"Axis Bank Q4 FY19 Earnings Conference Call"

April 25, 2019

MANAGEMENT: **MR. AMITABH CHAUDHRY – MD AND CEO, AXIS BANK**
MR. JAIRAM SRIDHARAN – CHIEF FINANCIAL OFFICER, AXIS BANK
MR. RAJIV ANAND – EXECUTIVE DIRECTOR, WHOLESALE BANKING, AXIS BANK
MR. PRALAY MONDAL – GROUP EXECUTIVE AND HEAD OF RETAIL BANKING, AXIS BANK
MR. GANESH SANKARAN – GROUP EXECUTIVE, WHOLESALE BANKING COVERAGE GROUP, AXIS BANK

Moderator: Good day ladies and gentlemen and welcome to the Axis Bank Conference Call to discuss the financial results for the quarter and year ended 31st March 2019. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation is not sent. Unauthorized dissemination of the contents or the proceedings of the call is strictly prohibited and prior explicit permission and written approval of Axis Bank is imperative. As a reminder, all participant lines will be in the listen only mode. 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 '*' and 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. Jairam Sridharan – Chief Financial Officer; Mr. Rajiv Anand – Executive Director, Wholesale Banking; Mr. Pralay Mondal – Group Executive and Head of Retail Banking and Mr. Ganesh Sankaran – Group Executive, Wholesale Banking Coverage Group. I now hand the conference over to Mr. Amitabh Chaudhry – MD and CEO of Axis Bank. Thank you and over to you sir.

Amitabh Chaudhry: Good evening everyone. We welcome you all to a discussion on Axis Bank's financial results for the 4th quarter and financial year 2019. I am joined here by my colleagues, Jairam Sridharan, Group Executive and CFO; Rajiv Anand, Executive Director and Head of Wholesale Banking; Pralay Mondal, Group Executive and Head of Retail Banking and Ganesh Sankaran, Group Executive, Wholesale Banking Coverage Group.

Before we get into the discussion on financial performance, I thought it will be important to start by updating you all on the execution strategy that I had articulated during the last earnings call. Axis Bank's execution strategy 2022 pivots on delivery of growth and profitability on a sustainable basis with the intention to get back to 18% ROE levels. We intend to get our winning mindset back, reclaim our growth momentum and get our fair share of business from our customers. Most important of all, we intend to build sustainability in our business performance and operations with disciplined execution and conservatism at its core.

I am pleased to share that in the last few months, we have taken significant positive strides towards our goals. We now have the entire senior management team in place to execute the strategy and convert our aspirations into a reality. During the last month, Ganesh Sankaran had joined the Bank as Group Executive Wholesale Banking Coverage Group. Ganesh brings with him nearly 25 years of experience across coverage, credit and risk functions. Also earlier this month, Pralay Mondal has joined the Axis family as Group Executive and Head Retail Banking. Pralay has rich and varied experience over 30 years in retail banking, business banking, products and technology. We have also added key talent in areas of Retail Risk and Operational Excellence over the last 60 days.

While the unique culture of Axis has always been the Bank's strength, there was a need to focus more on accountability, meritocracy, sharper differentiation in reward structure and rigorous tracking of performance and execution. With this in mind, we have reoriented the organization structure in both Retail and Wholesale that would now enable us to streamline and simplify our functioning and bring greater business focus, improve profitability, productivity and efficiency. These structures were announced in first week of April 2019.

Deposit growth is the key challenge for all the banks in the country today. With that in mind, we have created separate verticals on the Retail Liability side with dedicated focus on acquiring and servicing our deposit customers. While branches will focus on relationship management and driving growth from existing customers, there would be a separate liability sales team to drive new customer acquisition.

In Retail Lending business, the team is now organized with the product focused structure and into smaller but larger number of regions to drive greater focus and show better control and to deepen relationships and facilitate profitable growth. The underwriting function in Retail has been separated from business, dedicated team focusing on third party products has also been carved out to help the Bank have sharper focus and deliver wider product choices to our customers. We have also reoriented the Wholesale business. The credit underwriting function has been taken out from the businesses and has been made an independent function. Product specialists and business relationship responsibilities have also been segregated to ensure sharper focus on client coverage and product groups. The number of segments in the product coverage group has been increased to widen and deepen relationships. The segments in the coverage group were included not only large corporates, strategic clients and governments, but also MNCs, financial institutions, mid corporates and the newly created Commercial Banking segment.

In the Commercial Banking segment, we are focusing on building a relationship based model with SME and current account business customers to drive growth across both assets and liabilities. At the same time, we have embarked and made rapid progress on the 'One Axis' ideology for the Bank and its subsidiaries which focuses on projecting the Bank's various businesses and subsidiaries as One Axis. The focus for our subsidiaries would be to attain size and scale and we would continue to invest in them over the next few years.

As stated in our last earnings call, we intend to improve our cost efficiency and build cost consciousness across the Bank. Some early signs of progress on this front are already visible. Aligned to our focus on embedding conservatism in our internal policies and practices, we are also looking to move towards a more conservative view on provisioning, compliance and risk. In the Corporate book, we are systematically increasing the provisioning by following a formula based approach for putting aside provisions on weak standard assets with no subjectivity involved. We have also provided for a large non-banking asset and security receipts on our books during the current quarter as we had indicated to you all during our quarter 3rd interaction. Further details will be covered by Jairam later in the call.

We need to do a lot more in terms of strengthening our core operational process and backend. We need to institutionalize quality measurement practices. We need to upgrade our core technology to prepare for a digital world. We, as part of that, intend to set up additional banking practice that works in terms of thinking through what a digital bank would look like 5 to 10 years from now and build those capabilities over a period of time. I am happy to say that we have also identified a Head of Digital Banking and the person is in the process of joining the Bank soon. We remain focused on predictable delivery of growth and profitability across the Axis franchise on a consistent basis quarter after quarter. This quarter has been a good starting point, but we have a lot more to conquer and achieve. With that let me handover to Jairam to take you through the Bank's financial performance in the quarter.

Jairam Sridharan: Thank you very much Amitabh. Ladies and gentlemen, good evening. It is my pleasure now to take you through the detailed financial performance of the Bank during fourth quarter FY19. As always, do keep our investor presentation handy as we expect to refer to certain slides there. Five key highlights of our performance in this quarter, first, asset quality metrics are progressing well and in line with expectations. Second, provision coverage, continues to get strengthened. Third, growth metrics in the quarter remain healthy led by Retail. Fourth, the deposit franchise which had a strong quarter once again and fifth, operating profitability metrics which improved quite materially. We will discuss each of these in some detail over the next few minutes.

Let me start with asset quality. Please refer to the asset quality section starting slide 47 in the earnings presentation. In our earnings call last quarter, we had mentioned that we intend to take a few steps towards moving our provisioning and other policies to a more conservative ground. The bank has taken some of those steps in this quarter and I would like to start our discussion with those. First on provision coverage, the bank continues to increase provision coverage on non-performing assets. At the end of the fourth quarter, the bank's PCR stands at 77% compared to 65% at the end of last year. Provisioning for security receipts, as you are aware the Bank has a portfolio of security receipts that are held at a book value of Rs. 2,910 crores. During the quarter, the bank made Rs 221 crores of provisions against this pool. We intend to continue evaluating the security receipts portfolio critically every quarter and take provisions as and when necessary. You will find this provision under the provision for investment depreciation line item in our P&L. Third is provisioning for stressed sectors. Guided by an RBI regulation in April 2017, the bank maintains a higher level of standard asset provisioning against certain self-identified stressed sectors. During the quarter, as a prudential and conservative measure, the Bank added two more sectors to the list of stressed sectors and made an incremental provision of 160 crores against these sectors.

Fourth, is provisioning for land assets, we had indicated in our previous call that some areas in our balance sheet regarding our non-banking assets needed further review. Specifically this was in reference to a transaction the Bank had entered into in June 2016 and March 2017 where the Bank received some parcels of land as partial settlement with a stressed corporate borrower. The value of this non-banking asset in our books as on 31st December 2018 stood at Rs 2140 crores as disclosed in our balance sheet under the head, other assets. This conversation progressed during the quarter as RBI advised that 100% provisions be made against all land obtained in lieu of loans over the forthcoming 4 quarters. Accordingly, we have made a provision of Rs 535 crores during Q4. Further, the remaining unprovided amount of Rs 1,605 crores has already been debited to our reserves. In other words, the book value adjustment for the entire amount of Rs 2,140 crores has already been made even as the remaining P&L impact will come through in the next 3 quarters. The bank continues to have ownership of these land parcels and would intent to sell them at the appropriate time now that the parcels have been marked down to zeros.

Fifth item in this conservatism and provisioning area is around the review of BB & Below book. During the quarter, the bank downgraded approximately Rs 920 crores of assets into BB pool. It was predominantly contributed by 2 large diversified business groups which have been facing severe liquidity issues during the current quarter. As a measure of abundant caution, we have downgraded the accounts of these two entities related to power sector with exposure of Rs 505 crores.

The sixth area of conservatism here is on standardization of contingent provisioning. You might recall that the bank had made a contingent provision of Rs. 600 crores in the third quarter towards the BB & Below pool. In an effort to create greater standardization predictability, the Bank has now decided to create a formula driven process for making additional standard asset provisions towards select assets. Going forward, the Bank would systematically make higher standard asset provisioning for accounts that are either BB & Below or disclosed as SME-2 in our RBI reporting. Correspondingly, the subjective contingent provisioning policy of the Bank has been discontinued. Overall through these measures, the Bank has made significant additional provisions over and above the normal NPA provisions during the quarter. These provisions are not included in the standard PCR calculations which continue to be based on NPA provisioning in the numerator.

With that overview, let me now move to some of the more regular metrics we track on asset quality. New slippages in the quarter continue to remain at moderate levels. Gross slippage was Rs 3,012 crores compared to Rs 3,746 crores in the third quarter of FY19. Slippages from the corporate segment were Rs 1,370 crores. Of all corporate slippages in the quarter, 72% came from the BB & Below pool. There was one account with an outstanding of Rs 335 crores in the engineering and electronic sector that slipped from outside the BB pool during the quarter. Net slippages in the quarter were modest at Rs 636 crores. Of this, Rs 233 crores came from the corporate segment, Rs 188 crores from SME and Rs 215 crores from the Retail and Agri segments. Net slippages in Retail are down 56% from the fourth quarter of FY18. We continue to watch the Agri lending businesses closely for signs of stress; however, during this quarter the Bank's net slippages in the Agri sector were negative with recoveries and upgrades being higher than new slippages. The NPA ratios for the Bank improved sequentially with gross NPA and net NPA ratios reducing by 49 basis points and 30 basis points, respectively. We ended the quarter with a gross NPA ratio of 5.26% and net NPA ratio of 2.06%. The standard BB & Below book in the Bank's corporate portfolio was roughly flat sequentially and down 17% year on year.

If you turn to slide 51, you can see that the BB & Below book now stands at Rs 7,467 crores or 1.3% of gross customer assets, down from 7.3% at peak. In absolute terms, the BB & Below book is now at the lowest level in the last 12 quarters.

If you flip to slide 52 where we have shown the long-term trend in the size of BB & Below pool as a proportion of corporate lending over the last 12 years, you can see that the proportion of BB & Below rated exposure was in a stable state around 2% to 3% of corporate lending. It then rose sharply to a peak of 12.6% and since then has trended back down to 4.1% at the end of the fourth quarter. You could use this long-term trend to draw inferences on the trajectory of this pool in the future. Total provisions and contingencies for the quarter were Rs 2,711 crores. Of these, provisions for NPAs were Rs 1,710 crores compared to Rs 2,752 crores in the third quarter of FY19 and Rs 8,128 crores in the fourth quarter of FY18. The bank presently has an accumulated prudential write off portfolio of Rs 18,772 crores. Needless to say, this is 100% provided. Of this, 84% was written off in the last 8 quarters. Over the last 12 months, we have recovered 13% of the opening PWO pool. This compares with 3% recovery that was made in the last financial year.

If you move to slide 53, you can see the credit cost trajectory of the Bank over the last few quarters. Credit cost for the quarter stood at 1.26% on a gross basis. If you now move to slide 54, a slide that shows the Bank's long-term credit cost trajectory, you will notice that the gap between the two credit cost metrics, i.e., the reported credit cost and the credit cost adjusted for recovery from write-off has widened during the financial year to 35 basis points. You might recall that this is something we have been talking about for the last few quarters. As the recovery cycle picks up steam, adjusted credit costs are likely to diverge noticeably from credit costs and the gap will narrow back in the other part of the cycle.

With that let us move now to the bank's profitability metrics. I request you to refer to the section starting slide #10 in the earnings presentation. Net profit for the quarter stood at Rs 1,505 crores for annualized earnings per share of Rs 23.61. The book value per share of the bank was at Rs 259 compared to Rs 247 at the end of FY18. Operating profits of the bank grew 37% Y-o-Y. Net interest income for the quarter was at Rs 5,706 crores, a growth of 21% Y-o-Y. Non-interest income grew 26% Y-o-Y to Rs 3,526 crores. This was driven by fee income that grew 23% to Rs 3,020 crores. The fee income growth was led by a healthy 37% growth in retail fee income. Within Retail, fees from our cards business grew strongly by 40% Y-o-Y. The cards business now constitutes 23% of the total Bank level fees in the fourth quarter of FY19. Investment product distribution comprising mutual funds and insurance distribution grew 32%. This was driven in part by a base effect where the Bank had taken a one-time hit on MF fees in the fourth quarter of FY18. Transaction banking fees grew at 7% Y-o-Y. Corporate credit related fees was flat similar to what we saw in the third quarter.

Let us move now to slide 15. You can see here that the net interest margin for the quarter stood at 3.44% with domestic net interest margin at 3.61%. Excluding the one-off impact in the third quarter NIM, on account of write back of interest reversals on one large recovery, the NIM in this quarter was marginally higher by 2 basis points. Full-year NIM in the financial year stood at 3.43% broadly in line with full year margin last year, as guided at the beginning of this year. Operating expenses for the quarter grew at 10% Y-o-Y and for the financial year at 13% Y-o-Y. The annualized operating expense to average assets ratio stood at 2.13%. We remain on track to achieve our goal of cost to assets of 2% in the next 3 years.

Let us move now to a discussion on deposit growth. You would have observed that the Bank has been disclosing deposits on a quarterly average balance basis for the last few quarters. The rationale behind publishing the QAB numbers is to highlight our focus on maintaining and tracking stable, non-volatile deposits and minimize the amount of hot deposits during quarter ends. This is another step in our journey to building a sustainable franchise of the Bank. Our deposit franchise had a strong quarter. I request you to refer to slide #6 in the presentation. On a quarter average balance basis CA, SA and retail term deposits together grew 21% Y-o-Y. Within this SA grew 13%, current account grew 10% and retail term deposit grew 32% Y-o-Y on a quarterly average balance basis. CASA and retail term deposits continue to form a strong stable base of funding for the bank and stood at 81% of all deposits.

Slide 23 highlights the growth in our wealth management business Burgundy. We manage one of the largest wealth management business in India with assets under management of Rs 1,32,702 crores at the end of March 2019. We continue to open branches at a steady rate. We opened 86 branches during the quarter taking our total network to 4,050 domestic branches.

Let us move now to digital and payments, where our strengths and leadership position continues. Let us start with slide 31 on credit cards. The bank had nearly 6 million credit cards in force at the end of the fourth quarter making us the fourth largest credit card issuer in the country with a market share of 12%. In the fourth quarter, around Rs 58,000 crores of card spends went through the Axis Bank's network across our issuing and acquiring businesses. Slide 34 highlights the rising contribution from digital channels to our business growth. 52% of our savings accounts opened this quarter were sourced through Tab banking compared to 49% a year ago. 46% of all personal loan disbursements in the quarter were through digital channel as compared to 30% a year ago. Slide 35 highlights our capability and strong positioning in the UPI space. During this quarter, we saw 246 million UPI transactions with the total transaction value growth of over 4 times Y-o-Y to Rs 30,331 crores. We have a registered customer base of over 45 million and a market share of 11% in terms of transaction volume for the quarter. In mobile banking, we witnessed a Y-o-Y growth of 89% in transaction value. Last quarter, the bank's customers undertook transactions worth Rs. 1,18,590 crores on the Axis Bank mobile app.

Let us now discuss loan growth and the trend we are seeing across key business segments. Domestic loan growth for the quarter stood at 18% Y-o-Y. The international loan book degrew by 29%. In absolute terms, we expect the international loan book to stabilize in the next 2 quarters. Our loan-to-deposit ratio at the end of the quarter continue to moderate and stood at 90% as compared to 92% at the end of the third quarter and 97% at the end of the fourth quarter FY18. Retail continued to be the key growth driver growing at 19% Y-o-Y with continued diversification in portfolio mix towards products offering higher risk adjusted returns. If you refer to slide 22, the growth in Retail loans in the fourth quarter was led by personal loans, credit cards and auto loans that grew by 42%, 41% and 29% respectively. The Bank's strategy on Retail assets continue to be centered on existing customers of the Bank, 83% of retail asset origination in the fourth quarter was from existing customers, 96% of the bank's credit cards and 92% of personal loan originations in the quarter were from existing customers of the Bank. The Bank's Retail Lending businesses are actively starting to leverage other customers across the Axis Bank group, in particular Freecharge. SME lending grew by 12% Y-o-Y. Term loans and working capital loans grew by 2% and 15% Y-o-Y respectively. Share of working capital to overall SME loan book currently stands at 79%. The focus here remains on building a highly-rated profitable SME book. Presently, 85% of non-NPA outstanding exposure in our SME portfolio is to client-rated SME 3 or better.

In the Corporate book, domestic loan growth stood at 17% and the international book de-grew by 33% Y-o-Y. Within the Corporate book, our mix has been shifting steadily to a better rated clients as we have highlighted to you in prior quarter. This shift in strategy shows up as a noticeable lowering of our RWA to assets ratio in this segment which gets us to the bank's capital position. The RWA to assets ratio of the bank improved to 69% at the end of the fourth quarter. During FY19, the bank consumed 41 basis points of capital on a net basis. Of this, around 35 basis points is related to the treatment of the nonbanking asset that we discussed earlier. Over the past 10 years, the Bank has grown loans at a CAGR of 20% and we have consumed on average 45 basis points of CET 1 every year excluding the impact of capital raises. Despite the one-off consumption, improvement in earnings this year, better RWA intensity and lower asset growth has restricted the net CET1 consumption for the year to below our 10-year average. The Bank's CET1 ratio at the end of the fourth quarter was 11.27% with a tier 1 capital adequacy of 12.54%. You might recall that as part of our capital raise in December 2017, we had issued 4.5 crores warrants expiring in June 2019 convertible into equity shares at Rs. 565 per share. If converted into equity, this would correspond to about 46 basis points of CET1 at today's RWA level.

Putting all this together, we believe that we have adequate capital to pursue growth opportunities in the near term. The key shareholder return metrics saw an improvement during the fiscal. ROA and ROE for FY19 were at 0.63% and 8.09% respectively. We continued to remain focused on our medium-term execution strategy with a goal of reaching a sustainable 18% ROE over the next 3 years. The Board of directors of the Bank has recommended a dividend of Re. 1 per share for the fiscal 2019 after having not recommended any dividend in the previous year.

Let us now take a quick look at our subsidiaries. As part of our execution strategy, we have made rapid progress on our one Axis ideology for the bank and its subsidiaries which focuses on projecting the Bank's various businesses together as one that can offer comprehensive suite of products, services and solutions to customers. We intend to continue investing in some of these subsidiaries till we achieve significant scale. Axis Finance, our NBFC business grew by 21% Y-o-Y and now has a book of Rs 8,040 crores. The business continues to deliver great returns with an ROE of 19.32% and a NIM of 4.37% for FY19. The gross NPA ratio of this business stands at 0.35%.

Axis Securities is one of the fastest growing stock brokerage firms in India, currently ranking third amongst brokerages in terms of total client base. The cumulative client base rose 12% Y-o-Y during the financial year to 2.1 million. Axis Capital, our institutional equities and investment banking franchise, has been the leader in equity and equity linked deal over the past decade. Overall capital market activity in FY19 has been subdued driven in part by higher volatility. In the weak market, Axis Capital executed 34 transactions during FY19 including 4 IPOs, 2 QIPs, 6 OFS transactions, 4 buyback deals and 10 advisory deals. Axis AMC, our mutual fund business continues to perform well with 19% Y-o-Y growth in average AUM to Rs 84,544 crores for FY19 led by 44% growth in number of client folios. The equity and hybrid businesses here comprised 60% of the total average AUM.

Freecharge is being positioned by the bank as an engine that generates a large base of new to Bank customers that are young and digitally native. If you flip to slide 55, you can see the Freecharge as a strong customer pyramid which offers great cross-sell potentials and customer access for access at every stage of the pyramid. The quarterly active user base of Freecharge was approximately 18 million in the fourth quarter.

Finally, some comments on our outlook for the future. The Bank is committed to our 3-year execution strategy based on the pillars of growth, profitability, sustainability with an aspiration of delivering 18% ROE sustainably. In alignment with that aspiration, we would like to reiterate the following. We expect the domestic loan book of the Bank to grow 5 to 7% faster than industry growth rates. We expect credit cost to stabilize below the long-term average over the 3-year period. Cost to assets should continue to trend towards our stated goal of 2% by FY22. We expect NIMs to settle in the range of 3.5 to 3.8% over the medium term. For FY20, we expect margins to remain broadly flat Y-o-Y with an upward bias.

As we close, allow me to resummarize the key themes of the quarter. Profit performance during the quarter was strong, asset quality trends have progressed as per expectations, provisioning has been strengthened and core operating performance on deposits, loans, net interest margin and fees have all been strong. With that I come to the end of my comments and will be glad to take your questions now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vishal Goyal from UBS. Please go ahead.

Vishal Goyal: Two questions from my side. One I think on the CASA deposit, which is especially like weak for us versus other banks like HDFC bank and ICICI, both are growing at mid-teens, so what exactly is happening here for us?

Jairam Sridharan: Vishal, if you look at our total deposit trajectory, you will see that CASA plus RTD together, we had a really solid quarter with a growth at around 21% as you can see on slide 6 in the presentation. As we have been talking about over the last few quarters, we are focusing on driving RTD where our market share has been lower than what it had been on CA and SA. On CA and SA, while MEB numbers are flat Y-o-Y or quarter end numbers are flat Y-o-Y, quarterly average balance bases for CA and SA grew by 10% and 13%, respectively and that is what we are largely tracking. As we shift our strategy trying to build a large retail term deposit franchise in a rising rate environment, it is natural for you at least for a short period of time to see a little bit of cannibalization from SA into the term deposit business, but we think it is still the appropriate thing from a customer's perspective and we believe that it will build out as SA will get top back up as time goes on. Overall, deposit growth, we are quite happy with what we saw in this quarter.

Amitabh Chaudhry: Just to add to that, please understand that if you look at our month end balances, year-on-year or quarter-on-quarter basis, we always tended to have very large balances towards the end of the month of the quarter, especially quarter and year end and they will run away in April. This year, we had sent out specific message to the branch banking side that we want the right kind of deposits to come in, we don't want to be just pushing our balances. I think Axis Bank has always tried to stand out in that and this time, we have tried to ensure that we just do the business as though it is a normal quarter end and the year end rather than trying to push off the balances for the sake of just pushing our balances. I guess that has been the reason why the MEB numbers look what they do. Hopefully, in the quarters to come, you will see the impact of that month end or the quarter end going away.

Jairam Sridharan: Vishal, just to reiterate the numbers that I mentioned earlier, on a quarterly average balance basis, savings accounts grew by 13%, current accounts were up 10%.

Vishal Goyal: On Y-o-Y basis. One more question actually on your non-fund exposure right, which is still part of BB & Below, so what is happening there. Still it is not NPA? Second, what is the provisioning which we already have, what is expected provisioning on that?

Jairam Sridharan: If you look at slide 51, where we have talked about our BB & Below book, we have disclosed that the non-fund based outstanding in the BB & Below portfolio is Rs 2,200 crores. You will notice that it is a little bit lower than what it was last quarter and so we are seeing a little bit of reduction here. All of this is standard assets right now, so none of this is NPA. As far as provisioning is concerned, as we mentioned in the BB & Below pool, in this quarter we have created a policy that we will make additional provision on these accounts even though they are in the standard asset category and so that would apply on all these accounts.

Moderator: Thank you. The next question is from the line of Suresh Ganapathy from Macquarie Capital Services. Please go ahead.

Suresh Ganapathy: Just two questions. One is on the normalization of provisions because if you have made some contingent provision, the provisions on standard asset, the SR provisions and of course we also have IFRS transition happening hopefully next year, it looks like the new normal is going to be higher than the 115 basis points average that you are showing over the last 15 to 20 years. Is that the right interpretation because if you go at the current rate, it really looks like you will end up having a much higher level of provisioning and therefore lower level of ROE and therefore an issue to your 18% ROE target.

Jairam Sridharan: No Suresh, our numbers are not actually getting there, to be honest. If you look at incremental new NPA formation, you are seeing that slippage ratios are down quite significantly and if you extrapolate from current slippage ratio, i.e., assume the whole pool of NPA on which provision coverage needs continue to go up. We are at 77% now and may be it goes up a few more percentage point, but once that is done the new book that is accreting on to NPAs is relatively low and hence the new provisioning or fresh provisioning that needs to be done is turning out to be meaningfully low. We reiterate what we said in our 3-year execution strategy, which is that our credit costs would stabilize below our long-term average in 3 years.

Suresh Ganapathy: And something on this non-bank asset, obviously you guys tried having a conservative accounting practice, why did you debit the other provisions through the reserves and not decide to take it through the P&L?

Jairam Sridharan: That was decided in discussions with RBI, Suresh.

Suresh Ganapathy: So it was approved by Reserve Bank of India to take it through the reserves?

Jairam Sridharan: Yes, said that you have to provide it over the four quarters, 25% each should go to the P&L but you have to get reserve of the entire amount, so that is exactly what we have done from an accounting perspective.

Suresh Ganapathy: And when was this circular issued? Was it done in this latest quarter, fourth quarter? And was is a known thing or just came really out of the blue?

Jairam Sridharan: You might recall that even in the last quarter, we spoke about these land assets and kind of the nonbanking assets and the fact that we might have to review them, but the fact that we need to make 100% provisions on pieces of land that we own was not entirely in our thinking, but be that as it may, that has been incorporated now. When RBI will issue a formal circular on this we don’t know, they will do so in the coming time, they have communicated with us offline considering that our results is today.

Suresh Ganapathy: Just one quick last question, 28% of course has come outside the BB & Below book, I mean now how confident you are about this outside BB & Below book because this again tends to be volatile. Are you really confident that there are no such further large assets in the outside BB & Below book?

Jairam Sridharan: I will make one comment and then I will request Amitabh to join me as well. There is one account here, Suresh that has come from outside BB & Below and we have talked about it. It is in the engineering & electronics segment and that one account did come through. In general when you go through a period where your slippage is overall in the corporate book are low, you are going to see one-off volatility like this that happens, but as we show you the last 9 to 10 quarters or so of data on this in our presentation, you see that there have been one or two quarters when such a thing has happened. We have gone through and Deepak who has joined us few months ago as Chief Credit Officer has gone through the list of accounts in great detail to see whether more accounts need to be downgraded to BB. All that thought process have been incorporated and downgrades appropriately have been done. So to the extent that we know of the world right now, we have incorporated all the impacts, but of course, every quarter will continue to review it. Amitabh, anything you would add?

Amitabh Chaudhry: Yes, obviously we would not like something like this to happen and in this particular case, the circumstances change quite rapidly and it went through, I guess, let us say standard asset to NPA quite rapidly and it happened through the quarter where we could not do anything about it, but yes, I fully appreciate the point and hopefully these kinds of incidents will all be reduced as we move forward so.

Moderator: Thank you. The next question is from the line of Monika Aggarwal from Bernstein. Please go ahead.

Monika Aggarwal: Sir, I have one question on the retail segment wherein you are mentioning that 83% of the entire book are from internal customers, so these internal customers included are both your existing borrowers as well as your liability side customers, right?

Jairam Sridharan: Predominately liability side customers, almost exclusively, actually.

Monika Aggarwal: Could you give some percentage around how much would be your existing borrowers vis-a-vis your existing liability side customer?

Jairam Sridharan: Almost all of these would be liability side customers, Monika.

Moderator: Thank you. The next question is from the line of Ishita from Fidelity Investments. Please go ahead.

Ishita: I just had one question, like you were mentioning that there were some you added two more sectors to the stressed sectors, so can you please elaborate on that sectors which you added to the list because you are seeing the stress?

Jairam Sridharan: You were asking about stressed sectors and which sectors we have added?

Ishita: Yes.

Jairam Sridharan: We have not made that public Ishita, but you all will not be surprised at all at the sectors that are going through some tough situation because of liquidity, etc.

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

Adarsh P: Question on margins and cost of funds. Your cost of funds have moved up like 25 basis points quarter-on-quarter. When we try and compare some of the large banks, you all clearly are offering higher rates than some of the top PSU banks, may be to fund the growth and when you go and see your sanctions on the corporate side, it is pretty much A+ rated corporate, so that is not going to have good yields, so in that context, I am just trying to ask there is a pressure to pay up, cost of funds are going up and at least on the corporate side, incremental yields may not be that good given the nature of mix change, so in that context, I just wanted to understand how do you manage this growth and margin issue because your guidance on margin is also flattish for next year, so if you can just talk about that?

Jairam Sridharan: I will make a few comments and I will request Rajiv to join me as well. First, if you look at pricing power and the way it has played out, you are absolutely right that we are changing our deposit mix, more towards term deposits, paying up to get the deposit because we want to have a solid base of deposits to work up. Right now, we are getting term deposits quite handily and hence you are seeing a loan to deposit ratio fall even as you are seeing our loan growth rates pick up, so we are very happy with that outcome. We are having to pay up a little bit for it and that is showing up in our cost of funds; however, on the lending side, we do continue to see pricing power. Our MCLR continues to go up as we have seen in this calendar year, from January 2018 or so, we have gone from 8.25% to about 8.90% in terms of MCLR. So we continue to raise MCLRs and are being able to deliver growth even with higher and higher MCLRs and what that is translating to on the yield side on the overall book, you are continuing to see solid yields which is why NIMs have held up okay, even as cost of funds in this last quarter have gone up by 25 basis points as you rightly noted. You are right that the portfolio mix in corporate is going to move already towards much better rated corporates. We don't think on an incremental basis, that is the delta that is going to happen and we feel comfortable with the story there. But the overall mix on the retail side, for example with higher retail and with more unsecured in retail, you will expect to continue to see better yield on that side of the book and putting it all together is when we do think that for next year, while we will need to pay a little bit on cost of funds, there is a commensurate increase in pricing power and hence we believe margins will be broadly stable with slight upward bias. You are right, we are not at this point of time projecting a steep upward movement in NIM for next year. Rajiv, anything you would add on the funding side?

Rajiv Anand: I think the way to look at it also is that if you see the incremental book .we are lending to, about 90% and beyond to corporates rated single A and above, that number is not going to go up materially from here. In fact, I would imagine that it would go down a little bit as we start to build out our mid corporate book to a large degree and our SME book to some extent and so therefore to that extent what we are really focused on is to improve the relationship across the entire corporate bank and we are seeing early successes within that. What I mean by that is not to just look at credit RAROC, but to be able to get larger shares of the wallet from customers across the entire spectrum.

Adarsh P: Jairam, the reason why I am spending some time on this question is that when you look at your ROE guidance, while we appreciate cost coming down and credit cost normalizing, a good part of the improvement will have to come from the margin going from this 3.40 -ish band to your target band and looks like some part of it is getting eaten away by the current liquidity deposit scenario, so I am just trying to understand that?

Jairam Sridharan: Your point is absolutely right. In the short term, the liquidity scenario is slowing the pace at which we would like to move to the 350 to 380 bps NIM band that we spoke about and that said we are confident of continuing to move directionally there. That is why I mentioned that there is an upward bias to our flat NIM guidance for next year. Let us continue to see how this plays out. As you know Adarsh, yields and interest rates are the most difficult part of forward looking guidance, it is very hard to predict which direction that they are going to go, we are watching it closely, but at this point in time, we are certainly feeling good that the margin compression story that we saw for 2 years is well and truly over and sort of stabilized in this year over last year. Hopefully, next year, we will see a little bit of an expansion, but we are not baking that into our thinking just yet. We are looking at flat NIMs with slight upward bias.

Moderator: Thank you. The next question is from the line of Saikiran from Haitong Securities. Please go ahead.

Saikiran: Just probing further on the margins alone, if I look at the proportion of the international advances have come down versus last year, and at the same point of time, we also have seen retail as a proportion of the overall loan book increasing on an year-on-year basis and at the same point of time, we also have seen lower slippages as compared to the last year and we also have seen large proportion of loan book now linked to 3 and 6 month MCLR. In spite of that the domestic NIMs are more or less flattish, so what explains this flattish kind of margin performance? Would you like to attribute everything to the impact of cost of funds and the cost of deposits or something else is also playing out?

Jairam Sridharan: In this quarter Sai, it is almost entirely the cost of funds story line and I think you are right there. I forgot to talk about the asset quality linkage of NIM, you all know this very well, but just to reiterate, our net NPA ratios are right now at 2.06% at the end of this quarter. If you continue to move that down, if let us say that 2% goes down to 1%, the delta 1% becomes interest earning and essentially that is NIM accretive. So you will see that, you will also see the impact of warrants getting converted into equity next quarter hopefully, so that will have a little bit of an impact as well, so there are a few of these slightly more structural tailwinds as well on the NIM side.

Saikiran: Just to extend that Jairam, even on the full-year basis, the margins have been flat in spite of all these improvements, so just wondering like what could be the reason?

Jairam Sridharan: During the course of this financial year, our costs of funds have gone up from 511 to 569 bps, so that is a fairly steep increase in cost of funds. That pretty much explains it all. At the beginning of the year, we had guided that this year's margins were going to be flat to last year. After two years of compression of margins, we had guided that this year we will be flat, which is exactly what you saw and we are guiding that next year, it will be flat with the slight upward bias and let us see how that plays out.

Saikiran: It is just an add on question, on the fee income side, just to understand what is the outlook on the transaction banking and the corporate fee income group?

Jairam Sridharan: Like I said, the focus really is to increase share of wallet across the customer base. Ganesh and his team are really focused around that. On the corporate fee side, what you used to see was de-growth of 20% to 25%. That is now flat line and I think we are well on our way to get positive growth as far as corporate fee is concerned. Corporate fee will certainly be of a more granular nature. Transaction banking and commercial banking group, forex trade, etc, is something that we are currently focussed on. That is one of the big focus areas as far as our relationship management is concerned. I do believe that we will see reasonably strong growth there as well.

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from Motilal Oswal Securities. Please go ahead.

Nitin Aggarwal: My question is on the additional provisions that we have made this quarter, Rs 13 billion. This includes an element of formula driven process of making provisions towards the stressed sectors, so how much of this can we expect to recur now over the coming quarters?

Jairam Sridharan: None of it. When you look at stressed sector, let us say you identify a new sector that is stressed and you make an incremental provision on it. We said that we have made an incremental provision of Rs 160 crores towards stressed sectors. Now, unless that stressed sectors' underlying exposure increases dramatically, you are not going to see anything incremental on this. This is not a recurring item. This is a one-time item that we made just for sake of prudence. Let me also add that if sometime during the course of next year, we have said that if this sector no longer looks that stressed as we imagined it a year ago, you might take that sector off the stressed sectors list, in which case, this entire amount will get returned back as well.

Nitin Aggarwal: And secondly on the corporate banking, is it possible for you to give some color on the decline arising from the trends to be cautious on the non-fund based business? So just trying to assess the downside risks to the fee line now here on?

Jairam Sridharan: I will ask Rajiv to add, but if you see actually our corporate banking or the fees has actually stabilized over the last couple of quarters, so in spite of us moving towards more high-rated book, which is only increasing over a period of time, our fees has stabilized and I will ask Rajiv to add color, but I think from here on as we start showing growth, it should start picking up upwards.

Rajiv Anand: I think the move to a better rated book, that shift has happened. That shift as far as the fee is concerned is also done and I do believe that we should be able to grow corporate fees from here onwards.

Nitin Aggarwal: Can we get the outlook on the overseas business, that business has been declining quite sharply, so what can we expect there?

Rajiv Anand: I think the book on the overseas side as well, the book itself we believe has pretty much bottomed out, I think in an absolute basis, the book has more or less bottomed out.

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

Rahul Jain: Two to three questions. Number one, sorry for discussion on this NIM point again, but in that context, is it possible to get a sense where do you see your personal loan and credit cards proportion in terms of total book stabilized because I guess the initial guidance was about 14 to 15% of the domestic book? Now, it is about 17% and we have seen one of the largest lenders sound a bit cautious about that portfolio, so where do you see that stabilize?

Jairam Sridharan: Firstly, this 17% proportion is of the retail book, it is not of the total book, so it is basically half of that for the total book, so we are still quite underweight on unsecured from a total book perspective compared to the comparative that you mentioned, so we do think there is a headroom for us to grow. Our penetration of unsecured lending and credit cards into our deposit's customer base is still low single digits on personal loans and low double digits on credit card, so from a penetration perspective, there is a lot of room for us to grow. Credit performance continues to be quite stable, so there is no reason for this not to increase. That said, there is no particular target we have taken on ourselves in terms of how much we are going to grow this. We will grow as per whatever opportunity turns up within prudent credit norms and as it happens, it has been fairly steady and good growth over the last couple of years and hopefully, we can continue a little bit of that but we are not putting specific target on that.

Amitabh Chaudhry: Since lot of you are asking the NIM question, but can I try to answer it slightly differently. You know, on one side, a combination of portfolio choices we are making on the wholesale and the retail side, we have said we have added number of coverage groups in the wholesale side including mid-market corporate group which obviously will lead to certain NIM coming from that portfolio. On the retail side, you guys have just asked that our unsecured or certain portions of our portfolios are increasing at a pace where the NIM tends to be larger. On the other side, yes we have seen pretty large and rapid increase in cost, but we have been able to ensure that actually NIM keeps inching up, so now when you have extended forward, you have to somewhere understand and appreciate that we will continue to make, we are already setting some strategic steps to maintain that NIM and continue with an upward bias and we will continue to make portfolio choices which allows us to push that NIM up. On the other side, all the structural changes we have talked about, all the changes we are making on the liability side of the franchise will hopefully ensure that over a period of time that we can manage the NIM with an upward bias. Now, obviously, these choices are being made in the long term, the medium term and the short term. There is no magic formula here. We have to work on each of this aspect of our business to ensure that NIM is maintained or it continues to improve. What Jairam has been saying is that we believe given all the choices which we have before us, and what we have been doing strategically, we should be able to maintain it with an upward bias, so I think that is what you people need to understand. I wish I could give you a magic bullet answer that this will happen, so NIM will be okay, but there are portfolio choices on the loan side, there are choices in terms of what we can do on the liability side and we are doing all of that to ensure that it is managed and maintained. Pralay wants to add to it also a little bit.

Pralay Mondal: Rahul, I just wanted to also add one more point that unlike the other bank which you talked about, our existing customer base contributes to more than 90% of both the unsecured businesses and in spite of that at the bank-wide level, it is less than high single digit in terms of contribution and number two is, I just looked at both the lags and the coincidental delinquency, the trends are looking very encouraging there. Because of the growth, we are not seeing any major difference between the lags and coincidental which is obviously a very important indicator of the quality of the book, so I think we have a long way to go. To add to that also, we are planning to improve the acquisition quality because we have created a separate acquisition channel on the liability side and the branch banking and primary focus of that is to create quality acquisition, so if the quality of the customer base keeps going up, our ability to penetrate an addressable base also goes up. So, as long as we can do that without taking incremental risks, I think we should be fine.

Rahul Jain: Just one question on that. Would it be fair to say that majority of these customer would be new to personal loan product customers?

Pralay Mondal: I think most of this customer would be having some kind of a CIBIL score and if you look at our credit entry point, the credit entry point is fairly at a high level, so to that extent, many of these customers will not be first to credit.

Rajiv Anand: This is Rajiv. What we typically do is for a certain set of high quality corporate, for their employees, we have a very strong First Card product portfolio, so there we do have new to credit customers which are typically first-time jobbers in good quality companies.

Amitabh Chaudhry: Please understand, I do need to add because when we talk to you that if you look at our 30 DPD a 90 DPD**,** our retail book is of very high quality. I think when we had the Analyst day, we showed you data on delinquency, which very clearly shows the fact that these numbers are almost half of our peer set average and based on what we are seeing in the fourth quarter, at least our trend continues or is actually getting better. So from that perspective, I think it is very important for you to understand why this ETB strategy matters and why we believe that strategy is going to continue to stand out for us because if tomorrow something happens in retail cycle, I think we are better placed in comparison to the others because of what we have done over the last 8 to 9 years. It is a very important point to understand.

Rajiv Anand: Just one of the point I think Amitabh has emphasized the ETB point here, the very clear benefits, one is from the credit cost point. And two is the acquisition cost of selling these products to existing customers and now more so through the digital route is also ensuring that acquisition cost on the ETB business is lower as well.

Rahul Jain: Just switching gears, maybe one data point, on the SR portfolio, what is the total provisioning that we would be carrying at this point of time?

Jairam Sridharan: About Rs 221 crores.

Rahul Jain: And before this quarter, you did not really have any movement in the portfolio, so maybe this is a conservative step that you have taken to this portfolio?

Jairam Sridharan: Yes.

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

M. B. Mahesh: Just a couple of questions. One, if you look at the sub-investment grade, there seems to be some reduction in real estate and we are seeing iron and steel come back, are we reading this correctly and also if you could just give us some color on the slippages for the quarter, if you are just given one account which is on the engineering, just kind of trying to understand, is there anything else because the corporate slippages still runs at about 1.2, 1.3% on an annualized basis, just trying to get understanding on that one?

Jairam Sridharan: The slippages during the quarter are actually in corporate. They were fairly disbursed, we had that engineering electronics account we spoke about before, we had something in real estate, we had one infra account, one power account and one shipping account, so it was kind of a little bit all over, no specific dominant thing, but those were the 4 or 5 sectors from where we saw most of the slippages. As far as the BB book composition is concerned as we have shown here, basically roughly 60% of BB is in power, infrastructure construction and in iron and steel which is not very different from what we have seen, we did see some pay down in BB accounts during the course of the quarter and some downgrades of course from BB into NPA. That is what drives some of the change in the top 5 sectors that you are saying Mahesh.

M. B. Mahesh: And second question, just housekeeping ones, what is the outstanding security receipts that you have today?

Jairam Sridharan: Around Rs 2910 crores is the book value. Again that we have now about Rs 221 crores of provisions.

M. B. Mahesh: And what would be the outstanding non-fund based exposure on the NPL book and the outstanding employees that you have?

Jairam Sridharan: Roughly, 2900 crores is the non-fund based exposure on the NPL book and employee? Did you say employee?

M. B. Mahesh: Yes.

Jairam Sridharan: 61,900.

Moderator: Thank you. We move to the next question which is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Firstly, in terms of the retail term deposits, so very strong growth and I think you have highlighted in terms of separate verticals and focus being there on this part, but can you give some flavor in terms of what is the kind of profile? What is the average ticket size? I think we have increased the rates from 6.8 to 7.3 from December to March and going forward, how do we see the rates? Are we comfortable with this growth and now should we see the rates at the current level unless the competition increases it beyond 7.3?

Jairam Sridharan: So, I see two parts to your question. One is on profile of the retail term deposits that we are originating and the other is on rate that we make. I will make a quick opening remark and then maybe Pralay can jump in on the profile and Rajiv can talk about the rate trajectory as we go forward. See fundamentally, the retail term deposit strategy that we have, it is in increasing rate environment. It is appropriate for us to provide the right rate incentive for customers to give term deposits to us as opposed to putting their money into debt mutual funds, etc., and hence we have been quite aggressive in going after term deposits, we were also of course coming off a very high loan to deposit ratio, so we needed deposits to actually lower and create a liquidity base for us to drive growth in the next year which is exactly what we have done and we feel very happy with the outcomes that we have achieved. If you look at the deposits themselves, these are granular retail deposits, so you are not talking about a big sort of Rs 100 crores deposit in TD coming from a government department. Predominantly, these are granular retail customers and their profile is not very different from the kind of SA customers that we have and what we also see is that the tenure of these term deposits is going up as well, inching up beyond one year which is clearly indicative that this is not large ticket hot money, we are also seeing that the breaking rates of the FD is also going down, a lot more people are now opting for automatic renewal. Again, an indication that this is not large ticket hot money, so it is sticky longer-term money from retail kind of customers of a very similar profile to what Axis has had. Rajiv, you have any thoughts from the rate trajectory?

Rajiv Anand: Just a couple of points to add to where the money is coming from to indicate that it is primarily retail. Two things, we are seeing very strong growth of term deposits being created by the customer on our digital platforms, both internet and mobile. If I remember the numbers, right, they are all growing at 100% or so and secondly though there is some element of cannibalization of our own SA, but we are also seeing that our existing customers are bringing money from their other bank accounts to be able to support this growth. What typically happens is that liquidity in the system, post tightness that we see in March, typically eases off as government spending happens. In April, this year that has not happened, but we do believe that post the elections, post 23rd May, once the new government is in place, government spending should start to improve. The pressure that we are seeing on liquidity as a result of currency in circulation going up quite rapidly should ease of a bit as well, and so that post the election results in May, we should see liquidity easing and that should bring down deposit rates to some degree.

Pralay Mondal: There is one data point that I want to quickly share, two thirds of our term deposit pool by value is individual consumers, so that again gives a little bit of flavor of the kind of the term deposit business that is actually getting build up.

Moderator: Thank you. We will take the last question which is from the line of Pranav Gupta from Birla Sunlife. Please go ahead.

Pranav Gupta: Just one question. You spoke about the cost to average assets going down to about 2% in the next 3 years. Could you just throw some color on what are the two specific levers we do have to achieve this? Some understanding on this?

Jairam Sridharan: As you know, the biggest single cost line item at the Bank is of course staff cost comprising of about third of our total cost, so clearly that is going to be an important element. In this year, you saw that while our balance sheet grew about 16%, domestic advances grew 18%, but employees grew only 4%. That gives you a little bit of sense of the way we are thinking about it, clearly from the mid office, back office perspective increasing efficiency, it is a really big deal and increasing productivity in the front office is a really important element as well and then of course there is digital, which we showed the percentage of acquisition that has moved to digital in businesses like personal loans, etc., that will continue to drive cost efficiencies and then there is removal of waste. There is a lot of expense line items where there is hidden waste which we have been vigorously pursuing over the last multiple months in trying to close down and trying to create much leaner cost architecture and we are working on that as well. Suffice to say that we are very closely focused on it, you saw as we have indicated in one of the charts in the presentation this time that there is from a jaws perspective after two years of unfavorable operating jaws, we have moved to a point where we have favorable operating jaws now in this year where growth in OpEx was significantly lower than growth in operating revenue and we had jaws of almost 5% if you look at slide 13. We now have enough efforts in the pipeline to make sure that those jaws continue to remain favorable in the next few years as well.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Jairam Sridharan for closing comments.

Jairam Sridharan: Thank you everyone for your interest in the Bank and our quarterly results and for all your engaged questions. I wish you all a very good evening.

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