"Axis Bank Limited Q4 & Annual Results FY15 Conference Call"

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MANAGEMENT: MR. V. SRINIVASAN – EXECUTIVE DIRECTOR & HEAD, CORPORATE BANKING, AXIS BANK LIMITED
MR. SANJEEV KUMAR GUPTA – EXECUTIVE DIRECTOR, CORPORATE CENTER & CHIEF FINANCIAL OFFICER, AXIS BANK LIMITED
MR. RAJIV ANAND – GROUP EXECUTIVE, RETAIL BANKING, AXIS BANK LIMITED
MR. JAIRAM SRIDHARAN – PRESIDENT & HEAD, RETAIL LENDING & PAYMENTS, AXIS BANK LIMITED

Moderator: Ladies and Gentlemen, Good Evening and Welcome to the Axis Bank Conference Call to discuss the Q4 FY15 & Annual Results FY15. 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 – Executive Director and Head, Corporate Banking and Mr. Sanjeev Kumar Gupta – Executive Director, Corporate Center and CFO. There will be an opportunity for you to ask questions at the end of today's briefing session. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. On behalf of Axis Bank I once again welcome all the participants to the Axis Bank Conference Call. I would now like to hand the conference over to Mr. Sanjeev Kumar Gupta – Executive Director, Corporate Center, and CFO, Axis Bank to begin the presentation. Thank you and over to you Mr. Gupta.

Sanjeev Kumar Gupta: Thank You and Good Evening Ladies and Gentlemen. I welcome you to our Conference Call for a Presentation on the Bank's Performance for the 4th Quarter and for the Financial Year ended 31st March, 2015. I have with me in this call my colleague Mr. V. Srinivasan – Executive Director and Head, Corporate Banking; Mr. Rajiv Anand – Group Executive Retail banking and Mr. Jairam Sridharan – President and Head, Retail Lending and Payments. At the end of this presentation, we will be glad to respond to your questions. The Bank's strategy to build its businesses upon strong customer franchises helped it to deliver another year of consistent financial performance. We have continued to extend our reach as well as deepen existing customer relationships. The network expansion has continued to support the steady growth in Retail business. The Bank's digital initiatives have continued to make significant progress. The Bank continues to enhance shareholder value by delivering healthy return ratios.

I will now outline for you the Highlights of the Bank Financial Results for the 4th Quarter and for the Financial Year 2014-15:

Net profit for 2014-15 grew by 18% to ₹7,358 crores from ₹6,218 crores last year. CASA on a daily average basis continued to show healthy growth of 15% in which Savings Bank Deposit grew 17% and Current Account Deposit grew 11%. Retail Term Deposit also grew well and increased by 27%. Net Advances grew 22% to ₹2,81,083 crores, contributed by balanced growth across all segments. Total Deposit grew by 15% to ₹3,22,442 crores. Total assets grew 21% to ₹4,61,932 crores. Net Interest Income (NII) grew strongly at 19% and the NIM remains healthy at 3.92%. The Bank's asset quality remained stable with a net NPA ratio of 44 basis points and provision coverage ratio of 78%. Return on asset (ROA) stood at 1.83% while Return on equity (ROE) was 18.57%. The Bank is well capitalized with a healthy capital adequacy ratio. The overall capital adequacy ratio was 15.09% and the Tier-I capital adequacy ratio was 12.07%.

The performance of the Bank during the 4th Quarter is as follows:

Net profit for Q4 also grew by 18% to ₹2,181 crores from ₹1,842 crores last year. Within that, NII grew strongly at 20% and NIM was healthy at 3.81%. Other income increased by 21%, of which fee income grew by 19%, driven by both Retail and Corporate businesses. Operating revenue of the Bank grew by 21% while operating expenses grew by 16% as a result, the operating profit showed a healthy growth of 24%. During Q4, ROA stood at 1.96% while ROE was 20.93%.

Let me now take you through the business performance and the financial results of the Bank in greater detail:

We have continued to increase our branch network and presence across the country and opened 31 branches during the quarter, taking the total number of branches to 2,589 including extension counters. During the year, we have added 187 branches. We are currently present in 1714 centers in 552 districts across the country against 1636 centers and 535 districts last year. Our focused of branch expansion policy has helped in sustaining a healthy growth of Retail business comprising CASA, Retail Term Deposits and Retail Loans. In addition, the Bank has a network of 12,355 ATMs as on 31st March 2015. The Bank's balance sheet grew 21% and stood at ₹4,61,932 crores at the end of March 2015. Net Advances grew 22% and stood at ₹2,81,083 crores. Advances growth was primarily driven by Retail and Corporate segments. Retail Loans grew 27% and Corporate Loan grew 23%. SME Loan including the non-Retail Agriculture grew by 8%, in which SME Loan grew by 15%. As on 31st March 2015, the Bank achieved the overall priority sector lending target of 40%.

The composition of the Loan book was as follows:

Corporate Loan was 45%, Retail Loan was 40% and SME 15%. Retail Loan grew 27% and stood at ₹1,11,932 crores. Secured loan products accounted for 87% of Retail Loans. Home Loan accounted for 48% of the Retail Loans. Retail Agriculture Loans accounted for 16%, Auto Loans 8%, Loans Against Property 7%, Personal Loans and Credit Cards were 9% while Non-Schematic Loans comprising Loans Against Deposit and Other Secured Products accounted for 12%. The Bank continued to increase its geographical reach for sourcing Retail Loans and now sources such loans through all of its branches and 143 asset sales centers. Bank continued to focus on growing its Retail Loan book through cross selling to internal customers. Overall, more than 40% of incremental Retail Loans were sourced from branches. Existing liability customers contribute around 2/3rd of this incremental business originations. The credit quality of Retail Loans remains healthy. Over the medium term we expect the Retail Loans portfolio to rebalance with an increased focus on higher yielding Retail Loans while continuing our emphasis on the quality of the portfolio. On the SME business, our SME business continues to perform well and the portfolio behavior remains healthy. As stated earlier, SME Loan excluding the Non-Retail Agriculture segment grew at 15% while total SME Advances as on 31st March 2015 grew 8% to ₹42,967 crores. The SME Loan book remains well diversified and carries lower concentration risks. In the SME segment, 84% of the loans were rated between SME-I and SME-III which corresponds to a 'single A' rating. Further, more than 85% of incremental sanctions during the financial year were rated between SME-I and SME-III. As on 31st March 2015, Corporate Loans grew by 23%. The Bank continued to grow faster than industry as it proactively provided credit solutions to highly rated corporates through cost efficient financing. Presently, 62% of outstanding loans and 79% of the incremental sanctions during the financial year were rated 'A' and above. Our effort to diversify our Corporate Loan book will continue with greater focus on working capital lending and transactional banking businesses.

Let me now focus on the funding side of the balance sheet:

The Bank's Deposits grew 15% and stood at ₹3,22,442 crores as on 31st March 2015. Low cost CASA Deposits grew well at 14% with Savings Bank Deposit continuing to demonstrate resilience with a growth of 14%, while Current Account Deposit grew by 15%. As on 31st March 2015, CASA constituted 45% of total Deposit similar to the levels reported a year ago. On a daily average basis, the performance is better with CASA Deposits growing at 15%, with Savings Banking Deposits growing at 17% and Current Account Deposits growing 11%. On a daily average basis, CASA constituted 39.5% of total deposit as against 38.9% last year. The Bank's focus on increasing share of Retail Term Deposit continues. As on 31st March 2015 Retail Term Deposits grew 27% and stood at ₹1,06,581 crores, constituting 60% of the total Term Deposit compared to 55%, a year earlier. As on 31st March 2015, CASA and Retail Term Deposits constituted 78% of total deposit compared to 75% last year. The Domestic CASA and Retail Term Deposits constituted 79% of total Domestic Deposit as against 78%, a year ago.

The Bank has implemented the liquidity coverage ratio guidelines issued by RBI effective from 1st January 2015. The Bank's average LCR ratio for Q4 was 88% against the RBI requirement of 60%. The Bank is comfortably placed to achieve the LCR requirement as per the phased transition plan.

Now, let me give you some details on our investment book:

The Bank's investment portfolio as on 31st March 2015 was ₹1,32,343 crores, of which ₹81,246 crores were Government Securities, ₹25,068 crores were investments in Corporate Bonds and the balance ₹26,029 crores comprised investments in other securities such as equities, preference shares, mutual fund, deposits with NABARD, certificate of deposits, etc., 79% of the government securities have been classified in the HTM category while 95% of the bonds and debenture portfolio have been classified in the AFS category and 5% in HFT category.

Let me turn now to the revenue and profitability figures for Q4:

The net profit of the Bank grew 18% to ₹2,181 crores in Q4 from ₹1,842 crores during the same period last year. The growth in net profit has been supported primarily by a strong growth in NII, Other Income and slower growth in operating expenses. NII during Q4 grew 20% and stood at ₹3,799 crores, constituting 59% of operating revenue. NIM during Q4 was 3.81%. Domestic NIM during Q4 was 4.03% while NIM on Overseas book was 1.6%. We were able to maintain healthy NIM through continued focus on CASA and optimum utilization of borrowings. The cost of funds during Q4 was 6.26% compared to 6.17% in Q3 this year. We expect NIM for next financial year to be well above our medium-term projection of 3.5%. Other income comprising fee, trading profit and miscellaneous income during Q4 grew 21% and stood at ₹2,687 crores. During the same period, Fee income grew by 19% and stood at ₹2,124 crores. The main business contributor to the Fee income during the quarter was Retail Banking which grew 29%, Treasury grew 21% and Corporate Banking grew 10%. Fee income from Retail business segment of ₹819 crores constituted 39% of the total fee compared to 36%, a year ago. Within this, Fee income from retail asset grew by 18% to ₹321 crores while Fee income from 3rd party product grew by 34% to ₹326 crores. Fees from retail liability and others grew by 41% to ₹172 crores. Fee income from treasury and DCM contributed 20% of the total fee income and stood at ₹422 crores. Fee from Corporate Credit contributed 28% of the total Fee income and stood at ₹591 crores. Fee from SME grew by 14% to reach ₹137 crores while Fee from Business Banking grew 12% to ₹146 crores. Fee income growth during the last financial year was 13% compared to 8% last year. We expect that Fee income growth in the next financial year will likely be in the mid-teens. During the quarter, the Bank earned a trading profit of ₹275 crores against ₹217 crores last year. Miscellaneous income stood at ₹288 crores against ₹216 crores last year. The operating expenses grew at a slower pace of 16% over previous year with the cost-income ratio of the Bank at 38.14% in the quarter against 39.62% in Q4 last year. Provision and contingencies other than tax for the quarter were ₹710 crores against ₹505 crores last year, of which provision for loan losses were ₹371 crores and provision for standard assets including unhedged foreign currency exposure of ₹128 crores. There was a write-back in provisions for depreciation in investments to the tune of ₹12 crores. During the quarter, the Bank has also created a contingent provision of ₹220 crores against Advances and other exposures as a prudent measure. As on 31st March 2015, the Bank had a cumulative contingent provision balance of ₹1,000 crores.

Let me now discuss asset quality:

During the quarter, additions to gross NPA were ₹610 crores upgradations and recoveries amounted to ₹188 crores, write-off including prudential write-offs were ₹214 crores. Consequently, the net addition to gross NPA during the quarter were ₹208 crores. Gross NPA at the end of the quarter stood at ₹4,110 crores constituting 1.34% of the gross customer assets. The net NPA ratio for the quarter ended 31st March 2015 was 44 basis points. The provision coverage at the end of March 2015 stood at 78%. During the quarter, loans amounting to ₹1,540 crores were restructured, the cumulative value of net restructured advances as on 31st March 2015 stood at ₹8,166 crores and constituted 2.71% of the net customer assets. During the quarter, we have not sold any loans to ARCs against security receipts; however, we have sold loans of around ₹30 crores against cash. During 2014-15 incremental slippage that is the gross NPAs and restructuring was ₹5,577 crores, of which gross NPA was ₹2,855 crores and restructured assets was ₹2,722 crores. The credit cost for 2014-15 was 75 basis points. For the next financial year 2015-16 we expect that absolute levels of incremental stress asset creation to be lower than that last year. Credit costs are expected to be around 80 basis points.

I will now briefly state the Key Highlights of the Full Year Results for the Fiscal 2015. During the year, NII increased by 19% to ₹14,224 crores and constituted 63% of the operating revenue. Fee, Trading and Other Income increased by 13% to ₹8,365 crores. Operating revenue over the same period increased by 17% to ₹22,589 crores while operating expenses grew by 16% to ₹9,204 crores, as a result operating profit increased by 17% to ₹13,385 crores, provision and contingencies other than tax for the year increased by 10% and Net Profit for 2014-15 grew by 18% to ₹7,358 crores from ₹6,218 crores last year.

Some key metrics for the full year that I would like to mention here are as follows: ROA stood at 1.83% compared to 1.78% last year while the ROE was 18.57% against 18.23% last year. EPS diluted for the year was ₹30.85 against ₹26.45 last year. The Bank's capital adequacy position is healthy; the overall capital adequacy and the tier-I capital adequacy ratio of the Bank as on 31st March 2015 was 15.09% and 12.07% respectively. The total impact on Tier-I CAR of the Bank due to application of Credit Value Adjustment on OTC derivatives and entities having Unhedged Foreign Currency Exposures for the financial year-ended 31st March 2015 stood at 39 basis points.

Now, I will highlight some of our initiatives in the Transactional Banking and Payments space which are designed to gain a higher share of the customer's wallet.

To provide integrated products and services to the customer in the area of current account, cash management services, trade and forex, a new vertical called transaction banking has been created which will play a larger role in broad basing revenues from corporate clients. The retail payment franchise is central to the Bank's retail strategy, as it leads to an increase in customer stickiness and the loyalty. The Bank is one of the largest Debit Card issuers in the country with a customer base of 143 lakhs. The Bank has 17.4 lakh Credit Cards in force as on 31st March 2015, making it the 5th largest Credit Card issuer in the country. During Q4, the total spends on the Bank's Debit and Credit Cards increased by 35% to ₹6,694 crores while it increased by 39% to ₹24,142 crores for the full year. The Bank is also one of the largest merchant acquirers with a point-of-sale terminal installation base of 2.48 lakhs.

Fiscal 2015 has been a good year for all our subsidiaries with healthy growth witnessed in business operations leading to strong growth in total income and earnings. The renewed confidence in the capital markets during the year was particularly beneficial for our Investment Banking, Equity Broking and Asset Management businesses. Our UK subsidiary in its second year further consolidated its operations after breaking even in its very first year of operations in fiscal 2014.

The Board of Directors have recommended an enhanced dividend of ₹4.6 per equity share of face value of ₹2 per equity share for the year-ended 31st March 2015 against ₹4 per equity share of face value of ₹2 per equity share for the previous year. This would be subject to approval by the shareholders at the next annual general meeting.

The board has approved the proposal to seek enabling approval from shareholders for increase in the cap of foreign investment in the Bank from 62% to 74% of its paid up capital of the Bank. The board also approved Sponsored Level 1 Depository Receipt Issuance Program of up to 142 million DRs with conversion of five equity shares to one DR. Kindly note that this does not involve any capital raise.

I would also like to highlight to you some of the key initiatives taken by the Bank during 2015-16.

The technological landscape of the country is rapidly changing and also the way we bank. As the number of ways to connect with customer increase and self-service channels becomes the primary way for banking, the Bank believes that its Omni-channel approach provides a competitive advantage. We are seeing strong traction in our digital strategy with a multifold increase in the use of our electronic banking channels. The Bank continues to be one of the strongest financial service brands in the country. We have been rated twice in a row for 2013 and 2014 as the Most Trusted Private Sector Bank in the survey conducted by Brand Equity.

Let me talk a little about the prospects we see in the next financial year:

The slowdown in economic activity has been much more prolonged than envisaged earlier; however, the current government's policy initiatives in land acquisitions, faster clearance for reviving stalled projects, efforts to unlock mining activity, widening the ambit of foreign direct investment in defense and railways, should create a more conducive environment for industrial revival going forward. The latest budget announcement, envisages an increase in investment by ₹70,000 crores in infrastructure during 2015-16 with the focus on railways and roads. We believe this outlay will initially help to boost public investment and thereafter have multiplier effects to catalyse demand in related ancillary sectors in the entire value chain.

Given moderate capacity utilization in the private sector and sluggish demand in many sectors it would take some time before the private sector investment demand sees a meaningful recovery. Opportunities to proactively provide cost efficient financing to highly rated corporates will continue to remain an option.

We expect RBI has room to cut its policy rate by another 25 to 50 basis points over the next financial year. Given the projections of inflation, coupled with gradual economic and investment recovery and funding needs for auction proceeds, bank credit for next financial year is likely to be in the range of 12% to 14% and the Bank is likely to grow in the range of 18% to 20% in the next financial year.

To sum up:

We are satisfied with the Bank's performance across all our businesses and financial parameters in an environment that has been challenging for a prolonged period. The Bank is well poised on both the Retail and Corporate business segment to avail opportunity that are likely to emerge as growth comes back to the economy. And meanwhile, we continue to build our infrastructure, invest in technology and human capital to support businesses. Now, the forum is open for questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have first question from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: Just had a few questions: You said that the stress asset formation will come down. Do you want to put a number to it?

V. Srinivasan: Mahrukh, as we said, we have given you a credit cost number which is around 80 basis points by FY-16 and you know the stress asset formation as far as this year is concerned in absolute terms. We believe that the coming year we will have stress asset formation of less than that number, which should translate into credit cost of around 80 basis points.

Mahrukh Adajania: So how much of loans slipped from restructured to NPLs, though it would not be a large figure because your slippages are not that big?

Sanjeev Kumar Gupta: Restructured to NPL in Q4 was ₹153 crores.

Mahrukh Adajania: Just in terms of your Corporate Loan growth, this time you did a lot of refinancing as well. You think you have enough opportunities for refinancing in the coming quarters as well?

V. Srinivasan: We will have to look at what opportunities come but clearly with rates settling lower over the course of the year we believe some refinancing opportunities can come through and when we are talking of refinancing, I just wanted to clarify it is refinancing of highly rated corporates.

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

Nilanjan Karfa: The contingency provision that you have built up about ₹1000 odd crores, would you like to specify under what conditions you can use it, does it need any permission from the Reserve Bank or it is purely board-driven, any sort of estimate on what kind of problem assets are you envisaging this will be used against and any timeframe if at all you want to give a guidance on?

V. Srinivasan: I think contingent provisions is something which we have been creating over the last few years and as we always said it is against future slippages and clearly this is something which as and when the need arises we can use, but do not think any specific RBI permission is required for this.

Nilanjan Karfa: So it is purely on the board decision essentially you are saying?

V. Srinivasan: Yes.

Nilanjan Karfa: Any sort of indication what assets the Bank is so worried upon to create this contingent provision, although it is a good policy, there is no question about it?

V. Srinivasan: I would think that all of us believe the economic activity is still to pick up, some challenges still remain and we are just setting aside some money for some exigencies which can come through.

Nilanjan Karfa: A data question I had, so of the restructured that we provide which is probably the net number, I guess this net number is essentially gross minus standard asset provision for restructuring minus FITL. Is it possible to get those two items?

Sanjeev Kumar Gupta: ₹1,540 crores represents additions to gross restructured assets in Q4FY15.

Nilanjan Karfa: No, sir, the outstanding number for the full year which is ₹8166 crores roughly I think?

Sanjeev Kumar Gupta: FITL and provisions are roughly around ₹1,043 crores. We have not deducted standard asset provisions from ₹8,166 crores.

Nilanjan Karfa: We have reduced only the FITL provisions?

Sanjeev Kumar Gupta: Yes.

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

Nilesh Parekh: A couple of quarters back, exposure to the stressed group and that number was less than about 10%. So, if you can just highlight where we stand today on that number?

Sanjeev Kumar Gupta: It is less than 8% of fund based outstanding at present.

Nilesh Parekh: Is it because the other part has grown or we have actually started to see some repayments coming from there?

Sanjeev Kumar Gupta: Both.

Nilesh Parekh: What is the future course of action there in terms of are we seeing improvement on account of them if you can just highlight that?

V. Srinivasan: As far as these groups are concerned, I think as all of you aware, some challenges still continue to remain as far as projects which are under implementation, we have got to closely monitor them, but as Sanjeev said, our exposures to them we are trying to manage very actively.

Nilesh Parekh: Have we done any refinancing under the 5 / 25 scheme so far?

V. Srinivasan: Under discussion, but not many done till now.

Nilesh Parekh: After many years, you will be putting some rationalization in the overall employee strength. Just wanted to understand your thought process there and can we see further improvements in cost-to-income?

Rajiv Anand: There is a huge focus on cost-to-income in the Bank in general, and particularly within the retail Bank. So therefore, we have actually seen the number of employees within the retail Bank has come down on a YoY basis. As all of you are aware, we are seeing more and more transactions going through on digital channels, etc., and that is also contributing to improve cost-to-income ratios. So therefore, like I said, there will be continued focus on cost-to-income ratio, and we are hopeful that we will see further improvement in the current year.

Nilesh Parekh: Rajiv, is there a number to the cost-to-income in the Retail Bank?

Sanjeev Kumar Gupta: Overall cost-to-income ratio, we are seeing it will be slightly around that 40-42% for the Bank as a whole. Whatever the figure of that 39%, it is for the fourth quarter and you see that in last four quarters over so many years variation would have been there, but for the full year, we would say our cost-to-income ratio will be around 40-42%

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

Pankaj Agarwal: On full year basis, how much of your restructured assets have slipped into NPA?

Sanjeev Kumar Gupta: Pankaj, ₹785 crores have turned into the NPA from restructured assets

Pankaj Agarwal: Going forward, out of outstanding restructured of around ₹8,000 crores, based on your own estimates, based on the performance of these accounts, how much could turn into NPAs?

Sanjeev Kumar Gupta: Since last 3-4 years, we are seeing as per our internal estimates 25% may turn into NPAs from the restructured assets. Over the last four years' time, we have seen around 24% of restructured asset has turned into NPAs with a lag.

Pankaj Agarwal: So you expect the similar run rate going forward?

Sanjeev Kumar Gupta: Yes.

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

Adarsh P: Just wanted to check on the retail asset side. What would be the expectation of taking the unsecured book in the next say 3 years' timeframe? And on a like-to-like basis, what kind of yield improvement that you would look at?

Jairam Sridharan: We have been saying over the last couple of quarters that we would like to see the share of unsecured book viz. Personal Loans as well as Credit Card to be in 12-15% range. We are right now at about 9% of the Retail book being unsecured. So, you should expect to see that to happen over the next let us say 3-4 years. This business is at an average yield which is about 450-500 basis points above the rest of the Retail book, so we can sort of do the math from there on the overall yield impact.

Adarsh P: Second question, just wanted to understand about the SA accretion. We have seen good enough account additions but I think the balances have not moved at least from the implied number. So, has that impacted your SA growth in the second half of this year, any color if you can provide?

Rajiv Anand: What you are seeing is the MEB basis. I think the point that Sanjeev was making is that SA growth on a daily average basis still continues to be very strong at 17% as also in terms of new customer acquisition, we have added around 27 lakh customers this year. So, on both metrics, the SA franchise continues to chug along nicely.

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

Amit Premchandani: If we look at the Basel-3 disclosures in the funded side, power generation exposure as well as iron and steel exposure has picked up significantly. So just wanted to have a view from the management on these sectors – are you seeing significant recovery?

V. Srinivasan: As far as power generation is concerned, if you look at fund-based plus non-fund based exposures, the exposures have come down, whereas fund-based exposures in percentage terms has gone up. Clearly, LCs and other non-fund based facilities we have provided have converted into fund-based facilities, primarily LCs. And I think that is the reason you are seeing fund-based outstanding in power sector go up, but if you look at the aggregate exposure fund-based plus non-fund based as far as power is concerned, it has come down. As far as metal is concerned, I think we have done some transactions this year with very highly rated corporates AA and above and that has caused the outstanding to go up.

Amit Premchandani: What will be the management view on some of the metal companies looking for the financing, these are all overleveraged corporate and looking to refinance their existing loans, is management comfortable doing it?

N. Srinivasan: You have to look at it on a case-by-case basis. Again, I do not know which company you are referring to. But if it is a stressed corporate, refinancing is something which we will have to be very careful about.

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

Manish Karwa: Can we have the consolidated profit and the consolidated net worth number?

Sanjeev Kumar Gupta: The consolidated profit is higher by ₹90 crores for the full year was ₹7,448 crores, and the consolidated net worth is ₹43,055 crores.

Manish Karwa: When you say that the new stress asset formation would be lower next year, would it be fair to assume that slippages will still be reasonably higher but restructuring will be very marginal next year?

Sanjeev Kumar Gupta: Yes, we expect amounts of restructuring to be very small going forward

Manish Karwa: Any repatriation profit we have had?

Sanjeev Kumar Gupta: This quarter we have repatriated exchange profit of ₹155 crores.

Manish Karwa: That is reflected in the miscellaneous income in the non-interest account?

Sanjeev Kumar Gupta: Yes, and in this year also we have made contingent provisions of ₹220 crores.

Manish Karwa: Can you give me the full year breakup of provisions for fiscal 2015?

Sanjeev Kumar Gupta: Total provisions for full year was ₹2,328 crores, in which provisions towards NPA & restructured assets were ₹1,707 crores, standard assets were ₹290 crores, unhedged foreign currency exposure were ₹134 crores. There were write-backs on account of mark-to-mark depreciation on investments of ₹51 crores. Incremental contingent provision was ₹220 crores, & provisions for other contingencies were ₹28 crores.

Manish Karwa: This contingent provision you are not using it for your provision coverage nor you are using it for capital?

Sanjeev Kumar Gupta: Yes, you are right.

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

Rahul Jain: I had a couple of questions: First, on the outstanding restructured book that you have of ₹8,100 crores or thereabout. How much of that would be coming out of moratorium this year? So basically what is the average moratorium that you would have in the outstanding restructured book? Basically you are saying that most of the moratorium would be perhaps in FY17 & 18, is this true, this year ₹400-500 crores, so that is very small actually. If I see 2013 outstanding was about ₹4,000 if I am not wrong? So I presume in FY16 it should have been higher than what you just said?

Sanjeev Kumar Gupta: We will have to come back to you with the right number, but again, typical moratorium is around 2-years.

Rahul Jain: In terms of your expansion of distribution network and employee base could you just give us some sense as to how many branches you plan to open in FY16 and accordingly how many employees you look to hire in this year?

Rajiv Anand: Just remember that two years ago we up-fronted our unbanked branches and so therefore in that context we have opened 190 odd branches this year which is really 75% component. In FY16, I think that number will be somewhere in the vicinity of 200-250. Also, given the fact that more customers are shifting to digital channels, the size of these branches is coming down and so therefore the requirement of people on these branches is coming down as well. Having said that we are looking to expand the number of relationship managers that we have and typically these guys work on anything between 2-3x in some cases, 4x cost-to-income ratio. So we are actually looking to add people who will be productive and will in a sense add to improvement in cost-to-income ratios. We will also be adding certain component to our feet-on-street as well, which is also very-very productive channel for us, which once again will start to contribute to improvements in cost-to-income ratios.

Rahul Jain: On cost-to-income, on the point which you had earlier made that since the Digital penetration has improved, the cost-to-income ratio I presume would have come down. So, basically from these levels, do you see any further improvement or you would see kind of its bottoming out around the same levels as you will be looking to hire more FOS and relationship managers?

Sanjeev Kumar Gupta: Rahul, if you see in the last three-year trends the cost-to-income ratio we started with roughly about 44-45% and over that period there has been a decline. Our medium-term aim is to reduce that cost-to-income ratio less than the 40%. That is the medium-term. It is not for the 2016

Rajiv Anand: Just to add to Sanjeev, we do believe that there is a fair amount to go on improvements in cost-to-income ratio on the Retail Bank.

Rahul Jain: LAP growth has been quite patchy over the last couple of quarters. If I read the presentation correctly, why would that be as in any particular reason behind that?

Jairam Sridharan: The business has been going through a little bit of up and down in the market in terms of risk propensity. So, our appetite for that business has not been steady to be honest. But that said, overall, if you look at kind of on a year-on-year basis, it has been robust growth, but we are being fairly selective about the type of LAP business we want to do.

Rahul Jain: What is the outlook in terms of growth in this book because I understand the competition has been quite intense and people are doing it at some crazy LTV levels and charging lower yields and all?

Jairam Sridharan: We do not expect to grow this business next year as fast we grew in this year.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: Two questions: Firstly, on the Corporate Fee income, this quarter we have seen some traction taking place. So, what is the reason for that and what is the sustainability of that number?

V. Srinivasan: I do not think you should read it quarter-on-quarter. As we said, activity level still continues to be low and therefore, Fee income on the corporate side is likely to be modest and really if you look at overall Fee income for next year, I think we are expecting Fee income to grow in the mid-teens all segments put together.

Rakesh Kumar: If you see like for this quarter, the funding cost has gone up. Any change in the deposit composition overall? What resulted into the rise in the funding cost?

V. Srinivasan: If you look at Q4 in general, liquidity continues to remain tight on the back of increase needs for banks, because asset growth clearly is much higher in Q4. Therefore, deposit rate stayed elevated through Q4.

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

M B Mahesh: In continuation actually with the previous question, we were to understand that banks did cut Deposit rates on the Retail side, and your composition of Wholesale Deposits is fairly low. So, what kind of explains the cost increase in the current quarter?

V. Srinivasan: Again, as I said, the same answer, that even though RBI cut policy rate, deposit rates have been broadly flat, the increase in Retail Term Deposits happened possibly more in Q3 and less in Q4.

M B Mahesh: On the Retail side, non-schematic lending which is up by around 70%, can we get a broad color, what do we have in this particular portfolio?

Sanjeev Kumar Gupta: These are the loan against the deposits, including foreign currency non-resident deposits.

M B Mahesh: But that is up sharply on a QoQ basis as well, so just trying to understand …?

Sanjeev Kumar Gupta: The base is very small; it is about ₹3,000 crores.

M B Mahesh: The recent PSL guidelines which was announced by RBI, is it possible for you to kind of quantify what is the likely impact of it given the fact that it is still a stretch on the weaker section and how does it impact your portfolio for next year?

Sanjeev Kumar Gupta: As far as the total overall priority sector goes, we have achieved targets in all the years. However, we have had deficits within sub-targets which will go from 6-8% in the next 3-years. Currently our small farmer achievement is low and I think over the next 3-4 years we propose to build this up and achieve mandated requirements.

M B Mahesh: Could you quantify what is the achievement in small and marginal farmers as well as small enterprises?

Sanjeev Kumar Gupta: Right now, I do not have the data, but it is less than what RBI envisaging for this year.

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

Alpesh Mehta: Sir, first question is our power sector exposure. Can you throw some light regarding the operational and non-operational projects?

Sanjeev Kumar Gupta: Within the power sector, 86% is in generation and 14% in the transmission, distribution and others. Within generation 71% is coal based and within this 56% is operational and around 44% is under implementation. Of the projects under implementation 69% will be operational in this current financial year and around 26% will be operational in the next and remaining around 4% will become operational by 2018.

Alpesh Mehta: Did we do any kind of extension of the date of commencement of commercial operation during the year which may not have been reported as a restructured loan as per RBI guideline?

V. Srinivasan: There could have been projects where DCCO has been extended.

Alpesh Mehta: What would be the exposure to those kinds of projects where the DCCO would have been extended?

V. Srinivasan: Do not have the numbers off hand but clearly this is because of project delays and which is what RBI has permitted.

Alpesh Mehta: Basically, my question was largely related to because beginning of the year we gave some guidance of around 65 billion and actual numbers are relatively lower and this kind of guidelines came during the year. So could this be one of the key reasons for the actual stress addition being lower than what was guided earlier?

V. Srinivasan: The extension of DCCO was something which existed even before.

Alpesh Mehta: No, but in between RBI came out with a guideline of further 2-years of extension in some of the projects?

V. Srinivasan: Most of these delays are less than 2-years. What we are doing is extension from the initial date of commercial production for the first 2-years, after that the dispensation which RBI has allowed, that is hardly there.

Sanjeev Kumar Gupta: Your question is that whether this is lower than what our anticipation is because of the DCCO. No, I would not say that is because of the DCCO is there.

Alpesh Mehta: What is the outstanding Infra Bonds on our balance sheet and what were the recoveries from written-off accounts during the year?

V. Srinivasan: Infra Bonds is what we did in December, nothing after that, ₹5700.

Sanjeev Kumar Gupta: Recovery on the written off account was ₹170 crores.

Alpesh Mehta: During the year it is around ₹170 crores?

Sanjeev Kumar Gupta: Yes.

Alpesh Mehta: That is reported in the other income line item?

Sanjeev Kumar Gupta: That is reported in the other income under the miscellaneous.

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

Anand Laddha: A couple of questions: Our Retail Fee income has been growing at (+30%). What is the outlook for next year?

Rajiv Anand: Retail Fee has been driven by two or three things – one is our distribution of third-party products, mutual funds, insurance, general insurance as also the retail assets driven 1), by the fundamental growth of the business in terms of disbursements, and 2), in terms of Credit Card spends. If I take the Investment Product Group or the investment fee, the penetration of mutual funds, insurance, etc., into our customer base still continues to be very low. So therefore, we do believe that the opportunity for us to continue to sell multiple investments and insurance products to our customers in the medium-term at a reasonable pace, I think the opportunity still continues to be good. We have already spoken about our aspirations in terms of strong growth on the Retail side both on Retail assets as well as on Credit Cards. So we do believe that the growth in terms of Retail Fee given the fact that it is coming from multiple lines of business across multiple channels and segments, will continue to be strong into the foreseeable future.

Anand Laddha: On the gain on capital repatriation, if you just can give the number for a full year?

Sanjeev Kumar Gupta: It is ₹186 crores.

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

Nilanjan Karfa: Everyone talks about the digital. So just wanted to get a sense of the customer initiated transaction between the branches, ATMs, call centers, etc., can you at least quantify what it was let us say two years back versus what it is now?

Rajiv Anand: Just to give you numbers, on the internet and mobile, in the month of March, we did ₹10,000 crores worth of transactions, just on the mobile that number is up 3x on a YoY basis, obviously, the internet is a lot more mature, so therefore to the extent those numbers are in the high-30s in terms of growth. So clearly, what we are seeing is we have launched our mobile app about 18-24 months ago and we already have 1.7 million customers on the mobile and we are adding around 80,000 customers on a monthly basis. And the adoption of sort of recharge, account-to-account transfers, and bill pay on the mobile is once they sort of log on and look at the features, etc., the adoption is very-very quick.

Nilanjan Karfa: This is a monthly data, but anyway, if you say the numbers has gone up, let us say, ₹10,000 crores, that is a traction, so there is a possibility that is initiated through the mobile but the completion happens through a manual process at the end.

Rajiv Anand: No, remember that recharges are completed only on digital, so there is no manual intervention there, account-to-account transfers, whether it is to an Axis Bank customer or a non-Axis Bank customer, that transaction is completed on the back of the IMPS platform.

Nilanjan Karfa: On a very delta basis, I do not think this is probably changing a lot of cost-income side, but is the impact more seen on the income side or on the cost side?

Rajiv Anand: No, on the cost side, is it not, because of this you are already seeing that the size of the branches is really coming down and so therefore the number of people that you require in a branch is coming down, therefore the sort of other attendant costs of electricity, repairs and maintenance, etc., is coming down. So the benefits of digital are clearly playing out already. And as you go forward, you will see the amount of sales that we do that to some degree will be completed digitally and to some degree will be completed off line wherever signatures, etc., required. Sales through lead-generation through digital channels will begin to increase as well. Services that hitherto the customer had to come to a branch to do you can do on any of our digital channels – internet, mobile or in ATM – for example, if you want to change your mobile number in our system, you can just go to an ATM or do it on the internet. Similarly, if you want to order a cheque book, you do not need to come to our branch any more. Therefore, more and more services are also moving on to digital platforms. And all of this means that requirement for infrastructure and people will reduce over a period of time.

Nilanjan Karfa: If I sum this up, you are saying you have moved a lot of possibilities which was earlier had to be done manually in an online mode, and all you are saying is you are seeing increments that people are moving away from branches onto this platform, is that what you would see or seeing already?

Rajiv Anand: Absolutely, but remember that a number of transactions on a YoY basis are growing. So, what I am saying is that a number of transactions has gone up by I think 17% on a YoY basis, physical transactions are actually down 3%, digital transactions are up about 27% odd, ATM transactions are up 13%. What you are seeing is that number of transactions is growing but the composition of the transactions is changing.

Moderator: Thank you. Ladies and Gentlemen, due to time constraint that was the last question. I would now like to hand over the floor back to Mr. Sanjeev Kumar Gupta for his final remarks. Over to you, sir.

Sanjeev Kumar Gupta: Thank you once again for being on this call. We hope we have been able to address all your questions satisfactorily and really appreciate your taking time out late in this evening for this call.

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