"Axis Bank Limited Q3 & 9M FY16 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good evening and welcome to the Axis Bank Conference Call to discuss the Q3 & 9M FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. Please note that this conference is being recorded. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation is not sent. Unauthorised dissemination of the contents or the proceedings of 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; Mr. Sanjeev Kumar Gupta-Executive Director, Corporate Centre; Mr. Jairam Sridharan– President & CFO; Mr. Rajiv Anand-Group Executive and Head - Retail Banking; and Mr. Sidharth Rath–President, Treasury and Transaction Banking. 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 '*' and then '0' on your touch tone telephone. On behalf of Axis Bank, I once again welcome all the participants to the Axis Bank Conference Call. I would now like to hand over the conference to Mr. Jairam Sridharan–CFO, Axis Bank to begin the presentation. Over to you, sir.

Jairam Sridharan: Thank you. Ladies and gentlemen, good evening, and thanks for attending the call. Let me take this opportunity to wish all of you a splendid 2016. I welcome you to our Conference Call for a presentation on the Bank's performance for the third quarter and for the nine-month period of this financial year. On this call with me are my colleagues Mr. V. Srinivasan, Deputy Managing Director, Mr. Sanjeev Gupta (ED-Corporate Centre), Mr. Rajiv Anand, Group Executive (Retail Banking) and Mr. Sidharth Rath, President and Head Designate (Corporate Banking).

Before we get into the details, I would like to highlight four key themes for the quarter's performance.

Tested Asset Quality: Based on a sector wide asset quality review undertaken by the RBI, the Bank in this quarter was provided with a list of select accounts for necessary impairment recognition. As a prudent measure, we have incorporated the full expected impact on the Bank in this quarter itself.

Resilient Earnings: Underlying earnings quality is strong, with operating profit growing by 20%, PAT up 15% and RoE of 18%.

Strong Advances Growth: Growth momentum is strong with loan growth of 21%, with Retail Advances share at 40%, up from 38% last year.

Powerful Retail Franchise: The Retail franchise of the Bank had a powerful quarter – with Saving Accounts growth of 16% YOY, retail loan growth of 27%, and retail fee growth of 14%.

I shall dwell on these themes in greater detail as we go along.

Let me begin by sharing our perspective on what the macro situation looks like for the Indian banking sector today.

Macro-economic metrics continue to be stable this year though we see some headwinds going into FY17 on the back of subdued private sector investment and implementation of the Pay Commission report. Nevertheless, aided by the fresh Government reform initiatives and investments, we are cautiously optimistic on improvement in the economic and credit conditions going forward. Order flows from higher Government capital expenditures and contracts awarded by the Centre for roads, power transmission lines and urban infrastructure should become visible over the next few quarters.

Banking sector credit growth is off its lows earlier in the year but still stands at a modest 11.1% as on 25th December 2015, with most of the growth coming from retail and agriculture credit. This trend is likely to continue through the early part of the next year and current preference of increased reliance on alternate sources of credit will continue. We expect interest rates to remain range bound with the fiscal path detailed in the Budget having a material bearing on the future outlook of the interest rates in FY17.

Let me now discuss the Bank's performance in greater detail.

Let us start with **Asset Quality**.

During the quarter, the RBI had communicated to banks the results of its asset quality review of exposures across the sector. A list of accounts for the Bank was identified by the RBI as potentially at-risk from an industry level perspective, and was shared with us. Banks have been offered time till March 31, 2016 to fully recognise their respective accounts and take appropriate provisions. As a prudent measure, we have incorporated the full expected impact on the Bank in this quarter itself.

After going through this process of rigorous testing of our portfolio, our asset quality metrics have come out higher than before with GNPA level increasing from 1.38% in Q2 to 1.68% as on 31st December 2015 and Net NPA level increasing from 0.48% to 0.75%.

During the quarter, fresh slippages into NPA stood at ₹2,082 crores including the reclassifications proposed by RBI, which comprised around half of the incremental slippages. On a cumulative basis for the nine months of FY16, we have added ₹5,705 crores to NPA, including the sale to ARCs made in Q2. If we exclude those sales, the addition in FY16 so far has been ₹3,851 crores.

In terms of movement of GNPAs, up-gradations and recoveries in Q3 were at ₹156 crores and write-offs at ₹653 crores. Consequently, the net additions to Gross NPAs during the quarter were ₹1,273 crores.

Provisions and contingencies other than tax for the quarter were ₹713 crores against ₹507 crores last year, of which provision for loan losses net of contingent provisions were ₹626 crores, provisions for standard assets including unhedged foreign currency exposures were ₹71 crores, depreciation written back on investments was to the tune of ₹15 crores and other provisions stood at ₹31 crores.

We utilised ₹220 crores of previously created contingent provisions during the quarter. The balance in the contingent provision account now stands at ₹180 crores. After factoring in the regulatory guidance, as well as our usage of Contingent Provisions, our annualised credit costs for the quarter were at 102 bps. For the nine months ended December 2015, this metric stands at 128 bps. This includes the usage of Contingent Provisions on the assets sold to ARCs last quarter. If we *exclude* the usage of Contingent Provisions, credit costs were at 75 bps for Q3 and 85 bps for the nine-month period.

Our provision coverage ratio remains healthy at 72%. Our net restructured book stands at ₹7,745 crores with fresh restructuring of ₹126 crores during the quarter, which was all on account of the shifting of the DCCO (Date of Commencement of Commercial Operations). On a cumulative basis for the nine months of FY16, we have added ₹1,340 crores to our restructured book of which ₹1,026 crores was on account of change in DCCO only.

We witnessed ₹742 crores of slippage from the restructured book during Q3. In this context, let me share a couple of details about our restructured book that you may find interesting:

Annualised slippages from the restructured book continue to be around 25% of the restructured book on a two-year lag basis.

Part of the recent regulatory assessment requires Banks' to build higher provisions in FY 17 on select restructured accounts. Due to this assessment, we estimate our standard assets provisioning to increase by around ₹250 crores on select restructured accounts, through the course of the next year.
As on 31st December 2015, the aggregate impairment viz. Net NPAs and Net restructured assets as a percentage of net customer assets stood at 3.06%

vis-à-vis 3.13% as on 30th September 2015. Our funded exposure to highly leveraged groups has been stable at around 8% at the end of Q3.

During the quarter, the Bank has implemented Strategic Debt Restructuring (SDR) in one account, where the underlying loan amount was around ₹500 crores. The Bank has also implemented the 5/25 scheme for four accounts where the aggregate loan amount was around ₹1,600 crores.

The cumulative value of the underlying loan amount for SDRs and 5/25 undertaken by the Bank for the nine months ended December 2015, was around ₹500 crores and ₹3,500 crores respectively. We have not sold any assets to an ARC during the quarter.

Finally, let me touch on our short term expectations on the asset quality –

Including the utilisation of contingent provisions, our annualised credit costs for the nine months stood at 128 bps. We expect the full year credit costs to be around 125 bps. If we exclude the utilisation of contingent provisions from credit costs, we expect credit costs to be around 90 bps on a full year basis.
We remain cautious on our asset quality outlook in the near term. This arises from the fact that pace of improvement in macro-economic parameters has been weaker than we envisaged earlier. The substantial decline in major commodity prices has made the context more challenging for many small and mid-segment non-integrated players in the commodity space. In this context, we expect incremental slippages to NPA in Q4 to be around ₹1,300 crores. During Q4, we also expect shift in DCCO beyond two years of projects with aggregate debt of around ₹900 crores.

For the full fiscal 2016, this would add incremental slippages of approximately ₹7,000 crores, including the ARC sales in Q2. Further, additions to restructuring would be around ₹2,300 crores, of which around ₹2,000 crores would be on account of shifting the DCCO. Excluding the ARC sales, the total additions to incremental slippages and fresh restructuring during FY16 would be approximately ₹7,400 crores including the impairments on account of the RBI assessment.

Let us now move on to the strength and quality of the Bank's **Earnings**.

Our operating performance has continued to be resilient in this tough quarter.

Net profits have increased by 15%, led by the growth in operating profit of 20%. NII constituted 64% of the operating revenue and grew by a strong 16% on the back of robust NIMs and healthy loan growth. NIM for the quarter was 3.79%, with Domestic NIM at 4.04%. We were able to restrict the sequential decline in margins to only 6 basis points despite a 35 basis points reduction in the Base Rate effective from 5th October 2015, as cost of funds declined almost in line with yield on assets.

Cost of funds during Q3 was 5.86% compared to 5.99% in Q2, and 6.17% in Q3 last year. The sequential decline of 13 basis points in our cost of funds is primarily driven by moderation in the cost of term deposits and further aided by our continued focus on CASA. We expect our NIM to remain broadly steady for FY16, however on a medium term basis we continue to maintain our outlook of sustainable core margins of 3.5%.

Fees constituted 29% of the operating revenue, and grew by 12%, with equal contributions from Retail, which had a growth of 14%, and Corporate Bank that had a fee growth of 10%. We continue to expect our fee growth to be in mid-teens for FY16. During the quarter, we recognised gains of ₹119 crores compared to ₹75 crores in Q3 of the last year, from a partial stake sale in Max Life recognised under trading profit. We also booked ₹76 crores of exchange gains from repatriation of profits from our foreign branches under miscellaneous income.

Our return ratios continue to remain healthy with an ROE of 18.07% and ROA of 1.79% in Q3. For the full nine months, ROE has been at 17.60% and ROA at 1.74%.

I will move on now to the third theme – strong growth in **Advances** portfolio.

Aggregate loan growth remains very strong at 21% YOY. Our advances growth continues to be led by Retail lending, which had a YOY growth of 27% this quarter. A few details on this growth:

Our growth in Retail Lending was led by home loans, unsecured personal loans and credit cards. Internal customers continue to be the mainstay of the Bank's strategy for sourcing retail assets. Roughly two thirds of the incremental acquisitions for retail loans continue to be the Bank's existing deposit customers.

On unsecured lending and credit cards, the Bank continues to focus predominantly on the existing customers of the Bank.

More than 40% of incremental retail loans in Q3 were sourced through our branches.

The credit quality of retail loans continues to remain healthy.

If we were to include SME loans that qualify as regulatory retail, the share of retail loans to total loans would be 45%.

Our Corporate Advances portfolio also had strong YOY growth of 21%.

We continue to find attractive refinance opportunities for highly rated corporates that are new relationship additions to the Bank's franchise. Given that our focus remains on highly rated corporates, approximately 80% of new sanctions in the corporate book are to companies rated 'A' and above. Presently, 62% of outstanding corporate loans are to companies rated 'A' and above. In our quest to continuously improve the rating mix of our corporate book, we have been comfortable to trade off margins for asset quality. The Bank's exposure to the iron and steel sector as on 31st December 2015 stood at 3.3% of which almost 65% of such loans are rated 'A' and above.

Overall, for the current financial year, we expect the Bank's Credit growth to be around 20%.

The fourth theme this quarter was the powerful performance of our **Retail Franchise**.

Savings Account balances grew at a strong 16% YOY, up sharply from the 12% YOY growth we had last quarter. We continue to steadily gain market share in this extremely important business, further strengthening the foundation for a vibrant Retail franchise.

We continue to invest heavily in broadening our base for originating retail business. During the quarter, we opened one representative office in Dhaka and 62 domestic branches. We have opened a total of 216 branches so far this year, and expect to open around 300 branches by the end of FY16.

Current Account balances also reported a strong growth of 17%, thus driving an overall CASA growth of 17% YOY. Our overall CASA share in deposits was 43% at the end of the quarter, steady from the last quarter. CASA deposits on a cumulative daily average basis grew by 14% and comprised 40% of total deposits, in which Savings Bank deposits grew by 13% and Current Account deposits grew by 15%. CASA and Retail Term Deposits continue to form a strong 79% of total deposits.

Product penetration into our strong SA base continues to be a major driver for growth. Big data analytics led targeting of the known retail customer for sales of unsecured lending, cards or other payment products continues to be core to our franchise building in this space.

We continue to see strong momentum towards the adoption of digital channels by customers. Our transaction volume on Axis Mobile increased almost three times in Q3 on a YOY basis, outpacing every other channel by a wide margin. It is worth noting here that in its recent study, Forrester Research has rated 'Axis Mobile' as the best banking app in India. Electronic channels now contribute 49% of all customer induced transactions in our retail base.

Moving on from these major themes, I would like to highlight a few other metrics that you might find useful in understanding the Bank's performance this quarter.

Our SME portfolio continues to remain healthy with SME advances growing by 7%. Credit Deposit ratio of the Bank was at 93% at the end of Q3. This included a domestic CD ratio of 80%. As we have mentioned before, given some of the structural changes in the liability origination ability of banks in India, we believe the conventional CD ratio gets less relevant when seen in isolation. For instance, when we include Infrastructure Bonds as part of our Deposits base, our domestic CD ratio changes to 78%. The Cost-Income ratio of the Bank for the quarter was 39%, largely on the back of controlled growth in expenses. On a full year basis, we expect our Cost-Income Ratio to be around 40%. Risk Weighted Assets for the Bank stood at ₹3,86,007 crores and grew in line with the overall balance sheet growth of 18% on a YOY basis.

Finally, a comment on our capital position. The Bank is well capitalised with a healthy Capital Adequacy Ratio (including the net profit for nine-months of FY16) of 15.47% and Tier I CAR of 12.35%. At this level, our Tier-I ratio today is even higher than it was three years ago, immediately after we raised our last round of capital. Through this period, all our capital needs in terms of growth, risk movements in the environment, and regulatory changes with respect to capital, have all been met through internal accruals and efficient capital allocation strategies.

Before I conclude, I would like to re-summarise the key themes of the quarter:

Tested Asset Quality: We have incorporated the full expected impact of RBI's Asset Quality Review for the Bank in this quarter itself.

Resilient Earnings: Underlying earnings quality is strong, with PAT growth of 15% and Operating Profits growing by 20% in an otherwise tough quarter.

Strong Advances Growth: Loan growth at 21%, with Retail Advances growth of 27%.

Powerful Retail Franchise: Saving Accounts growth of 16% YOY and strong growth in our digital footprint.

With this I come to the end of my comments and we would be glad to take your questions now.

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

Mahrukh Adajania: Would you us give a breakdown of corporate and non-corporate slippages in terms of percentage?

Jairam Sridharan: Sure. About half of the slippages are coming from the asset quality review which is from the corporate side. Of the remaining, about a little more than half is from the corporate side.

Mahrukh Adajania: If you go by some reports, the asset quality review was based on March 2015 numbers. So can there be a possibility that a lot of accounts got upgraded between April and December? If 5/25 terms are met by the promoters i.e. they bring in their contribution on time, can that also be a strong reason to upgrade these accounts?

V. Srinivasan: As far as 5/25 is concerned, there is no incremental promoter contribution, once a project commences commercial operations, you are just recasting the cash flows in line with the useful life of the asset. Neither the modes of finance of the project change nor does the promoter's contribution increase under the 5/25 scheme. So that is not valid. What you said is right; the RBI asset quality review was done as on 31st March 2015 and there have been some material developments which have happened with the satisfaction of the RBI and statutory auditors to upgrade the assets. So, it is not just because of the 5/25 scheme.

Mahrukh Adajania: The 5/25 scheme was an example. Is there any treatment which would be approved by the auditor and compliant with the regulation?

V. Srinivasan: As said earlier, there has to be some material development of satisfactory nature. So let us leave it there.

Mahrukh Adajania: What is the reason for the huge growth in fund-based exposures in the metal and power sector during the quarter?

V. Srinivasan: It is again lending to highly rated corporates.

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

Sameer Bhise: Would it be fair to say that in the RBI review list, there is no major overlap with the 8% leveraged groups that we speak about?

V. Srinivasan: There would be some overlaps in terms of the leveraged groups. You cannot rule them out.

Sameer Bhise: Okay. So would that be a large number or just a marginal one?

V. Srinivasan: Again, if you look at the size of the exposures of the leverage groups and as Jairam said that around half of the incremental slippages for the quarter was what the RBI had requested.

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

Nilesh Parikh: You mentioned that the total stress exposure was at about 8%. Now this number has been constant for many quarters and the loan book has been growing in the range of about 15%-20%. So, how do we resolve this and what is RBI asking us to do in specific to these exposures here? A qualitative comment would help on the way forward for these.

V. Srinivasan: I think these stressed groups are a number of groups plus within each groups there are multiple types of corporates. So it belongs to multiple sectors. If you look at each of these groups there could be companies, which are highly rated, performing reasonably fine and their credit quality is fairly comfortable. Hence, there are opportunities to do some business with these groups, I am not saying we have done a lot with them. You will have to view this in that context when you ask for a qualitative comment. I said that 8% is fairly stable and as we have said repeatedly over the last many quarters that our incremental sanctions have been to corporates of which about 80% have been 'A'-rated and above. If you put all these together, there could be some companies in these groups which we may be comfortable lending.

Nilesh Parikh: So what you said is that there would be some companies within these group, which would be rated 'A' and above because of their collateral?

V. Srinivasan: There are companies which are rated even 'AA' in these groups.

Nilesh Parikh: So, that will be on the back of hard collateral that probably we have more comfort on?

V. Srinivasan: Sure, there could be structures in terms of the collateral, there could also be cash flows against which we lend, and there could be other various mechanisms.

Nilesh Parikh: We have seen some increase in slippages because of the RBI assessment. So ₹1,300 crores that we are guiding for Q4 would be a normal course increase that we would anyways expect, is that the way to look at it?

V. Srinivasan: If you look at our first quarter run rate in terms of slippages, leaving aside the RBI mandated reclassifications, we were around ₹1,100 crores. But broadly, we have been in the range of ₹700 to ₹800 crores for the last many quarters. You also need to take into account that whatever review RBI has done I think there would be second hour in terms of how bank should react to such reclassification and the lists are not going to be the same, each bank would be having a different list to some extent. Therefore, we have been fairly conservative in terms of trying to say what could happen on the back of what RBI has done and try to build in some of it some incremental slippages on account of that.

Nilesh Parikh: The growth on corporate side is about 20-odd percent which is largely coming from retail and agriculture. Sir, just wanted to understand how comfortable are we with this kind of a growth??

V. Srinivasan: Let me reiterate that none of this is from the fresh incremental project transaction which we have done. These are existing debt on the balance sheets of highly rated corporates which we have been comfortable in refinancing. So in this quarter, there have been a reasonably large transaction in terms of acquisition in the tyre industry and we have been refinancing the transaction. We also did something in the pharma space and we have been active in paper as well, there has been a reasonably larger transaction. Thus, we look at refinancing some highly rated corporates which we are fine and which possibly provides benefit in terms of value of lower cost of funds and better structure for these corporates.

Moderator: Thank you. The next question is from the line of Prashant Kothari of Pictet Asset Management Ltd. Please go ahead.

Prashant Kothari: You have ₹1,000 crores of slippages coming in from the RBI's asset quality review. Would it be right to say that the number was multiple times of that in the RBI list and then you have taken your discretion which is really specific?

V. Srinivasan: There is no discretion being allowed as far as the RBI is concerned.

Prashant Kothari: So, there is no pending account in the list which you need to review later on then and figure out?

V. Srinivasan: No.

Prashant Kothari: On the investment book side. Has there been a similar review even on the bonds and debentures that you would have of various corporates?

V. Srinivasan: The RBI has not conducted any review on the investment book. Just to address that question which could come later in terms of what happened to one of the exposures we had on the bond book which lasted a lot of questions, we have sold that bond and that transaction is available in the public domain as far as what price we sold it so Amtek was off our books right now.

Moderator: Thank you. The next question is from the line of Disha Seth of Chanakya Capital. Please go ahead.

Disha Seth: Can you give me the breakup of other income?

Jairam Sridharan: Sure. We have fee income of ₹1,885 crores and trading and miscellaneous income of ₹453 crores.

Disha Seth: The amount of restructured loans was ₹126 crores during the quarter, right?

Jairam Sridharan: Correct.

Disha Seth: Can you give me the number for the previous quarter?

Jairam Sridharan: Sure. It was ₹474 crores in Q2 and ₹740 crores in Q1.

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

Nilanjan Karfa: If I look at this ₹1,000 crores this quarter and assuming you are providing 10% in FY17 on some of the restructured accounts, essentially we are looking at a number of about Rs.3,500 crores. Is that the discussion that has been finally agreed between you and RBI assuming you have to provide Rs.250 crores of standard assets provision, right?

V. Srinivasan: The incremental 10% is for the next year. Again, as I told Mahrukh in the first question subject to satisfaction of the regulator and our statutory auditors, any material development after March 2015 can influence the classification of the asset and that is what can change it, otherwise what you said is right.

Jairam Sridharan: So if we take the incremental 10% in the next quarter and you include what we have already provided for, yes, as far as asset quality review is concerned, we have met all the obligations. Of course because some assets have been classified as NPA now over time their classification will change and as their classification changes we may have incremental provisions coming up because something moves from D1 (doubtful 1) to D2 (doubtful 2), etc., at that point we will need to make incremental provisions as well.

Nilanjan Karfa: Sir, is this chapter of 150 accounts is closed after the quarter?

V. Srinivasan: We cannot comment on the 150 accounts or what the number is. But what you are saying is right.

Nilanjan Karfa: There are no further discussions on any large corporates. Could you give us a clear picture on that?

V. Srinivasan: I think we have been fairly clear.

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

Anand Laddha: A few SDRs have been done and more are likely to come in the future. Do you think one needs to include some provisioning on the SDR account as these accounts are all stress accounts and I believe any resolution in this account will require some haircut for the bank?

V. Srinivasan: As we said in the call, we have done one SDR and the cumulative value of the underlying loan amount was around ₹500 crores. I agree all SDR cases are stressed to that extent. At some point of time when the change in management happens there could be some implications in terms of what price it gets sold. As we have done in the past, we would shore up contingent provisions as much as we can depending on the earnings momentum and that we will continue to do to make sure we provide a buffer against some of these.

Anand Laddha: Also in case of fresh restructuring done largely due to DCCO change which happened beyond two years. Do you think in most of these cases if they are power projects, the internal capitalisation will increase further? Do you believe that you need to give some additional provisioning on these exposures also?

V. Srinivasan: We have done fresh restructuring of ₹126 crores in Q3 which is for a project other than power in the infra space. And in Q4, we also expect shift in DCCO beyond two years of projects with aggregate debt of around ₹900 crores.

Again, here the project is operational. If the project was structured as multiple phases and since all the phases are not complete, there is a shift in DCCO. But otherwise the project is operational and cash flows on the project are used to service existing debt. So that is plainly a shift in DCCO on account of other phases and therefore banks as well as the company are going slow because of change in the environment conditions.

Anand Laddha: There are a few large iron & steel companies which are leveraged and given the current steel prices it seems that these debts are really large assets enabled. Is there a thought process there to create some buffer on these accounts so that if there is any haircut in the future that can be taken care?

V. Srinivasan: I think all what you mentioned, whether it is SDR, whether it is iron & steel, clearly, the environment continues to be challenging on more than one count and therefore as I said we would continue to build buffers in terms of contingent provisions as and when we can and that is something which we will actively do.

Anand Laddha: But, there is no guideline from the RBI to create some floating provision on this exposure or are there some additional standard assets provisioning on these exposures?

V. Srinivasan: Not right now.

Moderator: Thank you. The next question is from the line of Surendra Shetty of UBS. Please go ahead.

Surendra Shetty: What are your views on loan extended to Vedanta Limited with respect to their cash tender offer which they are going to use for the convertible bonds?

V. Srinivasan: We are unable to comment on what we are doing in a particular exposure and as far as this is concerned I clearly cannot comment.

Surendra Shetty: Could you throw some light on the bank's total capital adequacy ratio, which is falling marginally since Q4 FY15.

V. Srinivasan: Our capital adequacy may fall on the overall capital adequacy but Tier-I continues to be strong and higher than what we were even at the point of raising capital three-years ago. The Tier-II which we had raised possibly because of amortisation clearly would sort of trend down and we can raise Tier-II at any point of time. There is enough head room available for us to raise Tier-II.

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

Manish Karwa: The ₹1,000 crores were NPLs in someone else bank's books which RBI wanted us to make it as NPLs, is that a right understanding?

V. Srinivasan: That is not the right understanding. RBI has instructed banks. The lists are different.

Manish Karwa: Is the RBI list on accounts an annual review or it would be on quarterly basis henceforth?

V. Srinivasan: This is the first time the RBI issued a list. It is unlikely that they will do it on a quarterly basis. But, we do not know what happens next year.

Manish Karwa: On this ₹1,000 crores since RBI has asked you to make it as NPL, I would assume that they were paying accounts to Axis Bank and since they were paying accounts, the likelihood of us recovering a large part of these NPLs is fairly high. Would that be a fair assumption?

V. Srinivasan: You could assume that. Clearly, these were accounts which were servicing their obligations and therefore they should continue to service it.

Manish Karwa: This 8% exposure to levered groups that you have mentioned. That is over and above the 5/25 SDRs and the restructured book, right?

V. Srinivasan: The 8% exposure is coming from the classification which market has in terms of definition of stress groups and what our exposure in those groups are. It includes all cumulative exposures in those groups.

Manish Karwa: So, this can have assets which are already restructured or under 5/25 or SDRs, right?

V. Srinivasan: Yes.

Moderator: Thank you. The next question is from the line of Ravi Singh of Ambit Capital. Please go ahead.

Ravi Singh: The additional NPA that we have recognised in this quarter is because of the RBI directive. What was the earlier classification--were some of those loans restructured?

V. Srinivasan: Sure, they were a mix of restructured and standard loans.

Ravi Singh: Any idea what that mix would be in terms of standard and restructured?

V. Srinivasan: Less than 25% would have been restructured.

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

Adarsh P: Can give some guidance on the credit cost for FY17.

Jairam Sridharan: We are coming up with an assessment and we will share something with you but not right now. So give us a little bit of time, we are still assessing how different accounts are playing out and an important parameter here is going to be how other banks react to the RBI asset quality report and see what the second order impact of these lists are in the market before we are able to give some meaningful guidance, We do plan to come out with something in the next few weeks. Usually, we give it around the fourth quarter results..

Adarsh P: When you say second order impact of how the market reacts to some of their RBI audit names, is it that there is one particular name in some bank which you have an exposure to, but it is just given to that bank to show and depending upon how they declare it, then it has a bearing on our portfolio or how does one read the second order impact?

V. Srinivasan: What you are saying is right. Basically, the list of banks is not common. So to that extent what maybe an NPA with me, may not be an NPA with other banks. So what I do in the asset which becomes an NPA maybe different today than what it was say one month back. So if bank starts reacting differently, then that could have an implication in terms of how the asset turns out to be.

Adarsh P: So if most banks abide by declaring most of those accounts as NPA that may lead to our NPA recognition going up. Is that a fair way to look at it?

V. Srinivasan: It could be slightly higher than what we had previously anticipated. That is what we are trying to say.

Adarsh P: The 5/25 refinancing done by the Bank was around ₹3,500 crores. Can we get the full exposure to these accounts because some of these facilities are partly refinanced? Also what was the total exposure other than the refinanced amount in these particular companies?

V. Srinivasan: It would broadly not be very different. All the rupee loan facilities would have been under 5/25 if the company goes for 5/25. Other than project is what you are saying. If you have working capital facilities, that would not be under 5/25.

Adarsh P: So if there is a term loan facility and that is given for different plants of say a steel company, then most of the term loans of that particular company is already a part of the 5/25?

V. Srinivasan: You should assume that.

Moderator: Thank you. The next question is from the line of Dhaval Gala of Birla Sun Life Mutual Fund. Please go ahead.

Dhaval Gala: What would be the sectors for the slippages this quarter especially for the companies which were a part of the RBI list? And does management team think that we should be making higher provisions?

V. Srinivasan: I said before that we would try and make sure that we provide a buffer against slippages from SDR as well as 5/25 to the extent possible by increasing contingent provisions as and when we have the room to do so. That is one. You are asking about sectors in terms of where the RBI has mandated us. I think it is across sectors; a couple of them are in power, but both of them are not in thermal power, let me put that upfront and there is one who is a battery manufacturer and the others are fairly small and dispersed.

Dhaval Gala: How many of your current outstanding restructured loans are going to exit moratorium?

Jairam Sridharan: Over the next five quarters, above ₹3,000 crores is going to exit moratorium.

Dhaval Gala: Can we get a qualitative statement on the performance of these companies or of the exposures that are exiting moratorium?

Jairam Sridharan: In general, our historical experience has been that slippages from the restructured accounts have been around 25%. Since these accounts are presently in the moratorium period, it is tough for me to guess when they come out of moratorium and whether they are going to be higher or lower than our historical experience. Our estimate is that this ratio is going to continue.

Dhaval Gala: Is 25% the annual slippage number from the outstanding restructured accounts?

V. Srinivasan: The 25% slippage is not for each year. It is not per annum. We have said that our annualised slippages from the restructured book continue to be around 25% of the restructured book on a two-year lag basis.

Dhaval Gala: So, two years back, your outstanding restructured pool was around ₹5,000 crores and this year the slippages have been much higher than that number right now?

Jairam Sridharan: If you look at a two-year lag basis, all these numbers are available for what our slippages into restructured have been and what our two-year lagged restructuring book was. So on a moving average basis for four quarters, you will see that the percentages will be around 25% and we expect that to continue into the next quarter as well.

Dhaval Gala: Can I get the outstanding loans which have slipped from the restructured book for this quarter as well as for the nine-month period?

Jairam Sridharan: Sure, Slippages from the restructured book was ₹742 crores during the Q3 and for the nine-months was ₹1,288 crores.

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

M B Mahesh: There was a discussion saying that if there is a difference between rating agencies change with respect to a specific loan, there would also have to be some amount of provisions which the banks have to do it. Has this been in discussion with the banks as well? Also, if the RBI has given a list of accounts which show certain amount of characteristics and they have asked you to make provisions against it. Would your auditors now insist for higher provisions on those accounts? On the NPL side, it does appear that a large part of it has moved straight away to the doubtful accounts. Are we right in this assessment?

V. Srinivasan: As far as the first question is concerned, we are not aware of rating agencies having dialogue with the RBI. The second one, I do not think so there is any specific thing you can point out. I think based on behaviour of the account and inherent weaknesses in terms of the account in the bank they (the RBI) have requested the bank to reclassify those accounts. I do not think so there is something based on which an auditor can see and tell you to do something on some or the other accounts, I do not think so that is something which we expect to happen.

Jairam Sridharan: There was a question that you had on other account and how they have been classified, whether they come under doubtful or some other category. There it is more dependent on the date in which a particular account is asked to be moved into NPA status. Depending on the date, different accounts would have different outcomes in terms of whether they fall into doubtful one or doubtful two or any other category.

V. Srinivasan: Just to be clear; the reclassification is done with retrospective effect; some of it maybe with dates of December 2014 or even say March 2013.

M B Mahesh: There has been a slowdown in your SME segment for the past few quarters now. Any specific reason for this?

V. Srinivasan: As you are aware, the credit growth in the system is low, so there has been competition for us, and we have been refinancing corporate assets at possibly very competitive rates. There are other banks which are refinancing SME assets at fairly low rates say below 10%. Hence, our SME growth remains muted.

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

Alpesh Mehta: Can throw some light on some of the specific sectors in terms of NPL recognition and the outstanding restructured loans into those segments? And what percentage of the book would have been classified so far?

V. Srinivasan: We will come back to you on that.

Alpesh Mehta: On the FII limit of 74%, is there any other approval pending? What is the internal limit that we have right now?

V. Srinivasan: I think FIPB needs to notify it and that will become effective.

Alpesh Mehta: What is the board approved limit as of now?

V. Srinivasan: 74%.

Moderator: Thank you. The next question is from the line of Roshan Chutkey of ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: What is the current status on your dialogue with Max Life with respect to the stake arrangement?

Rajiv Anand: We have arrangement in terms of stake sale. Jairam earlier mentioned that we have added some in our other income in this quarter. So, if you are asking, do we have more of that stake to sell, the answer is 'Yes' or if is there a renewal, the relationship is till 30th September 2016. Currently, we are in dialogue with Max Life Insurance to see how we can take this forward.

Roshan Chutkey: Any views that you can share for the de growth in their APE (annual premium equivalent)?

Rajiv Anand: Sure. There has been some shift in terms of traditional versus ULIPs. We had sold a fair amount of ULIPs in the same quarter last year, that business to a certain extend is now converted into traditional. From an APE perspective, there has been a bit of de growth. The sale of mutual funds has been a bit strong in this quarter if you consider the overall insurance volumes. Therefore, the system has focused on mutual funds versus insurance products. Typically, the period from January to March is when investors are more focused to buy insurance from the taxation perspective. So, we do believe that volumes will pick up in the fourth quarter.

Moderator: Thank you. The next question is from the line of Kunal Mehra of MSD Capital. Please go ahead.

Kunal Mehra: Out of the slippages from the restructuring of ₹1,288 crores in the last nine months, the amount does not include ₹1,000 crores as well as the SDR of ₹3,500 crores which you provided post-RBI review..

Jairam Sridharan: The list that came from RBI had accounts that were were restructured earlier, then this number does include that amount.

V. Srinivasan: Because the 5/25 refinancing scheme is not classified as restructured.

Moderator: Thank you. The next question is from the line of Sushil Kumar of Birla Sun Life**.** Please go ahead.

Praful: This is Praful here. Would you agree that your funded exposure to highly leveraged groups has been at around 8% at the end of Q3?

Jairam Sridharan: We stated that number, so we agree with what we stated.

Praful: You have recognised ₹9,300 crores of stress in various forms, that number still remains at 8% or it should have logically come down as this number has been constant for last many quarters. So taking this exposure close to say ₹25,000 crores and selling SDRs, recognising NPAs and 5/25 refinancing, still that number is 8%. Just wanted your thoughts on that?

V. Srinivasan: Whatever we have done with those assets, the exposure stands where it is.

Praful: Can you give us a number that how much of that is already recognised in terms of stress?

Jairam Sridharan: In terms of our overall funded exposures to these levered corporates, we have mentioned that our exposure is around 8% at the end of Q3. If you look at the present performance on that portfolio, and see whether it is materially different from the rest of the portfolio, it is difficult to say as it is not tremendously different.

Praful: How much of that is already taken in terms of stress by you so that will give us some clarity on just to make our adjustments? Maybe if you can give us that number later?

V. Srinivasan: We will try to get back on that.

Praful: In terms of the pipeline for 5/25 scheme, how much is that?

Jairam Sridharan: We have a pipeline that we are discussing right now of around ₹2,500 crores. A lot of it may fructify now or a little bit later.

Moderator: Thank you. The next question is from the line of Aditya Iyer of Dimensional Securities. Please go ahead.

Aditya Iyer: What has been the total number of assets which has been sold to ARCs over the last quarter as well as the past nine months? And what would be the security receipts outstanding on the same?

V. Srinivasan: The only thing we sold for security receipts was the power asset aggregating to ₹1,820 crores in the nine months. The security receipt outstanding on our books is ₹550 crores.

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

Rahul: You have done refinancing of ₹3,600 crores under the 5/25 refinancing scheme till now and there is a pipeline of ₹2,500 crores. Would it be possible to get a sectoral breakdown of ₹6,100 crores? Is the 5/25 refinancing scheme a normal refinancing scheme or are these some exemptions provided by the RBI??

V. Srinivasan: Considering that these are project related exposures and transactions, I think projects which have been executed over the last three to four years typically are the ones in power, roads and the metal space. The 5/25 refinancing scheme is an RBI regulation or dispensation which allows you to recast the cash flows of the project after it commences operations and depending on the useful life of the project you can recast the repayment obligations. That is 5/25 Scheme.

Rahul: Is it fair to assume that most of the exposure in 5/25 is related to the power and road sector which comes under infrastructure, how much of that is from the metal sector??

V. Srinivasan: I need to come back to you on that. But you may say about ₹1,000 odd crores.

Rahul: Sir, when you are refinancing loans under the 5/25 scheme, what kind of principal repayments are getting structured say at the reset of every five years?

V. Srinivasan: The 5/25 scheme requires some amount of refinancing at the end of every five or and seven years with the repayment of principal being more back ended. That is what a 5/25 financing scheme typically provides for.

Rahul: I guess you mentioned that of ₹1,000 crores that slipped into NPA because of the RBI review, you were receiving payment from these accounts and therefore the probability for upgrades of these accounts was pretty high. If that was the case, then why did the RBI asked us to downgrade these accounts?

V. Srinivasan: Let me clarify; I did not say that the probability is very high. I said that there are changes that these assets may perform. The RBI has looked at the performance of these accounts in our bank and across banks and seen some inherent weakness as far as how these accounts have performed and therefore requested us to reclassify these accounts.

Rahul: Would you like to give any guidance on possible SDRs in the next one or two?

V. Srinivasan: Sure, discussions are there. But as we said, we have done just one transaction till now. Going forward there will be a few SDRs and far between. Again, if you look at this quarter, there were a couple of SDRs being discussed and one of it is in a textile company.

Rahul: Where already the SDR has been invoked. That is a fair understanding right?

V. Srinivasan: We are talking of SDR in that company. So I do not know when it gets executed.

Moderator: Thank you. The next question is from the line of Sivakumar of Unifi Capital. Please go ahead.

Sivakumar: Among the RBI recognised NPAs, 75% of those loans were being serviced. Did the RBI give you a timeline for up gradation of these accounts?

V. Srinivasan: As I said before, if there is material development in the asset which satisfies the regulators as well as the statutory auditors, the account can be upgraded.

Sivakumar: So again it is the discretion of the RBI to classify the account as standard, right? Is there any structural framework wherein the bank itself can classify the account as 'a standard account'?

V. Srinivasan: The bank alone cannot make that call.

Moderator: Thank you. The next question is from the line of Vallabh Kulkarni of Motilal Oswal Securities. Please go ahead.

Vallabh Kulkarni: The RBI had said that there are two lists: The first says that you have to downgrade these accounts and second says there is a discretion given to the banks to downgrade some accounts. Is it true?

V. Srinivasan: As said earlier, there is no discretion in terms of reclassification of these accounts.

Moderator: Thank you. The next question is from the line of Vibha Batra of ICRA India. Please go ahead.

Vibha Batra: This 8% exposure to highly leveraged groups, what percentage of those would be gross NPLs or restructured accounts? Second question is on MCLR (marginal cost based pricing of loans rates). In case of your transition to MCLR, is it going to be significantly lower than your base rate at least the lowest end and how does that impact the margins considering that you have flexibility on tenor premium debts, so what would be your overall assessment?

Jairam Sridharan: On the 8% funded exposure to highly leveraged groups, our credit performance right now is not materially different from the rest of the portfolio. We are not making specific disclosures on that 8%. On MCLR, the next few weeks are going to be very important to figure out how the MCLR regime takes hold and when the bank makes the cut off on the 1st of April before that time everybody will decide which tenors to use on which products and how to price in the MCLR. At this stage, there is no reason for us to believe that it is going to have a material impact on the margin situation of the bank.

Vibha Batra: Only thing why I asked about this 8% is because more simplistically what people will do is that they wish to add this 8% in your overall stressed accounts although there may be a double counting. So, I do not know if you want to evaluate your disclosure on that as it is just on double counting calendar.

Jairam Sridharan: Sure.

Moderator: Thank you. Ladies and Gentlemen, we will take our last question from the line of Rakesh Kumar of Elara Capital. Please go ahead.

Rakesh Kumar: Sir, you said that the number of slippages from the restructured standard book is ₹742 crores, on which you already have around 5% provisioning. Correct?

V. Srinivasan: Correct.

Rakesh Kumar: The total corporate loan book slippage is around ₹1,100 crores. On that if you look at provisioning of around 15%, the slippage which may have happened would be outside the restructured book, so you have made higher provisioning or how it is?

Jairam Sridharan: The total provisions are a combination of new slippages that happened this quarter as well as the ageing impact of accounts that have already slipped in the prior quarters. All these effects need to be considered while arriving at the total provisions.

Rakesh Kumar: No, I am just asking pertaining to the slippage which has happened due to the RBI indications.

V. Srinivasan: This ₹742 crores is not only because of the RBI. The slippages have happened across segment.

Rakesh Kumar: You have given the guidance on slippages of ₹1,300 crores for the next quarter. So this is only from the restructured standard advances (RSAs) or how is it?

V. Srinivasan: Our guidance on slippages is across segments and not just corporates. It includes both restructured as well as standard advances.

Rakesh Kumar: According to the RBI instructions, the slippage number which we have taken is for how many accounts??

Jairam Sridharan: We are not at liberty to talk about that.

Moderator: Thank you. I now hand the floor back to Mr. Jairam Sridharan for his closing comments.

Jairam Sridharan: Thank you, everybody. I hope you found the call useful. We wish you all a very Happy New Year once again. Hope that we have addressed all your questions satisfactorily. We appreciate you taking the time out late this evening for the call. Have a good evening.

Moderator: Thank you members of the management. Ladies and Gentlemen, on behalf of Axis Bank, that concludes this conference. Thank you for joining us and you may now disconnect your lines.