"Axis Bank Limited Q3 FY-17 Results Conference Call"

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Moderator: Good day, ladies and gentlemen and welcome to the Axis Bank conference call to discuss the Q3 FY17 Results. As a reminder, all participants' 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 assimilation 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 team is represented by Mr. V. Srinivasan – Deputy Managing Director and Mr. Jairam Sridharan – Group Executive and CFO.

There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this 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 this Axis Bank conference call. I would now like to hand the conference over to Mr. Jairam Sridharan – CFO, Axis Bank to begin with the presentation. Thank you and over to you, sir.

Jairam Sridharan: Ladies and gentlemen, good evening. Wish you all a very Happy New Year 2017. I welcome you to our conference call for a presentation on the bank's performance for the third quarter and nine months of the financial year 2017. On this call with me are my colleagues Mr. V. Srinivasan – Deputy Managing Director; Mr. Rajiv Anand – The Executive Director (Retail Banking) and Mr. Sidharth Rath – Group Executive (Corporate and Transaction Banking). At the end of this presentation we would be glad to respond to your questions. For parts of this call we expect to refer to slides in our quarterly earnings presentation so you might want to keep that presentation handy.

Key highlights for the quarter's performance:

1# Slippages come off the peak continued to be driven by Watch List. Total slippages reduced 48% quarter-on-quarter to Rs. 4,560 crores the Watch List has now reduced to Rs. 11,091 crores.

#2. Visible impacts of demonetization on both sides of the balance sheet. Sequential deposit growth was aided by demonetization, while loan growth moderated.

#3. Pre-provisioning profits steady driven by treasury. Underlying earnings remains steady with operating profit margin at 3.1% of average assets. We increased provision coverage ratio this quarter from 60% to 64%. Net profits declined 73% year-on-year to Rs. 580 crores.

#4. Retail franchise which remains stable and reflects the impact of demonetization. CASA balances grew by 21% year-on-year on an end of year basis and the CASA

ratio was 48%. The share of retail advances stood at 43% of total loans. Retail loan also forms 45% of the bank's fee income. Card spends grew 82% year-on-year.

#5. Strength in capital position. The bank further strengthened its capital position during the quarter. At the end of the third quarter our Tier-1 ratio now stands at 12.99% compared to 12.35% at the end of the third quarter last year. I shall dwell on these themes in greater detail as we go along.

Let me begin by detailed comments with our perspective on the macro situation as it looks for Indian Banking today:

December capped a year of surprises from the UK Brexit Referendum to the US Presidential elections. However, these events were largely overshadowed by the unprecedented exercise in India to end legal tender status of large denomination bank notes and the resulting procedures to replace these with new currency. The impact on banking business has been significant with deposit growth up by almost 15% year-on-year and 4% quarter-on-quarter. Even the credit growth has slipped to 5% year-on-year and down 2% quarter-on-quarter, based on latest data available.

The flood of liquidity via bank deposits have pulled bulk term deposits rates sharply lower facilitating conditions for steep cuts in bank lending rates. Given the current liquidity situation and the inflation outlook we are hopeful about some further though limited monetary policy easing by RBI over the next few months. However, the largest stimulus perhaps will need to come from the fiscal side. The extent of stimulus the government is able to provide both via boosting discretionary incomes of households and increasing spending on investments will determine the pace of economic revival going forward. At present, however, private sector appetite for fresh investments remained low, and a pick up in the sentiment is imperative for credit demand to revive. In this context, overall demand might remain muted for much of financial year 2018.

With this macro backdrop, let me now discuss the bank's performance in greater detail.

Starting with asset quality.

I draw your attention to Slide #25 in the Investor Presentation. Gross slippages for the quarter declined 48% sequentially but remain high at Rs. 4,560 crores during this quarter. We have increased the provision coverage ratio on NPAs from 60% to 64% in this quarter. Driven in large part by this increase the credit cost for the quarter was at 3.61%. In April 2016, we published what we then called the Watch List. These were accounts the management had said to be the key source of stress in our corporate lending book over the next two years. If you flip to slide 26 of the earnings presentation, you will see that the gross NPA ratio of the bank has increased to 5.22% at the end of December 2016 up from 4.17% in September, while the

Watch List has reduced to 2.8% of customer assets down from 3.5% in September and 6.20% at the beginning of the year.

Moving on to Slide #27, in absolute size, fund based outstandings of the Watch List accounts has declined to Rs. 11,091 crores from Rs. 13,789 crores at the end of the second quarter. Total slippages from the corporate lending book stood at Rs. 3,683 crores for the quarter of which 70% came from the Watch List. Cumulatively, over the first three quarters of the financial year the dissolution rate of the Watch List has been 51%. There were no exits from the Watch List in this quarter.

Slide #28 shows the top ten sectors in the Watch List outstanding that remains. Power and iron and steel still remain the top two sectors contributing 64% of the outstanding Watch List loans of Rs. 11,091 crores.

Moving on to slippages outside the Watch List, Slide #29 captures the key metrics. Over the first nine months of this year, 85% of corporate slippages have been from the Watch List, and 15% from outside. The key sectors that have contributed to non-Watch List corporate slippages during the third quarter are iron and steel, and infrastructure construction. If you further break down, you find that the periods when these loans were originated are predominantly in the FY11 and prior periods which contribute 98% of such slippages in this quarter. This is fairly similar to the Watch List weightage mix that we showed you a few quarters ago. Net slippages before write off in retail and SME stood at Rs. 274 crores and Rs. 382 crores respectively.

For loans, smaller than Rs. 1 crore, RBI had offered a dispensation to defer the downgrade of certain categories of loans like CC/OD, crop loans and term loans for business purposes with sanctioned limits of Rs. 1 crore or less that were standard as of 1st November 2016 but could have become NPA in the period between 1st November 2016 and 31st December 2016. Loans aggregating Rs. 40 crores as on 31st December qualify for the aforesaid dispensation across retail and SME segment and consequently have not been subjected to downgrade in the third quarter. Total recoveries and upgrades for the bank stood at Rs. 350 crores. For the nine months in the financial year the annualized credit cost was 329 basis points. As mentioned in our call last quarter, we continue to expect the credit cost for the second quarter to be similar to what we experienced in the first half. Based on the level of recognition in the first three quarters, and our outlook on the corporate lending portfolio from here on, we expect financial year 2017 will be the peak of slippages and credit cost in this credit cycle.

So to round up our discussion on asset quality, a few final metrics that you might find useful. During the quarter, the bank implemented SDR or Strategic Debt Restructuring in two-standard accounts the underlying loan amount was Rs. 501 crores, the bank has not implemented any 5/25 or S4A during this quarter.

The cumulative outstanding value of the underlying loan amount for SDRs and 5/25 undertaken by the Bank so far is around Rs. 1,360 crores and Rs. 2,992 crores respectively.

During the quarter, the banks sold assets with a gross outstanding of Rs. 24 crores and a net book value of Rs. 4 crores to ARCs against net sale consideration of Rs. 5 crores in cash. To get a sense of the overlaps among different restructuring dispensations, I invite you to look at the Venn diagram shown on slide 26. As this diagram indicates there is a 50% overlap across different categories of restructuring dispensations with our disclosed Watch List.

Before I move on to the other dimensions of the bank's performance let me spend some time on the impact of demonetization:

Demonetization has led to a sharp increase in system liquidity. Simultaneously, we have also seen a reduction in incremental credit demand. Over these last two months, we have witnessed sharply higher deposit growth and subdued credit growth. This has resulted in an incremental deployment of funds being more skewed towards short term investments. We have also seen yields on incremental advances turn lower. Our incremental deposit accretions during the demonetization period was largely in line with our incremental market share of deposits.

This resulted in an increase of 3.82% quarter-on-quarter in our CASA deposits from Rs. 169,961 crores to Rs. 176,451 crores. If you refer to slide 22, you can see the impact in this quarter on lending to retail customers. As you can see we saw a distinct slowdown in disbursements, in rural lending, home loans and loan against property. Some of the businesses like auto loans and personal loans were relatively less impacted. Credit appetite in the corporate banking segment remained lackluster and SME segment saw a lower growth on the back of heightened repayments.

Flipping back to Slide #12, you see some more information on the impact of demonetization during the quarter. We saw cash deposits surging nearly 28% and withdrawals reducing 59% compared to base line. The number of branch transactions pertaining to withdrawals reduced significantly towards the end of the quarter but remains still above pre-demonetization normals. On the flip side, electronic payments surged significantly with our card spends growing 82% year-on-year and UPI payments picking up strongly from a zero base.

As volume grew we enhanced our suspicious transaction reporting process adding multiple new triggers and cash deposits outward remittances, dormant accounts, Jan-Dhan accounts and bullion accounts. Resultantly the number of SDRs filed by the bank in this quarter increased significantly. We continue to report these increased SDRs to respective agencies who in turn visited a few of our branches to investigate some of these accounts further.

Let me move from demonetization now to address the asset side of our balance sheet:

Aggregate loan growth reduced during the quarter to 10% year-on-year. Loan growth continues to be driven by retail. Retail lending so far continues to show healthy growth with a year-on-year growth of 22% this quarter excluding loans against FCNRB deposits. A few details on the growth. The growth was led by auto loans, unsecured personal loans and credit

cards. As indicated before, disbursement growth has slowed materially on some other product lines like agri lending, home loans and loan against property. The credit quality of retail loans continues to be steady.

The corporate advances portfolio had a year-on-year growth of 4%. Overall demand for corporate credit continues to be tepid and we have at this point liberal visibility to improvement in the short term. 83% of new sanctions in the corporate books for the fiscal year where the company is rated A and above. Presently 63% of outstanding corporate loans are to companies rated A or better. Given the developments in this quarter, we expect our initial credit growth expectations for financial year 2017 to see some moderation.

Let us now move on to the bank's earnings profile:

I request you to refer to slide 14 of the earnings presentation. Pre-provisioning profits for the quarter were at Rs. 4,640 crores, a growth of 16% over the third quarter last year. The profit margin was 3.1% compared to 3.29% in the third quarter last year and 2.95% in the second quarter of this year. Despite the various head winds, operating profit performance has remained healthy driven by treasury gains. Net interest income growth at 4% has been muted driven both by lower margins and slower loan growth.

Fees have declined by 4%. Within this group retail fees continues to be an area of strength, with a growth of 8%. Card related fees were up by 23% year-on-year but lower than growth trends witnessed in the past. Net interest margin in the quarter was 3.43% with domestic NIM at 3.61%.

If you flip to Slide #15, you will see in the waterfall chart that NIM compressed by 21 basis points on a quarter-on-quarter basis. The lower slippage numbers this quarter compared to the second quarter resulted in a favorable variance of 6 basis points on NIM. There were two primary NIM compressive effects. Q3 witnessed certain balance sheet structural changes in the form of higher deposits, higher cash in hand and reserve requirements and change in the mix of assets and liabilities with movement towards lower yielding investments on the asset side.

We estimate the net NIM impact of all these balance sheet structure changes to have been 10 basis points and for this to be temporary in nature. Another 23 basis points of NIM compression in this quarter was driven by the new regulatory guidelines by RBI on recognition of interest on SDR and S4As. Once again as a onetime catch up element we expect a large part of this to be temporary. For the nine months ending December our NIM has been 3.62%. We expect our full year NIM to be around 3.6%.

Changing compositions of the lending books are important to understand as one tries to build NIM expectations for the future. To give you a sense of the banks' trajectory on that front, we have included slide 16 in the investor presentation.

This slide shows the composition of our books by rates type and how it has been changing over recent quarters since the beginning of the MCLR era. We hope you find this slide useful. Cost of funds during the third quarter was 5.51% compared to 5.68% in the second quarter and 5.86% in the third quarter last year. Fees declined by 4% and now constitutes 23% of operating revenue. The mix of granular fees continues to grow with retail banking and transaction banking fees together constituting 74% of our fee income in this quarter. Corporate banking fees in the quarter declined by 30% year-on-year. The interest rate environment in this quarter has been conducive to significant gains in the trading portfolio of the bank. During the quarter trading income stood at Rs. 1,525 crores up 352% year-on-year.

Operating expenses in the quarter increased by 23% year-on-year and the quarter cost-to-income ratio was 40%. Cost to assets of the bank was at 2.12% for the quarter and 2.03% for the nine months. Provisions and contingencies increased by 433% year-on-year due both to the elevated slippages compared to last year and the increase in provision coverage ratio of over 400 basis points undertaken during this quarter. The bank showed up PCR from 60% to 64% quarter-on-quarter. During the quarter, we have not utilized any contingent provisions which continue to be at Rs. 160 crores. PAT for the quarter declined by 73% on a YoY basis. The annualized ROA and ROE for the quarter stood at 0.39% and 4.44% respectively.

Moving to our retail franchise now:

Let us start with slide 19 in the earnings presentation. Transaction volumes at ATMs declined by 13% on a year-on-year basis, while branches and digital channels increased by 99% and 73% respectively. Mobile banking spends in the third quarter reported a growth of 69% in value on a year-on-year basis and a 103% in volume terms.

On Slide #20, you see our continued investments in developing a deeper branch network. We continued to open a steady and sizeable number of branches quarter-on-quarter and opened 105 in the third quarter. So far, we have opened 307 branches in fiscal 2017 in line with our plans to open 350 to 400 new branches this year. Aided by demonetization, savings account balances at quarter end grew at a 27% year-on-year while current account balances witnessed a growth of 9% thus driving an overall CASA growth of 21% year-on-year. Our overall CASA share in deposits was 48% at the end of the quarter. CASA deposits on a daily average basis for the quarter grew by 31% and comprised 44% of total deposits.

On a daily average basis – SA deposits grew by 31% and CA deposits grew by 30%. CASA and retail term deposits continue to form a strong base at 81% of total deposits. Redemption of FCNRB deposits worth nearly $1.62 billion happened during this quarter. The bank has 31 lakhs credit cards in force at the end of the quarter making us the fourth largest credit card issuer in the country. Slide #23 showed the steep growth trajectory that we have seen in card spends in the last few months. As you can see here, our card portfolio saw an increase in spends by 82% year-on-year to Rs. 15,750 crores up from Rs. 8,635 crores for the third quarter last year. The bank continues to make significant investments in customer facing digital

payment solutions. We are one of the first banks to enable cash less payments at toll plazas across the country.

We are delighted with the early positive response to access pay UPI as shown in the spends chart on the Slide #12 that we referred to earlier. We believe UPI is an innovation that has the potential to fundamentally transform the digital payment landscapes in India. In the coming months you will see digital payments come to life as you board a bus in Bangalore or a metro in Kochi. We are partnered with the Bengaluru Metropolitan Transport Corporation and Kochi Metro Rail to offer the country's first open loop smart card for transit. These solutions offer integrated services to commuters by offering them cash less bus and train travel as well as access to all 1.8 million card accepting outlets across the country.

Leadership in these emerging electronic payment platforms offers the bank a unique opportunity to build new payment businesses for the future. Finally let us touch on the bank's capital levels. As of 31st December 2016, our total capital adequacy ratio including nine months' profit is 16.59% with a Tier-1 capital adequacy ratio of 12.99%. This compares with a Tier-1 of 12.03% as of the second quarter and 12.35% as of Q3 FY16. During the third quarter the bank raised Additional Tier-1 capital in the form of perpetual debt instruments amounting to Rs. 3,500 crores which has further strengthened our overall capitalization levels.

Slide #6 in the earnings presentation lays out the impact of various items on our Tier-1 ratio this quarter. Growth consumed 75 basis points of Tier-1, new guidelines consumed 11 basis points, additional capital raised contributed 74 basis points and the gross accretion to reserves was 60 basis points, making for a net accretion of 48 basis points of capital in the quarter. The annualized nine months ROE and ROA for financial year 2017 stands at 6.30% and 0.58% respectively. As the impact from higher slippages recedes and benefits of higher investments in branches and employees kick in, we expect these ratios to improve.

Moving on from the major scenes, I would like to highlight a couple of other metrics that you might find useful and understanding the bank's performance this quarter. SME loan growth stood at 5% year-on-year, this space has been impacted materially by events in recent months and we are watching the developments here closely. Risk weighted assets for the banks stood at Rs. 433,439 crores and grew by 12% on a YoY basis. Finally, I would also like to highlight some of the achievements of our key subsidiaries. Starting with Axis AMC, the asset management company reported 43% year-on-year growth in average AUM with 37% growth in total number of folios. Axis Long Term Equity Fund continues to be the largest ELSS fund in the industry with an AUM of Rs. 10,409 crores and also among the top ten equity funds in the industry. Axis Direct, our retail broking franchise continues to show steady growth.

Axis Direct has improved to the number five position this quarter from number six among all broking houses in terms of unique trading customers on a twelve months' basis. Adoption rate for customers trading on the mobile platform continues to remain among the best in the industry. Axis Capital, our institutional equities and investment banking franchise continues to

perform well. During the third quarter, Axis Capital successfully co-managed two IPOs in the automotive component manufacturing and beverages sectors.

As I come to a close, allow me to re-summarize the key things for this quarter.

Number one, asset quality, slippages have come out from the peaks reducing 48% quarter-on-quarter continue to be driven by Watch List, the bank improved its provision coverage ratio from 60% to 64% quarter-on-quarter.

Number two, business growth. Loan growth momentum impacted the demonetization in the near term.

We expect our initial credit growth estimates and expectations to see some moderation.

Number three, earnings. Steady pre-provisioning profits but driven by treasury gains in this quarter.

Number four, our retail franchise loan growth remains healthy digital payments and transactions trends have witnessed strong growth.

And number five, capital position. The banks further strengthened the capital position during the quarter with a Tier-1 ratio at 12.99% compared to 12.35% at the end of third quarter FY16.

With this, I come to the end of my comments and at this point we will be glad to take your questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session.

The first question is from the line of Suresh Ganapathy from Macquarie Capital Securities. Please go ahead.

Suresh Ganapathy: Hi, I have three questions. One is on your non-watch list slippages which have been high this quarter and I am noticing that it is the iron and steel of course which has contributed. It is surprising that the last couple of quarters have been pretty good for the sector with the commodity prices rallying and despite that you have actually seen such a large slippage. So what exactly is an issue there? I mean is it really an issue of capital structure of these firms, that is the first question. The second is in the resolution of stressed assets, can you give us some qualitative comments? We are hearing there are lot of delays and things are not progressing as per the expectations.

That is the second and then the third and final question is on the operational risk you know there has been a lot of issues regarding branch managers, post the demonetization exercise and I believe you had also appointed a consultant to look at serious operational lapses in the bank.

Any particular conclusion from that study and whether you can highlight a bit more on the operational risk issues and how the bank is managing that?

V. Srinivasan : The slippage was from the iron and steel segment. It was on account of one account which contributed around 20% of the non-watch list slippages. As it it is an operating company, to that extent what was required was some restructuring and so we are not looking at any substantial haircuts here. An account when restructured would get classified as non-performing asset. .

On the resolution front, there have been some positive developments for some larger exposures which have been in the press. It is important to note that some of the larger accounts have also been downgraded or classified as NPAs by most banks. For a viable workout in these exposures, banks are trying to explore restructuring measures outside of any of the dispensations where the current dispensations don't seem to be fully fitting in as far as these accounts are concerned.

In this context, I think there has been progress and we are hopeful that through this approach, restructuring of some of the large accounts, that have slipped in the past for most of the banks will reach some conclusion. As far as the third question, Rajiv do you want to take that?

Rajiv Anand: Yes sure. Suresh, as far as I think you have got to look at it in the context of the fact that we have seen almost 4 to 4.5x in terms of the number of transactions that we have done on a daily basis over this -50 to 55 day period. Also there have been frequent changes in regulations during this period. What we have done is that we had actually put together a fairly elaborate team at the central level to be able to (1) assess the operational risk, (2) put the requisite controls in place and (3) to be able to sort of disseminate that to around 3,100 branches. But I think in the context of the size and scale of operations that we have executed over this 55 day period, in the context of the kind of customer service that we have delivered as well, yes we have seen a few operational risks sort of incidents play out. It is certainly not of a systemic nature but something that has happened in a few branches. We have tightened processes and controls and we have also assessed what else we can do to be able to tighten things.

Moderator: Thank you. The next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Thanks for the additional disclosure. So I just wanted to follow up on that non-Watch List slippages. So if you see the top four sectors which are there these are all the same sectors we have been talking about for the past couple of years. So I just wanted to understand what was the rating of these accounts at the time when we designed the Watch List and why were they not I mean getting captured when we designed the Watch List? So just wanted to get a sense on that part?

Jairam Sridharan: Yes, Dhaval thanks for your question. The reason we started the new disclosure on non-Watch list was because it became material over the last two quarters and particularly in this one. It is tough to second guess why we did not originally put these in the Watch List in the first place. When we created the Watch List we had a series of variables that we kept in mind -- the rating was one, conduct of the account was another, underlying fundamentals of the account and the promoter were another, and multiple factors went in and kind of as I mentioned in the past as well, we judgmentally placed the line somewhere saying okay risk levels above this I am going to place it on the Watch List. At this point we could second guess and say hey, maybe we could have placed the line a little bit kind of more conservatively than one should have.

That is possible but I think at this point what is worthwhile if you look at how the Watch list is behaving and outside of the Watch List what are the kinds of characteristics of the accounts that are coming up and what is the flow rate of accounts coming from outside the Watch List, these are what I hope to continue to share with you all on a quarter-on-quarter basis.

V. Srinivasan: I would just like to add one more thing there. In addition to whatever judgement we made at the time of announcing the Watch List, there was also an expectation in terms of how exactly things will pan out in terms of both the economic conditions as well as in terms of bank's behavior. I think we had always mentioned about second order effects. When we came out with the Watch List in April, we were not sure what should be expected on loan quality after the AQR exercise for other banks. We hoped banks would be proactive and help workouts in some of these accounts. However, our expectations have not played out as anticipated.

Dhaval Gada: So can I say that this is sort of like will go back to the normalized level of 1Q. how do you see this run rate of non-Watch List trending?

V. Srinivasan: As of now we would reiterate the guidance in terms of 300 basis points of credit costs as far as this full year is concerned. And as far as overall slippages for next year and how exactly we look at it, the Watch List versus the non-Watch list, we would come back to you after the end of Q4.

Dhaval Gada: Okay. Sir secondly on the provisions there is Rs. 270 odd crores other provision increase so just wanted to understand what is driving that?

Jairam Sridharan: Yes, Dhaval thanks for bringing that up. There is one account in which there was underlying weakness, but we do not have any fund based exposure to that account. It is an entirely non-fund based facility and that account has a non-fund based outstanding of about Rs. 360 crores or Rs. 380 crores thereabouts. Against this exposure we have set aside provisions of Rs. 264 crores. And just to be clear this provision is not included for provision coverage calculations.

Dhaval Gada: Okay just lastly on loan growth we have seen some moderation in this quarter, so how do you see the overall credit environment given the sharp reduction in rates that you have seen and the

system readjusting post demonetization? So how do you see overall SME and corporate loan growth for us?

Jairam Sridharan: See as of now we are in a little bit of a cautious wait and watch kind of mode to see how the economy pans out. Right now we are seeing some pockets of strength in retail and also some pockets of weakness around segments like agriculture and real estate. On the corporate and SME side, businesses in general are, adopting a wait and watch strategy for the moment. We are hopeful of seeing some pickup in activity post budget, but for the present we do not have clear line of sight.

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

Vishal Goyal: Thanks for this detailed presentation. That's really helpful. My question again goes back to this non-Watch List and watch list thing because you know if we keep seeing like 30% non-Watch List NPA then there is a case for revising the Watch List. Is that right? We keep asking this question like quarter over quarter that whether you need to revise the Watch List but you do not add anything to the Watch list but when it is slippage from the outside of Watch List, then basically we lose comfort on the Watch List number. That is what I am coming from?

Jairam Sridharan: If you look at the nine months of the year, in corporate credit 85% of slippages have come from the Watch List. You are aware of the commentary and the language that we used when we created the Watch List which said Watch List will be the key source of stress in corporate credit. When you say 85% of stress is coming from there, I think it largely sort of falls in line with what our original commentary and language was. It is true that in absolute terms, one is still uncomfortable with the levels of non-Watch List slippages that one has seen in this quarter.

The question is how to give the investor community comfort and directional guidance on the developments that may play out. Our take on that is that while Watch List needs to be dealt with as a stock item on the bank's balance sheet as a stock of problematic asset that needs to be resolved, the non-Watch List pools everything - corporate, retail, SME and needs to be dealt with in flow terms, We also need to start thinking about them in form of flow of slippages and credit cost. As Srini mentioned earlier, as we get through Q4 and greater clarity emerges, we would offer a guidance on asset quality trend for FY18.

As of now as we look at Q4 and as we look at closing our financial year 2017 we reiterate what we mentioned in our prior call which is that the credit cost in the second half of the year is likely to be similar to what we had in the first half of the year though slippage numbers will likely be lower as we go ahead and increase our PCR. That I think should capture the essence of what we expect to see in financial year 2017.

Vishal Goyal: Okay. And the other part is the smaller businesses not essentially less than Rs. 1 crore but even Rs. 5 crores, Rs. 10 crores or like Rs. 25 crores kind of businesses. So how are the overdue trends in the smaller businesses for us like 30 days, 60 days overdues?

Jairam Sridharan: Yes, so nothing to report on that for the current moment. I mean things are not deteriorating let me say that, based on the early risk trends and repayment patterns have been steady even in relatively more cash heavy segments like agri or the smaller pockets of SME. So overall, right now there is no sort of immediate impact that one has seen on the asset quality side of small ticket loans driven by demonetization.

Vishal Goyal: And last question actually on this MCLR cuts and margin expectation. So I think we obviously have seen the transition from base rate to MCLR and in the light of that should we expect margin contraction because MCLR cuts have been clearly steeper than our cost of fund declines?

Jairam Sridharan: Margin trajectory going forward will be influenced by a few factors viz. (1) you will see more migration from base rates to MCLR loans either in the form of new business being written or existing base rate customers moving on to MCLR for a fee. So you should see some of those trends and that as you rightly point out will be NIM compressive. (2) Select idiosyncratic factors that may not repeat (i.e. factors depressing NIM as indicated in waterfall) in the same magnitude in the coming quarters. As these factors play out, you could see some of the relief on NIM.

So overall kind of we look purely at Q4 and we try and project out how NIM might trend, we feel okay, reiterating our earlier guidance that the full year NIM will be around the 3.60% mark.

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

Nilesh Parikh: So the question is on again sorry coming back to the Watch List. So we have seen about since the time we disclosed this, 50% of it has slipped even as the exits have been minimal to talk about. Now in terms of you know with the kind of flow that we have seen, so you refrain from giving a particular number but given that the flow through has been quite significant and with limited resolutions. So just wanted to get are we kind of looking to -- is there a number that we should work with given what has happened since nine months? And second is our expectations of resolutions right, so we hardly have seen any exits. Now when we talk about resolutions Srini talked about that we are talking of looking at some restructuring outside of the RBI dispensations. So if you can just dwell on that what are those in which form will it take place?

Jairam Sridharan: Sure. The last one I will request Srini to chime in, but let me make a couple of remarks on expectations on the Watch List itself. Theoretically a couple of things and one sort of practical comment. You just look at the overall resolution of the Watch list you are right that exits we

have not actually had much or any at all, because every quarter when we are actually analyzing the accounts on the Watch list we are finding it difficult to convince ourselves that the situation has improved enough for these accounts to be upgraded out of the Watch List. So we are finding ourselves not upgrading anything quarter-after-quarter. But if you look at the overall dissolution rate, it was very steep in the second quarter, has moderated a little bit in the third quarter. So basically while a lot has slipped, the slippage rates are actually moderating a little bit.

The second piece that I will mention with respect to kind of thinking of how much might slip out of the Watch list is the simple point that we earlier said 60%, now we are saying higher than 60%. Given what amount is left now in the Watch list any reasonable assumption you make above 60% is not going to be very far off from whatever the eventual reality ends up being. So at this point, as a practical matter, I think putting a specific number to it is not necessarily that useful. One final comment I will make relate to some large ticket cases (on the Watch list) have already slipped and are a part of the NPA pool. As Srini was mentioning earlier, there are conversations going on around some of those entering into some restructuring type resolutions where some of the slipped amounts might essentially be revived.

V. Srinivasan: It is basically what Jairam has said. When you look at resolution we are talking about resolution of accounts that have slipped. Maybe when an account has slipped with almost all the banks, I think the banks are free to restructure their account in a manner they deem fit, based on whatever cash flows they project. And I think that is what the effort is right now on, and that is exactly what Jairam was referring to also. Once the restructuring happens, and once the corporates start performing in line with restructured terms, then I think at some point of time there will be an upgrade.

Jairam Sridharan: And one other minor sort of addition to that. Banks that have a stronger position with respect to provision coverage will have greater ability to actually absorb some of these restructured situations without taking incremental P&L hit.

Nilesh Parikh: Okay fair enough. The other thing is on the balance part of the Watch list now if you mentioned that if there is improvement in the performance, now would we look at taking some cases out of the Watch list if there is, say if we were to effect in S4A or something of that sort? would that technically lead to exit from the Watch list?

V. Srinivasan: We will take a call as and when it happens because if it is clearly S4A you will have a portion of sustainable debt. If we have complete confidence in the sustainable portion and if we believe that it will be serviced, then yes, we can take that call, but as of now we are not taking any calls on that.

Jairam Sridharan: Yes, we have not faced that situation yet so this is a little bit hypothetical but as Srini said it is also possible that we upgrade parts of accounts out of the Watch list and keep the remaining in and take them on as hit. But all this is theoretical at this point I mean none of the situations

have presented themselves. So far we have actually not upgraded any accounts except the two small accounts that we have upgraded last quarter as the accounts paid up in full.

Nilesh Parikh: Sure. Just one last final question is on the deposits side. So when we look at on a QoQ basis, you saw increase in the CASA rates but actually when I look at the absolute growth in say from Q2 to Q3, there has not been a material increase right and on the other side also the term deposits yes there has been a decline because of the FCNR. So I just wanted to kind of understand because we have seen other banks reports so obviously small private sector banks but you know their accreditation seems to be quite running at a pretty fast pace So just wanted to hear your thoughts on that?

Jairam Sridharan: Sure there are a couple of thoughts that I will keep up and then Rajiv will chime in as well. See first of all like when you look at the daily average basis numbers you end up with a fairly different outcome than what you see when you just look at month end numbers. And I mentioned this when I made my opening comments as well, that we are seeing upwards of 30% growth numbers on the daily average basis. Now the money that came in during the demonetisation period peaked at a particular point in time and then from different kinds of accounts CA and SA, some of the money has gone back to a place where we are no longer at peak levels of what our deposits numbers were.

This is particularly true in current accounts and where we have seen a lot of kind of revival in basic transactions patterns of accounts and hence the number is reverting back to more normalized number on the current account side. As far as TDs are concerned, given the overall liquidity situation and the need for incremental deposits, when you are not seeing significant growth and advances on the other side, our own appetite and need for incremental term deposits is limited and hence we have made the call to actually borrow from the TD market as appropriate and necessary, given the overall growth environment that we are seeing. So those are some comments, but Rajiv, would you like to add something?

Rajiv Anand: Two things, one is the TD growth has also been impacted by the fact that there has been a repayment of around $1.6 billion of FCNRB deposits, which has sort of gone away between October and December. Second is if you look at the savings deposit growth, remember lot of this money has just started to come by definition from 10th of November. So if you look at either on a cumulative basis the YoY growth is 22% which looks at the whole year but if you look at it on a slightly short term basis which is a monthly daily average balance the growth has been upwards of 37%.

So I think in that sense the growth has been reasonably strong and actually I am feeling pretty good in terms of how much of withdrawal has happened. Remember that you can already draw almost a Rs. 1 lakh of a month out of your savings accounts already plus all that you can do digitally and Jairam has spoken about the fact that we have seen significant growth in digital transactions. And so therefore the stickiness of the savings account balances that we are

currently seeing in the context of these two withdrawal measures that are already in place, I think has been reasonably strong.

Jairam Sridharan: Yes, I mean before we move on from this question I do want to reiterate the basic sort of sound bite here that is very important to keep in mind which is on a daily average basis CASA deposits have grown by 31% for the bank and that, in our minds, is fairly strong performance.

V. Srinivasan: Yes, we have not seen those levels for a long, long time.

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

Mahrukh Adajania: I have a couple of questions. Firstly, just in terms of percentage of corporate slippage in overall slippage how much would that be?

Jairam Sridharan: Our total slippages are Rs. 4,560 crores and corporate slippage is 80% of that.

Mahrukh Adajania: And the other thing I just wanted to check is that you gave some math on interest reversals of the positive and the negative impact and when you kind of go through it step-by-step would it lead to a conclusion that NIMs can actually expand not only over third quarter levels going ahead, but even over second quarter levels. Is that what the math would indicate?

Jairam Sridharan: Mahrukh, MCLR reduction happened in January.

Mahrukh Adajania: Right but on a like-to-like basis without the reduction it would, and then of course, there will be cut in lending rates and it will depend on how the LDR moves?

Jairam Sridharan: Yes, sure.

Mahrukh Adajania: And the other thing I wanted to check just as a continuation of the previous question that there was a talk about resolution outside SDR,S4A or outside the special schemes of RBI. Now I think the reason why everyone was looking forward to the resolutions happening in the special schemes of RBI was that immediate upgrades could be possible. So obviously one way of looking at it is that banks with higher provisioning cover would benefit. But so they would benefit in terms of lower haircuts but that immediate upgrade element would not be visible, right?

V. Srinivasan: It is true because we are talking of accounts which do not fit in any of the other current dispensations.

Mahrukh Adajania: Got it and there is no chance of RBI giving any further dispensations on SDR or S4A?

V. Srinivasan: We just do not want to factor that in right now. We do not know.

Mahrukh Adajania: Okay got it. And just one again on the discussion around deposits and current accounts. So obviously, we do not know or the RBI has not quantified the amount of demonetized deposits, but some of the larger banks have given some indicative figures and if you match yours with those then obviously it looks like your market share is not in sync with your outstanding market share. So, would it mean that there would have been huge withdrawals towards the end of the quarter and your demonetization market share would be intact, but there would be withdrawals towards the end of the quarter? how do you look at it?

Rajiv Anand: Mahrukh, what some of the bigger banks have spoken about is the amount of cash deposits that they have received into their current accounts and savings accounts. What you are looking at today is only the closing balances of both current accounts and saving accounts.

Jairam Sridharan: So, one is a flow item, one is a stock item. On the flow item, the bank market share is exactly proportional to what we think our incremental market share of deposits is. So, there is no issue there at all. But when you look at the stock which is the balance that you are seeing now on the balance sheet what you have got to look at is of the flow that came in then how many accounts were such that they were able to restart basic economic activity and actually have the same throughput for a bank like ours which has a CA to SA mix which is a little bit more CA skewed than the market average if we get some of our CA clients to get back to more normalized economic activity, you will see that increased deposits also flow back out and into economic activity and that is a good thing.

Mahrukh Adajania: Got it. That helps. And just one last question, slippage from restructured would be?

Jairam Sridharan: Rs. 813 crores.

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

Anand Laddha: If you can give some color on your treasury gains, so what proportion was from G-SEC? What proportion was from corporate bond? If I have to look at your investment of around Rs. 1,36,000 crores, again it seems almost like 1% gain on the whole book pretty large.

Jairam Sridharan: Predominately, G-Sec.

Anand Laddha: Okay. In that case, is it fair to assume going forward there will be more pressure on margin because bulk of the gains you could have booked in?

V. Srinivasan: Not, really. I do not think so. The overall portfolio and to the extent we would have liquidated I do not think there would have been such a large number for it to make us any material impact on margins.

Anand Laddha: Okay.

Jairam Sridharan: Yes, I mean we have done the internal calculations and it is not at all material and also look at the overall funding structure right now where we are in terms of the size and growth of the advances side versus the amount of funding we have, this does not move the needle at all.

Anand Laddha: Okay. Also on the OPEX side, there will be some OPEX which could be one-off because of demonetization. Is it possible for you to quantify or is it fair to assume that whatever OPEX in this quarter is a normalized OPEX?

Jairam Sridharan No. There are one-off OPEX line items in this quarter. We attempted to quantify it but actually there is enough uncertainty on it that we do not want to sort of inch up for a specific number. But certainly, there are a couple of percentage points of OPEX growth that is coming from items that are more special to this quarter.

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

M. B. Mahesh: Sir, just a couple of questions one the MCLR distribution, could you just tell where is the bulk of the re-pricing happening is it in the three months, six months, one year?

Jairam Sridharan: Mahesh, I did not understand your question on re-pricing, the entire curve is getting re-priced. Are you talking about the stock or where the stock is?

M. B. Mahesh: Yes, if you look at a stock of 18% of loan book where is the bulk of re-pricing happening in the portfolio? I mean, are customers asking for one -month, three months, one year?

Jairam Sridharan: See, the way we offer this is based on the products type the tenure of MCLR gets fixed. So, for example, we offer home loans at a six month MCLR and that is the only product we have on the shelf. So, it is not left to the customer to say design for me a one month MCLR home loan product. The only home loan product we have is a six month one. So essentially, the overall mix is going to be determined by the product mix, not by customer choice.

M. B. Mahesh: But the customer has a choice when it comes to a corporate right?

Jairam Sridharan: On very few product categories. Basically, for particular product categories we have chosen the MCLR that we offer.

M. B. Mahesh: Okay. So is it fair to assume that a large part of it is in the six month bucket then?

Jairam Sridharan: There is a meaningful part of it in the six-month bucket, yes.

M. B. Mahesh: Okay. The second question is on the power sector. This is probably one sector where we have still not seeing a meaningful stress when you look at your gross NPA numbers. Any thought process as to how are you seeing that when you look at your portfolio, because most of these

companies now would be in the generation mode? Where are they in terms of their performance when you look at their expectation when you started off?

V. Srinivasan: Clearly I think we have discussed before, projects which have gone operational and clearly where the cash flows are different from what was envisaged before, it is an opportunity to do 5/25 and some of the other dispensations that exist and therefore that would have been used. I agree, this sector is still not out of the woods and clearly some of the exposures continue to face some challenges. But as I said, for the operational projects 5/25 typically would have been invoked. On the other accounts, existing accounts which again some of it are part of the watch list if you look at the watch list the biggest sector is from power. I think we need to closely monitor them to see how exactly they come on track.

M. B. Mahesh: In the sense, the reason I asked is that, do you see this to be the driving factor of NPL's over the next one year or so? or that 5/25 gives a fair bit of dispensation that it could be extended beyond a year? Just kind of extending this question because what is within the portfolio is about Rs. 6,000 crores odd as compared to the overall power exposure which is around Rs. 20,000 crores?

V. Srinivasan: I think we have factored a lot of this when we came out of the watch list. Clearly, as I said, when we have done the 5/25, it is based on revised estimates of cash flows and hopefully some of that will take care of itself at least in the immediate four to eight quarters.

M. B. Mahesh: Okay. My last question is to Mr. Rajiv, just this extraordinary performance on the auto and CV side which is completely against the underlying volume growth. Can you provide some broad color, what is driving this? And we have also seen a fair amount of at least when anecdotally you see evidence of Axis Bank doing in the Uber and the Ola segment just trying to understand how should we read into these two developments?

Rajiv Anand: The growth has been strong but we have a relatively small exposure to the CV CE. The CV CE comprises of just 4% of our overall retail book. We are seeing some renewed activity on the road projects side and we are also seeing some sort of fleet replacement demand coming through thanks to Bharat IV, etc., and we will continue to selectively look for growth opportunities within that space. We have done some work with some of the cab aggregators and we are just waiting and watching to see how those books play out before we sort of venture to build our book further in that space.

Jairam Sridharan: Just to be clear, our total exposure in some of the aggregator segments is in very low three-digit crores. So, it is not at all meaningful from an overall size of the auto loan book perspective.

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

Manish Karwa: My question is on fee income. So, especially on corporate fees while we understand it is going to be down but is it going to be that much down like 23% sequentially? I understand that you guys have become a little bit more conservative going up the rating curve but should we then expect that this is going to be the new trend on corporate fees?

V. Srinivasan: See, I think in the past we have relied a lot more on re-financing and that to some extent was the driver of fees but if you look at what has happened over the last quarter or so I think that has also become a very crowded product with rates coming much lower I think the re-financing opportunities have reduced. So, you should expect corporate fees to be slow.

Manish Karwa: Okay. And even on the retail fee front, which probably have grown at 8% but going by the historic growth rates this is a very slow number. Is demonetization impacting this in a big way or this is also a new normal that we could see on retail fees?

Rajiv Anand: Largely post demonetization there were changes in MDR, we were not able to charge for ATM transactions, we were not able to charge for cash transactions between the branches during this period.

Jairam Sridharan: In some of what Rajiv was saying, Manish, just to be clear like I think while there are some issues which are a bit more systemic a large part of the issues as Rajiv was pointing out were sort of special to Q2 on the demonetization stuff. On interchange income on cards etc., in particular because of the MDR changes, as you saw, our card spends grew 82% year-on-year. But clearly, fees did not grow anywhere near that rate and that is because of some of the temporary pricing arrangements that are there in the market where we are not able to charge fees.

Manish Karwa: Okay. And just one more question, you mentioned that on the SDR interest reversal of Rs. 317 crores you expect that thing to come back in subsequent quarters...

Jairam Sridharan: No, sorry, if I said that I misspoke. What I meant was that that is a catch-up now the entire pool has been caught up, so that amount is not going to recur. So, that negative line in the NII is not going to recur in similar form in forthcoming quarters but that money is not going come back.

Manish Karwa: Okay. And so, this catch-up was for how many, was it for a few quarters or few years as such?

Jairam Sridharan: For the full pool.

Manish Karwa: For the full pool up till this quarter and henceforth, on this SDR you were still not recognized interest?

Jairam Sridharan: Correct.

Manish Karwa: Okay. So, that will still be slightly negative on the SDR thing?

Jairam Sridharan: Yes, but on an incremental basis not this one time catch-up thing.

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

Nilanjan Karfa: Basic question on MCLR, right. If I look at the kind of deposits that would have come in, let us say through the demonetization period, right, a large part has to be either a current account or a savings account. But if I look at the reduction that you have taken over this period it was broadly about what 65 basis points and 70 basis points across various tenures. Now, as we head into the next ALCO meeting for example, which is next month and the cheap money is actually flowing out and do we have room to tweak around that MCLR formula? Does RBI allow it? Or should we expect that MCLR goes back-up?

V. Srinivasan: We will take it as it comes. We will take a call in the ALCO in February when we have all the data. As of now, I think it is hypothetical.

Nilanjan Karfa: Right. But broadly, if you can tell us there are broadly five parameters which go into this.

V. Srinivasan: The formula is fairly clear, and we will try and stick to it.

Nilanjan Karfa: Okay, all right. Second question, in the past beyond this corporate, we did talk about the total gross slippages in SME retail as well as these individual retail and SME what is the recoveries plus upgrades, could we have the data please for Q3?

Jairam Sridharan: No, we gave the net number, have we given the gross number?

Nilanjan Karfa: We did give out I think once in the past, then we stopped. It will be really helpful if you provide it.

Jairam Sridharan: See, at this point, we will leave it at the net slippages number. Let me consider your request of actually putting gross and recoveries separately and maybe we will consider that starting the new financial year.

Nilanjan Karfa: Sure. Okay. So, what are the net numbers?

Jairam Sridharan: Net numbers for retail was an addition of Rs. 274 crores and Rs. 382 crores in SME.

Nilanjan Karfa: Okay. And probably the last question, as we are probably three weeks into January. If all those segments that we put up in disbursals, how do they look like currently? And at least in the retail segment have the inquiry rates gone up or does it still look very subdued?

Jairam Sridharan: See, inquiry rates are down on a Y-o-Y basis, if you compare January to January. However, if you compare January to November, inquiry rates are up.

Nilanjan Karfa: Okay. I'm sorry, I had to just squeeze in one more question. This goes back to that MCLR chart that we have given right, 18% is MCLR. What we did not speak about is what is the reset period that we provide. I understand in retail, it is six months maybe cooperate it is always one month MCLR that we take but what is the reset that we provide across segment?

Jairam Sridharan: Yes, so basically it depends by product and for different products it is different and you will see a fair distribution of three months, six months, and one year.

V. Srinivasan: And just to clarify, if you are in a six month MCLR, the reset is every six months. You cannot set the reset to six month MCLR every month.

Moderator: Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Asset Management. Please go ahead.

Alpesh Mehta: First question is related to your press release number of slippages and the presentation number both on slippages and the restructured both numbers are different in the Press Release and the Presentation.

Jairam Sridharan: No, there is some language confusion in the Press Release. The slippages are Rs. 4,560 crores and what the Press Release says, the number is actually the difference between last quarter and this quarter. I think that is what is the confusion but the number is Rs. 4,560 crores.

Alpesh Mehta: And there is also a difference in the restructured loan between the Venn diagram that you have given and what is there in the Press Release? It is hardly Rs. 200 crores but there is a difference.

Jairam Sridharan: The Venn diagram is only for non-retail. There might be some agricultural advances which are restructured and which are sitting in retail.

Alpesh Mehta: No, but in that case, Venn diagram number should be lower than the press release number, right?

Jairam Sridharan: It should be no? Isn't it?

Alpesh Mehta: No, the Press Release number is lower than that.

Jairam Sridharan: Okay, let me look into this It looks like the Press Release has the net restructured assets and what is shown on the Venn diagram is the gross number.

Alpesh Mehta: So, you have only Rs. 200 crores provisions outstanding on the restructured loans in that case?

Jairam Sridharan: Yes, that represents diminution in fair value.

Alpesh Mehta: Yes, but the standard asset provisioning, we must be deducting?

Jairam Sridharan: No, it is not deducted.

Alpesh Mehta: Standard asset provision is not deducted, only diminution in the fair value has been deducted on this?.

Jairam Sridharan: Yes.

Alpesh Mehta: Okay. Sir, second question is on the card fees. While obviously for two months you were not allowed to charge the MDR fees plus the ATM withdrawal related fees and all. But still those fees look like they are flat on a quarter-on-quarter basis at around Rs. 300 crores, any specific reason for that?

Jairam Sridharan: Should not they be, if for two months, we did not charge fees?

Alpesh Mehta: So, basically last quarter retail card fees were roughly 17% of the overall fees and currently it is at around 15%. So, there is hardly any difference in terms of the absolute number in the retail card fees. Correct me, if I am wrong.

Jairam Sridharan: I mean the other way around of what you said. Last quarter it was 15%, this quarter it is 17%.

Alpesh Mehta: 17%. So, if I do it as a percentage of overall fees and then you come out with a number which is around Rs. 290 crores or Rs. 300 crores. So, the card fees are flat on a quarter-on-quarter basis.

Jairam Sridharan: I understand. Yes, so basically, if for two months of the quarter, you are not able to charge your largest sort of fee item you will see that broad behavior.

Alpesh Mehta: Yes. But it cannot be though flat on a quarter-on-quarter basis, right, last quarter also you had Rs. 300 crores, this quarter it is also Rs. 300 crores.

Jairam Sridharan: Yes, are you saying it is too high or too low?

Alpesh Mehta: I am saying it is too high because you could manage one only for a month.

Jairam Sridharan: No, see, you got to think about the different sources of fee on a card business and interchange is one of the sources of fee about one-third of the total fees in cards comes from interchange. But there are many other sources of fee income from the cards business and those have not been impacted by demonetization. So, those will continue to deliver and they will deliver for the full three months. One of the line items will not deliver for two of the three month. So that is why you see the fee income a little bit strong.

Alpesh Mehta: Which would be the rest two-third if the interchange is one-third?

Jairam Sridharan: Annual fee. Annual fee is one big number that you are going to see. You are going to see penal charges; those are all fairly large items.

Alpesh Mehta: And the MDR fees are also included in this? When we talk about MDR fees, it is an interchange fees, right?

Jairam Sridharan: Interchange, yes, the MDR is an acquiring side terminology, interchange is the issuing side terminology. So when we show card piece here, this is the issuing side and the issuing side card fees is all interchange.

Alpesh Mehta: Okay. Just one more question, I guess you mentioned roughly 3% credit cost for the year, right. And for the first nine months we had around 3.5%.

Jairam Sridharan: 3.29%.

Alpesh Mehta: So, for the fourth quarter we are talking about roughly 2% to 2.3% kind of a credit cost.

Jairam Sridharan: You can do the math.

Alpesh Mehta: Yes, I did the math. So, based on that and I am assuming that you would not like to compromise on your coverage ratio. I am working with that premise, is that a fair assumption?

Jairam Sridharan: That is a fair assumption.

V. Srinivasan: But we moved coverage from 60 to 64 and you look at the impact on the credit cost because of that in this quarter and see what is the overall credit cost without that.

Alpesh Mehta: Yes, I have seen that. Okay. And lastly about this interest reversal thing again for a pool of almost Rs. 1,300 crores - Rs. 1,400 crores the interest reversal looks a very high number of around Rs. 320 crores. So, is it that for two years the account was in moratorium where you are charging interest?

Jairam Sridharan: No, the base on which this number works is SDR or S4As that have been invoked, but not implemented and that is the base on which you need to look at this.

Alpesh Mehta: So, you have reported the implemented number, right?

Jairam Sridharan: Correct.

Alpesh Mehta: So, the invoked number would be essentially higher number than this and that reporting would come in the following quarters?

Jairam Sridharan: Yes.

Alpesh Mehta: Okay. And just a data point, we do not have any S4A right now?

V. Srinivasan: Nothing. No bank has as of now.

Alpesh Mehta: And the security receipts must be flat quarter-on-quarter at around Rs. 1,400 crores?

V. Srinivasan: Yes.

Moderator: Thank you. The next question is from the line of Shrey Loonker from Reliance Mutual Fund.. Please go ahead.

Shrey Loonker: I just wanted one clarification I think, which got answered in the previous question. But if you can give us the amount of SDR invoked on which this reversal has happened because the amount just seems unusually too large, the reversal?

V. Srinivasan: We will let you know the SDR as and when the process is consummated, whatever is referenced and as of now invoked I think, that may or may not lead to culmination and I think we will get back to you as and when it gets implemented.

Shrey Loonker: Sure. But the circular also talked about reversing on the invoked amount.

Jairam Sridharan: Invoked 90 days' interest.

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

Gautam Chhugani: So my question was given what you shared about the rising share of MCLR loans which is sort of alluding to the fact that this could result in repricing of loans even beyond financial year 2017. And then when I exclude your treasury gains and sort of calculate your cost-to-income that has been rising quarter on quarter. So, what gives you confidence beyond this financial year that your operating profit margins will be maintained?

Jairam Sridharan: Sure. Well, there is a lot in that question. Let us start with growth, I mean, you got to make a core growth assumption which will actually drive a lot of our thinking and growth with mix of investment versus advances which in this quarter has been fairly skewed given what happened in the last two months. So, you need to assume something about normalization of that investment-to-deposit ratio over the coming quarters. Then, the second piece is around what happens to NIMs overall. You are right that there are some NIM compressive effects particularly around MCLR, and MCLR moving downwards and more portfolios moving towards MCLR. There are also given that idiosyncratic situation of the bank in the third quarter there are some NIM expansive effects as well like it kind of moving away from the 10 basis points and 23 basis points that we alluded to in the NIM waterfall that we shared. So, overall on NIM the jury is still out though in the medium-term your expectation is probably

right that the NIM compressive effects are stronger but in the short-term to medium-term, it could go either way.

Gautam Chhugani: Sorry to interrupt, even if I exclude your idiosyncratic effects this one and even if I include the interest reversals that are coming what is left in terms of net interest margin from the rest of your book that number looks fairly small when I do the math and then, when I kind of look at your cost metrics because of your reducing revenue lines it all looks towards a sort of a diminishing operating profit margin before provisions.

Jairam Sridharan: So, let me say this. As far as financial year 2018 and thereafter is concerned, we will come out with fairly specific to the extent possible guidance when we come out with our March numbers. As far as the rest of this year is concerned, on some of the key metrics, cost-to-income we said at the beginning of the year that we expect cost-to-income to be around 40%. We continue to feel comfortable with that situation. We said we expect NIM to be around 3.60% for the full year. As I mentioned before, we continue to feel comfortable with that situation as well.

Gautam Chhugani: Yes. But the other point is that you also continue to add branches. So, if I exclude the treasury part of it and just look at your core banking sort of excluding the treasury part of it the cost metrics do not sort of refer to that 40% number you are talking about. So, every quarter, almost for the last three quarters I am observing that the cost-to-income on the core book goes on increasing. The other point is obviously given how much we are talking about digitization, you continue adding branches. So, how do you sort of think about this whole digitization versus branch addition versus managing cost going forward?

Rajiv Anand: Hi, this is Rajiv. I think two-three points on branches. One is that I think there is a direct correlation, particularly in local markets between physical presence and market share in CASA. And so therefore, in the context of the fact that we are in today about 1,946 towns and cities; out of which 1,726 towns and cities, we have only one branch. I think it becomes an imperative for us to expand our branch presence particularly in these areas as these towns and cities also begin to see affluence. Point two is that even today, only 32% of our customer base is using internet or mobile technologies to bank. I think it is a journey; this is not going to happen tomorrow and I think the first phase is that many of these customers outside the metro and urban will want to go down in assisted route before they finally go fully digital. But I think, this is a journey and so therefore, I do believe that a continued sort of increase in branch presence is certainly an imperative. Having said that, what we have also seen is that the size of the branches have come-off. So therefore, where branches on an average used to be somewhere between 1,800 square feet, to 2,000 square feet on an average for the entire network that on the increment is down to somewhere between 1,000 square feet and 1,200 square feet. So, that also means that the OPEX in those branches has reduced, the number of people in the branches have reduced. However, with that reduced space and people, it is able to serve the requisite catchment area. The last point I want to make is that one of the metrics that we watch is that our branches breaking even in three years' time and I think that has been standard over, let us

say, a fairly long period of time. And even today, 91% of our branches have broken even in three years' time. And so therefore, until that matrix begins to deteriorate I think it is fair to say that branches will continue to remain profitable. And the final piece is it is not just savings account customers that we serve through the branches, we also serve current account customers as well as the SME customers through these branches, and I think the levels of digitalization that has impacted retail customers the equivalent has not happened in small businesses and in the SME side.

Gautam Chhugani: Got it. So, if I can just add one last related question, as you move more towards from corporate book towards more granular retail and granular retail is a lot of personal loans and credit cards, does not this again imply a different OPEX ratio with that changing mix because I mean, corporate definitely work at a very different OPEX efficiency ratio.

Jairam Sridharan: Sure. You see the bank's book as it looked five years ago and you look at what it looks like now. We had about a 20% to 25% depending on how you count mix of advances in retail five years - six years ago and we are at 43% now. And as we have chased that mix you have seen that we have been able to maintain our overall OPEX efficiency at pretty similar levels. So, as we go from here to whatever the next step might be, we do not at this point of time, feel sort of a big compelling story about why OPEX ratios we should not be able to maintain somewhat similar to what we have had in the past.

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

Jairam Sridharan: Thank you, Margaret. Thank you everybody for attending the call and for your active participation. We once again wish you a very happy 2017 going forward and have a good night.

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