Axis Bank's Q3FY24 Media 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 Bank's Financial Results for the quarter ended 31st December 2023.

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As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of the briefing session. Should you need assistance during this conference call, please signal an operator by pressing * 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. Rajiv Anand, Deputy Managing Director and Mr. Puneet Sharma, CFO.

I now hand the conference over to Mr. Amitabh Choudhury, MD and CEO. Thank you and over to you, sir.

Amitabh Chaudhry: Thank you, Neerav. Good evening and welcome everyone, wish you all a very happy new year. We have on the call, Rajiv Anand – Deputy MD, Puneet Sharma – CFO and other members of the leadership team.

Over the last few years, we have set Axis Bank on the course of a predictable and sustained high performance path guided by our GPS strategy, centred around our customers and employees. The Indian economy continued its upward momentum in Q3 and remains a beacon of optimism globally. A mix of judicious and bold policy moves has placed India in a sweet spot which bodes well for the sector in the medium term.

In Q3FY24, we delivered strong operating performance led by robust sequential growth across loans and deposits. Let me briefly highlight them:

- The Bank has delivered an ROE greater than 18% for the past 6 quarters, while maintaining a better credit profile as compared to the past, instilling confidence in its sustainability across economic cycles.

AXIS BANK

- The Bank has organically net accreted 39 bps of CET -1 capital in 9MFY24
- On loan growth, all the three segments delivered strong sequential growth with Retail, SME and Corporate book (gross of IBPC sold) growing 5%, 4% and 3% QOQ, respectively.
- On deposits, we have improved the quality of our granular franchise significantly with our LCR outflow rates and CASA ratio being the best in class in the sector today; and our retail term deposits growth improving to 12 quarter high.
- On cards and payments, we saw strong traction in new card issuances, cards in force and spends led by our strategic partnerships. On the Merchant Acquiring Business too, we have now attained leadership position with terminal market share of close to 19% as of Nov'23 with widespread adoption of our innovative technology-based product offerings.
- On digital and technology, 'Open by Axis' continues to be the highest rated mobile banking app with rating of 4.8 on the Google play store. On the iOS Appstore as well, Open by Axis' rating has increased to 4.7 this quarter from 4.6 earlier. 'NEO' our cutting-edge digital product offering for corporate and SMEs, is deepening our transaction banking relationship among clients.
- Axis Bank has been recognised in the highest "Leadership" category with score of 77 in the Indian Corporate Governance Scorecard, recently published by Institutional Investor Advisory Services ("IIAS") with evaluation framework built around globally accepted G20/OECD principles.

We have tried to be ahead of the curve towards building a Bank for the future with deep investment of management time and resources in our chosen areas of distinctiveness, namely, Digital, Bharat Banking and Customer Obsession. We stay focussed 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**

I will now discuss each one of these areas:

A. <u>Embedding a performance driven culture:</u>

There is visible improvement in the retail deposits growth and the quality of our Deposit franchise.

- The growth trajectory of retail term deposits continued to improve with 17%YOY and 2% QOQ growth on period end basis and 15% YOY and 3% QOQ on QAB basis.
- Our low-cost CASA share at 42% is among the best in the industry and has compounded at 14% for the last three years.
- In Q3, we added 100 branches taking the overall branch additions to 349 for the 9MFY24 period, which is among the highest in the industry.

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

- Within Retail lending, we continue to drive balanced growth across the product portfolio. The retail disbursements in Q3FY24 were the highest ever for a non-financial year closing quarter aided by improved consumer sentiments and strong festive demand
- Domestic Corporate loans [gross of IBPC sold] grew 23% YOY and 3% QOQ, led by a healthy pick-up across sectors. The disbursement pipeline for Q4 continues to be healthy
- MSME segment continues to remain a key growth driver for the Bank. The combined portfolio of mid-corporate, SMEs and small businesses grew 30% YOY and 5% QOQ, and now constitute 21% of the loan book, up ~620 bps in last 3 years

B. Strengthening the core:

On wholesale banking, we have replicated the success of our digital consumer banking app with "neo" for Corporates. We have been on this journey for 2 years, and we now have a validation for the strong product-market fit based on how quickly our clients have embraced it.

- On Transaction Banking APIs, we continue to see strong interest from corporates across industry segments. with 3.7X growth in corporate on boarding along with 7X growth in transactions and 4.8X growth in throughput.
- NEO for Business, our mobile-first transaction banking platform tailored for SMEs, continues to scale up in terms of customer on boarding. We saw an increase of over 25% in digital usage amongst these customers with the introduction of business banking specific features.
- We have also rolled out NEO for Corporates, our internet banking proposition for large corporates to all new customers

C. Building for the future

Digital Banking performance continues to remain strong

- The 'Open' by Axis Bank balance sheet had an 48% increase in deposits and 86% increase in loans. We launched a new digital savings account proposition 'Amaze' that provides customers attractive joining offers and spends based rewards for a nominal monthly fee
- We also launched and scaled new products including FD for standalone credit card customers, US$ FDs in GIFT City for NRI customers, new loan and insurance products on Open

Bank-wide programs to build distinctiveness

Our bet on Bharat is growing from strength to strength

- The Q3FY24 disbursements were up 46% YOY, rural advances up 34% YOY and deposits from Bharat Branches up 11%; thereby aiding the PSL and profitability metrics.
- We have expanded our multi-product distribution architecture to 2,420 branches complemented by 63,500+ CSC VLE network and 80+ partners across the industry.
- Our digital co-lending platform is live with 10+ partners and the volumes are growing 80%+ QOQ

Sparsh, our customer obsession program, is helping improve relationship and transaction intensity with our customers

- Over the last 21 months, NPS across 12 retail customer journeys has moved up to 141 over an indexed baseline of 100, as we listen to and act on the voice of our customers. NPS is now an important lead indicator for us, to invest in areas that matter to our customers.
- Sparsh is a Bank-wide priority. It is embedded in rituals and practices across all 5250+ branches, all our customer touchpoints and in the conduct of every employee.

On Citibank Consumer business integration:

- The Citi integration remains on track with acquired business portfolio metrics trending in line with the internal estimates. Deposits are stable and there has been improvement in cross sell metrics across wealth, insurance and retail assets
- We expect to complete data migration and system integration by the end of H1FY25

In closing, the growth momentum in India continues to be strong. We have taken global headwinds and higher interest rates in our stride. Consumer sentiment remains healthy with improved capacity utilisation across sectors for corporates. The factors are ideal for an uptick in private capex. We see this as an opportunity to differentiate and serve our customers better. All of us are building 'an all-weather institution' that will stand the test of time.

I will now request Puneet to take over.

Puneet Sharma: Thank you, Amitabh. Good evening, everyone. Our Q3FY24 operating profit was Rs. 9,141 crores, up 6% QOQ. Our PAT was at Rs. 6,071 crores, up 4% QOQ. Our consolidated ROE stood at 18.61%. These operating metrics was aided by a balanced sequential deposit and loan growth of 5% and 4%, respectively. Our 9MFY24 PAT was Rs. 17,732 crores, up 16% YOY. Our consolidated 9M ROE was 18.86%, up 82 bps YOY.

Moving to our healthy operating performance, our net interest income grew 9% YOY and 2% sequentially. Our net interest margins stood at 4.01% for Q3. Fee income grew 29% YOY and 4% QOQ. Retail fees were up 36% YOY and 6% QOQ. Granular fees are 93% of our total fees.

Core operating revenue grew 14% YOY and 2% QOQ. Operating profits grew 6% QOQ: consolidated ROA and ROE at 18.61% and 1.84% for the quarter. Subsidiaries contributed 54 bps and 9 bps, respectively. Bank's total business grew 20% and 5% QOQ. Advances grew 22% and 4% QOQ.

MEB deposits grew 18% YOY and 5% QOQ. Advances, gross of IBPC, were up 23% YOY and 4% QOQ. Retail loans were up 27% YOY and 5% QOQ.

SME loans were up 26% YOY and 4% QOQ. Corporate loans, gross of IBPC sold, were up 15% YOY, 3% on a QOQ basis. Our rural loans grew 34% YOY and 7% QOQ.

Our small business banking loans grew 40% YOY and 6% QOQ. Our mid corporate book grew 30% YOY. Our small business banking plus SME plus mid-corporate mix stood at Rs. 1,98,553 crores, constituting 21% of our loans. This is up 620 bps in the last 3 years.

You may recall that this is our high-margin, high-ROC business. Retail deposits have started gaining traction. Our CASA ratio is amongst the best in the industry today. Retail deposits grew 17% YOY and 2% QOQ on a month-end balance basis. CASA grew 12% YOY with a CASA ratio of 42%.

On a QAB basis, which is a quarterly average balance basis, retail term deposits grew 15% YOY, 3% QOQ, and total deposits grew 18% YOY and 4% sequentially. The QAB CASA grew 13% YOY and 1% on a QOQ basis. The average LCR during Q3 FY24 was at 118%.

Our outflow rates have improved by 600 bps over the last 3 years. We are very capitalized and have an autonomous capital structure. The overall capital adequacy ratio, including profits, stood at 16.63%, with a CET1 ratio of 13.71%. On an organic basis, we net accreted 39 bps of CET1 in the 9MFY24. Our COVID provisions of Rs. 5,012 crores not in our capital adequacy calculation provide an additional cushion of 43 bps.

We maintain a strong position in the payments and digital banking space. 1.26 million credit cards were issued in Q3. Card spending was up 79% YOY and 13% sequentially. Axis Mobile and Axis Pay have 10 million non-Axis Line customers. We have 100-plus digital partnerships across platforms and ecosystems and 18.8 million customers on WhatsApp banking.

Our credit card SIF market share is at 14%. Retail card spending overall grew 88% YOY and 13% sequentially. We have had a solid and healthy asset quality performance on our balance sheet, demonstrated by declining slippages, gross NPAs and credit costs.

Our PCR is healthy at 78%. On an aggregated basis, our coverage ratio is 153%. The net slippage ratio is 0.5%, declining 43 bps YOY and 9 bps QOQ. Our gross slippage ratio is 1.62%, declining 41 bps YOY. Q3 FY24 net credit cost is 0.28%. It declined 14 bps QOQ and 37 bps YOY. Our key domestic subsidiaries continue to deliver steady performance.

9MFY24 profit for the subsidiaries is Rs. 1,108 crores, up 17% YOY, with a return on investment on domestic subsidiaries of 50%. Axis Finance 9M PAT grew 25% YOY to Rs. 425 crores. Asset quality metrics have improved, and the ROE for Axis Finance is 16.4%.

Axis AMC 9M PAT stood at Rs. 297 crores. Axis Securities 9M PAT grew 31% YOY to Rs. 198 crores. Axis Capital's 9M PAT stood at Rs. 108 crores. And the entity executed 71 investment banking deals in the 9Ms.

Thank you for your patience. We will be happy to take questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ritu Singh from CNBC TV18. Please go ahead.

Ritu Singh: Hi. Thank you. Good evening. Just a quick question on the deposit.

Moderator: Ritu, your audio is not coming clear.

Ritu Singh: We have heard from your peers that there is a slowdown and that you cannot fight for a share of low-cost deposits. You have reported a 5% sequential growth. Can you detail what sort of growth you see? Is fiscal growth sustained? And as deposit rates increase, will you sustain your margins at 4% level?

And the second question is on the loan growth as well. 4% QOQ, but you have recently highlighted to us that because deposit growth has been lagging, credit growth may be impacted at some point. I wanted to get an overall sense of what you make of the current environment and what sort of growth you expect in credit from this.

Amitabh Chaudhry: Ritu, we are just trying to ensure that we understand your question. And we are just repeating it. Just hold on for a second, please.

Ritu Singh: Sure.

Amitabh Chaudhry: Ritu, your voice could have been more unmistakable. It was echoing, so it was essential for us to ensure we understood your question. You have three questions. Puneet will answer them.

Puneet Sharma: Thanks, Ritu. Let me start with the net interest margin question first. Effectively, we have consistently maintained through the last 9Ms that margins should be looked at on a 12M basis.

Effectively, that is where we continue to comment on what the margin trajectory would look like. Our structural guidance on margins increased last year because of all the improvements we have made in the franchise. We are currently on a 9M basis, operating at 28 bps higher than our guided structural margin of 3.8 on a standalone Q3 basis, operating at 21 bps higher than our structural margins.

We believe we will continue to maintain the cushion built over our structural margins as we operate into Q4. That is how we would like to respond to your

NIM question. I will take your third question next: deposit growth and advances growth converging.

Given our LDR trajectory, I think let me flag off from a data points perspective. We are one of the few banks that saw our LDR moderate by about 114 bps on a sequential-quarter basis, which is the outcome of the strong deposit growth and advances in growth.

Overall, in the longer term, given where system liquidity is, loan growth will converge with deposits growth and deposits growth will, in the short to medium term, be a constraint on advances growth.

I think your first question was a data point clarification. Yes, we are calling out that we have delivered a 5% QOQ deposit growth for Q3. I hope we have been able to answer all your questions.

Ritu Singh: I am sorry. The question on deposit instead was that when your peers say it is difficult to garner low-cost deposits, how have you been able to get this kind of growth? And whether you see any pressure going ahead, that was all?

Puneet Sharma: Ritu, we have been on a journey to improve our liabilities franchise, with the quality of liabilities improving in the early part of the cycle and then the composition and growth coming through in the later part of the cycle. We had indicated that we were on our 11th and 12th quarter journey. We are in the fifth quarter of that journey.

You are seeing earlier delivery on growth. Quality: we have already called out the improvement of 600 bps on outflow rates that we have been able to improve. The deposit is trending as we thought it would, and it is business as usual for us as we stand today.

There will be positives and negatives across quarters. We have had a good quarter, and that is where I would like to leave that comment, please.

Ritu Singh: Thank you.

Moderator: Thank you. Next question is from the line of Shayan Ghosh from Mint. Please go ahead.

Shayan Ghosh: Hi, I have two questions. The first one is that, given RBI's actions on unsecured loans, they raise the risk rate. Do you plan to be more selective in the personal loan segment and tweak some risk filters? And the second question is, which sectors are you seeing corporate demand originate from if you are seeing a pick-up in the private capex? Thank you.

Sumit Bali: Regarding personal loans, if you see our presentation, 80% of our customers are still existing bank customers. That percentage has not changed. We have just tweaked minor onboarding criteria, but that is insignificant. The stress, which has been in public view, is on loan ticket sizes below Rs. 50,000. We were not active in that segment. That portfolio is virtually nil for us. We have not had to make any changes, and we see the quality holding on as we have been growing this business.

Rajiv Anand: Shayan, this is Rajiv. On private CAPEX, as I have mentioned for the last few quarters, private CAPEX is relatively broad-based: auto, steel, cement, and FMCG. I think because corporate India has de-levered over the previous few years, their internal cash flows have been strong, and I think those internal cash flows have been going in to be able to support private CAPEX. Yes, some of that is flowing through to banks as well.

Even for us, the pipeline continues to be quite robust at this point. Corporate India has been quite measured regarding announcements of private CAPEX.

Shayan Ghosh: Thank you, sir. Just one clarification on the first question. Have you made a slight change to the way you selected those personal loans?

Sumit Bali: These are separate from the kind of news flow you see. These are internal process changes to get more efficient. Otherwise, as I said, existing bank customers and our partnership business contribute to most of the growth. This is a segment that has a lot of history. It is, per se, a safer segment. So, we have yet to do anything extraordinary, business as usual.

The growth results from some transformation projects we have been running over the years. We are midway through that journey. The portfolio quality will hold up, and this growth will continue. Thank you.

Shayan Ghosh: Sure. Thanks.

Moderator: Thank you. Next question is from Manojit Saha from Business Standard. Please go ahead.

Manojit Saha: So, your personal loan growth is 28% at a time when RBI is making all these noises. I am not talking about credit cards, which are 93% due to the Citibank. But are you planning to slow down your personal loan growth?

Sumit Bali: Hi, Manojit. Sumit here. So, as I said in response to the previous question, the growth you see continues from Q2 onwards. We have been running various transformation projects, resulting from some of those that are now rectifying. We are midway through that journey, and the growth has not come. We are not sacrificing quality for growth.

Our quality remains sacrosanct. 80% of the customers are existing bank partnerships, which we have been working on and hiring now. So, all that continues to be good. If you see Page 22, overall, it also gives you a trend in retail disbursement, trends to overall disbursement in terms of unsecured, which is slightly moderated. It is 22% versus 25% in the previous quarter.

Manojit Saha: The other thing is that because of this risk rate increase, your capital is depleted quite a bit. If you exclude the 9M profit, then it is just above 12%. So, any capital raising plans? And overall, all this loan growth, NII growth, is not reflected in the profit growth. What could be the reason?

Puneet Sharma: Thank you for the question. My request to you is it is unfair to look at consumption for the year and not look at accretion for the year in the same breath. Therefore, you must look at accretion and consumption on a cumulative basis. Please see Slide 16 of our investor presentation. We have transparently called out that we have accreted 177 bps of capital in the first 9Ms. And for growth and risk, we have consumed 138 bps.

So, we have net added capital in a 9M period of 39 bps, all in CET1 terms. The risk rate circular is a one-time change, which has resulted in a charge of 70 bps. And therefore, our closing CET1 position is 13.71%. It is well above regulatory requirements. It is well above the rating requirements for our domestic AAA rating. And hence, we have no plans to raise capital at the current stage.

Manojit Saha: And on the profitability part?

Puneet Sharma: So, my request is on your profit question; I request you to look at the 9M PAT growth. If you look at 9M PAT, our 9M PAT was Rs.17,732 crores for the current financial year. It is up 16% on a YOY basis. Therefore, we need to look at this on a 9M-to-9M equivalent basis; all of this operational improvement has resulted in PAT growing by 16%.

Manojit Saha: So, what was the exceptional item in Q3?

Puneet Sharma: There is no exceptional item in Q3. Please recollect that on a single-quarter basis, we were in an upcycle on interest rates last year, where assets got reprised faster than liabilities. We have consistently indicated that liabilities will get repriced to the current financial year, with a slip into the Q1 of the next financial year.

You have just seen the income trend which was asset repricing plays through in the same quarter last year and liability repricing catches up in the current period. Hence, you are seeing a YOY growth challenge for that given quarter. We have always maintained, please look at NIMs and profits on a full-year basis. And on a full-year basis, you are seeing a 16% growth. We have no exceptional items in the current quarter, either from an expense or income standpoint.

Manojit Saha: Asset repricing is over, or you expect some more in Q4 and going ahead? The deposit repricing, is it over?

Puneet Sharma: We have consistently indicated that deposit pricing will continue through the current financial year. The pace of increase in the cost of deposits will reduce. And we have said there would be a spillover into Q1 of the next financial year before base deposits start to be fully reprised. The margin cost of funding has stabilized for the system. And that is how we expect deposit pricing to play through.

Manojit Saha: Correct. Thank you so much.

Moderator: Thank you. Next question is from the line of Siddhi Nayak from Thomson Reuters. Please go ahead.

Siddhi Nayak: Hi, Sir. Firstly, one clarification, because of the higher risk weights, you said that is impacted your capital adequacy by 70 bps, if I am not wrong?

Puneet Sharma: That is correct. It has impacted my CET1 by 70 bps.

Siddhi Nayak: Okay. So, the second question was on the deposit growth. If you could show some guidance on where you see the deposit growth going forward? Given that you say that deposit reprising is expected to continue?

Ravi Narayanan: Thanks for that question. As you heard, Puneet mentioned that there will be a challenge on the deposit side over the short term and medium term. In terms of what we expect, this will play out the way we are expecting over the medium term. It will be a war for deposits. And in terms of the fact that we have a particular set of levers at play. Again, Puneet had talked about it.

We had talked about the journey we are on in terms of the fact that we are in the fourth or the fifth quarter of those efforts and initiatives in play. And therefore, over some time, we expect to participate with full might in this particular challenge of creating deposits. And that is the way we are looking for the medium term.

Siddhi Nayak: Okay. Sir, my last question is on your AIF investment. What is your total exposure to these investments and what would your plans be? Would you look at selling this or how do you perceive those investments?

Puneet Sharma: Thank you for that question. Our total exposure to AIF investments is Rs. 207 crores. But it is also essential for me to give you colour. So, the Rs. 207 crores is fully provided for. So, that is our entire pool. Our entire pool is fully provided for. However, it is important to understand the colour of the AIF pool, given the quality of the business we have built. About 46% of our AIF investments are directly or indirectly sponsored by a government-owned entity or institutional entities like NIIF, NABARD, and NABFID. So, that is the quality of the investments we carry in the NIIF.

In addition, 85% of overlapping loans are rated A - and above if you overlap the portfolio. Consequently, we will not have a realized loss on this portfolio. The provisioning has been done in line with the RBI requirements because the 30-day period expired on January 18th. So, the full AIF is Rs. 208 crores, fully provided for and settled in the current quarter.

Siddhi Nayak: Okay. Thanks.

Moderator: Thank you. Next question is from Rosebud Gonsalves from The Economic Times. Please go ahead.

Rosebud Gonsalves: Hi, sir. Good evening. You mentioned about branch expansions. I wanted to know how important is branch expansion in order to get deposits.

Rajiv Anand: So, the way we think about distribution is multi-pronged. Opening of branches, particularly in areas where we are underrepresented, and there is a whole lot of data that we do at a district level, look at our market shares, look at the market share of our branches. So, there is one piece which is sweating the existing franchise, but we will continue to open branches.

Two is that we have the world's highest-rated mobile app in financial services, and that effectively sees something like 1.3 crores customers coming through every month, transacting 15x to 16x. So, that is a huge engagement tool for us and is also increasingly becoming an acquisition tool. And finally, we have among the most significant partnerships, and we think of partnerships as a critical differentiator within our distribution strategy.

I am sure you are aware that we have one of the most significant credit card partnerships with Flipkart and similar partnerships with Airtel, Google, and Amazon, to name a few. These partnerships give us access to a particular cohort of customers who may or may not be banking with Axis. We are not only using the partnership route in places like Amazon and Google, but we also have potent partnerships in Bharat Banking, with CSE and Airtel Payment Bank, to name a few.

So, partnerships are at the core of everything we do within the bank as we think of increasing the distribution footprint across the spectrum or geography that we have, semi-urban, rural, metro, and urban.

Rosebud Gonsalves: Right. Axis has a lot of digital push, so why is there a need for the physical expansion of branches when everything is digital right now?

Rajiv Anand It is like I said, I do not think we are in an either-or situation yet. We are an omnichannel service provider, and what we find is that the customers use each of our channels for different needs. Yes, India is going more digital, but we still see footfalls at our ATMs.

Yes, we are going digital and mobile, but customers still use Internet banking. Yes, we are going digital, but it is not as if customers do not come to our branches. They come to our branches for the more complex, complicated transactions or, in many cases, to have a cup of tea with our branch heads.

Our job is to provide an omnichannel experience, which is, in a sense, seamless across each of the channels I spoke about, and to provide best-in-class services at each of the channels. One of the things we certainly see is that you heard Amitabh speak about Sparsh. We are witnessing our NPS scores improve at each channel, and we aim to ensure that we continue to do so as we go forward.

Rosebud Gonsalves: Right. One more question. What percentage of your IT budget is allotted for cybersecurity?

Puneet Sharma: We do not put that granularity out in the public domain. We have commented that about 9% of our total operating expenses are for IT and tech.

Rosebud Gonsalves: Okay. Also, what is your attrition rate overall and in the front-line sales stuff like?

Puneet Sharma: Our attrition rates in the current financial year have decreased from our last reported number. We will report annual attrition rates as part of our publications, but we can qualitatively tell you that attrition rates are trending lower than where we reported last year.

Rosebud Gonsalves: Okay. Thank you, sir. Thank you.

Moderator: Thank you. The next question is from the line of Vishwanathan Nair from NDTV Profit. Please go ahead.

Vishwanathan Nair: Hi. Sorry, I am not sticking to this one question. I just wanted to ask the first point that I wanted to understand from you is the profit growth itself. It was 4%. I am trying to understand why this is looking so low compared to your other income and your NII. I know I am coming quite at the end of this call, but that is the first question.

And the second one is with regard to your loan growth versus deposit growth. You said your NDR has come down. It is close to about 98-odd-%. How long can you continue with this kind of a deposit versus advances growth, because at some point in time, this has to rationalize. When you say the two rates have to converge, I would assume that the lending growth also has to slow down a little bit.

Puneet Sharma: Thank you for the question. From a housekeeping data points perspective, you heard that our credit deposit ratio or LDR was 98%. As we reported on the 31st of December, it is 92.7%. It's so much lower than the number you indicated. I am happy to work through the reconsideration with you if needed. The core question is that there are two separate parts to your questions. One is why profitability needs to track the growth in income, both interest and fee.

If you recollect, we had said that as long as the operating environment on the credit side remained benign and we could deliver in and around our aspirational ROE of 18%, we will continue to invest in the franchise. That investment in the franchise is playing through the OPEX line. Our OPEX on a YOY basis has grown by roughly about 32%.

It is an investment for the future. And that is the right kind of investment today to create a sustainable franchise. Your second question was how we see deposit and loan growth play through in the future. In our assessment, given where system LDRs are, including our own, we believe that in the short to medium term, deposit growth will be a constraining factor to advance this growth rather than vice versa.

Moderator: Thank you. We will take the next question from the line of Ashish Agashe from PTI. Please go ahead.

Ashish Agashe: Sir, you mentioned the war for deposits and the difficulties around that. So, what has been the reliance on the non-retail part of the deposits during this reporting quarter? And as you say that it will be a constraining factor, would you also have to go in more for the bulk deposits in the future just to serve the loan demand?

Puneet Sharma: Please look at the quality of our deposits. Our outflow rates were about 21.5% last quarter and roughly 21.5% this quarter. That should indicate that we have kept the mix of deposits reasonably healthy across the two quarters on a total balance sheet basis.

We will dial up or down a given segment of the deposit depending on our needs. We need a targeted number that we work with across relevant segments.

Our granular retail term deposits have grown 17% YOY, which again is one of the most robust growths we have had for the period. Like I said in response to the previous question, we do believe systemically, where system liquidity is, deposit growth will constrain advance growth. We are a large balance sheet; we will work through the deposit components as we build our operating model through the subsequent quarters.

Ashish Agashe: Okay. So, with the CD ratio at 92.7, there have been reports of some concerns on the regulatory front with the high CD ratios. Has the bank received any communication on that, or are you looking at getting down this number?

Puneet Sharma: Thank you for the question. The regulator's stance made public a few days ago is that the regulator views this as one of the many metrics they would like banks to track. There is no prescription of that metric that the regulator is looking to prescribe.

And I am only taking this understanding from public comments that I have heard from the regulator. Effectively, if you look at our incremental LDR, our incremental LDR was 70%. As I said, we focus on managing the balance sheet on multiple variables.

Our LCR has remained flat QOQ at 118%. We feel comfortable with the quality of the balance sheet we have built. And yes, deposit growth will constrain advance growth, but we should be able to work through that over the next few quarters.

Ashish Agashe: Okay. Sir, a final question if I can squeeze in. Sir, what is inhibiting corporates from making the investment announcements?

Rajiv Anand: Nothing is inhibiting corporates. As I talk to our clients across large, mid and even SMEs, the general outlook is quite bullish. The outlook of the fact that India could grow at 6.5% into the foreseeable future is well understood.

There are enough pools of capital and liquidity available to support this across the capital structure, meaning there is enough money from an equity perspective; markets are buoyant, and you have seen the IPO market is relatively buoyant. There is available global liquidity; it may be coming to you at a price.

And most important, because corporates have deleveraged, all the cash flow they are generating, which is used to pay down debt, is now sitting on the balance sheet.

The way to think about this is that the future looks very bright. There is ample scope from a banking perspective to support private CAPEX as and when it comes up. And two, because corporate balance sheets are so delivered, there is ample headroom for them to grow as well. I am pretty confident about the future of private CAPEX in this country.

Moderator: Thank you. Ashish, I will request you to come back for a follow-up. Participants, please stick to one question per participant. The next question is from the line of Jinit Parmar from Moneycontrol.com. Please go ahead.

Jinit Parmar: Thanks. I want to understand that Puneet mentioned some constraints on deposit growth. I am sorry if I missed some points you mentioned. Could you highlight what challenges or constraints you are looking at?

Puneet Sharma: Thank you for the question. We said that the constraint is not operating or specific to Axis Bank. The current liquidity environment that prevails would constrain deposit growth for the banking system as a whole, of which we are a meaningful part. And consequently, the comment that deposit growth will constrain advances growth. That is what we have indicated as part of an earlier response.

Moderator: Thank you. Jinit, I will request you to come back for a follow-up question. Next question is from the line of Ekta Suri from Zee Business. Please go ahead.

Ekta Suri: My question is about Axis Capital, whose underwriting practices are being questioned. Recently, we saw that Axis Capital gave a guarantee of Rs. 260 crores. In that case, the promoter of the company is in jail. The company's condition is not good. My question is about the underwriting practices that are being questioned. What comment would you give on that, sir?

Amitabh Chaudhry: Ma'am, first of all, please don't make a breaking news out of a simple news. You are saying it is a breaking news, and our underwriting practices are questionable. Whatever transactions we do, we do it with a clear mind.

We want to refrain from commenting on whatever transactions you are referring to. But I assure you that our underwriting practices whether it is of the bank or any subsidiary, follow all the due diligence.

Neither you nor I can predict any arrest that happens tomorrow. But yes, based on those underwriting practices, we are confident that we would not have to bear any losses as far as the question of Axis Capital is concerned.

Our cover-up level is many, many times over. The underlying business is one of India's only telephone and mobile phone manufacturing business that is doing very well. It has a good EBITDA.

So please, my request to you is that if you want to understand more, you can talk to us separately. But based on any reporting, do not say that all of our underwriting practices are wrong. That would be wrong. And that would not be right. Thank you.

Ekta Suri: Sir, just now you said that you had kept these underwriting practices for a big company. So now, what is the idea behind it?

Amitabh Chaudhry: I did not say anything. I said that I did not want to comment on a specific transaction. If you will refer anything, please come and talk to us. We want to discuss something other than a particular transaction in this call. Thank you.

Moderator: Thank you, Ekta. I request to come back for a follow-up question. Next question is from the line of Amol from ETBFSI. Please go ahead.

Amol: Hi. Thank you. We have enough meat, specifically on the deposit side. But quickly, is there any average you want to put in? Why I am asking you this question, sir, is because your CASA ratio and deposit ratio are absolutely the best in the industry, is what we have learned.

So, what is your outlook on deposits regarding the CDR ratio? That is one. And more importantly, sir, I would also like you to give us a broad view of the digital. We have seen huge investments in digital banking from every bank, including yours. We have some significant initiatives in Open. So, how many customers are being acquired through mobile apps?

And how are they coming into the banking system? Are they new customers? Are they adding to the business growth of yours? Whether they are accessing loans? It would be great if you gave some perspective on digital. Thank you so much, sir. This is Amol here.

Rajiv Anand: So, on the first question, I think you spoke about LCR and the fact that currently we are at 118%.

Amol: Yes. Yes. Exactly.

Rajiv Anand: Our guidance has always been that our LCR and Puneet spoke about the fact that outflow rates, i.e., the quality of deposits, have significantly improved over the last 3 years or so. Our LCR rates typically will bob between 115% and 120%. And if you look at our track record over the previous few quarters, you will find that that is the optimal number for us. Too much has negative implications, and too little has liquidity implications. But we are comfortable keeping this number between 115% and 120%.

Puneet also spoke about the fact that we are in a liquidity-constrained environment. RBI has kept liquidity tight for various reasons. We hope the situation will improve as we go forward. But this is the situation that we are in. In this situation, as you have seen, we have successfully raised deposits across the spectrum. We deal with customers in the retail space. We deal with customers in the corporate space. We deal with customers in the government space. And each has savings pools, which we want a share of. And that is really how we think about our deposit franchise as well.

Coming to the digital side, digital is core to everything we do. Our mobile app has a Google Play Store rating 4.8, the highest globally among banking and financial services entities, and is well-known. It is a journey that we began many, many years ago. And we continue to build on capabilities here, adding to some of the data architecture built in India, the account aggregator being a case in point.

We are among the leading players on the account aggregator side as well. What that does effectively is that we have thought about Open, our mobile banking platform, as a platform for existing customers. But increasingly, we are considering Open as an app for all Indians, which means that whether you are a customer of Axis Bank or not, you can utilize the world-beating capabilities of the mobile banking app.

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

Anshika Kayastha: Hi, Sir. Good evening. I wanted to check one thing. Some of your peers have reported some moderation in slippages, but your gross slippages have been consistent both on year and slightly increased on quarter. Please elaborate on where these slippages originate and provide some guidance on how to keep the slippage trend.

Puneet Sharma: Thank you for the question. We need to look at both gross and net slippages in conjunction. Our gross slippages for the quarter were 1.62%. They declined 41 bps YOY. So, there is a YOY decline in gross slippages, not an increase on a YOY basis. Yes, they have increased on a sequential-quarter basis, which is Q3 higher than Q2. Please appreciate that Q1 and Q3 are seasonal billings for the agricultural portfolio, and that is where we see a blip-up, which is in the ordinary course of our business. So, X of the rural portfolio is subjected to seasonality; our slippages have been trending in the right direction.

If you look at our net slippage number, our net slippage number for the quarter was 0.5%. It declined 43 bps on a YOY basis and 9 bps on a QOQ basis. You will be able to see details of that on Slide 60 of our investor presentation, which gives you a reasonable time series that indicates the moderation both on slippages as well as the improvement in the asset quality reflected by meaningful reductions in gross and net NPAs over the last four to five quarters.

Moderator: Thank you. Next question is from the line of Sachin Kumar from The Financial Express. Please go ahead.

Sachin Kumar: I wanted one clarification. You mentioned that operating expenses are increasing 32%. So, is it one of the main factors that has dragged down your profit growth or net profit growth in Q3?

Puneet Sharma: As I said, our operating philosophy is that as long as we can deliver in and around the 18% ROE metric, we would like to continue to invest in the business. We are investing for the future. Through the previous conversation, you heard Rajiv and some of my other colleagues talk about the significant investments we are making in digital and tech and growing our franchise. We have done about 350 branches in the last 9Ms.

The benign credit environment accords us the opportunity to continue investing in the business, which is what we will continue to do. When the environment changes, we can raise costs when we need to. So, you are seeing investment flow through OPEX in the current quarter.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to Mr. Puneet Sharma for closing comments.

Puneet Sharma: Thank you, Neerav. Thank you, ladies and gentlemen, for taking time this evening to speak with us. If there are any questions that you have that remain unanswered, please feel free to reach out to our corporate communications team. We would be very happy to address them. Thank you, and have a good evening.

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