Analyst Day 2019

Session 2

Retail Deposit Franchise

Retail Lending

Cards and Retail Payments

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Axis Bank Limited
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Topic 4 – Retail Deposit Franchise

MANAGEMENT: MR. RAVI NARAYANAN – HEAD OF BRANCH BANKING

Manish: Manish from Citi. If you look at CASA in retail TD, in value terms, a lot of it is driven by high value relationships like Burgundy, current accounts or task deposits, which have got nothing to do with branches, that sense how do you assess the efficacy of the incremental branch that you are pulling out from a liability relationship perspective?

Ravi Narayan: So let me try and correct that understanding to a little bit, whether it be Burgundy, where it be Task, whether it be government etc., the sourcing of most of these businesses also start from the branch and the maintenance of these relationships also impinges on the service levels that the branch creates starting with the branch head and possibly support elements that are there. The relationship manager who are one-to-one mapped on this, also depend on especially in these segments, depend on the ecosystem of seniors and supervisors coming in to help grow those relationship, so yes to that effect there will be elements of higher ticket sizes in these customers, which leaves us with a thought to answer your question that similar profile of customers exist in our base right and the whole idea is to start developing those base customers also in terms of creating one-to-one mappings across various branches and putting that product per customer or engagements with each customer, conversation in each interactions to build them up to that level. Our TD penetration is low. Whole idea is not to just go and sell a TD just because there is a product per customer. TD is the basic element of a conversation starter with the customer and it does not mean that all Burgundy customers have TDs with me. It does not mean that all task customers have a TD, which is currently live with me, so every element of customer relationship comes with a fact that there are certain segments, which inherently will come with a higher value, but there are certain segments, which today we do not know, but have the profile to give us a higher value, so a combination of maintaining the higher value existing customers as well as working on creating that foot-in-door with those customers who have the profile to give me higher value, so it is not as if this understanding that if I call them Burgundy, the branch has nothing to do with it or if I call them task the branch has nothing to do with it. Ab initio the sourcing of most of these customers are from the branch only and in fact that is the customer journey, we also want to create that people as they start showing their value enhancement and engagement with Axis Bank we try and give them the better solutions and better programs and move them up the value chain. So it is a combination, so it is not a straight one-to-one formula, which works, so you are absolutely right that there will always be a tendency to have certain high-value customers, but that gives us an opportunity to also assess inwards and see where we can do much better.

Manish: One of the charts you showed size of the branch base to FY2013, how does the cost compare, is it the similar order of magnitude or a lot of size-related cost has been offset by technology-related cost?

Ravi Narayan: So a combination of both, so it is never again as I said a simple correlation, both in terms of the size-related cost as well as in terms of rationalization that we can bring in terms of the maintenance cost, a combination of both of this will work, but remember that it is not about the cost primarily. It is about the revenue that you can build on that cost, so to a certain extent the cost can be controlled and which we have controlled and there will still be a leeway in as we go along, but more importantly is in terms of how we are able to create that customer conversation with every interaction both existing and going outside and seeing that for that Rs.1 cost that we have put in, can we ensure that the value accreting into Axis Bank is at a higher delta and today as we speak we have branches, which you know we say that branches breakeven typically in three years and that is proven less than three years, but it is a combination, so you would have certain metro branches breaking even in let us say 10 months. There will be certain upcountry branches which will breakeven in six months. There will be certain rural unbanked branches, which will take the full three years, so it is a combination, so base is the format, base is the opex, base is the kind of catchment owning that we will do is how we will create the delta, which will come from the cost put in, but on a trend basis, the cost is coming down.

Jairam Sridharan: Manish if I may add one other thing, if there are three core components to cost of a branch, there is real estate the rental, there is people, and there is the tech and support architecture. This third bucket to your point have gone up over the year, but the first two have both significantly come down the rentals where we can see the size of the branch has come down quite materially and that brings down the rental size and from a people footprint standpoint there was nine people a few years ago when the minimum staff size, which we would start a branches is eight people, now Ravi and his team open branches with even two people, so the minimum number of staff has really come down, so people cost is actually the biggest delta in terms of what happened to the cost per branch?

Vishal Goyal: Hi Sir, this is Vishal Goyal from UBS. So if we notice our employee per branch number is the lowest among the peers, which is around 16 versus 18 or above for HDFC Bank or ICICI Bank who has similar size, so should we expect these number to go up or should we expect the number to come down for us?

Ravi Narayan: Okay, let me try and answer in a little long-winded manner because you asked this question very important, so what is it that branch banking retail is trying to do in Axis Bank, okay let me try and give that foundation before I answer your question. So very simply put, we are moving from KYC to OYC. KYC is defined as knowing your competition, KYC is defined as knowing your catchment and KYC is defined as knowing your customer. OYC is defined as oversight of competition, overseeing your catchment and owning your customer and what exactly are we trying to do, the metrics of PPC product engagement, etc., what we are trying to do is very simple. We are saying that an account has to complete its journey with Axis Bank to become a customer, this is the journey, account to customer, this is the journey. Axis Bank should be the participant or should be the train on which he does this and complete this journey. This journey is fraught with danger and therefore KYC in terms of knowing your competition and oversight of your competition and therefore competition is defined as coming from not only existing banks, but NBFCs and Fintech**s.** Now when we are trying to do that, we are focused on ensuring that each footprint physically is trying to look at what that catchment is and what is it that the customer composition of that catchment is. So in terms of ensuring that we are getting better value for each interaction that we are having, as you saw we are segmenting our customer approach and saying more and more we want to map on a one-to-one basis with our staff, so it is not about whether the number of staff in a branch will go up or down. I think that is merely a byproduct of what is it that you want to do ultimately on the long-term basis.

On the long term basis, we are trying to say that we will own this customer and in this catchment we know where and what we want to do. Now once we have explained that why we have to do, what we have to do then it becomes easier for each staff to understand what is expected of them. Now given that scenario, if I want to have two more staff in a branch, but having a direct one-to-one mapping with that customer. Today that customer is not owned, today that customer is a drop on the floor, today that customer is not known to the bank. This additional two members in a branch will help me do this journey from KYC to OYC and what is it that we are trying to do. This journey is based on the fact that there are simple elements of financial delivery and ecosystem maintenance solutioning that that staff has to do and we have based it on a very simple five-legged stool which is FLS that the frontline sales, FLS has to do. What does FLS has to do with the FLS right and these are very simple elements. We say we will do save, pay, invest, borrow and shop. These are the five legs of a stool on which I will ensure that my customer resides with me on a very strong basis. Once we do that then at no point of time is the cost or the headcount going to make a difference ultimately, but at the same time let me put it this way that today where we are in terms of our headcount, we are comfortable and whatever headcount will be added on, will be in line with the business that we are projecting and the growth that we are projecting in terms of both new branches as well as how we manage our existing base. So these two elements will determine the headcount, yes we are amongst the lower side in terms of similar size peer group and you are absolutely right on that and we think that is something we will like to build on and that building on will be based on this FLS principle, will be based on one-to-one mapping, will be based on segmenting our approach to our catchment and customers. So I do not see any reason why the growth in headcount should be compromised if we need to arrive at that final destination of making an account into a customer.

Participant: Thank you Sir. Question I have it on your branch strategy, so there can be two approaches. One, you tried a cover more white space like the new market, what you try to create a network effect in your existing locations or home market, so where would the large portion of your incremental branches you opened now from here?

Ravi Narayan: So I think there was some indication of that in the slide if you see 30% less than three years, 53% were from metro and urban, I think there are two elements to white space, white space in terms of where we are not there and white space in terms of where we should have been even in an existing jurisdiction, so I think metro, urban, semi-urban areas are areas that we would like to be predominantly there, we would like to increase our footprint in some of the developed states and I can off hand take all these states which are there in terms of the development index. There are elements where we would like to look at some of the states where we are quite underpenetrated and those are states that vis-à-vis our own internal assessment and analytics as well as compared to peer group penetration in these markets, so the skew will be in trying to if you saw the metro urban gives you better bank for the buck, it helps us in segmenting better, but at the same time the semi-urban rural centers have their own exciting opportunities of probably unpenetrated segments that we want to look at, so it is a combination, again I will go back to the GPS element. We will do growth both in footprint and business. We will look at profitable growth and we will go to those centers where we are able to sustain this profitable growth, so in terms of feeding in deposits back into the bank.

Rakesh: Just one question, like there is shift from SA to SA plus TD, is it tactical long term?

Ravi Narayan: So I would further add to that. It is shift from SA to TD plus current accounts all of salary, so let me try and put it. So we have a wealth of SME customers. We have a wealth of transaction banking customers. We have a wealth of corporate banking customers. All of them gives me an opportunity to look at savings both salary, non-salary. The current accounts in the mid-market give me an opportunity to look at savings, FD, and related elements. The existing savings account in my branches which are self-employed gives me current account opportunity. so the point I am trying to make it is not a simple SA to SA plus TD, it is a move from SA to deposit franchise, the liability franchise and again it ducktales in with the fact that I am looking for a customer, I am not looking for an account, I am looking for completing that journey from an account to a customer and whatever solutioning and opportunities that gives Axis Bank, we will be there for asking the first right of refusal and that is what would be the governing principle of engagement with an account holder that allow me to talk to you.

Participant: So in that situation other private banks which are offering higher rates on the quasi SA that would continue for a longer time?

Ravi Narayan: There are inflection points suffice to say that rate shopping becomes a very transactional contract, rate shopping is I give you money, you give me rate. Once the transactional contract is done and over things come to a standstill, so that possibly is not what we are looking for, what we are looking for again I state is sustainability, is the ability to grow a customer relationship in all it shades and use and for that to happen it has to transcend the rate paradigm, yes in the short run there will be elements, but I think the short run has over, the over was giving a rate differential has been doing it for some time and things are out there in the market, so I think what we are looking for it is sticking to our good old simple basic banking that I want the customer with me.

Participant: I think I can just build up to this question like I have personally been a priority customer for 16 years now, from the moment it was introduced. So in the question here is that see as a retail customer, the options for me are increasing tremendously like now you have retail NCDs, you will have some corporate will come out with NCDs because there is some regulation. There are mutual funds. There are ULIPs which still have a tax advantage. So my balances in the account have not grown as much as I have grown as an individual in terms of wealth or money, so are we doing anything in terms of doing more on the deposit side because just CA, SA and term deposit these three products have been there for 40 years. Is it possible in a banking framework to have a differential saving rate for different customers or things like that because otherwise all that a bank can do for a customer like me is cross sell more and more things to me, so you will lose deposits from my side, but you will get income through cross sell, so how is Axis Bank playing this entire game for say the valuable priority customers?

Ravi Narayan: Let me try and address it in two steps. One you as such and then the multiple you's who are not yet what you are right so there are two elements that we as Axis Bank would continue to look, so the answer is yes, there was an L&T offer paper, which was there last week and we offered it through our branches. The idea is not to be worried that money from his saving account or FD will move into his offer because it is exciting. The answer is that we made the customer excited about an offer, which probably he would not have been aware of and therefore this is what we want to do with you that we give you the options ourselves rather than looking out and competition is not just about a rate. Competition will also offer in some manner or the other these alternative elements that is Part A. Part B is that such customers like you today exist with me and you are a priority customer and I do not know many others who probably have the same profile till now who probably have the same profile, but were not in my radar, so what we are trying to do is to help the enhancement on the deposit franchise is to start looking for people like you and today technology gives me that wherewithal and the ability to do that deep dive and scan my entire portfolio of existing base and then also look at similar profiles when I am going out into the market right, so both these elements is what is going to help me build the deposit franchise inclusive of the fact that I will be able to give him alternative investment classes and products as we go along, so again it is a matter of going back to the S in GPS, sustainability, so my lookout is not that today's float is getting compromised because I gave you an L&T offer. Is it that will you be with me 12 months from now, 18 months from now just like you have been with us for 16 years and I say it with a lot of humility and gratitude that you are with us for 16 years and that is representative of the inherent strength of Axis Bank and that is what we are trying to build and we saw 21% CAGR is brilliant and the current account portfolio of Axis Bank far supersedes many of the banks in the peer group so all of these are elements that we will build down.

Participant: Thanks Sir. Just last followup, I will just add one more. I was also an employee of Axis Bank management batch of 2009. At that time, there was this line that Axis Bank does not have happy customers, but Axis Bank has delighted customers and it started all because this priority banking was a very, very big success, so from this 2009 to 2019 these 10 years like how has this programme progressed in terms of satisfaction, customer acquisition or all across to these customers?

Ravi Narayan: Let me put this way that we have a very robust internal service quality assessment programme, which is based on customer feedback. We call it Axis Gold and we have kind of strengthened it over the 12 to 15 months, we are intending to strength it further and some of those elements that you have pointed out comes out through and we also believe that yes like you have kind of resonated, there are multiple customers across the geography who similarly resonate the fact that priority as a programme has indeed worked and worked well for the customers as far as Axis Bank is concerned and as I say to conclude your point is that we are not in the business of miracles, but yes we will put an institutionalized processes to ensure that there is magic.

Kunal: Kunal from Edelweiss, so firstly as you highlighted in terms of the overall maybe the customers are we seeing in the industry that customers are using the deposits account more transactionally rather than savings instrument and that is the reason all across we have seen it to be like heavy flows into the saving deposit, but not those kind of a flow into the term deposit because there are other savings avenue also, which are available and since our focus is may be to penetrate into the savings deposit customers, how critical would pricing and product flexibility be as a strategy?

Ravi Narayan: To answer your question, if I quickly ask how many people of you have FDs in a bank, raise your hand. If I ask that question I guess at least 50% of you if not more would have FDs in a bank, but if I were to ask the same question to a set of a segment of customers who have just joined jobs, I am sure none of them will have an FD with a bank and the same question, if I have had to ask my colleagues in a bank probably 100% of them will have an FD in the bank, so the point is that how conveniently you are making the ability to bank and take a product with a bank is what determines the product holding if I may use that term with the bank. Similarly at what stage in life you are to ensure that what is your prioritization of your financial needs, so a combination of both of this will determine that whether it a transacting savings account or savings account linked to an FD. I am very happy with the transacting saving account also because a transacting savings account helps me get better insights or sharper insights about a customer than a saving account, which does not transact too much right and that is also a good thing for me when I am trying to look at creating solutions in a prepackaged way or in terms of a propensity element for these customers, so overall if I were to look at it, it is a mixed bag. There is no one single answer to your question. It is about where you are in your lifecycle and that is where it stands and in terms of penetrating more.

Kunal: Just in terms of pricing do we need to increase the rates?

Ravi Narayan: I think Axis Bank and Jairam can correct me. Axis Bank as we stand today, I think we are fairly on the upper strata of pricing for retail granular deposits that we offer and I do not see any reason why we should get into any kind of contractual obligations with the higher rate and so on and so forth. The potential if you see is at 4%, 6% of penetration. There is only upside. There is no downside at all there, so I do not see a reason why we should get into a rate paradigm here.

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Topic - 5 Retail Lending

MANAGEMENT: **MR. JAGDEEP MALLAREDDY - HEAD OF RETAIL LENDING**

Abhishek: Hi, sir, this is Abhishek from IIFL. The question is if I look at the retail fees especially as a proportion of your retail assets, that yield has been coming off over the year despite your asset mix actually moving from home loans to more of personal loans, credit cards and secured. Why is that happening and do you see any correction in that?

Jairam Sridharan: I do not think we have put out a disclosure on retail lending fees. The total retail fee is the trends that you are noticing is more driven by what is happening on the liability side particularly third-party fees and some regulatory interventions with respect to fees that we will charge on the deposit customers and those regulatory interventions can compress some of the fee earning ability on the liability side, but on the lending side, fees have actually been growing extremely robust, fee-to-assets continued to grow, but that is not in our disclosure. Abhishek, if I am not mistaken, I do not think we have put out retail lending fee separately.

Jagdeeep Mallareddy: Fee to asset is not a problem in retail lending.

Abhishek: Liability fee compression actually offset the improvement on the asset side?

Jagdeeep Mallareddy: Yes, and the positive delta continues to be the CA fees Sanjeev will talk about in a minute, but what you have said is correct.

Abhishek: If we look at the total retail loans in the system, we are probably back at the mix that we saw in 2008 just after the crisis. What is your perspective on the risk and the red flag emanating in retail lending?

Jagdeep Mallareddy: From a risk perspective, what we really look at given our portfolio mix, first is the real estate prices, how they are moving and if there are corrections, what impact could have on us, second is about given the large salary base that we sell our loans to, what could happen if there were job losses or salary cuts or wage cuts, etc., and the third thing is about leverage, whether household debt to GDP, how is it moving and how is leverage happening at a customer level apart from the whole systemic level. So let me take a minute to talk about each of these which we track and which we monitor very closely. In terms of correction in real estate prices, it is something that we have seen prices being very tepid over the last couple of years and we have also seen correction in certain pockets like NCR, etc., we have made choices to make sure that we are underweight in some of these geographies where we see price correction. We are not very comfortable with the composition of how construction is going, etc., We have seen price corrections in the luxury segment, typically the high ticket properties, again, very-very small exposure that we have on this space. So that is something we constantly monitor and watch and make sure that whatever we are observing goes back into our underwriting strategy and acquisition strategy so that we do not really get into those markets where we feel we are not very comfortable with way things are panning out. The second is in terms of job losses or salary cuts. We have not yet seen any of that, but we do track this at industry level. Given that we have a lot of customers who are salaried customers, we monitor the industry from where these salary customers come and we kind of keep tracking the industry to make sure that whatever patterns or early sign that we can see are again fed back into our underwriting and acquisition strategy. The last is about household debt to GDP. Again, if you look at that right now what India is about at 25% household debt to GDP, gone up by about 6 percentage points probably over the three, four-year period, much-much lower than what you see in developing countries which is about 40%-42% and much higher at 70%-75% in the advanced countries. From our own perspective, if I look at how our portfolios are performing and how we are looking at it, if you look at personal loan, for example, over the last five, five-and-a-half years, our average ticket size has gone up from about INR 2,70,000 to INR 3,05,000. If you look at the personal loan risk right now is much-much lower than the long-term average risk that we are watching. If you look at home loans, our risk levels are much lower than the long-term average. If you look at auto loans, the kind of at the long-term average right now, if you look at LAP, we are much-much lower than the long-term average. But if you look at farm loans or the rural lending side, the farm loans are much higher than the long-term average given the current environment that we are seeing. Though the other pockets which are much lower than the long-term average, farm loan is one sector or one segment of that which is currently much higher. So, we do watch all of these. We have our monitoring dashboards in place. We monitor the debt like at a customer level at an aggregated level of its entire wallet and not just about a particular product exposure that we have taken on the customer. And because we also sell a lot more to our existing deposit holders, there is so much more wealth of information we have about them in terms of the account behavior, how is the money being spent, what are the transactions which are happening in the account which allows us to make sure that we constantly have a pulse on the leverage of the customer.

Sameer: Hi, Sameer from JM Financial. In your experience, how is the cost of acquisition of some of the retail assets moved in the last three, four years maybe across products?

Jagdeeep Mallareddy: So definitely our cost of acquisition has come down over the last three, four years. It is also because of the channel mix that you choose in terms of cost of acquisition. If you are doing more of existing or deposit customers of the bank, that cost will be far more cheaper than getting more new to bank or through other channels which are much more expensive. Also, the fact that digital is ramping up very well for us over the last one year, again, that is a channel which comes at a very-very low cost of acquisition. So we do see that cost of acquisition is coming down for us, but it is more because of the channel mix that we have chosen in our new origination.

Sameer: But just to follow up, if third-party sourcing is kind of evaluated, would you say that the same phenomenon holds that cost of acquisition has come down?

Speaker: I think we have seen some moderation on the third-party origination also.

Mahesh: This is Mahesh from Kotak. Just a clarification, Jairam, in all your quarterly calls, you indicated 85% of sourcing happen from internal customers, right?

Jairam Sridharan: Internal customers, last quarter for example you saw that 85% of our origination were to internal customers, but not all of them are sold by the branches themselves. We have three broad channels of sourcing – there are branches, there is our own proprietary sales force and then there is a third-party. So, our branches contribute, I think, about half comes from our branches, another just over a third comes from our proprietary sales force, the rest comes from the third party right now. It is possible that I have an existing customer of the bank to whom we are selling a loan product but it is not being sold at the branch, either a third-party guy is reaching out or my proprietary sales force is reaching out.

Participant: Just one clarification, the earlier one indicator has not changed for you, right, in across all products?

Jairam Sridharan: No.

Participant: It remains as stable as what the Credit Information Bureaus are suggesting?

Jairam Sridharan: Yes.

Vishal Goyal: This is Vishal Goyal from UBS. I think we saw the slides around what percentage of your PL is coming from deposit customers. Is there a similar data that what percentage of personal loan customers already have a loan either from us or from somewhere else, anything on that?

Jagdeeep Mallareddy: That is a part which is inputted into our underwriting norms because when we look at the fixed income to obligation ratio, we do factor in the amount of personal loan that we are giving, what would be the installment of that, plus the existing installments that the customers are already serving in and all of that goes into the fixed obligation to income ratio. And also the fact that as they are selling more to our existing deposit holders on the personal loan side, we are also able to qualify and make offers to customers and at that stage we have a fairly good visibility of the total leverage that we have across the system and gives you an opportunity to align to the customers.

Kunal: Kunal from Edelweiss. Again, if we look at the retail loan, what would be the proportion of the sub-prime and below-prime which CIBIL also generally gives it out what is the PL and CC in terms of the incremental loan origination? So below 600 score if we look at it, what would be the proportion of loan origination?

Jagdeeep Mallareddy: Very negligible.

Nitin: Hi, sir. Nitin from Motilal. Given that on the retail side, 80% of our growth is coming from the cross-selling to the existing customers, so in that context sir, growth in the customers or acquisition needs to be pretty high over the next few years. If you can give some color as to how we are panning in terms of new customer acquisition and what target do we have?

Jagdeeep Mallareddy: Jairam clearly said we will not give you any forward-looking statement. Having said that, I just want to let you know that we have enough runway in terms of growth by cross-selling to our existing deposit customers. That number currently is around the mid-single-digit number and we believe that there is more opportunity to cross-sell to existing deposit customers and also the fact as Ravi sells more and more new accounts into the system that also becomes opportunity for us to cross-sell. I think there is enough runway around that piece.

Nitin: When you say there is a mid-single-digit is what we have actually converted to cross-sell like what we have already been able to cross-sell, so how much was the gross number to whom cross-selling and we got this result?

Jairam Sridharan: There is a slide coming up in Balaji's presentation after lunch which will stack up some of the issue, what proportion of our base is qualified by us internally for any sort of loans. When Jagdeep said that mid-single digit penetration that he has achieved on lending, that comes from a base of something like 35% or so. Balaji will talk about it in his presentation.

Participant: If you can talk about the lending products that you are trying to bring, I know it will be very small right now, but where can those products go over two, three years?

Jagdeeep Mallareddy: I think in the afternoon, Sangram and all will cover some parts around how we are leveraging on freecharge to offer lending products, etc., I will leave it for that section. Probably we will get more details in that section.

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Topic 6 – Cards and Retail Payments

MANAGEMENT: MR. SANJEEV MOGHE - HEAD OF CARDS AND MERCHANT ACQUIRING BUSINESS

Rajini: Hi this is Rajini from Investec. I want to know what is the revolver rate on our credit card portfolio and how many of the customers are converted into EMI customers?

Sanjeev Moghe: Revolver rate I do not think I mentioned the number over here, but it is in a range where we are pretty comfortable. Do keep in mind that revolver rate beyond a level that is going to write-off, where we are right now, we are comfortable.

Rajini: I am asking this because banks above you HDFC, ICICI and SBI is around 30% to 35% is a very high number, so would that be the same for us also?

Sanjeev Moghe: For the entire industry revolver rate my sense is net of about 32% or 33%, you are talking about number revolver rates, amount of revolver rate is going to be slightly higher than that.

Rajini: I am talking about is amount revolver rate?

Sanjeev Moghe: No that number is not right.

Rajini: The number is not right?

Sanjeev Moghe: I am not going to put the number out, but my sense is most of the industry is in a certain ballpark that ballpark will be roughly 5% to 10% of each of this, the lower you are the risk will also be lower, the higher you are the risk might be slightly higher then it is a matter of each banks being comfortable with where they are that is the first point. Second point of course is EMI is a good way of catching two things, one is conceptually you can make some more money from a transactor because EMI does come whether you are making revenue from this side or some customer taking interest, you make some revenue on the transaction. Second is it actually prevails it is spilling over to some other player on the consumer durable side. Most of the transactions on EMI are still in the conventional consumer durable arena whether it is online or offline. We see a pretty interesting play for us before this by the way I was in Bajaj so our reasonable view on what you can do on EMI, the platform and the runway is very big, it is not confined to certain industries, we will play this out fairly aggressively and we will play this out aggressively across all forms.

Rajini: If the revolver rates are so high, is there inherent risk in the business model, is that priced in through the interest yield we are pricing in all of that?

Sanjeev Moghe: It is boxed in. There is never a point that you would say revolver rate is too high of course it is 10% to 15% is very low because you are going to keep in mind, we will keep talking about credit card interest rate finally you will only make money from revolvers and some of the fees that you have, but you need to be comfortable with it, my sense is right now the way the revolver rate for us and most of the industries that I am aware of, we are in a fairly okay spot. If you are asking me is there any initiative I have to say drive the revolver rates up no. As long as stays within a certain ballpark we are comfortable.

Nilanjan: This is Nilanjan from Jefferies. Any thoughts on the new stuff that Reliance, which is doing on the merchant side?

Sanjeev Moghe: Okay two things obviously what they are doing, they will do, the skills that they will normally do. The point is what is your merchant strategy. For us we believe merchant strategy is intrinsically linked to the entire need that the customer has, the merchant is not only looking at a terminal. Some of the needs that a merchant also has is where does my money then go, is it which current account do I have, on the current account and this is my transaction can you do something, is their lending option as well? How do you currently go about solving the other things that he has for example how do we file a GST for example, I am really talking about small merchant, and lastly is it a universal solution that you are giving me or do I need to tie up with you for plastic then separately I will talk to somebody else for UPI solution and somebody else for something else, so is your solution is universal, so all of these four, five things if you actually put together of this current account, lending solution, universal accepting solution and may be some value adds, it depends upon who has all of this put together, lastly depends on distribution to you reaching first or somebody else reaching first. Okay I think it is all going to play out at all points of time in the acquiring industry, there is a new player, somebody cut rates some this year, somebody else does something else next year. The industry will keep playing it out as I have shown to you our six to seven years growth rate is pretty healthy and we will continue to see healthy growth rates as we go along. There will be some challenges that is what we are here to deal with. We will see how it plays out. There are lot of those reports, we will see as it plays out, I would say we are reasonably ready.

Rakesh: This is Rakesh from Elara Capital. In the RTGS transactions, we have relatively higher proposition of interbank transaction so what is the nature of those transactions?

Sanjeev Moghe: Do not look at RTGS, I would not have too much of view on that, Jairam maybe you have had?

Jairam Sridharan: I am not sure to answer the question.

Rakesh: My question is that in RTGS transaction like we have fairly higher proportion of the transaction, we are doing on the interbank basis compared to all other banks, so what is the kind of transaction we are doing with other banks?

Jairam Sridharan: Regular FI transaction I will come back to you. It must be regular FI transaction because we have relationship with lot of banks, but that must be larger part of it, but I will come back to you.

Rakesh: Secondly on the mobile banking side, Paytm in the last three months they have taken a lot of market share and volume and value so what is the way forward there and because they are taking markets from all the leaders so your opinion on that?

Sanjeev Moghe: On mobile banking again we will comment on what we do, we do it. We are a leading player on the mobile banking charts also you saw it. We believe that it is actually able to engage the customer with you on the mobile banking app itself and then you allow him to do transactions on that whether it is commerce or within the bank itself, you will continue to see a healthy growth rate and the other way to look at it, actually it is not just in terms of what he is doing in terms of transaction, is he engaged with you on the mobile app the data that I showed you actually tells us and there is some data I have not shown you by the way. It is very interesting so if you are actually able to keep your customer with you on the mobile banking app why will he come to you of course those are the reasons that we need to solve for so we are doing certain things today, we have certain capabilities we will keep building those capabilities, but if you actually have a customer come back to you two times, three times, four times on the mobile app, it could be checking whether my salary has got credited, it could be what is in my bank account, I need to transfer some money to my mortgage, it could be whatever, it could be what is the offer Axis bank has put out for me today, it is Wednesday what is it for me today. All of those are reasons that you need to keep finding, but if you are able to engage him on that you will find enough and more returns, some of which will reflect in the mobile banking share, lot of it will reflect in other matrices in the business itself and we have shown you some data and believe me we have only shown some data to you. There is lot of very interesting data on that.

Saurabh: This is Saurabh from JP Morgan. What share of your cards and phone will be active as of now and what is the metric you are watching there?

Sanjeev Moghe: So we monitor you track 30 plus so we track all of that Sir, we track write-off it so all of that and Jagdeep had actually put out the chart in terms of comparison, we have just made a statement, we are well below the industry risk right now, how do we track it as say 30 plus, 90 plus we track coincident and obviously some of these parameters you only have for us. What we have for industry is only certain parameters and the rest is only for yourself. The idea is first to know are you in control as you know that let us say a scenario we are not in control then you obviously do a fairly deep dive in terms of are you okay by every parameter for new bookings are you in control, for the portfolio are you in control, if growing as robustly as we are, are you in control at lag level as well. All of these are indicators if you look at look at very, very closely on the risk side of it. What is the first part of the question you asked?

Saurabh: I would say again like a point about revolver rate everybody in the industries at certain ballpark in terms of activity risk or activation risk and we are in the ballpark. You may obviously always have some outliers let us say a couple of MNC banks, etc., which might be outperforming, but more or less everybody is in a certain ballpark and we are in the same ballpark.

Saurabh: Sir what is the percentage of consumer durables financing as a percentage of credit and outstanding?

Sanjeev Moghe: I will know the percentage of EMI. Now we also understand a lot of transactions happen, which are actually consumer durable transaction, but do not come to us as EMI. Third part is obviously a normal transaction get converted to EMI post sale on your statement you see and you converts, we will only know the first exquisite part, otherwise I have Vijay Sales transaction about Rs.20000 and I do not know what it is because all I know is Rs.20000, so it is very difficult to classify 1 and 3, one is you did a normal transaction, non-EMI transaction at VIjay Sales or let us say Flipkart for a minute. I will only know the amount you bought. Third is the component where you actually bought Rs.20000, you convert it to EMI later on, I will not know these two as consumer durables. The second component EMI talks very closely to consumer durable right now, what I know explicitly as merchant EMI, what we call as Merchant EMI that number is a fairly good percentage for us obviously my sense is it is only the tip of the iceberg internally I know the potential very, very well. My sense is compared to where the entire industry is compared to some of the leading players within banks outside banks we still are not even touching the tip of the iceberg.

Saurabh: It will be like early 20s or like what would be the rate?

Sanjeev Moghe: It will be in early teens, but we do not know one entry.

Saurabh: Sure and industry will be somewhere about?

Sanjeev Moghe: My sense is couple of the banks might be doing better than us.

Saurabh: But then their rate could be about 40%, 50%?

Sanjeev Moghe: Not merchant EMI that I know for sure irrespective of what is put out there, Merchant EMI nobody is 40% to 50%.

Saurabh: On the fee side can you provide a broad breakup of these that you typically get on credit cards on the annual fee?

Sanjeev Moghe: On credit card you have almost I think 25 lines of fees, difficult to put the breakup, so you have annual fees, you have delinquency related fees, bound statements so on so forth then you actually have the biggest component, which we interchange so all of these components come and they sit in the column, which is fancily called fees.

Saurabh: What was the broad breakup?

Sanjeev Moghe: Largest component will be interchange.

Saurabh: What will be that percentage?

Sanjeev Moghe: We just say that amongst the various components the one you would worry about is delinquency related penalties whether it is over limit charges or overdue charges, etc., those are the ones you would worry about, they are not a meaningful part.

Mahesh: Mahesh from Kotak. One question see a lot of market share gains that you probably are getting today because the amount of reward points that you are offering on the table as well so in terms of the deals, which you are getting out there so if you can just broadly kind of discuss qualitatively is there material difference between what you are offering in the table in terms of ROA for the shareholders compared to what the frontline bank has and in that sense are you getting the best deals from the dealers that you are speaking to?

Sanjeev Moghe: Okay you understand obviously some part of the game is blind in the sense that you do not have these ROAs out either for us or for others, my sense is everybody is playing in a certain ballpark and you obviously know internationally what is the industry plays at, we are all in that ballpark. If somebody is putting more money out there we track it pretty closely in terms of what we call internally as portfolio and product cost and we are fairly comfortable with where we are right now. My sense is in a competitive sense whether you are talking about people above us or below us, I do not see an area of concern, are we under punching in the market, are we under rewarding our customers no, your concern was are we over rewarding our customers something I would be keep getting asked very often, my sense is equally the answer is no and you can go card by card, you can go platform by platform in terms of card below Rs.500, cards from Rs.500 to Rs.1500 and super affluent cards, etc., we are pretty much rewarding the format somebody may choose to reward lifestyle, we may choose to reward travel those are calls that you make and you tune your portfolio, but in terms of serving our customers right, my sense is we are fairly on the ball right now.

Mahesh: The clarification is from the dealers when you are doing these reward points out there, is the same deal available to you as compared to what the other players is getting on?

Sanjeev Moghe: First answer is no way to know. Second obviously the relationship does help and we believe we are getting the right deal and we do walk away from deals. If you believe the value is not right or we do not participate in some of the deals, which are out there, if you believe the value is right we go for it and then we try to clinch the deal. My sense is we are pretty fine.

Mahesh: One clarification the card base, which you said is about 19%?

Sanjeev Moghe: Keep in mind lot of our base is actually new to bureau that is a very important point, we know the customer and when you talk about this to your partners we are actually value it a lot as compared to some other players who might have actually been getting a customer who is already on bureau, he might be here, he might be there, lot of our base is new to bureau so when you sit down for a deal and discussion with the merchant, last merchant partner it actually helps you get a lot of value from the deal irrespective of what your size currently is.

Mahesh: Non-card customers is about 80%, there would be a fair amount of card base, which is sitting up with other banks or do you think that the rest of the base that you have out there is largely under penetrated from a card perspective?

Sanjeev Moghe: Let me break it up into 19% that we have currently with us and then 81%, which is not with us. On both customers that we give a card to lot of it is actually new to credit, it is known to us he is a customer, but he is new to credit and we also have data, which tells us that if a customer takes a card from us he actually stays with us, it is not like he is looking at it as first card from Axis and then he shops around here and there, he actually stays pretty loyal with us. For the 19% we cut it equally for the 81%, we have data in terms of what is the bureau penetration and what he holds outside, etc., that is even better in terms of others not having. Then it is a matter of can you penetrate and how many can you stamp, how many can you stamp as cuts Jairam was saying Balaji will cover in the afternoon, you have to understand in India obviously beyond certain level you may not be able to stamp in so leave out that constraint people were stamping, there is no difference in terms of people we have given a card from people we have not given a card. In terms of holding results or holding with others.

Gautam: My queries on the profitability of the credit card, do you see any risk emerging to that in terms of we hear a lot about the regulator essentially starting on these conversations that in industry levels if the customers are indeed prime, prime plus, super prime customers why should certain rates where they are, do you see any risks emerging to that banks are currently able to enjoy.

Sanjeev Moghe: You have a second question?

Gautam: The second is around disruption risk whether you see a risk in terms of regulation or in terms of disruption?

Sanjeev Moghe: Sure while the industry is fairly profitable, things can pan out and for that you actually look at what is happening in the world, what is happening that is the other perspective that regulators have, I do not see a big risk something disruptive can always happen, but we have to understand the fact that in India when interchange and discount on the debit card. There was some level below which government also supported it, do I see therefore that is playing out for credit card I would say the risk is low, you can never say the risk is zero, but you do have to watch out pretty closely and any concerns, which come in from the regulatory you actually have to step in pretty proactively and explain your perspective on that so I do not see it playing out actively. The second question was can there something else be disruptive, which can affect the profitability I do not see it playing out actively, but if something goes wrong on the risk side I think we spoke about it in terms of what levels we track it macro and micro and people keep talking about macro actually sometimes you can be sleeping at the wheel on the micro, you just have to make sure you cannot, so those are the only two things that I see on the risk side of it. Without making it seem very, very casually if all okay you have to monitor it very closely, but currently seems fine and as long as nobody goes berserk and you stay in control you are fine.