"Axis Bank Q2FY21 Financial Results Conference Call"

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Management:

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Moderator: Ladies and gentlemen, good day and welcome to the Axis Bank Conference Call to discuss the Q2 FY 2021 Financial Results. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation has not been sent. An authorized dissemination of the content 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. There will be an opportunity for you to ask questions at the end of the briefing session. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Amitabh Chaudhry: Hi, thanks a lot. We welcome you all to a discussion on Axis Bank's Financial Results for Q2FY21. We also have on the call, Rajiv Anand – ED and Head of Wholesale Banking, Amit Talgeri – Chief Risk Officer, Ravi Narayanan – President and Head of Branch Banking, Retail Liabilities & Products, and Sumit Bali – President and Head of Retail Lending and Payments.

Domestic economic activity has improved in Q2, and October trends remain supportive. Key leading indicators, for example, the Purchasing Managers Index for Manufacturing, electricity demand, auto sales, etc., indicate that many manufacturing sectors are up to pre-COVID levels. GST collections, mobility indicators and the Services PMI also suggest that a broader recovery in the non-contact services segment is underway. These trends do corroborate to some stabilization of the macro-economic environment.

We continue to be guided by the three vectors of our GPS strategy and have made solid progress over last 21 months. While we remain conservative in our policies and processes, we continue to pursue growth wherever we see the right opportunities. We have taken methodical steps to grow each of our business segments and are seeing marked improvement in granularity across fees, deposits, advances and costs, resulting in strong operating income growth.

We have also made significant progress on our digital leadership ambitions with new launches, and continued to gain disproportionate market share in UPI and mobile banking during this lockdown. Our One Axis strategy has started yielding results and our key subsidiaries continue to gain market share and are delivering strong performance despite a challenging environment.

For the last seven quarters, we have consistently demonstrated our prudent and conservative approach when it comes to provisioning norms, accounting policies and ratings downgrades. We want to be ahead of the curve in comparison to the industry, and our actions this quarter reflect the same.

In quarter two, we have proactively downgraded accounts into BB & below pool, and made further Rs. 3,143 crores of additional provisioning. Two key reasons for the higher downgrades, firstly, 25 % is based on routine downgrades. And secondly, balance is for restructuring; based on our conservative judgement and assessing all accounts into high and low likelihood of availing restructuring, we have proactively downgraded some accounts. Puneet in his section will provide more details.

We have now built a provisioning buffer of Rs. 10,839 crores over and above our PCR of 77%, which improved 243 basis points quarter-on-quarter (QOQ). On an aggregated basis, specific provisions, standard provisions, additional provisions plus COVID provisions, our provision coverage ratio stands at 124% of GNPA at September 2020 as against 76% in September 2019, and 104 % at June 2020. We have further added to the NII reserve in the current quarter, we had started in quarter one. Now we have Rs. 223 crores of NII reserve as part of our provisions.

During the quarter, we have successfully raised Rs. 10,000 crores that has further helped in strengthening our capital position. Our capital adequacy ratio of 19.38% and CET 1 of 15.38% are now at historic highs, providing us a strong platform to grow faster once the economy gradually emerges from this unprecedented and challenging period. We have also been maintaining adequate surplus liquidity with average LCR ratio of 117% in Q2FY21.

During the quarter, we had Subrat Mohanty joining us as Group Executive and Head of Banking Operations & Transformation. Sangram Singh has re-joined the Bank to head the CBG business.

With this, let me now offer key highlights of Axis Bank's Q2FY21 earnings and a detailed update on our business performance.

The Bank's pre-provision core operating profit grew 18% year-on-year (YOY) for the quarter. The strong operating performance this quarter was driven by NII growth of 20% year-on-year, NIM improved to 3.58%, strong sequential pick up of 67% in fee income and controlled OPEX growth of 5% YOY.

On fees, we have been focusing on building granularity across our various fee generating businesses and have seen positive momentum continue this quarter with some fee lines doing even better than pre-COVID levels. In retail segment, third party distribution fees grew 38% YOY, with new highs for life insurance as well as general insurance fees. Card fees and retail loan processing fees recovered with 76% and 237% quarter-on-quarter growth, reflecting sequential pick up in spends and disbursements. Q2FY21 retail fees stood a little higher than that in Q2FY20, while Q1FY21 retail fees stood at 57% of Q1FY20.

In corporate and commercial banking segment, share of transaction banking and forex fees has been steadily rising and stood at 57% of total fees in this segment, which is the highest in the last 10 quarters. There has been strong growth in transaction banking segments like Current Account and Cash Management Services that grew 21% YOY and 39% YOY. Forex fees for the quarter grew 29% YOY as we continue our focus on growing wallet share of trade and LC business, to enhance engagement with clients.

Our deposits franchise continues to remain strong with healthy growth in stable and granular retail deposits CASA and retail term deposits on quarter average balance basis grew 20%, improving the ratio by 536 basis points YOY to 84%, while non-retail term deposits declined by 16% YOY. The savings account deposits grew by 15% YOY, within which retail SA deposits grew by 20% YOY, driven by our deepening and premiumization efforts. Deepening resulted in existing customers' savings balances improving by 17% YOY. And within existing portfolio, premium segment share improved by 200 basis points to 36%. Quality of New to Bank acquisitions have also improved with average balances in the premium segment up 23% YOY compared to 16% YOY growth in new to bank savings balances.

Our salary savings account deposits grew 28% YOY as we continue to work towards leveraging our corporate lending relationships with top corporates to gain higher share in salary segment. During the quarter, we added 6.91 lakhs new SA accounts. We have recently launched 'Liberty Savings Account' with industry-first offering of 'balance versus spends' that provide customers host of value-added features. The Liberty Savings Account has seen strong response with over 75,000 accounts opened since its launch in August 2020.

The thrust and focus on current account has also been extremely high within the Bank. We have witnessed pick up in current account growth on QAB basis to 18% YOY. Growth has been broad based with growth in quarterly average balances across commercial banking, branch banking and corporate banking segments growing by 28%, 11% and 11% respectively. The new current account customer acquisitions improved to 29% YOY.

Including TLTRO, on the advances side, our loan book grew by 14% with corporate loan book up 22% YOY, while the retail loan book grew 12% YOY. In the retail banking side, we continue to see improvement in loan originations, led by secured products, which has been our strategy, Q2FY21 disbursements tripled QOQ and stood at 75% of

Q4FY20 average disbursements. Of which, disbursements in secured loans were almost 3x of Q1FY21 numbers, and stood at 88% of Q4FY20.

Segments like small business banking and rural portfolio, excluding MFI, showing good traction with 17% and 19% YOY growth in quarterly disbursements. Our Deep Geo strategy continues to progress well with 26% YOY growth in disbursements, 88% of the loans were secured and 71% were priority sector lending (PSL) compliant.

Disbursements trends in unsecured personal loans are still trending around 40% lower than pre-Covid levels. We do not offer any other variant of the vanilla personal loans with structured repayment options.

Branches continue to be major contributor to secured retail lending business with loan originations from branches in quarter two growing to 57% from 48% levels in Q2FY20. This is again something we have been pushing to improve as a franchise.

On the credit cards side, if you refer to Slide 23, you all will see that our retail cards spend market share has grown in the past quarters and continues to remain steady. Overall, credit cards spend have rebounded with 49% QOQ growth, led by retail spends that were up 51%. Since Q2FY20, we have been consciously rationalizing non-profitable and high-risk segments of commercial cards business, while focusing on higher share of affluent business which has improved 11.4% from 8.9% in last 12 months.

Our Wealth Management business, Burgundy, continues to be among the top wealth management franchises in the country with 24% CAGR growth in assets under management to Rs. 1.70 trillion across the regular and alternate investment solutions. Burgundy Private continues to scale up well despite the current challenges, and its reach has extended to 1,225-plus families, with combined AUM of Rs. 34,591 crores.

On the corporate and commercial banking, over the last 21 months, we have strengthened the leadership across both coverage and product teams, re-oriented the organizational structure and embedded rigor in our way of conducting business, with an objective to deliver execution excellence. These changes are resulting in the transformation of the various coverage verticals and we are steadily witnessing incremental wallet share gains. We continue to deepen our engagement with better rated corporates, focus more on working capital loans and transaction banking products and leverage on the One Axis platform to offer a holistic product and service offering for our customers.

The growth in loans to corporates rated AAA and AA was 102% and 9%, respectively, driven by short-term working capital loans that constituted nearly 45% of the disbursements during the quarter. There has been good traction across segments, with mid corporates and MNC segments up 54% and 56% respectively, on a relatively smaller base.

Within the Financial Institutions Group (FIG), our persistent engagement with over 90 financial sponsors and One Axis approach has helped us open up newer opportunities across the Bank. Deepening of relationships along with new customer acquisitions in FIG have resulted in current account QAB growth of 41% YOY and advances growth of 23% YOY in this segment.

We have added 276 new relationships during H1FY21 period, spread across large corporates, mid corporates, FIG and strategic clients group. We have also revamped the organization structure and service architecture of our wholesale banking products group. With improved product and service offerings, coupled with specialized talent inducted, we have strengthened our position as a transaction bank. Slide 30 gives an outline of what we have been able to achieve so far. There is a lot of distance to go, but the start has been encouraging.

Our GST payments market share has moved to almost 10% from 8% year-on-year. Market share in foreign LC issuances has increased by 410 basis points YOY to 7.5%. Our corporate customers are also adopting digital channels for payments. We have launched digital CA onboarding that would help reduce the turnaround time. We are leading the way in biller additions in the Bharat Bill Payment ecosystem.

During the quarter the advantages of the One Axis platform came to the forefront wherein a few capital market deals in the biotech, real-estate, oil and gas sectors, we were able to offer a holistic solution to our corporate clients. The offering was helpful for the clients, and the Bank also improved the relationship across its retail and corporate banking segments.

In commercial banking, which is 11% of loans, we have been cautious in growing the loan book in the last couple of years and have a much de-risked book now that is 90% secured by hard collateral. Though the overall utilization rates of working capital limits continue to remain low, loan growth picked up 6% QOQ. We have also offered credit to MSMEs under the government's ECGLS scheme and have so far sanctioned nearly Rs. 7,000 crores.

We are looking to grow CBG business backed by reimagined customer journeys that would make the processes more effective and efficient, leading to faster loan disbursals, backed by data driven credit decisions.

During the quarter, we launched our tech transformation project that has helped to reduce service delivery TAT by 70% to 80%, reduce documentation by 60% plus, improved RM productivity by 2x and leverage on CBG's synergy with branch banking to enhance productivity and business opportunities going forward.

I do want to spend some time on digital banking. We continue to invest heavily and make progress our digital banking strategy. We are focused on select themes in our digital journey -- to scale digital direct to customer products, enable our staff digitally and to build and scale digital channels. Currently, across the Bank, we have 800-plus people fully dedicated to digital transformation of the Bank. We have built an in-house full stack tech team of 110 people who are developing the technology for us. These include design, front end and back end developers, DevOps, QA etc. Over 75% of our digital team comes from non-banking backgrounds such as consumer internet, Fin Tech etc.

Digital products now contribute a significant proportion of the Bank's sales with 73% of FDs, 72% of savings accounts, 58% of personal loans, 52% of credit cards, and 48% of new mutual funds in H1FY21 being sourced digitally.

We continue to maintain our strong positioning in digital payments space. We have a 20% market share in the UPI ecosystem and 18% market share in mobile banking, with total debit and credit card spends up 49% QOQ. We also made significant progress towards enabling our employees digitally. Our Bring Your Own Device program is live and working at scale with 36,000 frontline staff now fully enabled. Our suite of 250-plus bots continues to grow and find ways to enhance the digital capabilities of our frontline.

Data and analytics are central to our digital build. We have deployed petabyte scale big data capability on Hadoop clusters. We have now over a 100 AI based use cases leveraging this data, many of them on real-time basis. We have also built a number of credit models, some of these take up to 2,000 attributes and deliver a 20% lift on GINI as compared with bureau models.

For the festive season initiative, we have introduced attractive offers for our customers on our new launched GRAB deal proposition, including flat 5% cashback on Amazon and upto 15% cashback on 20 other brands.

APIs continue to be an important element of our strategy and we continue to make progress on this front. We have built and exposed several end-end product APIs across corporate payments, liability products, credit cards, loans, etc., several of these are live with partners too. This quarter, we launched credit cards with Google Pay and Freecharge. While Freecharge continues to focus on payments, it has started introducing financial services products like fixed deposits and insurance, focused towards the Millennials and small and medium businesses. Our partners include established companies as well as innovative new age startups, including a neobank, where we have made significant progress as well. We have also launched our developer portal in beta and continue to add new APIs to this, which we intend to scale up rapidly.

Very quickly on Sustainability side. At Axis, we have been continuously working on the ESG initiatives that we had set for ourselves as an organization. We have further increased our focus on the same, by creating a Steering Committee, comprising of senior leaders from risk, HR, digital, investor relations and digital banking with Rajesh Dahiya, our ED Corporate Centre, leading it from the front and will continue to update you all going forward.

So far to our credit, we have the first certified Green Bond issuance by an Asian Bank in 2016 of USD 500 million. The Bank has a lending portfolio of Rs. 6,450 crores in clean energy and other low carbon sectors. The Bank's primary CSR arm, Axis Bank Foundation's primary program, Sustainable Livelihoods, has a target of reaching 2 million families by 2025 after touching 1 million lives ahead of plans in 2017.

The Bank is a constituent of the prestigious FTSE4Good Index for the fourth consecutive year ending calendar 2020. FTSE4Good Index is a well-recognized and credible ESG index globally and the Bank's inclusion is an endorsement of its sustainability-linked policies and practices. Please see Slide 7 and 8 for more details.

One of the key thought leadership programs we have launched under our Future of Work umbrella is the Gig-A opportunities platform. It has received phenomenal response with over 56,000 applications so far, of which 45% applicants are women and 40% from non-metro cities, with diverse profiles for roles across traditional and new-age banking.

Moving onto subsidiaries. Our subsidiaries have delivered a healthy performance in these challenging times and continues to scale up in the ranks as they keep gaining market share in their respective businesses and start contributing meaningfully to overall value creation for the group.

The domestic subsidiaries reported a total net profit of Rs. 318 crores in first half, up 59% YOY, and already touching 67% of total subsidiary FY20 profits, driven by higher revenues as a consequence of market share gains and One Axis group strategy.

Axis Capital was at the forefront of revival of IPO markets in the midst of the lockdown with the launch of two highly successful IPOs in biotech and REIT space, and remains one of the top investment banks in the country. It has completed 21 transactions in first half. It's institutional equities market volumes grew 32% in first half against a market volume jump of 18%. Axis Capital's H1FY21 profit was at Rs. 57 crores after the first quarter was almost washed out.

Axis Securities has now evolved into full service broker, focused on building an advisory model, with customer acquisitions for the quarter up 146% YOY, with highest ever broking revenues in Q2 of Rs. 106 crores. During H1FY21, it has introduced seamless digital account opening process with account opening possible in 10 minutes. It's managed account products 'Smartedge' and 'Smartcase' continue to scale up well. It has also entered into referral arrangement for investing in U.S. stocks. Axis Securities' first half PAT was Rs. 74 crores, over 4x its full year FY20 PAT.

Axis AMC remains one of the fastest growing AMCs in the country across debt and equity product categories, with average AUM growth of 48% in the last 12 months, in an otherwise tough year for the industry. The growth is driven by fund performance and Axis AMC has improved its market share to 5.7%, up from 4.1% at the end of September 2019. It successfully launched its first global feeder fund which collected Rs. 1,180 crores. Axis AMC's H1FY21 PAT was Rs. 92 crores, up 207% YOY.

The NBFC arm, Axis Finance, is very suitable poised to gain market share and grow faster than peers once things start to normalize, with one the highest capital adequacy ratio which remains comfortable at 23.8%, lowest net NPAs, as GNPA and NPA stand at 3.90% and 2.1% respectively with 30 plus book being one of the lowest among the peers. Cost to income continues to be amongst the lowest in the industry at 25.6%. the share of retail in the overall book continues to scale up. The retail business accounts for +20% plus of incremental disbursements. Axis Finance's H1FY21 was Rs. 75 crores.

In conclusion, overall, the quarter has been good with various businesses of the Bank contributing to the strong operating performance with granularity coming through in deposits and fees and continued value creation in our subsidiaries. We have continued to build on our conservative stance and upfront downgraded weak assets, and now have a standard assets coverage of 2.2%, including the standard and additional non-NPA provisions.

We believe that the economy will gradually recover to pre-COVID levels as various segments of the economy have got impacted differently, and hence we remain cautiously optimistic. There are going to be few challenges for the sector related to surplus liquidity, muted loan growth, general risk aversion and asset quality. But the situation has improved in the last quarter and hopefully the trend continues.

Amit will give you more details, but if I see over last six months bounce rates, they have improved significantly. Our demand resolution stands at 97%, in line with the best in the industry. In such an environment, large banks with healthy operational performance, strong balance sheet and capital position, superior operational capabilities and digital prowess are better placed when growth comes back. We are confident of emerging from the crisis stronger and remain committed to achieve our medium-term aspirations.

With that, let me hand it over to Amit to take you through the risk segment in more detail.

Amit Talgeri: Thank you, Amitabh. Good evening, everyone. We hope you and your families are safe and healthy. And thank you for joining us today. Let me now give you some risk insights into the portfolio.

We have been continuously strengthening the risk management framework over the last 21 months, having recalibrated the risk appetite, tightened underwriting and screening standards, and implemented prudent policies. This, coupled with proactive risk interventions during the last nine months, has helped the Bank through these difficult Covid times.

Having applied a Covid lens across all business segments, we have focused on portfolio protection and taken a cautious approach to new business with a significant shift towards better rated corporates and secured retail lending over the last nine months. We have also extensively used the Bank's strength in analytics to re-calibrate our sourcing and collections strategy.

Let us now look at each of the business segments.

Starting with Wholesale Banking. The Wholesale Banking portfolio continues to see significant change over the last 18 months with tightening customer selection and underwriting standards. Over 82% of the book continues to remain in the rating category of A- and better. And around 95% of incremental advances in the last 18 months were in the A- and above category, with around 72% being in the AA- and above category. We continue to be selective in lending, focused at top rated corporates

In Commercial Banking Group or the SME lending business, we continue to adopt a cautious approach in lending due to the external environment. The focus continues to ensure we have a diversified and granular portfolio targeted at better rated SMEs. Over 84% of the portfolio is SME 3 and better, which is the equivalent of A- and above for SME lending. The portfolio is spread over 35 broad sectors and geographically well diversified in over 120 locations across the country. The average ticket size is Rs. 3.3 crores, with approximately 70% of borrowers with exposures less than Rs. 5 crores.

The guarantee scheme, which is ECLGS has helped borrowers with short-term liquidity and helped get their businesses back on the ground. The Bank has sanctioned over Rs. 7,000 crores and disbursed nearly Rs. 6,000 crores under this scheme to existing borrowers and we continue to service such requests. Given the slow and cautious pace of unlock in most parts, we continue to adopt a cautious approach in this segment

Moving onto Retail. Amitabh mentioned the pivot to secured retail in new acquisitions. Our existing portfolio continues to have a significantly high proportion of secured products at 80%, consisting of mortgages, wheels and rural lending portfolio. New acquisitions have seen over 80% being in secured products and primarily in mortgages in the last six months. Our retail unsecured portfolio is around 11% of the Bank's portfolio and 20% of the retail portfolio.

And to reiterate, unsecured portfolio is targeted at salaried, credit tested and existing customers of the Bank. The salaried and existing bank customers, with over 80% contribution, have historically seen low default rates. We continue to remain cautious in the unsecured products and sourcing is largely restricted to existing bank customers based on tightened risk frameworks. We are also actively leveraging analytics to capitalize on our partnerships which provide good risk insights for new acquisitions.

Let us now turn our focus to Collections, Recoveries and Restructuring. During the last call, we had talked of increased focus on collections with extensive use of analytical models, coupled with on-ground collections, and is reflected in the improving collections parameters. We continued strengthening our collection infrastructure which comprises of almost 10,000 strong force now, 8,000 of which are on the field and a 2,000-member tele-calling team, equipped to operate from home.

The cheque bounce rates are slightly higher in September and October compared to pre-Covid period. But this is on expected lines given that we are in the second month post moratorium and with the uncertainty around court verdict in customers' mind on payments. As part of the collection strategy, we are pro-actively working with customers to ensure that they honor their commitments and help them get back to normal payment habits. Our early bucket resolution rate in September was 80% of pre-Covid levels and improving with every passing month.

The 30-plus overdue of the Bank, which excludes GNPAs of the total portfolio of the Bank, stands at around 2.30% as of 30th September. We have also looked at demand versus collected or resolution as a key indicator, especially in the post-moratorium phase. For the month of September, demand resolution stood at 94% and with October closing a few days away, we are on track for resolution around 97% levels which would be just short of pre-Covid levels. We have also increased focus on recoveries from written-off accounts in the last six months, and the recoveries in the last two months have doubled compared to pre-Covid levels.

On restructuring, we have put in place a Board approved policy and the approach is to be selective and provide this only for customers submitting adequate evidence of Covid impact on their cash flows, income and business model. As of 30th September, the restructured amount was NIL across corporate and retail. Although customers still have time till end of December to apply and request for restructuring.

Based on our estimates, after speaking to borrowers, looking at requests being discussed with consortium banks and retail applications, we do anticipate the overall restructured book to be a small percentage of the overall book, and this is being adequately reflected in the provisions taken. Puneet will provide greater details on this.

So based on this assessment, we would like to give you a quick update on the stress testing we have been conducting on the portfolios. As most of you are aware, we did a stress test exercise at the start of the pandemic. Just to recap, the scenarios were built considering various factors like spread of infection, time to peak for the infection, lockdown, and time to normalcy of economic activity.

The model, which incorporated multiple variables and combinations was also subjected to external validation through a knowledge partner for design, scenarios, comprehensiveness and sustainability. We have, since, enhanced the models to incorporate the learnings, the change in pandemic, review of impacted industries, we have looked at job losses impact, moratorium, benefit of policy action, and also Government guarantee schemes and prompt payment benefit for non-moratorium customers in the stress scenarios. The results of the updated stress tests have been encouraging and the estimates have shown around 25% reduction from our April estimates.

In summary, the economic situation coming out of the lockdown seems to be getting better every passing month and is reflected in both new business and collections efficiency. Our portfolio choices on selective corporate lending, cautious approach towards commercial banking or SME, and pivot towards secured lending in retail with focus on existing customers provide comfort as we come out of the Covid crisis in the coming months. We do continue to monitor the portfolio closely based on the external environment.

With that, I now handover to Puneet for the financials update. Thank you.

Puneet Sharma: Thank you, Amit. Good evening, ladies and gentlemen. At the outset, our apologies to be slightly late for this call. Thank you for joining us this evening. I will discuss with you the salient features of the financial performance of the Bank for Q2FY21, focusing on our operating performance, capital and liquidity position, growth across our deposit franchise, journey of becoming a more prudent and conservative franchise, and asset quality and provisioning.

Strong operating performance is reflected through increase in NIMs, growth in granular fees, with some fee lines being better than pre-Covid levels and strong growth in operating profits. We continue on our journey of being a prudent franchise and strengthening our balance sheet. Net profit after tax improved 51% QOQ and stood at

Rs. 1,683 crores, compared to a loss in the same quarter last year. Our operating profit for Q2FY21 is Rs. 6,898 crores, representing a YOY growth of 16% and a sequential QOQ growth of 18%.

Our operating profit margin, defined as operating profit to average assets, improved from 2.95% to 2.98% on a YOY basis, and improved by 0.45% on a sequential QOQ basis from 2.53% to 2.98%. Our core operating profit for Q2FY21 was Rs. 6,092 crores, representing a YOY growth of 18% and a sequential QOQ growth of 17%. Our core operating profit margin, defined as core operating profit to average assets, improved from 2.55% to 2.63% on a YOY basis, and improved by 0.37% on a sequential QOQ basis from 2.26% to 2.63%.

NII for Q2 FY 2021 stood at Rs.7,326 crores, representing a YOY growth of 20% and sequential QOQ growth of 5%. NIMs for Q2 FY 2021 stood at 3.58%, compared to 3.51% for same quarter last year and 3.40% for the immediately previous quarter. On a sequential basis, NIMs grew by 18%. The sequential increase in NIM by 18 basis points is attributed to 3 basis points to capital raise that got concluded in the quarter, 5 basis points on account of lower interest reversal due to lower NPAs, and 10 basis points to normal business and better liquidity management. We had started the practice of creating an NII reserve in quarter one FY 2021. We have added to the NII reserve in the current quarter. The impact on Q2FY21 and H1FY21 NIMs on account of NII reserves is 5 basis points. i.e, the NIM would have been 3.63% had we not created this NII reserve.

Non-interest income comprising fee income, trading income and other income stood at Rs. 3,807 crores, representing a YOY decrease of 2% and a sequential QOQ growth of 47%.

Fee income stood at Rs. 2,752 crores, representing a year-on-year growth of 4% and a sequential quarter-on-quarter growth of 67%. Third party distribution fee income has reached 1.4x of pre-COVID levels and the income grew 38% on a year-on-year basis and 59% on a sequential quarter basis. Transaction banking fee and FOREX fee has reached 1.2x of pre-COVID levels and income grew 24% on a YOY basis and grew 75% on a sequential quarter basis. Trading income stood at Rs. 769 crores, representing a YOY decline by 5%, and an increase of 24% on a sequential quarter basis.

Operating expenses stood at Rs. 4,236 crores for the quarter ended September 30, 2020, representing a year-on-year increase of 5%. On a sequential quarter basis, the costs have increased by 14%, reflecting partially costs associated with revival of business volumes. The operating expenses to average assets ratio on September 30, 2020, stood at 1.97%, lower by 9 basis points as compared to 2.06% on September 30, 2019, and 3 basis points from June 30, 2020. The cost-to-income ratio for the quarter stood at 38%.

As was the case in Q1FY21, this quarter is also not a completely normalized quarter. Some part of savings and costs are attributable to lower volumes, which will come back as the business environment improves. In recognition of the services rendered during these trying times, we have decided to roll out increments for all our employees effective October 1, 2020.

Credit cost for the quarter is 0.37%, as compared to 1.89% for the same quarter last year, this represents a 152 basis points decline in credit cost. On a sequential quarter basis, the costs declined by 189 basis points as compared to 2.26% for the quarter ended 30 June, 2020.

We have made provisions on 90-plus DPD accounts not classified as NPA pursuant to the Supreme Court judgement, at rates that would have applied to these accounts per extant provisioning rules for NPAs in the Bank. The credit cost, including 90-plus DPD not classified pursuant to the Supreme Court judgement stood at 0.61% as at September 30, 2020, compared to 1.89% at September 30, 2019.

Our balance sheet strengthening continues. The cumulative non-NPA provisions at 30th September, 2020, is Rs. 12,540 crores. The key components of the provision are Covid-19 related at Rs. 5,012 crores; restructuring, weak assets and other provisions at Rs. 7,528 crores. The Standard assets cover, defined as all non-NPA provisions by standard assets, stands at 2.20%, up from 0.82% a year ago, and up from 1.56% in the previous quarter. Our provision coverage ratio, defined as all provisions (NPA + Non NPA/ GNPA) stands at 124%. This reflects a 20% improvement from the 104% reported at June 2020 and 48% improvement from September 2019 number of 76%.

Moving to our capital and liquidity position:

Our capital adequacy ratio is at the highest levels in the Bank as ever seen, and we are carrying adequate liquidity buffers. We believe this places us in a strong position in the current uncertain times. During the quarter, we raised fresh capital aggregating to Rs. 10,000 crores. This added 163 basis points to our CET-1. Our total capital adequacy ratio is 19.38% and our CET-1 ratio is 15.38%. Our cumulative capital adequacy ratio at 30th September, 2019, was 18.45% and CET-1 was 14.04% as at September 2019. There is no component of Tier I capital that matures over the next 12 months.

During the quarter, we maintained surplus liquidity, which is reflected in our average LCR ratio of 117%. Towards the end of the quarter, in light of our outlook on funding availability, we reduced excess liquidity. We exited the quarter with an excess SLR of Rs. 34,763 crores.

Growth across our deposits, franchise, and loan book. Our deposit book has remained resilient growing 9% YOY and 1% sequentially on a reported basis. In line with our granularization strategy, our retail term deposit book grew 18% YOY and was flat sequentially. Our corporate term deposit book de-grew 26% YOY and 16% sequentially.

We continue to prefer to focus on quarterly average balances, instead of month end balances for our liability franchise. Our total deposits on a quarterly average balance basis grew 13% YOY, our CASA ratio stood at 44%, against 41% on a YOY basis and QOQ basis.

If we decompose the growth in deposits, then on a quarterly average basis; SA grew 15% YOY and 2% QOQ. CA grew 18% YOY and 3% on QOQ basis. CASA grew 16% YOY and 2% QOQ basis. RTDs grew 25% YOY and 2% QOQ. Corporate term deposits degrew 16% YOY and 20% QOQ.

On the savings side, our strategy on premiumization and deepening are playing out very well. Amitabh has already spoken about it in great detail, you could find more details on it on Slide 19 of our presentation.

Our overall loan book, including TLTRO investments, grew by 14% YOY, and 3% sequentially quarter basis. Granular secured retail assets and high-quality large borrower relationships were the key driver of our loan growth in the quarter. Retail advances constitute 53% of the overall advances of the Bank. Retail loan book grew 12% YOY and 2% on sequential QOQ basis. The retail loans continue to be well diversified across products. 80% of the book is secured.

Of our unsecured book, which is 20% of the total retail book, 100% of PL book comprises salaried customers and 66% of credit cards comprise salaried customers. The LTVs on our mortgage business are in the range of 50% to 60%, and for LAP is 36%, providing us sufficient cushion on collateral.

Our Bank's strategy on retail assets continues to be centered on existing customers of the Bank. 70% of retail assets originations by count in Q2 were from existing customers. 77% of the Bank's credit cards and 93% of personal loan originations in the quarter were from existing customers of the Bank. We are seeing business traction in retail assets returning. The disbursements in our retail book were 3.1x of that in Q1FY21. The disbursements in our retail book reached 95% of disbursements of same period last year and 75% of Q4FY20.

In line with the Bank's cautious stance, the profile of disbursements has changed in favor of secured loans, with secured disbursements accounting for 85% of the disbursements in the quarter. The disbursements in Q2FY21 for home loans, LAP and auto loans stood closer to 90% of the disbursements for the same quarter last year.

Rural loan disbursements for the quarter were up 19% YOY basis. Our Deep Geo strategy continues to progress well and 64% of the sourcing of rural loans in the quarter were from deep geo locations.

On the corporate side, our One Axis strategy is gaining significant traction. Our corporate loan growth, including TLTRO, stood at 22% YOY and 2% QOQ. 95% of our incremental sanction in H1FY21 were from A- and above book, 71% of the incremental sanctions were to those rated AA and above. 38% of our book is for a tenor less than one year.

Our total standard fund, non-fund and investments outstanding to NBFCs is Rs. 29,396 crores, 89% of the same is rated A or above, with none of them being granted moratorium. Our MFI exposure is Rs. 5,627 crores, and our real-estate is Rs. 16,556 crores, 57% of which is lease rental discounting.

SME business. Our SME book is 11% of the total advances. The book is well diversified, 90% is secured, 72% is for shorter tenor. Growth has returned to our SME loan book after a year of consolidation and recalibration of underwriting, sales process and risks. The SME book de-grew by 1% on a YOY basis and grew 6% on sequential quarter basis.

We continue to take actions that enable us to progress on our journey of being a prudent and conservative franchise and operate in a manner that strengthens our balance sheet on a sustainable basis. In the previous quarter, we had taken actions across accounting policy changes, reserving for NII and additional provisions around Covid. Each of these themes is carried forward in the current quarter.

NII reserve. We have reserved, derecognized interest in the quarter towards various items, including but not limited to future derecognition. It should be noted that this reserving is done on income on standard assets earned during the quarter. The impact on our NIMs for the on account of the NII reserve is 5 basis points.

Covid Provisioning. We had discussed our risk models as part of our Q4 FY 2020 commentary and provided an update on the same on June 30, 2020. Our base model has assumptions that were conservative and outcome of the model were in the right tail of a normal distribution. Our model updates indicate that our initial stress predictions were conservative. The Bank, however, provided an incremental amount of Rs. 1,279 crores towards Covid risk during the quarter. With this, the Bank at 30th September carries an overall Covid provision of Rs. 5,012 crores. A part of the top-up provisioning for Covid-19 risks in the quarter is attributable to making provisions on all facilities of the obligor, not just limited to the facility on which moratorium was granted.

Probable restructuring provisioning. Covid-19 continues to impact the economy reflected in GDP growth numbers, and borrower stress across the banking system. The Bank has not granted any restructuring as at 30th September, 2020. Borrowers can however avail of restructuring till 31st December, 2020. We have used a combination of a bottoms-up approach and risk models to create a current best estimate, I reiterate, current best estimate of the restructuring requests that we may receive over the quarter. The total value of the estimated probable restructuring pool is disclosed on the slide that covers the BB & Below exposure in our presentation. The estimated fund-based restructuring translates to approximately 1.6% of our loan book. There is a material overlap with BB & Below book in the proposed or potential restructuring book.

We have created a provision for restructuring over and above our Covid-19 provisions for an amount of Rs. 1,864 crores. Assuming the entire estimated pool gets restructured, this is a conservative assumption, coverage on loans based on provisions made in the current quarter stands at 19% of the book. We will update our provision assessment based on actual restructuring behavior observed as at 31st December, 2020.

Asset quality metrics. On 30th September, 2020, our Gross NPA stood at 4.18%, our net NPA stood at 0.98%, as compared to 5.03% and 1.99% as at 30th September, 2019, respectively. This reflects a decline of 85 basis points on gross NPA, and 101 basis points on new NPA on a YOY basis. Our gross NPA stood at 4.72% and net NPA at 1.23% at 30th June, 2020, this reflects a decline of 54 basis points and 25 basis points respectively on a sequential quarter basis.

Absent the standstill to asset classification post 31st August, pursuant to the Supreme Court judgement, the Bank would have been required to report GNPA per RBI's IRAC norms for asset classification. The GNPA per the said IRAC norms as at September 30th, 2020, would have been 4.28% and net NPA% would have been 1.03%. Even with this addition, this reflects a decline of 75 basis points and 96 basis points respectively on a YOY basis on gross and net NPA, and a decline of 44 basis points and 20 basis points respectively on a sequential quarter basis.

The provision coverage ratio improved significantly to 77% at September 2020, compared to 62% as at September 2019. We had a coverage of 75% at June 2020. The Bank's provision coverage ratio without technical write-offs and without availing of the standstill benefit also stood at 77% at September 2020, compared to 62% and 75% respectively at September 2019 and June 2020.

Each of our business segments has shown a considerable improvement in PCR percentages. Our Wholesale Banking Group improved the PCR from 65% in September 2019 to 82% in September 2020. Our CBG coverage improved from 46% to 59% in September 2020. Our retail book is predominantly secured. Our PCR improved from 52% at September 2019 to 64% as at September 2020. The segmental GNPA, NNPA and PCR for the Bank's retail, SME and corporate books have been provided on Slide 44 of our presentation.

Gross slippages during the quarter were Rs.931 crores, the gross slippage ratio was 0.64%. The gross slippage without availing the benefit of the standstill to asset classification would have been Rs. 1,572 crores and the gross slippage ratio would have been 1.07%. The net slippages for the quarter were negative, I repeat, negative Rs. 917 crores. The net slippage without availing the benefit of the standstill to asset classification would also have been negative Rs. 661 crores. This was mainly on account of better recoveries and lower gross slippages. On a segment basis, our wholesale and retail businesses reported negative net slippages for the quarter.

Slippages in the quarter are not reflective of a normalized quarter. The slippages were due to multiple factors in the quarter. If the aggregate of all provisions, NPA and Non NPA, is divided by our GNPA pool, the overall coverage ratio, now stands at 124% as against 76% as at September 2019.

Our BB and Below book. During the quarter, we in aggregate collected Rs. 416 crores from our BB and below book. In the current economic environment, the Bank has not upgraded any borrower across fund based, non-fund based and investments from the BB pool. Slippages from the BB and Below pool to NPA for the quarter was Rs. 316 crores, broken up as fund based Rs. 98 crores and non-fund based Rs. 218 crores, compared to Rs. 2,007 crores in the same quarter last year and Rs. 1,041 crores for the previous quarter.

During the quarter, there has been an increase in BB and Below pool across fund-based, non-fund based and investments on account of two key reasons, internal reviews and current best estimate of restructuring based on judgment and model outcomes. The downgrades into the BB & Below book in the quarter were Rs. 3,025 crores from fund based facilities: Rs. 1,531 crores from non-fund-based facilities, and Rs. 385 crores from investments.

75% of the downgrades to BB and Below book are attributable to current best estimates of probable restructuring based on judgement and model outcomes. The balance 25% are attributable to internal reviews. Provisions held on BB & Below and probable restructuring aggregate to Rs. 2,671 crores. We request you to refer to Slide 43 of the investor deck, it sets out the summary of our net NPA, BB and Below and probable restructuring pool.

As the result of the above, the fund-based BB and Below book as a percentage of customer assets stands at 1.4% in September 2020, compared to Rs. 1.1% as at September 2019. The overall stress book comprising net NPA, BB and Below, and probable restructuring fund based, net of provisions stands at 2.51% of net customer assets as compared to BB and Below fund based and net NPA of 2.2% in the previous quarter, and 3.1% as at September 2019.

As part of my concluding comments, the salient features for the quarter are:

Our operating performance was strong, reflected in the growth in the operating profit ratio. Our capital position is the best that the Bank has had in years, post the successful capital raise. We are carrying adequate liquidity buffers, which we believe this places us well. Our deposit book remains resilient, granular deposits growing, and we continue to focus on month end balances for our liability franchise. Our book mix is improving along with a significant percentage of new originations being for better rated and shorter tenor loans.

Our prudence is demonstrated through the choices we continue to make in de-risking and strengthening our balance sheet, through declining NPAs, additional provisions and proactive recognition of stress. The cumulative non-performing asset provisions we carry are Rs. 12,540 crores. Our standard assets cover stands at 2.20%, up from 0.8%. And our overall coverage far exceeds 100% at 124%.

Amitabh spoke about our subsidiaries delivering strong business momentum across capital markets, broking, and asset management. The said subsidiaries continue to improve on their industry position as demonstrated through strong growth. Axis Finance continues to maintain its cautious stance on loan growth. Its capital adequacy is at 23.8%. We reiterate our stance of stopping guidance, till clarity on Covid-19 emerges.

With that, management comes to an end of its comments. Thank you for your patience. And we would be glad to take any questions you may have.

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

Mahrukh Adajania: Congratulations. I had a few questions. Firstly in terms of demand resolution, is that relative to March or is it September collections upon September billing?

Amit Talgeri: Mahrukh, you are absolutely right, it is September billing and September collections. It has got no correlation to March.

Mahrukh Adajania: Okay. And just in terms of September collection, would you be able to segregate whether they are collection for September only or would someone has paid overdue as well, like of the previous month?

Amit Talgeri: So the way this gets calculated is, it's basically the demand for September and what has got collected in September.

Mahrukh Adajania: Okay. So there could be some past due?

Amit Talgeri: Yes. There could be some past dues. But the way we look at it is, like I said, the demand resolution is basically whatever is billed in September and what is being collected. That's right.

Mahrukh Adajania: Okay, got it. My other question is on credit cost. So now you have a very good Covid cover and non-NPL cover. So can we expect credit costs to start normalizing from Q3? Because you have already provided your best estimate on restructuring. And would you start drawing down on your stock of Covid provisions now from Q3 onwards?

Puneet Sharma: Like we said, we are not guiding in the current environment. And as we said, we believe that we continue our journey to be a prudent franchise. We recognize early and provide early, and that's where I will rest my comments for the moment.

Mahrukh Adajania: Got it. And just in terms of this Rs. 125 billion of non-NPL provisions, that would include the standard asset provision of 0.4%, right?

Puneet Sharma: Rs. 12,540 crores that I spoke about includes standard asset provisions. Amitabh spoke of a number of Rs. 10,839 crores that is excluding standard assets i.e. pure additional provisions.

Mahrukh Adajania: Sure. And I just have a last question, you have given a very good picture on probable corporate restructuring. Would you have any rough estimate or guidance on retail restructuring? Or any qualitative colour you can give on it?

Puneet Sharma: Mahrukh, I would guide you to Slide 43 of our presentation, the footnote. We have quantified the number outside of the corporate portfolio. The current best estimate is Rs. 2,500 crores, it is stated as a footnote to the slide, please.

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

Adarsh Parasrampuria: Question again on the Slide 43. What I was asking is, you all mentioned about restructuring of 1.2%, right, probably. I just wanted to understand how that splits between, so you have indicated a non-BB restructuring corporate pool and then you have the BB, right? So basically, some part of the BB and the non-BB probable restructuring pool, is that how one should look at it?

Puneet Sharma: The way one should think about it is that the downgrades in the current quarter that we have done, which we have disclosed to you, 75% of the downgrades in the current quarter to BB and Below are on account of probably restructuring. So that's the pool that is sitting in BB and Below. And the amount outside of BB is stated in the column separately on Slide 43.

Adarsh Parasrampuria: And the provision of 20% you hold is also on CBG and retail restructuring?

Puneet Sharma: The 20% provision that we have created is on the full pool.

Amitabh Chaudhry: Adarsh, I would like to add. As of September 30th, we have not given any restructuring, it is zero restructuring across our entire business. The kind of requests which we have received till now are negligible. So what we have done as a Bank is that we have done our own internal analysis of accounts across corporate, CBG and obviously retail. We have done an estimate as to what the likelihood could be on a high, medium, low basis of the researching amount. And since we want to be ahead of the curve, we have already made a provision. I do not want you people to surmise that somehow we already have this amount where a restructuring request has been made. This is our conservative estimate of what it could be, because if I look at the requests today, there are none, very little exist. So just because we want to be ahead of curve, we have gone and done on a proactive basis a modelling, and we have already provided for it. That's what we have done. Just to be clear.

Adarsh Parasrampuria: Amitabh, the second more macro question, and you kind of spoke about it, referred to it. One is about the stress. The other is on the system loan growth, right, because eventually operating profts will be driven by system growth. So given that disbursements while they are picking up to pre COVID level, you require growth to actually build up loan growth, right? So what is your assessment there, not for the next couple of quarters, but, let's say, 18 months, what would be your views?

Amitabh Chaudhry: Adarsh, again, you are not very clear, I am trying to guess what you are asking. You are asking about the credit growth coming back in the system. So we have always maintained that, as a franchisee, we have the capability to grow at a faster rate than the system. If you recall, in the past we have said that we should be able to maintain a growth which is 600 basis points better than the industry. Let's see how the industry growth pans out. But if you look at the data, as it stands today, and even on a medium to long-term basis, I don't see any reason why we would need to change that long term guidance which we have been giving on a consistent basis. As Puneet said, there is no guidance for this year. But since you are talking long-term, that is something which we believe as a franchise we should be able to maintain.

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

Nilanjan Karfa: A couple of questions. Number one, on the SME, I mean, I understand we have done Rs. 6,000 crores of disbursals, the net loan book has gone up about a little over Rs. 1,000 crores. And we are saying we are fairly confident in growing that book. Then what makes us so confident that we are suggesting that we will start growing that SMA book? That's one.

Second is, we have seen a very sharp margin improvement, irrespective of or in spite of that NII reserve. To what extent this was driven by the TLTRO. And third, if we can get a broad clarity that the gross increase in BB and Below, and restructuring is roughly about, let's say, 2% of the loans, which I think is fairly low, but if it holds on, it's excellent. But what is the largest ticket size out here? Thank you.

Rajiv Anand: So, let me try the SME question. I think the point that you are making is, Rs. 6,000 crores is what we disbursed in ECLGS. Remember that the ECLGS piece also applies to our retail SBB book as well. So on the corporate part of our SME, it is about Rs. 4,000 crores. So, what customers have done, obviously, there has been an assessment of these customers, what customers have done is, because of the uncertainty particularly in the first six months, very large percentage of these customers, they have utilized this ECLGS money to be able to repay some of our existing working capital lines, etc. Because if not anything else, they are looking to reduce their interest cost. And as demand begins to come back, they will come back to draw down on their loans at this point in time. If you look at utilization, utilizations are down anything between 4% to 5% compared to March, and about 1% to 2% even compared to the previous quarter. Therefore, I think what we are seeing customers in the SME side utilize this for, is for liquidity. And as demand begins to come back, we do believe that utilization levels will go up and, therefore, for us to be able to build the book.

Nilanjan Karfa: Right. But if I can interrupt. I see the term loan part of the CBG book has actually gone up. I am just looking at the CBG business. I am saying, in the CBG business, if you look at from March to September, the term part of the CBG has gone up by about 6% in the overall mix.

Rajiv Anand: That's correct.

Nilanjan Karfa: So if the illiquidity is being utilized, should have been the working capital, right? Or am I thinking it wrong?

Amit Talgeri: No, no, no. So what is happening is, they have drawn down on ECLGS and repaid working capital, right.

Nilanjan Karfa: Got it. That makes sense. The second was on margins and third was on the gross increase.

Puneet Sharma: So, your question on TLTRO having an impact on the NIMs. We had TLTRO for a meaningful portion of the last quarter also, on an incremental basis TLROs are not the drivers of NIM. Our NIM increase of 18 basis points is driven by 5 basis points of lower interest reversal on lower non-performing assets, 3 basis points for the capital raise that we did in the current quarter, and 10 basis points related to spread improvement that we have in our business.

Nilanjan Karfa: And the final question on the ticket size of the gross increase that we have seen sequentially.

Puneet Sharma: So your question was on ticket size of the probable restructuring book, if I got your question correctly?

Nilanjan Karfa: Yes. I mean, see, what, about 4500 in funded and non-funded which is the addition to BB and Below. And about a 3,000-odd in the BBB book probably.

Puneet Sharma: So, I think to your question on whether there is a lumpy exposure sitting there, no, the exposures are broadly granular. And they would be granular in the nature of low three-digit crore exposures.

Moderator: Thank you. The next question is from the line of Antariksha Banerjee from ICICI Prudential AMC. Please go ahead.

Antariksha Banerjee: My first question is on the corporate loan portfolio. So, as you have mentioned that the bulk of the growth has come from AA and above segment. I just wanted to ask, what is the competitive scenario in this high rated corporate pool? And if I see your net loan growth, I am assuming, like your peers, you would have experienced repayments and prepayment from some of the large corporates as well. So the disbursement of this pool will even be larger. Does it make sense, I mean, does it make enough money at the current yields? Because you have reported a spread on the overall book, I am not sure how the spreads attractive are in this segment, any comment around that.

Rajiv Anand: Like some of our peers, we have also seen repayments which have been higher than the same time last year, particularly from some of our better rated corporates. Having said that, I think it is a conscious strategy for us to grow within the single A and better space, and within that, go even higher into the AA and better space. The way to think about that really is, in an environment where liquidity is so abundant, there will be opportunities for you to be able to price appropriately. If you are not able to price appropriately, your ability to get some of the other businesses to shore up your risk-adjusted return on capital (RAROC) which is the model that we use, certainly exists.

And especially for a bank like us, where our relative share of wallet in non-credit income is even today still continues to be relatively low, our ability to gain market share in these spaces is good and we continue to gain there, as shown by the strong growth on non-credit fees.

Antariksha Banerjee: If I understand correctly, this strategy will remain till the time this liquidity abundance continues, that makes money for the bank, is that right?

Rajiv Anand: I think fair to say that the abundant liquidity and the fact that there have been relatively smaller number of people borrowing, remember there is no private CAPEX going on at this point in time. Pricing power will be limited, but at some point in time, in an environment where the fiscal is where it is and inflation being where it is, it is likely that some of this liquidity will go away and some of this pricing power will certainly come back.

Antariksha Banerjee: And the second question is on current account. So basically, I just wanted your thoughts if you have, I mean, devised any initial strategy of what your thoughts are on the new draft regulations, and if they get implemented in the current form, how does that impact the Bank?

Rajiv Anand: So, we have looked at the current account circular which comes into force, really in the next week, 10 days. And we have two types of strategies, one is, obviously, where we want to have a defensive strategy around customers whose current account balances we already have, we want to certainly defend that, and there are various strategies that we are adopting around that. But there is also an offensive strategy, given our strong position, given our strong distribution, given the strong technology capabilities that we have on things like cash management, etc., we also have an offensive strategy to be able to gain market share. So, therefore, that is really how we are strategizing around this. How this plays out, we will know over the next, let's say, three to six months.

Antariksha Banerjee: So on a net basis, Axis is looking to gain market share, is that a fair comment to make?

Rajiv Anand: That’s correct.

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

Amit Kumar: Sir, just a question on the fee income front. As per Slide #14, the third-party distribution fees has gone up by 38%, largely led by insurance. What is driving this sharp pick up in insurance fee income?

Ravi Narayanan: I think it is a question of putting the distribution strength behind it. I think in today's world, there is reason to ensure that we are able to provide financial exigency planning for our customers. So the entire distribution footprint of the bank is focused on delivering that requirement to the customers.

Amit Kumar: Is there any addition of significant partner? Because 45% Y-o-Y growth is not connected to the underlying insurance premiums that we have seen.

Ravi Narayanan: So, I think, the way I would like to kind of articulate a response to that question is that, it continues to be a distribution play. And we have brought to bear the power of distribution to ensure that we are able to cater to the current requirements of our customer. And that is how it has played out in terms of the results that you see.

Amitabh Chaudhry: I think it also partly reflects the rigor and the granularity which I have been talking to all of you about, that we have been going about each of these things in a particular calibrated way. And while these numbers are what they are, I mean, but our hope is that this will become a permanent feature of how we work on our fees going forward and how numbers pan out. Because of the way we are going about it. So it's not hopefully a one-time thing. It is how we are building this up. Thank you.

Amit Kumar: And sir, just on the question on the provisions that you have created on account of Covid especially, is it fair to assume that you have taken into account the LGD of the portfolio and created provisions, and hence, whatever needs to be done on that moratorium book or weighted NPLs, have been taken care of? Or as they slip going forward, provisions will kind of continue to move accordingly?

Puneet Sharma: Like we previously stated, our provisions are an outcome of our risk models. And yes, the risk models have, amongst many parameters, a few of the parameters that you have set out on the call.

Amit Kumar: Sure. And finally, sir, just a clarification on Slide 13 in the NIM movement graph, the interest reversal is shown as a 5 basis point positive, is it correct?

Puneet Sharma: Yes, it's correct. The reason it's shown as a 5 basis points positive is, this is a comparison to the previous quarter. Our slippage is in the current quarter are significantly lower than the slippages in the previous quarter. In fact, slippages in the current quarter are negative. Consequently, the interest reversal for the period, compared to the previous period, is lower, therefore a positive variation on NIM.

Amit Kumar: Then what should be the reflection of the interest which you have not accounted for, on a conservative basis this quarter?

Puneet Sharma: 5 basis points is the impact of the NII reserve created in the quarter. Had I not created the 5 basis points NIM, the number of NIM for Q2 FY21 would have been 3.63%. And since I created a similar 5 basis points NII reserve in the previous quarter, therefore, in the waterfall you will see the prudence impact as nil.

Moderator: Thank you. The next question is from the line of Abhishek Morarka from IIFL. Please go ahead.

Abhishek Murarka: So two questions and one just data point that is required. The first question is, if I look at the total incremental loans, where you have estimated either probable restructuring or you have downgraded into BB and Below, if you can give some colour on those loans, which sectors, how many accounts, what really led to either the downgrade or estimation of probable restructuring? So that's one.

The second question is on cards. Now, you have mentioned that you have been rationalizing your portfolio. But Axis sort of stands out when I compare it to other peers in the industry. So if you can be a little more specific as to why you need to rationalize, and what is that part of that portfolio, maybe self-employed or whatever, which needs rationalization. And whether you are at the end of it or it's going to probably continue for some more time?

And the data point I just required was the exact gross and net customer asset number, if you can share that, please. Thanks. Those were my questions.

Sumit Bali: So on the cards side, if you look at the granularity which we have given, last year Q2, 39%, of the spends on the commercial card side, that number for this quarter is 14%. And given the softness in the economic environment, we had been pruning the limits. So that's how you see the reduction in the commercial card spends. On the retail card spends, the market share actually has gone up from about 6% odd to 7%. Trust that answers your question.

Abhishek Murarka: So Sumit, I am asking about the drop in the number of cards. If I look at the data posted by RBI, there is actually a 2.5% decline in the number of cards that you are also carrying. And everybody else in the industry is adding almost 0.6% to 1% on a MoM basis.

Sumit Bali: We have been cautious on the card issuance in the first six months. That's the reflection of that. But if you look at our number QOQ, they have been growing, Q2 is better than Q1. And we do see improvement going into Q3 also.

Abhishek Murarka: Okay. So incrementally the additions would have sort of begun, you would have started sourcing more cards on a net basis?

Sumit Bali: Yes. So April, May, June; virtually it was a lockout, since then month on month we have been growing, and we will probably be reaching our peak level last year in Q3 sometime this year, by November, December.

Puneet Sharma: Your questions around sectoral composition. Broadly the stock and the flow follow the same sectoral composition. So, the top five sectors in the BB book are infra construction, cement and cement products, hotel, power generation and distribution, and food processing. So, the flow would have broadly mirrored the stock position that we have disclosed. The definition of gross customer advances or assets is our loan book plus credit substitutes.

Abhishek Murarka: Yes, can you give the number, because when I tried to back calculate it with different ratios, the number comes out different in some cases. So, I just wanted to get the number.

Amit Talgeri: We haven't disclosed that number.

Abhishek Murarka: Okay. Sure.

Moderator: Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Just the question, trying to reconcile in terms of for the overall BB and the restructuring pool. So, when we look at the provisions which are there on BB and Below, and probable restructuring, that's given as Rs. 2,671 crores, and the overall pool is around Rs. 15,000 crores of BB and Below, probable corporate restructuring of around Rs. 3200 crores and retail and commercial banking restructuring of Rs. 2,500 crores. So, all put together comes to over Rs. 18,000-odd crores, on which we had done Rs. 2,671 crores of the provisioning. So, firstly, is that correct? And secondly, when we look at the overall excess provisioning or contingency provisioning which is there of Rs. 10,839 crores is it fair to assume that currently Rs. 2,671 crores is specifically, we can say, earmarked to this? And thereafter, we would be utilizing this for stress? Or maybe between Rs. 10,839 crores and Rs. 2,671 crores the provisioning which is there, there is more pool which we are anticipating and that's the reason we have done the provisioning?

Puneet Sharma: Let me answer your question in a multiple part. Linear addition is something that you have aggregated and set out a number on the call. Please do understand that non-fund-based facilities have to be applied a credit conversion factor to create equivalence to a fund based facility. So, therefore, the total pool would be lower than what you have aggregated. So, that's the first answer to your question.

The second answer to your question on the Rs. 2,671 crores. Earlier, as part of this call, I had spoken about non-NPA provisions of Rs. 12,540 crores, the Rs. 2,671 crores sits in that Rs. 12,540 crores.

Your third question was, will I cross-utilize provisions? As we see today, we have a balance sheet strength of Rs. 12,540 crores. We will wait and see how assets play out.

And the utilization or lack thereof of the provisions will be determined basis asset performance.

Kunal Shah: So, just wanted to get that gap of Rs. 10,839 crores of provisioning and Rs. 2,671 crores. So, then that balance which is there of Rs. 8,100 crores, what is that created towards? Because BB and probable restructuring, we have more or less captured in terms of provisioning. So then bought is that Rs. 8,100 crores contingency which is there and where it will flow through actually?

Puneet Sharma: So, of the Rs. 8,100 crores that you have computed, around Rs. 5,000 crores I have set out earlier, comprises of the COVID provision that we are carrying. And the balance around Rs. 3,000 crores is additional provisions that we have on our balance sheet.

Kunal Shah: No, but COVID should be reflected in the restructuring pool and the BB, may be whatever or we are looking at some more stress out there? So that's what I am trying to gauge actually.

Puneet Sharma: No. So, the simple answer to your question is, the provisions that we carry comprise of Covid provisions, additional provisions and restructuring provisions. The fact that Covid risk translates to restructuring, if that's the problem statement you are framing, then the way to look at the provisions is, part of the COVID provision should be added over and above Rs. 2,671 crores to come to the analytical conclusion.

Moderator: Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: I had actually a few questions. First of all, pardon my ignorance, just wanted to reconcile or just trying to draw parallels between the disclosures you have given on Press Release page number three, which talks about the overdue, etc., as of 30th September of Rs. 37,000 crores, it has got a few more items. So, just wanted to check whether this Rs. 37,000 crores is in overarching number, or the table has some mutually exclusive numbers? So that's point number one. And then I will come to Slide number 43, in which you have given the restructuring number. So, Puneet, that's the first question to be honest.

Puneet Sharma: So the answer to your question, Rahul is, when you read the Rs. 37,397 crores number, it is not the overdue number as at 30th September, it is what was overdue when moratorium was granted. Customers have paid after that and therefore would have got normalized.

Rahul Jain: So what would that number be, so total overdue book would be how much, SMA 0, SMA 1, SMA 2 put together, asked differently?

Puneet Sharma: So, Amit had quoted the number, the 30-plus book for the Bank is 2.3%.

Rahul Jain: Okay. So zero to 30 day, we can't really assume this number and apply some repayment rate and get to a zero DPD number, that would be an incorrect way to look at it, I guess, that's what you are trying to say?

Puneet Sharma: So, Rahul, I think the way I would look at it is, the 2.3% is 30-plus, whatever got out of moratorium would have a collection cycle. And you could have billing cycles that run to as late as 20th of the month. So, effectively, the right variable to look at in our view is 30-plus. And our 30-plus number for the Bank is 2.3%.

Rahul Jain: Got it. And therefore, this asset classification benefit, standstill rather, is Rs. 14,000 crores, which would be part of this Rs. 37,000 crores number, that's a fair understanding, right?

Puneet Sharma: No, Rahul, again, I would like to clarify. The standstill under the Supreme Court was for NPAs that would have crossed 90 DPD as at 30th September. That number for the bank is Rs. 641 crores only.

Rahul Jain: So this 14,000 crores, sorry for belaboring on this point, but just wanted to clarify. So Rs. 14,000 crores is February standstill number or June standstill number?

Puneet Sharma: So, it is an academic disclosure which is required pursuant to the RBI's circular. What that number states is, for anyone who took moratorium, and if the moratorium period was added to their DPD, and that DPD crossed 90+, that number would have translated to Rs. 13,948 crores. Please understand that this number is not reflective of anything as on date, simply because customers have paid us. For customers that were only moratorium one would have paid us for five months or six months. And customers that have come out of moratorium could have continued to pay. So this number is a redundant number. It is a disclosure requirement. Therefore, it has been populated. The absolute 30+ number for Axis Bank on a cumulative loan basis is 2.3%. And that is the variable you should be focused on.

Rahul Jain: That's very helpful, Puneet. Thank you so much. And can you also tell us the 30+ for Axis Finance, the NBFC arm?

Puneet Sharma: It will be at or lower than what we have at the Bank. My estimation is, it is less than an integer percentage.

Rahul Jain: Got it. That's helpful. Thanks. The second question is, in the retail loan book, did we buy any portfolios also in this quarter, which is why across portfolio the growth seems much better than the industry? Or it was purely organic and, therefore, is likely to sustain or maybe get better as we move along?

Sumit Bali: No, we did not buy any portfolio in these six months. A couple of strategies which we had rolled out in the first half of this year have been helping us grow. One is, as you see, the sourcing from the branch has been going up. That's been helpful. And again, aligned to that is the Deep Geo strategy, which has been producing very good results in terms of growth from the branch banking channels. So, those have been helping us grow in this time.

Rahul Jain: Got it. Thanks. Just one last question, which is more a medium to long-term outlook, and perhaps Amitabh can also address this. With all these initiatives that you are rolling out, Amitabh, what do you think, where could your cost to income ratio settle down, let's say, in the next 18 to 24 months period? That's about it. Thank you so much.

Amitabh Chaudhry: As Puneet said, we are not providing any guidance at all at this point. I mean, obviously, the initiatives that we are running are around improving our productivity, reducing our costs or increasing the throughput we can get through in the Bank. But we are not providing any guidance whatsoever. We had talked about our long-term aim being 2%, you know where the number is today. But it is during these covid times, it's not that we have to continue this as we move forward. So, right now we are not providing, we just don't want to do any guidance during this period.

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

MB Mahesh: The question was in continuation to what Rahul asked just a while back. The number shows Rs. Rs. 37,397 crores. And if I look at the March numbers, it was Rs. 11,177 crores. Just trying to understand what is this number out here?

Puneet Sharma: The way to read the number is, the March number was part of moratorium 1, because as at 31st March moratorium one had just started. The requirement of the disclosure is, all accounts that were SMA or overdue, where moratorium or deferment was extended. So we would have extended customers a moratorium when they were overdue. The gross amount of that is Rs. 37,397 crores across all moratoriums in the Bank. That number is purely academic, because there will be an outflow from that bucket, one, for the fact that customers would have paid us during moratorium or even thereafter; and consequently have moved away from overdue to non-overdue. So therefore, like I said, Rs. 37,397 crores is a gross number of value of customer loans where moratorium was granted when they were overdue. It means nothing today, simply because the overdue today is what is relevant. And the 30-plus numbers for us is 2.3%. That has no relevance from a stock of overdue accounts today at 2.3%.

MB Mahesh: Perfect. Okay. I still haven't understood, but I will just probably take it offline. The second question is to Sumit. Sumit, when you see the retail business and you see collections in that pool, are you comfortable that the customers' cash flows have come back to normalcy? Because when you look at collections, you look at collections as to how is it generated? Because 97% appears to be almost close to normalcy, if I look at the month of October, if that's where you are heading.

Sumit Bali: Mahesh, we had projected some numbers before September. So obviously, and pleasantly rather, the numbers which we see in September are far better than what we had expected. Similarly, October seems to be much better than September. Our sense really on the secured side, the collection is coming back, in fact, mortgages side it is almost back to the pre-COVID level. On the unsecured business instalment loan, that will take some time. But by and large, collections are looking much better than what we had anticipated.

MB Mahesh: Sorry, I will just rephrase this question. The question which I am asking is, has the first cash flow reached a point that you are able to get confidence that he is paying out of his regular income or is drawing down on his savings, which is why the month of September and October is probably looking exceedingly well? Because they have got about six months of savings prior to this.

Sumit Bali: Yes. So you are right, it's a mix of few things. And my sense is, I think the ECLGS, the increase in sales, the saving which they had while availing moratorium, all is having an effect. But when we put in all those variables, what we had assumed, the numbers are looking superior to that. And my sense is, on the business loan side or wherever we have customers who borrowed to invest in the business, the cash flows seem to be returning. And therefore, we are pretty hopeful that things will sustain going forward also.

Moderator: Thank you. We will take one last question from the line of Udit Gadia from Khazana Nasional. Please go ahead.

Udit Gadia: Sir, the whole provision of about 2.2% of loan book, and our 30 DPD is at around 2.3%. I understanding it's a dynamic environment, but based on current assessment, does the management think it's sufficient or we need a further contingency buffer in upcoming quarters?

Puneet Sharma: Thanks for your question. Like I said, we are specifically choosing not to guide. And consequently, we will evaluate our provisioning basis our risk models and our bottom-up assessment on a go forward basis.

Udit Gadia: Okay. And the last question from my end is, so what is your demand resolution in the unsecured segment?

Amit Talgeri: Across all the segments its almost similar.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Puneet Sharma for closing comments.

Puneet Sharma: Thank you, ladies and gentlemen, for being so patient and listening to us. We wish you the very best. Stay safe, stay healthy and all the best to your families. Have good evening. Thank you.

Amitabh Chaudhry: Thanks, everyone.

Moderator: Thank you. On behalf of Axis Bank, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.