"Axis Bank Limited

Q1FY24 Financial Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Axis Bank conference call to discuss the Bank's financial results for the quarter and year ended as on 30th June 2023. 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. 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 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, Mr. Rajiv Anand, Deputy Managing Director 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: Good evening and welcome everyone.

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:

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.

- The Bank's Deposit franchise grew **400 bps** faster than the industry with improvement in both the quality and composition of deposits.
- Low-cost CASA share is at **45.5%**, compounding at **19%** for the last three years.
- 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 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 the 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 the 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 be widely recognized 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 is concerned

Digital Banking performance is strong

- Our Digital 2.0 balance sheet continues to deliver strong growth with 56% increase in deposits and a 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 (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 the 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, the

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. 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. We also launched digital business loans for MSMEs. We are also the 1st bank to launch a Central Bank Digital Currency merchant app.

. **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.
- 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 the 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 spending, 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.

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 now to take over.

Puneet Sharma: Thank you, Amitabh. Good evening, everyone, and thank you for taking the time to join us this evening. On our operating performance, we have delivered a strong operating performance for the quarter. Our net interest income grew 27% YOY and 2% sequentially. Non-interest income grew 74% YOY and 6% sequentially. Our fee income grew 28% YOY. our retail fee income grew 37% YOY. granular fees at 94% of our total fees. Operating revenues grew 38% YOY and our operating profits grew 50% YOY. The consolidated ROE/ROA of the Bank stood at 19.44% and 1.83% respectively, up 388 bps and 35 bps on a YOY basis.

Our subsidiaries contributed 27 bps to our ROE and 3 bps to our consolidated ROA. We have delivered a robust loan growth across all our business segments. Domestic advances were up 26% YOY and 2% sequential quarter. Retail advances were up 21% YOY and 2% sequential quarter. SME advances were up 24% YOY. Our corporate advances were up 25% YOY. Rural loans grew 22% YOY and 1% sequential quarter. Our small business banking grew 46% YOY and 8% sequentially.

Our mid corporate grew 38% on a YOY basis. Our small business banking plus SME plus mid corporate mix stands at Rs, 1,72,589 crores, that is 20% of our loans, up 600 bps in the last three years. It is important to note that these businesses are profitable for us. We have delivered a steady growth in granular deposits and early visibility on the quality of our deposits is coming through. On a month-end balance basis, deposits grew 17% YOY, savings accounts grew 22% YOY, current accounts grew 23% YOY with our CASA ratio at 46%, up 182 bps on a YOY basis.

Average LCR during Q1FY24 was 123% and the outflow rates of our deposits have improved by 460 bps over the last two years. We are well capitalized with a self-sustaining capital structure and adequate liquidity buffers. Overall capital adequacy, including profits for the quarter stood at 17.74%, with a CET1 ratio of 14.38%. Our self-sustaining capital structure is attributed to a net accretion on CET1 basis in the first quarter of 36 bps.

Our COVID provision of Rs. 5,012 crores, not in our capital adequacy calculation, provide an additional cushion of 50 bps on overall capital adequacy for us. We have retained our strong position in payments and digital banking. We have 100-plus digital partnerships across platforms and ecosystems, 13 million customers on WhatsApp Banking. 1.11 million credit cards were issued in Q1. Our CIF market share was 14% as of June 23. Spends were up 78% YOY and 28% QOQ. We are the second largest player in the merchant acquiring space with a market share of 18.4%. Our incremental market share in the last one year is 28%.

Asset quality continues to improve with declining gross NPAs and slippages. Our gross NPA at 1.96% declined 80 bps YOY and 6 bps sequentially. Our net NPA was 0.41% declined 23 bps YOY flat sequentially. Healthy provision cover of 80%. On an aggregate basis, which is all provisions by GNPA, our coverage ratio stands at 145%. Q1 FY24 gross slippage ratio annualized is at 1.87%, declining 18 bps YOY. Our net slippage was at 80 bps. Our net credit cost for the quarter annualized is 50 bps.

The Bank's subsidiaries continue to deliver strong and steady performance. Our Q1 FY24 profit at Rs. 303 crores were up 16% YOY, with a return of investment on domestic subsidiaries at 45%. Axis Finance Q1 PAT grew 29% YOY to Rs. 123 crores. Asset quality matrix remains stable. Capital adequacy ratio healthy at 18.6%. Axis AMC Q1 PAT stood at Rs. 91 crores, Axis Securities Q1 PAT grew 14% YOY to Rs.45 crores. Axis Capital executed 14 investment banking transactions in Q1 FY24. We thank you for listening to us our opening comments. We will now be happy to take questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. An operator will take your name and announce your turn in the question queue. Participants are requested to only use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have a first question from the line of Manojit Saha from Business Standard. Please go ahead.

Manojit Saha: Good evening, sir. So, two things, one is that why was the provisions for NPS up from about Rs. 300 crores to Rs. 1,000 crores? That is one. And the other is the unsecured loan is 77% of the retail loan. So, what is the bifurcation between retail and the corporate loan book?

Puneet Sharma: Thank you for your question. One fact-based clarification – secured loans in retail are 77%, not unsecured loans. So, just to clarify, secured loans are 77% of the retail book, unsecured loans are 23% of the retail book. The breakup of the segmental or product-wise breakup is in our investor presentation. We will request you to please look that up. Slide 21 of the investor presentation. To your first question on increase in provisions, I would request you to please note three things.

Q4 is sequentially the strongest quarter that the banking sector has. Q1 has seasonality of rural NPAs. We have prudent provisioning policies, and if you look at our PCR, it is at 80%, so there is a seasonality component in the provisions. And we did have a large corporate recovery in the last quarter. Corporate recoveries are episodic and do not repeat themselves on a sequential quarter basis. Those are the two broad reasons for why you see higher provisions. But please do note that, we have delivered robust return-on-assets and return-on-equity despite those provisions.

Manojit Saha: What was the MTM loss or gain in the last quarter Q1 of last year? This year -- this time it was Rs.500 crores, so what was the last time?

Puneet Sharma: In Q1 of last year, we had a mark-to-market negative of Rs. 667 crores in Q1 of the current year, we have a trading profit of RS. 519 crores.

Manojit Saha: Rs. 667, right?

Puneet Sharma: Rs. 667 crores trading profit negative which was largely mark-to-market because of the sharp interest rate movement. That interest rate movement has moved back. If you recall, we had categorically said that that was on the corporate bond book. It was all high-quality assets. They have ended up recouping part of the MTM loss through the current financial year.

Manojit Saha: Thank you.

Moderator: Thank you. We have a next question from the line of Ashish Agashe from the Press Trust of India. Please go ahead.

Ashish Agashe: Sir, I just wanted to know about the slippages from the Citi book at Rs. 396 crores. So, is it usual, is it like probably one time as the transition happens or should we expect similar going forward as well? How is it, sir?

Puneet Sharma: Thank you for your question. I just want to clarify, I think the number that you have quoted was slippages for the last quarter, that is Q4 when we purchase the business. So, there is no such separate number that we have for the current quarter. We have specifically disclosed in the last quarter that when you buy a business, you have to dedupe that business against NPAs on the Axis book and similarly, NPA standard assets on Citi book were deduped against NPAs on Axis book. So, it was a one-time harmonization to the applicable regulation that caused that slippage. There is no specific other number that we have to report on the Citi portfolio in the current quarter.

Ashish Agashe: Okay, sir. My apologies, sir. And secondly, on the mortgage book, you are actually showing a QOQ decline and even on a YOY basis, the growth is soft, basically. So, how do you, like what is causing this for one and like what are the segments where the softness is the most pronounced and how do you see this going ahead actually and related to it as this goes down, will greater attention be paid to the like unsecured side of things as well because right now it is about 19% between credit cards and personal loans. So, that share is going up as mortgages the traditional sort of mainstay of retail finance is going down?

Sumit Bali: Hi, good evening. This is Sumit Bali here. So, in the previous calls also we had guided that we had started our NIM journey improvement last year. So, as that has caught up pace, we have seen home loan volumes now continue to improve and we have seen this quarter it has been flat. If you recall earlier two quarters the numbers were soft. Our intention is from here on to keep growing the book. It will be visible in Q2, Q3 also. So that is on the home loan side.

On the unsecured side, currently our retail book comprises of 77% secured assets. So, we are reasonably fine with that. In medium term, it may progress to 75-25. That is the kind of directional view I can give you. In terms of credit quality, etcetera, we are not seeing any alarming trends really and these are high margin products. So, it is all within our risk appetite.

Ashish Agashe: Okay sir. Thank you so much.

Moderator: Thank you. We have our next question from the line of Ira Dugal from Reuters. Please go ahead.

Ira Dugal: Hi, good evening. It seems to be a problem across the industry of attrition. I have seen your numbers in the annual report from last year. Just trying to get a sense of what it is looking like this year, particularly at junior levels and how the Bank is tackling it if it is high. Surely it has an operational impact even if not in terms of cost, but in terms of service?

Amitabh Chaudhry: So hi, thanks for the question. Firstly, let me state that there are very few banks in the industry who are actually disclosing their numbers. In some cases, it is not even an apple-to-apple comparison. But yes, at the front line, all of us are seeing attrition somewhere between 33% to 35% range, though the attrition in the -- I would say senior positions and the corporate office is generally lower.

As an industry, given the fact that we are growing at a certain rate, given the fact that Indian economy is growing at a certain rate and a lot of the policies abound, we are all used to, at one level, working with this kind of attrition. So, it is not something new. All the top banks, as I said, are in the kind of same zone. Secondly, yes, I am sure like us, every other bank is also working on various measures and means to somehow reduce this attrition. Last year, we saw a spike in attrition. This year, we are seeing some slowdown, but there are some parts of our business where we are seeing heightened attrition.

So, it is something which is a constant effort which all the management teams make all the time, but it is the reality of the industry to some extent. And we are all in a way used to working also at those attritions for reasonably long periods of time. Just because you might ask the question, let me just state categorically that the attrition of Citibank employees who have joined us is at a level which is lower than what they have experienced for the last three years. So, I just want to get that data point also out of the way.

And as I said, industry-wide problem, very few banks declare it, something we work on all the time and yes, at one level, where we are used to it, our resolve to continue to try to bring it down remains and we are constantly working on this problem to ensure that we can get it down to a more reasonable level. Thank you.

Ira Dugal: Is it mostly the sales category and would you be able to share a number saying that in the relationship manager category?

Amitabh Chaudhry: So we do not disclose different attrition numbers for various parts of the business, but as I said, the higher attrition is on the front line. Front line is obviously a combination of sales and the branch people where we see, the attrition tends to be higher. Thank you.

Moderator: Thank you. We have our next question from the line of Ankur Mishra from ET Now. Please go ahead. Mr. Ankur Mishra, your line is unmuted. Please go ahead with your question.

Ankur Mishra: Good evening, everyone. There is slight moderation which can be seen in SME loan as far as the phase of growth is concerned if you compare it with Q4. Just wanted to understand this is again seasonal or is deliberate?

Rajiv Anand: There is no -- what you are seeing, if you are referring to the QOQ numbers on the SME side of the business that is seasonal, that tends to happen from Q4 to Q1, that is nothing unusual. But if you look at the YOY numbers, they continue to trend very strongly. We are seeing that the business that we really like as Puneet mentioned the fact that there is a granular part of the business, SBB, SME plus mid corporate which now comprises 20% of our book. This is a business that we like. We like the growth that we are seeing. We like the profitability that we are seeing. And the credit environment in this space at the moment continues to be benign.

Ankur Mishra: Okay. Another thing I wanted to understand was a sense on the cost of funds in coming quarters, as it is around 5.03% this quarter itself and it has been consistently rising.

Puneet Sharma: Thank you for that question. I think we do not guide a specific number, but directionally, let me provide you some colour. Marginal cost of non-retail term deposits has plateaued or stabilized in the marketplace for the last few months. So, effectively, unless there is any exceptional event, we expect those rates to have stabilized. On the base book, the base book for us, it started repricing Q4 and played through Q1. We do expect cost of deposits on the base book to move up, but the pace of growth of cost of deposits will moderate as we move forward.

Ankur Mishra: Okay, thank you.

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

Gopika: Hi. Sir, in your opening remark, you spoke about a good pipeline of corporate loans. Is there any number you can give for this?

Rajiv Anand: No, Gopika we do not have a number, but what I can tell you is that it is significantly stronger than what we had in Q1 same time last year.

Gopika: Right, and this is from Brownfield, Greenfield, what kind of project?

Puneet: It is quite broad based at the moment. We are seeing a mix of requirements for capex and working capital and it is across sectors, retail, telecom, NBFCs, road projects. So, it is quite broad-based at this point in time.

Gopika: There has also been a jump in gross slippages this quarter. You mentioned about Agri, is that one of the contributors?

Puneet Sharma: Thank you for the question. Actually, if I was to give you the numbers, our gross slippages on a YOY basis have declined by 18 bps. So, effectively we had seasonality in Q1 of last year and we have seasonality of rural NPAs in Q1 of this year. So, on a like-for-like basis, our gross NPA -- our gross slippages are down 18 bps. The principal reason for slippage is being higher on a sequential quarter basis is the seasonality of the rural loan recognition.

Gopika: Okay, and could you guide us how would the slippages, would the momentum continue like this, or do you see this petering out?

Puneet Sharma: Thank you again for the question. We typically do not offer guidance on slippage metrics on a go-forward basis. Broadly, the commentary that we have maintained, and we continue to maintain is our COVID provision is entirely prudent. We are not seeing any signs of the portfolio that make us uncomfortable today.

Gopika: Sure. Thank you.

Moderator: Thank you. We have our next question from the line of Vishwanath Nair from BQ Prime. Please go ahead.

Vishwanath Nair: Hi, good evening, sir. My first question is on the net interest margin front. So, there on a QOQ basis, if you see the domestic NIMs, that is somewhere about 15 bps. I understand it is largely because of deposit repricing, but I just wanted to get a sense of how much more of that is left. Any kind of indication of where NIMs are going to end up this year. That is my first question. I will come back to some more question.

Puneet Sharma: Thank you for the question. We do not guide on NIMs, but I will offer some qualitative commentary around where we see that move. At a Bank level, NIMs dropped by 12 bps which is 4.22 to 4.10. It is important to note that the business-as-usual NIMs have dropped only by 9 bps. We had 3 bps of interest on income tax refund last quarter that has not repeated itself. Our advances in investment yields have improved, which have offset the 30 plus bps in growth in cost of funds.

On the trajectory of cost of funds, non-retail term deposits, we believe on a marginal costing basis have stabilized both for us and for the market as a whole. The base book on deposits that we have started repricing in Q4 of last year. Repricing has played through in Q1. We do expect deposit repricing to happen through the rest of the year, but the pace of growth of deposit cost will moderate through the rest of the year. Since, we do not offer guidance or constructive numbers on what the cost of funds would be, therefore I am not putting out a specific number. But directionally, you would have gotten a fair sense of where cost of deposits is likely to trend, going forward.

Vishwanath Nair: So, I am just saying that this 4.1% is, I mean, you are close to that for the year. I am taking that as a takeaway from this answer?

Puneet Sharma: No, I am not indicating that 4.1 which we reported for the quarter is the full year NIM. What we have always maintained is, if you look at our FY23 performance at a 4.02 NIM for a full year FY23 basis, we reported 18-plus percent ROE. And that is the only borderline conditions that we are calling out for performance delivery. So, please do not interpret 4.1 and the qualitative commentary as given as guidance of 4.1 for full year NIMs, please.

Vishwanath Nair: Fair enough, fair enough. The second question I had was on the corporate side. Rajiv sir, you said that there is a broad-based sort of demand, but some players have been highlighting that the demand order, the competition is becoming too difficult to play around with because pricing has become unsustainable in certain cases. I just wanted to know your experience what that is looking like?

Rajiv Anand: So, we are meaningful players on the corporate banking side, not just on the lending, but like I keep mentioning across the cap table, we have a dominant position in ECM, in DCM, we are gaining market share across transaction banking. And so therefore our engagement with the corporate sector continues to deepen. So, therefore in that context, we are seeing enough opportunities for us to be able to grow our book without compromising on underwriting standards or the pricing principles that we have internally.

Vishwanath Nair: Okay, but are you seeing that kind of rush amongst the rest of the market to try and squeeze out the other players in my own pricing?

Rajiv Anand: So, there will always be assets where there will -- for the better-quality assets, there will always be demand. But I mean, that is a function of the relationship and how you manage that particular transaction because you can participate in that transaction with a higher or lower amount. You could participate in that transaction and then sell down if you do not like the pricing. So, there are multiple strategies that one would adopt on some of these specific transactions. But ultimately, our aim is to ensure that the customer gets what he wants, and then we will manage the risk as appropriate.

Vishwanath Nair: All right. Thank you.

Moderator: Thank you. We have our next question from the line of Ritu Singh from CNBC. Please go ahead.

Ritu Singh: Hi. Most of the earnings-related questions have been answered. I just quickly wanted to get a sense of two things. First is, your Citi acquisition, you concluded it on the 1st of March, and you have now had a full quarter. So, I wanted to understand, from the number of Citi customers you acquired when the deal was signed, how many have really stayed back now that the full integration is completed to get a sense of, the deal is really worth it. I know you are saying the synergies are starting to play out, but if you could give a sense of how many exact customers have stayed back and what their spends have been? And then I have second question.

Arjun Chowdhry: Yes, Ritu, thanks for your question. So, Amitabh alluded to some of this in his opening remarks. I will start by capturing those again. We have seen actually some very good traction from Citi customers, especially on the new palette of products which we have been able to bring to them over the last 4.5 months, 5 months. There has been very good reception on that. Another metric which we want to call out is that on the credit card's base which was the lion's share of the customers which we brought over, that the spending continues to grow. In fact, the balance sheet continues to grow as well. A third metric is that our deposits from that base continue to grow as well.

So, on almost all metrics, and I have given you examples from pretty much representative of the business as a whole, we are seeing a lot better traction than even we would have thought on all the products, on all the aspects. The customer base is largely intact. There are normal BIU movements in and out, but the customer base is largely intact. In fact, the acquisition of new customers by the erstwhile Citi team has also increased. So, on all fronts, it is working out ahead of our expectations and we are quite happy with what we are seeing.

Ritu Singh: That is not very objective, if I may add. What is the number if you could share on how many Citi customers you intended to add versus how many have left since the closure of the deal?

Arjun Chowdhry: Unfortunately, I will not be able to share specific numbers on segment-wise acquisitions, but I do want to reiterate the fact that the numbers are well ahead of our expectations and are progressing exactly in line, in fact, ahead of the plan that we had made.

Amitabh Chaudhry: So, Ritu, if you recall, when we had closed the LD1, which is -- when we took over the Citi assets and liabilities, we had said now it is one Bank, One Axis and we will report Axis numbers only. So, we do not intend to declare any separate Citi numbers. Obviously, internally we do monitor the gross rise in customers we have migrated to us and that is why Arjun is making those comments. So just want to clarify. Thank you.

Ritu Singh: Okay, the second question is on your Max Life deal. Earlier, at the start of the year, you revised the pact and said the remaining 7% would be bought at the time, say 85 or whatever per share. I just wanted to get a sense of whether you have dropped the plan for acquiring that remaining 7% stake. If you do want to take it, the stock has also run up since then. What is the kind of price that you would be looking at? Thank you.

Amitabh Chaudhry: So, Ritu, to clarify again, we have always made our intentions very clear that we desire, and we want to, and we have not changed our mind. We intend to take our stake to 20% at the earliest possible opportunity. In our deliberations with the regulator, which is the insurance regulator, IRDAI. There is a certain formula which has been laid down and it is based on a discounted cash flow analysis. We cannot tell you today what that number would be. It would be done at the time of the acquisition and whatever number comes up, we will pay that value at that point in time.

Ritu Singh: But you intend to conclude this transaction to buy the remaining 7% stake definitely within a definite timeline?

Amitabh Chaudhry: So, we have a certain time frame in which we can acquire it and as I said we intend to acquire our stake at the earliest possible opportunity.

Ritu Singh: Thank you.

Moderator: Thank you. We have our next question from the line of Hamsini Karthik from Business Line. Please go ahead.

Hamsini Karthik: Hi. It is actually one of the best numbers from Axis in the recent quarters. So, congratulations on that. I have a couple of doubts. Cost of employee is up about 22% when I look at Q1 of the current fiscal year to a year ago. Is this a jump, a steady rate for you or because it also reflects increments etcetera or is it a little different from your past trends?

Puneet Sharma: Thank you for the question. One, the growth rate by itself is not an apples-to-apples growth rate. Please do appreciate that same quarter last year we had not acquired the Citi business. Therefore, the staff cost of the Citi business sits in the staff cost reported for Q1 but does not sit in the staff cost reported as of the same quarter last year.

Secondly, we have previously called out that we will provide increments and continue to invest in our growth businesses. The staff cost that you see is partially driven by increments that we have offered in the current year, our investments in our growth business, digital and technology teams, and the third is the apples-to-oranges comparison of having a full quarter of Citi manpower cost in quarter one this year and not having it that year. So far as our cost trends are concerned, we are comfortable with the cost growth that we have.

Hamsini Karthik: Okay. You have not utilized the COVID provisioning so far. Would the Bank at any point consider writing it back or you will just let it stay as is in the book?

Puneet Sharma: Thank you for the question. Just to reiterate, the COVID provision is entirely prudent. It is not a reflection of any risk that we see today on books. The philosophy is to carry a strong balance sheet going forward. There are regulatory changes that are coming through like expected credit loss. Subject to audit committee and board approval, we will take a constructive decision on the COVID provision. The management direction is we do not intend to write back this provision into the P&L at any point of time.

Hamsini Karthik: Great. One last question, sir. You are one of the very few banks to have organically built a Bharat book, largely around MFIs, etcetera. It is now about 10% of the total loan assets. Are you comfortable at 10, would you want to take it a little higher considering that some of your peers are looking at a mid-teen’s kind of a number there? What are your plans on this particular business?

Puneet Sharma: Thank you for the question. One of the key areas of distinctiveness that we have called out for ourselves is Bharat Banking. We are investing in that franchise. You are seeing early results of that investment and focus that we brought to that business. You will see us continuing to invest in that part of India and growth should come through. Slide 24 of our investor presentation provides you the benefits of that investment and the salient features of our Bharat Banking franchise but apart from that we continue to remain committed, and it will remain an area of distinctiveness for Axis Bank.

Hamsini Karthik: Will it remain a 10% of total book, sir? That is all that I want from you as a guidance?

Puneet Sharma: We do not guide segmental proportion of the book. Just from a fact-based clarification, as of June, it is 14% of our total retail book. We continue to want to invest in that business and therefore you will see us continue to invest and grow that business. It is high RAROC and therefore if it does provide us to grow profitably, we will continue to grow that business faster than the rest of our businesses.

Hamsini Karthik: Thank you.

Moderator: Thank you. We have our next question from the line of Mayur Shetty from Times of India. Please go ahead.

Mayur Shetty: Thanks. My question has been answered, but I would like to take the opportunity to know about what your plans for the credit card business are. Until when can you issue the Citibank credit card and when will the card be re-branded?

Management: Mayur, there was some problem with the audio, so I hope I got it right. Were you asking till when will the Citi credit debit card be issued, was that the question?

Mayur Shetty: Yes.

Arjun Chowdhry: So, after LD1 which was legal day one, which was March 1st, we have moved most of our acquisitions over to Axis products. We created new Axis products for each of those segments. There are very few cards which are continuing, which we have rights under the agreement to continue for a certain period of time, but the intent is to create products which combine the best of both for customers and acquire those that journey has already begun and most of the acquisitions which we are seeing are going to be on the new palette of products.

For customers who hold those cards and who get renewals, they continue for a certain period of time to get the erstwhile Citi plastic which is covered under the terms of our agreement. There is a formal cutover which will happen when the systems migrate at which point of time the customers who renew thereafter will get the new plastic. So, we are working towards the 15 to 18 months from LD1 which we had guided earlier also in March itself and we are on track to complete as per that schedule.

Mayur Shetty: So, after that there will be only Axis Bank cards here?

Arjun Chowdhry: Even now for a new customer it is largely 99%-plus Axis Bank cards. Yes, after that point even the renewal plastics would be the Axis Bank cards created specifically for that set of customers.

Mayur Shetty: Thank you.

Moderator: Thank you. We have a next question from the line of Preeti Singh from Bloomberg. Please go ahead.

Preeti Singh: Hi, I just wanted to pick up on the question of attrition. It is an industry-wide problem, as you said, Mr. Chaudhry. Is there any thinking around maybe expanding the funnel in terms of hiring frontline and sales force personnel and sort of what are the new cohorts that you might be exploring to bring into the funnel?

Amitabh Chaudhry: Well, Preeti ji, as we said that it is a constant endeavour on the part of any institution to look at ways and means of reducing this attrition, and one of the potential ways is always to look at either new funnels or hire more people when the kind of people graduate and train them and bring them up in your organization so that it is ready to you for a longer period of time. We keep evaluating this all the time. We have specific hiring which we are doing for various cohorts across the organization for various skill sets, and the number of these specific cohorts we are hiring has gone up manifold.

So, just to give you an example, we were earlier hiring for banking in general. Now we hire for IT, for analytics, for some of these areas separately. And these people are hired specifically to work in these departments. We keep trying new things, we keep trying new experiments, some work, some do not, but yes, it is a problem we are grappling with on a regular basis and not only us, as a management team, but obviously even the board is very cognizant of this problem, and we discuss some of these issues at that level too.

Preeti Singh: Okay, fine. Thank you. I also wanted to check if you have any imminent fund raising plans in this quarter or next?

Puneet Sharma: We have no fund-raising plans. As you would notice, we are accreting capital organically. We are probably the only large private sector Bank that is accreted 36 bps of CET1 in the current quarter. Our overall capital adequacy position is comfortable at 17.7% plus and our CET1 capital at 14.38 gives us sufficient capital to organically grow. So, no plans to raise capital.

Preeti Singh: Okay, thank you.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time, kindly stick to one question. We have a question from the line of Piyush Shukla from Financial Express. Please go ahead.

Piyush Shukla: Most of the queries have been answered. A couple of queries. Just wanted to get your sense on some of your private, one of your private peers is looking to add 1,500 to 2,000 branches in this fiscal. What is our Bank branch expansion plan? And what is also your guidance for the credit card side you have been adding 1 million customers each month for the last six quarters. Actually, you have added over 1 million customers, so will this trajectory continue? Also, sir just one associated query on this – you stopped the Magnus, devaluing the Magnus cards division. So, what was the rationale, and will more changes follow in some of the cards that are there?

Ravi Narayanan: Thanks Piyush. I will quickly answer the question on the branches. We continue to focus on distribution as our fundamental approach of sweating the franchise. We keep looking for white spaces and that indicates to us as to where we should be looking for enhancing our distribution. And we will continue to do that as we look at both Bharat specifically as has been answered in the previous question, as well as continue to look at potential in the urban markets. I will now hand it over to Arjun for the cards.

Arjun Chowdhry: Thanks for your question on the cards piece. I will try and answer both of them. Obviously, we cannot share specific numbers around what we plan to acquire but suffice it to say that it is a very important part of our business growth, both cards and payments and not just credit cards, but the merchant acquiring piece, the addition of new handles on UPI and also, credit cards. So, we will continue to focus on that in the coming quarters and ahead. We will do so in a manner, which is based on customer centricity and based on product propositions, which are winners in the market.

Now to your second part about what you referred to as a discontinuation of the Magnus card, I just want to clarify two points. We have not discontinued the Magnus card. In fact, what we have done is we have introduced a version of the Magnus card which is now linked with our wealth management proposition which was a winner itself in the market. So, we brought together two winning propositions and created an even more powerful card which is available to all our customers who qualify for the Burgundy Private, I am sorry the Burgundy Wealth Management proposition. They get the exact same Magnus card with some added features. So, we have not discontinued.

We have made certain modifications to the features of the erstwhile Magnus card which we believe for high spenders remains the most powerful card in the market. So, now we have two versions of it, which we believe are well suited to the customer's needs even better than before and for high spenders like I mentioned are by far the most powerful card in terms of benefits in the market.

Piyush Shukla: Any number of branch additions?

Ravi Narayanan: Well, last time if you had looked at the Q4 conversation, we had indicated that we are looking at these white spaces, helping us to move towards adding anything upwards of 400 branches.

Piyush Shukla: Throughout the year, sir?

Ravi Narayanan: Through the year, yes. Thank you.

Piyush Shukla: Thank you.

Moderator: Thank you. We have our next question from the line of Anshika Kayastha from the Hindu Business Line. Please go ahead.

Anshika Kayastha: Hi, good evening. Sir, I just wanted to understand the impact of the recent RBI norms on credit card network portability, especially on the Bank's co-branded partnerships. And do you see some challenges in offering multiple card networks to your customers?

Arjun Chowdhry: No, thanks for the question. It is something which the industry is putting together remarks for. As you know, it is open for comments till the 4th of August. We will be sharing that. To answer your question specifically, no, we do not believe there are any challenges, but implementation does require some amount of the detail to be worked through, but we are supportive of the fact that we want that of the RBI's effort to provide choices to customers in a manner which is operationally feasible as well.

Anshika Kayastha: Sure, thank you.

Moderator: Thank you. We have our next question from the line of Kshipra Petkar from Informist Media. Please go ahead.

Kshipra Petkar: Sir, I just wanted to ask how much of your deposits are yet to be repriced and also, by when do you see the cost of deposits falling?

Puneet Sharma: Thank you for the question, Kshipra. We do not quantify the residual component of our deposit repricing frequency. However, to give you a directional input, non-retail term deposit pricing has stabilized on a marginal cost basis over the last couple of months, both for us and we understand in the market space and that is likely to be stable unless there is a major macro event to be dealt with.

On the base deposit book of the Bank, our deposit costs started increasing in Q4 of last year. We have had an increase of 30 bps plus in Q1 of the current year. We do expect deposit cost to reprice to the rest of the financial year. The pace of growth in cost of funds is likely to moderate.

Kshipra Petkar: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time, please restrict to one question at a time. You have a question from the line of Jinit Parmar from Money Control. Please go ahead.

Jinit Parmar: Hi, good evening. So, just wanted to understand on the customer complaint side. So, in FY22 among the private banks, your Bank has the maximum number of complaints there. So, recently, RBI has set up a committee and they brought up some guidelines concerning on the same line. So, just wanted to understand how your Bank is working in this segment as to how it comes to policy changes or things. So, how is your Bank working on that?

Subrat Mohanty: Thank you for your question. If you have been following some of the conversations, we have had over the last 18 months or so, we have got a Bank-wide program on customer obsession. So, the numbers that you saw last year, those numbers have been falling on a QOQ basis by a material percentage and they will continue during the course of this year. We are very aware of this and therefore, there is a Bank-wide program cutting across all product lines, all the geographies that are focused on bringing this number down.

We are also in some sense, our belief is a bit ahead of the market in terms of how sensitive we are to categorizing something as a complaint. And we believe that in some sense, eventually the broader guidelines of how the complaints are categorized will eventually even out in the market. From our perspective, we are ahead of it and in that sense, eventually you will see our numbers moderate as well as the overall industry numbers start to catch up with us.

Jinit Parmar: Sure. Thank you.

Moderator: Thank you. We have our next question from the line of Ekta Suri from ZEE Business. Please go ahead.

Ekta Suri: Good evening, gentlemen. I wanted to ask, you were talking about slippages, and you said that in Q1, generally you see slippages in the agri sector. So, apart from agri, in which other sector are you looking at NPA? And if there is a demand for credit, in which sector is it increasing the most?

Puneet Sharma: Our credit demand is coming from all sectors. If you see the growth of our book, then retail, wholesale, SME, all three 20% plus YOY growth is there. For demand, we are confident for all the three sectors and for growth also we are confident, and we will do lending with the companies and clients which meets our risk parameters. Your second question was on slippages. Slippages are contained in wholesale and SME, they are limited. In fact, net slippages are negative in wholesale business. So, the slippages you are seeing in this quarter are from the retail side. And the sequential growth you are seeing is due to seasonality and seasonality is there in the retail agri book.

Ekta Suri: And when you are talking about slippages, have you started as a kind of practice keeping ECL in mind to do provisioning according to that?

Puneet Sharma: Ma'am, ECL guidelines are yet to come. But if you see our provision cover on NPA, you will see that our provision cover ratio is 80%. All our provisions by gross NPA have a coverage of 145% of gross NPA. If you look at our provisioning policies, then our total non-NPA provision is more than Rs. 11,800 crores. So, on our current policies, we are quite comfortable. If ECL is implemented, there should be no impact on the Bank.

Ekta Suri: And sir one question will we see operational expenses cost, the impact of operational expenses on upcoming quarters also after Citi integration?

Puneet Sharma: Ma'am expenses are our BAU. So, the expenses that come in business as usual, you will see them on our P&L. We had said earlier that in 18 months, our integration expense will be Rs. 2,000 crores, pre-tax and Rs. 1500 crores post-tax. They will pick an expense which is one time exceptional. The rest is BAU growth. We have no other exceptional item to call out currently.

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, Yashashri. Thank you, ladies and gentlemen, for taking the time to speak with us today. If there are any follow-on questions, please do reach out to our corporate communication team. We will try and address that as best as we can. It has been a pleasure talking with you this evening and thank you for your time.

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