Axis Bank's Q1 FY22 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Axis Bank conference call to discuss the Q1 FY22 financial results. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation has not been sent. Unauthorized dissemination of the contents or the proceeding of the call is strictly prohibited, and prior explicit permission and written approval of Axis Bank is imperative.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of the briefing session. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

On behalf of Axis Bank, I once again welcome all the participants to the conference call. On the call we have Mr. Amitabh Chaudhry – MD and CEO, and Mr. Puneet Sharma – CFO. I now hand the conference over to Mr. Amitabh Chaudhry – MD and CEO. Thank you and over to you, Sir.

Amitabh Chaudhry: Thank you everyone. Thanks a lot for joining the call. We welcome you all to a discussion on Axis Bank's financial results for the quarter ended June 2021. Apart from me and Puneet, we also have on the call, Rajiv Anand – Executive Director and Head of Wholesale Banking, Ravi Narayanan – Group Executive, Branch Banking, Retail Liabilities and Products, Sumit Bali – President and Head of Retail Lending and Payments and Amit Talgeri – Chief Risk Officer.

We started the financial year on the back of strong momentum generated in Q4FY21. The intensity of the second wave of COVID infections caught everyone by surprise. The resultant health crisis and subsequent lockdowns in various states had an impact on our business and collection activities.

We are grateful to our employees and partners who demonstrated great commitment in serving our customers through this quarter while braving the second wave. We prioritized the safety of our employees and customers during this wave. As we speak about 97% of all our employees have received at least one dose of the vaccine. We are also thankful to the healthcare and frontline workers who served the nation selflessly during this time.

The macro picture suggests India has taken this wave in its stride. The lead high-frequency indicators indicate economic activity has largely returned to pre second wave levels by mid-July. Having said that the second wave has tested us all.

Firstly, like I said, it limited mobility and the collection efforts of our teams on the ground. Secondly, in the near term, the repayment capabilities of a few customer segments were impacted due to medical exigencies or lockdowns. We therefore expect a greater impact in the retail segment than the corporate Bank across the financial services sector because of the second wave. We also believe the stress will be transitory with normalcy returning quickly as economic activity revives supported by accelerated vaccinations. The robust coordinated policy response between the RBI and government has helped to keep the system stable. We expect it would continue to support growth in a calibrated manner.

Coming to the Bank’s progress on its strategy and performance in this quarter:

We continued to strengthen the five focus areas as part of GPS strategy. We started two years back. Granular risk calibrated growth, strengthening the balance sheet, technology, and digital leadership, focus on profitability and One Axis. We have made significant strides in each of these areas as we get ready to get on to the next cycle of our GPS strategy. The results are visible across the Bank’s different businesses, which I'll get to in a moment.

We have also received multiple Indian independent validations of our progress. In the Greenwich banking survey (Greenwich is an independent global research agency), Axis Bank was rated number one on the quality index for both large corporate and middle market banking segment independently. The Bank was also recognized for ease of doing business, knowledge of transaction banking needs, coordination of product specialists and timely follow up. The Retail Banking franchise received multiple awards in the Asian Bankers Bank Quality Consumer Survey for 2021. These included the Most Recommended Retail Bank in India and Most Helpful Bank during COVID-19 in India.

On the Corporate banking side:

We have three tribes and about 30 pods working on agile mode, building a corporate digital Bank that's benchmarked to global standards. We are winning complex cash management mandates and gaining market share and creating forex business. The fee performance also has been strong on back of this with 67% growth in granular transaction banking fees. Our market share in foreign LC issuances has increased by 210 bps YOY to 9.7%. We continue to have strong positioning in GST and NEFT payments with market share of over 9% and 9.7% respectively. Slide number 28 in our investor presentation outlines our progress in the transaction banking space.

We identified mid corporates as an area to gain market share a year back. Our investments here are bearing fruit with strong growth of 36% YOY in this segment.

The SME business is another area where our tech led transformation project Sankalp is making a difference in the lives of our customers. Our SME loans grew 18% YOY.

On Retail banking, increasing digitalization of journeys, personalized services to our customers and the strong rhythm and rigor in our distribution and sourcing engine are getting clearly reflected in our acquisition numbers.

We opened 1.8 million new liabilities accounts in Q1FY22. Our analytics and digital banking capabilities are further enhancing our deepening and cross sell for our existing to Bank and known to Bank customer portfolio strategies.

We have been working on premiumization of our franchise over the last two years. The wealth management business Burgundy has seen very strong growth with an AUM that is now over ₹2.3 trillion, up 48% YOY. Burgundy Private, our full-service private banking proposition for our ultra HNI customers that was launched 18 months back has grown exponentially despite the pandemic. We now manage wealth for over 2000 HNI families, up from 986 families in June 2020. The total assets under management is now in excess of ₹63,000 crores up from ₹19,018 crores in June 2020. We have now more than 100 Burgundy private partners serving the needs of these families across 26 cities. We have added nearly one new city every month since launch. Each partner is a seasoned professional with an average experience of over 16 years. We go beyond the wealth management requirements and support banking, lending, and business needs of our private banking customers. We bring 'One Axis' to them, and this is seen as a clear differentiator in the market.

While Puneet will take you through the numbers in detail, I will stress on a few key metrics. Strong growth in quarterly average balances, SA deposits grew 19% YOY, 7% QOQ with CASA deposits up 19% YOY and 4% QOQ. Overall deposits were up 11% YOY and 7% QOQ.

Business in the quarter was impacted because of lockdowns and we prioritized the health of our colleagues. Retail disbursements grew 231% YOY and declined sequentially by 48%. However, the better preparedness of our teams is reflected in the quick bounce back we have seen from mid-June onwards. For last few quarters, our loan growth has been steady in all the three segments, the retail growing at 14%, SME by 18% and corporate book by 8% YOY respectively. This balanced book growth is a good indication of our ability to find opportunity pools across segments.

The other metric I would like to highlight is on granularity. We have seen huge increase in new customer additions across segments. 143% YOY growth in number of new retail savings customers, 69% YOY growth in number of new current account customers, 85% YOY growth in number of new corporate relationships and 39% YOY growth in number of new SME customers added during the quarter.

Like I mentioned earlier, collections and recoveries got impacted during the quarter. We had to be cognizant of obviously health and safety of our customers and employees. This meant our field teams were constrained for part of April and most of May. As lockdown restrictions eased, June saw a quick recovery and July looks better than June. We saw higher than expected retail slippages during the quarter, but we believe it is transitory. We expect moderation in the second half of the year.

I want to highlight the significant progress we have made on core technology and our digital banking capabilities. Since the beginning of the pandemic, we have accelerated our digital journey and made few significant moves on our tech stack. We are ahead of our plans on our core modernization program. We have among the largest set of open banking APIs for external internal partners, and we are the leader in cloud adoption in the banking sector. Subzero, our proprietary design platform, a cutting-edge developer's portal with over 120 additional APIs went live during the quarter. Over 1,000 plus technology and data sources have been hired since the start of the pandemic with about 60% increase in technology spends during the same period. We are running a twin engine approach.

One, our legacy IT stack is being upgraded, re-platformed or hollowed out to make it digital ready.

Two, we have built-in an in-house end-to-end digital stack that is on par with the best digital platforms anywhere. Our recent product launches and digital offerings like Buy now Pay later, multicurrency forex cards, small ticket bullet loans, are cutting-edge offerings that have been launched on this platform. We intend to blitz scale these offerings, even as we have a pipeline of newer digital first products that are already ready. We are adopting a combination of approaches for the digital ecosystem, build our own capabilities, partner with fintechs where there is complementarity and invest in areas that have adjacencies.

During the quarter, we entered into a multi-year deal with Amazon Web Services to power our digital transformation agenda. Our tie-up with AWS will enhance our agility and resilience to manage two key features that define our digital business, rapid scale, and high velocity. We have taken a cloud first approach for our digital banking platform, having deployed all new customer facing applications on cloud platform since last year. Today 15% of the Bank applications are already on the cloud and we aim to take this number to 70% in the next few years. We have deployed mission critical applications on cloud, including our BNPL product and the new loan management system to support it. The account aggregator platform, our video KYC journey and WhatsApp banking is also on this platform. Separately, we were the first to set up a dedicated cloud ready infrastructure to exclusively handle UPI transaction volumes. This has meant we have consistently had amongst the lowest transaction failures in this space. The cloud center of excellence will accelerate our cloud migration and support the growing pipeline of digital bank offerings. We continue to work with multiple cloud partners to maintain our leadership position in cloud.

On the digital side:

Our relentless focus continues as we make progress on the capability front as well as on the business side also. We have around 4 million non-Axis Bank customers using our Axis mobile and Axis Pay apps. These are customers using our apps for convenience despite not having a deposit relationship with us. This is a strong testimony for our mobile banking apps which have the highest rating from users among banks in India.

With the retreat of wave 2 of COVID, we launched GrabDeals Fest offering customers attractive discounts and offers on all purchases on our partners, Amazon, and Flipkart. The festival was a great success with us achieving 25x growth both in number of customer transactions and GMV on the platform. GrabDeals is a scalable multi-brand platform for offering our customers great year round offers and deepen our savings account relationship with them.

Our existing digital products continue to scale. We introduced video KYC on multiple new journeys this quarter, including salary account opening and credit cards. Our share of accounts source via this channel has grown to ~20%, during the quarter 69% of our FDs by volume were opened digitally while the UPI transaction value grew 3x YOY.

On WhatsApp banking, we now have over 1.2 million customers on board within six months of launch. 65% of service requests by volume serviced in the branches are now available fully digitally through our Branch of the Future initiatives. We have seen very good traction in the adoption of these services by customers as well as great improvement in straight through processing in first time right rates. With the launch of Service Data Lake, we expect further personalization and speed in response to customers in this year.

Separately, I would like to update you on the recent developments due to the restrictions imposed by RBI on MasterCard from onboarding new domestic customers. This ban does impact our card business. Over the last few days since the announcement teams have worked to mitigate the impact. While we will explore and keep all our options open, it will take some time to move to an alternate network thereby impacting new issuances in the short term.

I also want to update you on our ESG approach. In last one year, the Bank has significantly scaled up the integration of ESG into its overall business strategy and agenda. ESG as a topic is now integrated at the Board level and is directly overseen by a Whole Time Executive Director and the relevant committees. Additionally, the Bank has set up an ESG steering committee at the management level to drive the ESG agenda. We are making public our commitment to the ESG targets, developing policies for sustainable lending practices, investing in environment management, diversity, equity and inclusion within the Bank.

Our corporate lending portfolio of ₹10,000 crores in green sectors as on 31st March 2021 was up ~50% YOY. We have 1.5 plus million live customers under Axis Sahyog micro-finance program as on 31st March 2021. We are committed to increase share of our green lending portfolio going forward, reduce our carbon emission intensity by 5%

YOY and fulfill the target of touching 2 million households by 2025 under the sustainable livelihoods program. We are embedding environmental and social risks into our lending decisions and internal capital adequacy assessment processes. We are making a public announcement on some of these things very soon.

Coming to the performance of subsidiaries:

In mid-June we presented the progress of our One Axis journey providing details and insights on our key subsidiaries. They continued to deliver industry leading performance during this quarter with total profits of ₹245 crores up 98% YOY. If we analyze the Quarter 1 earnings of these subsidiaries, it would be touching nearly ₹1000 crores figure. The net worth and earnings of these subsidiaries have grown at a CAGR of 18% and 61% respectively in last two years even as the Bank's investment in these subsidiaries stood flat at around ₹1,815 crores.

Our employees have been our greatest asset during the pandemic. The management team would like to reiterate its gratitude to our colleagues and their families for standing firmly with the Bank during the period. We have created an Employee Care Benevolent Fund as an additional measure of security for our colleagues their families to protect their financial future in case of an exigency.

Despite we have two headwinds, we have made strong and visible progress this quarter. There is a positive cultural change within the Bank reinforced by the steady upward movement of metrics across all the lines of businesses. Our investments in technology, digital and multiple business transformation initiatives have set us on the right trajectory. We are optimistic and confident about our future.

I'll now request Puneet to take over.

Puneet Sharma: Thank you Amitabh. Good evening, ladies and gentlemen. Thank you for joining us this evening. I'll discuss the salient features of the financial performance of the Bank for Q1 FY22 focusing on our operating performance, capital and liquidity position, growth across our deposit and loan franchise, journey of becoming a more prudent and conservative franchise, asset quality restructuring and provisioning.

Our operating performance continues to be strong as reflected through increasing YOY NIMs, growth in granular fees and operating profits and PAT. NII for Q1 FY22 stood at ₹7,760 crores, growing 11% YOY, and sequentially growing by 3%. Net interest margins for Q1 FY22 stood at 3.46% representing a YOY growth of 6 basis points. Sequentially the NIMs were impacted by product mix change, interest reversals, CRR increase, market pricing pressure in the wholesale segment and our mortgages business. We have substantially completed the computation of interest on interest as per the RBI and IBA directives and maintain that the provision made in Q4 FY21 should be adequate to cover the reimbursement costs.

On fee income, our fee income stood at ₹2,668 crores growing 62% YOY. 62% of our fees comes from our retail business. 38% comes from our wholesale franchise. Granular fee comprised 92% of total fees as against 86% a year ago. Transaction banking fees including FOREX trade and FI payments grew 67% YOY. Commercial banking fees grew 19% YOY; and fee from cards and Retail liabilities segment grew 78% YOY. Trading income stood at ₹499 crores, de-grew 20% on a YOY basis. Other income stood at ₹421 crores, grew 34% YOY. The recoveries from written off retail assets pool improved 26% on a YOY basis. This gives us some comfort that recoveries could hold up even on fresh slippages though with a lag.

Operating expenses for the quarter were ₹4,932 crores, de-grew 8% sequentially and grew 32% on a YOY basis. Staff cost increased by 32% YOY. The YOY increase in staff cost is not comparable as Q1 FY22 has impact of increments for two years. In FY21 we gave increments to staff from Q3 FY21. Further, we have added 5,000 people to our staff strength over the same period last year. Further Gratuity costs stand increased due to the increments and change in interest rates impacting staff cost. We have continued to top up gratuity expenses for the social security code, the prudent stance we had taken last year. Other operating expenses grew 33% YOY and are mainly attributable to higher business volumes and collection expenses. Our investment in IT continues. Our IT expenses were higher by 63% on a YOY basis. Statutory costs including PSLC and DICGC premium were higher YOY by 30%.

Operating expenses to average assets was 2.05% for Q1FY22, higher by 5 bps YOY and higher by 9 bps on a sequential quarter basis. The adverse impact of netting of the balance sheet which I will discuss subsequently on this call has resulted in a cost to assets adverse impact of 2 bps. The cost to income stood at 43% for the quarter, lower by 38 bps on a sequential quarter basis and higher by 452 bps YOY. Core operating profit was ₹5,896 crores growing 13% YOY and declining sequentially. Core operating profit margin improved 8 bps YOY.

Provisions and contingencies for the quarter were ₹3,532 crores declining 20% YOY. The Bank made a prudent provision of ₹155 crores for restructuring that has not been invoked or implemented as at reporting date. The Bank has not utilized any of its COVID-19 provisions in the current quarter. The reported credit cost for the quarter is 1.88% representing a YOY decline of 38 bps and a sequential QOQ increase of 18 bps. Annualized Q1 credit cost net of recoveries from the written off pool stands at 1.7% compared to 2.11% for Q1 FY21 and 1.48% for the previous quarter. Profit before tax was ₹2,884 crores representing a YOY growth of 102%. Profit after tax was ₹2,160 crores representing a YOY growth of 94%. Annualized ROE for the quarter stood at 9.11%, a 1.59x growth on a YOY basis.

The strength of our balance sheet is reflected through the cumulative non NPA provisions on 30th June which stand at ₹12,425 crores. The key components of the provision are COVID related provisions at ₹5,012 crores, restructuring provisions of

₹703 crores, weak assets, and other provisions of ₹6,710 crores. The standard assets cover defined as all non NPA provisions divided by standard advances, stands at 2.05% improving 10 bps over March 2021 and 49 bps over June 2020.

Our provision coverage:

All provisions NPA plus non-NPA divided by GNPA stands at 118% as compared to 104% for June 2020 and 120% as at March 2021. The Bank is well capitalized, is carrying adequate liquidity buffers and provisioning buffers which places us in a strong position. The RWA of the Bank as of 30th June stands at 64% as compared to 68% of June 2020. This improvement RWA is reflective of the quality of business being done by the Bank. Our total capital adequacy ratio is 19.01% and our CET1 was 15.42%, improving 154 bps and 192 bps on a YOY basis.

The prudent COVID provisions that we carry as of June 2021 provide us with a capital cushion of ~67 bps over and above the reported capital adequacy. Our average LCR ratio for the quarter was 115%, our excess SLR was ₹74,974 crores.

Growth across our granular deposits

The Bank was reporting structured collateralized foreign currency loans extended to customers who also place deposits with our Bank on a gross basis as advances and deposits respectively. For our improved presentation, we have netted off loans from deposits received in India. This has resulted in the balance sheet reducing by ~ ₹8,700 crores, prior period numbers have been regrouped where appropriate. Our liability strategy driven through premiumization, granularization, and deepening has started to show early results. The focus on customer acquisition, leveraging the corporate relationships and deepening the government liabilities business and the customer connect established by the Bank through COVID has not just yielded us the recognition of the best retail franchise during COVID, but also improved all liability metrics. Total deposits on a closing basis grew 16% YOY and 2% QOQ. We prefer to focus on quarterly average balances instead of month end balances for our liabilities franchise. On a QAB basis CASA grew 19% YOY and 4% QOQ. CASA ratio stood at 42% improving 342 bps on a YOY basis. SA grew 19% YOY, and 7% QOQ and CA grew 17% YOY and de-grew 0.39% on a quarterly average balance basis.

If we look at the different saving account segments on a QAB basis, salary segment grew 13% YOY and 5% QOQ. Government segment grew 25% YOY 18% QOQ and the NRI segment grew 17% YOY and 5% QOQ. Our term deposits on a quarterly average balance basis grew 7% YOY, of which retail deposits grew 11% YOY and 2% sequentially. The growth in our NRTD business is reflective of the quality of the wholesale franchise we are building. Our corporate customers parked their surplus short-term liquidity with us resulting in the growth. A large part of the incremental NRTD deposits over March 2021 are LCR accretive and non-callable. Further, as was seen in the SA balances, 30% of the incremental NRTD deposits are from government client group reflecting traction in that customer segment.

Our overall loan book grew by 12% on a YOY basis and was flat sequentially. Granular secured retail loans and SME business and high quality large corporate businesses continue to be key drivers of our loan growth.

Our loan book continues to remain balanced with retail advances constituting 54% of the overall advances. Corporate loans at 36% and our Commercial Banking Group at 10%. The book represents healthy characteristics with 80% of the retail book being secured. 85% of the corporate book being rated A (-) A and above and the CBG book being diversified across geographies industries, 96% of that book is secured and 67% is of shorter tenor.

On a segmental basis:

Retail disbursements grew 3.3x YOY but declined 48% sequentially. The growth in disbursements and book are largely driven by transformational and digital projects underway across the retail product segment. Our Axis virtual channel is helping us deepen customer connect and improve cross sell. The secured to unsecured retail disbursal mix has started trending back to pre-COVID levels. Our brand sourcing of retail loans was at 50% in Q1 FY22. Retail loan book grew 14% YOY, 80% is secured, we continue to see strong traction in the retail loans across secured products like HL up 14%, rural book up 18% YOY and our small business banking book up 35% YOY aided by the team's cadence, digital initiatives, and higher productivity.

We have been expanding our coverage to rural and semi urban geographies through our Deep Geo strategy whilst strengthening partnerships with agri corporates and OEMs. During the quarter, we included 488 branches to our Deep Geo strategy taking the total count of Deep Geo branches to 2,065. As a result, Deep Geo disbursements grew 211% on a YOY basis.

Corporate book:

We are progressing well on our endeavor to build a profitable and sustainable corporate Bank. Corporate disbursements grew 63% YOY and de-grew 52% on a sequential QOQ basis. 94% of the incremental sanctions were to corporates rated A (-) and above.

Our corporate book customer assets grew 4% YOY with corporate loans up 8% YOY and 1% QOQ. We remain focused on delivering higher growth from our chosen segments. The mid corporate segment grew 36% on a YOY basis. Our commercial banking segment grew 18% on a YOY basis. These segments would help bring greater granularity and reduce risk while meeting our RAROC criteria.

The growth in our overseas corporate loan book is primarily driven by our GIFT City branch exposures, 95% of the overseas standard corporate loan book is India linked and 92% is A and above rated.

Of our total standard fund non-fund and investments outstanding to NBFCs is ₹31,534 crores. 99% of the same is rated A or above, with none of them having been granted moratorium. MFI book is a negligible amount of ₹3,684 crores and real estate is ₹17,563 crores, 60% of which is lease rental discounting.

Our wholesale products banking business team remains focused on simplification and driving innovation across CA, CMS, FOREX, and trade. During the quarter, we became the first Indian Bank to execute an entirely paperless import transaction with a host-to-host connectivity for one of the largest auto ancillary manufacturers.

This has been a culmination of over six months journey with our cross functional teams across coverage, products, IT and operations coming together to make this possible. This digital offering would help the Bank to further lift the growth trajectory of trade and FX flows business.

The building blocks of our CBG business are now in place. Commercial banking disbursements grew 157% on a YOY basis. Within CBG the small and medium enterprises grew 18% YOY. Early results of our tech led transformation in commercial banking is measurable through higher RM productivity and nearly 70% reduction in login-to-sanction TAT. The number of new customers added on the assets side increased 39% on a YOY basis. CBG CA deposits now contribute 25% of our overall current account balances, grew 20% YOY and 2% sequentially reflecting the quality of the CBG franchise we are building. Non-asset-based fees in the CBG segment grew 45%. The depth of our CBG relationships is also demonstrated by the fact that CBG contributes to 20% of our Burgundy Private and Burgundy account acquisitions.

Prudent and conservative franchise:

COVID provisioning, we hold COVID related provisions of ₹5,012 crores as of June. We believe that this places us well for emerging our residual risks from wave 2. We reiterate that this should not be construed as a sign of relative weakness of the quality of our loan book. We have provided for all restructured assets as if they were classified as NPA. We carry a provision of ₹703 crores against these assets against the regulatory minimum of ₹238 crores. This includes a prudent provision of ₹155 crores made in Q1 FY22 for approved but not implemented restructuring. The overall provision cover for restructured loans stands at 23% with 100% cover on all unsecured retail loans.

The gross slippages for the quarter were ₹6,518 crores, lower than Q3 FY21, but higher than Q4 FY21. At a Bank level 22% of the gross slippages are upgraded in the same quarter. Additionally, 7.5% of reported gross slippages represent linked accounts that continue to remain standard through the quarter. 19% of the retail book, 37% of the corporate book and 41% of the CBG book on a segment basis represent accounts upgraded on the same quarter. In that backdrop which is 22% plus 7.5%, totaling nearly 29% that I have explained, it's better to focus on our net slippages.

Asset quality for the wholesale Bank is holding up well. Net slippage ratio on an annualized basis for this segment in the quarter stood at 0.27% amongst the lowest that we have had in the last 11 quarters. We see similar trends in our CBG portfolio as we called out for the wholesale book. Net slippage ratio on an annualized basis for this segment stood at 0.55%. We have negligible restructuring under COVID 1 and 2 for this segment.

Retail collections were most impacted due to our cautious stance on exposure of our employees and collection agents to the virus, coupled with access restrictions in place by local governments. The net slippage ratio on an annualized basis for this segment stood at 4.53%. 55% of the slippages for the quarter comes from secured products where the LTVs are in the range of 35% to 50%. The demand resolution for the retail portfolio was 98% through Q1 FY22, a tad lower than Q4. Demand resolutions came down in the first two months of the quarter due to mobility restrictions which impacted field collections. However, it was heartening to note that June 2021 demand resolutions reached 99.5% of March 2021 levels.

Cheque bounces remained marginally elevated in Q1 FY22, but July cheque bounce rates were back to March 2021 levels. They however remain higher than pre-COVID levels. Early bucket resolutions in June 2021 continued across all asset classes in retail and credit cards are either at par or slightly better than March 2021. Recoveries from written off retail accounts have picked up in June 2021 and are 85% of March levels. Recoveries during the quarter were more than 3x as compared to the same quarter last year.

Given the inventory buildup, the positive outcomes in the collection efforts discussed, visibility of asset quality and early improvement should be seen in Q3 FY22 subject to no COVID wave 3.

The Bank has been judicious around restructuring loans, implemented fund-based restructuring COVID 1 and 2 as a percentage of GCA is 0.33% of the book as of June 2021, and compares to 0.3% as at March 2021 on invoked pool. In value terms, the implemented fund-based outstanding of loans under COVID-19 resolution scheme 1 and 2 stands at ₹2,192 crores. Linked non-fund-based facilities where original terms have not been changed is ₹ 992 crores. 95% of loans restructured under COVID 1 and 2 has security. The LTV of the secured restructured retail loans range from 40% to 60%. On a segmental basis the restructured loans were 0.62% of the wholesale banking group book, 0.21% of the retail book and 0.03%, I repeat 0.03% of the commercial banking group. In addition to COVID 1 and 2 restructuring, the standard outstanding restructured loans under the MSME scheme stand at ₹332 crores. The GNPA and NNPA of the Bank has improved 87 bps and 3 bps on YOY basis. The Bank has a healthy PCR of 70%. As compared to March 2021 the GNPA and NNPA increased by 15 bps each. The Bank wrote off ₹3,341 crores in the current quarter as compared to ₹2,284 crores in Q1 and ₹5,553 crores in Q4 FY21. The NNPA GMPA and PCR ratios of the Bank and segmentally for retail SME and corporate are provided on slide 42. The asset quality of Axis Finance remains stable with a net NPA of 1.8% and near nil restructuring.

ECGLS, our overall approach to ECGLS was conservative, total amount disbursed under all ECGLS schemes is approximately ₹12,100 crores, lower than our loan market share. We have only granted ECGLS to our existing customer set post the full credit assessment. ECGLS was given to approximately 28,000 customers across the Bank. 99% of these customers by number were sanctioned under ECGLS 1. ECGLS 1 & 2 disbursements represent 97% by value with nil disbursements in ECGLS 4. We continue to track behavior of this portfolio as repayment moratorium ends in Q2 FY22.

The fund based BB and below book as a percentage of customer assets stands at 1.19% as at June. ₹2,800 crore, i.e., 21% of the BB and below book is rated better by at least one external rating agency. ₹330 crores representing 3% of the BB and below book could have been upgraded as borrowers did not seek restructuring. During the quarter, we collected ₹440 crores, 6% of the fund-based BB and below book outstanding at the end of the previous quarter. Investment and non-fund-based BB and below book also declined in the current quarter on account of recoveries. The cumulative addition to the pool is ₹159 crores translating to 11%. The balance represents downgrade into the BB and below pool. All accounts downgraded in the current quarter were less than ₹100 crores and the average ticket sizes of accounts downgraded was ₹16 crores. ₹188 crores slipped from the BB and below pool during the quarter. The average ticket size of our fund-based BBB+ BBB and BBB- book is ₹10 crores. I repeat ₹10 crores with no individual fund-based exposure in four-digit crores. We request you to refer slide 43 of the investor deck which sets out the summary of the net NPA, BB and below and restructuring pool.

Our segment results are not comparable given the change to segment classification and a revision in the internal FTP (Fund Transfer Pricing) framework and therefore, current quarter is not comparable to previous quarter same year.

In summary, we have acted consistent with our commentary and chosen to identify stress early in the portfolio, use ECGLS and restructuring selectively and hence recognize larger slippages upfront and provided for the same.

As I close, allow me to re-summarize the salient points for Q1 FY22. Our operating performance improved reflected in core PPOP growing 13%, PAT 94%. Legacy asset quality is being proactively dealt with. Early signs in the form of net slippages in the corporate book being amongst one of the lowest in 11 quarters. Our prudence and strength of balance sheet is demonstrated through our precautionary COVID provision of ₹5,012 crores. Cumulative non-NPA provisions of ₹12,425 crores. We maintain that this is not reflective or indicative of underlying asset quality and provide us a cushion.

We have steadily improved our liability franchise performance with granular retail deposit book. CASA plus RTD book growing 15% YOY and 3% QOQ on QAB basis. Our subsidiaries continue to improve on their industry position and profitability. The domestic subsidiaries reported a profit of ₹245 crores for Q1 FY22 growing 98% YOY. The return on investments in subsidiaries stood at 54%.

We continue to monitor progress of current and future COVID waves across India. We believe our businesses are resilient and are well equipped to capitalize on opportunities and deal with contingencies that the pandemic may pose. We reiterate our stance of stopping specific guidance.

We would be happy to take questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Elara Capital.

Mahrukh Adajania: First question is on slippages. So, you did give the net slippage ratio for retail. But can you give that absolute number for retail and corporate? And then within that some color on what would it be for housing and other secured loans? Like just a gross slippage ratio or some quantitative color?

Puneet Sharma: Mahrukh, we don't provide data on a product-by-product basis, but the answer to your first question, the absolute value of net slippages for the retail book is ₹3,741 crores which will be roughly about 94% of the slippages for the quarter. Like I said, the wholesale segment has performed well and so has CBG. The cumulative slippage across those two segments will be about ₹235 crores on a net slippage basis.

Mahrukh Adajania: And the gross slippage would be for retail?

Puneet Sharma: The gross slippage for retail would roughly be about 83% of our gross slippage number. That would be about ₹5,400 odd crores.

Mahrukh Adajania: My next question is on your credit costs. In the fourth quarter you had highlighted that the credit cost was higher than what it should be because of a provisioning policy change, and some write off. So, that is what kept the 4Q credit cost elevated. So, if I remove those one off from 4Q and the rise in credit costs is quite sharp in the first quarter. We know about the second wave, but what would be the outlook on credit cost? Because anyway the sequential credit cost has gone up quite sharply, excluding one off. I mean, are you being extra conservative?

Puneet Sharma: Mahrukh, I think we have explained that we have provisioning policies that are entirely rule driven. And just to recap, I provide 100% on unsecured retail loans on the 91st day. So, in a quarter where slippages are elevated because of the pandemic, provisions will come through and like I said earlier, the early collection trends are looking positive. Subject to no COVID wave 3, we should see collections impact on slippages giving us benefits starting Q3 FY22. I also just want to recap for you, a comment that I made earlier, when you look at our gross slippages, you must look at the fact that 22% of our gross slippages are upgraded in the same quarter and this is a like-for-like account basis. And 7.5% of our slippages as reported are linked accounts which continue to remain standard through the quarter. So, please look at the gross slippages in that context also.

Mahrukh Adajania: And just one clarification that your total standard provisioning that you have mentioned that would include the mandatory provision, correct? The mandatory standard provision?

Puneet Sharma: Yes. The ₹12,425 crores include the regulatory standard asset provision.

Moderator: The next question is from the line of Sumeet Kariwala from Morgan Stanley.

Sumeet Kariwala: I have a question on LCR. So, if I look at your liquidity coverage ratio, it's broadly flat QOQ at 115%. Now, when I look at the growth in deposits on average basis sequentially it's quite meaningfully. The loan growth has not been that high. You explained that the deposit growth which has come from the wholesale deposits is also non-callable. I just thought that the LCR should have improved sequentially. What am I missing?

Ravi Narayanan: Thanks for the question. I think it's a matter of the composition of how we are looking at the deposits. There is a stock and then there is an incremental run rate which comes in and therefore the stock plus run rate is how we calculate the overall piece. So, I think it is something which will be a glide path towards trying to improve the LCR. What we are trying to say is that as we speak, our approach has been to start looking at LCR accretive deposits, whether it be non-callable or whether it be granular retail. So, a combination of that hopefully as we go along, the calibrated glide path will work to our advantage.

Sumeet Kariwala: The reason I was asking this is, I wanted to check whether the margin declining sequentially, has that to do anything with higher excess liquidity on the balance sheet this quarter versus last quarter? And I don't have the average numbers which is why I am trying to ask this question?

Puneet Sharma: Sumeet, just give me a moment, I'll come back to you with a response to your question on the surplus liquidity. I know for the current quarter, our excess SLR stands at ₹74,000 crores. If I reference that to the prior numbers and the average for the prior quarter that should explain the answer, but why don't we continue in the interest of time, I will respond to your question in the course of the call.

Sumeet Kariwala: I was just saying why did the margin came down QOQ? I understand the interest versus part but is it to do with liquidity? Anyway, I will take this offline, Puneet?

Puneet Sharma: Sumeet, let me complete that answer, I have the number. Our surplus SLR was ₹57,915 crores compared to ~ ₹74,974 crores in the current quarter, that itself should explain a part of the surplus liquidity and the NIM pressure that we have. Secondly, the bigger impact on our NIMs has been from our product-mix. As you realize that, we have had an increase in the better-quality foreign exchange book that provides us a better NII, so it's NII accretive but from a spread perspective it's decretive. So, there's a product-mix impact in the NIM that's played through. And the last impact on our NIMs is the CRR increase which is the regulatory cost that has come through in the current quarter. So, those are the three key variables that have impacted our NIM for the current quarter on a sequential basis. On a YOY basis, you would note that we have a NIM improvement by 6 bps.

Sumeet Kariwala: If I may chip in one last question, so how should I think about margins for the next one to two years? What kind of improvement is possible? Some guidance range drivers would be very helpful.

Puneet Sharma: Sumeet, I think we don't guide margins, but directionally if I was to tell you there is a part and since you have asked this from a longer timeframe perspective, you would note that there's a couple of structural actions we are taking on our balance sheet. One is the RIDF, PSL compliance, that we have been playing through. So, as our RIDF balances decline, we should see a structural improvement in our NIMs. It's about 48,000 odd crores on our balance sheet and those clearly deplete NIMs for us. So that's one structural improvement in NIM. Second is you would see the first action that we started taking, for a large part of last year about 83%-84% of our disbursements were secured. In Q1 we started getting comfortable in reopening and 79% of our disbursements were secured. So, as we open up and change our product-mix back to the historical secured-unsecured mix that we had on the retail side, we should see our margin uplift. And as the domestic book grows, compared to the overseas loan book that we have at GIFT City, the book composition should help improve NIMs. Those would be the residual comments I would offer you. We don't provide a guidance range on NIMs, sorry, I won't be able to offer.

Amitabh Chaudhry: Sumeet, Amitabh here. Just to add to that you know and as you saw the granularity of our CASA growth is gradually slowly moving in the right direction. Hopefully we can continue to execute the way we have been executing. That should also feed into our NIM story over a period of time. Now, again, we are just trying to point to the things we can look at, again not trying to guide in anyway.

Moderator: The next question is from the line of Kunal Shah from ICICI Securities.

Kunal Shah: The first question was on employee cost. I don't know if you have addressed that in the opening remarks, but last time you said, we are providing for employee costs and there was some one off during the second half but when we look at Q1 again the employee cost trajectory is quite high. What would be the reason for that?

Puneet Sharma: If you look at our employee cost on a YOY basis Kunal, the first impact is last year with the onset of wave 1, we had deferred increments for our staff and our staff did not receive increments in Q1 of last year, but increments were made available to all our teams in Q3. So, Q1 does not carry the increment effect of FY21 whereas Q1 of FY22 carries the increment effect of FY21 and FY22 itself. So, there is two increments versus no increment impact on the YOY number of Q1 FY21 to Q1 FY22. The second increase in staff cost is we have added 5,000 people to the franchise as we are a growing business and as we get more granular, we keep adding people basis our internal productivity metrics, therefore that's the second impact on staff cost. The third effect is we did take a social security code provision last year. And as I mentioned earlier because there is an interest rate change in the current quarter and there is an increment on staff cost in the current quarter, we have topped up the social security code provision in order to be consistent with the prudent position we had taken. That's the broad three reasons why staff costs have increased year-on-year.

Kunal Shah: And quarter-on-quarter again, like 10%-12% odd?

Puneet Sharma: The quarter-on-quarter increase will typically be attributable to increments for the period and gratuity cost increase on account of interest rate changes between last quarter and current quarter.

Kunal Shah: Overall in terms of the fee income. I think we have been taking several measures in each of the verticals to shore up the fee income. So, how should we now look at the overall traction once we see the overall situation normalizing? So, there is a breakup in terms of the overall retail fee as well as in terms of the corporate and the commercial banking. But which segments would drive it relatively higher and finally in terms of the overall balance sheet growth, how should we see the traction on the fee income side?

Puneet Sharma: Kunal, I think couple of things I would say without giving you a number. Very clearly our focus is to build granular fee and you would note that our granular fee proportion in our total fee has increased on a YOY basis. Our granular fees are now 92% of our total fees compared to 86% of the fees last year. So, we will continue to drive our fee growth which is granular, both on the retail and wholesale side. On the wholesale side, our transaction banking business is gaining traction and you will see the fee growth that is come through, which is set out on the slide that you were referring to in terms of fee growth. That fee growth is driven by a couple of things, one is a market share increase both in the FX flows business, as well as the LC business. And as we build our franchise out and deepen our relationships, we expect that granular fee to continue to grow. On the retail side, clearly subject to any regulatory headwinds that may hit us, our granular retail fee, both on the liability and asset side would be linked to the growth in the businesses that you have seen in the current quarter. I hope that answers your question.

Kunal Shah: Yeah. Lastly, if I heard you correctly, you made ₹155 crores of the provisioning on a restructuring approved but not implemented.

Puneet Sharma: That is correct.

Kunal Shah: So then maybe that additional, if we are making 10% kind of provisioning, can we assume that another ₹1,500 odd crores are there in the pipeline?

Puneet Sharma: Kunal, that would not be a correct conclusion to draw, because my restructuring provisions as I told you earlier, I made provisions as per my NPA rates. So, on unsecured I would have made 100% provision and on secured I would have made provisions as per the secured first bucket rate. So, a direct imputation would not be correct. If you directionally want to look at that number, the provision covered on the restructured book is 23%. You can make an estimation of that number.

Moderator: The next question is from the line of Adarsh Parasrampuria from CLSA.

Adarsh Parasrampuria: A couple of questions on the SME side, obviously post-COVID because of many dispensations available the net slippage numbers have been negligible. When do you expect the true litmus test when these dispensation get over and what's the outlook there as you track those portfolios?

Puneet Sharma: Hi Adarsh, thanks for the question. I think the true litmus test for that, so first let me set context to our book and then our assessment of the two litmus tests. One is, our ECGLS book is not large, and we have given ECGLS to customers after a full credit assessment, so we don't believe that at least for what we have funded through ECGLS there should be an impact because we did a full assessment, a material impact. To your question on when do we see ECGLS impact play out through asset quality, absent further dispensation, the one-year period runs out in Q2 FY22 and therefore assuming a 90-day recognition cycle, you should start seeing something on the slippages front early Q3 from an industry perspective.

Adarsh Parasrampuria: My second question goes back to cost, obviously you all have explained why staff costs went up, but for most banks that we would track cost income while it dipped in the first half last year as activity was low, they have actually settled at a lower level than pre-COVID. For our Bank, I see that we are at or a little at pre-COVID levels and when we see the top 2-3 banks, they are 2-3-4 percentage points lower. So, even as we are catching up on some investments, could you explain why that gap is there?

Puneet Sharma: Adarsh, again thanks for the question. I won't be able to compare and contrast why a certain Bank has a certain cost income ratio. I will probably highlight to you two effects. One is the cost income ratio has a cost impact and an income impact. It is public information that the NIMs of the other banks that you refer to are higher than us and we have said we have a clear trajectory to improve our NIMs. So, the income effect on cost income plays out through our financial statement, therefore, a better way to look at our ratios and the progress that we are making on the cost side is to look at cost to assets. Cost to assets has gone up in the current quarter. I just want to call out for you that, two bps out of the increase is on account of the asset shrinkage, because we reclassified or netted off advances against deposits. So, on a like-for-like basis my cost to assets ratio would have been 2.03%. This is primarily driven by the fact that we continue to make our investments in growing the franchise. And I called out earlier the IT costs were higher by 63% on a YOY basis and so were my collection expenses. So, that's the reason why my other expenses other than staff were up. I still maintain that we will be on a cost to asset basis 2% or thereabouts on a full-year basis and we should be able to pull this back.

Amitabh Chaudhry: Adarsh, just to add to what Puneet said, it's very important to understand that during the pandemic actually we have doubled down on our IT, digital, analytics expense because we believe that this presents a perfect opportunity to actually gain market shares. As Puneet very rightly pointed out, the income should come through the next couple of years. Please also understand and appreciate that we have very large transformation projects on in almost every part of our business. We have mentioned in our call about Sankalp which was our SME led transformation initiative. I talked about the fact that we have launched a best-in-class transformation program for our wholesale banking products which is again an 18-to-24-month program which will take us, we believe into a completely different orbit in terms of what we can offer to our corporate banking clients, and we have similar projects on other businesses. We have not talked too much about it. And as you go through these transformation projects, the expenses tend to be upfront and obviously the benefits come later. But as again, Puneet pointed out, we are confident that we will maintain the benchmark we have set for ourselves that will below 2% cost to assets and that we have not changed. So, I am just trying to put all of that in perspective. Keep all that in mind and so obviously as a Bank, we are very-very committed to some of those numbers.

Moderator: The next question is from the line of Prakhar Agarwal from Edelweiss.

Prakhar Agarwal: Just a couple of questions from my side. One is on the statement that you made on slippages that probably from Q3 we may start seeing some sort of benefits, given the fact that large part of second wave happened in Q1, do we expect that Q2 numbers will be elevated which is first. Second, even if we see some sort of reversal slippages, do we will also see that probably the COVID buffer that we have created, realizations start in Q3?

Amitabh Chaudhry: Let me answer the second question, I'll ask Puneet to answer the first. You know, we have worked very hard and taken a lot of pain to build up this additional cushion and I know this cushion does not reflect on our worries on the asset quality, and by value we have created this cushion based on certain rules which we have set up which have been signed off by our Board, our Audit Committee, and the Statutory Auditors. We are not going to run back to all of them and say oh, by the way we want to change the rules because XYZ has happened, the risk in the system remains. All of us are talking about the potential of a third or a fourth wave. We will think hundred times before we start reversing any of those provisions which we have created. My answer, I think I am giving a long answer, what we are really saying is chances of it getting reversed in a hurry are quite low. Puneet, you want to add the first question.

Puneet Sharma: Prakhar thanks for the question. I think to your first question on normalization, couple of positive trends we are seeing in June and July, which is demand resolutions have gotten back to about 99.5% of March 2021 levels. Our overall recovery efforts are also strong, but I think the way to look at the number is, when there is an inventory buildup in the system, because of pandemic induced stress, the inventory run down does not happen instantaneously. So, this is not something that will pop up and play out in a month or so. I think given the inventory buildup that we have, coupled with the positive outcomes and collections that we are currently seeing, we think Q3 FY22 will be the period where normalization would take place for the system and for us.

Prakhar Agarwal: Just one more question, in terms of our pool that you have availed moratorium last year, have we done some analysis as to how much of that has already slipped or restructured or would have taken ECGLS to some extent, just wanted to get a sense of that customer base, which took moratorium what is already in some shape or other, has there been a second pressure point?

Puneet Sharma: Prakhar, we do a lot of internal analytics. We don't call out the effective impact of what the moratorium customer did because there are multiple routes that a moratorium customer could have taken. It's something that we track, but we don't publicly disclose what percentage of the moratorium pool would have slipped.

Prakhar Agarwal: Just one last thing, you made some certain comments about recovery this quarter, if you could just repeat, I missed that part.

Puneet Sharma: Sorry Prakhar I missed your question please.

Prakhar Agarwal: In your opening statement you made some certain comments about recovery in this quarter. If you could just repeat about where this recovery is, I missed those comments.

Puneet Sharma: Couple of things that I called out, I said 22% of the gross slippage got upgraded within the same quarter on a same named account basis and 7.5% of the gross slippages are linked accounts that continue to remain standard, and account will continue to remain standard if it pays and is below 90 DPD across the quarter. Those were the two callouts that I made for the gross slippage number. In terms of rupee crore recovery, rupee crore recovery is not as strong as the previous quarters, given collections was not accessing customers for a meaningful part of April and May and early parts of June.

Moderator: The next question is from the line of Rahul Jain from Goldman Sachs.

Rahul Jain: Just two questions, number one on the write-offs, this quarter again, we have written off almost half a percent of the loan book. Last year we wrote off 2.2%. Can we just understand, what's the write off policy, what's driving this? Numbers stand out, successively we have been writing off pretty significant amount of loans, so just wanted to understand this bit better.

Puneet Sharma: Rahul thanks for the question. The write off policy is codified and the way our policy works is retail gets written off basis a predefined quarter after which the account is 100% provided for. So, if an account is 100% provided on in quarter X, it will be written off on a predefined frequency after quarter X's completion. No discretion at my hand, no discretion at anybody's hand in the system, it'll just get written off in due course. We continue to retain our right to recover. These are prudential write-offs and obviously the recoveries start reflecting in other income in due course. To your question on what has impacted the current quarter's write-offs if you recollect last quarter, we had explained the fact that on our commercial banking business, we had enhanced our provisioning policies and the provisioning policy resulted in a set of accounts being fully provided. We also codified the write-off rules on commercial banking and pursuant to those codified write-off rules the write-off of part of the CBG portfolio has taken place in the current quarter. So, as we stand today across our commercial banking business and across our retail business, there is no discretion available in our system in so far as a write-offs are concerned, they are automated and will get processed with a time gap after the account is 100% provided for. The current quarter is materially impacted by the CBG write-off, basis the change last quarter.

Rahul Jain: Are we done with that, or it might still continue for a couple of more quarters?

Puneet Sharma: Rahul since it's a rule, whatever fulfilled the rule, it got written off, I will not have discretion of parceling the write off across quarters. So far as the CBG policy change was concerned, the rule got applied to the stock and the stock got taken care of.

Rahul Jain: Essentially what you are saying is predominantly it's come from CBG portfolio. The second question is on building the high yielding portfolios, I think it is micro-finance corporate action you took, and I am trying to understand over the next couple of quarters or next few years, how do you think about, building the high yielding portfolio? So, microfinance is one of the portfolios. What other areas of focusing on you've talked in great deal about your digital initiatives. Any new products that's going to come out, what kind of scale and size you can build up, over there. Just some color on that would be useful. Thank you so much.

Puneet Sharma: Rahul, thanks for the question. I think, just want to clarify, there is no corporate action to report or speak of on the MFI portfolio at our end. There's nothing there currently and when there is something to report, we will people formally report, as per the process. The MFI book for us stands at ₹3,684 odd crores, which is a small proportion of our book. Yes, it helps us meet our PSL requirements and therefore it is a business that we will, look at as part of our retail and agri business. I hope that answers your question if I miss something happy to take a follow-up.

Amitabh Chaudhry: So just to add, Amitabh here. Obviously, it is our endeavor, as we look at various possibilities and opportunities out there to go after opportunities which makes sense from a risk-reward framework. For example, the wholesale we've been talking about how we want to expand our mid-corporate portfolio and we have been doing a pretty good job of it and you've seen that grow in a very big way. Similarly, we have done for Burgundy private, we talked about the Deep Geo strategy on our retail side, where we have extended it to now more than 2,065 branches and we continue to intend to kind of expand it as we move forward. You will hear more from us, as and when we're ready or we have anything substantial to report in terms of some of the choices we have made or we will make, we will obviously share it with you. We are a bit cautious about announcing it, till we have achieved something, and we have achieved something substantial and something substantial which is better than what others are offering. In that sense, as and when we are ready, we will share it with you. You can expect, obviously we are not going to let all these opportunities go, you refer to MFI and so many other things. As and when they happen, we'll let you know, I'm not talking about a corporate action. I'm talking about general opportunities that now exist, sorry.

Rahul Jain: Thanks Amitabh. I mean, just put differently, some new business opportunities, that you may be considering perhaps, on the high yielding side. Of course, MFI, I get your message very clearly, but what about some of the other unsecured products, what can come out of your digital capabilities that you have spent a lot of money over the last couple of quarters?

Amitabh Chaudhry: Yeah. You have heard us talk about the release on the digital side some of these things, we had talked about BNPL. I think we are one of the first banks to come out with a product of that nature, Freecharge has led it. We are obviously learning along the way. It has already started reaching volume, which, yes is we are quite happy about, but we will come and share that volume with you. When we believe we are ready, we have earned something to announce to the market, but it is already in the last couple of months, reached a volume size and more importantly, what we are collecting, which is satisfactory to us. And we are quite happy with it. We have done something similar, on small denomination loans. We are working on that too. And again, I don't want to overdo it or overstate. As and when we are ready, we will share it with you, we don't want to work under the cover and only when we have reached a certain shape and a size and certain market presence, we'll come and talk to you about it. We will not do it the day we kind of announced the launch of it. We'll be very careful.

Moderator: The next question is from the line of Antariksha Banerjee from ICICI Prudential AMC.

Antariksha Banerjee: I just wanted to run through some numbers and see if the numbers are correct. So, in your slide 18, you report your retail portfolio breakup and 20% of the retail portfolio is unsecured which gives ₹66,000 crores kind of book. Is that number right?

Puneet Sharma: Correct. Yes, that should broadly be correct.

Antariksha Banerjee: And you also reported your gross slippage in retail about ₹5400 crores and you said that, secured constitutes of 55% which means 45% of this 5,400 is unsecured, is that the right number?

Puneet Sharma: Yes. I think the way you need to look at it is, it was 55% of net slippages is what I called out. You're hoping the 55% of the gross slippage, therefore you'll have to change the reference part please.

Antariksha Banerjee: Because this was giving a very scary picture of the unsecured retail slippages. Is there anything that you see in the unsecured retail which is grossly different from last year? I mean, I can do the numbers again, but how would you compare it to last year in your unsecured retail portfolio?

Sumit Bali: This quarter was a particularly severe quarter in terms of impact on the unsecured business. Going forward June has been better than May and July have been better than June. Things are improving. As Puneet also alluded earlier that we should see a full-fledged recovery, this trend continues over Q3. We do not see repeat of last year provided there's no third or fourth wave of COVID.

Antariksha Banerjee: Sure. Because, at the margin you're also more positive and growing unsecured. If I look at your unsecured mix, so hopefully the trends are better than last year, and the weaker customers have been weeded out.

Sumit Bali: The last point you made is absolutely correct. Weaker customers have been weeded out. If you look at our overall book composition, it still remains about 80-20. I think we are comfortable being in 80- 20 or 78-22 that kind of number is what we will be holding on.

Antariksha Banerjee: If I just compare the slippages or delinquency, whatever you want to talk about between salaried and self-employed in unsecured portfolio, is there an order of magnitude difference or is it largely comparable?

Sumit Bali: It's largely comparable, between both the unsecured SME and unsecured salaried personal loan.

Puneet Sharma: Antariksha, I just want to supplement Sumit's answer. I think since your question was asked in the context of personal loans, I just request you to look at slide 18 of our presentation, effectively you will see that 100% of our personal loans are to salaried segment and therefore Sumit's answer generically applies to the portfolio, but in the PL our PL is all salaried. So that distinction.

Antariksha Banerjee: I mean, that implies that the credit card numbers, I mean the slippage from the credit card self-employed number is that much larger, right. I mean, if I look at your credit card growth QOQ I know the percentages could be somewhere rounding of errors as well, but the growth has started again. Do I think you're ultimately more positive in growing credit cards, the bulk of that comes from salaried or you are still doing, I mean, self-employed growth as well, just wanted some sense on that?

Puneet Sharma: I'm happy to work the numbers with you offline. I think I will have to understand the math that you're doing before I respond to it. I think the limited point I was making is, to Sumit's point that 100% of our PL is salaried, but happy to spend time with you working this number offline.

Sumit Bali: This is Sumit here. Since you asked on the credit card that portfolio is in very good shape. Whether we look at all the metrics there in terms of revolve rates, slippage, etc., it is doing pretty well. That's not something, we are very keen to grow that portfolio.

Moderator: The next question is from the line of Abhishek Murarka from HSBC.

Abhishek Murarka: Just a couple of quick questions. One, when you called out that of the retail slippages, 55% was from secured. Is there a predominant segment over there, like which part of secured is that coming from? Is it a home loans or LAP or auto, just some qualitative color there would be helpful and then I can come back to my second question?

Amit Talgeri: To start with, I think our predominant portion of this is actually mortgages. I think when Puneet gave his opening statement, he actually mentioned the fact that a large part of that is where the LTVs are in the region of 50%, these, what we would like to believe are probably temporary cash flow mismatches, because of such low LTVs, we believe that you would see larger recoveries once the legal tools start flowing in.

Abhishek Murarka: If I can just extend that, across the sector, we are seeing a higher amount of restructuring or slippage in the mortgage books. In general, what is your feeling? Why would that be? I mean, it is generally auto debit book which can directly be, I mean there's no physical restriction in terms of collection etc. Why is slippage generally going up in that segment?

Puneet Sharma: So, Abhishek, I think the way to think about this is if I wanted cash flow relief, I would seek the relief on the largest EMI payout that I have, just from a customer behavior perspective. Effectively, if you look at the loan portfolio across the industry, in rupee terms, the largest EMI would be for this asset. The reason we feel comfortable is the LTV values and secondly from a consumer behavior standpoint, people don't like losing their homes because they have equity in the asset. As things improve this portfolio should come back. We have to see how long it takes to come back. But that's probably the reason that, the home loan EMI is the one where you're seeing some traction.

Abhishek Murarka: So Puneet logically extending that it means that, in July at least when things would have been much better than April, May and you would have seen all your EMI cycles also by now, you should have seen a very strong rollback, from these set of customers. Have you noticed anything like that because, as you say that, nobody wants to lose their house, so they would want to come back and the moment liquidity demand for cash is down, they would want to pay back or make up their arrears?

Puneet Sharma: So, you make a fair point. But unfortunately, the way the regulation is that once I become an NPA, for me to be reclassified outside of NPA, I have to clear all dues.

Abhishek Murarka: Not for reclassification, sorry but just generally collections from these accounts, because you said we'll have to wait to see how it comes back. I was just thinking that it should have come back in July. So, have you seen anything like that?

Puneet Sharma: So, like I said, July collections on a portfolio basis has improved and is showing the right trajectory so that we can confirm to you is happening on our portfolio.

Abhishek Murarka: Any particular trend on this portfolio, which would have slipped that's not available, is it?

Puneet Sharma: Again, I think what I would tell you is on demand resolution front, we have reached about 99.5% of the March levels. I think if you applied that across the board roughly should play out across product portfolios.

Abhishek Murarka: Sure, I appreciate that. Just second question on this corporate and commercial banking, now most of your loans are A and above and that's where you're focusing. In general, I'd just like to know what would be the yield in that segment just sort of broad indicative yield would help?

Rajiv Anand: Yields in the sector would vary between for a AAA government entity would be, let's say, between 4.5% and 5% for a year, to anything between 7% to 9% for SME loans.

Abhishek Murarka: So broadly the commercial banking group, there it would be roughly 7% to 9%.

Rajiv Anand: Correct.

Moderator: The next question is from the line of Nilanjan Karfa from Nomura.

Nilanjan Karfa: Let me ask the previous question, on the retail slippages and I think you clarified 45%, 45-55 break-up is on the net number on retail, but even that is showing up, so I can run again that number and out of ₹3,312 billion of retail, 20% is unsecured. It's about ₹662 billion. If we have a net retail slippage of ₹35 odd billion, let's take simplistic number and 45% of that is anywhere about ₹16 odd billion. So, ₹16 crore upon ₹660 crore and if you annualize it, it's at 10%. I mean, would assume that a large part of this would have gotten rid of even when the wave was on. What is it that has slipped in the retail and since you pointed out and the reason is that all the data on slide 18 basically will point to that 31% of credit cards is probably a higher risk segment out there? Would that be sort of fair assessment of what things have kind of on the unsecured side?

Puneet Sharma: I think a couple of things that we need to look at. Yes unsecured is impacted, by wave two of the pandemic, more than secured, a couple of things that you would need to see that, it's partially cards, yes, but I think our cards businesses is on the mend as Sumit spoke of, analyzing a high slippage quarter in my mind is not the right way to look at that number, because effectively what you're saying is wave two that hit us in Q1 of FY22 will keep impacting us in all four quarters of the year. One arithmetically, I don't agree with the conclusion that annualization of the number is reflective of the risk, because there's lumpiness in the slippages given the environment. That's one correction I would like to offer to the ratio that's being tried to be computed on the call. The second is, like we said, there is a demand resolution number that we are seeing uptick and that should help with recoveries in due course.

Nilanjan Karfa: If I can interrupt, I'm sorry. There has been number demand resolution that you said is what 99.5% of March. I thought you mentioned that number for the entire book and not for the retail.

Puneet Sharma: So effectively what I'm saying, apologies, what I'm saying is that that is reflective of our portfolio as a whole. There isn't a material differentiation for me to call out between retail and wholesale here. Second point I would make is given that my net slippages on wholesale is exceedingly small. The demand resolution is effectively reflective of my retail book. I would, again, reiterate to you that annualizing a high slippage quarter number is not the most appropriate way to look at the portfolio because it assumes the same market scenario and the same pandemic scenario to run for the next 12 months consistently. I think that's where I'll pause and request you to think about it in this manner.

Nilanjan Karfa: Sure. Well, that was not the intention. I am just trying to because we end up looking at annualize number always for every quarter. Secondly on the secured side I think there were questions around that also. Did we, if you can qualitatively comment on home loans and rural loans and whether there was gold portfolios which also, the gold lending portfolio which also defaulted and if you can compare these qualitatively versus the full year of FY21, that is home, rural Q1 versus full year FY21.

Sumit Bali: So, I will just add couple of points to what Puneet said. See the periods from about 15th April to 15th June is where a lot of things were topsy-turvy and unsecured which gets classified at 90 DPD. Therefore, we are talking of almost two months out or three months gone there, subsequently for the month of July what Puneet said in terms of demand resolution, our entry rates in terms of flow into delinquency bucket are the lowest now. Our 0 to 30 resolution is back to pre-COVID level. Mortgages, whatever slipped, we are pretty confident of getting them back on track. The second half of this year just takes you to collect all the four EMI's to have them on track. So, as Puneet said, let's not annualize what we saw this quarter, this is a very severe quarter, and the bounce back also has been pretty sharp. Gold, absolutely nothing to worry, there was dispensation in terms of LTV, which the regulator had allowed, we had chosen and now wisely in hindsight that we would stick to our 75%, 80% LTV. There's nothing there in terms of delinquency or provisioning. So largely it is the mortgage piece, where if the LTVs are somewhere between 50 to 60 and the affinity people have to home or whether to property, if it's a self-employed business where there is 40%-50% equity, chances of recovery are pretty high.

Nilanjan Karfa: Just, one final question. If we look at and this is from that annual report, obviously it looks at the March quarter, but if I look at the split of the maturity tenure on the liability side, looks like we have built out a very large portfolio, which is of a tenure which is 3 to 5 years plus, is that a deliberate strategy and it has actually happened over last 1 or 2, 3 years. How does that pan out given the current interest rates scenario? I'm happy to take it offline if you want.

Puneet Sharma: No. I am happy to give you a first cut answer and then maybe discuss this with you offline again in detail. But I think my first cut answer to that question is the maturity profile of assets are not reflective of interest rate that we run because a dominant part of our portfolio is priced off a floating rate benchmark. The entire corporate book is effectively floating rate. Our mortgages book is external benchmark linked. So if there is an interest rate cycle the risks that comes through on the liability side, as long as the external benchmark moves, we should be able to get asset pricing. The ALM position would be a liquidity question. On the liquidity side, I think our core deposits and our term deposits cover us for that bucket of asset creation. I hope that addresses your question.

Nilanjan Karfa: Yes, thanks Puneet.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Puneet Sharma for closing comments.

Puneet Sharma: Thank you ladies and gentlemen, thank you for having spent the time with us and discuss our results. It's been a pleasure. I hope that you and your family stay safe and if there are any follow-up questions, please feel free to reach out Abhijit and we will be happy to clarify. Thank you and have a good evening.

Moderator: Thank you very much. On behalf of Axis Bank, thank you for joining us and you may now disconnect your lines.