"Axis Bank Conference Call to Discuss the Q4 FY-'16 Results"

April 26, 2016

MANAGEMENT: **MR. V. SRINIVASAN – DEPUTY MANAGING DIRECTOR, AXIS BANK**
MR. JAIRAM SRIDHARAN – CFO, AXIS BANK
MR. RAJIV ANAND – GROUP EXECUTIVE & HEAD (RETAIL BANKING), AXIS BANK
MR. SIDHARTH RATH – PRESIDENT (CORPORATE AND TRANSACTION BANKING), AXIS BANK

Moderator: Ladies and Gentlemen, Good Evening and Welcome to the Axis Bank Conference Call to Discuss the Q4 FY16 Results. As a reminder, all participant lines will be in the listen-only mode. Please note this conference is being recorded. Participation in this 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 -- CFO; Mr. Rajiv Anand -- Group Executive and Head, Retail Banking; and Mr. Sidharth Rath -- President, Corporate and Transaction Banking. There will be an opportunity for you to ask question 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 telephone.

On behalf of Axis Bank, I once again Welcome all the Participants to the Axis Bank Conference Call. I would now like to hand over the conference to Mr. Jairam Sridharan – CFO, Axis Bank to begin with the presentation. Thank you and over to you, sir.

Jairam Sridharan: Thank you. Ladies and Gentlemen, Good Evening. Before we begin, I would like to mention that some of the statements made during today's discussions maybe forward-looking in nature and may also involve risks and uncertainties. I welcome you to our conference call for a presentation on the Bank's performance for the Fourth Quarter and Financial Year 2016. At the end of this presentation, we would be glad to respond to your questions.

I would like to start by highlighting that during Q4 we have taken a series of steps to provide better disclosure, further strengthen our balance sheet and set up a framework for more transparent monitoring of our performance. We hope that you find these steps useful. The key themes for the quarter's performance -- #1 Asset Quality: The asset quality situation on the ground has not improved materially. Stress in select sectors continues to dominate the trend. Our asset quality metrics like gross NPA ratio, net NPA ratio and provision coverage have remained largely stable on a sequential basis. However, the stress environment remains elevated and the operating environment is challenging. We have also shared a new disclosure around a watch list that the bank's management assesses to be the key pool of potential future stress in the corporate lending book. We have also shared sector wise NPA and provision details under our Basel III disclosure requirements; we will discuss these disclosures in further detail later.

Theme #2 – Healthy Core Earnings Driven By Strong NII Growth: Underlying earnings quality remains healthy with NII growing by 20% year-on-year for Q4FY16. Core operating profit for the quarter and year end was up by 15% and 21% respectively. PAT for Q4FY16 declined marginally to Rs.2,154 crores and for the year was up 12% at Rs.8,224 crores.

Theme #3 – Advances Growth Driven By Retail: Growth momentum is healthy with loan growth of 21%, the share of core retail advances excluding FCNRB deposits is now 39%, up from 37% last year.

Theme #4 – Strong Performance on the Retail Franchise: The retail franchise of the bank had a good quarter with Savings Account growth of 20% year-on-year and core Retail Loan growth of 25%. We have a reason to believe that we are now the fourth largest credit card issuer in the country and confirmatory evidence will be forthcoming. Our key subsidiaries in the Brokerage and Asset Management business are also playing their role in this franchise building for the bank.

Final Theme – Strengthening Capital Position: Overall capital efficiency of the bank improved in Q4 with our Tier-1 ratio increasing to 12.51% compared to 12.07% last year and 12.35% in Q3 despite healthy balance sheet growth. Return on assets and return on equity for the quarter stood at 1.68% and 17.31% respectively. I shall dwell on these themes in greater detail as we go along.

Let me begin my detailed comments by sharing our perspective on what the macro situation looks like for Indian banking today: Q4 began with resumed global volatility largely emanating from the China slowdown and fears of contagion into already fragile emerging markets. The consequent response of global central bank indicating a much more stimulated stance including negative interest rates helped to bolster investor sentiment and thereby a resumption of capital flows. The Union Budget in difficult economic circumstances still stuck to the earlier announced fiscal deficit target of 3.5% of GDP reinforcing India's sound macroeconomic fundamentals. Good procurement policies in food management by the government have also kept inflation in check. This has enabled RBI to cut its repo policy rate by 25 basis points in early April. Seasonal and some idiosyncratic factors had led to a tightening of structural liquidity. To some extent RBI had injected sufficient funds to keep near-term rates close to the repo rate but interest rates on longer term instruments like CPs and Bank CDs had gone up sharply during the quarter. However, post RBI's policy rate cut and other liquidity management announcements, these rates have now moderated to lower levels. Bank credit growth inched up moderately in Q4; 11.6% YoY on average, up from 10% in the two previous quarters. While about 0.8% of this increase is driven by the inclusion of two new banks in the RBI data, there has also been some real credit flow back to banks from market borrowings. At the end of the year, credit growth dropped materially to 10.3% due to conversion of Discom loans into UDAY bonds; however, deposit growth remains subdued, likely the effect of a sharp rise in levels of cash in the system.

In this context, let me now discuss the bank's performance in greater detail, starting with Asset Quality: The bank's Corporate Lending Watch List has been hosted as a separate disclosure on our website and I hope you have had the opportunity to look at it. The bank's management assesses this watch list to be the key pool for potential future stress in the Corporate Lending book. We assess the size of our watch list to be around Rs.22,600 crores in outstanding. About half of this list comes from Iron & Steel and Power sectors. Our disclosure offers further color on the composition of this watch list and our expectations on slippages from this pool over the next two years.

As indicated in my initial comments on the operating environment, the environment remains challenging; stress levels in Wholesale Lending remain elevated system wide. We are witnessing similar trends in our book too. Barring a strong revival in domestic economic growth and sustained global recovery in commodity demand and prices, the outlook for these select sectors remain very cautious. During the quarter, fresh slippages into NPA stood at Rs.1,474 crores. On a cumulative basis for FY16 we have added Rs.7,345 crores into NPA. In terms of movement GNPAs, upgradations and recoveries in Q4 were Rs.780 crores and write-offs were at Rs.330 crores. Consequently, the net addition to the gross NPA pool during the quarter was Rs.364 crores. Provisions and contingencies other than tax for the quarter were Rs.1,168 crores against Rs.710 crores last year, of this provision of loan losses were Rs.606 crores, provision for standard assets including unhedged foreign currency exposure were Rs.257 crores, provisions on SDR accounts Rs.22 crores and there was a write-back of Rs.17 crores on account of other provision. It is noteworthy to note that we added contingent provisions of Rs.300 crores during the current quarter and in the standard assets provision bucket we have provided roughly Rs.100 crores against one entity in the Food sector as per RBI directive to all banks with exposure to that entity. As per the directive, we are required to set aside 15% provisioning against this account by June 2016 starting with 7.5% in Q4. Our annualized credit costs for Q4 were at 69 basis points. For the full year ended March 2016 this metric stands at 111 basis points including the usage of contingent provisions in Q2 & Q3. If we exclude the usage of contingent provisions, credit costs were at 96 basis points for the full fiscal year 2016. Our net restructured book stands at Rs.8,072 crores with fresh restructuring of Rs.927 crores during the quarter, this was all on account of the shifting of DCCO of a single project. On a cumulative basis, for the full fiscal year 2016, we have added Rs.2,267 crores to our restructured book of which Rs.1,949 crores was on account of change in DCCO only. We witnessed Rs.396 crores of slippage from the restructured book during Q4. Annualized slippages from the restructured book continue to be around 25% of the restructured book on a two year lag basis.

During the quarter the bank has implemented strategic debt restructuring in four accounts where the underlying loan amount was around Rs.205 crores. We have also implemented 5/25 Scheme for one account where the aggregate loan amount was around Rs.170 crores. The cumulative value of the underlying loan amount for SDRs and 5/25 undertaken by the bank for FY2016 was around Rs.575 crores and Rs.3,740 crores respectively. We have sold sub-standard assets worth Rs.349 crores to an ARC during the quarter for a consideration of Rs.110 crores, for which we have received Rs.25 crores in cash and the balance Rs.85 crores in security receipts.

Asset quality metrics for the bank remain largely stable on a sequential basis with GNPA at 1.67% as on March end 2016 from 1.68% in Q3. Net NPA improved to 70 basis points from

75 basis points in Q3. Our provision coverage ratio has been stable at around 72%. Our endeavor through next year would be to keep the provision coverage ratio by the end of the year above 70%. As on 31st March 2016, the aggregate impairment which is net NPA and net restructured assets as a percentage of net customer assets stood at 2.95% Vs 3.06% as on December-end and 3.15% as on March end 2015.

Let us now move on to the Strength and Quality of the Bank's Earnings: Our operating profit growth engine continues to deliver healthy numbers despite the tough operating environment. Overall operating profits were at Rs.4,399 crores, a growth of 10% over fourth quarter last year. Net of trading profits and gains on profit repatriation, the bank's core operating profit grew 15% year-on-year. NII constituting 63% of operating revenue was up 20% on the back of steady NIM and healthy loan growth. NIM for the quarter was at 3.95% with domestic NIM at 4.24%. Cost of funds during Q4 was 5.84%, 2 basis points down from 5.86% in Q3 and 6.26% in Q4 last year. The sequential decline of 2 basis points in the cost of funds is primarily driven by moderation in the cost of term deposits and further aided by our continued focus on CASA.

We have witnessed the banking sector move towards marginal cost based lending rate system starting from April 2016. We have also witnessed our MCLR rates for various tenors. Currently, the only new floating rate loans will be contracted with a reference to MCLR and the existing base rate link loans will move to MCLR benchmark on their reset date. The shift will happen gradually over the year and we expect the pricing of our liability base to move in tandem. We do not currently foresee any significant impact on margins due to the transition to MCLR based lending. We expect our NIM to remain above 3.6% for FY2017.

Fees constitute 31% of operating revenue, growth here was muted at 6% due to decline in corporate fees and flattish Transaction Banking fees which restricted overall fee growth; however, Retail Fees had a growth of 15% and Treasury had a fee growth of 12%.

During the quarter, miscellaneous income was up by 20% year-on-year, mainly due to receipt of dividend from subsidiaries of Rs.77 crores compared to Rs.18 crores in Q4 of last year. We also booked Rs.169 crores of exchange gains from repatriation of profit from our foreign branches compared to Rs.156 crores in Q4 last year. The sharp jump sequentially in miscellaneous income is also due to higher cash recoveries of Rs.83 crores compared to Rs.30 crores in third quarter. Operating expenses in the quarter increased by 15% year-on-year and 13% sequentially mainly driven by the higher number of branches opened during this quarter. Despite this increase the cost-to-income ratio of the bank for the quarter was steady at 39%. The employee base for the year increased by 19% representing 7,905 additions on a net basis. On a full year basis, our cost-to-income ratio improved by over 200 basis points to 39% compared to 41% for fiscal 2015. We expect our cost-to-income ratio to be below 40% for the fiscal year 2017. Core operating profit growth continues to remain healthy at 15%; however, the higher credit cost trajectory continues to restrict similar trends in PAT level. We had a 1% decline here on a YoY basis. The return ratios for our shareholders stayed healthy this quarter, the return on equity and return on assets for Q4 were at 17.31% and 1.68% respectively.

I will now move on to the Third Theme that of growth in our Advances portfolio: Aggregate loan growth remains healthy at 21% year-on-year. Retail Lending continues to grow strongly with YoY growth of 25% this quarter excluding loans against FCNRB deposits.

A few details on the Growth: our Retail Lending growth continue to be led by unsecured Personal Loans, Credit Cards and Home Loans. Overall Retail Loans including Loans against FCNRB Deposits grew 24% year-on-year. Internal customers continue to be the mainstay of the bank strategy for sourcing retail assets. Roughly two-thirds of the incremental acquisition for Retail Loans continue to be the bank's existing deposit customers. 97% of the bank's credit card originations in the quarter were from existing customers of the bank. On unsecured lending, this proportion is around 80%. More than 40% of incremental Retail Loans in Q4 were sourced through our branch. The credit quality of these Retail Loans continues to remain healthy. During the second and third quarters of FY17, the loans against FCNRB deposits are likely to mature but this is going to coincide with lowering of our liabilities by similar amounts. Corporate Advances portfolio had a YoY growth of 22%. As indicated in our previous call, we continue to find attractive refinance opportunities for highly rated corporates that are new relationship additions to the bank's franchise. 79% of new sanctions in the Corporate book were to companies rated 'A and Above'. Presently, 62% of outstanding Corporate Loans are to companies rated 'A and Above'. The bank's exposure to the Iron & Steel sector as on March 2016 stood at 3.4% of which around 60% are rated 'A and Above'. We have witnessed some downgrades in the sector during this quarter. In fiscal 2017, we expect the bank's credit growth to be around 18-20%.

The Fourth Theme is the continuing build out of our Retail franchise and the increasingly important role that is starting to get played by some of our subsidiaries. We continue to invest heavily in broadening our network footprint during the quarter; we opened 99 domestic branches, with this our branch addition for the year have gone up to 315, up from 187 new branches opened in FY15. We expect to continue the increased pace of branch openings into next year and plan to open 350 to 400 new branches.

Saving Account balances at quarter end grew at strong 20% year-on-year, up sharply from the low of 12% YoY growth we registered in Q2. Current Account balances also had a healthy performance with a growth of 13% thus driving an overall CASA growth of 17%. Our overall CASA share in deposits was 47% at the end of the quarter, around 400 basis points higher than Q3 and 256 basis points higher than Q4 of last year. CASA deposits on a daily average basis for the year grew by 15% and comprised 40% of total deposits. On a daily average basis, SA Deposits grew by 14% and CA Deposits by 16%. CASA and Retail Term Deposits continue to form a strong base at 81% of our total deposits.

Product penetration into our strong SA base continues to be a major driver for growth; Big Data, Analytics led targeting of the known Retail customer for sales of Unsecured Lending, Credit Cards or other Payment Products continues to be core to our franchise building in this space. The bank had 24.1 lakh Credit Cards in force as of 31st March, making it likely the fourth largest credit card issuer in the country. The credit cards portfolio saw a substantial increase in spends by 40% to Rs.9,356 crores from Rs.6,695 crores for Q4 last year, for the full year the growth was 44% from Rs.13,535 crores to Rs.19,432 crores.

Our Retail Franchise strategy is focused on five Key Relationships Categories: Loans, Deposits, Payments, Investments and Protection. Our intent is to build lasting relationship with our customers by serving their needs along each of these five categories. In this regard, the increasingly important role being played by some of our subsidiaries is worth mentioning; in terms of total assets under management, Axis Asset Management Company occupies 11th position in the industry today; in FY16, Axis AMC emerged as one of the fastest growing asset management companies in the industry; Axis AMC saw average mutual fund AUM rise by 42% during the last financial year compared to industry growth of 14%. Axis AMC's investor base has now crossed 15 lakhs with over 6 lakhs customers added in FY16.

Our Broking Subsidiary – Axis Direct started its journey in 2011 and in five years have crossed a customer base of 1 million customers. Axis Direct has been awarded the best growing retail broking house consecutively for the last three years at Dun & Bradstreet Equity Broking Awards.

Axis Direct launched its Mobile App earlier this year and is already the leader in mobile trading volumes as a percentage of total trading volumes, with over 20% of all trading volumes having shifted to the app. Market beating performance by the AMC and best-in-class technology adopted by our Retail Brokerage subsidiary helps further strengthen the bond customers have with the Axis family. We continue to see strong momentum towards adoption of Digital channels by our customers. Our transaction volumes on Axis Mobile more than doubled in Q4 on a YoY basis, outpacing every other channel by a wide margin.

It is worth noting here that Forrester Research has rated "Axis Mobile as the Best Banking App in India." Electronic channels now contribute 51% of all customer-induced transactions in our retail base.

The Fifth and Last Theme relates to our comfortable capital levels and sustained delivery of healthy return ratios for our shareholders: The bank improved its capital levels materially in Q4. As of March 31, 2016, our total capital adequacy ratio is 15.29% with a Tier-1 capital adequacy ratio of 12.51%. Compared with the Tier-1 ratio of 12.07% as of Q4 FY15 this indicates that the bank has actually accreted capital during FY16 to the extent of 44 basis points. Our capital level is also materially higher than the 12.23% Tier-1 CAR the bank had after we raised our last round of capital. We continue to deliver healthy returns for our shareholders with a full year return on equity and return on assets at 17.49% and 1.72% respectively.

Moving on from these major themes, I would like to highlight a couple of other metrics that you might find useful in understanding the bank's performance this quarter: SME growth at

8% has lagged our overall growth trajectory materially. We hope to reverse this trend favorably in fiscal 2017. The Credit-Deposit ratio of the bank was at 95% at the end of Q4, this included domestic CD ratio of 82%. When we include infrastructure bonds as part of our deposit base, our domestic CD ratio changes to 80%. Risk weighted assets for the bank stood at Rs.4,03,949 crores and grew by 17% on a YoY basis. We currently have security receipts with a gross value of Rs.885 crores on our books. We have since taken Rs.114 crores of mark-to-market depreciation on these SRs and they are currently held at a net book value of Rs.771 crores. Almost the entire MTM depreciation impact, emanates from SRs obtained during fiscal 2014.

Our exposure to highly leveraged corporate as we have shared in the past was just under 8% as on 31st March 2016. We have created a special team that focus on finding resolution mechanism on some of the problematic assets on our books. We have been seeing some early success with some borrower groups including some success in the last few weeks through monetization of assets.

Before I conclude my remarks, I would like to talk about our Outlook for Fiscal 2017 for the Macro and also our Own Business Outlook: The global financial markets seem to have stabilized even if transiently, so far the rupee has remained stable and foreign capital flows have started returning to India. Initial forecast indicate normal or better range in 2016. This together with the centre’s responsible fiscal stance might enable RBI to maintain their accommodative stance. The order books of companies executing government EPC and other contracts are witnessing inflows, indicating that manufacturing growth might show some recovery in select sectors during FY17. We expect GDP to be in the range of 7.6 to 7.8% in FY17 with an upward bias if the monsoon is indeed normal. Market liquidity conditions are likely to be better in FY17 given the revised RBI liquidity management framework. Given this outlook, credit offtake from banks is expected to increase gradually to 12.5-13%.

In sum, there are some gradual signs of recovery of economy activity in India, but a lot slower than what we had envisaged earlier. Though some sectors are witnessing increased activity, private CAPEX recovery will take time and our outlook for some select highly leveraged sectors remains cautious. The overall outlook thus remains challenging and we will really have to stretch ourselves to achieve some of the goals we have set up for 2017.

With this our view, here is our Business Outlook Summary for FY17 for the Bank: Credit Growth -- Around 18-20%; CASA Ratio -- Around 40%; Net Interest Margin -- Above 3.6%; Cost-to-Income Ratio -- Below 40%; Branches -- Net addition of 350-400 new branches; Operating Profits – High teens growth in pre-provisioning operating profits; Credit Costs – We expect around 125 basis points with a possible adverse scenario of 150 basis points; Provision Coverage – Above 70% by the end of the year.

As I close, allow me to resummarize the key themes of the quarter: #1 Asset Quality -- Stable during the quarter but stress remains elevated. The disclosures we have made today should help you all gain more insight into the health of our corporate loan book; #2 Healthy Growth in Core Earnings – Core operating profit engine remains healthy with core operating profit for the year up by 15%; #3 Balanced Advance of Growth – Growth momentum remains healthy with contribution from both Retail and Corporate Bank; #4 Retail Franchise Building Out Well – Strong recovery in Savings Account growth. Emerges as the likely fourth largest credit card issuer in the country and strong performance across Retail facing subsidiaries; #5 Capital Position and Return Ratios Remain Strong – With Tier-1 ratio of 12.51% and Return on Equity of 17.31%.

With this, I come to the end of my comments. We will be happy to take your questions now.

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

Mahrukh Adajaniya: Just had a couple of questions; firstly, in terms of harmonization with other banks on the AQR list, was there any slippage due to that?

V. Srinivasan: Not this quarter.

Mahrukh Adajaniya: So you would wait for other bank to finish with their results

V. Srinivasan: I didn't get that.

Mahrukh Adajaniya: Harmonization as in that people were worried about the second round impact, right, that if one bank has one asset as NPL, it could become NPL for other banks, that is what I meant by harmonization.

V. Srinivasan: That can happen anytime and it is not something which we are aware in terms of whose list, what is there and therefore it can happen anytime.

Jairam Sridharan: The classification of assets into NPA will be done independently by banks based on either IRAC norms or specific guidelines from the regulator. There is no explicit process of harmonization that is going on in the industry.

Mahrukh Adajaniya: In terms of the disclosures that you have made on the corporate watch list, I am assuming that these are fund based, because they are being compared to total assets and total loans?

V. Srinivasan: Correct, it is fund based.

Mahrukh Adajaniya: Ok. Then the non-fund base will come as and when if at all?

V. Srinivasan: Yes.

Mahrukh Adajaniya: In terms of mining, one never associated Axis with any big mining exposure. So this would be a few accounts already restructured or how do we read into this?

V. Srinivasan: You should not assume that it is a restructured account and you should not assume there is too many accounts in that bucket.

Mahrukh Adajaniya: Could you repeat the amount of SDR, it is Rs.205 crores during the quarter, right?

V. Srinivasan: Correct.

Moderator: Thank you. The next question is from the line of Rohan Koshy from New Horizon. Please go ahead.

Rohan Koshy: Just wanted to ask a), on the watch list that you gave. So, just to understand, that is about Rs.22,000 crores and 60% into coverage ratio of 70% which would lead to something like Rs.9,000 crores provision over these eight quarters. Is that correct?

V. Srinivasan: Correct.

Rohan Koshy: The second question was just wanted to understand the impact of moving to some of the new accounting standards. How would that affect the reported capital adequacy, profits, NPA and provisioning?

Jairam Sridharan: We are in the early stages of assessment of the impact. The global standards all of us are aware in terms of globally when folks move to the standards of IFRS or equivalent, what that does to their capital adequacy, we do not expect anything materially different as we move from Indian GAAP to India AS.

Rohan Koshy: So no material impact has…?

Jairam Sridharan: No-no, we do expect material impact, we just expect it to be similar to what global banks have seen as they have made transitions and as you are aware banks in Australia for example have started making some of the migrations and we expect a similar size impact but we are in early stages of that assessment right now.

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

Nilesh Parekh: Just wanted to understand, now this Rs.22,000 crores number that we put out, would be fair to assume that this is the number that the bank expect from the stress case scenario, considering what we have actually seen. I just wanted to tie in with that 150 bps credit cost number. So, what is the sanctity of this Rs.22,000 crores, this actually number can go up in a stress scenario or this is what we think is a realistic number?

Jairam Sridharan: The way the watch list has been constructed is that it is constructed as a closed list, meaning we have done the valuation at analysis and identified accounts which we believe are going to be the key source of stress going forward from the Corporate Banking book. This is not to say that no NPAs would happen from outside of this; however, it is our expectation that this is going to be the key source of NPAs from the Corporate Banking side over the next two years. In addition, there would also be accretions to NPAs from both the SME book and the Retail book. As far as increase to this list is concerned, because this is a closed list, our expectation is that we would watch this list very closely, we are not adding names to this list every quarter and our expectation would be that we work this list towards the resolution.

Nilesh Parekh: If I go to Slide #5 of that Presentation, now the leverage number that we talk about at 8%, based on this exercise, that 75% of that exposure is not on that list, right,

V. Srinivasan: Correct.

Nilesh Parekh: And 25% is on that list. Is it possible that it could be one, within a particular group that one exposure could be on a list and the other may not, that could…?

V. Srinivasan: Very true, I think it is project-specific and facility-specific and therefore within a certain group you could have exposures which are part of watch list and the other exposures may not be part of the watch list.

Nilesh Parekh: I completely understand that timing is uncertain here, but are we expecting some de-revision exercise or something to kind of take place for this, just wanted to understand that eight quarter number, how do we expect that…?

V. Srinivasan: You have answered the question yourself, but again, what we have said is that there could be some front-ending in terms of bias towards the next few quarters.

Nilesh Parikh: Is it because of AQR, what Mahrukh asked in terms of the second quarter impact that…?

V. Srinivasan: It is just the environment; AQR and everything else.

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

Nilanjan Karfa: On this watch list again, so there are about 19% in project loans, right. So what is the expectation then how high this number can go up because there will be pre-sanctioned loans and there might be drawdowns. So is there a possibility this number actually goes up?

V. Srinivasan: I think the way you need to read that is 19% of our project loans are part of the watch list. So it is not like 19% of the watch list is project loans. So you got to look at it differently. Out of all loans to projects, 19% are part of the watch list.

Nilanjan Karfa: But there are still projects, right?

V. Srinivasan: There are still projects, most of these projects I think are near completion, but again, fine, the point that you are making that if the project is under implementation and sanctions are outstanding and further drawdowns happen, yes, it would happen.

Nilanjan Karfa: It would have really helped you given that there is so much of disclosure. Any indication of the guarantees or acceptances essentially the non-funded side of the things, which is…?

V. Srinivasan: As we said it is an ongoing disclosure and we will keep updating this.

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

Adarsh P: Again, on the disclosures, the watch list, what I wanted to ask is a lot of these are projects like Power loans, Iron & Steel, where I think given even the scenario today, we would not assume a 70% write-off in some of these large projects. You have indicated in one of the slides that you still intend to keep 70% cover. So just from LGD - loss given default perspective and the coverage you intend to keep even in these watch lists, just wanted to understand, is it being too conservative or you think that number is more a realistic expectation of write-off?

Jairam Sridharan: We think keeping 70% provision cover for this group is appropriately conservative. It is true that past track record does not indicate an LGD of this size; however, given the environment and given some of our experience with these accounts, I think it is appropriate for us on the side of keeping a little bit higher cover and that is what we are going to hope to achieve through the course of the next year.

V. Srinivasan: One other thing is I think we have always maintained provision coverage of 70% at all points of time and clearly we want to continue with that. As we said that it is not necessarily quarter-on-quarter but again by the end of the year we expect it to be 70%.

Adarsh P: One thing is if you can just share what would have been the SME and Retail slippages minus the recovery and write-offs for FY16, that kind of gives us a sense of the run rate?

Jairam Sridharan: SME we had Rs.161 crores in this quarter and in Retail Rs.242 crores, those are the numbers I think at the gross level.

Adarsh P: Recoveries and upgrades?

Jairam Sridharan: Recoveries and upgrades are Rs.45 crores in SME and Rs.162 crores in Retail.

Adarsh P: This is excluding any write-offs, right?

Jairam Sridharan: Yes.

Adarsh P: So broadly Rs.350 crores of slippages and about Rs.200 crores recovery and upgrades, so Rs.110 crores net number?

Jairam Sridharan: That is absolutely right.

Adarsh P: When you look at your FY16 full year numbers, is that a good run rate to assume, you would think given where we are in the Retail cycle at least?

Jairam Sridharan: The Retail book is growing pretty fast and Retail Credit cycle has been very benign for a very long period. At an appropriate level of conservatism perspective, I think one has got to assume that the cycle is going to turn at some point. We have seen almost now 3-years of a very benign retail cycle. So I would not be surprised if one started seeing a little bit of an uptick on that for that reason.

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

Prashant Jain: What is your guess about the loss ratios and what is your assessment of the MIP impact on the Steel sector?

V. Srinivasan: As far as the MIP impact, Prashant, clearly, cash flows have really improved to that extent I think servicing of existing…. now we are surely going to be better but clearly some changes in capital structure is needed in a lot of these cases and that is what we will work on with other banks for some of these cases over the next couple of quarters. In terms of the LGD on some of these, clearly, I think earlier also it was expressed that a number of provision coverage of 70% was not necessarily for some of these exposures in case they slip, but we are just trying to be conservative, I think if you look at some of the valuations and some of the transactions which I talked about, the LGD could be much-much lower.

Moderator: Thank you. The next question is from the line of Vikesh Mehta from Religare. Please go ahead.

Parag: This is Parag here. Margins actually expanded around 18 basis points quarter-on-quarter. Cost of fund has not declined that much. It is difficult to assume that yield would have consistently gone up by 20-odd basis points. Is there any one-off here or…?

Jairam Sridharan: There is one important difference between Q3 and Q4 which is on interest reversals which does have an impact on the margin level from the yield side. Given the lower number from a slippage perspective that has certainly had an impact. There is also one other one-off but it is not too material, it probably gives a couple of basis points more.

Parag: How much was the interest reversal if you can quantify?

Jairam Sridharan: We haven't been sharing interest reversal number. So I am not comfortable sharing at this point.

V. Srinivasan: You just have to look at the overall slippages of the last quarter and this quarter and that will give you the scale of difference.

Parag: Answering the last question around 360 CR was the slippages from SME and Retail, if you just calculate, it was like around 25%-odd of gross slippages in this quarter, again, out of 1,400 or 1,500, if 360 is the slippages from Retail and SME, it is roughly around 20% to 24%. If you kind of assume a similar run rate, and if you are expecting around Rs.14,000 crores to slip into an NPA in next 2-years, so roughly if you assume around Rs.7,000-odd crores in FY17 and Rs.7,000-odd crores in FY18, then probably overall slippage number could be in upwards of Rs.9,000-9,500 crores, right, total?

Jairam Sridharan: We are not specifically guiding a slippage number for next year. As we spoke about in our comments, our expectation on credit cost is around 125 basis points with an adverse scenario expectation of up to 150 basis points. The maths that you just walked through in terms of slippage number calculations, it depends a lot on kind of the timing of how some of the slippages happened and as we are hesitating given the uncertainties in the environment to actually give out a gross slippage number at this moment?

Parag: So your 125 basis points of credit costs and 150 in the worst case, does this also include potential slippages or potential credit cost which you may have to incur on non-fund based exposures?

V. Srinivasan: Across all segments and everything.

Jairam Sridharan: There is one clarificatory comment that I want to make to the point on gross slippages; while Retail does tend to have a certain level in terms of gross slippages, the net number tends to be much lower because recoveries and upgrades tend to be much higher as a percentage in that part. So in Retail the better metric to look at is a net number.

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

Manish: No thanks. My questions have been answered.

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

Gautam Chhugani: If you could just for my benefit articulate your interest reversal policy and if you are being any more conservative than the norm?

Jairam Sridharan: We follow the norms of interest accrual and recognition as per the RBI norm, there is nothing incremental there.

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

M.B. Mahesh: Just on that 'Presentation' that you have given, could you highlight as to what kind of volatility do you actually see in that list from a month-to-month or quarter-to-quarter basis? When you say the watch list 80% originated in FY10 to FY12, how should we read that as -- was it given at that time, was it sanctioned at that time, was it disbursed?

V. Srinivasan: So basically, in terms of the second question first, it was sanctioned at that time, the drawdowns could have been little later, but the point of origination of the transaction, which has resulted in this exposure is what is being marked against in the years mentioned in the disclosure, so it is at the point of sanction. As far as the other thing is concerned, as Jairam mentioned, this list is a close list. So, when you talk of volatility, I am not understanding what you mean because this list is going to be something which is fairly stable, and only way it can make is down when accounts either slip or something happens for us to remove it out of the watch list.

M.B. Mahesh: No, in the sense that I am just trying to understand as to this list was prepared for this quarter, assuming all the stress which is likely to happen for the next 8-quarters?

V. Srinivasan: This list has been prepared keeping in mind the status of the account now and the probability of slippage and how critical it is.

M B Mahesh: My second question is on the SME side. Why has there been a fair bit of slow growth over the last 3-4-quarters? A question to Rajiv, the sharp growth that we are seeing in the unsecured piece. Just trying to understand, how much of this are actually new to bank or new to credit customers out there, and if you could share that with your overall portfolio, that will be great?

V. Srinivasan: I think we said it in the Q3 call also; as far as the SME is concerned, I think the market is extremely price competitive right now, and to that extent, I think we have sort of done transactions and maintained relationships where we believe there is long-term potential, and not necessarily chased assets down with it on a price basis, but, however, I think things seem to have stabilized now and that is why it gives us confidence that we should be able to grow this book back at a much higher pace through this year.

Rajiv Anand: As far as unsecured is concerned, we have been guiding that retail book would move towards about 15% unsecured. So that trajectory continues although we have been guiding that this will take about 2-3-years for it to fructify and I think we are in that trajectory, we have also been guiding that almost all of the unsecured component is to existing customers primarily through our brand franchise and now increasingly through the use of analytics that Jairam spoke about and delivery through digital channel.

M B Mahesh: Would a fair share be new to credit customers?

Jairam Sridharan: The market new to credit customers are roughly going to be a third; in the market you are going to see about one half of applicants and about one third of new originations being new to credit, you are going to see roughly the same percentage as far as us well.

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

Prashant Kumar: My question is again related to the provisioning requirement for the bank. You have mentioned that the total watch list is close to Rs.22,000 crores, out of which 60% could slip over a period of time. Big part of it would be kind of front-ended. So based on that, it seems like 125 basis points to 150 basis points kind of credit cost may not be sufficient to maintain 70% kind of coverage ratio. So just wanted to get a sense from you that how confident you are about this 125 basis points to 150 basis points credit cost range?

Jairam Sridharan: The very fact that we have a range there, Prashant, shows that it is very hard to be assertive and certain about this number. We have done our simulations internally of what happens to the watch list, what happens to accounts outside of the watch list and what happens to earning asset growth. Looking at different levels of scenarios that we have simulated, we feel that the base case is more around 125 basis points and the adverse scenario case is more around 150 basis points. But if your question is "Could the number be higher?" Yes, it could. "Could the number be lower?" Yes, it could, though the probabilities are a bit low.

Prashant Kumar: To meet this provisioning requirement, do you have like some course of action in your mind like, would you look to book more gains from your corporate bonds or do you look for stake sale in some of the subs or any such plan?

V. Srinivasan: We will take it as it comes, Prashant. We cannot talk of any specific plans, but as Jairam was saying, we are assuming a base case expectation of 125 basis points in terms of credit cost for the coming year.

Prashant Kumar: You mentioned the 25% of over leverage group exposure as part of the watch list, and you had earlier disclosed you have 8% exposure to those over leverage group. So based on that disclosure, it would be fair to assume that out of Rs.22,000 crores, close to Rs.7,000 crores to Rs.8,000 crores is being contributed by those overleveraged groups?

V. Srinivasan: Correct.

Moderator: Thank you. The next question is from the line of Venkatesh Sanjeev from Pictet. Please go ahead.

Venkatesh Sanjeev: My question is again on the watch list. You have given the process how you have finalized the watch list step one of role based filters and then step two of judgmental short listing and you have shared that Rs.22,600 crores is the number after the second step. Can you share what was the number after the first step and what really goes through in terms of some examples of what sort of filters you actually used in terms of judgment?

V. Srinivasan: I think as we have said, we have used all these inputs in terms of determining, in terms of what the status of the account is and what we believe is expected behavior of the account, using all the inputs which we mentioned in the slide and then arrived at this Rs.22,000 crores.

Venkatesh Sanjeev: Second question was really on the watch list which you have mentioned that it is a close group of accounts and this is what is going to be but just thinking should it not this be a recurring phenomena, something could change in the next one or two quarters and you could probably need to have more accounts coming into the watch list…?

V. Srinivasan: We have not said that slippages will not happen outside of the watch list. So you could have slippages from outside of the watch list. We are just saying this is a close list, we will give data in terms of how much slips out of this list and as Jairam said, as the slide says, watch list we believe is the key source from which we will see stress as far as the corporate book is concerned. That does not in any way mean that there could not be slippages from outside of this list. The guidance we are giving in terms of the 125 basis points assumes everything, part of this list and not part of this list.

Moderator: Thank you. The next question is from the line of Praful Kumar from MSD Partners. Please go ahead.

Praful Kumar: Out of the total SMA-2 outstanding for the bank, what part will be contributed by the corporate book?

V. Srinivasan: Almost everything, barring small SMA portion.

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

Sheshadri Sen: I have two or three questions; first is, looking forward what is the environment for resolving and resolution of these stressed accounts. In the last 2-3-months, if you have seen visible improvement, there seems to be some news flow that the corporates look to be literally more eager to settle than they were say 6-months ago.

V. Srinivasan: I think there is heightened level of activity. I think as you said, there is more willingness on both sides to try and find a solution and that is resulting in transactions, you saw one or two large transactions being consummated over the last month. We expect the pace to sort of continuous and possibly sort of increase and strengthen.

Sheshadri Sen: Secondly, the contingency provisions that you made Rs.300 crores, those are again specific accounts. Do you have some visibility on when they are likely to turn NPL and you would probably then need to draw them down?

V. Srinivasan: We have seen it in the past; we create contingent provisions against a pool of accounts as and when they slip we have the ability to use them which we have done in the past. Similarly, considering the sort of stress in our portfolio which is also evident in terms of these disclosures on the watch list we believe it is important to keep creating contingent provisions and that is why we went out and created this quarter too and we will do the same thing quarter-on-quarter. As and when the opportunity arise add to the contingent but again if the need arises in terms of maintaining certain level of asset quality metrics clearly we would draw down on the contingent too.

Sheshadri Sen: So that is optional, it is not that when those accounts turn bad, you will necessarily draw it down.

V. Srinivasan: Never dropped in the past also, we have now drawn on contingent except in exceptional situations.

Sheshadri Sen: Finally, changing tack a little fee growth, bit of a slowdown in this quarter. What would be the outlook for FY17 – do you expect an acceleration or is the corporate segments still a bit of a drag?

Jairam Sridharan: Fee growth if you looked at the last two or three quarters for us have been a bit of a drag from a growth perspective. In fee, we are actually going through a bit of transition phase where we are attempting to transition to much more flow-based, much more granular fee income. So I think Retail fees, transaction banking fees, FOREX fees, etc., that is the transition that we are trying to make. We are making good progress on some of those franchises. However, on some of the more deal-based more bulky fees, it is likely that as we continue to move up in terms of asset quality of new originations, particularly on our corporate banking book, it is quite possible that fee growth there remains sluggish.

Sheshadri Sen: So similar trends as the last 2-3 quarters will persist for some more time at least?

V. Srinivasan: When the loan growth comes back for the system itself, I think you would see possibly better growth in fees. Right now, I think with loan growth being tepid, I think our ability in terms of extracting fees from the market or in terms of doing lot more syndication is probably a lot more tougher. As and when the economy improves and volumes pick up, I think fee growth will come.

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

Amit Premchandani: Just on the employee front for the last one year, you have added around 8,000 employees. While in the fiscal year, you have indicated that most of transactions are coming through Digital channels and branches are seeing a decline. So are these employee additions initially supporting asset origination and replacing Direct Selling Agents? Further, do we expect similar numbers for next year hiring or have most of the requirements been front-ended?

Rajiv Anand: So two points there on what you said. Yes, as a percentage of the total, the number of transactions in the branches is coming down. However, overall number of transactions still continues to grow and continues to grow reasonably strongly. What we have added is to our acquisition teams, what we call Business Development Executives (BDEs) who are our teams across the country who acquire typically savings accounts and current accounts for us, we have added relationship managers. These are the two cohorts that we have added in large numbers and as you will notice that these are really sort of producers or generators of fee and revenue and that is really where we will continue to build out in the current year as well.

Amit Premchandani: So there is no front-ending of hiring for the next year?

Rajiv Anand: No, you will see that the overall number of resources that we have will continue to grow in '16-17 as well.

Moderator: Thank you. The next question is from the line of Gordon Fraser from Blackrock. Please go ahead.

Gordon Fraser: I just wanted a clarification on credit cost guidance. So if I look at your watch list portfolio and I just take your assumptions of 60% slippage, 70% coverage, I get an annual credit cost just a matter of about 120-130 basis points. Just wanted to understand given your overall view on the book, where 125 basis points to 150 basis points comes from?

V. Srinivasan: We said around 60%, but again we expect that taking out factors into account, it could be lower. So from a baseline point of view, not gone, we are just 60%. So, if you look at slippages from the other segments plus a slightly lower number in terms of slippages from this, you will get to 125, and if you put to what Jairam put in context in terms of 150, whatever your assumptions will fit in.

Gordon Fraser: So even assume 60% slippages are correct?

Jairam Sridharan: No, it does not.

Gordon Fraser: Just on the credit cost guidance, is that net credit cost or gross credit cost on upgrades, recoveries and provision write-back?

Jairam Sridharan: Yes, it is net of that.

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

Alpesh Mehta: Just a clarification; this 125 basis points includes the provisions for the restructured loans and the SDRs as well?

Jairam Sridharan: Yes.

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

Rakesh Kumar: Just two questions; firstly, on disclosure you have given that 47% and 53% would be coming from BBB and unrated, and also in the Slide #6 you said that no addition would be made to this list. If we see the 'Presentation' for the non-SLR corporate bonds and the corporate banking, for the BBB and for the unrated, the composition remains the same. So from December to March, the lending is there for this kind of rated companies, and so we have not stopped lending to these corporates at least in this Q4.

V. Srinivasan: I think you should also assume there could be downgrades**.** Downgrade of existing portfolios into the lower buckets.

Rakesh Kumar: Second thing on the Iron & steel, you have given that 24% would be coming from the Iron & Steel sector and if you look at the funded exposure to the Iron & Steel sector is close to around 3.6%. So, that means that close to 50% of the Iron & Steel would become NPL actually.

Jairam Sridharan: It is on our watch list. I think your assessment is correct.

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

Sameer Bhise: Does the watch list cover 5/25 accounts?

V. Srinivasan: Watch list will include all types of accounts; 5/25, SDR, restructured, everything.

Sameer Bhise: Just missed the outstanding SDR number, which Mr. Jairam said earlier?

Jairam Sridharan: The outstanding on SDR is Rs.575 crores and under the 5/25 structure the outstanding would be Rs.3,740 crores.

Sameer Bhise: SDR I believe entirely has come through the restructured book?

V. Srinivasan: You can assume that.

Jairam Sridharan: Just to clarify the point that was made before; we have looked at all the accounts in different statuses for consideration into the watch list and that includes SDR and 5/25 and others. As it happens, the 5/25 accounts that we have right now are not part of the watch list.

Moderator: Thank you. The next question is from the line of Prakhar Sharma from CLSA. Please go ahead.

Prakhar Sharma: Just want to clarify; out of this Rs.22,600-odd crores of watch list, about whatever Rs.8,000 crores might be out of the large corporate exposures as was discussed earlier, so the balance is about Rs.14,000 crores over next two years. Is there an element of business as usual built onto this Rs.14,000 crores, because you are discussing it in more detail or this is beyond business as usual slippage, out of this Rs.14,000 crores, this number is this like a business as usual sort of a watch list or what proportion of it could be business as usual watch list?

Jairam Sridharan: This is not business as usual, Prakash. The watch list is to say these are accounts which having looked at multiple parameters around account characteristics, customer leverage, account behavior with us over time, account behavior in the industry, etc., Looking at all of that, the risk management team internally in the bank feels that these accounts give a cause for concern and hence we are disclosing to you this close list and saying we want to track these closely over time and disclose progress on this list to you. The BAU part of the business is sort of one line as this.

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

Anurag Mantri: A data point question first; just wanted to clarify on the 5/25 you mentioned the outstanding is Rs.3,740 crores. Any color as to whether that comes from the standard book or the restructured book?

Jairam Sridharan: I do not have that readily available. I am not able to find that out. If I can we will try and get that out to you separately.

Anurag Mantri: Any color on the collateral that would be held against the watchlist that you disclosed?

V. Srinivasan: Most of it will be backed against assets.

Anurag Mantri: In terms of the collateral held against these exposures as in how much…?

V. Srinivasan: Most of it typical bank consortium lending would be against fixed assets with asset coverage of anything above 1.25.

Prakash Sharma: The SDR number is completely from the restructured book I believe Rs.575 crores outstanding?

V. Srinivasan: Yes.

Anurag Mantri: Nothing has slipped into NPA from the SDR or the 5/25 book, right?

V. Srinivasan: No.

Moderator: Thank you. The next question is from the line of Rahul Gupta from Morgan Stanley. Please go ahead.

Anil: This is Anil. I have two questions; the first is on margins. so you are guiding towards margins upwards of 3.6% next year, but when I look at it interest rates are coming down, MCLR will possibly create some pressure on margins and obviously you are going to see a pretty significant increase in NPL formation. So how confident are you about this 3.6% number or upwards of 3.6% number, what can be the downside risks to this number?

Jairam Sridharan: As of now, Anil, the simulations that we have done make a feel okay. If you recall, as far as this quarter is concerned, we had certain expectations in terms of how margins were going to pan out, things turned out materially differently and for the better. We are not hoping for such strong performance in the quarters to come. However, given what we have seen in terms of the business that we are able to originate right now and the way we are able to shape some of these business mix and the advances mix in particular we feel that there are ways for us to keep the margins above the threshold 360 that we articulated in our guidance.

Anil: Second question is just on the new book that you are creating on corporate side, because the initial commentary you laid out was kind of quite weak in terms of stress on corporate sector, etc., then what gives you confidence to grow the corporate book by more than 20% right now, so what is the likelihood that if economy remains weak for another couple of years and some of these loans do not become part of a new watch list, so what is the difference in terms of assessment processes that you are using now?

V. Srinivasan: If you look at the environment itself, if you look at the Corporate Wholesale Lending book for the system itself, it is hardly growing, the growth is primarily driven by Retail and to some extent SME as far as the system is concerned. So clearly, when we are saying we are growing the Corporate book at a particular rate, we are grabbing share from the other banks which means that all of these lending is not happening to fresh projects that kept fresh capital formation. It is an existing company where the debt is not increasing where you are moving share from some other banks to us because of a better collateral structure or better pricing or any of the other things which customer will be willing to sort of move for. So, I think that gives us confidence because we are hand picking the customer, we are picking highly rated corporates and these are customers who we go and seek them out and these are primarily operating companies.

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

Dhaval Gala: When you assume credit cost of 125 basis points in FY17 and it all goes as a base case and not the worst case, then would we see similar credit cost even in FY18, I know it is little too longer, but does that mean that you would spread out the credit, because there will some stress which will come even in FY18 your watch list, economic scenario improvement I completely agree, but if your scenario goes as per you plans of 125 basis points, then what would be your assessment?

V. Srinivasan: As we discussed, if you assume that some slippages happen this year and you create a provision coverage of around 70% and you expect some resolution, we expect clearly resolution of a lot of these assets to happen over the course of this year and if you look at the residual portion of the asset and if clearly as was expressed by some of you, yourself, if 70% is a very conservative estimate, you would be having some more in a kitty for you to support what you have in FY18. So as we enter FY18 out of the residual pool, whether actually we should assume 60% or something lower, it depends, how exactly the year pans out and we will come back to you at that point of time. This is an estimate as of now. We believe as far as FY17 is concerned, this is a credit cost we believe is the right thing to sort of have expectation for a base case scenario. FY18? We will wait for things to pan out and see exactly what has behaved. For all you know what this can be lower.

Dhaval Gala: My only thought process was you wanting to see that, there will be front ending, there should be reduction in credit cost in FY18, if we have front ending effect, and the watch list remains constant or reduces?

Jairam Sridharan: As opportunistically something presents itself, we will try and take the appropriate call; however, frankly it is just too early to be able to predict how much progress we would be able to make in the first financial year out and based on that what we can talk about FY'18, we could tell you something, but really it would be pure speculation at this point.

Dhaval Gala: What different life cycle the loans could be that you feel the NPL if at all whatever slips from watch list, you have almost 8-quarters, so have we structured loans that the repayment only hits in after FY17 because most of the companies will be stressed, they may not be paying even at this juncture, right?

V. Srinivasan: That could happen even till now, meaning, if you look at a lot of these companies if they are to slip, they could have even slipped well. So basically if you look at corporate I think each is at a different state in terms of stress and we believe some of these will have enough cash flows to sustain them and meet the obligations as far as the next few quarters are concerned and possibly into the next financial year.

Jairam Sridharan: In terms of early signals, any stress that we see in terms of their payment behavior to the extent that that is forte does give us an indication that in the next few quarters there might be something amiss; however, as we were discussing on your prior question, it is very hard to be definitive or deterministic about what is going to happen 8-quarters from now, this is our best guess of a list of accounts that we believe are rather more likely to end up in that pool over this 2-year period and that is all you should read into it.

Moderator: Thank you. We take the last question from the line of Suresh Ganpathi from Macquarie. Please go ahead.

Suresh Ganpathi: Just a quick reconciliation of numbers in this watch list. You disclosed Rs.22,600-odd crores in the watch list. If I were to divide into three main categories, the leverage grew based on your disclosure roughly contributes about Rs.7,000 crores, the restructured and SDR roughly contributes about Rs.6,000 crores, so that is about totally Rs.13,000 crores and still a substantial Rs.9,000 crores is coming out of the leverage group and the restructured group. Is that the right way to look at it.

Jairam Sridharan: Yes that is true, remember though the first slide in our 'Presentation' makes clear, any individual cut of the portfolio that you look at is going to have significant overlap with any other cut, so leverage versus non-leverage or restructured versus non-restructured or stress sectors versus non-stress sectors, all these significantly overlap with each other. What the watch list does is look at multiple parameters like this and based on that come up with the list of accounts that we believe are most likely to be the key source of future stress in our book that's what it is about.

Suresh Ganpathi: I am only just wondering because the largest group is supposed to be neither leverage nor restructured. So it looks like a lot of some mid-corporate accounts, small corporate accounts are still under stress. Is that the interpretation that we should go forward with?

V. Srinivasan: You have got projects, we have got that cut also.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand over the floor back to Mr. Jairam Sridharan for closing comments. Over to you, sir.

Jairam Sridharan: Thank you, everyone. We hope you have been able to address most of your questions satisfactorily. Really appreciate you taking the time late in the evening for this call. Thank You. Bye.

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