"Axis Bank Q4 & FY17 Earnings Conference Call"

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Moderator: Good day ladies and gentlemen and welcome to the Axis Bank conference call to discuss the Q4 and annual FY2017 results. As a reminder, all participant lines will be in the listen-only mode. Please note that this conference is being recorded. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation is not sent. Unauthorized dissemination of the contents or the proceedings of the call is strictly prohibited and prior explicit permission and written approval of Axis Bank is imperative.

Axis Bank team is represented by Mr. V. Srinivasan – Deputy Managing Director; Mr. Jairam Sridharan – Chief Financial Officer; Mr. Rajiv Anand – Executive Director, Retail Banking and Mr. Sidharth Rath – Group Executive, Corporate 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 this conference call, please signal the operator by pressing * then 0 on your touchtone phone. On behalf of Axis Bank, once again I 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 with the presentation. Thank you and over to you sir.

Jairam Sridharan: Thank you, Margaret. Thank you, ladies and gentlemen. I wish you a very good evening. I welcome you to our conference call for a presentation on the bank's performance for the fourth YoYrespond to your question. For some parts of this call, we expect to refer to slides in our quarterly earnings presentation so you might want to keep the presentation handy.

Let me start with the key highlights for this quarter's performance:

1. Strong performance on retail deposits. CASA balances grew by 26% YoY and 21% QoQ. Savings account balances grew by 19% YoY and 7% QoQ while current account balances were up 37% YoY and 49% QoQ. The yearend CASA ratio stood at 51%.

2. Retail and SME advances witnessed healthy recovery. Sequential loan growth was healthy in retail and SME reflecting a strong bounce from any impacts of demonetization. The retail loan book grew strongly at 12% QoQ while SME advances grew at 14% QoQ. The YoY growth in retail and SME advances stood at 21% and 10% respectively. The share of retail advances now stands at 45% of total loans. Retail also now forms 46% of the bank's fee income. The bank's card business had another strong quarter with spends growing by 83% YoY.

3. Slippages which continued to be lower than peak levels witnessed earlier in this year. Gross slippages stood at Rs. 4,811 crores compared to Rs. 4,560 crores in the third quarter. Net slippages were at Rs. 2,008 crores compared to Rs. 4,210 crores in the third quarter. Provision coverage now stands at 65%. Credit cost for the quarter was 1.73% and for the full year, it was 2.82%.

4. Strong sequential growth in earnings. Core operating profits for the quarter grew by 27% Q-on-Q and profit after taxes were up 111% QoQ. Profit for the quarter and the year have declined by 43% and 55% YoY, respectively.

5. And finally capital position which remains healthy. At the end of FY17, our tier I ratio stands at 11.87% compared to 12.51% at the end of FY16. I shall delve on some of these things in greater detail as we go along.

Let me begin my detailed comments with our perspective on the macro situation as it looks on the Indian banking today:

For Indian banking, Q3 was defined by the impact of the unprecedented demonetization exercise. As we see Q4 performance in our portfolio, it appears that many areas of domestic economic activity have bounced back towards normalcy in this quarter. India's full year FY17 GDP growth is projected to be 7.1% YoY. The union budget continued to strive towards fiscal consolidation fixing a fiscal deficit target of 3.2% in FY18, down from 3.5% in FY17.

From the perspective of Indian banking, this slowdown in capex activity and the highly leveraged corporate balance sheet remains the primary concern. This has caused corporate credit demand to remain subdued and the system bank credit growth for the fiscal closed at a multidecade low of around 5%. On the other hand, the system remains flushed with liquidity and material part of the demonetization driven deposits still remain in the banking system. This resulted in aggregate system deposit growth of 13% YoY at the end of fiscal 2017 well in excess of system credit growth. The excess liquidity has led to sharp correction in market interest rates and the emergence of alternative funding resources thereby impacting overall bank credit growth further.

Looking ahead, India's growth is expected to improve to 7.4% in FY18 with much of the increase likely from higher consumption. Global growth prospects are expected to improve further in FY18 with improved demand resulting in higher commodity prices that augur well for our domestic commodity producers. Given the current liquidity situation and the likely upside risk to the inflation outlook from rising commodity prices, we believe there is limited scope for monetary policy easing by RBI over the next few months. We believe that investments are likely to remain modest particularly in the first half of FY18, but capex spends might gradually revive with spends on affordable housing, renewable energy, urban infrastructure and rail and road projects. Bank credit growth, however, might revive only gradually since most of the initial capex likely be led by the public sector.

With this macro backdrop, let me now discuss the bank's performance in greater detail starting with the performance of our retail franchise:

Savings account balances at quarter end grew at 19% YoY and 7% QoQ while current account balances witnessed a strong growth of 37% YoY and 49% QoQ. This resulted in an overall

CASA growth of 26% YoY and 21% QoQ. Our overall CASA share and deposits stands at 51% at the end of the quarter. CASA deposits on a daily average basis for the quarter also grew by 26% YoY and comprised 45% of total deposits. On a daily average basis, savings account deposits grew by 29% and current account deposits grew by 20%. There has been a sharp increase in system liquidity post demonetization. The material part of the supernormal incremental deposits that we gained post demonetization continues to remain with the bank. We have witnessed that nearly 42% of incremental savings account deposits and 82% of the incremental current account balances have exited the system by the end of March, but the remaining is still in the banking system. CASA and retail term deposits continued to form for the bank a strong base at 81% of total deposits. We continue to make investments in developing an extensive branch network. During the quarter, we opened 93 branches taking the total number of branch additions during the fiscal to 400. For the next year, we expect to open a similar number of branches as in this financial year.

Moving on to a quick discussion on our digital lending platform:

We continued to witness strong traction in the adoption of digital channels by customers. Please refer to slide 20 in the earnings presentation. Digital transaction volumes increased by 7% on a YoY basis. It is useful to note on the chart that while transaction volume at branch is normalizing to pre-demonetization levels, the same is not happening to ATM transactions. ATM volumes seem on present evidence to be moving to a new lower normal. Mobile banking spends in Q4 reported a growth of 76% on YoY basis, aided by 54% growth in transaction volumes. We continue to maintain strong position in the transaction and payment space.

If you refer to Slide #24, you will see that the bank continued to witness strong growth in our cards business. Cards portfolio spends in the fourth quarter increased by 83% YoY to Rs. 17,157 crores. The bank now has 33 lakh credit cards in force at the end of this quarter making us the fourth largest credit card issuer in the country with a market share of over 11%. As at the end of the quarter, the bank also stands as the third largest acquirer of point of sale terminals in the country. We added 1.3 lakh POS terminals, 33% of the current base in the last 12 months.

Let us move on now to a discussion on the growth in advances:

Aggregate loan growth stood at 10% YoY. Loan growth was driven largely by Retail and SME. On the Retail and SME side, the impact of demonetization on growth has been fading and we witnessed strong sequential pickup in segments where things looked bleak in the third quarter. If you flip to Slide #23 of the earnings presentation, you will see that the disbursement growth has rebounded for retail segments like home loans and agricultural lending that were impacted materially during the last quarter due to demonetization. Retail lending overall continues to show strong growth with a YoY growth of 22% at the end of this quarter excluding loans against FCNR (B) deposits. The growth in this quarter has been led by auto loans, credit cards and home loans. The credit quality of retail loans continues to be steady.

SME loan growth stood at 10% YoY and 14% QoQ. Corporate advances portfolio was flat on a YoY basis. Overall demand for corporate credit continues to remain stubborn. We continue to focus on lending to higher rate of corporates. 85% of new sanctions in the corporate book for the fiscal year 2017 were the companies rated A or better. Presently, 66% of outstanding corporate loans out of companies rated A or better.

Credit growth in the banking system is presently at multidecade loss. We expect growth to pick up in FY18, but it is hard to be definitive about specific levels. If you turn to slide 11, you will notice that the bank's credit growth has been consistently higher than the overall banking system credit growth. In FY18, we expect the bank's advances portfolio to grow around 5% faster than system growth. As has been the case in recent quarters, the retail advances business is likely to continue to remain the key engine of growth in FY18.

Let me move now to the next thing that of asset quality:

Gross slippage for the quarter stood at Rs. 4,811 crores similar to the Rs. 4,560 crores in the third quarter. Net slippage stood at Rs. 2,008 crores down from Rs. 4,210 crores in the third quarter. During the quarter, one account with loan outstanding of Rs. 1,661 crores in the cement sector was down-graded and upon successful regularization during the same quarter was subsequently upgraded. Thus, our gross slippage and upgradation numbers for the quarter are both influenced by this amount. This account was and continues to be on our watchlist. In the quarter, we have also made a provision of 25% against the loan outstanding on this account at the end of the quarter.

Moving on to Slide #27 of the Earnings Presentation, you will see that the gross NPA ratio of the bank has decreased to 5.04% at the end of March 2017 from 5.2% at the end of December 2016. The net NPA ratio has decreased to 2.11% from 2.18% at the end of December. The watchlist has reduced to Rs. 9,436 crores or 2.23% of customer assets in March from 2.83% in December and 6.2% at the beginning of the year. Total slippages from the corporate lending book stood at Rs. 4,320 crores for the quarter, of which 83% came from the watchlist portfolio. At the end of four quarters since the watchlist disclosure, 58% of this list has now slipped into NPA.

Moving onto slippages outside the watchlist:

Slide #30 captures the key metrics. Over the fiscal year, 84% of corporate slippages have been from the watchlist and 16% from outside. The key sectors that have contributed to non-watchlist slippages have been metals, infrastructure construction and engineering and electronics. Net slippages before write-off in retail and SME stood at Rs. 39 crores and Rs. 146 crores respectively. Total recoveries and upgrades for the bank stood at Rs. 2,804 crores. We have also in this quarter increased our provision coverage ratio on NPAs from 64% to 65%. Credit cost for this quarter was 1.73%. For the full year FY17, credit cost stood at 2.82% broadly in line with the revised guidance we offered you in the second quarter.

I would now like to touch upon the new RBI circular dated April 18, 2017 with respect to divergence and asset classification and provisioning for NPAs:

While all banks are required to offer the detailed notes in their financial statements, we think it will be useful to have some more discussion and color on this important topic on this call as well. As part of the risk based supervision exercise for 2016 which concluded in the third quarter of financial year 17, the RBI pointed out certain modifications in the bank's asset classification and provisioning as on 31st March 2016. The total reclassification in respect of additions to gross NPA as assessed by RBI was Rs. 9,478 crores. Of the said reclassification, a few points are worth noting. Rs. 5,260 crores was recognized by the bank as NPA in the first quarter and in the second quarter of financial year 2017 prior to the risk based supervision (RBS) exercise. Another Rs. 1,811 crores was recognized as NPA in the third quarter of the financial year. The balance amount of Rs. 2,407 crores remains standard as on 31st March 2017 as irregularity in these accounts has been fully regularized. The financial impact of the reclassification are fully incorporated in the bank's accounts before this quarter. It is also important to point out that of the total amount pointed out as reclassification, Rs. 7,990 crores was part of the watchlist of Rs. 22,600 crores that the bank disclosed in April 2016 well before RBS 2016.

Based on the level of recognition during FY17 and our outlook on the corporate lending portfolio, we believe that on slippages and on credit cost, the worst of this credit cycle is largely behind us. However, we recognize multiple uncertainties that still remain with regard to resolution mechanisms for stressed loans. We also recognized that Q4 is seasonally strong quarter on recoveries and the strength in this quarter might not be directly imputable to the next full year.

Taking all of these factors into account, we expect our credit cost for FY18 to be in the range of 175 to 225 basis points. This credit cost range factors in different economic scenarios and had consequent impact on stressed sectors and on the NPL resolution and recovery cycle. We believe a range better captured the possible scenario that may play out during the year. As the year progresses and we have more visibility on the macro developments, we will update this range as well as attempt to make it narrower.

To round up our discussion on asset quality, here are some more metrics:

During the quarter, the bank implemented strategic debt restructuring or SDR in 5 standard accounts. The underlying loan amount is Rs. 1,293 crores. We have created provisions of 15% on this entire pool. The bank has implemented 5:25 in S4A in one and two accounts respectively during the quarter. The cumulative outstanding value of the underlying standard loan amounts for SDRs and 5:25 and taken by the bank so far is around Rs. 2,173 crores and Rs. 2,329 crores, respectively. During the quarter, the bank sold assets with the gross outstanding of Rs. 2,354 crores and a net book value of Rs. 1,828 crores to ARCs against the sale consideration of Rs. 1,686 crores. Of this, the cash amount was Rs. 266 crores and security receipts were worth Rs. 1,420 crores. The outstanding value of security receipts now stands at Rs. 1,525 crores. During this quarter, slippages from the restructured book stood at Rs. 942 crores.

To get a sense of the overlaps among different restructuring dispensation, I request you to take a look at the Venn diagram on slide 27. As this diagram indicates, there is an overlap of more than 50% across different categories with our disclosed watchlist. I would also like to inform you all that the bank's board is in the process of formulating a policy for making provisions for standard asset at rates higher than the regulatory minimum based on evaluation of risk and stress in various sectors.

Slide #34 provides the snapshot of the bank's top 10 industry concentration. Telecom sector has now moved out of our top 10 and its fund and non-fund based outstanding stands at Rs. 3,982 crores and Rs. 9,126 crores respectively. In anticipation of the new standard asset provisioning requirements starting likely the first quarter, we have added Rs. 100 crores into our contingent provisions pool in this quarter. With this, the total amount of contingent provisions available now stands at Rs. 260 crores.

I will move on now to the bank's earnings profile:

I request you to refer to Slide #15 of the Earnings Presentation. Core operating profits and net profits have both improved sequentially. NII for the quarter increased by 4% YoY and 9% QoQ. NIM for the quarter was at 3.83% with domestic NIM at 4.11%. The next slide, slide 16 represents the sequential NIM waterfall. The NIM improved by 40 basis points on a QoQ basis to 3.83%. This sequential improvement in NIM was primarily influenced by a one-off favorable impact of write back in prior period interest reversal of around 13 basis points which is shown included here in the interest reversal component. Further, lower amounts of interest reversals on a sequential basis and a normal decline in cost of funds helped in the sequential improvement in margins. For FY17, the net interest margins saw a compression of 23 basis points overall and stood at 3.67%. In FY18, we expect further compression of around 20 basis points amidst high liquidity, lower credit demand and downward repricing of existing floating rate loans.

Slide #17 represent the composition of the lending book by rates type and how is has been changing over recent quarters since the beginning of the MCLR era. For the fiscal 2017, MCLR and base rates have seen a reduction of 125 basis points and 25 basis points respectively. Cost of funds during the fourth quarter was 5.42% compared to 5.51% in the third quarter and 5.84% in Q4 last year. Fee income grew by 8% YoY and constituted 31% of operating revenue. Retail fees continue to be an area of strength with a growth of 17%. Card feeswere up by 30% YoY. Corporate banking fees in the quarter declined by 11% YoY. The interest rate environment during fiscal 2017 has been conducive to significant gains in the trading portfolio of the bank. During the quarter, trading income stood at 428 crores, up 350% YoY. Operating expenses in the quarter increased by 18% YoY. The cost to assets of the bank was at 2.27% for the quarter and 2.03% for the full financial year. At 2.03% cost to assets, we remain one of the more cost efficient large banking franchises in the country. For the next fiscal, we expect operating expense growth to moderate from FY17FY17 levels of 20% and we expect this growth to fall to mid teen levels. Operating profits for the quarter stood at Rs. 4,375 crores declining by 1% on a YoY basis. Operating profit for the full year FY17 grew by 9% to Rs. 17,585 crores. Operating profit margin stood at 3.01% compared to 3.43% in the fourth quarter last year and 3.10% in the third quarter of FY17. Provisions and contingencies increased by 121% YoY due to elevated slippages and increase in provision coverage ratio undertaken during the quarter. The Bank showed up PCR from 64% to 65% QoQ. Profit after taxes for the quarter and FY17 declined by 43% YoY and 55% YoY, respectively.

Finally, let us touch on our capital levels:

Our total capital adequacy ratio continues to remain healthy at 14.95% with a tier I capital adequacy ratio of 11.87%. This compares with the tier I ratio of 12.99% at the end of the third quarter and 12.51% as of 31st March 2016. Slide 6 in the presentation lays out the impact of various items on our tier I ratio this year. Growth consumed 170 basis points of tier I, the new guidelines regarding capital consumed 11 basis points. Additional capital raised contributed 68 basis points, profit contributed 48 basis points and the gross accretion to reserve was one basis point making for a net consumption of 64 basis points of capital for the year. A strong and healthy capital base is essential for robust balance sheet and to continue above market growth. We will undertake appropriate steps to maintain strong capital levels in the future. Risk weighted assets for the bank stood at Rs. 472,313 crores and grew by 17% on a YoY basis. Return on equity for FY17 was at 7.22% and return on assets at 0.65%. As the impact from higher slippages received and benefits of higher investments in branches and employees kick in, we expect these ratios to improve. The Board of Directors of the Bank has recommended dividend of Rs. 5 per share similar to the dividend per share recommended last year. The recommended dividend is in line with the past track record and dividend history of the Bank.

Finally, I would like to highlight some of the achievements of our key subsidiaries:

Axis Finance – our NBFC reported 56% YoY growth in average loans to Rs. 4,358 crores and 49% YoY growth in profit after taxes to Rs. 165 crores for FY17. Axis AMC, our asset management company reported 47% YoY growth in average AUM during the year with 26% growth in the number of folios**.** Axis AMC was able to grow faster than the industry and its PAT grew 80% YoY to Rs. 57 crores in FY17. Axis Securities, the retail broking business reported 41% growth in active client base and 84% YoY growth into the volume in FY17. The subsidiary PAT for FY17 grew by 44% to Rs. 52 crores. Axis Capital, our institutional equities and investment banking franchise continues to perform well and reported PAT of Rs. 113 crores for FY17.

As I close, allow me to re-summarize the key things for the quarter and the outlook for next fiscal year:

On asset quality, slippages and credit cost seem to have come off their peak. Provision coverage ratio is healthy at 65%. We expect FY18 credit cost to be in the range of 175 to 225 basis points with a steady provision coverage ratio. On earnings, we have recovered sequentially after the loss from Q2, which witnessed peak slippage levels and credit costs. In FY18, we expect a further margin compression of around 20 basis points. On advance of growth, loan growth continues to be driven by retail at SME as well, posting a recovery after demonetization. We expect credit growth of FY18 to continue to be led by retail and we expect to grow around 5% faster than the banking system. On a retail franchise, CASA growth has been strong and loan growth remains healthy. Digital payments and transaction trends have witnessed strong growth. On capital, our capital adequacy ratio remains healthy and we intent to take appropriate step to continue to maintain things that way.

With that, I come to the end of my comments and we would be glad now 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 Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: Just wanted to check on this exposure of Rs. 16.6 billion that had slipped, was the entire thing part of watchlist? Was the entire thing upgraded or was it a partial upgrade?

Jairam Sridharan: Yes. The entire thing was part of the watchlist. The upgrade mechanism was through a repayment and the repayment almost definitionally reduced the principal outstanding of the account. And the reduced principal outstanding is the amount that got upgraded, that amount continues to be on the watchlist.

Mahrukh Adajania: So, the amount that is upgraded is on the watchlist?

Jairam Sridharan: Yes.

Mahrukh Adajania: Okay and the remaining is the slippage?.

Jairam Sridharan: There is no slippage here, Mahrukh. The entire amount is on the watchlist.

Mahrukh Adajania: So the entire amount was recovered as well?

Jairam Sridharan: The entire amount was upgraded. The recovery amount was roughly Rs. 3 billion. So the Rs. 16 billion gets reduced to Rs. 13 billion and that Rs. 13 billion remains on the watchlist.

Mahrukh Adajania: Okay. Got it. Thank you so much. And one more thing, that in terms of this ARC sale, is it standard loans or NPLs?

Jairam Sridharan: There is a mix of asset sale. There is one standard asset and multiple accounts which are NPAs or written off.

Mahrukh Adajania: How would that move through in the NPL movement? Where would you find the ARC sale is what I am trying to ask and how much would it be in the NPL movement?

Jairam Sridharan: It does not have any impact on the NPL movement. The total gross amount would come down because of the recovery and upgrade from the old NPAs that were part of this pool.

Mahrukh Adajania: Okay, but any quantification of the amount at all?

Jairam Sridharan: The table that we have put out actually shows you the total recoveries and upgrades. So you would see that the total recoveries and upgrades in the quarter were Rs. 2,804 crores. So this is part of that.

Mahrukh Adajania: Got it. Why were the write-offs high?

Jairam Sridharan: See, there were lot of accounts where NPAs have happened a long time ago and we have been holding more than 100% provisioning on these assets for a long time. We just choose to write some of them off practically in this quarter. There is no particular reason.

Moderator: Thank you. The next question is from the line of Sampat Kumar from IIFL. Please go ahead.

Sampat Kumar: There are couple of questions. One is that you have said that credit cost guidance range is fairly wider, 175 to 225 basis points. You have also said at the moment you don't have too much clarity and that there are lot of uncertainties in the environment, what is your assumption to give this 175 to 225 basis point guidance range in terms of whatever macroeconomic factors or any other factors that you want to talk about?

Jairam Sridharan: Sure. So as you think about the credit cost in the next year, there are 3 factors that you need to consider. First is improvement or deterioration in underlying operating environment for some of the stressed sectors, particularly power which as you know is the largest part of our watchlist that remains as well as for the industry overall. So we are watching very closely what is happening with operating environment. So we have made some assumptions on that front. The second is, what happens to resolution mechanism of large accounts that have already been termed NPA by the sector and as you know sector wide efforts are going on on that front and the success of those are going to have a lot of bearing on what the total provisioning cost we end up taking. And the third is credit growth because that impacts the denominator of our credit cost calculation. On all three of these, we have looked at a range of possibilities and gained or created scenarios with that entire range and what that leads us to is a situation where we believe that the bulk of probability lies in the credit cost range of 175 to 225 basis points. As the year progresses, we will try and make this range more precise and more narrow, but as of now we believe that this is the best range to offer.

Sampat Kumar: And so, first two factors certainly I don't think you will be able to quantify, but on the credit growth can you just give what is the broad range of growth for the industry as a whole you are looking at?

Jairam Sridharan: As you know, the overall industry growth this year was just under 5% and we have said specifically that we expect our growth to be above 5 percentage points higher than the industry. I will say that our base case is that industry growth is a little bit higher from where it ended this year but not a whole lot higher.

Sampat Kumar: And one last question basically on your CASA growth, some of it maybe because of the accretion that we see towards the year end. But your accretion otherwise from third quarter to fourth quarter itself was very strong, despite the higher base of third quarter that witnessed demonetisation. What would be the reason for this strong growth that you have seen?

Jairam Sridharan: Axis Bank has always been a very strong franchise from a CASA perspective. Towards the second half of the last financial year as you know the liquidity in the system was high and credit demand was low. We from a total deposits perspective, we have made this mention before that we had all the liquidity that we needed and for balance sheet management purposes we did not grow the total deposit as much in the end of the third quarter. However, as we saw some of the growth pickup happen in the fourth quarter, you see some of that being reflected on the deposit side of the franchise as well. Particularly on the current deposit side or current account side, there are also special events around specific large mandates, etc., that we were able to win in the fourth quarter which explains the significant jump up in current accounts in the fourth quarter.

Sampat Kumar: Which are the ones you are referring to?

Jairam Sridharan: We do not talk about specific clients here, but yes they were not just one, but 2-3 fairly large mandates that we were able to win in this quarter.

Sampat Kumar: So would you think that this average level of CASA that you have shown in 3Q and 4Q will tend down and is that a part of your margin compression calculation?

Jairam Sridharan: That CASA trajectory that we expect in the next financial year is indeed part of our margin guidance.

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 margins. So this quarter the one-off thing is only 13 basis points, right? The one off reversal and the 29 basis points is just because last quarter we had a reasonably high reversals and that is not happening and that is how you are reflecting on the slide on page 16?

Jairam Sridharan: That is precisely right, Manish.

Manish Karwa: Okay. So if this reversal wouldn't have happened, margins would have been down 13 basis points. And on the cement thing that you mentioned, looking at your total watchlist outstanding, cement is only 5% or 6% of the total watchlist. That is about like Rs. 570 crores. But you say that your outstanding cement exposure in the watchlist is Rs. 13 billion.

Jairam Sridharan: Manish, this particular account might be classified in my watchlist outstanding as industrials or something. I am not really sure actually, could be. Not sure in that particular one way which sector it is shown under. I used the phrase cement sector more to provide perspective on particular developments that are out there in the industry. From a watchlist perspective, we consider this as part of the industrials and infrastructure space.

Manish Karwa: And lastly, what is the outstanding security receipts (SR)? You said it was Rs. 1,525 crores. But if I am not wrong even last quarter you had Rs. 1,400 crores of outstanding SR. Is that the right number?

V. Srinivasan: The sale to ARC transactions that are mentioned in the script, are currently lying as application money and will be allotted during April. This will be reflected in the outstanding SRs when we come with our results in June.

Manish Karwa: Okay. So the Rs. 1400 crore of SR is not a part of Rs 1,525 crore that you highlighted.

Jairam Sridharan: Correct.

Moderator: Thank you. The next question is from the line of Seshadri Sen from JP Morgan. Please go ahead.

Seshadri Sen: Couple of housekeeping questions, one is the breakup of the provisions into standard assets, I am sorry if I missed it if it is there in one of your earlier questions.

Jairam Sridharan: Are you asking for the quarter or are you asking total amount?

Seshadri Sen: For the quarter.

Jairam Sridharan: Standard asset provisioning was Rs. 187 crores. NPA provisioning was Rs. 1,742 crores.

Seshadri Sen: Okay and was there anything on investment?

Jairam Sridharan: Yes, for SDRs we also made the provision of Rs. 249 crores.

Seshadri Sen: And when you say 282 basis points of credit cost, do you include just the NPA?

Jairam Sridharan: For our credit cost calculation, we only use NPA provisions in the numerator, we do not use standard asset provision, we do not use other provisions in the numerator.

Seshadri Sen: Not even SDRs?

Jairam Sridharan: No.

Seshadri Sen: And when you say 20 basis point decline in net interest margins, is there a slippage that you have in mind and would you be able to share that? Because you had some interest reversals on slippage even for the full year and that would have had some impact on margins. So next year, are you also expecting or have you baked in some slippage and interest reversal on that when you guide for the FY2019?

Jairam Sridharan: Absolutely, Seshadri. The business model that we have built out is of course fully internally consistent. So the credit cost rate that I spoke to you about, we internally have a little bit of base case.We gave you a range, but internally we are working with a particular base case, and that base case is already reflected in the NIM compression that we mentioned of 20 basis points.

Seshadri Sen: And could you share your slippage expectations and your provision coverage ratio expectations at the end of the year when you talk about this credit cost?

Jairam Sridharan: We are not sharing specific slippage guidance. Seshadri, we are sticking with the credit cost guidance at 175 to 225 basis points. However, we intent to keep provision coverage steady around 65% levels.

Seshadri Sen: In terms of the watchlist, I read somewhere that you are expecting the watchlist to be extinguished in FY18 whatever is to be cleaned up gets cleaned up and then you move to regular slippages. Is that right?

Jairam Sridharan: That is accurate.

Seshadri Sen: Would it then imply that most of the watchlist would have been upgraded or slipped by end of FY18?

Jairam Sridharan: Well, all of it would have either slipped or we would have made it part of our business as usual pool. As you might recollect when we created the watchlist four quarters ago, we said that watchlist was an 8 quarter construct. We do not intend to keep a watchlist live throughout the future years. For the next four quarters, we will continue to show you exactly as promised, all the disclosures and details around the watchlist; however at the end of FY18, we will wind up the watchlist and whatever remains of it will become part of our business as usual pool. As you can see the watchlist has already fairly become relatively small at just over 2% of our advances and as the year goes through, it will continue to get smaller and at the end of FY18, we will wind it up.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: I just had a question on the sale to ARC. What was the gross amount of standard asset sold to ARC this quarter?

Jairam Sridharan: We are not disclosing that composition of our ARC sale pool, Amit if you don't mind. The total amount was 1,686 crores of net book value and as I mentioned there was one standard asset in that pool and the rest were NPA or written-off accounts.

Amit Premchandani: And if you can share with us the overall corporate Watchlist slippages this quarter?

Jairam Sridharan: Yes. It is there on our presentation as well. You will see that Rs. 3,566 crores slipped from watchlist. Rs 4,320 crores was the slippage from the corporate book in the quarter and 83% of it was from the watchlist and 17% from outside.

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

Rahul Jain: First question is on the interest income reversal part, so I guess there must have been reversal even in this quarter, right? Where do you reflect this when you show this the NIM waterfall chart on Slide #16?

Jairam Sridharan: Rahul, the bar that you see of 29 basis point is the net-net effect. So there was a certain amount of interest reversals last quarter. There was a certain amount of interest reversals this quarter to the extent that the reversals this quarter were lower because of lower slippages, that number is reflected in the 29 basis points plus the fact that we got the write back from the prior two quarter reversals of 13 basis points, that is also reflected in the 29 basis points.

Rahul Jain: So the 16 basis point of write back that we got, was pertaining to any particular account which got upgraded and if you can share the sector also?

Jairam Sridharan: There were 3 accounts here. The impact of all of those is getting reflected here and I would refrain from actually talking about the specific account if you don't mind.

Rahul Jain: The other question was on your watchlist, so again when I see the waterfall chart on slide 28, you had this upgradation from NPA of Rs. 1,971 crores. So just trying to understand under what circumstances would this account you know be upgraded from NPA and then moved into watchlist?

Jairam Sridharan: So we spoke earlier about in the script about one account in the cement sector where we had a slippage into NPA in the quarter, and within the same quarter we had the account upgrading out of NPA status. That account was in our watchlist to begin with and continues to remain in our watchlist at the end of the quarter. And that is the number that you are seeing reflected there.

Rahul Jain: Sorry, so that account was I think 1300 crores as I understood from your comments, right?

Jairam Sridharan: There is one more account there. There are two accounts there, which went through the similar situations.

Rahul Jain: And would it have any linkage with your write back of interest income reversal also?

Jairam Sridharan: There is a little bit of an impact there, that is right.

Rahul Jain: The other question was pertaining to, you talked about credit growth and the credit cost estimate therefore, now 5% above the system it clearly shows that versus the private sector peers, the growth is going to be sluggish. So just trying to understand why would that be the case because we have so many items which are growing pretty nicely especially in the retail side and the SME is also showing some bit of traction. So is this kind of a conservative estimate or you are still not very comfortable growing it in this environment?

Jairam Sridharan: I would say that this is an appropriately conservative estimate. So we will see as the opportunities present themselves, 5% is not a target that we are trying to hit. We will take opportunities as they come by, as long as they meet our risk thresholds and our other thresholds, we would be happy to pursue them. If it so happens, there are lot more opportunities that are available out there than we are currently baking in, we will be more than happy to take them up.

Rahul Jain: Okay and just the last question on credit cost again, so the guidance of 175 to 225 basis points, what kind of provisioning estimates do you bake in on the new slippages, will it be like the nominal ones like 15%-25% or you also bake in potential haircuts as if you were to sell those accounts.

Jairam Sridharan: We have baked in all the credit related provision hits that we will get and as I mentioned before we expect to continue to maintain a 65% provisioning cover on the entire NPA pool through the year and all that is reflected in the credit cost guidance that we spoke about.

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

MB Mahesh: Just a couple of questions on this gross and net slippage movement. You have indicated a gross slippage of Rs. 4,811 crore and a net slippage of Rs. 2,008 crore, the difference being about 2,803 crores. You have explained Rs. 1,660 crores in the cement exposure. There is about Rs 1,143 crores which is pending.

Jairam Sridharan: Yes Mahesh. I mean, there are other recoveries we got in the quarter as well. Q4 tends to be a seasonally strong quarter for recoveries that you well know. So we did get a lot of recoveries on our NPA pool from prior quarters, so all of that is all reflected here.

MB Mahesh: So when you say net slippages that is net of the recoveries and upgrades?

Jairam Sridharan: That is right.

MB Mahesh: And just continuation of this provision that you have made on this standard account which got downgraded and upgraded. On Rs. 1,300 crores, you made a 25% provision, where are you including that because it must be a standard asset provision given the asset is standard, right?

Jairam Sridharan: That is right. So it is shown in the standard asset provisioning column.

MB Mahesh: So you have reported a provision of Rs. 199 crores in standard assets?

Jairam Sridharan: Yes. As you can see in some of the prior quarters as well, standard asset provisioning can be negated and that happens when the net effect of increase in book growth and slippage from old book, the net impact of that on the standard asset provisioning pool might end up being negated. So that negativity along with this increased provisioning that we spoke about, the net impact of that is 199 crores positive, which is what has shown in the standard asset provisioning for Q4.

MB Mahesh: No, but you have seen an increase in loan book and correspondingly you have seen an increase in gross NPA as well. But the quantum is not as large.

Jairam Sridharan: No, the way to think about is, there is a certain pool of provisioning that you have for standard assets, right? That pool increases or needs to increase when the loan book grows but it will also decrease when a standard asset turns into NPA. So every time the standard asset turns into NPA, the standard asset provisioning against it will get released, while an NPA provisioning will get created. So standard asset provisioning, the total pool could go either up or down in a given quarter based on the amount of slippages that you see. So the way I would interpret the Rs. 199 crores is that first of there is a negative standard asset provisioning impact that gets created because of slippages minus this loan book growth and on top of that, you add this 25% provisioning of this specific account and the net impact of that is Rs. 199 crores.

MB Mahesh: So just a couple of questions. One is on the movement of SDR. You had an opening of Rs. 1,360 crores, you added Rs 1,293 crores this quarter, you have closed the quarter at about Rs. 2,173 crores. There is a difference of about Rs. 480 crores. How would you reconcile that?

Jairam Sridharan: The difference is basically slippage into NPA.

MB Mahesh: Okay and finally any broad expectation as to when do you first start seeing resolutions in some of these major accounts because we have been discussing this for a very long time now.

V. Srinivasan: I think efforts are on. I think the solutions broadly have been worked out with banks, but again the process in terms of how the restructurings will happen, I think that is something which we are waiting for further clarity.

MB Mahesh: Any idea as to when we could see some of them?

V. Srinivasan: I think the developments that you are seeing in the press, same thing we are seeing.

Moderator: Thank you. The next question is from the line of Sreesankar R from Prabhudas Lilladher. Please go ahead.

Sreesankar R: I got a couple of questions out here. First is at the end of March 16, your NPAs were Rs. 6,088 crores. So, to get a true picture do I need to add Rs 9,478 crore to that?

Jairam Sridharan: Are you talking about the RBI disclosure on divergence?

Sreesankar R: Yes.

Jairam Sridharan: So basically the March 2016 numbers represents our closing financials as of that time. The RBS process during the course of the quarter came up with the additional reclassification estimates that I spoke about on the call.

Sreesankar R: Okay. You mentioned your risk weighted asset increased by around 17%, where as your net advance has increased by only 10%, correct?

Jairam Sridharan: Yes, that is right.

Sreesankar R: Okay. What is the strategy going forward for this entirely on your RWA?

Jairam Sridharan: See, the RWA, its movement, if you see over the longer term has actually been quite favorable. Particularly if you look over a 5-year period, you will see that the RWA percentage for the Bank has improved quite significantly in this period, largely driven by the fact that we have been extremely meticulous in terms of internal capital allocation and capital management in the form of off balance sheet items to own balance sheet item mix, that is what has actually driven our RWA so positively over the period. We continue to watch RWA percentages very closely and I feel confident that there is still some juice that we can extract in terms of increasing efficiency there.

Sreesankar R: Any comment on your SMA-2? Has it seen any significant increase from Q3?

Jairam Sridharan: No, quite the contrary. We don’t disclose SMA-2 numbers specifically, but the trend that you are talking about, we are seeing something quite the contrary.

Sreesankar R: In the currect environment because your risk weighted asset is also increasing. Can we expect to see some capital raising in the next year or rather current year?

Jairam Sridharan: See, our current capital levels after adjusting for the proposed dividend is at 11.87% tier I. We feel fairly good about where we are, we still have fairly significant, roughly 170 basis points of margin of safety, over what the regulatory requirement is, even if you add the counter cyclical buffer. Our operating profit engine is strong. So we continue to feel good about our ability to accrete capital through internal accruals and profits. So overall I feel good about it; however, tactically we will keep look in at opportunities and if we feel that the further strengthening of the balance sheet is required or if we see strong opportunities of credit growth emerge in the market and if there is any requirement for capital, we might do that.

Sreesankar R: If I can squeeze in a last question, if you actually look at your own growth in terms of credit, the FY17 was probably one of the lowest. With your problems getting sorted out completely rather by FY18, if you are able to solve your problems, will you expect to see a faster growth of more than that 500 basis points over the credit growth of the system that you are mentioning.

Jairam Sridharan: Absolutely.

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

Adarsh Parasrampuria: My question was relating to the credit cost guidance right, 175-275 basis points. Just taking the credit cycle into consideration, I am just trying to understand if that encompasses most of the stress in FY18 and FY19 you get back to the normalized credit cost that you show or you won't have that visibility for now?

Jairam Sridharan: See, directionally if you look at what our long term trajectory is and I am sure you have seen our chart which we have updated this quarter of our long term trajectory on slide 31. Now if you look at our 15-year average of credit cost, it is at 94 basis points. At 280 basis points this year, we are of course significantly above our long term average. If you see the range for next year is 175-225 basis points, what we are essentially saying is that we will be half way down the curve back towards a kind of normalcy. Whether that means the rest of the halfway will happen in FY19 and we will end up at long term averages or we will do a little bit less or maybe a little bit more and swing the other way, only time will tell. But right now we expect us to traverse about halfway down towards long term normal in the next financial year.

Adarsh Parasrampuria: I will put the question the other way round, the question is when you are arriving at this number, right, for next year, do you bake in all the extra or so called watchlist plus that kind of stress into FY18 and don't leave much for FY19 or there is a still a judgment of within that pool?

Jairam Sridharan: Most of it is baked in Adarsh. I am not really sure whether 100% of everything that you would call is baked in, but a whole lot of it is baked in FY18.

Adarsh Parasrampuria: Okay. Thanks and the second question was related to the ARC sale, right. Broadly it looks like a 28%-30% haircut on a large NPA plus standard book. The point I am trying to ask is 30% haircut versus a 60% cover. So I am just trying to understand is 65% conservative given where we are today or do you think it is fair?

Jairam Sridharan: No. I think 65% is fair. But if you look at the haircut in the ARC transaction, the net book value of Rs. 1,800 crores and we sold it at Rs. 1,700 crores. So the haircut is actually not of the size that you are talking about. The haircut is actually much smaller on a net book basis.

Adarsh Parasrampuria: Just kind of looking at the gross number because you may have made provision for something. So I am just saying that including provision that is the way you look at, I think you lost 30 and excluding provision may be under 10% now. So the point I was trying to ask is which sectors were these where you lost may be 30%?,

Jairam Sridharan: This was a large pool Adarsh. If there is no specific account to account level thing here, you sell the full pool and the bidders bid for the pool. So it is very hard to attribute specific numbers to each account in the pool.

Adarsh Parasrampuria: I am sorry, I am squeezing in the last one, 20 basis point NIM contraction next year means the downward trajectory on NIMs right and which will mean like this year the exit margin are going to be a little lower than the average that you talk about. How should one look into the longer term, guided to the range of 350-360 basis points. So is that comfortable in the new environment where there is bond substitution, you are working with more liquidity or there is something that you need to revisit?

Jairam Sridharan: We are looking at it on a short to medium term basis as you are well aware the trajectory for the bank's margins continue to be a sort of compressive in impact and there are many reasons as you have alluded to, whether 2 years from now those trends will reverse and we would see a reversion back to more sort of happy past, I am not sure. I am hopeful. But I have no certainty that that is going to happen. So right now we have some visibility to the next year and it looks like it is going to be compressive.

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

Nilanjan Karfa: Quickly, when we talk of 5:25 and S4A we said we added one account and two account respectively, right? Are these together clubbed as Rs. 2,329 crores?

Jairam Sridharan: S4A is separate at around Rs. 300 crores, including the debt and equity part.

Nilanjan Karfa: And was this the only addition, I mean 300 crores was added in Q4?

Jairam Sridharan: Yes, that is right.

Nilanjan Karfa: Okay and that is not part of watchlist or SDR or 5/25 or restructured?

Jairam Sridharan: No, it is not.

Nilanjan Karfa: Okay. Another question is, we mentioned that the SR amount, the security receipts is almost flat and you are going to include it in next quarter. So where is it recorded?

V.Srinivasan: In the other assets column.

Nilanjan Karfa: Right. Okay and last question, you talked about, as per the RBI direction you are going to look at the telecom sector, could you elaborate what kind of metrics you are going to use, what kind of number we are going to look at? Also do you think, RBI is going to direct banks to look at other stressed sectors, this quarter it is telecom, but next quarter is going to be power and so and so forth. So could you elaborate what we are essentially doing now?

Jairam Sridharan: See, I cannot speak about what the RBI might do, so they will do what they want to do. I think from our perspective, we will look at our large sectors. We will look at which ones are stressed and where there is a requirement, where there might be a need felt by our Board to do incremental provisioning. And we will consider incremental standard asset provisioning as we have done in some of the other sectors. You will recognize for example that sensitive sectors that RBI themselves have identified in the past like commercial real estate etc. They have spoken about standard asset provisioning being increased in those sectors to 1%. So that gives you a kind of sense of directionally where things might be headed. But we cannot be more specific than that at this point.

Moderator: Thank you. The next question is from the line of Mohit Mangal from CRISIL. Please go ahead.

Mohit Mangal: I have got two questions. One is can you give us the number on restructured outstanding standard?

Jairam Sridharan: Net standard restructured is about Rs. 5,411 crores.

Mohit Mangal: And if I am not wrong, this number was Rs. 6,336 crores the previous quarter?

Jairam Sridharan: Yes, on a gross basis.

Mohit Mangal: Right, thank you sir and sir second question is on the watchlist. It is dominated by the power sector. So how do you see going forward, will it slip into NPA or resolution will come into place.

Jairam Sridharan: I think we have discussed this even in the last quarter, power continues to be a large part of our watchlist, continues to stay stressed and the guidance in terms of our slippage from the watchlist is what we would like to reiterate from what we said last quarter. It is likely to be much higher than 60%.

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

Sachin Upadhyay: Just two queries from my side. One is in terms of if you could quantify the outstanding of standard asset provisioning which is there as on date of FY17 and if you could indicate FY16 numbers?

Jairam Sridharan: Total outstanding of standard asset provisioning, we have not disclosed in the past.

Sachin Upadhyay: What will be the incremental that you would have done for FY17, would it be addition of 4 quarters?

Jairam Sridharan: That is true, that will give you a sense of what the total is.

Sachin Upadhyay: So if you can give, because I do not have past numbers, one part of it. Second part of it is in terms of the reduction that is observed in standard restructured loans, would you attribute it to slippages or upgrades?

Jairam Sridharan: On your first question, while we have not made this specific disclosure in the past, I can broadly indicate you like you know that the standard asset provisioning in general is supposed to be 40 basis points of your standard asset pool so you can take your full asset and of course we make additional standard asset provisioning on various sectors depending on stress or one off accounts there etc. So you can assume the total standard asset pool to be a little bit above 40 basis points of our advances pool say around 60 basis points.

Sachin Upadhyay: In terms of QoQ reduction in standard restructured norms, can we attribute it to slippages or something else?

Jairam Sridharan: Largely it was slippage, yes.

Sachin Upadhyay: Could you actually indicate number of accounts there?

Jairam Sridharan: No, I do not think it is material.

Moderator: Thank you. Ladies and gentlemen due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

Jairam Sridharan: Thank you everyone. Thanks for attending and thanks for all your questions. I hope you have a wonderful evening ahead. Thanks and bye.

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