"Axis Bank Q3-FY15 Results Conference Call"

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Moderator: Ladies and gentlemen, good evening and welcome to the Axis Bank Conference Call to discuss the Q3FY15 Results. As a reminder, all participant lines will be in the listen-only mode. Please note that this conference is being recorded. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation is not sent. Unauthorized dissemination of the contents or the proceedings of the call is strictly prohibited and prior explicit permission and written approval of Axis Bank is imperative. Axis Bank's team is represented by Mr. V. Srinivasan – Executive Director & Head, Corporate Banking; and Mr. Sanjeev Kumar Gupta – Executive Director, Corporate Center & CFO. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. On behalf of Axis Bank, I once again welcome all the participants to the Axis Bank conference call. I would now like to hand the conference over to Mr. Sanjeev Kumar Gupta – Executive Director, Corporate Center & CFO, Axis Bank to begin the presentation. Thank you and over to you Mr. Gupta.

Sanjeev Kumar Gupta: Thank you and good evening, ladies and gentlemen. I welcome you to our conference call for presentation on the Bank's performance during the third quarter and nine months ended 31st December 2014. I have with me in this call my colleagues Mr. V. Srinivasan – ED and Head, Corporate Banking; Mr. Rajiv Anand – Group Executive, Retail Banking and Mr. Jairam Sridharan – President and Head, Retail Lending and Payments. At the end of this presentation, we will be glad to respond to your questions.

The Bank's core franchise has performed well in this quarter and I will outline for you the highlights of the Bank's financial result for the third quarter. The net profit for Q3 rose 18% Y-o-Y to ₹1,900 crores from ₹1,604 crores in Q3 last year. CASA on a daily average basis continued to show healthy growth rate of 16%. Retail term deposit also grew well and increased by 24% Y-o-Y. Net advances increased 23% to ₹2,60,567 crores contributed by balanced growth across all segments. Total deposit grew 11% to ₹2,91,199 crores. Total asset grew by 17% and was ₹4,21,110 crores.

Net interest income grew strongly at 20% Yo-Y and stood at ₹3,590 crores in Q3 and the NIM remained healthy at 3.93%. Other income increased by 24% and the fee income grew by 16% Y-o-Y. The operating revenue of the Bank increased by 22% while operating expenses increased by 15%. As a result, the operating profits reported a healthy growth rate of 27%. Provisions excluding taxes during the quarter were higher and stood at ₹507 crores mainly due to the write-back of mark-to-market provisions for investment in Q3 last year.

The Bank's asset quality remained stable with net NPA ratio of 0.44% and provision coverage ratio of 78%. The Bank is well capitalized with a healthy capital adequacy ratio including the net profit for nine months of 15.64% and tier I CAR of 12.44%.

Let me now take you through the business performance and the financial results of the Bank in greater detail. We have continued to expand our network and presence across the country and have opened 53 branches during the quarter taking the total number to 2,558. We are now present at 1,708 centers across the country against 1,580 last year. In the current financial year, we have added 156 branches. Our focused branch expansion policy has helped in sustaining a healthy growth of retail business comprising CASA deposit, retail term deposits, and retail loans. As on 31st December, we also had a network of 12,874 ATMs, the second largest network in the country.

The Bank's balance sheet grew 17% Y-o-Y and stood at ₹4,21,110 as at the end of the December. Net advances grew 23% Y-o-Y and stood at ₹2,60,567 crores. As mentioned earlier, during the quarter the loan growth was more balanced with the corporate loan growth showing some pickup along with a steady growth in the retail and SME segments. The composition of the loan book was as follows; corporate loan was 47%, SME 15% and retail loans were 38%. Retail loan grew 24% Y-o-Y and stood at ₹99,219 crores in which domestic retail loan grew 27%.

Secured loan product accounted for 88% of the retail loans; home loan accounted for 50%, retail agricultural loans accounted for 15%, auto loan 9%, loan against property 7%, personal loans and credit card were 9% while non-schematic loan comprising loan against deposit and other securities accounted for 10%. In the credit card business, the Bank is the fifth largest credit card issuer in the country with a card base of around 1.6 million.

The Bank continued to increase its geographical reach for sourcing retail loans. The Bank now sources retail loan through 141 Asset Sales Centers. Retail loans are also originated from 2390 branches compared to 1696 branches in the previous year. The Bank continued to focus on growing its retail loan book through cross-selling to internal customers. More than a third of the incremental consumer loans are sourced through branches and existing liability customer contributes around two-third of this incremental business. The credit quality of retail loans remained healthy. Over the medium term, we expect the retail loan portfolio to rebalance with an increased focus on high yielding retail loans while continuing our emphasis on the quality of the portfolio.

Our SME business continued to perform well and as on 31st December 2014, SME advances grew 17% Y-o-Y and stood at ₹39,805 crores. The loan book remains well-diversified and carries lower concentration risk. In the SME segment, 82% of the loans were rated between SME 1 and 3 which corresponds to a single A rating. As on 31st December 2014, corporate loans grew by 25% Y-o-Y. During the quarter, the Bank has leveraged its relationship with highly rated companies to fund their domestic and international requirements. Further, recent action by certain corporate in improving their liquidity position through sale of noncore assets have also provided opportunities that have helped the Bank to show higher than industry growth rate during Q3FY15. Presently, 60% of outstanding loan and 80% of the incremental sanctions for the financial year were rated A and above in respect of total corporate loans. Our effort to diversify our corporate loan book will continue with greater focus on working capital lending and transaction banking businesses.

Let me now move onto the funding side of the balance sheet. The Bank's deposit base grew 11% Y-o-Y and stood at ₹2,91,199 crores as on 31st December 2014. Low-cost CASA deposit on day end balances grew 12% Y-o-Y with saving bank deposit continuing to demonstrate resilience with a growth of 15% of Y-o-Y. Current account deposits have also grown well by 8% Y-o-Y. As on 31st December 2014, CASA constituted 43.1% of total deposits which was at 42.6% a year ago. On a daily average basis, CASA deposit for nine-month grew 16% Y-o-Y with saving bank deposit growing at 18% and current account deposit growing at 11%. On a daily average basis, CASA constituted 40% of total deposit as compared to 39% last year. The domestic daily average CASA proportion was 41% of total domestic deposit.

As on 31st December 2014, retail term deposit grew 24% Y-o-Y and stood at ₹1,10,906 crores. As on 31st December 2014, CASA and retail term deposit constituted 78% of total deposit compared to 74% last year. During the quarter, the Bank has successfully raised ₹5,705 crores from the issue of long-term infrastructure rupee bonds. The Bank has implemented the liquidity coverage ratio guidelines issued by RBI effective from 1st January 2015. For the calendar year 2015, the LCR requirement is pegged at 60%. The Bank is comfortably placed to achieve the LCR requirement as per the phased transition plan.

I will now spend a minute or two talking about our investment book. The Bank's investment portfolio as on 31st December 2014 was ₹1,22,374 crores, of which ₹74,069 crores were government securities. While ₹24,904 crores were investment in corporate bonds and the balance ₹23,401 crores comprised investment in other securities such as equities, preference shares, mutual funds, deposit with NABARD etc. 83% of government securities have been classified into the HTM category while 93% of bond and debenture portfolio have been classified in the AFS and 7% in HFT category.

Let me turn now to the revenue and profitability figures for Q3. The net profit of the Bank grew 18% Y-o-Y to ₹1,900 crores in Q3 from ₹1,604 crores during the same period last year. For the nine months of current financial year, the net profit also grew by 18% to ₹5,177 crores from ₹4,375 crores last year. The growth in net profit has been supported by a strong growth in net interest income, other income, and slower growth in operating expenses. NI during Q3 grew by 20% and stood at ₹3,590 crores constituting 64% of the operating revenue. Net interest margins during Q3 were 3.93% compared to 3.71% in Q3 last year and 3.97% in the previous quarter. Domestic NIM during Q3 was 4.2% while NIM on overseas book was 1.7%. We were able to maintain NIM essentially through continued focus on CASA and optimum utilization of borrowings. The cost of funds during Q3 was 6.17% compared to 6.19% in Q2 last year. We expect that the NIM on a full year basis will be well above our medium term target of 3.5%.

Other income comprising fee, trading profit and miscellaneous income during Q3 increased by 24% Y-o-Y and stood at ₹2,039 crores. During the same period, fee income grew by 16% Y-o-Y and stood at ₹1,686 crores. The main business contributor to fee growth during the quarter was retail banking which grew by 41% to ₹663 crores. Fee income from the retail business segment contributed 39% of the total fee compared to 32% a year ago. Within this, fee income from retail loan grew by 41% while fee from third party product grew by 50% and retail liability and other grew by 32%. Fee income from SME grew by 20% to reach ₹93 crores while fee from business banking grew by 19% to reach ₹145 crores. Fee from corporate credit contributed 25% of total fee and continued to be sluggish and declined by 5% Y-o-Y and stood at ₹423 crores. Fee income from treasury and DCM contributed 21% of total fee and stood at ₹357 crores. We expect that the fee income growth on a full year basis will likely be in the low double digit.

During the quarter, the Bank earned trading profit of ₹329 crores contributed by higher profit from trading in G-Sec. Miscellaneous income during Q3 stood at ₹24 crores as against ₹154 crores last year which included a gain of ₹124 crores on repatriation of profits from overseas branches in Q3 last year. Total operating expenses grew 15% Y-o-Y over previous year while the increase in staff cost was

19%. The cost-to-income ratio of the Bank was 41.1% in the quarter against 43.5% in Q3 last year and 42.2% in the previous quarter.

Provisions and contingencies other than tax for the quarter were ₹507 crores against ₹202 crores last year. The main reason for an increase in provision and contingencies was write-back of mark-to-market provision for investment of ₹173 crores in Q3 last year. During Q3, the Bank has made provisions for loan losses of ₹362 crores. Provision for standard asset including unhedged foreign currency exposure was ₹159 crores. During Q3, we have created provision for unhedged foreign currency exposure to the full extent required to be achieved by the Bank by the end of the financial year.

Let me now discuss asset quality. During the quarter, addition to gross NPA was ₹708 crores, upgradation and recoveries amounting to ₹225 crores and write-off including prudential write-off was ₹194 crores. Consequently, the net addition to gross NPA ratio during the quarter was ₹288 crores. Gross NPAs at the end of the quarter stood at ₹3,902 crores constituting 1.3% of the gross customer assets. The net NPA ratio for the quarter ended 31st December was 44 basis points which was at the same level seen in the last quarter ended 30th September. The provision coverage at the end of the December 2014 stood at 78%. During the quarter, assets amounting to ₹132 crores were restructured. The cumulative value of net restructured advances as on 31st December 2014 stood at ₹6,808 crores which constituted 2.37% of net customer assets. Credit cost for nine-month was 72 basis points. Here we would like to state that as indicated at the beginning of this fiscal year, we continue to expect credit costs around 80 basis points for the full year and the total addition to restructured assets and incremental slippage of ₹6,500 crores primarily keeping in mind the possibility of an increased in restructuring in the last quarter on account of change in regulations from 1st April 2015.

Some key financial metrics are as follows: During Q3, return on asset stood at 1.86% compared to 1.79% in Q3 last year while return on equity was 18.5% against 18% in Q3 last year. The EPS diluted annualized for the quarter was ₹31.66 against ₹27.08 last year. The Bank's capital adequacy position is healthy under Basel III. The overall capital adequacy and tier I capital adequacy ratio of the Bank excluding net profit for nine months was 14.06% and 10.86% respectively. If net profit of ₹5,177 crores for nine months is included, the total CAR and tier I CAR as on 31st December 2014 under Basel III would be 15.64% and 12.44% respectively.

To sum up, we are satisfied with the Bank's performance across all our businesses and financial parameters. The Bank is well poised on the retail and corporate business segment to avail of opportunities that are likely to emerge as growth comes back into the economy. With that, I come to the end of our presentation. I will be glad to take your questions now. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Ruchi Jain from Morning Star. Please go ahead.

Ruchi Jain: I want to check in terms of overall loan growth. Yours is ahead of the system and going forward do you expect it to continue to be ahead of the system and by how many percentage points?

Sanjeev Kumar Gupta: We expect our loan growth will be higher than the system. Loan growth for FY15 is expected to be around 21%.

Ruchi Jain: For the coming years as well, do you expect the trend to sort of continue?

Sanjeev Kumar Gupta: We expect our loan growth to be slightly higher than the system growth Viz. 1.2 times systemic growth.

Ruchi Jain: And on the fee income as well, you mentioned overall growth will be sort of subdued but for the coming years, is there large focus on fee income growth and if so your expectations there?

Sanjeev Kumar Gupta: Although in Q3 fee growth was roughly about 16%, for the full year, we expect fee income growth rate to be in the range of low double digits and for the next year we expect fee growth will be slightly lower than balance sheet growth.

Moderator: Thank you. Next question is from the line of Manish Ostwal from KR Choksey Shares & Securities. Please go ahead.

Manish Ostwal: Sir my question on margin trend during this quarter given that decline in the wholesale rates and overall broad trend in the deposit market also, although cost of funds have declined but overall margin seeing some compression. So could you throw the light on the drivers of compression and secondly what is outlook going ahead?

Sanjeev Kumar Gupta: So if you would see the last quarter, our margin was 3.97% and this quarter the margin was slightly lower than that at 3.93%. That is mainly due to reduction in Base rate by 10 basis points effective from 15th October 2014. For the full year we expect NIM to be well above our medium term target of 3.5%.

Manish Ostwal: And second is sir what excess SLR we are maintaining currently?

V. Srinivasan: That will be dynamic and again to that extent it is a function of the market view. As you saw we had a very good quarter in terms of trading income. So excess SLR is something which we have maintained in line with our market view and it is not something which is going to be stable at all points in time.

Manish Ostwal: So my question pertaining to LCR requirement perspective sir?

V. Srinivasan: LCR can be handled by maintaining higher quantum of liquid assets and by introducing longer tenure liabilities within the funding profile. The Bank has raised infrastructure bonds amounting to ₹5,705 crores in the previous quarter. Going forward, we would continue to issue long-term bonds. In this connection, we are seeking shareholders' approval for raising more infrastructure bonds. Thus, in addition to using SLR as a means to push up liquidity coverage ratios, we would also use liability-side strategies to meet the requirements.

Sanjeev Kumar Gupta: Furthermore, the increase in the share of retail term deposit within the total term deposit helps towards improving LCRs.

Manish Ostwal: And lastly could you give very quickly data points for provision breakup and RWA number? That's it.

Sanjeev Kumar Gupta: In Q3, we have made total provisions of ₹507 crores. Within these provisions, provisions towards NPAs and restructured assets were ₹363 crores, standard assets provision were ₹83 crores, unhedged foreign currency provisions were ₹77 crores. Additionally, there was a write-back on mark-to-market depreciation of roughly about ₹19 crores and remaining amounts relate to other contingencies and provisions amounting to ₹4 crores.

Moderator: Thank you. We have next question from the line of Abhishek Kothari from Quant Capital. Please go ahead.

Abhishek Kothari: Sir in your slippages of ₹708 crores, what has been the slippage from restructured book?

Abhishek Kothari: And even on overall basis, cumulative slippages from restructured book would be helpful.

Sanjeev Kumar Gupta: We expect that total slippages from the restructured book will be around 25%, On on a stock basis, the total slippage from the restructured book is roughly about 17% and with a two year lag, it is roughly about 23%. In this quarter, the slippage from the restructured book to the NPA is ₹159 crores.

Abhishek Kothari: Okay, ₹159 crores and going ahead, taking next 2 years timeframe in mind just on a strategy front, how would you like balance sheet being funded from deposit or would you continue with this borrowing funding on your balance sheet?

V. Srinivasan: I think funding requirements will be met from both sources. I do not think long-term bonds will be able to meet all our incremental requirements for asset growth. We will use all resource raising options and deposits; will remain a primary driver of our funding resources.

Abhishek Kothari: Will improve on deposit growth going ahead?

Sanjeev Kumar Gupta: Yes.

Abhishek Kothari: And sir just one data point, can I have the employee strength as of Q3?

Sanjeev Kumar Gupta: Employee strength at the end of the Q3 was 43,231.

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

Nilanjan Karfa: Sir related to partly answered, just wanted to find out what is the total infrastructure loans and affordable housing you are carrying on the balance sheet today and if you can highlight the probable timelines and how we are going to fund that book?

V. Srinivasan: As you are aware, we have sized our requirement based on projections for the next financial year. We have taken permission from the board to issue incremental infra bonds of ₹15,000 crores over the course of the next 12 months. So that is the sort of appetite or eligibility we have in terms of raising resources through infra bonds. The timing and rate at which we raise will depend on market conditions and most likely we will start from the next financial year.

Nilanjan Karfa: So just to clarify ₹15,000 crores is till March 16, is that the approval you have taken?

Sanjeev Kumar Gupta: Yes.

Nilanjan Karfa: Second question is, essentially now RBI has permitted lot of relaxations on refinancing. Now question is have you availed of benefit under any of those changed regulations and if you can quantify and probably highlight on what conditions those loans were and have you changed the terms and conditions of the loans you will be refinancing?

V. Srinivasan: No, I do not think we have availed any benefit of this regulation towards refinancing any stressed exposures. I think what this regulation offers is an opportunity for corporates which are implementing projects now or which represent projects that are currently operational to refinance the existing loan at finer rates or at better terms and that is something which you will see happening across the market. So we have not used these guidelines as yet in terms of doing anything in terms of managing such situations.

Nilanjan Karfa: Probably sir last question, if you can highlight what loan demand conditions look like if you can segregate between retail and within retail also multiple sectors and corporate segment and SME and what is the focus we have had substantial gains on the cost of funds for the last two years. So how are you going to use that improvement towards better selection of assets that is something I want to know going forward?

V. Srinivasan: If you look at our current loan portfolio which Sanjeev described, I think we have a very balanced loan portfolio. We have diversified our loan portfolio to make it more balanced. Over the years you have seen retail growing much faster than the other asset classes and we are seeing the macro fundamentals improving. So from a going forward perspective, I think the growth will be balanced across segments. Of course it depends on investment demand coming back and clearly corporate demand sort of being higher than what it was in the past. As of now, on the corporate side, I think it is being primarily on the back of non-rupee financing demand which you have seen over the last quarter as well as some opportunities in terms of refinancing for highly rated corporate at lower rates and providing them cost efficient solutions. As far as SME is concerned, I think growth continues to be sort of healthy but again possibly slightly below what our target aspirations are.

Jairam S: On Retail, the year has been decent without being spectacular so far. The industry has seen particularly strong growth in October and November around the festive season but really on a more structural basis, we see a demand sort of in the low-teens to up to 15% kind of industry level growth in Retail Credit. And in terms of mix, right now the home loans which is the largest product category is seeing most sluggishness in terms of demand and actual demand is coming in vehicle loans, both auto and commercial vehicles as well as in unsecured credit and credit cards and consumer durables and some of those businesses which are higher yielding as it happens, those are also the areas of focus for us in terms of our portfolio shift and so you will continue to see that.

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

Manish Karwa: Just few questions. One after long period of time, our CASA deposits have declined on a sequential basis. I understand it is more to do with current accounts, but even savings growth has also been very slow during this quarter, anything to read into this?

Sanjeev Kumar Gupta: Manish, there is nothing too much to read into.. If you will see on a daily average basis which is how we focus, the growth is higher than end-day balances which reflects greater stability in funding.

Manish Karwa: Okay, so we expect a steady somewhere between 15%-20% growth will tend to continue on daily average CASA?

Sanjeev Kumar Gupta: On a daily average basis, we expect growth to be around 15%-20%.

Manish Karwa: And if you can just give me what is the yield on the Corporate Investment book that we have?

Sanjeev Kumar Gupta: The yield on the Corporate Investments book is roughly about 8.84%.

Manish Karwa: And the average rating would be what AA?

Sanjeev Kumar Gupta: More than 80% of the portfolio would be rated A and higher.

Manish Karwa: And Retail Fees during this quarter have been very strong. Do you expect this thing to continue or how do we see this?

Rajiv Anand: Fees across both Retail assets as well as Retail liabilities including third party sales again had a good quarter while the numbers are very strong this quarter, those will continue to be strong but may not necessarily be at the same level.

Manish Karwa: And lastly, how much of Infra bonds have you raised till now?

Sanjeev Kumar Gupta: It is ₹5,705 crores.

Manish Karwa: And have you used that thing to lend?

Sanjeev Kumar Gupta: Manish, it is a part of a pool of resources which are fungible & this resource raise has substituted to an extent the need to raise deposits. The amount of borrowings raised is in relation to the quantum of eligible assets financed in infrastructure or affordable housing.

Manish Karwa: So roughly I am just trying to sense that if you raise ₹5,000 odd crores, it will take you about what 3-6 months to lend that thing either in Infra or affordable housing?

V. Srinivasan: Manish, I think what RBI has prescribed, is eligibility on the quantum of issuance based on existing portfolio of Infra and affordable housing and clearly that is what we have utilized.

Manish Karwa: Okay, then it means that you will continue to keep on raising these bonds and probably not focus so much on the deposit side.

Sanjeev Kumar Gupta: See, we will continue to focus on the deposit side but we will take the advantage of the Infra bond as well. We have obtained Board approval to raise ₹15,000 crores of long term bonds for the next one year and we are now in the process of obtaining shareholders' approval. Deposits will remain the primary resource & the Bank will continue to focus on CASA acquisition as well as Retail Term deposits.

Manish Karwa: And lastly the Corporate Loan book picked up during this quarter, is it again a one-off, or are you seeing improving opportunities there?

V. Srinivasan: You have to wait and watch. As I said the loan growth has come from providing cost efficient solutions to Corporates as well as US dollar lending. We will need to see how it sustains through this period. It is not on the back of investment demand or fresh projects coming up.

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

Anish Tawakle: I had two topics. One is on branches, the rate of branch expansion is slower this year, are the old branches that have been opened in the recent past as profitable as you expected and if so why the slowdown in the branch network expansion?

Sanjeev Kumar Gupta: Last year, we have opened larger number of the branches around 325 branches in rural & unbanked areas which has helped us meet the 25% requirement in rural branches for the forthcoming years as well. This year we are expecting to open around 190-200 branches. If you will consider that, 25% has already been met in the past and we will not open those branches this year then factoring both of these things roughly about 275 branches would have been opened by the Bank. This quarter 53 branches we have opened and for the nine months, 156 branches we have opened. And on a full year basis, we expect it will be roughly about 190-200 branches we will open. So there is no slowdown. As far as the profitability is concerned, we expect generally the average breakeven period is roughly about 2.5-3 years. So whatever the branches we have opened this year also, that is as per our plan.

Anish Tawakle: The second is on, I was going through the BASEL disclosures and some of the segments where we have seen strong growth in exposures, one is Steel and secondly Infrastructure exposures other than Power were not growing for some time but they started growing again and also Commercial Real Estate. Could you talk a little bit about these three exposures?

V. Srinivasan: The Infra other than power, I think we have seen some demand from the Ports segment. In terms of Steel and Metals, clearly there have been some highly-rated Corporates looking to do some expansions and refinancing in the existing project loans and I think that has been the driver. Commercial Real Estate portfolio for Axis has always been very high quality and we have not had any issues as far as portfolio is concerned. Our overall presence in that segment has been low. So we have been lending to high quality developers through this period whenever the opportunity came through.

Anish Tawakle: And in this disclosure, there is a banking and finance. Is that mostly NBFCs or is that bank counterparties?

V. Srinivasan: NBFCs.

Anish Tawakle: Okay, so that is also growing well?

V. Srinivasan: As the market has come back, macros performing, NBFCs have also started to build their balance sheet.

Moderator: Thank you. We have next question from the line of Parag Jariwala from Macquarie Securities. Please go ahead.

Parag Jariwala: My question is on stress asset formation. This quarter if you take combined number of slippages and incremental restructuring has declined sharply. First of all, any change in guidance because I do not think that we are going to kind of have restructuring and slippages so that our overall number for FY15 could be ₹65 billion which should be much lower than that and anything you want to guide for FY16?

V. Srinivasan: As Sanjeev mentioned in his opening remarks, I think clearly we have said guidance of 80 basis points in terms of credit cost for the full financial year. In spite of the lower restructuring in NPA, in terms of gross additions being lower in Q3, I think we are still tracking at 72 basis points as far as the nine months is concerned. So in terms of credit cost, we think we still believe that around 80 basis point is what we would like to guide to for the full financial year. As far as the ₹65 billion itself is concerned, as all of you are aware that this is the last quarter in which restructuring can take place before the March 2015 end date. Post April 1, 2015, any restructuring (outside of RBI permitted sectors relating to infrastructure) would become an NPA. So there is a possibility that higher amount of restructuring should happen during Q4 and that is the buffer we have just kept in terms of the ₹65 billion. If what we have seen over the first 3 months happens and Q4 is similar to that, I think we should be short of ₹65 billion but we expect higher restructurings in Q4 and that is why we are still maintaining that number of ₹65 billion for the full year.

Sanjeev Kumar Gupta: As 47% of our loans are largely Corporate Credit oriented, any restructuring through the CDR forum may need us to fall in line which we believe explains the possibility of some increase in the last quarter.

Anish Tawakle: Okay but I agree that even FY16 there would not be any incremental restructuring, but anything to guide on slippages or anything pertaining to any incremental stress which you can guide?

V. Srinivasan: For FY16?

Anish Tawakle: Yes.

V. Srinivasan: I think logically if we look at the macro improving and rates easing, then one should expect credit cost to be lower but again that is something which we will come to you with more specifically in April after we see the budget and after we see what the outlook for the new financial year is.

Moderator: Thank you. We have next question from the line of Kaushal Patel from India Nivesh Securities. Please go ahead.

Kaushal Patel: I think most of my questions have been answered but there is one question. We shutdown I think almost 275 ATMs in the last quarter. So I would like to know the strategy towards that like, how you are going for the ATM expansion network?

Rajiv Anand: As you may be aware, our entire ATM network is outsourced and it is on a pay-per-use model. As far as the Independent ATM Deployers (IAD) are concerned, we have seen some deterioration in terms of the number of transactions on ATMs which could be function of new charges that all banks are now levying. I am sure you know that banks are now charging anything beyond 5 transactions and more than 3 transactions on first basis in the top 6 cities. It is early days, I think we will have to see how this plays out in terms of whether the customers' behavior in terms of number of transactions is changing or not. And also you have to look at it in the context of the fact that the number of transactions that we are seeing on digital platforms is increasing. So this is the space that one needs to watch out in terms of the number of transactions and in terms of number of transactions going digital.

Kaushal Patel: Right. So going forward, how you see like you will close more ATMs or how will you go?

Rajiv Anand: Some of these ATMs which have been shutdown are normal portfolio churn. I would not ascribe any trend to it yet. I think our intent is to continue to grow our ATMs but we will certainly have to watch and see how customer behavior evolves over the next let us say 6-9 months.

Kaushal Patel: Thank you and one more question sir, number. Can you give restructured amount during this quarter?

Sanjeev Kumar Gupta: During this quarter the restructured amount was ₹132 crores.

Moderator: Thank you. We have next question from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: My first question is on yields on advances. Based on my calculations, I see a drop of about 20-30 basis point on a Q-o-Q basis. Of course this is based on period end numbers. But what I see also is correspondingly our Domestic Corporate Book growth has been quite strong, if my numbers are correct. Is it fair to kind of assume that part of this growth is coming because of refinancing of loan?

Sanjeev Kumar Gupta: I would say first of all that there is no 20 basis point decline in the yield on advances and as already indicated earlier in the 15th of October we have reduced the base rate by 10 basis points and roughly about 80% of our loans are linked to the base rate. As a result of which, there has been a decline in yield on advances on a sequential basis.

Rahul Jain: Okay, so base rate cut is the main reason why your drop, alright.

Sanjeev Kumar Gupta: Yes.

Rahul Jain: Second question is of our total term deposit 38% is non-Retail. Would it be possible to know the average cost of funds on that as well as average duration as in how long do you think it will take for this book to rundown?

Sanjeev Kumar Gupta: So average duration of those Corporate deposits are roughly about 7-8 months.

Rahul Jain: And average cost of fund on that?

Sanjeev Kumar Gupta: It is not very different from overall cost of term deposits.

Rahul Jain: Okay. If I may ask one more question. So you talked about the restructuring pipeline, I mean you give a sense on restructuring. Would it be possible for you to share a number on your exposure to accounts that are with CDR cell, the loan account that has been referred to CDR and are under process?

V. Srinivasan: We do not have that number offhand but again clearly as I said whether it is through the JLF mechanism or through CDR, we expect higher restructurings to Q4.

Rahul Jain: Have you guys shared the number on SMA-1 and 2 accounts, is it possible to get some sense as to how that bucket is moving? A qualitative sense would be good enough say over the last 2-3 quarters how do you see that?

V. Srinivasan: I think considering the change in sentiment, we have not seen an equivalent reduction in terms of reporting as far as SMA 0, 1 and 2 are concerned. Those still continue to be on the same levels though fresh accretion seems to be moderating.

Rahul Jain: Alright, just one final data point. Is it possible to know the GNPAs broken down into SME, Retail, and Corporate?

Sanjeev Kumar Gupta: The total GNPAs was roughly about ₹707 crores and which is largely from Corporate credit.

Rahul Jain: And within that I presume it would be mid-Corporate?

Sanjeev Kumar Gupta: No, it is entire Corporate Credit.

Moderator: Thank you. We have next question from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: One question, if you can explain more on terms of the total assets for the international business. It is almost $8 billion. So if you can split between advances and investments and how much would be to Indian Corporates or it is mainly international clients and some nature may be duration and spreads?

Sanjeev Kumar Gupta: Advances largely comprise the USD 7.76 billion of our total overseas assets. Furthermore loans are to Indian Corporates or India centric businesses.

Jigar Walia: So it is almost like 30%-35%-40% of our Corporate Book if we look at mainly.

Sanjeev Kumar Gupta: No, I could not understand. Majority of the Bank's overseas assets are driven by Corporate Banking.

Jigar Walia: Perfect and sir in terms of nature what would be the spreads and duration for this and are these for specific asset-oriented transactions or is it more like a debt swap something like that?

V. Srinivasan: No debt swap here. It is primarily for financing needs of Indian Corporates or subsidiaries of Indian Corporate offshore for their offshore business needs and the tenure of these are typically lower than what you would see in the normal rupee lending book.

Jigar Walia: Perfect and lastly the spread sir?

Sanjeev Kumar Gupta: Overseas NIM is roughly about 1.7%.

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

Adarsh P: Sir two questions. Firstly on the Retail Book, did you all have a reclassification from the housing loan book to other loans?

Sanjeev Kumar Gupta: The one difference in the material that you see this time is we have shown the classification over the entire Retail Book, not just the domestic Retail Book and hence some of the FCNR based lending which was not part of the classification pie chart in the past has been included this time because it had been on our books for a while but there is no other reclassification of any sort.

Adarsh P: So could you just remind what were the advances given for FCNR so we can just…

Sanjeev Kumar Gupta: It is around 4% of the Retail Book.

Adarsh P: Okay, understand. Second thing, conceptually I wanted to ask there were a few known stressed cases and both in gas and other on the infra side and some of them are like operating assets having issues. So just wanted to understand how will the Bank approach assets where you do not have a solution till now but you have a window which the RBI has provided to kind of reschedule those assets and probably you will have an answer to them in 2-3 years' time.

V. Srinivasan: I think we worked through the consortium and most of these cases we typically are not major lenders in the consortium and as a consortium, we will have to take a call in terms of how exactly to handle some of these assets.

Adarsh P: I am aware that your gas exposures are relatively low but what is happening to that 1 or 2 exposures that you may have in terms of how they still remain standard?

V. Srinivasan: Yes, couple of exposures are still in implementation phase. So we would see what happens from the government side on policy which is being talked about and then accordingly take a call.

Moderator: Thank you. We have next question from the line of Sachin Upadhyay from ICICI Securities. Please go ahead.

Sachin Upadhyay: Sir just one quick question. There is a reduction Q-o-Q in terms of numbers of employee. Is there a conscious thought behind this or this is may be probably a period end number that I am looking at?

Sanjeev Kumar Gupta: It is not conscious. Increase in staff in Q2 was largely a result of campus recruitment.

Sachin Upadhyay: Because this is for the first time and let us say 3 years that our employee strength has fallen below somewhere around 17 employees per branch. So is there a trend that we should be looking at in terms of how many employees per branch that you would be looking at?

Sanjeev Kumar Gupta: We don't necessarily target specific metrics on employees per branch. Over time, the Bank is working towards improving operational efficiency which over time reduces staff requirements.

Rajiv Anand: I think what is now happening is that size of the incremental branches is getting smaller and I think as customers are getting more digital etc., the size of these branches is getting smaller and so therefore our requirement of new employees in incremental branches or the new branches is getting lower and lower.

Moderator: Thank you. We have next question from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir, what would be the risk-weighted assets at the end of the quarter?

Sanjeev Kumar Gupta: ₹3,28,000 crores.

Pankaj Agarwal: And sir in terms of this quarter, you had cut your base rate by around 10 basis points. So was there any particular reason. Was it because of decrease in funding cost or just a response to competition?

V. Srinivasan: I think it tracks a decrease in funding cost and that is exactly what we did.

Pankaj Agarwal: So going forward there would be further cuts during this quarter as your funding cost comes down?

V. Srinivasan: Yes. If the funding cost comes down, we will take a look at base rate.

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

MB Mahesh: Just a few questions. To Mr. Srinivasan, is it possible for us to kind of get a broad understanding as to whether fresh sanctions for Greenfield or Brownfield projects, are you seeing any kind of proposals one and two, would you be worried about the recent decline in commodity prices especially in sector like Metals.

V. Srinivasan: Yes. So the first question, clearly we are not seeing much demand for Greenfield or Brownfield as of now. I think we do not see any large tickets projects coming or at least approaching the Banks. They may be on the drawing board but still to come to the banks. As far as the decline in commodity prices is concerned or otherwise, I think for certain sectors it is not good news and that is something which will play out over the next few quarters. I think there would clearly be implications in terms of realization for them.

MB Mahesh: Would you see any NPLs coming out of it at this stage or do you think that they are pretty much comfortable given the fact that both the raw materials has also fallen on the other side?

V. Srinivasan: Yes, I would believe so. , But clearly these exposures require closer monitoring than before, that is what I can say.

MB Mahesh: To Mr. Jairam, just wanted to understand how much are you willing to expand this unsecured-loan portfolio in the book and if you could probably split it between Personal Loan and Credit Cards that would be great.

Jairam Sridharan: So we have said 9% of our book is unsecured today. Of which, 7 is personal loans and 2 is credit cards give or take a little bit. Our appetite is to take this to mid-teens, but probably somewhere in the 13-15% range in the medium-term is where we are comfortable, probably not much more than that.

MB Mahesh: Is it fair to assume that your credit card business will be generating about 4-5% kind of an ROA today?

Jairam Sridharan: Today's environment that will be fair, but credit cards are a very pro-cyclical business. So you got to be careful about making generalized assumptions around that.

MB Mahesh: Okay sure and one last question to Mr. Rajiv Anand. Just savings account balance slowdown that we have seen today or as compared to what we saw in the previous few quarters. Has it got to do anything with the government balances which are sitting in the savings account and if possible if you could quantify how much of government balances actually contribute to your savings accounts?

Rajiv Anand: I think what you are looking at is the growth on an end-day balance basis, but if you look at it on the way that we build up this is on a cumulative daily average basis. Those numbers have not come down and that is really the number to really look at and in that context there is no real slowdown.

MB Mahesh: And how much would be your government balances coming in? Is that high number, low number, how do we see it?

Rajiv Anand: Typically, it is anything between 12-15% of our total balances.

Moderator: Thank you. We have next question from the line of Prashant Kumar from Credit Suisse. Please go ahead.

Prashant Kumar: Just a quick question on deposit growth. Actually your CD ratio has really gone up to almost 88%-89% and I understand that some of it is because you raised infra bonds and all. So like it looks a bit overstated because you have a lot of foreign currency loans as well but still after adjusting for all that, still your credit deposit ratio seems to be on the higher side. So sir just wanted to tie it up with your overall strategy in terms of deposit growth and like can going forward we can expect that deposit growth rate is going to meaningfully outpace credit growth. So just an overall sense on this CD ratio?

Sanjeev Kumar Gupta: If you will see, the CD ratio on an overall basis is 79%. Roughly about 12%-13% of our loan book is at our overseas branches which are largely funded by our borrowings under the MTM programs and the local borrowings, not supported by the deposit. On a domestic basis, the CD ratio is roughly about 76%.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand over the floor back to the management for their closing remarks. Over to you sir.

Sanjeev Kumar Gupta: Thank you once again for joining us on this call. The Bank has had a good third quarter and is well-positioned to take advantage of any revival in the investment cycle and thank you and best wishes for the New Year.

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