crores.

Let me move now to a discussion on our Retail Franchise. The Retail franchise of the Bank continues to deliver. Overall deposit growth for the Bank during the second quarter stood at 15% Y-o-Y.

I request you to refer to Slide #07 in the Presentation on a new disclosure we have started this quarter on average balances. As you can see, in this chart on a quarterly average basis, CASA deposits for the Bank have growth at an average of 17% in recent years. The growth in this period has been quite steady with the demonetization related disruption creating some elevated quarters and subsequently some base effect for a few quarters thereafter.

In the second quarter, quarterly average CASA grew 13% Y-o-Y and comprised 45% of total deposits. Savings Account and Current Account balances grew by 17% Y-o-Y and 4% Y-o-Y, respectively on a quarterly average basis. You will also notice on the slide that growth in Retail Term Deposits has been gaining a lot of strength in the recent quarters. In the second quarter Retail Term Deposit grew by 21% Y-o-Y. CASA and Retail Term Deposits continue to form a strong, stable base of funding for the Bank and stood at 82% of total deposits. Retail fees have increasingly become more granular and annuity based. Cards fee grew strongly by 26% Y-o-Y and constituted 39% of overall Retail fees in the second quarter.

The Bank's strategy on retail assets continues to be centered around existing customers of the Bank. 82% of retail assets originations in the second quarter was from existing customers. 97% of the Bank's credit card and 90% of personal loan originations in the quarter were from existing customers of the Bank. 49% of the overall sourcing happened through our branches. Given our internal sourcing strategy, we believe that branches remain essential for new customer acquisition and hence continue to make investments in developing an extensive branch network.

We opened 103 branches during the quarter taking our total network to 3,882 branches. However, the newer branches continue to get smaller in size.

On Slide #24 we have highlighted the strong growth of our wealth management business called 'Burgundy'. Based on 2017 Asian Private Banker India rankings, we manage one of the largest wealth management businesses in India with assets under management of Rs. 127,425 crores as of the end of September 2018.

Let us move now to Digital, where our strengths and leadership position continues. If you refer to Slide #29, you will notice that the Bank has a strong market share across most digital and tech payment product categories. Slide #33 talks about our leadership in the mobile banking space. Mobile banking spends in the Q2 reported a growth of 106% on a Y-o-Y basis.

If you refer to Slide #31 our Credit Cards business has grown strongly with our market share growing 2x in the last 5 years. The Bank now has 5 million credit cards in force at the end of the quarter, making us the 4th largest credit card issuer in the country, with a market share of 12%.

On the next slide, you can see that Credit Cards spends in the second quarter increased by 44% Y-o-Y to Rs. 14,311 crores and Debit Cards grew by 39% Y-o-Y to Rs. 10,516 crores.

On Slide #35, we have showcased the significant increase in contribution from digital channels towards business growth. 63% of all Savings Accounts opened are sourced through Tab banking compared to 42% a year ago. In addition, 45% of all personals loan disbursements in the second quarter originated through digital channels as supposed to 17% a year ago.

The next slide, Slide #36 highlights our capabilities and our strong positioning in the UPI space. During this quarter, we saw 122 million UPI transactions, with a total transaction value growing over 22x Y-o-Y to Rs. 13,320 crores. We currently have a registered customer base of over 26 million and a market share of 8%.

Let me now discuss loan growth and the trends we are seeing across our business segments. The Bank's domestic loan growth for the quarter stood at 15% Y-o-Y. The international loan book de-grew by 12% Y-o-Y. Our Loan to Deposit ratio at the end of the quarter moderated to 95%. The Retail loan book continued to grow strongly at 20% with continued diversification and portfolio mix towards products offering higher risk-adjusted returns.

If you refer to Slide #23, the growth in Retail Loans in Q2 was led by Personal Loans, Credit Cards and Auto Loans that grew by 39% - 33% and 27%, respectively. Our previously disclosed new engines of growth like Personal Loans, Small Business lending, and Education loans continue to see strong momentum. The momentum in the SME segment continued during the quarter with 14% Y-o-Y loan growth. Term loans and working capital loans grew by 7% and 17%, respectively. The share of working capital to overall SME loan book currently stands at

79%. Our focus here remains on building a high rated SME book. And presently, 89% of non-NPA outstanding exposure is to clients rated SME 3 or better.

On the corporate loan book. Domestic corporate loan growth stood at 9% and the international book de-grew 23% Y-o-Y. With a focus on risk management in the corporate segment, we continue to drive our strategy along four dimensions - reduce concentration risk; build a higher rated lending book; increase the share of working capital loans and transaction banking revenues, and prepare for a move towards deeper bond markets through our DCM franchise. In line with these focus areas, you will notice a few factoids on Slide #41 through Slide #47:

79% of non-NPA outstanding exposure in corporate lending is to companies rated A or better, compared this compare to 70% a year back. New client acquisition continues to be focused on highly-rated customers, with 95% of new sanctions in the first half of this fiscal going to clients rated A or better.

On Slide #44 – you can see that concentration risk in the book continues to reduce. Our exposure to top 20 borrowers, which was close to 300% of Tier-I capital some years ago, has consistently reduced and now stands at 120%.

On business mix, our business mix in Corporate lending continues to move towards Working Capital loans. Working Capital loans grew strongly by 21% Y-o-Y this quarter, and as you can see on Slide #42, they now form 31% of total corporate loans.

The impact of these moves on the risk management front in corporate credit can be seen most clearly on two metrics – On the Fees side, as we discussed before, this shows up as much more modest fee generation from the lending side of our corporate business. And on the RWA front or Risk Weighted Assets front, this shift in strategy shows up as noticeable lowering of our RWA to Assets ratio in Corporate.

Which gets us to a discussion on the Bank's capital position. The RWA to assets ratio of the bank improved to 72% at the end of the second quarter. Driven by this improvement in RWA intensity over the last few quarters, the Bank's capital consumption during the year continues to be modest. In the first-half of this year, the Bank has accreted 3 basis points of capital to CET1 after incorporating profits in the first-half. The Bank's CET 1 ratio at the end of the second quarter was 11.71%, with a Tier 1 Capital Adequacy ratio of 13.04%, after incorporating profits in the half-year. Our capital position continues to be strong and is sufficiently robust for us to pursue growth opportunities over the next two years.

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

I would like to start with Freecharge – I would request you to refer to the Slide #65 in the Presentation. Freecharge remains an important component of the Bank's strategy in the Fintech and payment innovation space. It is now exactly one year since the Bank acquired Freecharge, and we have made sound progress in this period. As we had expected, the client base of Freecharge is fundamentally different from the core base of Axis Bank, and hence has augmented our reach. User base, activity levels, transaction volume, have all increased materially during this one year. We have also constantly expanded the products and services we are offering to our customers. During the quarter, we started offering lending products on this platform by offering Instant paperless loans and EMI on Debit Cards. We believe we have been able to derive synergies that what we had envisioned from this acquisition and the beginning of a journey that can bring together the best of both worlds. The agility of a Fintech company, backed by the strength of a Bank. In a relatively short span of time, Freecharge is progressing well in its journey from a payments platform to a complete digital financial services platform. We will continue to make significant investments making it a powerful financial platform over the coming years.

Axis Finance, our NBFC saw a loan book growth of 38% Y-o-Y to Rs. 7,329 crores as of the end of September 2018. Our important strategic thrust here is to grow the share of retail loans in the overall book. This share stood at 20% at the end of this quarter. our NBFC business continues to deliver good returns with an annualized return on equity of 17.42%, Net Interest Margin at 4.14% in first-half and has no NPAs so far. The NBFC continues to enjoy highest ratings of AAA by Crisil and A1+ for India Ratings, and maintains a comfortable liquidity position.

Axis Capital - The Institutional Equities and Investment Banking franchise of the Bank has been the leader in Equity and Equity-linked deals over the last decade. Overall capital market activity in first-half has been muted driven in part by increased volatility. Axis Capital executed 15 transactions during first-half including one QIP, 2 IPOs, 3 OFS deals, and 4 Advisory deals.

Axis Securities is one of the fastest growing stock brokerage firms in India. It currently ranks number #3 among brokerages in India in terms of the total client base. It also has one of the highest mobile adoption rates in the industry with over 39% volumes coming from Mobile. The cumulative client base rose 23% Y-o-Y during first-half to 1.96 million.

Axis AMC, our Mutual Fund business continues to perform well. The AMC reported 27% Y-o-Y growth in average AUM for the second quarter led by a 38% Y-o-Y rise in a number of client folios. Axis AMC now has an asset under management of Rs. 87,631 crores.

Invoicemart, the Bank's digital invoice discounting platform has done exceptionally well in the first few quarters of its existence and continues to enjoy a market share of about 41% among all TReDS platforms. We currently have more than 890 participants on the platform and have clocked more than Rs. 1,163 crores in financed throughput by e-discounting over 73,400 invoices.

After the discussion of subsidiaries, I would like to close my comments but before that let me re-summarize some key themes of the quarter:

The slowing of new NPA formation and the reduction in NPA ratios increases our confidence in the belief that this NPA recognition cycle is nearing its end. Having increased provision coverage significantly, we continue to believe that we should see credit cost normalization trends in the second-half of this year. Core profitability metrics are gaining strength. Improvement in RWA ratios have strengthened our capital position and we do not expect to need any infusion of capital for the next two years. We continue to see strong growth opportunities, on both retail and corporate segments and will pursue them vigorously, within the construct of our risk and portfolio thresholds.

With that, I come to the end of my comments. We would be glad to take your questions at this moment.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: Congratulations on a very good set of numbers. My first question was on the stress loan. So, we know the movement of the double BB pools and I have a question on that later. But the restructuring portfolio has remained stable across 2 quarters at Rs 28 billion, the restructured loans have remained stable over the last 3 quarters at around 10 billion and then S4A at Rs 17 billion. So, is there any stress in these two portfolios because they have remained stable for the last 2 quarters? How will this portfolio behave in the next 6 months to 9 months?

Jairam Sridharan: Yes. So, Mahrukh, it is almost definitional that these things are not moving. These accounts have been restructured in a way that there are 2 pools here. There is the old CDR restructuring, which is about Rs. 1,100 crores. There is the rest of the restructuring dispensation, which is another Rs. 1,600 crores or thereabouts creating a total different kind of restructuring dispensations. The pool of about Rs. 2,700 crores this has not moved very much in the last couple of quarters mostly because of the restructuring dispensations are in play. So, if it is a 5:25 that is in play or any of the other dispensations that are in play, there is not much sort of principal paydown that is expected right now. So, we will continue to look at it. We will continue to make disclosures on it. As of now, there is no emerging concern and as you can see the size itself is relatively small and as long as we are sure that this is not growing and is not causing any specific repayment issue, I think we are fine.

Mahrukh Adajania: Okay, so it is unlikely to slip this year? Or I mean, how do you look at it?

Jairam Sridharan: Well yes, I think I would say that it is unlikely to slip in the next few quarters, yes. The restructurings have been done somewhat recently in the last couple of years. The clients have been in line so far. I do not think there is much room here. And given the February 8 circular, any miss on any of the parameters of the restructuring dispensation will anyway quickly deem the accounts as NPA. There is not much room here. I think the accounts will be fine in the short-term**.** We will keep making the disclosure about these to you all.

Mahrukh Adajania: Sure. And in terms of the non-fund based exposure of 28 billion, is that all likely to slip? Or is that a fair assumption?

Jairam Sridharan: Not really, Mahrukh. Actually, before I go there, let me make one other statement, I said that if you put all sorts of restructuring dispensation together, that is about Rs. 2,700 crores. Of that, I want to reiterate, about Rs. 700 crores is already in the BB book. The rest of it is not rated BB at this moment. So, clearly those are the stronger accounts. Now coming to your point on the devolvement of non-fund based facilities, you will see that even in the NPA book, we have had non-fund based facilities which have been open for fairly extended periods of time without devolving and so that tells me that devolvement is not a certainty in this case. By the way, on that note, let me also say that on NPA pool, we have about Rs. 2,800 crores. Just coincidentally the same number Rs. 2,800 crores of non-fund based facilities which have not devolved. So, no, I do not think it is 100% devolvement. But if I were in your place, I would start with some sort of a baseline assumption let us say 50% or 60% devolvement rate and do some sensitivity analysis around that.

Mahrukh Adajania: Okay, very helpful. Just in terms of addition to BB portfolio, was there any in the second quarter?

Jairam Sridharan: There was some addition but it was a 3-digit number, Mahrukh. So, we had a few hundred crores of addition. We had a few hundred crores of slippages and we had a couple of significant upgrades from BB out into BBB, mostly in the steel sector.

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

Manish Karwa: So, first question is on your provisioning coverage. How are you thinking about it? Because you still are fairly comfortable close to 60% to 65%. You are already at 73%, would you still want to take it up? Or you think credit costs have to fall sharply going ahead, starting 3Q?

Jairam Sridharan: So, let us take it as it comes, Manish. I think, we are not trying to be too prescriptive about provision coverage ratio. We do believe that based on all our understanding of the LGD (Loss Given Default) of assets in the past, we do think 60% to 65% is the appropriate LGD expectation to have which means over the long run, you want to have provision coverage around 60% to 65% as well. As it happens, right now we are in the part of the cycle where provision coverage is on the way up. We aren't going to necessarily try and engineer it to go up too much. We are not also going to try and engineer it on the way down. But all we are saying is yes, we have made appropriately conservative provisions right now. That is resulting in a provision coverage of 74% - 73% but LGD is continuing to point towards 60% to 65%. So, if we have sort of flexibility on the margin, you might see something happen in that direction but it is not going to be something that we are going to necessarily engineer.

Manish Karwa: Okay, and just a question on your subsidiaries. While even the top line has been good across all the subsidiaries but if we just look at the bottom-line, all subsidiaries have seen a reasonable decline, especially the smaller subsidiaries. But even Axis Capital has seen a decline. Why is that? Is that some provisioning that you have taken? Or margins have come off?

Jairam Sridharan: No. That is a fair comment Manish, actually, each subsidiary has a separate story on what is going on. Axis Capital you mentioned, I mean clearly the deal volumes in the first-half have been much lower compared to the same period last year. That has caused some moderation in what has happened there. Axis Finance is broadly stable on IndAS terms, Axis Finance has a little bit of growth but really in Indian GAAP terms, it has been more or less constant in terms of what is happening. Some of the smaller ones have got idiosyncratic issues in each of them. AMC, you know what is happening in AMC right now in terms of the profitability dynamics. So, we are seeing some of that play out. So, yes I mean, I think you are going to see, as we expand some of these businesses and we try to scale them up, you will see a period in which we are significantly pressing the accelerator in terms of growth and try to get them to scale. And our operating expenses are not yet paying off in the revenue line. But this is because as we have been talking about for the last few quarters, we have made a conscious choice internally that we would like to scale our subsidiaries to the next level. And if that requires making some investments at this point of time rather than optimizing for profits, that is something that we are quite ready to do.

Manish Karwa: Okay. And last time you had given out the SMA-2 number. Do you mind sharing that for at the end of this quarter?

Jairam Sridharan: Our SMA-2 is under 40 basis points of loans. It is a very small number right now, Manish.

Manish Karwa: Okay. No, that is good. Thank you so much.

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

Adarsh P.: I had a question on margins and you can to be descriptive about this. I just wanted to understand, one is the MCLR repricing and other is overall spread improvement that you would see because of the pricing environment. So, I just wanted to understand in each segment, maybe well-rated corporates, AAA, AA and the other segments, how is that panning out? And should one be hopeful of a decent margin improvement because of that?

Jairam Sridharan: So, thanks for your question, Adarsh. So, large corporates is the space in which the dynamic is most obvious or most clear. Clearly, almost the entire pool is MCLR linked. So, the MCLR dynamic plays out favorably in the entire large corporate outstanding book. Also, what we are seeing is a little bit of a return of pricing power in the corporate segment. Particularly with some of the bond market liquidity issues, etc., you are seeing a return of pricing power there. So, both the dynamics work favorably. There is a third dynamic as well in the corporate book, which is around the reduction in the slippages and interest reversals, etc. So, all 3 dynamics are in favor in the corporate book. So, the corporate book is the one that we will see the most margin expansion. The retail book, ex-mortgages, you are seeing a reasonable amount of pricing power and essentially a somewhat steady sort of core margin trajectory. But in home loans, we are not yet seeing much in the form of margin expansion or pricing power increase. While some of the troubles of the HFC sector in recent weeks will probably translate to increased pricing power in the coming months, we have not seen evidence of that just yet. So, we will need to wait and watch. So, in the retail segment, the primary driver of margin expansion will be MCLR reset and not necessarily pricing power resumption.

Adarsh P.: So, is it. What I wanted to understand more is next year getting into FY 2020 this full impact of all of these pricing power, MCLR then lower NPLs all play out. So, any quantitative assessment on the kind of expansion that one could see? Or what will be the offset, if any, you can think of?

Jairam Sridharan: Yes, so as you know that we have not offered any sort of commentary or guidance on FY 2020. So, I will not get into that trajectory here but qualitatively speaking I agree with the thesis that you are putting forward, which is that the key effects in the market on the margin side right now are all tailwinds. So, right now, looking at all the different variables that are out there, it does look like margins should continue on an expansion trajectory. But let us wait and watch and let us not get sort of carried away too much by events that have happened in the last few months or quarters. We do not want to get kind of too overly optimistic on this front just yet. Let us wait and see but current momentum does seem to suggest that.

Moderator: Thank you. The next question is from the line of Krishnan Asv from SBICAP Securities. Please go ahead.

Krishnan Asv: Yes, I just wanted to check about the non-corporate slippages. Is that run rate a bit surprising in this quarter? Is there any one-off in that? Because your corporate slippages have dropped quite materially and that is very welcome to see. But your non-corporate slippages are close to about Rs 17 billion in this quarter. So, is that run rate something that you could see?

Jairam Sridharan: No, I do not think there is anything surprising there. You must have seen that the last few quarters have been very similar to this and if you look at on a net basis what the slippages are on a net basis, the total slippages Rs. 600 odd crores outside of corporate which is very much stable I do not think I am at all surprised by that. So, in the recognition regime that we are in which I have been talking about for the last couple of quarters where you make or you identify NPA on a daily basis and mark accounts as NPA on the 91st day that is going to result in an environment where gross slippage numbers look a little bit higher than what one might have been used to. But upgrades and recoveries also look a little bit higher compared to what one is used to. But the net numbers look roughly the same which is what you are seeing about Rs. 600 crores of net slippages I think are fairly benign for the non-corporate book which is about Rs. 250,000 crores or thereabouts.

Krishnan Asv: Right, fair enough. The next question was pertaining to just your branch expansion. You mentioned roughly about 400 branches that we were likely to open during the current financial year. Just wanted to understand what your narrative in terms of your digital initiatives, is there any rethink around branch expansion strategy at this point of time?

Rajiv Anand: Hi, this is Rajiv. I think we have been guiding that we would open about 400 branches a year, and we did that last year. First-half of the year, it was about very close to that number. Our own expectation is that we will continue to open branches till we get to about somewhere in the vicinity of about 4,500 branches. We are about 3,900 currently and we will look to reevaluate that as we go forward. I do not think it is an either or scenario, I think if you look at it in the context of India yes, we are seeing very-very strong digital penetration across most parts of the country. But I think as you go deeper into the country, the physical presence is a very important component particularly in the context of trust. And we are also seeing an increased number of assisted digital transactions going through the branches, particularly in semi-urban and rural areas as well and remember that while we are present in about 2,000 towns and cities across the country, a little over 80% of those we have a single branch. And as the catchment areas continue to grow in these areas as there is more affluence in these areas it becomes imperative for us to open one more branch. So, therefore, are we opening branches in the middle of Bombay or Delhi? The answer is no. But as these cities are expanding as the affluent areas are growing wider and wider, the need for our physical presence still continues. So, it is not an either or case that either we open branches or we do digital. We continue to see great progress on our digital initiatives and great progress in terms of the amount of transactions that are going through digitally. We are seeing more transactions, more sales going to go in through digitally as well. And I think that imperative will continue.

Krishnan Asv: Great. Just one last thing, could you just help with the stock number for GNPAs in retail and SME?

Jairam Sridharan: We do not disclose our NPA by segment, Krishnan. We have said that the overall NPA is roughly Rs. 31,000 crores, GNPA book. We do not, at this point offer GNPAs at segment level.

Krishnan Asv: Okay, because I was under the impression in the June quarter you did, so okay. That is all. Thanks.

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

Nilanjan Karfa: On the real estate sector right, are you witnessing any pain or stress? Because I recall in our earlier discussions, that sector is obviously seeing some kind of a pain already, right? And we do have about 3.5% of standard exposure out there.

Jairam Sridharan: Yes. So, our overall exposure in real estate is roughly around Rs. 15,000 crores or thereabouts. And give or take 60% of that is LRD (Lease Rental Discounting) exposure and we feel fairly comfortable with where that is. We also see that in terms of ratings, about 48% is A or better. Another about 44% or so is BBB+ or BBB. And 8% is BB or BB or below. Overall, just looking at the product construct I can see from our rating mix the way our internal ratings work, the ratings capture the fact the real estate is in general, fundamentally a slightly riskier business. So, ratings tend to be subdued for all real estate developers in general and that is reflected in the rating mix. Overall, portfolio composition why we feel very comfortable with our exposure in either commercial property or land and developer segment, as we said 50-plus percent or 50% to 70% depending on how you count is pure LRD exposure, we feel pretty good about that. Srini, do you want to add anything in that?

V. Srinivasan: I think it is perfectly fine. I think the bulk of our real estate primarily is in LRD and even in the other exposures, we will primarily focus on the commercial real estate.

Nilanjan Karfa: Right, so the residential part is relatively low, is it?

V. Srinivasan: Relatively. Yes, quite low.

Jairam Sridharan: Relatively, the residential part is less than Rs. 1,000 crores.

Nilanjan Karfa: Right, that is good. Second is on just IBC. I mean, would you want to share some data in terms of what is the total exposure? I mean, just not talking about the list 1 or list 2 but overall IBC. What is the kind of claims that we have claims and on books?

Jairam Sridharan: Sure. So, Nilanjan first, let me talk about list 1, list 2 and then I will come to the overall as well. In list 1 and list 2, we have about Rs. 4,600 crores or something in terms of exposure and we have about Rs. 4,200 crores of provisioning against it. So, we are provided at about 90%. If you look at the overall accounts that are in IBC or going through different phases of NCLT, our total exposure is about Rs. 11,000 crores and we have a provision of about Rs. 9,500 crores. So, we are upwards of 80% or roughly 81% provision coverage on all accounts that are in any part of NCLT, whether they are list 1, list 2 or anything else.

Nilanjan Karfa: Right. And my final third question, I think to an earlier question, it looks like next year should be reasonably a lot - a lot better. The question is where are we ploughing back some of this money into the business? Which business will need the most amount of money? I mean, beyond talking about branch expansion, if you can just share us some of those strategies?

Jairam Sridharan: Sure. I am sure I will be able to tell you a little bit more once a certain gentleman joins on November 19th. But in the meanwhile, I will say that we have talked for the last few quarters about being a RAROC driven in terms of allocation of capital and having our internal model RAROC guide us on which are areas we should be making more investments and which are areas where we would be making less. Clearly, there are some things which are pretty straightforward. We do want to grow our corporate book a little bit faster than what we have been growing right now. We will be making more investments in our subsidiaries and clearly, in the transaction banking space, etc. you would see us make a lot more investments. As far as retail is concerned, we have been fairly consistent in the kinds of businesses that we want to grow. Clearly, unsecured is that we are very interested in. Small business financing of various kinds, we have said we are very interested in and education loans, we said we are interested in. Those are spaces that will continue to grow disproportionately fast compared to what you have seen in the past.

Nilanjan Karfa: Right. Any exit ROEs for this year and let say in the final quarter? Should we be in double digits?

Jairam Sridharan: No, Nilanjan, let me not get into that. Let us see how the year goes along. We have not given any guidance on this so far. I do not want to start.

Moderator: Thank you. The next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: Yes, I have 2 questions. One, is there any departure in the senior management team apart from what you disclosed in the Press Release? Anyone who is president and above post the announcement of the new MD?

Jairam Sridharan: We will see over the next few days and weeks if there is anything. If there is anything for us to disclose, we would be making the appropriate disclosures. As of now, I have nothing to report.

Parag Jariwala: Okay. And secondly, you have highlighted about the NIM trajectory etc. But I mean, one, is the margins we have lost because of the interest reversal and all those sorts of things? And secondly, in terms of changing of the business mix and etc? So, on a sustainable basis, can you give some numbers where do you see this your margins to settle?

Jairam Sridharan: Sure. So, if you tracked us for a while, you might recall that for a long time, we have been talking about 350 to 375 basis points as the sustainable range of margins for the Bank. I do think that, 3.5% to 3.75% continues to be the right range for us to think about in terms of sustainable NIM for the Bank in the medium-term to long-term. It might take us a little while to get there. But that is something in terms of global NIM that we want to get to. And naturally, the India NIM would be meaningfully higher than that.

Parag Jariwala: Okay. And lastly, you know in terms of this NBFC liquidity and all those sorts of things, how we are approaching this situation in terms of LAP and home loan? Are we in a position to buy more from against securitization as well as direct transfer from the customers?

Jairam Sridharan: So, on NBFC liquidity situation, I do think we are monitoring the situation closely and we are looking for opportunities that might arrive. But we have look at it on a case-to-case basis to see whether it is profitable, whether the underlying transaction is going to be executed operationally in an efficient manner, etc. I do not think we are going to go out there necessarily to try and 'solve' our liquidity issue. We might go out there if there is a particular interesting opportunity for growth that is available, and we will see on the deal-to-deal basis. Srini, anything else to add on?

V. Srinivasan: I think I agree with Jairam. I think we will look at what opportunities emerge and if portfolio buy out makes sense, we will look at it.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: Just one question regarding the MCLR based loan pricing mechanism. My question is that could we increase the average maturity of loans for the loans under the MCLR in a declining interest rate scenario. Right now, we are in a rising interest rate scenario but suppose one year down the line or even 2 years down the line when there is a declining interest rate scenario, could we change the average maturity of loans under the MCLR? Like you know on the liability side if you see our average maturity of a deposit has been close to around 3 years with around 45% to 46% of deposit falling into 1 year category and this interest rate is declining, can we change that? Or what would be our strategy in that time? Thank you.

Jairam Sridharan: So, in general, our approach over the last couple of years, you have heard us talk a lot about product mix shift. And one of the product mix shift you heard us talk about is in the corporate side, in particular, moving away from term loans towards working capital, etc. This mix shifts in my mind are a much simpler way to achieve the maturity profile matching that you are talking about rather than looking at individual account level or client level changes in maturity. I do think the bank or all banks need to have an appropriate matching of asset and liability maturities. And having a right business mix will get you there. And we have been making, in our opinion, all the right moves in getting to that destination.

Rakesh Kumar: Just one more question if I could ask. On the credit card side like on the volume side, the market share gain in value terms in the last 5 years is not comparable. Why so?

Jairam Sridharan: Yes, that is true. Our spent market share gain and the number of cards market share gain is not exactly the same. You know spends take a little bit of time to catch up. The way cards businesses work is you originate an account and particularly for franchises like Axis, where our core franchise is essentially a type of customer who does not have multiple credit cards in the past. In fact, our core franchise is a group of customers for whom we are the first credit card. So, for these customers, just getting them acclimatized and used to the idea of using cards takes a little bit of time and spend slowly builds up. And as we have seen, spends have been building up and they would lag your number of cards by a year or so. But you will see that catch-up. There are not that many businesses in which you are going to see us have a double-digit market share. This is one of them. So, this is actually a business that we are enormously proud of in terms of the way it is built out. And both in number and value terms, we are very happy with the progress it is making and hopefully, that trajectory will continue.

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

Mahesh MB: To Mr. Jairam sir, I am just kind of laying down the questions to you guys, sir, you can just take up whichever way you want it. So, Mr. Jairam, what is the outstanding security receipts that we have at the end of this quarter? To Mr. Srinivasan, just wanted to understand what is the status on the power sector? We saw some fair amount of resolutions in terms of interest, at least coming forward a couple of months back. Just wanted to understand any read-through on why it has fallen? And also how should we read into these upgrades and recovery which we are doing today, which is approximately Rs. 2,000 crores a quarter. How much of it is essentially cash sales to ARCs, how the distressed market evolving? Or these are a one-off settlement that you are able to negotiate with your defaulters? Also on the APWO portfolio of Rs. 16,000 crores is it predominantly corporate? And if the recoveries are coming at around Rs. 800 crores, where is it coming from? To Mr. Rajiv, just one question. Is there further scope for ROA improvement? Thanks.

Jairam Sridharan: All right. Let me take a few of the ones. Outstanding SR portfolio is about Rs. 3,000 crores, nothing much has changed there. The APWO pool of Rs. 16,000 crores, how much of it is corporate? Almost all of it. There is a small amount which is retail, etc. but really almost all of it is corporate. Where are the recoveries coming from? From the corporate side of that book as well.

Rajiv Anand: Yes, this is Rajiv. I will take the easy one first before the difficult one for Srini. Is there improvement in ROA? Absolutely, I think across various sides of business, there is certainly more pricing power. So, I think that should certainly add to ROA. There are also initiatives to ensure that we are increasing our end-to-end digital sales on our retail lending side such that acquisition cost is managed And I think that should add to ROA as well as we go forward.

V. Srinivasan: So, in the power sector, nothing has changed. So, currently status quo court order is there. So, we have to wait for the court to tell us whether all the power projects going into NCLT or there is room for us to go to out and do this outside NCLT. So, we will have to wait for the court order, the status quo to be removed.

Mahesh MB: Okay, and how should we read into these Rs. 2,000 crores a quarter of recoveries and upgrades that you are doing? How much would be sales to cash sales to ARCs? And how has the distressed market evolved according to you, guys?

Jairam Sridharan: Yes, there is no sales to ARC in this number for this quarter. If there are ARC sales, etc., we tend to disclose it specifically. This quarter, there is none. All of it is just organic recoveries from the client themselves. And you might recall that third quarter last year and from there on, we have moved to the regime of daily recognition of NPA, where NPA tagging happens on the first day. And that results in an outcome where both gross and recovery upgrade numbers look a little bit higher than one might be used to in the past, though the net numbers do not necessarily change a whole lot. So, that is also behind some of the optical dynamics that you are seeing.

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

Abhijit S.: The first question is on the LAP book. When we look at the quarter-on-quarter movement, there appears to be a 16% - 17% growth. Anything specific to read into it?

Jairam Sridharan: In the LAP book?

Abhijit S.: Yes.

Jairam Sridharan: LAP growth is 25% year-on-year. It is on Slide #23.

Abhijit S.: So, it has moved from 8% of retail to 9% this quarter.

Jairam Sridharan: No, there might be some be some rounding off thing because the data we are showing is 9 but really not much I mean, yes.

Abhijit S.: And the second one is on Axis Finance. So, since 80% of it is corporate. What is the mix of loans? What is granularity like on this book?

Jairam Sridharan: Yes. So, there is some promoter funding-type stock, there is real estate-type lending, there is some structured finance stock, and there is some retail that is broadly what is there in the Axis Finance book. As I mentioned, so far there are no NPAs in this portfolio. And we continue to see fairly pristine credit quality. We continue to watch it, though. I mean, if the NBFC plays in a particular space the bank does not play in. So, one has got to continue to watch it and be careful on the credit risk side. We are continuing to look at it but credit risk is not an area that is giving us sleepless nights on the NBFC, to be honest. We are watching also some other market developments in that space.

Abhijit S.: And finally, the Agri book has been behaving well over the last 3 months to 6 months?

Jairam Sridharan: Yes. Look, from a credit perspective, it is been behaving okay. I mean, we had a big event of course, in the first quarter of last financial year. Since then, things have been relatively benign. The thing about the Agri book is growth is actually turning out to be a little bit of a challenge. So, with the elections coming up in the coming year, one’s also being a little bit careful about what kind of lending and which geographies does one want to get into. So, we are waiting and watching that space a little bit. So, growth is actually a bigger challenge right now in Agri than risk. The risk seems fairly benign and under control.

Abhijit S.: And the last one is a share of mutual fund fees in the overall retail fees.

Jairam Sridharan: Yes. It is about 8%,

Abhijit S.: Retail fees was close to Rs. 1,500 crores this quarter?

Jairam Sridharan: Around Rs. 110 crores, so yes, less than 10%. So, it is 7-8% the mutual fund fees.

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

Prakhar: Hi, Good Evening. This is Prakhar. Two sets of questions, one on the retail side, the other on asset quality. On the retail side just 3 subsequent questions. One, why is CASA growth continuing to be slower despite you adding branches? Second, home loan growth is very slow at 11%. And the small business banking loan is very high at 76%. What is the comfort you have there? That is the retail part.

Jairam Sridharan: First of all, small business, we are very happy with the growth rates there. We have been talking about this a long time. We want this to be one of the drivers of the retail book going forward. It is an important untapped opportunity in the marketplace. And starting from a small base, you are obviously going to see very high percentage changes. It is not something that particularly bothers us. We have a 5-year plan in place in terms of what we want to do with this business and we are on track in trajectory to get there on small business lending. We are watching the risk very-very closely. We recognize that this is almost definitionally a higher risk segment. Of course, we are getting paid for it more than adequately. But it is a place where we need to continue to watch the risk and we are, and we feel good about how that is headed. And as far as CASA is concerned we have shown, you might see this time a fairly long-term trajectory in terms of average balances of CASA and how they have changed and how they are growing quarter-on-quarter. If you look at Slide number #7, and you go back all the way to 2014 and you look at the Y-o-Y growth rates on an average book basis, you see that it is been very stable. There is not much that has changed there at all. It is a very narrow range between 13% and 17% quarter-on-quarter. Just steadily, we have been delivering and we have been growing. You cannot engineer a book sort of more closely than that. As we have spoken about in the past, there is a lot of sort of let us call it “quarter end management” that sometimes happens with respect to CASA numbers. We have not been in that game and that is why we are actually specifically sharing this new disclosure this time on how our quarterly average balances are doing. And if you see that chart, you can clearly see how we have been in a very narrow 13% to 17% range quarter-on-quarter consistently over the last multiple years, except for the 4 quarters when demon pushed us up and then the 4 quarters thereafter when base effect pushes you down a tad. But really overall, it has been very-very consistent in terms of what CASA growth has been. So, we continue to feel fairly satisfied with how CASA is doing.

Prakhar: Home loans, yes.

Rajiv Anand: If I can add to the deposit piece as well. I think one of the big drivers this year, this quarter and in fact, this year has also been the renewed thrust on retail term deposits. And I think you have seen very good traction there and we do expect that to continue as we go forward. And as you think about the total deposit book in the context of some of the loan growth that Jairam has been talking about, that CASA plus TDs then becomes a critical, TD and its growth then becomes a critical component. I think the point that you made on home loan versus our small business banking remember that home loan business is a little over 1 lakh crores. The SBB business is about Rs. 5,000 crores. So, in that sense, the bases are quite different. So, even at 11%, the growth in absolute terms is quite high. I think, it was always our stated philosophy to grow slightly slower than the market within this space in the context of the pricing pressure that we have seen so far in the home loan space, and to be able to compensate for both the growth as well as the yield with higher rates of growth, particularly on the unsecured side. Let us see how things pan out post the tightening of liquidity, and as NBFCs begin to slow their growth and as we get out pricing power back, we could potentially see this growth number going up a bit.

Prakhar: Sure, thank you. Just on the asset quality, just quick things. One, could you just reconfirm the non-fund exposures to NPL? I wanted if you could confirm.

Jairam Sridharan: It was Rs. 2,800 crores, Prakhar.

Prakhar: Rs. 2,800 crores, okay. Last quarter, you had given a nice slide on power sector exposure. I did not see this one but should I regard it as it is more or less the same?

Jairam Sridharan: Yes, nothing much has materially changed. We thought you might be more interested in NBFC this time. So, we put an NBFC slide instead of power sector details.

Prakhar: It is very useful. Just wanted to confirm more or less it is unchanged.

Jairam Sridharan: Yes, more or less the same.

Prakhar: And just lastly, any further color on the IL&FS exposure. Do you think it is something you have to watch out for in your portfolio perspective?

Jairam Sridharan: Not really Prakhar like we have given a lot so if you see Slide #46, we have given a whole lot of the disclosure there on what is going on there, and we made available the provision on all the funded stuff, we have made 20% provision. There is not much, we will just wait and watch what the resolution process is. It is going to be the same for the entire industry. We will do what it takes. The loan part of or the funded part of our IL&FS exposure is like 0.5% of our total loan book. And our market share in IL&FS is 0.9%. So, it is really like it is a really small exposure for us. So, we will do whatever is required as and when it sort of pans out. As of now, we made a 20% provision.

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

Jai Mundhra: Sir, firstly on this corporate growth. So, now we have been doing a bit of portfolio rebalancing in favor of working capital loan let us say and reducing term loan. So, on a net-net basis, how should we see this portfolio balancing panning out? I mean, in terms of net growth, so far it is flattish Y-o-Y.

Jairam Sridharan: Yes, there is a lot of opportunities there in the corporate segment. There are 2 different things going on here. One is sort of the growth that you want to pursue. The second is the business mix that you want to pursue. Clearly, we have said that from a business mix perspective, we would like to have a little bit more working capital than we had historically. We have been overweight term loans and underweight working capital in this space in the past. We want to get equal weight on them and that is why you will see a little bit of product shift. As far as an opportunity in the corporate segment for growth is concerned, Srini, you have any thoughts?

V. Srinivasan: No, I think as Jairam was saying there is nothing like we would not do term loans. Clearly, I think opportunities exist and you will see and even if you look at over this quarter, I think the offshore book has come off and the domestic book has shown some growth and you will see that accentuate as we go forward.

Jai Mundhra: But this sort of rebalancing should continue till we achieve sort of**.**

V. Srinivasan: On an incremental basis, you should see more working capital. But you will see term loan also coming well.

Jai Mundhra: Sure. sir. And secondly, in IL&FS exposure so we have Rs. 825 crores exposure, but we only put Rs 500 crore something in that BB and below. So, what about the rest? If you can clarify or that has already been NPA?

Jairam Sridharan: Yes, there are a couple of operating companies in the group which are in the technology and technology enablement kind of spaces which we have not put in the BB pool. The rest of the accounts we have put BB and below the pool.

Jai Mundhra: Okay, and the provision where we have made this is still the standard assets, right?

Jairam Sridharan: Yes, yes. Everything is standard now. So, we have made provision in the other provision column.

Moderator: Thank you. The next question is from the line of Amey Sathe from Tata Mutual Fund. Please go ahead.

Amey Sathe: Hi. Just 2 questions. One is on the what is your domestic CD ratio?

Jairam Sridharan: Domestic CD ratio is about 85%.

Amey Sathe: Okay. And if you look at our ROE, so in terms of capital consumption, so how do you see the Tier-I say, probably end of the next year or do we need to raise capital by end of fourth quarter FY 2020?

Jairam Sridharan: As I said, we have a common equity Tier-I of 11.71% at the end of this quarter. In a typical year over the last 11 years if you see the average, we have consumed about 55 basis points of capital, which means for 1.5 years you are talking about what 80 basis points - 90 basis points. We would be fairly comfortable at that level. Remember also that there are some warrants which some investors have subscribed to, which will fall due in June of next year or which will expire in June of next year. So, if those warrants get exercised that will give us an additional 40 basis points of CET1. So, put it all together and until the end of FY 2020, the math does not seem to suggest that you would need to get to the market. You should still be fine. There might be an intermittent quarter or 2 where you might flirt with the 11% line on CET1 but then with the expected exercise of the warrants, you will come right back up and we should be fine.

Moderator: Thank you. Ladies and Gentlemen, this was the last question for today. With this, I now hand the conference over to Mr. Jairam Sridharan for his closing comments. Over to you, sir.

Jairam Sridharan: Thank you very much. Ladies and Gentlemen, thanks for attending the call. Wish you all a very happy, prosperous and safe Diwali. And I am happy to have been able to spend this evening with you and hope you all have a relaxing weekend.

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.