"Axis Bank Conference Call to discuss the Q4 & FY20 Results"

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Moderator: Ladies and gentlemen, good day and welcome to the Axis Bank Conference Call to discuss the Q4 & FY20 Yearend Results. Participation in this conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation has not been sent. Unauthorized dissemination of the contents or the proceeding of the call is strictly prohibited and prior explicit permission and written approval of Axis Bank is imperative. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. On behalf of Axis Bank, I once again welcome all the participants to the conference. On the call we have Mr. Amitabh Chaudhry – MD & CEO; Mr. Puneet Sharma – CFO; Mr. Rajiv Anand – Executive Director (Wholesale Banking) and Mr. Pralay Mondal – Executive Director (Retail Banking). I would now like to hand the conference over to Mr. Amitabh Chaudhry, – MD & CEO. Thank you and over to you, sir.

Amitabh Chaudhry: Thank you so much. We welcome you all to a discussion on Axis Bank's Financial Results for the fourth quarter and Financial Year 2020. We are joined in this call by Amit Talgeri who is our Chief Risk Officer also and we will run the call a little bit differently. I will give my opening remarks. I will hand it over to Amit to discuss things around risk and then he will handover to Puneet, our CFO. Our opening remarks are a bit long, a bit longer than usual because we just want to ensure we get our message and some of the data across. So please do bear with us.

Countries across the world are battling an unprecedented global pandemic, which still continues to unfold as we speak. The world has not seen a crisis of this scale and severity before, in today's modern world. It has led to almost two thirds of the global population and economies coming to a grinding halt. The Governments and Central Banks across the world have taken immediate monetary and fiscal measures to cushion the impact, however given the scale and enormity of the crisis, our belief is that all industries will get impacted sooner or later and the resultant economic and financial impact will be spread over a much longer time. We are concerned, and hence remain cautious and conservative in our approach. We will continue to focus on having adequate surplus liquidity, be prudent in managing credit and operations risk, conserve capital, and even sacrifice growth, if required.

The Bank and its subsidiaries took proactive steps well before the Covid-19 impact resulted in a lockdown in India. Within Axis, a Central Emergency Response Team (CERT) was activated over a month before lockdown. Planning was made to carry out all the Critical activities from alternate centres or from home and series of BCPs, mock drills were conducted to ensure that customers are supported in case of partial or full lock-down. This helped us, in being much better prepared during pre-lockdown phase. Post lockdown, activities were reclassified, into Critical 1, Critical 2 & Non critical activities. A dashboard was created to have a sight on key business critical activities. Almost 9,000 users have been enabled on VPN / VDI are seamlessly working from home, providing essential services to clients wherever required. More than 3/4th of our colleagues handling Operations, who are unable to attend work are either operating from home or distributed locations. We have further ramped up our capabilities to execute 90%+ of C1 and C2 transactions on a daily basis. Even execution rate of non-critical activities is in the high 80s. We have strengthened our Information security monitoring and enhanced Cyber Security Risk Measures to manage potential threats, risks and challenges during this transition and new way of working.

Over 96% of our ATMs have remained operational and stocked up; 99% of branches are operational. Our staff has demonstrated exemplary service and commitment levels in reaching out to a vast majority of the Bank's Retail, SME, Corporate and Government customers in their hour of need. In Retail banking, our team of relationship managers, CSOs, liability sales executives, retail lending team along with our outbound contact centre team are interacting with nearly 3 lakh clients daily on an average basis. Skill development has been a focus area. Online training for users not attending office has been ramped to 50,000 employees in last one month.

As a Bank we are committed to play our part as a responsible corporate citizen. We have put in place a multi-pronged strategy to address the needs of our customers, employees, communities and other stakeholders. We have set aside an amount of ₹100 crores for fighting the pandemic. We waived certain customer charges, even before this was mandated by the regulator, so that our customers could access banking services closest to their homes. The Bank has encouraged its employees to contribute a Days Salary, with Axis Bank matching the employee contribution and this money will be donated to PM Cares fund. In this context, we are also privileged to be given the mandate to collect donations for the PM CARES Fund. Axis Bank Foundation through Axis Cares has partnered with few NGO's to provide food or food kits and hygiene supplies for over 30,000 individuals, in many cities across the country.

We have taken proactive steps to shore up the liquidity position with average LCR at 112% during the quarter. Currently our LCR is at a comfortable level of 120% and we are carrying excess SLR of over ₹48,000 crores (6-7% over requirements). Having raised equity capital last year, our capital position is healthy, with both total Capital at 17.53% and CET1 at 13.34%, being at the one of the highest levels in the Bank's history. We have no maturities of any component of our capital over the next 18 months. This places us comfortably on the capital front in this time of crisis. The Bank's RWA (Risk Weighted Assets) intensity in the last few years has now stabilised at lower levels of 67% vs 79% four years back, driven largely by the change in composition of our wholesale book to better rated corporates.

During the last 15 months, we have emphasised repeatedly that we will be more transparent, prudent and conservative. We have demonstrated the same towards asset classification and provisioning norms too. We adopted a formula based approach towards provisioning on fund based and non-fund based weak standard assets in our BB rated pool and fully provided for the 350 acre land that was sitting in our books for a long period of time. We have also provided for security receipts on our books and brought down the size of our bond book, before TLTRO participations. On the retail side, we have a stringent rule based provisions norms which are higher than regulatory provisioning norms. We recognise NPAs on daily basis and fully provide for NPAs on 90 days on Personal Loans and Credit Cards. Such asset recognition standards are best in class in the industry. We have provided build-up of prudent provisioning for Covid-19 risks aggregating to ₹3,000 crores in the quarter and our total pool of provisions for various contingencies stands at ₹5,983 crores, which is not considered in PCR.

In this context, let me now offer a brief synopsis of Axis Bank's Q4 and FY 2020 results and Puneet will later take you all, through the results in details. The operating performance has been steady with Bank's pre-provision operating profit growing 17% YOY for the quarter and 23% for fiscal 2020. Deposit book remains resilient and grew by 19% YOY and 5% QOQ on a quarterly average basis, Loan book grew by 15%. Our focus towards building a granular, stable and low cost liability franchise has been progressing well with CASA plus RTD deposits growth of 22% YOY for the quarter. We opened 29 lac accounts during the year and continue to see sustained traction on the saving account balances with an average 3% QOQ growth in the last 3 quarters. The Retail SA book has grown by 14% YOY. The Bank has over 40,000 relations with entities for their salary mandates covering over 60 lac customers. The Salary segment grew 14% YOY.

We have been focusing on quarterly average balances in relation to current accounts, the volatility on the current account balances have declined and growth in quarterly average balances of 11% for Q4FY20 is far higher than period end balances. We continue to improve our market share on retail term deposits front and recorded a growth of 33% YOY on quarterly average basis.

The Burgundy Private proposition that we launched for the high and ultra-high net worth clients last quarter in December has scaled up rapidly to cover over 850 families across 15 key locations with assets of nearly ₹18,000 crores as at March 31, 2020. Total assets under management for Burgundy stood at ₹1.47 Trillion as of the end of March 2020, which is among the largest wealth management businesses in the country.

Our wholesale deposit franchise grew 7% YOY and 4% QOQ on quarterly average basis. The government business plays a very key role in this segment. Our government business is more oriented towards providing solutions, around collections and payments businesses, which has helped us make a very distinct place for ourselves in the industry today. It all started with the authorisation of the Bank for handling Agency business by RBI, way back in 2003. It authorised us to handle all Government Businesses including State Government Businesses such as Collection of Sales Tax, Pension Payments, etc. Over the years, we have added state wise authorisations for collection of various taxes. Now, we are one of the leading private sector banks handling the Government Businesses across the country.

On the wholesale side of our business, Commercial Banking or SME business, we have been cautious in growing the book and have in fact de-risked the book over the last year given the weakness in underlying economy. The book is 85% secured by hard collaterals and 80% self-funded, with high proportion of 78% working capital loans, and 59% qualifies for PSL lending. The book is also very well diversified across 35 sectors and geographies. On the Corporate side, we have been focussing on leveraging the strong relationship the Bank enjoys with better rated corporates to focus on gaining a higher share of shorter tenure working capital and transaction banking businesses. All of our incremental wholesale growth in FY 20, has come from the A and above book and lower rated book has declined. We continue to see strong growth in loans to 'AAA' and 'AA' rated clients. We have also diversified the book with strong growth in loans to segments outside of the top 10 sectors. We continue to deepen our relationships across our wholesale banking and are seeing the benefits of our One Axis Strategy playing out. We have a penetration of 9 or more products/services across our top corporate relationships. We have reoriented and strengthened our relationship teams across all coverage segments, resulting in deepening of relationships with healthy growth in product per customer, especially in Government business and Strategic Clients Group. The deepening of relationships in the Government business further substantiates the point that I was making earlier.

On the non-SLR investment side, we have actively participated in the recent TLTRO auctions and have used the liquidity to acquire high quality corporate assets at attractive yields. We have limited our investments under this book to AAA/AA rated corporate issuers. Being the number one DCM Bank in the country, we have played an important part in bringing liquidity into corporate bond market while helping us reinforce our client franchise.

On the retail side of our business, the book over the years have diversified significantly in terms of product offerings but continues to remain largely secured at 80% of the book, dominated by vanilla home loans at 35%. The Bank's strategy in retail lending has been built around cross selling to existing customers. Again the entire personal loan book is sourced through salaried customers. The Bank has been leveraging its strong data analytics engine and robust proprietary risk models and scorecards to drive superior underwriting in unsecured lending to salaried customers. Our focus on analytics helps us drive cross sell to the Bank's existing customers through database programs. Database programs utilise big data led analytics coupled with robust risk framework and contributed 63% of unsecured personal loans to salaried individuals and business loans to self-employed and 70% of new credit cards accounts in FY20.

As the business and operating performance suggests, Q4 was not materially impacted, by the Covid induced lockdown situation. We did see an overall impact on our fees for the quarter due to the lock down. From a Risk mitigation stand point, the Bank is adopting different interventions designed for various business lines in Wholesale and Retail, on a broad basis the approach includes – further tightening of the portfolio risk thresholds, enhancing origination standards and increasing frequency of monitoring. Our risk teams have proactively stress tested all our portfolios across three key scenarios – base, moderate and stress. Amit will later in the call, give you extensive insights about our Risk management practices and stress tests at the Bank.

The country wide lockdown and its resultant impact of a severe slowdown in the economy will be widespread and will take time to normalize. Given the size and reach of the Bank, across borrower types, sectors and geographies, it will get reflected in our numbers too. Among other things, we expect the fee income growth to slow down and provisions to increase materially. The Covid induced slowdown will delay the normalization of our corporate stress pool and we would expect that there would be further downgrades into the BB pool during FY21. We are better positioned now, than we were in the past, as our coverage ratios on existing NPA book is ~ 69%.

Our Digital Banking effort has been progressing well and we have more than 500 highly skilled employees working in that space now across our digital and fintech platforms in the group. We remain focused on creating fully digital end-to-end journeys for our customers using advanced analytics and intelligent automation across business operations. These investments are starting to show tangible results across the Bank. During the quarter, 74% of our savings accounts opened were through tab banking, 66% of fixed deposits and 53% of new mutual fund SIPS were acquired digitally. On the retail assets side, 48% of personal loans and 41% of credit cards were sourced digitally. We continue to maintain strong market share position in UPI and have one of the best rated mobile apps in the country.

Axis Bank Limited (Axis Bank) and Max Financial Services Limited (MFS) today announced the signing of definitive agreements to become joint venture partners in Max Life Insurance Company Limited (Max Life). Axis Bank will hold 30% stake in Max Life post transaction closure, thus making Max Life a 70:30 joint-venture between MFS and

Axis Bank. The proposed transaction is subject to approval of requisite corporate and regulatory authorities (including RBI, IRDAI and CCI).

The development will result in a mutually beneficial and enduring relationship between Axis Bank and Max Life and bring the stability of a long term partnership to India's fourth largest private life insurance franchise. The two companies have had a successful business relationship for over a decade, providing long term saving and protection products to over 19 lakh customers. The total premium generated through this relationship has aggregated to over ₹38,000 crores. To enhance customer trust further and highlight the strength of the partnership, Max Life's tag line will now include the Axis Bank name.

On the One Axis side, I am very pleased to share that the progress on scaling up our subsidiaries is firmly on track. We have made significant senior talent infusions across our subsidiaries in Axis AMC, Axis Capital, Axis Finance, and Axis Securities our Retail brokerage business. Axis Finance is on track to start diversifying its loan book and becoming a consumer focused lending company.

Axis AMC has been doing exceedingly well and has built up an extremely strong competitive position on the back of its standout performance track record across its product basket. It has maintained its position as the fastest growing AMC amongst the Top 10 players and is now the eighth largest player with over 5% share in the industry AuM. Within equity funds, Axis AMC has built up an industry leading franchise and is at the number 1 position in terms of incremental net sales last year and 4th position in terms of overall AUM on 31st March. Axis AMC added more than 2.1 mn customer folios (a growth of over 54% from last year) and grew its monthly SIP book by more than 82% in the last year. Axis Capital continues to maintain its leadership position in equity capital markets business. We have restructured the Retail brokerage business and are encouraged to see the traction in volumes and market share. The digital Account Opening has been revamped to enable account opening in 15 minutes, % of Clients trading through Axis Direct mobile app in Q4 FY20 stood at 43% as compared to 29% last year. Online market share has increased from 2.6% last year to 4% in March 20.

We have made progress across various pillars of our GPS strategy and continue our relentless execution focus. Our GPS strategy is even more relevant in these challenging times, but will require the timelines to be recalibrated.

Over the last one year, there has been few hits and misses, but we remain firmly committed, some of these things will take time to show material improvement, we have seen some early green shoots but Axis Bank is a very large franchise and Covid-19 certainly will act as a severe headwind this year. Though it is difficult to predict when the current crisis ends, but the organisations who manage this crisis well, will undoubtedly stand to gain over the others. The disruption this pandemic has caused, provides us opportunities to increase our operational efficiencies. The lock-down has taught us how WFH can be more productive and convenient. We are now exploring if WFH can become a part of our work culture going ahead. The crisis we are facing today as a nation is a long drawn one and it will need courage, grit and a fighting spirit to combat it. We will keep learning and pushing our limits to emerge stronger as an organization. We are utilizing this time for Learning and Training, identifying new opportunities to ensure that the Axis franchise is able to smoothly tide over this crisis and also capitalize on the opportunities as they open up.

With that, let me hand over to Amit to take you through the Bank's Risk Management practices and stress test details after which Puneet will discuss the financials.

Amit Talgeri: Thank you, Amitabh. Good evening, everyone. Let me now take you through the risk overview of the portfolio. Over the last 12 to 15 months, we have separated all underwriting operations from the different business segments and further strengthen the risk management framework in the Bank. The Bank is entering this phase on the back of significant improvement in the wholesale book, continued cautious outlook on the SME business during the year and strong performance in Retail evidenced by key risk indicators, which are significantly better than industry. Let me give you a brief on the Bank's analytical strength and capability, which has helped achieve this. The Bank over the years has invested heavily in risk analytics to build proprietary scorecards that provide a significant edge in decision-making. These scorecards are based on internal and external data sources. We consider at least four dimensions of data for each customer and over 25 variables based on each product. Of the four dimensions, cash flows and income-generating ability is the primary driver for all underwriting decisions. We have tested our internal applications scorecard-based models, and they performed significantly better than single model or stand-alone bureau scores. On an average, it displays two to three times more discriminatory power over bureau score across different product segments. Our incremental sourcing strategy will be now based on our 'macro Covid risk model' and 'geography micro segment score'. These models factor incremental risk variables like bounce information, moratorium data, Covid intensity in a geography and business impact. These will be used for portfolio action and calibrated sourcing strategy during these times.

Let me now take you through the different business segments. Starting with Retail. The Retail portfolio is dominated by secured portfolio, which is close to 80%, primarily consisting of mortgages, vehicle loans and the rural portfolio. Our Retail unsecured portfolio stands at around 20% of our total Retail lending book, 82% of this book is from the salaried segment, which has a very low default rate. And over 80% of our borrowers are existing customers of the Bank. 67% of the salaried customers are from premium corporates, government and multinational companies, and a majority of them are corporate salary relationships with the Bank. Asset quality performance for unsecured portfolio is between 20% to 50% better than industry based on bureau information, and this number goes up from 20% to 70% across other retail lending products.

Moving on, in relation to our Commercial Banking portfolio, which is the SME business, 85% of the portfolio is secured, and majority of the balance is supply chain finance with strong linkages to large and well rated corporates. The portfolio is granular with an average ticket size of less than ₹4 crores. 84% of the book is to SME-3 or better-rated borrowers, which is the equivalent of A- and above. The book is spread across 120-plus locations and 35 broad sectors. The log in disbursement ratio has also come down from 80% to 55%, indicating tightening of underwriting as well as ask for stringent terms. The Bank's proprietary improved EWS model has been developed based on multiple variables and using advanced analytics to predict early stress levels in this portfolio. The model has been successful in predicting early stress in around 80% of the NPAs in the last 6 months.

If we now look at the wholesale banking portfolio, the wholesale banking portfolio has undergone a significant change in the last year. Over 80% of the book is now in the rating category of A- and better. Around 95% of incremental advances last year were in the A- and above rating category. We have taken steps to reduce borrower concentration risk and today, exposure to top 20 borrowers as a percentage of Tier 1 capital has come down to less than 90%. This figure used to be about 112% a year ago. We have contacted all our customers to assess impact of the crisis on their businesses and have a strategy, action plan for each of them.

Let me now quickly take you through an update on the moratorium. As of April 25, at an overall Bank level, customers opting for moratorium by number is 10% to 12%, and by value is approximately 25% to 28%. A quick analysis of the retail customers opting for moratorium reveals that opt-ins are across all income bands, geographies, industries and category of customers. Majority of the customers opted in, in fact, almost 2/3rd of the customers have enough money in their bank account to pay their EMI. The trend seems to be to conserve liquidity and protect immediate cash flows.

Let me now take you through the stress testing scenarios we have undertaken at the Bank. Stress testing was carried out on the entire portfolio to assess incremental stress that can be observed in the current scenario, using over 1,000 variables, internal as well as external data points, over 125 combinations were used to create three impact scenarios; base, moderate and severe stress scenarios. The scenarios were simulated on 1 in 7 years, 1 in 25 years and 1 in 60-year event with multiple variables. The three scenarios were based on likely peak of the pandemic, lockdown opening in a staggered manner, returned to civic life, revival of business and return to economic activity at various time periods for each of the scenarios. Apart from the Bank's internal experience from which worst and second worst experience is considered for the 1 in 25, which is severe and 1 in 7, which is moderate stress scenarios, experience from the western world, including U.S., particularly for retail products like mortgages and cards, and default rates from international rating agencies over multiple business cycles were also considered. Analytical stress framework of the Basel Committee on Banking Supervision were also used to stress internal probabilities of default. All these inputs are considered for triangulating rating grade, product-wise default multipliers. The Bank identified borrower segments and sectors which may face additional stress. For example, the transport, hospitality, entertainment, textile sector and exporters, importers dependent on Covid-19 affected countries. Similarly, on the retail side, employees of these sectors having retail loans, commodities and rural lending and different variables based on product type were considered for stress multipliers. Additionally, in order to get a ground-up view to consider the impact of COVID related shock on the portfolio, we also carried out a bottoms-up approach in identifying vulnerable portfolio. All wholesale banking and commercial banking customers were contacted to assess the impact and sustainability of the business models.

The stress scenarios have provided us with an estimated incremental slippage across our base, moderate and severe cases. We then layered this model to include any future economic policy action that could reduce the immediate stress based on these models. We have proactively made Covid related provisions during the quarter, which Puneet will take you through subsequently. It is important to note that the situation is evolving, and it is difficult to ascertain the exact impact on the portfolio due to Covid induced lockdown. Considering the conscious portfolio choices we have made in favor of secured nature of lending in the Retail and SME book, higher-rated book in Corporate and higher share of salaried and existing to bank customers in the unsecured book which we discussed earlier, the prudent provision created does provide strength to the balance sheet. We will continue to assess our portfolio on an ongoing basis. Thank you. Let me now hand over to Puneet.

Puneet Sharma: Thank you, Amit. Good evening, ladies and gentlemen. Thank you for joining us this evening. I will discuss the salient features of the financial performance of the Bank for Q4 FY20 and financial year ended March 31, 2020, focusing on our capital and liquidity position, growth across our deposit and loan franchise, our operating performance and asset quality and provisioning.

To start with our capital and liquidity position. Our capital adequacy ratio is at is at one of its highest levels in the last 10 years, and we are carrying adequate liquidity buffers, we believe this place us in a strong position in the current uncertain times. Our capital adequacy ratio is 17.53% and our CET1 ratio stands at 13.34%. The Bank has invested in Yes Bank shares in Q4 pursuant to the reconstruction scheme aggregating to ₹600 crores. The investment has prudently been treated as an AFS investment for the purposes of capital adequacy computation. If the said investment was classified as HTM, which is reflective of the inherent characteristics of the investment, the overall capital adequacy ratio and CET1 would improve by 14 basis points. Our focus on having adequate surplus liquidity is reflected in our current LCR ratio, which is at 120% levels, and our excess SLR stands at ₹48,463 crores.

Our deposit book has remained resilient. We prefer to focus on quarterly average balances instead of month end balances for our liability franchise. Total deposits on a quarterly average basis grew by 19% YOY and 5% QOQ. If you decompose the growth in deposits, then on a quarterly average balance basis, our CA, which is current accounts, grew by 11% YOY and 7% QOQ. Our SA grew 13% YOY and 3% QOQ. Our retail term deposits grew 33% YOY and 7% QOQ. Our overall loan book grew by 15% YOY with granular retail assets continuing to be the key driver of our loan growth. Our wholesale and CBG businesses continue to focus on better-rated origination and shorter-term loans.

To give you some color of our Retail advances, our Retail loan book grew 24% YOY and 5% QOQ. Our strategy on retail assets continues to be centered on existing customers of the Bank. 70% of retail asset originations in Q4 were from our existing customers. 92% of the Bank's credit card and 78% of the personal loan originations in the quarter were also from existing Bank customers. Our Retail loan book is well diversified. 80% of it is secured in nature, and our entire personal loan book comprises of salaried customers. Growth in Retail lending during the quarter was well diversified with home loans and personal loans contributing 25% each to the incremental growth QOQ, agricultural lending, loan against property and small business banking contributing between 10% and 16% each.

We continue to recalibrate our risk parameters, scorecards and strengthen risk management collections infrastructure. We are very focused on our collection’s infrastructure in these times.

In Corporate segment, One Axis strategy is gaining traction for us. Our corporate loan book growth stood at 11% YOY and 4% QOQ. The initiatives taken in the last 12 to 15 months have now started to reflect in the overall One Axis franchise. Our top corporate relationships on an average now avail 9 products across the One Axis platform. 38% of our corporate book is of a tenure less than 1 year and 95% of our incremental sanctions in FY20 were from A- and above book. Our total standard fund and nonfund-based investments outstanding in NBFCs is ₹23,507 crores, 83% of the same is rated A- or above. Our real estate exposure is ₹17,730 crores, 50% of which comprises LRD. We have a small MFI portfolio of ₹5,791 crores.

In Small and Medium Enterprises business, which is our Commercial business, it comprises 85% secured portfolio, it's well diversified, and 78% of the book is of a tenure less than 1 year. Our SME loan book de-grew in the year by 6%. The book shrinking is attributable to our cautious stance on supply chain finance. Our medium enterprises group and small enterprise group book was flat on a YOY basis.

Moving on to our operating performance. Our operating performance has to be read in the context of 2 key items, one of which impacts the performance for the current quarter. And I will start with Covid provisioning. In these uncertain times where there is lack of clarity on when normalcy will return and the extent of economic impact the crisis will have, we have chosen to be prudent and conservative. Let me substantiate this statement.

We have not taken any benefit of the relaxation that the Reserve Bank of India has provided in relation to the dispensation of extended resolution period for additional provisioning required under the June 7, 2019, circular. We have made the entire 10% provision on all loans greater than 0 days overdue for which moratorium was granted and asset classification benefit availed or would be availed over the moratorium period. Incrementally, we have made an additional Covid provision based on the extensive stress testing that has been undertaken by the Bank and as explained by Amit earlier in the call.

The cumulative value of provisions made in Q4 on account of the above is ₹3,475 crores. The consequent impact of this net of tax on Q4 and full year PAT of the Bank is ₹2,182 crores. I reiterate the fact that a large part of this provisioning is entirely based on the prudent stance that the Bank has taken. The other item, which is impacting the performance of the Bank on a full year basis is the transition to the new tax rate. Effectively, the transition to the new tax rate has an impact of ₹1,373 crores on PAT on a full year basis.

In the above context, our operating profit for FY20 is ₹23,438 crores, growing 23% YOY. Our PAT for the year stands at ₹1,627 crores. Adjusted for the one-off, the PAT for the year would have been ₹5,182 crores, growing 11% YOY. NII stood at ₹25,206 crores, representing a YOY growth of 16%. The full year NIMs for FY20 stood at 3.51%, higher by 8 basis points when compared to FY19. Our noninterest income stood at ₹15,537 crores, representing YOY growth of 18%, of which fee income stood at ₹11,019 crores, representing a growth of 9%.

Operating expenses stood at ₹17,305 crores for the full year ended 31st March, representing a YOY growth of 9%. It is important to note that our operating expenses include PSLC charge of ₹611 crores for the full financial year. The number for the previous financial year was negligible. The operating expenses to average assets ratio stood at 2.09%, lower by 4 basis points compared to the 2.13% for FY19. Operating profit for Q4 FY20 is at ₹5,851 crores, growing 17% YOY. Net loss after tax for the quarter is ₹1,388 crores. Adjusted for items discussed above, PAT for the quarter would have been ₹794 crores.

Our net interest income for Q4 stood at ₹6,808 crores at 31st March, representing a YOY growth of 19% and QOQ growth of 6%. Our net interest income margin for Q4FY20 was 3.55%, improving 11 basis points over the same quarter last year. Our noninterest income for Q4 FY20 stood at ₹3,985 crores at 31st March 2020, representing a YOY growth of 13% and a QOQ growth of 5%.

Our fee income de-grew 3% YOY, while on a QOQ basis, it grew 6%. It should be noted that the fee income was impacted by the lockdown situation in the last fortnight of the quarter. The Retail fees comprising 64% of total fees grew by 2% YOY and 0.4% QOQ. Our Retail asset fees remained robust. However, segments like cards, credit cards, third-party distribution income got impacted. Transaction banking fees, which is part of our wholesale fee, grew by 7% YOY and 10% QOQ.

Trading income for the quarter stood at ₹265 crores compared to ₹354 crores for Q4 last year. Miscellaneous income stood at ₹790 crores compared to ₹153 crores in Q4 last year driven by higher recoveries during the quarter.

Our operating expenses for Q4 stood at ₹4,962 crores, representing a YOY growth of 17% and a QOQ growth of 10%. Staff costs grew 20% YOY book on flat QOQ. Other operating expenses grew 16% YOY and 14% QOQ as the impact of higher PSL related expenses specific to Q4 aggregating to ₹464 crores as was indicated in our Q3 earnings call materialized during the quarter.

Moving on to asset quality. Our retail asset quality is holding well. Gross slippage ratio for Q4 is the lowest in the last 12 quarters. Provision coverage, excluding technical write-offs, improved to 69%, with technical write-offs, that number now stands at 83%.

Our net NPA stands at 1.56%, declining 0.53% over the previous quarter. The Bank's net NPA plus BB book as a percentage of customer assets improved by 70 basis points YOY, i.e., from 3.4% as at March '19, it fell to 3% in Q3 FY20 and now stands at 2.7%. The gross NPA ratio stands at 4.86% and our net NPA ratio stands at 1.56%, an improvement of 14 bps and 53 bps, respectively, from the end of Q3 FY20. We have made some segmental gross net NPA and PCR ratio disclosure on slide #37. The Bank's coverage ratio without technical write-offs improved to 69% compared to 60% as at December and 62% as at March '19. The impact of offering moratorium to the customer to customers that would have turned NPA at 31st March 2020 is as follows. The absolute slippage impact would have been ₹691 crores. Additional provision requirement as per our stringent provisioning policy would have been ₹340 crores. Gross NPA would have been higher by 11 bps. Net NPA would have been higher by 6 bps.

Gross slippages for the quarter were ₹3,920 crores compared to 3,012 crores in Q4 FY '19 and ₹6,214 crores for Q3 FY '20. I repeat, we have dropped on slippages from ₹6,214 crores in Q3 FY20 to ₹3,920 crores. In the ₹3,920 crores, we have a technical gross up of ₹750 crores, which is a slippage and an upgrade in the same quarter. Netted down, that number would have been ₹3,100 crores or thereabouts.

Annualized gross slippage ratio adjusted for the quarter stands at 2.23%, was lower than the gross slippage ratio of 2.49% for Q4 FY19 and 4.60% for Q3 FY20. Of the total gross slippages, corporate segment slippages were ₹2,341 crores. Excluding the account, which I referred to earlier, which got upgraded during the quarter and downgraded again, 84% of the corporate slippages came from loans and investment exposures to clients rated BB or below at the end of the previous quarter.

Moving on to our net slippages. Our net slippages in the quarter were ₹1,431 crores compared to ₹636 crores for Q4 FY19 and ₹3,792 crores for Q3 FY20. Of the net slippages, ₹1,019 crores came from corporate, ₹107 crores from SME and ₹305 crores from retail and agri segments.

The Bank has a provision coverage ratio, excluding technical write-offs, of 69% as of 31st March 2020. It is pertinent to note that including ₹3,000 crores of Covid provision, the Bank now holds additional provisions aggregating ₹5,983 crores towards various contingencies. These additional provisions have not been used to compute our PCR ratio or the improvement thereof in the quarter.

These additional provisions taken with our standard asset provision covers us, gives us a standard asset coverage of 1.3% as at 31st March 2020, against the requirement for our portfolio at 0.5%. In addition, the Bank holds 100% provision on land amounting to ₹2,068 crores. All of the above provisions are not included in the provision coverage computation.

Moving on to some color on our BB book. During the quarter, we downgraded on a net basis, ₹1,955 crores, ₹67 crores and ₹250 crores into BB-rated loans, investments and nonfund-based book, respectively. The significant downgrades during the quarter include clients in the cement and cement products industry, medical devices, automobiles and automobile ancillaries. The top 4 sectors comprised 61% of our fund-based BB and below outstanding. These sectors are infrastructure, construction, cement and cement products, power generation, distribution and hotels.

As I close, please allow me to re-summarize the salient comments for the quarter. Our operating performance has been robust, reflected through our NII and operating profit growth, both on a YOY and QOQ basis. Our capital position remains strong. We are carrying adequate liquidity buffers, and we believe this place us in a strong position in these uncertain times. Our deposit book has remained resilient, and we continue to focus on quarterly average balances instead of month end balances for our liability franchise.

Granular retail assets continue to be the key driver of our loan growth. In our wholesale and CBG business, we continue to focus on better-rated corporate originations and shorter-term loans. Our asset quality is improving as reflected in lower BB+ plus net NPA book, decline in net NPAs and improvement in provision coverage to 69%.

Our prudence is demonstrated through the choices we continue to make. And if we express the cumulative additional provisions that we hold over and above the RBI mandated provisions and our NPA provisions, our standard asset coverage stands at 1.3% as at 31st March 2020. In light of the Covid crisis and the uncertainty around it, we will stop providing guidance till we have clarity on Covid-19.

With that, I come to the end of my comments. Thank you, and we would be glad to take your questions now.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first questions from the line of Mahrukh Adajania from Elara Securities from Elara Securities. Please go ahead.

Mahrukh Adajania: I have a couple of questions. The first one is that how comfortable would you be with the quality of your international book?

Rajiv Anand: Hi, Mahrukh. As you know, as part of our conscious strategy, we have been reducing our international book. We have just reviewed our international book. When I say we, the coverage team as well as credit. We have identified some vulnerable assets there. But all exposures there are part of our BB portfolios, et cetera.

Amitabh Chaudhry: Just to clarify, we have, over the last one year decided to shut down and are in the process of shutting down on Hong Kong, Shanghai and Colombo offices and now in the process of shutting down our U.K. office. So, we identified international as an area where we need to be more sharply focused than before. And I think given what is going on, that has worked quite well in our favor because the exposures in most of these branches has been transferred to our GIFT (Gandhinagar International Finance Tec-city) branch and in many cases, gone done. So that's precisely what we are doing.

Mahrukh Adajania: Alright. And the moratorium amount of 28%, that would be on the whole book, is it? Because then that looks a bit higher than others. It looks higher than other banks.

Amitabh Chaudhry: Yes, it is on the whole book. However we believe, it is definitely not higher than the others. We have been doing our informal checks in the banking industry. We believe that we are as comparable to the peer set banks. Please also understand that the reporting date for this data is as of April 25, so the people are continuing to avail of moratorium as this lockdown continues. So different people are giving different data at different points in time. Some of them are only giving the number of people, number of borrowers who have used it, some are giving the value. We have given the data just to be categorical, both in terms of number of people and value, and it is as of April 25. Informal check shows us that we are very well placed across our entire portfolio in terms of what the moratorium numbers are looking like. And by the way, we followed a differentiated strategy across different asset classes. In case of wholesale and our commercial banking, it was an opt-in. And in case of retail side, it was an opt-in for some asset classes, and it was an opt-out for some asset classes. So, we have followed depending on what is the right thing to do. That's how we have gone about it.

Mahrukh Adajania: And would you be giving moratorium to NBFCs as well?

Amitabh Chaudhry: Well, till now RBI had not permitted the banks to give any moratorium to NBFCs or MFIs. There is a clarification, which the Governor has given in the speech. So, the NBFCs have approached us. We will evaluate it and see whether a moratorium has to be given or not. We have not reached that stage yet. As of now, not a single NBFC has been given moratorium by us. Nobody has even approached us. This doesn't cover some micro finance institutions who are classified as NBFCs. There, we might give a moratorium. But in the normal NBFCs or HFCs, we have not given any moratorium so far, nor have we been approached.

Mahrukh Adajania: Okay. That helps. And just one last question. What would be the moratorium provision that is provision on overdue loans that have opted for moratorium?

Amitabh Chaudhry: Let me ask Puneet to answer this one.

Puneet Sharma: So, we have broken the moratorium provision into 3 parts. First let me give you color in terms of how we have looked at the moratorium provision to start with. We have taken all assets that would have been classified as NPA as at 31st March and considered them for the moratorium provision. We have taken all assets that were more than 0-day overdue on the day moratorium was granted and considered the likely assets which would have slipped even in April and May for moratorium provision. Our moratorium provision has been made at the full 10%, not taking regulatory dispensation. To give you the numbers, if I had taken moratorium provision only on the NPA book, my requirement for moratorium provision would have been ₹73 crores at the full 10% number. If we took it on all greater than 0 overdues, my requirement would have been ₹560 crores. The cumulative Covid provision made by the Bank as on date is ₹3,000 crores. In addition to that, we have not taken the dispensation on 7th June 2019 circular, which has resulted in an additional provision of

₹475 crores. So, ₹3,475 crores is the cumulative provision we have made against a regulatory minimum ask of ₹73 crores for NPAs and a regulatory minimum ask of ₹560 crores for moratorium on all overdue loans.

Moderator: Thank you. We take the next one from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: I have 3 questions. One, in the Max deal, when you acquire 30% in Max, how does that affect your relationship with Bajaj that you have recently started? And would you continue with open architecture as well? The second question is around this again. Is there any specific regulatory dispensation which allows you to purchase 30% or up to 30% or is it subject to approval? I think there's no existing regulatory guidelines. And the third question is around the Covid. You have given a lot of details. I just wanted to know that between the 3 scenarios that you have worked out, which scenario have you used to make the provisions? And what is the sort of increase in provisions if you would have taken a more adverse scenario?

Amitabh Chaudhry: So, let me try to answer all the 3 questions. As far as the Max acquisition is concerned, let me first answer what is the impact it has on our current relationships. Please understand that as a bank, we distribute products of all kinds of third parties and this applies across life, general and health insurance also. We will continue to maintain those partnerships. We will continue to maintain our partnerships with all the partners. LIC is a very important distribution partner for us. And obviously, we signed Bajaj as another distribution partner. We have similar relationships of those kinds across health and nonlife also. So those partnerships will continue. What this Max relationship does is that, we have signed a long-term distribution relationship with them and in lieu of that, we have been offered a stake in Max Life, and that's precisely what this whole deal is all about.

You asked whether there is a clear dispensation from RBI to buy 30% stake. We have to approach RBI formally with a deal to get the approval for whatever stake we end up buying. Yes, obviously, we are in touch with RBI on a regular basis, but RBI will not opine on anything until they see a deal on the table. So, as we have stated in our press release also, this deal is subject to approval of regulatory authorities, including RBI, IRDAI and CCI. So, we will obviously approach them, and we hope to work with them to get to the objective which we are looking at. I mean, obviously, a regulator has a very important role and a say in that.

You talked to us about what have we assumed in our scenarios and how does it relate to COVID provisions. Please understand that our scenarios are based on certain assumptions which we have made about some factors which Amit listed out. How long the lockdown will last? How long will it take for the economic activity to come back? When will things come to normal et cetera? And obviously, we assumed stress scenarios ranging from base case to moderate and severe cases. As far as we are concerned, as we stand today, it is very difficult for us to predict which of those scenarios will play out. We don't know based on - whatever market talk we are hearing - whether the lockdown will be lifted, when it will be lifted, where it will be lifted. We today know that most of the plants are not operating. Those that are operating, they're operating at low capacity. There's not enough labor available. If the labor is available, there are not enough people available to transport it. Or if there's transportation available, there are not enough people to load it or unload the goods. And then most of the distribution channels are closed, and the customer demand is a question mark. There have so many unknown variables.

What we know is that when we look out of our window, the economic activity has come to a halt. And as the lockdown continues, there is absolutely no doubt that we will see stress build up in the system across both the wholesale and the individual customers. So, as we stand today, we believe and we talked that it is very important for us to do the right thing, which was to take some kind of prudent provisions. Obviously, it is linked to our base scenario. We are not going to discuss the base scenario here. But based on what we know today and based on what in all likelihood we believe is going to happen, we have taken a prudent provision of ₹3,000 crores. And we believe that was the right thing to do, and that's just already what we have done. As I stated earlier in the answer to the other question, we are not seeing anything in our portfolio today across wholesale and retail or our SME side of the business, which is telling us that our portfolio is getting worse than our peer banks. But we believe it's the right thing to do, so we have gone and done it.

Abhishek Murarka: Sure. Appreciate that, Amitabh. But so I just wanted to know what is the sort of sensitivity for the next adverse scenario that you might have? And also, within this 25% to 28% of customers who have taken moratorium, if you can share any sort of sectoral color? Also what percentage of it is let's say, mortgages or unsecured? That will be very helpful.

Amitabh Chaudhry: Let me start by saying that our business team has gone and talked to every wholesale and SME customer. And we have ensured that we understand the circumstances and situation because in case of wholesale and SME, it's an opt in. They have to seek our approval to give the moratorium. And only once we are convinced, we have given them the moratorium. So, obviously we are in touch with them on a regular basis. I mean both the credit and the relationship teams are involved. On the retail side, as I mentioned earlier, it's an opt-in/op-out depending on different asset classes. I can ask Amit without revealing too much of data to give you some color.

Amit Talgeri: Sure, Amitabh. So, the way we look at it is that we had offered opt-in for a moratorium for a few customers of ours, which was, like I mentioned earlier, primarily around the unsecured portion. When we did a dipstick of what those customer profiles look like, we looked at close to 2/3rd of that population had balances in their account. And to that extent, we have not seen any signs of trouble as far as those customers are concerned. The way we probably interpret that is that a lot of these customers are looking for cash flows and probably wanting to keep capital in their accounts. The second part of this is also to look at what would happen in terms of the income profiles or the other dimensions. There is absolutely no color that we can probably provide in terms of differentiation, the opt-in requests have been across income segments, across geographies, across salaried segments, across all category of employers.

Amitabh Chaudhry: Let me assure you, we are monitoring that data on a daily basis, and we're doing those cuts and continue to improve our models as we move forward.

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

Kunal Shah: Three questions. Firstly, on the SME side, no doubt there is a lot of disclosure, but it seems like this is a segment which is going to get impacted, you said it's quite broad-based. But if you can give more color in terms of how these SMEs are behaving, what is the kind of a moratorium and even almost ₹60,000 crores kind of a book out there. Maybe out of this ₹3,000 crores, how do you see the utilization by, say, SME, Retail and the Corporate within the prudent provisioning, which we had done?

Amitabh Chaudhry: Okay. So, we are not kind of breaking it up into 3 categories, but we do have Rajiv and maybe then Deepak to give you some color on what we are seeing on the moratorium side there.

Amit Talgeri: To start with, I think, as Amitabh mentioned, we have actually started this exercise by ensuring that we contact, every single corporate and SME customer to understand what the issue is on the ground, number one. Number two, it is not an automatic default moratorium that we have offered to all of these customers. It goes through a process where the coverage and the RM teams are actually figuring out what this customer wants. Credit is having a look at each of those proposals, then only we are offering the moratorium. Now if I look at what kind of numbers we are really looking at, clearly, the ballpark number has been in the region of 24% to 25%, like I mentioned, at a value level. It's slightly higher, obviously, on the commercial banking side. Again, there is no differentiation in terms of the industries, it's across industry segments. And the only thing which I can probably tell you is that what we have looked at is some of these customers are also the good customers from our early warning signals point of view. And while we don't give too much of disclosure around that, but let me assure you, one of the things we are also tracking very closely is that what are the differential cash flows that some of these customers will have in the next 3 to 4 months, and that's something that's getting tracked very closely from a moratorium point of view.

Kunal Shah: Okay. So, any color how the behavior of SME portfolio would be compared to current run rate of NPLs, particularly SMEs?

Amitabh Chaudhry: Let me give you a quick color on the fourth quarter. Frankly, if you look at our NPLs coming out of the SME book in the fourth quarter, it is one of the best quarters we have had for a long period of time. So firstly, let me just tell you that I think the performance of our team in terms of ensuring that we manage our book very actively, especially the NPL side, has been quite solid in the fourth quarter, and our numbers show that. I'll ask Puneet to give the numbers. In the meantime, Rajiv can give you some color on what we expect in the SME book, and I'll give you the number in a second here.

Rajiv Anand: I am sure you have seen that the book has de-grown on a Y-o-Y basis driven by the supply chain side. I think the team has been very proactive in cutting lines, particularly to auto dealers. And so therefore, in that context, the amount of loan losses that we're seeing in that sector has been actually quite surprisingly very small. The fact that we have been able to reach out to the entire mapped list of customers in the SME book over this period has given us confidence. What we have been able to do in really the second half of the year in terms of pulling back, thanks to some very strong collection efforts, gives us confidence as we go forward. However, what we have been hearing so far is the fact that COVID is the big uncertainty that we are working through. And I do believe that this part of the business will get impacted, and we are watching this very closely.

Puneet Sharma: From a data point perspective, our gross and net slippages are lowest that we have seen in the last 8 quarters. The gross slippage for the quarter was ₹387 crores and our net slippage for the quarter was just ₹107 crores.

Kunal Shah: Sure. Two more questions. Surprisingly, no comment in terms of the efficiency and the productivity. And I think that has been one of the key deltas to ROEs, which we have highlighted earlier. So, what are the steps which we are taking in this kind of a situation to manage the cost and bring in productivity?

Amitabh Chaudhry: So, as I stated in my remarks that, obviously, we are using this time to ensure that our people remain proactive. I mentioned a couple of data points to you that on the retail side, for example, we are having 3 lakh interactions with our customers on a daily basis. A lot of them are driven by our RMs themselves. It is not that the customers are calling us in. These are calls going out from the Axis Bank relationship franchise, on just the retail side alone. We have just spoken about how we have approached every wholesale and SME customer over this time period. There is a certain rigor in the rhythm which we are working with across the Axis Bank franchise. So first, continuous contact is being made. Because of the fact that we made continuous contact, the kind of feedback we have got from our customers is a really positive feedback.

Number three, obviously, we are looking at our costs and asking questions on a literally zero-based budgeting perspective that what the costs we can look at and cut are. So, there is an initiative which is going on in the Bank at this point in time. And hopefully, the impact of those initiatives will flow in the next couple of quarters. We have also rolled out certain key decisions we have taken on the HR side in terms of increments, promotions, variable payouts, et cetera and one of the important elements there is that we are also looking at how we can control our hiring and actually look at more productivity rather than anything else. I mentioned to you that there are 9,000 people who are working on VDI/VPN. We believe, based on what the vendors are telling us, this is the highest number of connections amongst the banking system on people who are working from home. So, I think as a Bank, we have responded exceedingly well to the crisis because I think we triggered the emergency response a bit earlier. And obviously, the whole team has come together to ramp up and create a work from home environment, which is working quite well for the organization as we speak. Again, the numbers will bear it out in the next couple of quarters, but we are quite happy with where we stand today.

Kunal Shah: Sure. And just one last question, the granular breakup on the rating profile, both within the corporate as well as SMEs, I think we have clubbed it. So particularly on BB portfolio in the corporate and SME-3 which is a significant chunk, have you seen any kind of the increased proportion out there?

Amitabh Chaudhry: So, as we clarified in the call that a very large number of the incremental wholesale book is coming from A- and above. On the SME side, let me ask Rajiv to give it. But again, a big proportion of the book is coming from those rated SME-1, SME-2 and SME-3 which is a very good quality set of customers.

Rajiv Anand: In fact, at 70% of our incremental book on the corporate side is AA and better and this is not something that's played out this quarter. This is a number that has been between 65% to 70% for the last 1 year. The rate of growth on our AAA book has been 84%, the rate of growth on our AA book, is 25%. So clearly, you can see that we are going up the rating scale on the wholesale side. It is a very similar sort of number on the SME side as well. Amit spoke about the fact that the wholesale book itself is now in excess of 80%, which is single A and better. On the SME side, 85% of the book is SME-3 and better.

Kunal Shah: Can I get only SME-3 proportion because that's quite significant chunk within this SME-3 and above, because it is more vulnerable to be downgrades. So that's the only reason maybe I am asking if there is any deterioration, which is there in SME-3 in particular.

Rajiv Anand: No, the way to look at that is SME-3, we would classify as the equivalent of AA-. So, it is still deep within the investment grade.

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

M.B. Mahesh: I may have a couple of questions, if I can add here. So, one is on the asset quality line. You kind of indicated these various scenarios, but you have kind of probably been silent on the impact of it on the balance sheet. If you could just kind of run off as to what are you guys exactly thinking on this side? And correspondingly, on the provisions that you have made, there seems to be a very high provisions made for SMA 0 to 2. So just kind of back calculate the kind of provisions you made for standard assets. Just wanted to understand, are we reading these 2 numbers correctly on the credit cost line? That's the first question.

Amitabh Chaudhry: Mahesh, frankly, we are struggling to understand the question. Can you just repeat it again?

M.B. Mahesh: Yes. So, if you indicated in these various scenarios, right? The base case scenario, but you have not kind of given some clarity as to how are you looking at in terms of it translating into an event of credit costs in each of these scenarios or NPLs that you are looking at. Just kind of understanding as to how are you looking at that number as well.

Amitabh Chaudhry: Well, if we had linked it to a very specific scenario, it would have defined it for you and said, this is the number and this is a provision we have made. We have obviously stress tested it. We have looked at how it would play out. Our base case scenario is also a stressed scenario. It's not that it is what we expect to happen. The provisions which we have made, which we are calling as prudent provision, as we stand today, we know that some of these corporates, the individuals or SME companies, will come under stress and will slip into NPL. So, based on what we know today, based on some of the analysis we have done, we thought that ₹3,000 crores will kind of cover for it. But the problem is that we don't know how long the lockdown will last. We don't know when the lockdown will be lifted, in what form and shape, how will the economic activity revive. So, I would like you to kind of keep these 2 scenarios to some extent or these 2 things slightly separate. There is a prudent provision which we have made based on what we believe we can see today and based on all the commentary which we are hearing in the market. And then we have done some stress testing on those scenarios, and there are some numbers there. And obviously, as the crisis plays out and if we believe that it is moving towards the stress, as we have said in our comments, we might be required to make more provisions, which we will come and make. Based on what we know today, we have gone ahead and made this provision. So, to mix the two would be mixing two wrong things is my view.

M.B. Mahesh: Okay. Perfect. And these provisions you made of ₹1,338 crores for standard assets for the quarter, if you just kind of back calculate and just kind of remove the incremental assets put for the quarter, overdue account seems to be fairly large. Are we reading this number correctly?

Puneet Sharma: Sir, let me explain the number. You have correctly pointed out that our standard asset provision for the quarter is ₹1,338 crores. Of the ₹1,338 crores, ₹1,118 crores is the provision that we have made with respect to "the regulatory requirement" under the April 17 circular. The April 17 circular, one, we have made the full 10% provision against the ask of 5%. Second, we have made the provision on all NPAs where we took asset classification benefit. We have provided ₹73 crores against the ₹691 crores of assets that I had mentioned as part of my earlier comments. And the balance is for any account that was overdue even by 1 day as at 31st March for which moratorium was granted, we have gone ahead and provided 10%. That is what is aggregating to this number. So, if you try and back compute the absolute slippages number or a gross number, it won't tie back. It's just the way that we have chosen to be prudent about the provision and the entire number has been taken in the quarter.

M.B. Mahesh: My second question is to Pralay. Pralay, given the fact that about 65% of your customers have taken the benefit of moratorium, how are you kind of looking at FY '21 in terms of growth? And also, the critical portfolios like cards, if you could just kind of give some color as to what would be the implications of it during the course of this financial year?

Amitabh Chaudhry: Mahesh, if you can clarify, you said 65% of customers, where do you get that?

M.B. Mahesh: I think that's what you indicated in the early part of the call, right, in your retail customers, 2/3rd?

Amitabh Chaudhry: Its 25% on overall level, not 65%.

Pralay Mondal: It is 10% to 11% by number and around 25% by value.

M.B. Mahesh: And even in the retail?

Pralay Mondal: And whatever I know about what's happening in the industry, this is similar in most of the other banks, including the large banks. This is as of April 25. We also have to see there are 2, 3 things which are happening. One is numbers. And to give you some color, certain businesses, which are a large number of customers, their moratorium amount is lower. And in certain businesses, the number of customers are lower, but values are higher, their moratorium is higher, but not necessarily moratorium means bad. Sometimes, I wonder that people who have not taken moratorium are better or people taking moratorium are better. That's number one.

The second thing is which time point are we talking about; this we are talking about 25th April. And the third one is value. So, I find it extremely difficult having a look at all the numbers to derive anything out of this moratorium. There are too many complexities. Quality of the Moratorium portfolio, classification of the moratorium portfolio, size and tickets of the moratorium, CIBIL score of the moratorium customers, which kind of businesses they are in, and I mean, there are various factors which one has to look at it before coming to a conclusion. For example, when you looked at some of the moratorium business, where, what is our average balance of those customers in our savings account, they are anywhere between 2 to 3x of the EMI amounts in our savings balance itself. So, I mean, there are so many colors to it. And then there is another uncertainty factor, what the check bounce is and who are the people who are not paying or revolving the fast payment into a revolving base. So, to make anything out of this moratorium and check bounce is very difficult at this stage, in my view, and very difficult to calculate this.

M.B. Mahesh: Sir, the question is that given these uncertainties, just wanted to understand how are you approaching this year from a disbursement standpoint, both on the secured as well unsecured. That's the direction of the question.

Pralay Mondal: That is very clear, but we will move more and more towards the secured business this year. And in unsecured, I have been talking about it for a while that we have upped our credit score and our credit bar significantly higher, especially as we are going to credit cards and some of the unsecured businesses. And this we have been doing for the last 6 to 9 months. And already, we are seeing some good impact of this drive. So, to that extent, we have already taken that call.

Secondly, most of our customers on the secured side are existing customers, as Amitabh already said, that 100% is salaried in Personal loans**,** 80% of them are internal customers of the Bank, and hence, we know their behavior. So, we will get more and more stringent here. And obviously, we are not chasing growth at this point of time in this kind of businesses. We will also, the other point we had is of capital, right? So obviously, when we conserve capital, we will more and more move towards businesses, which helps us in terms of conserving capital. So clearly, direction is clear. We are not necessarily chasing growth, but we will obviously chase the customer franchise. That is the way we are looking at it.

Moderator: Thank you. We take the next question from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just wanted to ask the ₹1,100 crores provision is on the 10% requirement by RBI as on April 17 circular. Is that right?

Puneet Sharma: Right. I will break up our provision on Covid into the 3 segments. The cumulative COVID provision, including ₹475 crores for not availing of moratorium of June 7th 2019 circular is ₹3,475 crores. Of which, ₹1,118 crores represent 10% provisioning for all overdue cases, whether NPA or not at 31st March for whom moratorium was given and could have been classified at a future date as an NPA. The balance, ₹1,882 crores, is an unallocated provision for larger Covid stress. That's the breakup of our Covid provision for the quarter.

Moderator: Thank you. Next one is from the line of Udit Gadia from Khazanah Nasional. Please go ahead.

Udit Gadia: Sir, as highlighted earlier, that the 10% of the total Bank customers are taking moratorium and it's about 25% to 28% by value. So, will it be fair to assume that the moratorium has been taken more towards the corporate side vis-à-vis retail?

Amitabh Chaudhry: No. It's very simple. If you look at within Retail what is the average credit card limit, versus what is the average PL size, what is the average home loan size, what is the average LAP size, so within retail, credit card starts from ₹20,000 limit to a home loan or a LAP going up to whatever, you know that. So, it is obvious that, and everybody knows this now, that credit cards, a lot of customers have not taken moratorium because credit card is not a EMI product. And hence, the minimum balance due whatever it is, math, they just pay. And they hope things will get well. And hence, at the industry level, credit card moratorium is lower single digit at this point of time, and that is what is skewing the number for all the banks. And banks which has very large credit card portfolio, obviously, will have more skewed number out there. So that's the way it is getting skewed. Obviously, hence, I am again saying that taking moratorium is not necessarily a bad thing to do. Because customers, if they're showing prudence, a LAP or a home loan customer at this point of time, having the average balance in their account, are better customers than a customer who is not even taking a moratorium on a credit card, for example, where balances is low. So, one has to be looking at it very differently.

Udit Gadia: And just one last question from my side. In the stress case scenario, is there a possibility of a capital call?

Amitabh Chaudhry: We don't want to get into those details. But right now, based on a stress case scenario, no, we don't see the need at this stage.

Moderator: Thank you. We take the next question from the line of Nitin Agarwal from Motilal Oswal Securities. Please go ahead.

Nitin Agarwal: Sir, 2 questions. Firstly, there is a thought that working capital demand from corporates may increase for banks as other sources run dry and borrowers also may want to carry excess liquidity. So are we seeing any higher utilizations or drawdowns from the sanction lines that we have? And secondly, the recovery in return of accounts has been quite high this quarter. So, any one-offs which have driven this?

Rajiv Anand: So, if you look at the disbursal data for this quarter, 66% is for working capital needs. About 14% is for refinance. 11% is for CAPEX and other general-purpose loans. So clearly, yes, we are seeing utilization of working capital or drawdowns of working capital, at least in the last quarter.

Nitin Agarwal: And in the running quarter, how is the trend?

Rajiv Anand: It's still very early days at this point in time. But yes, there is certainly demand for working capital even today.

Nitin Agarwal: Okay. And secondly on the recovery?

Puneet Sharma: In terms of the recovery, yes, you're absolutely right. The recovery for the quarter is large, but in the ₹654 crore number, we have one large case that got resolved for ₹316 crores. That's what's causing the bump up for the recovery number in the quarter.

Moderator: Thank you. Next question is from the line of Pranav Gupta from Birla Sun Life Insurance. Please go ahead.

Pranav Gupta: So, most of my questions have been answered. Just 2 questions. Firstly, if we look at our provisions for loan loss ex of the additional provisioning that we have done, it's still much higher than how we have been doing it over the previous quarters. How should we look at this going forward? Is this the new norm where we keep higher coverage and more safety on the balance sheet? Or how should we look at this?

Puneet Sharma: Let me try and explain the provision number. The loan loss provision for the quarter is ₹4,204 crores. As we have articulated previously, we have rule-based provisioning for our entire portfolio, retail and corporate. The rules that we follow are reasonably stringent. The ₹4,204 crores need to be broken up into what is aging provision basis, the prudent provisioning policy, rule-based policy we have put in place and provisioning for slippages in the quarter. The provisioning for slippages in the quarter is roughly ₹1,700 crores, and the rule-based flow forward provisioning is ₹2,500 crores.

Pranav Gupta: Right. Just to understand, this new rule-based provisioning was implemented two quarters back. Is that right?

Puneet Sharma: So, we keep reviewing the rules that we have. It is not a new philosophy at the Bank. And the incremental provision will come, basis recognition. So just to give you an illustration in terms of rule of thumb, if an unsecured retail loan hits 91 days, it gets 100% provided on the 91st day itself. However, there could be assets that have graded provisioning rules. So, depending on the earlier creation of gross NPA, some of the flows coming in subsequent quarters. So, the ₹2,500 crores represent provisioning for gross additions that may have happened in prior quarters.

Pranav Gupta: Right. Great. And just one last question. We have seen a big spike in other assets. Is this due to RIDF or is this due to some other?

Puneet Sharma: RIDF**,** you are right.

Pranav Gupta: All right. And just one last question, if I can add in. What would be the margin impact for excess liquidity held on the balance sheet?

Puneet Sharma: Well, the margin impact would actually depend on what the average excess liquidity for the quarter would be. But if you look at the number, it will be roughly between 2 to 4 basis points.

Moderator: Thank you. We take the last question from the line of Rohan from Equirus Securities. Please go ahead.

Rohan: Like in your comments, you alluded to the fact that for the customers who availed the moratorium, there are sufficient balances in their account. So just wanted to understand like are these balances are sufficient to cover how many months of repayments in retail as well as in the SME segment? And secondly, the ₹3,000 to ₹3,400 crores of provision, if you can spread between the retail, SME and corporate?

Pralay Mondal: So, the first question, let me answer. It is basically, we are not saying everybody has 2 to 4x, but we are segmenting it that way, because some question came that why numbers are low and values are high. For some of the higher value, it is not that they don't have money or they don't keep balance in the account. They are basically planning for future because they also don't know what is the level of lockdown that will be there. And hence, we have bucketed it within. Obviously, that we cannot diverge that what customers have balances, which is how many x times of the EMIs, et cetera. So, all I am saying is that there are enough customers in there who have 2x, 3x, 4x of EMIs in their account. And hence, if they wanted to be, they could have paid, but they are not paying because they are planning for future. I think that's one. So, second question. I didn't get it.

Rohan: ₹3,400 crores of provisions, so how is that split between retail, SME and corporate? The COVID-19 provision.

Puneet Sharma: The ₹475 crores, which was the non availment of the June 7 circular will principally be for the wholesale business. The balance, ₹3,000 crores, is the pool that we are currently carrying, of which, ₹1,882 crores is unallocated as on date. So, we are carrying it on a portfolio basis towards risk that we foresee on the portfolio.

Rohan: Right. And so this, in case we can spread the 1,882 crores to among the 3 categories, retail, SME, corporate, it's possible? Just to understand how...

Puneet Sharma: So currently, we have done this analysis on a portfolio basis, and we are not allocating this on a segment basis. We will continue to hold it as unallocated till we see further clarity on Covid-19.

Rohan: And sir, lastly, like among the comments you mentioned that with the early warning signal model that we have implemented, we were able to predict stress in almost 80% of the NPAs earlier. So, what kind of measures have we taken to be able to take on those predictions? Were we able to ensure lower LGDs and how will the approach change in this environment on those kinds of predicted spread pools?

Amit Talgeri: So just to give you a quick answer on this one. The way these stress test models work on the EWS as well is that we have looked at each of those customers to see what actioning alerts that we need to pull out. Based on those alerts, the coverage and the credit teams actually reach out to the customer with a strategy, which is clearly defined as either exit, reduce or take additional collateral. Based on those which are tracked on a monthly basis, we actually ensure that the EWS is done effectively on the ground. And that's how we track this portfolio very closely.

Rohan: Sure, sir. So, what kind of achievement we would have been able to do in either of the risk parameters? Any statistics on that?

Amit Talgeri: So, like I said, so very quickly to give you that number, like I said, we were able to predict a large part of it, 6 months ahead of time. So you can imagine if you predicted that 6 months ahead of time, clearly the actioning starts 12 months ahead of time and a lot of the elements which go into the next 6 months is to ensure implementing the strategy of whether you exit, reduce or you try and do some other methods of correction of that portfolio. And that is how you kind of try and control the NPAs. Some of them also ensure that you do a lot of advanced collections calls on some of those customers as well to bring down the number.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Puneet Sharma for closing comments. Thank you and over to you, sir.

Puneet Sharma: Thank you, everyone, for taking the time and your patience on the call. Have a good evening.

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