AXIS BANK

Axis Bank's Q1FY24 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to the Axis Bank Conference Call to discuss the Q1FY24 Financial Results. Participation in this 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 proceedings 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 this conference call, please signal an operator by pressing star then zero 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. Thank you, and over to you, sir.

Amitabh Chaudhry: Thank you. Good evening and welcome everyone. We have on the call, Rajiv Anand – Deputy MD, Puneet Sharma – CFO, and other members of the leadership team.

We have begun the new fiscal year with strong operating performance across segments. The Bank's Q1FY24 profit after tax grew 41%, with consolidated annualized ROE at 19.44%, up 388 bps YOY. We also accelerated our progress in identified areas of distinctiveness namely Digital, Bharat Banking and Customer Obsession while working on synergies from acquired Citi businesses. We remain watchful about the emerging macro variables, and we are fine-tuning our strategy to continue to deliver a sustainable and predictable performance.

We continue to remain focused on three core areas of execution of our GPS strategy namely:

A. Embedding a performance driven culture

B. Strengthening the core

C. Building for the future

Let me now discuss each one of these in further detail:

A. Embedding a performance driven culture

There is visible improvement in the quality of our Deposit franchise

We have made significant progress in our journey towards improving the quality, granularity and premiumization of our deposit franchise over the last three years led by multiple Bank-wide transformational initiatives. **Please r**efer to the slide number 18 & 19 in the investor presentation, the results of these initiatives are evident in the deposit performance

- The Bank's Deposit franchise grew **400 bps** faster than the industry with improvement in both quality and composition of deposits.
- Low-cost CASA share is at **45.5%**, compounding at **19%** for the last three years.
- In the last two years, the Bank's outflow rates (on Basel reporting basis) have seen reduction by ~ **460** bps and are now trending closer to the best in the Indian banking sector.
- During Q1FY24. on a quarterly average basis,
  - ✓ Savings deposits grew 20% YOY & 10% QOQ and Current Accounts grew 17% YOY.
  - ✓ Total deposits grew by 15% YOY and 6% QOQ and term deposits grew 12% YOY and 5% QOQ on the back of 21% YOY and 9% QOQ growth in average LCR accretive deposits for the quarter.
- The micro market led strategy is making an impact with **52%** increase in districts with market share gain in last 3 years

- The granularity, quality and growth of deposit franchise has improved tremendously in the last three years. We continue to invest disproportionately here.

All round growth across businesses. Market leading growth in our focus segments

- MSME segment continues to remain a key growth driver for the Bank. The combined portfolio of mid-corporate, SMEs and small businesses grew **32%** YOY and now constitute **20%** of the loan book, up over 600 bps in last 3 years.
- Corporate loans grew **25%** YOY, led by a healthy pick-up from NBFCs, Retail Trade, Roads, Telecom Services, Textile etc. The disbursement pipeline for Q2 looks healthy. **70%** of the pipeline is from Term loans and balance **30%** from Working cap and Trade.
- On Retail, we are driving a balanced growth in portfolio leveraging our best in class digital and data analytics capabilities. The share of unsecured disbursement for the last four quarters has been in the **20-25%** range.

B. Strengthening the core:

On Wholesale Banking, the transformation programmes that we started two years back are delivering client impact as we strengthen our capabilities in the Transaction Banking and Treasury segments.

- Our go-to-market traction on Project Neo is strong with contribution to revenues from transaction banking APIs (across Payments, Collections & Trade), treasury and CBG segments. The pipeline on Cash management and trade APIs continues to remain strong with **1000+** customers in engagement phase of which **250+** are in UAT stage.
- In addition to the strong product-market fit, Neo continues to get widely recognised in the market. The Bank bagged the award for "Best Product Innovation for Neo API Banking Suite" at Infosys Finacle Innovation Awards 2023 and Best API project at the Asset Triple A Awards.

C. Building for the future

Digital Banking performance is strong

Our Digital 2.0 balance sheet continues to deliver strong growth with 56% increase in deposits and 60% increase in loans. Axis 2.0 is now roughly 5% of the Bank's overall business and we intend to increase contribution by 3-4x by fiscal 2027.

We have taken early leadership in leveraging platforms like Account Aggregator, ONDC, CBDC and OCEN (please refer to slide 46 of the investor presentation). Axis was the first bank to go live on the account aggregator platform as financial information provider (FIP). Since then, the bank has launched a number of use cases as a financial information user (FIU).

Today the bank offers personal loans, auto loans, two-wheeler loans, home loans, small business loans and credit cards leveraging the Account Aggregator framework. The amount of loans disbursed using the Account Aggregator framework grew by **220%** in this quarter compared to same period last year.

- We launched 'One View', a multi-bank aggregator feature built in to 'Axis Mobile' app that allows users to get a consolidated view of all their balances from different banks, track all transactions and access statements at one place. It is a unique offering, first of its kind in the banking industry, and has seen more than **2.5 lakh** registrations in the first 8 weeks of its launch.
- We continue our leadership in partnership and ecosystem models. We have more than **100** digital partnerships to fuel new customer growth. During the quarter, we partnered with Airtel and Flipkart to offer instant personal loans to their customers in less than 30 seconds.
- During the quarter, we partnered with the RBI Innovation Hub and launched 5-minute digital end-to-end KCC loans with instant loan account opening and access to funds. We also launched digital business loans for MSMEs leveraging RBI's Innovation Hub. We are also the 1st bank to launch a Central Bank Digital Currency merchant app., the first to launch an iOS app and among the first banks to offer partial interoperability with UPI QR.

. Bank-wide programs to build distinctiveness

Our big bet on Bharat is growing from strength to strength

- We have further expanded our distribution footprint to **~2,250** Bharat Banking branches that are complemented by a **~62,000** strong CSC VLE network. The CSC Q1 asset disbursals grew by **3x** on a YoY basis.
- We are leveraging the tech stacks of agritech and fintech companies to serve the retail customer in Bharat. During the quarter, we went live with ITC MAARS, a multi-product partnership, offering opportunities for rural assets, retail assets, liabilities, forex across their large network of farmers and Farmer Producer Organization (FPO).
- Our digital co-lending platform is live with **6+** partners and we have more products and partners lined up to go live on the platform during this year.

- Q1FY24 disbursals grew by **34%** YOY, rural advances were up by **22%** and deposits from Bharat banking segment grew **17%** YOY.

Sparsh, our customer obsession program, is making an impact on our customer experience scores.

- It is now live across **100%** of the Bank's branches & all service touchpoints
- Over the last year, NPS in retail customer journeys has moved up to 130 & in wholesale to 133 over an indexed baseline of 100
- We have an Industry-first 6-hour service promise for our Burgundy customers, available on our App.

On Citibank Consumer business integration:

The Citi team is now well integrated, and the customers have seamlessly transitioned to the broader platform in Axis. This is demonstrated through the trends we are seeing across credit card spends, higher acquisitions and stronger term deposit mobilization.

We are also witnessing synergy benefits coming through – examples include improvement in monthly disbursements in the vehicle finance business, and the great response we have seen for new wealth management products, from the palette made available with the Axis group.

The ex-Citi colleagues have welcomed the opportunity to take on larger responsibilities within the Bank. Their annualized attrition is materially below the trend of the previous two years.

In Closing:

The Indian economy and the Banking sector are well placed in context of the global geopolitical and macro headwinds. The emerging trends with shift in global value chain mix, Indian Government's supportive policies and infrastructure for MSME, Bharat and Digital; will help the Indian banking sector. We, at Axis Bank, are well positioned to take advantage of these opportunities and believe that we have significant runway for growth. We remain focused on our GPS strategy and our areas of distinctiveness in building 'an all-weather institution that will stand the test of time.

I will request Puneet to take over.

Puneet Sharma: Thank you Amitabh.

Good evening and thank you for joining us. We continue to make good progress on towards building a stronger, consistent and sustainable franchise. We have strengthened our core businesses and are focussed on ensuring that our balance sheet is resilient across cycles. Amitabh has discussed the business and transformation projects, The salient features of the financial performance of the Bank for Q1 FY24, across:

1. Operating performance
2. Capital and liquidity position
3. Growth across our deposit franchise and loan book
4. Asset quality, restructuring and provisioning

is as follows

Our operating performance was robust across NIMs, fee, cost and credit cost lines:
1. NIM at 4.10%, improving 50 bps YOY
2. NII at Rs 11,959 crores, YOY growth of 27%
3. Fee at Rs 4,488 crores, YOY growth of 28%, granular fee at 94% of total fee
4. Operating profit at Rs 8,814 crores, YOY growth of 50%;
5. Cost to assets at 2.32%, increasing by 8 bps YOY
6. Cost to income at 48.29%, improving by 417 bps YOY
7. Net credit cost at 0.50%, increasing 9 bps YOY, largely due to lower recoveries from prudentially written of accounts
8. PAT at Rs 5,797 crores, increasing 41% YOY
9. GNPA at 1.96%, declining 80 bps YOY and 6 bps QOQ
10. NNPA at 0.41%, declining 23 bps YOY and flat QOQ
11. PCR% at 80%, improving 233 bps YOY
12. Standard asset coverage of 1.39%, i.e. all provisions by GNPA ratio is 145% improving 1,134 bps YOY
13. Consolidated ROA% at 1.83%, improving 35 bps YOY
14. Consolidated ROE% at 19.44%, improving 388 bps YOY
15. CET-1 accretion net of organic consumption, was 36 bps

Net Interest Margins

- Yields on interest earning assets have improved YOY and QOQ. We however saw an increase in funding cost in Q1 FY24 by 114 bps YOY and 28 bps QOQ. As a result, NIMs improved 50 bps YOY and declined by 9 bps QOQ. The balance 3 bps decline in NIMs QOQ is attributable to interest on income tax refunds in Q4FY23 and nil in Q1 FY24. The marginal cost of deposits has stabilized over the last few months. We expect deposit costs to increase further over the remaining part of the financial year but the pace of deposit cost growth will most likely moderate.

- Our progress on structural NIM drivers continues, with improvements across all variables on a YOY basis:

    - Improvement in Balance sheet mix: Loans and investments comprised 88% of total assets at June 23, improving 113 bps YOY;

    - INR denominated loans comprised 95.64% of total advances at June 23, improving 324 bps YOY;

    - Retail and CBG advances comprised 68% of total advances at June 23

    - Low-yielding RIDF bonds declined by Rs 11,385 crores YOY. RIDF bonds comprised 2.29% of our total assets at June 23 compared to 3.58% of total assets as at June 22.

    - Composition of liabilities measured through average CASA% improved 151 bps YOY

    - Quality of liabilities measured by outflow rate improved ~ 460 bps over last 2 years

- We had strong fee performance in the quarter. Fee income stood at Rs 4,488 crores, growing 28% YOY.
  - Total retail fee grew 37% YOY and 1% QOQ
  - Fees from retail cards grew 60% YOY and 24% QOQ
  - Fees from retail forex exchange and remittances grew 33% YOY and 12% QOQ
  - Transaction banking fee grew 17% YOY and 4% QOQ
- Operating expenses for the quarter stood at Rs. 8,232 crores, growing 28% YOY and 12% sequentially. It is pertinent to note that there were no Citi BAU expenses in Q1 FY 23 and only one month Citi expenses in Q4FY23.
  - ~ 21% of the YOY and ~ 28% of the QOQ cost growth in rupee terms is attributable to integration expenses;
  - The balance YOY increase in rupee crore expenses other than above can be attributed to the following reasons: (i) 4% linked to volume; (ii) 57% linked to technology and growth related and (iii) balance 39% to BAU.
  - Technology and digital spends grew 19% YOY and constituted ~ 8% of total operating expenses.
  - Staff costs increased by 23% YOY. We have added 8,366 people from same period last year mainly to our growth businesses and technology teams.
- Operating expenses to average assets stood at 2.32%, higher by 8 bps YOY and 7 bps sequentially. The acquired Citi business is entirely retail which understandably runs at a higher cost and return ratios. The Citi business will be RoE accretive post integration. The cost ratios will remain sticky till the Citi integration phase is over.
- Provisions and contingencies for the quarter were Rs 1,035 crores. The Bank has not utilized any of its COVID-19 provisions, this provision is entirely prudent.
- Annualized Gross credit cost at 74 bps was lower by 5 bps YOY. Annualized net credit cost for Q1 FY24 is 50 bps, increased 9 bps YOY and 28 bps QOQ. The increase in QOQ net credit cost in attributable to higher seasonal rural slippages in the quarter and lower recoveries as compared to the previous quarter from prudentially written off accounts from the corporate portfolio.
- Subsidiaries contributed 3 bps to the consolidated annualized ROA and 27 bps to the consolidated annualized ROE this quarter
- The cumulative non NPA provisions at June 30, 2023 at Rs 11,848 crores, comprising (i) Covid19 related at Rs 5,012 crores; (ii) Restructuring provisions of Rs 708 crores, includes unsecured retail at 100% provision and the rest at first bucket NPA rates, (iii) standard assets provision at higher than regulatory rates of Rs 2,296 crores and (iv) weak assets & other provisions of Rs 3,832 crores.

Our journey to be self-sufficient on capital is progressing well

- Our total capital adequacy ratio including profit is 17.74% and our CET-1 ratio is 14.38%. We accreted 36 bps of CET -1 capital during the quarter. The prudent COVID provision translates to a capital cushion of 48 bps over and above the reported CET-1 capital adequacy.

- The RWA% of the Bank at June 30, 2023 stands at 67%.

Growth across our liabilities and loan franchise

Please refer slides 18 and 19 for details around the quality of our liabilities franchise and slides on our loan franchise

- Our CASA ratio on MEB basis was 45.5%, improving 182 bps YoY
- Our CASA ratio on QAB basis was 44.2%, improving 151 bps YoY and 31 bps QOQ
- Our loan book is granular and well-balanced with retail advances constituting 58% of the overall advances, corporate loans at 32% and CBG at 10%.
- ~68% of our loans are floating rate. ~42% of our fixed rate book matures in 12 months.

Break-up of the of the floating rate loan book by benchmark type and MCLR re-pricing frequency is set out on Slide 10 of our investor presentation.

Retail book

- Retail advances grew 21% YOY and 2% sequentially, ~ 77% of the book is secured,

- Q1FY24 Retail disbursements for LAP grew 35% YOY, Small business banking disbursements grew 8% YOY and PL disbursements were up 26% YOY.

- Cards and PL portfolio grew 91% YOY & 21% YOY respectively.

- The credit card spends in Q1FY24 grew 78% YOY and 28% QOQ.

Wholesale Banking Coverage

We are progressing well in our endeavor to build a profitable and sustainable Corporate Bank. Details of rating composition, incremental sanction quality is set out on slide 35.

- Domestic corporate loans book grew 36% YOY and 4% QOQ.
- The offshore wholesale advances are largely trade finance related and primarily driven by our GIFT city branch. 96% of the overseas standard corporate loan book in GIFT city branch is India linked and 91% is rated A- and above.

Commercial banking

- The commercial banking book grew 24% YOY. The quality of the CBG franchise we are building and strong relation led approach is reflected through:
  - CBG CA deposits on MDAB basis grew by 13% YOY.
  - 88% of CBG loan book is PSL compliant.

- As our customers grow, we migrated ~3.6% of the CBG book as at March 31, 2023 to our CRG business. This will be a routine feature going forward.

Coming to the performance of our subsidiaries

Detailed performance of the subsidiaries is set out on Slides 68 to 74 of the investor presentation.

- The subsidiaries reported a total Q1 FY24 net profit of Rs 303 crores, growing 16% YOY. The return on investment in domestic subsidiaries was ~ 45%.

Axis Finance: Delivered strong growth as a full-service customer focused franchise offering retail as well as wholesale lending solutions.

- In Q1FY24, overall AUM grew 28% YOY. Retail book grew ~1.5 times and now constitutes 43% of total loans
- Q1FY24 PAT grew 29% YOY to Rs 123 Crores, and healthy CAR at 18.6%.
- Strong asset quality with net NPA of 0.38% and negligible restructuring reflects the strength in balance sheet.

Axis AMC: Axis AMC's overall AUM grew 13% YOY to Rs. 252,203 crores, Q1FY24 PAT grew 4% YOY to Rs 91 crores

Axis Securities: Axis Securities' broking revenues for Q1FY24 grew 24% YOY and PAT grew 14% YOY to Rs 45 crores

Asset quality, provisioning and restructuring

- Asset quality continues to improve with declining Gross NPA and largely flat net NPA. The Slippage, GNPA, NNPA and PCR ratios for the Bank, and segmentally for Retail, CBG and Corporate is provided on slide # 59.
- Q1FY24 gross slippage ratio (annualized) stood at 1.87%, declining 18 bps YOY.
- Gross slippages for the quarter was Rs 3,990 crores, higher by 8% YOY mainly relating to the retail book. Our CBG and CRG slippages are contained or improving both on a YOY and QOQ basis. Further, for the quarter ~ 38% of the gross slippages are attributed to linked accounts of borrowers which were standard when classified or have been upgraded in the same quarter.
- Net slippages for the quarter were Rs 1,685 crores of which Retail was Rs 2,028 crores, CBG was Rs 64 crores and WBCG was negative Rs 407 crores
- Recoveries from written off accounts for the quarter was Rs 554 crores.
- Net slippage in the quarter adjusted for recoveries from written off pool was Rs 1,131 crores of which retail was Rs 1,639 crores, CBG was negative Rs 10 crores and wholesale was negative Rs 498 crores.

To summarise, Axis Bank is progressing well to be a stronger, consistent and sustainable franchise:

- Our franchise is strong, resilient and getting more sustainable, visible through (i) organic axis business driven CET 1 accretion in the quarter of 36 bps; (ii) our covid provision buffer of 48 bps of CET-1 capital, (iii) overall coverage at 145% of GNPA, and (iv) limited covid restructuring at 0.21% of GCA.
- Consolidated ROE for the quarter at 19.44%, improved by 388 bps YOY. We have now consistently delivered an ROE in excess of 18% over the last 4 quarters through disciplined execution.
- We have laid a good foundation for our liability franchise. The improvement journey is progressing well with (i) our Q1 FY 24 QAB and MEB CASA ratio of 44.2% and 45.5% improving 151 bps and 182 bps respectively on a YOY basis; (ii) outflow rates falling by ~460 bps over the last 24 months. Improvements planned over the next 7-8 quarters should deliver results with some inter quarter fluctuations which are normal for a business of our scale and size.
- We are well placed in the current macro environment, we continue to closely monitor geopolitical environment, inflation, liquidity, cost of funds and its impact on our business.

Thank you. We will be glad to take your questions now.

Mahrukh Adajania: My first question is on opex. Sir, you clarified on the integration expenses. And last time also you had called out a number for integration expenses. And if you add both, then the integration expenses work out to roughly Rs 350 crores to Rs 380 crores per quarter. Is that the run rate we continue to expect in the next few quarters?

Puneet Sharma: Mahrukh, thank you for the question. Slide 13 of the investor presentation clearly calls out integration expenses for the quarter. It is Rs 385 crores. We have said that we expect to incur integration expenses over a period of 18 months aggregating to Rs 2,000 crores pre-tax, Rs 1,500 crores post-tax. That number stands. You may see some inter-quarter fluctuations, but we stand by the gross number of Rs 2,000 crores. And for the quarter, it is Rs 385 crores.

Mahrukh Adajania: Okay. But that run rate should broadly continue, right? Because I thought Rs 500 crores of that Rs 2,000 crores will be upfronted sooner than the Rs 1,500 crores?

Puneet Sharma: So Mahrukh, like I said, I think we said we will upfront some of the Rs 2,000 crores in the early four quarters. We are working to ensure that integration is smooth and is done in the fastest possible time. So directionally, yes, it's likely to be upfronted than back-ended. So your conclusion there qualitatively is correct. The Rs 2,000 crores number stands. The Rs 385 crores number for the quarter stands.

Mahrukh Adajania: Okay. Thanks. Sir, my next question is on deposit mobilization through the rest of the year, right? Some banks still have excess liquidity. A lot of banks have not grown deposits this quarter but it intensifies from next quarter. So how do you view your deposit mobilization in the context of your margins from next quarter onwards?

And also, is the bulk of past repricing over now? So assuming no more rate changes, can we assume that margins have bottomed now?

Ravi Narayanan: Thank you, Mahrukh. This is Ravi. As far as the growth in deposits is concerned, it continues to be an effort across the banking sector, no doubt about it. But we continue to stay focused on what we have picked up as some of the elements of execution over the last few months, which is primarily focused on sweating the franchise and the distribution. We have been, as mentioned by Puneet and Amitabh, we have been looking at a district level approach where we are seeing that how do we ensure that district-by-district, we are focused on increasing our market share in deposits. At the same time, we are working towards the composition and quality of our franchise.

We are not taking our eyes of that. And we continue to ensure that at all points in time, it is a relationship approach that we are taking so that we continue to focus on the customer behind the account. And therefore, create sustainability of the relationship as well as the liability. So overall, as we see, the focus is on sweating the distribution that we have. And continue to focus on how every resource can participate and contribute. As far as the cost of funds is concerned, I'll hand it over to Puneet.

Puneet Sharma: Thank you, Ravi. Mahrukh, as you are aware, we don't offer net interest margin guidance. Therefore, to your comment on where the margins will be at this level for the rest of the year, we can't offer a constructive comment. Qualitatively, on cost of deposits, the marginal cost of deposits have stabilized for the last few months. We expect deposit costs to further increase over the remaining part of the financial year. But the pace of growth of deposit cost is most likely to moderate. So if you recollect, in the Axis context, we had a deposit cost increase that took place in quarter 4 of last year, followed by a deposit costs or cost of funds increase in quarter 1 of the current year. We are seeing the pace of growth is likely to moderate for the rest of the financial year.

Moderator: Thank you. We'll take our next question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: So the question was on excess SLR, wherein you have utilized almost Rs 18,000-odd crores, you said like larger part of it could be utilized over next six months. So from Rs 57,000-odd crores, how would be the utilization out there?

And the second question is on the employee’s side. In terms of the cost increase which has been there on a quarter-on-quarter basis, how much would have been on account of the one-off due to the incentives which we have highlighted here?

Puneet Sharma: Thank you, Kunal, for the question. Let me start with your second question first on staff cost increase. Since you've asked the question on a sequential quarter basis, there are three elements that are playing through on a sequential quarter staff cost increase. One, you would appreciate that we purchased the Citibank business effective 1, March. So the employee cost of all Citi employees in Q4 of FY23 is for one month. For Q1 of FY24, is for three months. So in some sense, it's not an equitable comparison. That has contributed to staff cost growth at one level.

The second element that has contributed to staff cost growth is, we've offered increments to our employees in quarter 1 as we do annually. And the increments are in line with industry numbers. Therefore, that's a second contributor to staff cost increase.

And the third element is, we've added incremental staff in our growth businesses and technology teams. So therefore, there is an annualization impact of last year's, specifically quarter 4 hires and incremental hires in quarter 1 that is contributing to the balance staff cost. There is a marginal impact of gratuity that has played through given where interest rates have moved. But those would be the four broad components on basis of which staff cost has increased.

Now on excess SLR, you made one comment and asked one question. My request is, I do not believe that between Amitabh or me, we said we will run through our excess SLR over the next six months. So I would just caveat your comment on the time frame. Our LCR numbers are 123%, gives us enough flexibility to grow our loan book as long as we get constructive opportunity. And as we reduce our LCR, excess LCRs will run off. We do not have a targeted guidance to run down excess SLR as a metric.

Kunal, I hope that covers both your questions but if there is something, happy to take a follow-up.

Moderator: Thank you. We have our next question from the line of Saurabh from JPMorgan. Please go ahead.

Saurabh Kumar: Sir, just two questions. One is basically on this NIM slide, slide 10. So last quarter, you had a 6-basis point impact because of the excess liquidity. So fair to say that the cumulative decline this quarter, including the 6 basis points of excess liquidity, that number should be about 15 basis points? So that's one.

And the second is, on this attrition rate, could you have -- I mean, would we expect the staff cost number to persistently remain high now because of the attrition rates are going up at the Bank? Thank you.

Puneet Sharma: Saurabh, thank you for the question. Yes, there has been a 5% moderation in LCR. But I'm not clear on how that translates to the 15 basis points that, of normalized reduction that you're coming to. On a reported basis, we have declined net interest margins by 12 basis points, 9 basis points of the 12 basis points is BAU, which is cost of deposits being offset by increase in yield on investments and advances. And 3 basis points in the last quarter was a one-off item, which is interest on income tax refunds, which doesn't repeat itself in quarter 1. So the bridge for the 12 basis points is the 9 basis points-plus 3 basis points.

Amitabh Chaudhry: On attrition, let me say a couple of points. First, there are only very few banks who report attrition numbers on a regular basis.

Secondly, I think you are assuming that everyone is reporting attrition on exactly the same basis. And so the attrition numbers are comparable. I do not think so. We have done our analysis and some people are excluding some of their workforces when they report or how they report -- how much time they have spent with the organization before they report the attrition numbers, point number two.

Point number three. Our attrition rate has remained in the same zone for quite some time. So I don't know when you say that attrition rate has gone up, yes, it went up last year. It is reflected in our overall staff cost. All the institutions, at least the ones we compete with, are used to this kind of attrition rate and they've been operating quite well through that period without seeing a large jump in staff cost because the attrition rates are high. Frankly, if the attrition rates are high, sometimes it can lead to a lower staff cost because you might replace the individuals who are leaving you with someone who comes in at a lower cost. So I think to attribute high attrition rate to higher staff costs might not necessarily be right all the time.

So in nutshell, we do not expect our staff cost to go up because of a slight movement in attrition number, either up or down. I hope that answers your question. Thank you.

Moderator: Thank you. We have a next question from the line of Abhishek M from HSBC. Please go ahead.

Abhishek M: Two questions. One on growth, if you could offer some comments on Housing and LAP. There's been a little -- the growth has been a little moderate there for a couple of quarters. And is there something in terms of demand that you're seeing, which is leading to this kind of moderation?

And also on the CBG part, where there's a decline this quarter on a QOQ basis. So what would be driving this? So that's my first question. Again, I'll come back for the second.

Sumit Bali: Hi, good evening, Abhishek, this is Sumit here. So last year, we had started on our improvement of NIM journey. And as part of that, we had taken some initiative to rationalize costs. And one is, now our NIMs are where we want them to be. So we will be growing our home loan book. We've already put in place initiatives to grow that book and that will be visible in Q2, Q3 onwards. Net of home loan, every other product is doing well. Home loan, we have a plan in place to grow the book.

Rajiv Anand: So Q4 over Q1 drop is -- you would have seen that last year as well. But you'll find that the overall growth on a Y-o-Y basis continues to be quite strong. This is a business that we like. It is granular. It is sectorally dispersed, very profitable. And this is a piece that we are looking to grow and grow quite strongly. So we are not very concerned about the small drop that you've seen on a QOQ basis.

Moderator: Mr. Abhishek, does that answer your question?

Abhishek M: Yes. That was the first. I've got one more.

Moderator: Please go ahead.

Abhishek M: Thank you. Sir, the second question is on cards. So first, can you give a rough mix of revolvers, EMI and whether that would have gone down post the Citi merger? And also, would it be fair to assume that Magnus would have led to, let's say, 15% to 20% of net card additions and also spends? And now after the devaluation, there would be an impact on both of these?

Arjun Chowdhry: So there's actually three questions there. I'll just sort of take them one-by-one. Trend-wise, across the industry, the revolver percentage is coming down but I obviously can't share specific numbers on trend of EMI. EMI is a trend which is increasing. And what we are noticing you will have seen this in the RBI numbers as well, is that our overall spend, which is a reported number, is growing quite well and in fact, growing much ahead of the industry. So that's the first part.

On the Magnus, no, certainly, it would not -- we have not seen any attrition and it will certainly not lead to any meaningful number in terms of attrition, even if it were to come through.

The third part is, I wouldn't refer to the changes in the Magnus as devaluation because if you look at it holistically, we have actually introduced a product for -- which is tied in with our wealth management proposition for our Burgundy customer which is actually, we believe, even more powerful than the earlier Magnus was.

So we are certainly not looking at it as a devaluation. We are looking at it as a segmentation of our product line, more aligned to the high spenders. And for that segment, which spends about a particular threshold, we know with the math we've done but it is still the most powerful card in the market for that segment of customers. So I certainly wouldn't attribute any meaningful number on attrition too. In fact, we are seeing the spends going up, as I mentioned on the cards portfolio in general and we certainly wouldn't call it a devaluation of the Magnus product.

Moderator: Thank you. We have our next question from the line of Adarsh from CLSA. Please go ahead.

Adarsh P: So most of my questions were answered. I just wanted to check if you think about the cost base adjusted for the integration cost. I'm sure there is some amount of cost that banks are incurring now, the spend when the going is good. Just wanted to understand what's the trajectory and you guided to it earlier as well but when should one expect this to moderate, right?

What I'm trying to understand is, will it last till the going is good or specifically think that there should be a turning point here?

Puneet Sharma: Adarsh, thank you for the question. The environment allows us to continue to make investments today. We have previously demonstrated our ability to pull back costs when we need to. And therefore, if you're directionally asking me, will we have this ability to manage our cost to assets ratio on a go-forward basis post the integration expenses falling away. If the environment were to deteriorate, yes, we do believe that we have levers to manage costs at that point in time. As we stand today, we are constructive about the environment that we operate in and therefore, we'd like to continue to invest in the franchise.

Adarsh: And that medium-term guidance on cost to asset ex integration is something you don't want to still put on a timeline to?

Puneet Sharma: So Adarsh, what we have said previously and we've reiterated that on slide 13 of our investor presentation, we have set out a -- around 2% cost to assets on an FY25 exit basis. If you see the update that we have provided, we've continued to hold that guidance of around 2% FY25 exit basis, excluding the Citi business.

Please appreciate the reason for the exclusion is, the Citi business operates at higher revenue and higher costs. We had called out the impact of Citi costs on the univariate cost to assets ratio last quarter. Therefore, the guidance that we had offered previously stands, as originally intended. So we are not walking away from that guidance.

Moderator: Thank you. We have our next question from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Good evening, everyone. I have two questions. One is around the Tier 1. We have seen a good improvement in Tier 1 this quarter despite the rise in RWA to total asset ratio. So what has really driven this, is this one-off or do you think that this is going to steadily improve over the coming quarters? And in view of this, what will also be the plans that we have on the capital raise?

Puneet Sharma: Thank you for your question, Nitin. Let me take the capital raise plan first and then come back to your one-off question on capital. Our current CET1 stands at 14.38%, well above our philosophical rebase level, well above what we need to protect our domestic AAA rating, sufficient headroom for us to grow at 400 basis points to 600 basis points higher than industry credit that we've indicated we would like to grow at. Therefore, we do not have any plans currently to raise capital for the growth outlook that we have for FY24.

To your second question on, is there a one-off in the net capital accretion that you have seen of 36 basis points, no. Capital accretion is roughly about 66 basis points if I take you to slide 15 of our presentation. About 66 basis points of accretion is on account of profits for the quarter. Across operations, risk and growth has consumed 30 basis points. So the 36 basis points is core organic accretion that we have delivered in the current quarter.

Nitin Aggarwal: Okay. And second question is on the branch expansion plan, while you have a guidance around cost to asset but how are you looking at the branch expansion over FY '24 to FY '25. And related to the branch expansion, on the liabilities, because CD ratio has been like hitting close to 91 now, so how are we looking at the liability position and what is your comfort level on the CD ratio?

Ravi Narayanan: Thank you. So on the branch expansion plan, as we have said earlier too, we continue to look at white spaces across the country, both in Bharat and the urban markets. Current financial year, we are looking at around 400 branches incrementally for the year. And we will keep ourselves open for any kind of opportunity which further comes up. Similar numbers would be where we are looking for even possibly, as we go along.

Overall, in terms of the job between the loans and the liability, that continues to be something that is playing out for the industry. We have our eyes closely hooked on to the CD ratio and we continue to make all efforts to ensure that, that is something that is always under control and see how we can bring it up, as we go along. So between the push towards increasing distribution as well as ensuring that the existing franchise is completely sweated out, we continue to be extremely positive about the deposit growth that we have.

Moderator: Thank you. We have our next question from the line of Param Subramanian from Nomura. Please go ahead.

Param Subramanian: So on slide 12, you're showing this, the retail cards, and payments within the retail fee mix. So I just wanted to understand, would most of the Citi fee be sitting within this retail cards and payments. And if so, it looks like the Citi business would have been about INR150 crores to INR200 crores of fees this quarter. Is that ballpark number, correct?

Puneet Sharma: Thanks, Param, for the question. I'm not going to call out or ratify the amount that you've calculated. We've categorically said we are one bank, one number reported. It is an integrated Axis franchise. Therefore, the Citi fee number is not being called out separately. To your first point out that, is Citi fee is being reported? Part of the Citi fee is being reported in retail cards and payment. There will be fees that will come in third-party products as well as Citi fees appearing in retail liabilities. The recharacterization of the fees is in line with how Axis used to consistently characterize its fee profile. And therefore, there is consistency of this reporting.

P Subramanian: Okay. Got that thing. But the last number we got for the Citi business as of CY '20, when you had given out a broad P&L. So I just wanted to understand if the P&L trends stay in the NII and fee line, are broadly similar on an accretion basis.

Puneet Sharma: Param, thanks for the follow-up. What we also set out in the pro forma disclosure was an ROE number, which was 19%-plus. We do believe that, that number is deliverable post full integration and therefore, the business should be ROE accretive for us. Without commenting on specific lines of income and expense growth, we stay committed and stay true to our comments that this business is ROE accretive post-integration period.

Moderator: Thank you. We have our next question from the line of Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: Yes. So sir, firstly question was on the outflow rate for the LCR calculation, there was an improvement of 460 bps. And that improvement is being utilized in the lower surplus liquidity, so including the asset yield. So just wanted to understand, what is the longevity like how much more we can improve the deposit profile and use that to improve the overall margin profile? So how much -- what is in the degree -- outer degree of that, if you can elaborate on that?

Puneet Sharma: Thank you for the question. As we would see on slide 18 of our presentation, we've called out a June '23 outflow rate of 23.7%. If you look at broadly our peer bank set, we've reached the rates that they have historically operated in and continue to operate in. So the efficiency there would be at the margin because we've seen a significant improvement in the last 24 months. So that lever of NIM improvement is getting optimized and may have limited to no scope of improvement on a go-forward basis.

Rakesh Kumar: Sir, secondly on the slippages, you mentioned that there is a seasonality in this rural slippage number and the recovery number kind of has come down. So recovery numbers, we can understand but the seasonality of this rural slippage number. So can we see this number in any other quarter, Q3 or Q4 or like it will happen just in Q1. So if you can help there?

Puneet Sharma: Thanks again for that question. Typically, rural NPAs is the May-November cycle. So you will see a quarter 1, quarter 3 impact of the rural cycle. The other products typically don't have the seasonality that comes through the rural loan portfolio.

Moderator: Thank you. We'll take our next question from the line of Arvind R from Sundaram Alternates. Please go ahead.

Arvind R: So once the branch -- new branch is open, like how much time it usually takes to reach the desired metrics in terms of loans and deposits. So that is my first question. And if you can give me some color on like what is the average yield on credit cards, like. Yes. These are the two my questions, sir.

Ravi Narayanan: Yes, thanks. On an average, we are now looking at the branches becoming fully profitable in the ballpark of couple of years. Obviously, there will be outliers, some of them may come in faster. Some of them may go beyond. But on a broad basis, couple of years is where we look at the customer base kicking in and a granular kind of approach in terms of getting the profitability. Thanks. On the cards, I'll have Arjun or Puneet look at it.

Puneet Sharma: Thanks for the question. As you're aware, we don't give product-wise yields out. So as Arjun alluded to, how the market has moved, on revolve plus cards loans. But we do not have any particular yield callout on the cards portfolio that we can disclose here.

Arvind R: But if I can just ask one question, like especially on fixed rate loans, especially in consumer segment, banks have not been able to pass on the interest rate that much. I'm just trying to get your view on like, how do you see like passing on the rates to the customers in the retail segment, especially fixed rate book like in personal loans and other products?

Puneet Sharma: Thank you for the question. Like I said earlier, we've seen an improvement on our yield on advances. We are also seeing improvement in yields on disbursements, which is why we've been able to offset the 31 basis points cost of deposits increase. So that's visible in the numbers that we are reporting.

Having said that, the market is competitive. We operate in a competitive market space. And consequently, there will be pulls and pressure on pricing for the customer profile that we would like to have. So, I think it's a market dynamic. We are a large and active participant. We have meaningful distribution strength as One Axis. So, we feel comfortable in competing and winning in this space.

On your fixed rate loan profile, I had earlier called out that 42% of our fixed rate loans mature over the next 12 months, that should give you an indication of the repricing frequency of that book.

Moderator: Thank you. I now hand the conference over to Mr. Puneet Sharma for closing comments. Thank you and over to you, sir.

Puneet Sharma: Thank you, Yashashree. Thank you, everybody, for your time this evening. We'd be very happy to take any questions that remain unanswered. Subsequently, please feel free to reach out to Abhijeet and we'd be happy to take on follow-on questions or engage with you. Thank you very much. Have a good evening.

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