"Axis Bank's Q2FY23 Earnings Conference Call"

October 20, 2022

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Moderator: Ladies and gentlemen, good day, and welcome to Axis Bank Conference Call to discuss the Q2 FY'23 Financial Results for the quarter ending, as on 30th September 2022.

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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 briefing session. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

On behalf of Axis Bank, I once again welcome all the participants to the conference call. On the call, we have Mr. Amitabh Chaudhry – MD & CEO, and Mr. Puneet Sharma – CFO.

I now hand the conference over to Mr. Amitabh Chaudhry, MD & CEO. Thank you, and over to you, Sir!

Amitabh Chaudhry: Good evening and welcome everyone. Apart from me and Puneet, we have on the call Rajiv Anand – Deputy Managing Director; Amit Talgeri – Chief Risk Officer, and members of Bank's Leadership Team – Subrat Mohanty, Ravi Narayanan, Sumit Bali, Munish and Sanjeev Moghe.

The growth momentum in India continues to hold up well at a time when majority of the world is staring at a slowdown. This is reflected in several macro indicators. The system credit growth and domestic consumption remains strong. We at Axis Bank remain optimistic on the growth opportunities in Indian economy, and our ability to support and take advantage of them.

In this quarter, we continued the strong performance in our identified strategic segments. We saw continued momentum in granularization and premiumization of deposits, market share gains in Bharat and SME segments, industry leading performance in cards, further strengthening of our Transaction Banking franchise and acceleration on Digital Banking outcomes.

A quick aside on Digital Banking, today we are the highest rated Mobile Banking app in the world. We are extremely proud of it. I will speak about it later in this discussion.

Coming back to the quarter, we stayed on course on three core areas of execution of our GPS strategy, which was around:

A. Deepening a performance driven culture

B. Strengthening the core.
C. Building for the future.

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

A) <u>Performance Driven Culture</u>

1) Improving profitability metrics:

Our consolidated annualized ROE for Q2FY23 stood at 18.90% and has consistently exceeded 15% in the last few quarters.

While Puneet will provide granular details, let me highlight the trends across key operating metrics. Our core operating performance in the current quarter is strong on all parameters both YOY and sequentially.

- Net interest margins improved 57 bps YOY, 36 bps QOQ to 3.96% in Q2FY23.
- Fee growth of 20% YOY, 8% QOQ with Retail fees up 28% YOY & 10% QOQ
- Core operating profit grew by 43% YOY and 19% QOQ.
- Opex growth moderated to 14% YOY and flat sequentially.
- PAT at Rs 53.3 bn was up 70% YOY and 29% QOQ .
- The Bank's consolidated ROA has improved from 0.66% in FY19 to 1.66% in H1FY23 (annualized); and consolidated ROE is up from 8.58% to 17.25% (annualized) during the same period. Consolidated ROE for Q2FY23 stood at 18.90%, up 545 bps YOY.

2) Lifted the growth trajectory and consistently gained market share:

- We now have strong market position and multiple businesses.

✓ On advances, we continue to grow faster than the industry with incremental market share of 7% in last 3 years and closing market share at 5.7% as of Sep’22

✓ On deposits, we have gained over 69 bps market share in 3 years to reach ~ 4.7% as of Sep’22

✓ In credit cards, we continue to be ranked 4th largest with over 13% incremental spends market share in the last nine months, against 11.4% period ending market share for cards in force.

✓ On the payments side, we continue to have strong positioning with 16% market share in UPI and 15% in Mobile Banking

✓ Our Burgundy AUM has grown by 3x CAGR in over last 5 years and are the 4th largest player in wealth management business

- ✓ Similarly, on the Wholesale side, we continue to have strong market share in transaction-oriented flow businesses with 12% market share in foreign LCs, 9% in NEFT payments and 8% in RTGS. We have also been the leading player in the DCM space over the last decade.

- The strong growth in our granular deposits continues with average CASA balances up 13% YOY. Our liabilities strategy driven through premiumization, granularization and deepening remains on track, reflected in ~220 bps YOY improvement in share of premium segment in existing to bank retail SA deposits.
- From an LCR perspective also, we continue to see improvement in the quality of our deposit franchise. Early improvement in the quality of granular liability growth is visible through reduction in outflow rates. The steps we have taken towards improving the quality of liability franchise have definitely started yielding results, however this is the beginning of an improvement journey that will only gain traction overtime.
- We are the fastest growing card acquisition franchise, we issued over 1 million cards this quarter up 88% YOY. Our credit card spends were up 70% YOY and 17% QOQ and card advances were up 47% YOY.
- Our KTB strategy continues to progress well with 31% of cards sourced through partnerships. During the quarter, we launched a co-branded credit card, in partnership with Samsung India that will help us to further increase card penetration in tier 2 and tier 3 cities.
- In Q2, we continued to witness strong momentum across our focused Retail and SME business segments that grew 22% YOY and 28% YOY, respectively.
- The strength of our wholesale franchise is demonstrated, through 9% YOY and 7% QOQ growth in our domestic corporate loan book. We have achieved this simultaneous to improving our margins.
- MSME segment continues to remain a key growth driver for the Bank. Our Mid Corporate book grew 49% YOY and 9% QOQ. Our SBB segment delivered strong growth of 69% YOY.
- The combined portfolio of the three segments (i.e. Small Business Banking, SME & Mid Corporate) grew 41% YOY and now constitute 20% of the loan book, up ~542 bps in last 8 quarters.
- Our Government business performance remains strong as we continue to add new mandates and gain market share. This business has transitioned from being deposit-centric to more solution-centric. We continue to win Single Nodal Accounts and stand among the top performers in private bank space on the Central Nodal Account opportunities, both of which have helped us to drive growth in government deposits.

3) Fostering winning mindset

Our winning mindset is reflected in our strong business performance and multiple external recognitions we received during the quarter across digital, fin-tech innovation and other businesses.

- The Bank's Axis Mobile app ratings on the play store have gone up from 4.6 to 4.8 now. We are now rated as the World's highest rated Mobile Banking App on the playstore, with over 15 lakh reviews, which is the highest across 59 global banks, 8 global neo banks and 50 Indian fintech apps. The Axis Mobile app has over 10 million monthly active users, close to 52% SA and 43% CA customer registrations and 4 million plus loan account registrations. The app now handles over 64% of all service requests by volumes and doubles up as our largest branch.
- The Bank in partnership with CRMNEXT won the 'Best CRM Implementation' at the Asian Banker Financial Technology Innovation Awards 2022.
- We also won Data Engineering Excellence award at Cypher 2022 hosted by Analytics India Magazine. The award recognized the Bank for excellent use and producing outcomes at a large scale with respect to our personalisation project.
- During the quarter, the Bank won 2022 Greenwich Excellence Awards for Indian large corporate banking and middle market banking segments for 2nd consecutive year. The Bank was recognized for its distinct qualities like ease of doing business, knowledge of Transaction Banking needs, coordination of product specialists, and customer service.
- The Bank's Dubai International Financial Centre (DIFC) branch also won the 'Customer Service Excellence' award in the Banking category at the recently held Middle East International Business Awards.
- The Bank's Bharat Banking segment also won the best digital financial inclusion initiative at the ET Digital Lending Transformation Global Summit.

B) Strengthen the Core

1) Strong balance sheet lends support

We have built a strong balance sheet to drive our aspirations. Our asset quality is now among the best in class with net NPA of 0.51%, high provision coverage of 80% and standard asset coverage of 1.60%., Our internal accruals are becoming largely sufficient to fund the business growth in Q1 & Q2. Our CET 1 stood at 15.14% compared to 15.24% in March 2022.

Building next generation technology architecture

We have modernized the core and strengthened technological capabilities significantly in last few years to undertake transformational digital banking projects. Project Neo is all about building a world class digital corporate bank. Leadership on APIs is a cornerstone to win new clients and new transaction banking business from existing clients. Corporates are strategically pivoting towards APIs and we have built a strong product-market fit here via:

- Best-in-class developer portal
- Building an industry best wide array of APIs spanning all transaction banking products
- Delivering integrated banking experience through partnerships.

- We are witnessing a strong momentum in customer adoption and are partnering with our customers to offer the optimum solution based on their digital maturity.
- We have become one of the first in the industry to launch a suite of Trade APIs for corporates with first customers going live successfully. Our digital on-boarding through API developer portal and ERP agnostic plugin enables seamless on-boarding and integration for customers.
- We are seeing over 10X growth in transaction volumes and 2X growth in adoption; We expect the momentum to sustain over the coming quarters as we further expand our capabilities and partnerships.
- What is extremely heartening is that the adoption has been amongst the leading corporates in the country, and across industries from financial institutions, government clients to large conglomerates.

C) Building for the Future

1) 1. We have created distinctiveness in Digital and are a class apart. Our Digital Banking unit 'Open' is now operating at scale. The impact of this is visible across the business segments.

- In line with our Open philosophy we launched Account Aggregator based loans and credit cards this quarter. We have now built the full stack for end-to-end digital lending and cards for both existing and new customers.
- Now any citizen of India, our customer or otherwise, can come to any of our digital channels and get instant digital paperless loans or credit cards. We were the first bank to go live on the Account Aggregator framework and we are the first to launch this capability. We are seeing good initial traction; our disbursal volumes have grown 30%+ month on month since launch.
- This quarter we launched a significant upgrade to our mobile app as part of our channels 2.0 program. We have crossed multiple milestones and will be launching few more significant changes to our app going ahead.

- We have upgraded our developer portal and now made digital and self-serve, the entire set up and UAT process. We believe we are now best in class in the country on this front.

1) Our bank-wide programs to build distinctiveness

Bharat Banking strategy continues to scale up well

- Our distinctiveness initiative around Bharat banking continues to deliver strong outcomes. RUSU (rural and semi-urban) markets are an important growth area for us and we see significant opportunity to gain market share in these regions while driving higher profitability.
- During the quarter, we added ~1,600 VLEs (village level entrepreneurs) to take our overall CSC VLE network to 54,000+, that would act as extended arms for our 2,065 Bharat branches.
- As a result of our focused approach, we achieved strong 28% YOY growth in disbursements across all the major product segments and delivered 46% YOY growth in rural loan book.

Our subsidiaries continue to create significant value

- The 'One Axis' approach now embodied across the Axis Group is reflected in robust performance of our subsidiaries. The total annualized PAT of our domestic subsidiaries in H1FY23 was up 14% YOY.

Update on Citibank Consumer business integration

The CCI approval is in place, we expect to complete the transaction by the end of fourth quarter of fiscal 2023 (legal closure date). At present, the Integration Management Office with a steering committee is in place that's working across 17 key work streams around people, technology and business operations. The progress on customer communications, design of end-state operating model, Day 1 business and operations readiness and the performance of existing Citibank consumer business is trending in line with our expectations.

In Closing:

The global geopolitical and macro environment remains uncertain, which has prompted significant downward revisions by multilateral institutions of their growth and trade forecasts. In the domestic context too, there are a few challenges - inflation has remained above 6%, current account deficit is expected to be high and deposit accretion in the system has been slower than credit growth. The monetary and fiscal policy responses in India have been agile while balancing the policy challenges towards a "least growth sacrifice" outcome. These moves and our engagements with our customers gives us strong reasons to remain optimistic.

I will take a moment to step back on how we have fared since the end of the pandemic almost a year back. In the last 4 quarters, we have shifted our performance trajectory upwards meaningfully. We are clocking 15%+ RoE consistently, our operating margins and NIM are in the zone of the best performing franchises, we see acceleration in our focus segments and there is an all-round improvement in all key performance metrics on deposits and assets.

We are leading the way on digital, technology modernisation and innovation. We believe as a group we are playing to our potential as we continue to build a strong, future ready and Open franchise.

I will now request Puneet to take over.

Puneet Sharma: Good evening and thank you for joining us this evening.

We continue to make meaningful progress on strengthening our core business performance and ensuring that our balance sheet is resilient across cycles. I will discuss the salient features of the financial performance of the Bank for Q2FY23 focusing on our:

1. Operating performance
2. Capital and liquidity position
3. Growth across our deposit franchise and loan book
4. Asset quality restructuring and provision.

Our operating performance in the current quarter is strong on all parameters both YOY and sequentially. We have improved NIMs significantly, delivered robust growth in NII, growth in granular fees and controlled our operating expenses. The resultant strong core operating profit growth coupled with benign credit costs, resulted in a significant improvement in our ROA and ROE.

- NII for Q2 FY 23 stood at Rs. 10,360 crores, growing 31% YOY and 10% QOQ
- NIMs for Q2 FY 23 stood at 3.96%, growing 57 bps YOY and 36 bps QOQ. Domestic NIMs crossed 4% during the quarter.

We had clearly articulated the drivers of our NIM improvement journey, the progress against the key drivers in the quarter is as follows:

- Improvement in Balance sheet mix to loans and investments from other assets. Loans and investments comprised 86% of total assets as at September 22 as compared to 83% at September 21;

- Within advances, INR denominated loans comprised 93% of total advances at September 22 and June 22 as compared to 89% at September 21;
- Within advances, the retail and CBG segment comprised 69% of total advances at September 22 as compared to 65% at September 21; and
- Low-yielding RIDF bonds declined by Rs 8,329 crore YOY and Rs. 4,612 crore sequentially. RIDF comprised 3.09% of our total assets at September 22 compared to 4.28% at September 21.

The Bank continues to improve the risk / return profile of its loan book. Our NII as a percentage to average risk weighted interest earning assets, stands at 7.75%, improving 80 bps YOY and 49 bps QOQ Our fee income stood at Rs. 3,862 crores growing 20% YoY and 8% Q-on-Q, 93% of our fee is granular.

Our fee income stood at Rs 3,862 crore, growing 20% YOY and 8% sequentially. 93% of the fee is granular

- Total retail fee grew 28% YOY and 10% QOQ
- Digital and mobile banking fees grew 45% YOY
- Fees from retail cards and payments grew 53% YOY and 16% QOQ
- Fees from third party distribution grew 20% QOQ
- Transaction banking (including commercial cards) fees together grew 30% YOY and 11% QOQ.

Trading Loss for the quarter stood at Rs 86 crore compared to a loss of Rs 667 crore in the previous quarter and profit of Rs 473 crore for same quarter last year. The MTM is largely in our corporate bond book. 80% of which is rated AA+ and above and 96% is rated A- and above. We do not expect an economic loss on this book. All else being equal, the pull to par period on this book is ~ 4 to 5 years.

Operating expenses for the quarter stood at Rs.6,585 crore, growing 14% YOY and flat sequentially.

- The YOY increase in rupee crore expenses can be attributed to the following reasons: (i) 9% linked to volume; (ii) 51% technology and growth related (iii) 1% statutory costs and (iv) balance 39% to BAU.

- Technology and digital spends grew 19% YOY and constituted ~8% of total operating expenses.
- Staff costs increased by 12 % YOY and declined 1% QOQ. We have added over 2015 people from same period last year mainly to our growth businesses and technology teams. We have continued to maintain the social security code provisions. The cumulative social security provision in the books of the bank stands at Rs 227 crore.

Cost Income ratio for Q2FY23 at 46%, improved 328 bps YoY and 641 bps QOQ. Operating expenses to average assets stood at 2.25 % for Q2FY23 higher by 13 bps YOY and 1 bps sequentially. Given the strong momentum across our businesses; we remain committed to consciously invest in our focus business segments. The lower credit cost over the past few quarters has provided headroom to run operating costs at a slightly elevated level. We remain committed to achieving around 2% Cost to Assets in the medium term.

- Operating profit for Q2 FY23 is Rs 7,716 crore, increasing 30% YOY and 31% QOQ. Core operating profit for Q2 FY 23 is Rs 7,802 crore, growing 43% YOY and 19% QOQ. Provisions and contingencies for the quarter were Rs 550 crore, declining 68% YOY. The Bank has not utilized any of its COVID-19 provisions, this provision is entirely prudent.
- Annualized credit cost for Q2 FY23 is 0.38%, declining by 16 bps YOY.
- Profit after tax stood at Rs 5,330 crore, growing 70% YOY and 29% QOQ
- Consolidated annualised ROA for Q2FY23 stood at 1.87%, improving by 59 bps YOY and 39 bps QOQ. Subsidiaries contributed 7 bps to the ROA this quarter
- Consolidated annualised ROE for Q2FY23 stood at 18.90%, improving by 545 bps YOY and 334 bps QOQ. Subsidiaries contributed 41 bps to the consolidated ROE this quarter
- The cumulative non NPA provisions at September 30, 2022 at Rs 11,625 crore, comprising (i) Covid19 related at Rs 5,012 crore; (ii) Restructuring provisions of Rs 1,100 crore, unsecured retail at 100% provision and the rest at first bucket NPA rates, (iii) standard assets provision at higher than regulatory rates of Rs 4,332 crore and (iv) weak assets & other provisions of Rs 1,181 crore.
- Our provision coverage [(all provisions NPA + Non NPA)/ GNPA)] stands at 138.35%, improving 1454 bps YOY and 484 bps QOQ.

The Bank is well capitalized and is carrying adequate liquidity buffers

Our total capital adequacy ratio including profit for the half year ended September 30, 2022 is 17.72% and our CET-1 ratio is 15.14%. The prudent COVID provision translate to a capital cushion of 55 bps over and above the reported capital adequacy.

Our average LCR ratio of the quarter was ~ 121%, improving sequentially. Our excess SLR was Rs 55,513 crore. The RWA% of the Bank at September 30, 2022 stands at 66%.

Growth across our liability and loan franchise,

Amitabh has discussed the progress on customer acquisitions, growth in the liability and loan franchise in his opening remarks. Please refer slides 18 and 19 for details around the quality of our liabilities franchise and slides on our loan franchise.

Our CASA ratio on MEB basis was 46%, improving 172 bps YoY and 251 bps QOQ

Our Loan book gross of IBPC sold grew 19% YOY and 5% QOQ. Our loan book continues to get more granular and balanced with retail advances constituting 58% of the overall advances, corporate loans at 31% and CBG at 11%.

68% of our loans are floating rate which positions us well in a rising interest rate environment. ~45% of our fixed rate book matures in 12 months. Break-up of the of the floating rate loan book by benchmark type and MCLR re-pricing frequency is set out on Slide 11 of the investor presentation.

Retail advances grew 22% YOY and 3% sequentially, Unsecured disbursements for the quarter constituted 24% total disbursements in the quarter. Q2FY23 Retail disbursements for SBB, Rural and PL book were up 33%, 28% & 26% YOY. Cards and PL portfolio grew 47% YOY & 22% YOY respectively. The retail loan book represents healthy characteristics with ~ 79% being secured.

The credit card spends in Q2FY23 grew 70% YOY. Industry spends growth is being driven by pickup in commercial card spends. We have consciously focused on growing the profitable retail cards segment.

Corporate loan book including IBPC sold grew 7% YOY and 6% QOQ. The offshore wholesale advances are largely trade finance related and primarily driven by our GIFT city branch. 97% of the overseas standard corporate loan book in GIFT city branch is India linked and 95% is rated A and above.

The commercial banking book grew 28% YOY and 7% sequentially. The quality of the CBG franchise we are building and strong relation led approach is reflected through:

- CBG CA deposits on QAB basis grew by 31%.
- Overall fees from CBG increased 13.6% QOQ.
- 87% of CBG loan book is PSL compliant.

Coming to the performance of our subsidiaries, detailed performance of our subsidiaries are set out on Slide #60 to #66 of our Investor Presentation. The domestic subsidiaries reported a total net profit in H1FY23 of Rs 585 crore, up 14% YOY. This translates into a return on investment of 46% and contributes 7 bps to consolidated RoA and 41 bps to consolidated ROE.

Axis Finance delivered strong growth as a full-service customer focused franchise offering retail as well as wholesale lending solutions.

- In Q2FY23, overall AUM grew 53% YOY and 8% QOQ. Retail book grew over 2.6 times and now constitutes 39% of total loans up from 8% in last 2 years.
- AFL's book quality continues to be strong with net NPA of 0.42% and negligible restructuring and stage 3 at 0.10%.
- Axis Finance's H1FY23 PAT grew 53% to Rs 210 Crores, with ROE of 16.6% and healthy CAR at 19.6%.

Axis AMC: Axis AMC's average AUM grew 4% YOY in Q2FY23 and the equity AAUM was up 8% YOY. Its investor folios grew 34% YOY during the quarter to take its total investor base to 13.2 mn. Its H1FY23 PAT grew 24% YOY to Rs. 183 crores.

Axis Capital: reported a H1 FY'23 PAT of Rs. 64 crores.

Axis Securities: continues to see strong traction. New client additions in H1FY23 stood at 0.38Mn, up 97% YOY. The broking revenues for Axis Securities grew 9% in H1FY23. Its H1FY23 PAT stood at Rs 100 crore.

Asset quality, provisioning and restructuring

Annualized Gross and Net slippage ratio for the quarter improved YOY and QOQ. The Slippage, GNPA, NNPA and PCR ratios for the Bank, and segmentally for Retail, SME and Corporate is provided on slide # 52.

- GNPA% was 2.50 %, improved 103 bps YOY and 26 bps QOQ. NNPA% was 0.51%, improving 57 bps YOY and 13 bps QOQ. PCR at 80%, improving 974 bps YOY and 265 bps QOQ.
- We have not sold any non-performing loans in the quarter. Recoveries from written off accounts for the quarter was Rs 709 crore improving 32% YOY.
- The net slippage in the quarter adjusted for recoveries from written of pool was negative Rs 152 crore.
- Reported Net NPA slippage for the quarter was Rs 557 crore declining by 21% YOY. Gross slippages for the quarter were Rs 3,383 crore, lower by 38% YOY and 8% sequentially. For the quarter ~ 39% of the gross slippages are

attributed to linked accounts of borrowers which were standard when classified or have been upgraded in the same quarter.

- BB and Below pool of the bank declined 26% YOY and 2% sequentially. Covid Restructured assets stand at 0.38% of GCA. More details of BB and below pool and restructuring have been provided on slide 53 of our investor presentation.

To summarize:

- Consistent delivery of 15% plus ROE over the last three quarters, improving quality of earnings and with profits in H1 FY 23 being sufficient to fund growth, we are demonstrating delivery across all the initiatives undertaken by the Bank.
- Our CASA ratio at 46% on an MEB basis at September 30, 2022 and early improvement in the quality of granular liability growth, visible through reduction in outflow rates gives us comfort that we have laid a strong foundation for our liability journey. Our assessment is that improvements planned over the next 8 to 10 quarters are on track with some inter quarter fluctuations which are normal for a business of our scale and size.
- Focus growth segments like retail, SME and Mid Corporate with better RAROC continue to grow faster at 22%, 28% and 49% respectively.
- Our balance sheet resilience is visible through strong capital adequacy and return ratio's reported for the quarter. Overall coverage at 138.35% of GNPA and limited covid restructuring at 0.38% of GCA. This places us in a good position in the current macro environment.
- We continue to closely monitor geopolitical, inflation both domestic and international and liquidity risks and resultant policy action, its impact on our business and our clients businesses as we move forward.

We would be glad to take your questions now. Thank you.

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

Mahrukh Adajania: My first question is on margin, so congratulations on an excellent margin achievement. But I mean, how do you look at margins going ahead in the next say two to three quarters, because there is still repricing left. And part of the MCLR repricing, apart from the EBLR book MCLR repricing is also yet to come in. So, how do you view margins in the next few quarters?

Amitabh Chaudhry: So, very difficult, we don't give guidance on margin, but let me make a couple of comments here. One is that we have always talked about the fact that whatever we are trying to do in Axis Bank is to build a sustainable franchise and sustainable P&L. So, the idea behind delivering a margin of this kind is be able to sustain it in a particular zone. We have always been guiding that, our first target is to reach 3.8% and obviously keep it there. We have now reached 3.96%. And obviously, all of us will try very hard to ensure that we remain in the same zone.

There are a couple of things which are at play here, on one side, as you rightly pointed out some deposits will get repriced, the overall interest rates may continue to rise and so there is a potential in the future that our cost of deposits will rise faster than what we have seen till now. Secondly, on the flip side, yes, the impact of increase in some of the MCLR rates which you have talked about will continue to come through. We will also hopefully see high yields in some of our asset classes. And that will also take time to kind of feed into our system. We have talked about the fact that we have been meeting the PSL requirements and RIDF bonds are coming down, but that has again not played through in our lens because the impact on the spreads has been lowered because what is maturing was at a decent rate, what is not matured is a lower rate. So, the fact that whatever we have done on the PSL side, the impact of that on NIM has not come through as yet.

So, there are various factors at play. Obviously, Axis will continue to try to ensure that, as I said being in the zone. We would also like to ensure that we use this opportunity to invest back in the business as much as we can. So, I am not giving you a guidance, but I am giving you hopefully enough fodder to think through as to where we could potentially end up.

Mahrukh Adajania: And just in terms of retail deposit growth, so you had given some numbers and talked about granularization and premiumization. But if you could give the like-to-like retail deposit growth or any quarter-on-quarter retail deposit mobilization growth, so that we know the like-to-like number, because currently it's being masked by the conversion, right so?

Amitabh Chaudhry: So, I mean, I will give you some data points, not exactly maybe what you want. Our growth in CASA was 14% YOY relative to the industry which is at 10% YOY. So, it continues to be higher and faster than our market share growth in total deposits where it was at 10% for Axis versus 9% for industry. So, first point is CASA is growing faster.

Second, we continue to focus at district level market share gains. The number of districts where our market share is greater than 5% has improved by nearly 35% since March 2020.

Overall TD growth was restricted due to lower CD issuances. Our premium segment where you asked the question, premium segment savings deposits are growing at a faster pace 18% YOY versus 14% for overall savings accounts resulting in share of premium segment deposits going up by 220 basis points YOY. We saw 64% YOY growth in new corporate salary levels in H1FY23.

And last and important point, with increased focus on LCR accretive deposits in FY23, we have seen a 550 basis point improvement, we have attained in weighted runoff on our RTDs. So, the focus is across every part of a franchise. And I have given you some data points, which will come, prove you that.

Mahrukh Adajania: Just one last question on opex. So, now it's remained flat for the last three quarters. And of course, Puneet did mention maintaining the medium-term guidance, but it's actually remained flat. So, how do we look at it going ahead?

Puneet Sharma: The rupee crore number was you must have observed has been flat, our guidance in on cost to assets and we do continue to maintain that medium term of around 2% is achievable. And we stay committed to that number. And it will have multiple factors - we have structurally cost savings, we have growth, both of which will drive us to achieve that number. And I think we are not offering shorter term guidance on cost numbers, as on date.

Amitabh Chaudhry: Let me just add to what Puneet said, on the cost side, we have invested over the last couple of years, we also want to ensure that as you make the investments, initially you incur costs upfront, but then you start getting productivity benefits to come through. So, you might see it as a constant cost for a couple of quarters. But I think the way you should look at it is that the investments which have been made, and now we are seeing the productivity benefits come through. And so while the cost remain the same, we are seeing a lift on the revenue side. So, we will obviously continue to, as we see the productivity benefits come in, we will wait and we see the growth coming we will make some more investments in costs. And hopefully now rather than, again, going through a cycle like that, it will flow together. So, the correlation will be sharper than what you have seen in the past.

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

Adarsh Parasrampuria: Question is on the margins, you did give a lot of details around the improvement in the mix, in terms of investment INR alone, the retail within that unsecured and then RIDF. And we obviously had a very large margin improvement, part of it would be related to where the rate cycle is. Would it be possible for you to just indicate what kind of improvement in spreads could have been a little more structural from the mix side? That will be really helpful if you can try and give some broad numbers there.

Puneet Sharma: Adarsh, like we said, the NIM journey had two variables, assets plus liabilities. I think we are structurally on the right path of our NIM journey and we have reported to you the sequential improvement on each of the parameters across assets and the quality of our liabilities. I think that's where we will leave it at the moment. It's very difficult to call out what is rate effect and what is structural effect at the moment. I think we are a running business so I think we will leave a response to that.

All we would say is all of our improvements are fundamental and structural, and therefore retention of the improvements will stay within the business.

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

Kunal Shah: Firstly, now, as you have highlighted in terms of say deal coming closer to an end. And maybe you highlighted in terms of the growth opportunities, which are there, and it's visible across the broad-based growth as we are finishing this quarter. So, what would be the capital raising plans? Are we are we looking at something in the near term? So, that's the first question yes.

Amitabh Chaudhry: First, I will make a couple of points here. One, if you look at our consumption of capital in the first six months of this year, our profitability has ensured that the consumption of capital is minimal. So, we are at 15.14%. Post the Citi acquisition, which we are saying will happen in the 1st Quarter of the next calendar year or if it gets delayed a little bit, maybe in the 2nd Quarter of the next calendar year, we will consume 177 basis points of capital. The benchmarks we have set up internally give us enough cushion to ensure that we are not under any pressure whatsoever to raise capital, even post the acquisition. We want to be sure, we want to bide our time, we want to be sure about the price at which we raise capital if we want to raise it, because we want to ensure that minority shareholders which are already there, do not get diluted too much.

So, we have absolutely no intention as we stand today to raise capital, at least till the Citi acquisition is done. Even post that we will, obviously continue to evaluate various alternatives, including whether we need to raise capital at all or not. And then decide the right strategy depending on how we are doing, what consumption of our capital is for our running business at that point in time, how the market is, what the price is, and whether the timing would be right at that point in time or sometime later in the future.

So, I am giving you two answers, one is that we definitely don't see us raising capital up to a certain point in time and beyond that, also, we will let you know once we reach any conclusion in terms of timing, if any, at that point in time.

Kunal Shah: And secondly, when we look at it in terms of deposits, I think the action has been more on the wholesale deposit rates compared to that of retail for us. And I think this repricing given that MCLR and EBLR are linked is higher. Now, there will be further repricing, which is going to happen out there, and we have seen this kind of improvement in the spread. So, do we see raising the retail deposit rates and trying to garner more of retail deposit in the second half.

Amitabh Chaudhry: So, obviously I shared with, when I was asked a question earlier some of the data points in terms of how our overall deposits have done. We are trying to solve many problems, we are obviously trying to solve for a franchise issue in terms of how we are working and how the rigor and the rhythm is working within the overall retail franchise to ensure that we can grow the depositors at certain rate. We are working to ensure that the share of premium deposit increases. We are trying to ensure that the outflow or the weighted average outflow is brought down. We are also trying to ensure the shift between the RTD and NRTD. We are also at the same time trying to expand our franchise, we are also trying at the same time, there are a number of things which we are doing. The reason I am telling you all this is and this means that as the liquidity is sucked out of the system and as market evolves, we will be strategic and tactical at the same time. Now, will it include trying to raise retail term deposits to garner more deposits, I mean it could. What we have seen in the past increase in term deposit rates by a small amount does not have a real impact in terms of the ability to raise more deposits. The ability to raise more deposits quickly is more on the wholesale side rather than retail side. Retail side is more daily tackling and pushing with the customers - the 5, 10, 15 basis points increase does not really make a huge impact, that's what experience is. So, rather than saying this is exactly what we will do I have given you a sense for what are some of the things that we are working on. We promised to you that we will work on our NIM, we have been working on it. And now we need to ensure that we keep it in the same zone. So, given all those factors at play, if some tactical move will help us in pushing the growth rate of the overall deposits, we will definitely look at it. Are we doing something of this nature at this point in time? No. But we obviously keep all options open.

Kunal Shah: And lastly, maybe during the call, if you can just share with respect to the MaxLife. And maybe the IRDA's, I mean the order, which was there, if we can just share in terms of how the dynamics or maybe the acquisition could get impacted. So, that would be great if you can make some comments?

Amitabh Chaudhry: Yes so Max, I am happy to share, Max has applied for various approvals under the agreement which we have entered with them when we became a promoter of MaxLife. As part of the valuation of that particular proposal, IRDA has taken a view on the transactions we have undertaken. We are very clear that the transactions we have undertaken are part of two separate distinct agreements. And we do believe that our legal position is strong, but at the same time, we want to ensure that we work with the regulator. And so, in that spirit we will evaluate the order which has come and work with the regulator to ensure that we can move forward rather than getting caught up in the transactions that we have done in the past. We stay very committed to the partnership as a promoter, and bancassurance. We stay very committed to continue to increase our stake to what we had signed up for. I do want to reiterate that we believe all rules and regulations have been followed through the deal process. But I do want to end by saying that our idea is, because we have a pretty decent stake in Max, we intend to stay as a promoter for the longest period of time. We would like to work with the regulator and find the right solution rather than be at odds with the regulator is our thought process.

Moderator: Thank you. The next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi: Just want to find out your level of confidence in terms of the sustainability of this performance over the next three years as you plan the future cycles.

Amitabh Chaudhry: As I said earlier that our desire and our intention and whole execution has been around creating a sustainable franchise rather than trying to deliver things quarter-on-quarter. Yes, over the last seven, eight quarters, there have been some quarters where some metrics have not necessarily been in line with what the market expected. But our intent has always been to deliver consistency and stability and sustainability. So, whatever metrics we are achieving, we do hope in the medium term, we will continue to maintain or improve them. And I can't come on quarter-on-quarter, but that's the intent. That's the hope, that's what the entire management team is trying to execute on.

Jiten Doshi: So, are you reasonably confident that the foundation that you have built over the last 24 months is strong enough to get you where you want to go?

Amitabh Chaudhry: Jiten, with your support, hopefully we will get there.

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

Abhishek Murarka: Hi, good evening. My questions have actually been asked. So congratulations for the quarter and all the best. Thanks a lot

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

Mahesh MB: Two questions from my side, one is the lack of growth in retail deposits which seems to be an issue for the industry as a whole, is there any reason that you could attribute to that? Is that our retail slowing down? What would you assume could be a possible reason for this?

Amitabh Chaudhry: So, Mahesh, you are right, and ultimately, the liquidity has been sucked out of the system and it does have an impact on overall deposit growth, the numbers are quite visible the credit growth is right now faster than the deposit growth. So, there is a scramble for deposits, but immediately in the same breath, I would say that our market share in deposits is 4.7%. Yes, obviously, we have to be worried about the macro and what is going on, we are very clear that there is an opportunity for us if we get our acts right, if we get this whole deposit franchise the way we want it to work, that even if the industry growth is impacted, we can and we should aim for continuing to push our deposit growth upwards.

Mahesh MB: I will just kind of probably add to this, so the question you are asking is that on one side retail loan seems to be quite good. But retail deposit doesn't seem to be going that well. How would you explain the dynamics that is working between both sides of the balance sheet for you and for the system as a whole?

Ravi Narayanan: I think as Amitabh said, this divergence is being seen after some time. The consumption pattern has gone up substantially in terms of how the individual households, as well as small businesses are working through. And therefore, in terms of the outflows that we are seeing as an industry, that that is the fundamental shift that has happened, whether you call it as you can see credit card spends going up, you can see consumption spending going up, you can see the cost of EMI is going up. And that's the fundamental shift that has happened, disruptively in the deposit space.

Mahesh MB: And that you are assuming is flowing back into the system through corporate profits for in terms of higher corporate deposits?

Amitabh Chaudhry: So, we are trying to work on building blocks and it's not just about retail deposits, I mean, the same thing applies on the wholesale side also. I talked a lot about what we are trying to do on the transaction side of the business, I also talked a lot about how even on the digital side, we are trying to create customer journeys, where customers can actually just come into us. So, we are very focused on continuing to work on building blocks, which will allow us to grow at a different pace in the medium to long term. We realize that there is a problem in the system in the short term, but the message which are trying to give internally is our market share is where it is, we can definitely, for us to grow at a certain rate, should not be very difficult. But yes, the whole culture, the rhythm, rigor and all is a work in process. And we are confident that with all the measures that we are taking over a period of time, we should be able to get that.

Mahesh MB: Second question is one of the challenges that most of us have on this side of the market is that the disconnect that the banks in general are so confident about growth and asset quality and there is slowdown that seems to be there on the other side. We are not able to kind of connect the dots and come to a conclusion. How would you kind of respond on this question?

Amitabh Chaudhry: Mahesh you are asking a great question that given what is happening on a macro globally, even in India to some extent, is there a possibility that the risks or the overall underwriting standards will be diluted or overall asset quality could deteriorate over a period of time. We are watching some of these numbers very closely. I think Axis has moved the needle in terms of asset quality, it has created over the last three, four years if you look at all our metrics, if you look at our 90 DPD, we believe we are best in class, when we compare to some of the best franchises out there. And we are not diluting our framework, we are watching our framework very closely. If required I will ask Amit also to kind of add any comments which he has. But it's something which we are, I can only say that we are watching that the any deterioration of any kind very closely, because you are making a very good point that if the world is going through what it seems to be going through, there are chances tomorrow that things could slip a little bit here in India, and we don't want to get caught up in that scenario in any circumstances.

Amit Talgeri: Just one point is that the risk frameworks that we have built, we have put in place thresholds for which we will actually take risk action quite instantaneously. So, at the first signs of trouble for any of the segments that we operate, or locations, or a profile, there will be immediate risk actions that we will take and that those are frameworks that we have kind of built right through the last two to three years, especially post-COVID.

Rajiv Anand: Mahesh, the other thing that I mean if there are discontinuities in sort of global economies as we go forward, maybe there will be some issues in terms of growth, and that is something that we could potentially worry about as we go forward. But I think one of the things that you should also consider is that corporate balance sheets are in pristine shape. Debt equity is at 0.5 or 0.6 times. And so therefore at least from the wholesale side, there is a great deal of comfort that, given the fact that we have not, I mean, the banking system at large, has not done large scale lending to the corporate sector over the last three to five years, and corporate balance sheets are in great shape, the probability that you are going to see risks play out very quickly in that space looks unlikely.

Mahesh MB: The only worry this time we see almost all of you, all of the banks in general is that the substantial risk that all of you guys are putting on the SME space, where the markers available for us to track seems to be exceptionally low, that's the only worry.

Rajiv Anand: I think as far as the SME side is concerned, the one thing that you should consider there is the fact that it's a granular business, across multiple sectors, across multiple geographies. So, one of the things that you are trying to do is to ensure that you are diversifying risk as far as possible, and ensuring that sort of the correlations between sectors is I mean, we do track that and it is relatively low. Second is the collateralization that is that is available in this sector. So, those are the two I would argue mitigants to the SME sector, but there once again, if you look at early delinquency numbers, etc., that doesn't seem to be anything to worry about at this stage.

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

Ajit Kumar: Coming back again on the deposit side, what is driving this high CA growth in this quarter 30% QOQ that is one. And while you have taken multiple steps to improve the liability side as you have explained, can you guide in terms of timelines when we will start seeing inflection in terms of deposit growth picking up as CD ratio has already reached 90%.

Rajiv Anand: So, you heard Amitabh talk about the building blocks in place. And you are beginning to see some of the early wins on the current account side. We are winning significant mandates on cash management, we are winning significant mandates on our government businesses, we are winning significant mandates on the trade finance side as well. And if you look at in the market shares on NEFT, RTGS, GST, all those are going up, which really means that thanks to the technology we have now put in place, increasingly, customers are using our current account as the current account of choice. And that is helping us build transaction balances and therefore CA balances. And I do believe that this growth here is sustainable.

Ajit Kumar: So, there is no one off here. I mean, it is going to be sustainable going forward as well in current account.

Rajiv Anand: It is a current account, so there will always be some lumpiness. And that one off lumpiness will always be there. I mean, it's not as if there's anything unique to this quarter.

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

Nitin Agarwal: First question is around the margin line again, I mean, this quarter, we have taken a big leap and covered what we indicated in the last quarter that it will take probably eight to 10 quarters for us to reach and now we have beaten that number. So, what has really changed like positive surprise are always welcome, but I was curious to know like as to what has really changed to have driven such a big jump that we didn't really, like indicated in the last quarter?

Puneet Sharma: I think, broadly, we have spoken about the multiple initiatives that the bank has been taking to create a robust platform across multiple aspects to strengthen NIMs both on the assets and liability side. The progress on each of those work streams have delivered the current results. I am happy that it is more positive than the outlook we provided, but it is brass tacks hardcore banking, that has delivered these numbers for the quarter.

Amitabh Chaudhry: Nitin I will add something there that some of the increase in reverse repo rate allowed us an opportunity to move on some of fronts faster than what we had anticipated. And I think given that the whole system was working towards improving NIMs our ability to react and move forward on that basis did help us. But as Puneet very rightly pointed out, it is, you know, the whole system was very clear that we had to get the margin to the zone, which had been proposing to you for some time.

Nitin Agarwal: And the second question is around on the business growth, now, while you have explained on the retail deposit part, but knowing that the CD ratio is now hitting close to 90, so do you think it can in a way limit the advances growth for the year, because first half has been relatively soft, and we are looking for a pickup in the second half. So, can this come in the way of choosing the advances in the second half.

Amitabh Chaudhry: So, first principle is that we obviously would like to do things whereby the NIM is in the same zone, we would not like to just for the growth rate again go down the path of showing growth and then sacrificing NIM in the process. Now, assuming we can keep our mix intact, if we can keep our NIMs intact, we do believe that there are sources of deposits out there, which you can raise, which will allow us to manage that growth, because there are a number of levers which are available to us. Obviously, in the long run, we want to build a franchise where the CASA ratio is higher than where it is, we obviously would like to ensure that the retail TD growth rate picks up, the penetration levels, which are right now lower in compared to some of the others does pick up. And obviously we are working towards it. But in the short term if there are opportunities which come our way, we do have flexibility to raise that money for a reasonably long term quite quickly. So, we will obviously capitalize on those opportunities as they come along.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we take the last question from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just looking at Slide #19. I just wanted to understand the split on the retail SA balances. Could you kind of highlight what would be the approx range of salary balances within this split? And secondly, the 49% number is only Burgundy and Burgundy Private, is that the right way to look at it?

Puneet Sharma: I guess the Slide #19 that you are referring to for the benefit of others is the customer pyramid that we publish. And you want to know the balance across the customer pyramid from Easy to Burgundy Private.

Sameer Bhise: May not be so detailed, but some trajectory on what range would the salary share, would be helpful.

Puneet Sharma: So, we don't disclose the salary share across the customer pyramid. And therefore, that's not a number that we would like to talk about. And to your second question on premium, I would request you to look at the footnote on the same slide. Premium includes Burgundy Private, Burgundy, Priority and Prestige and our NRI segments, which we have called out specifically with that distinction.

Moderator: Thank you. I would now like to turn the conference over to Mr. Puneet Sharma for closing comments. Over to you sir.

Puneet Sharma: Thank you, ladies and gentlemen for taking the time to speak with us. It's been a pleasure. If there are any other questions that we have not been able to answer, please feel free to reach out to Abhijit, we will try and answer them subsequently. Wishing you and your families a very Happy Diwali and all the best for the season. Thank you and good night.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Bank, thank you for joining us and you may now disconnect your lines.