"Axis Bank Q3 FY'22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Axis Bank Conference Call to discuss the Q3 FY'22 Financial Results. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation has not been sent. Unauthorized dissemination of the content or the proceedings of the call is strictly prohibited and prior explicit permission and written approval of Axis Bank is imperative.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of the briefing session. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

On behalf of Axis Bank, I once again welcome all the participants to the conference call.

On the call, we have Mr. Amitabh Chaudhry – M.D. and CEO and Mr. Puneet Sharma – CFO. I would now like to hand the conference over to Mr. Amitabh Chaudhry – M.D. and CEO. Thank you and over to you sir.

Amitabh Chaudhry: Thank you Janice. Wish you all a very happy new year. Apart from me and Puneet, we also have on the call, Ravi Narayanan – Group Executive, Retail Liabilities and Products, Sumit Bali - Group Executive, Retail Lending, Ganesh Sankaran - Group Executive, Wholesale Banking Coverage Group, Munish Sharda - Group Executive, Bharat Banking and Amit Talgeri - Chief Risk Officer.

I hope all of you are doing fine. The battle against Covid is not over yet. We have to keep our guards up, but we are confident we will take this wave in our stride. We saw strong growth in the economy in the past couple of quarters. We expect this to continue aided in part by rise in consumption, spending by the government and start of a capex cycle by the private sector.

At Axis Bank, we looked at the disruption brought about by the pandemic as an opportunity to redraw the baseline in multiple segments. We used this period to invest and gain market share in these areas. Our Q3 performance moves us forward on the trajectory we have been on in the past 2 years. Our asset quality taken together is best-in-class, we are demonstrating consistent growth across all segments with specific identified areas leading the way and we are consolidating on our operating profits and margins. There is confidence in accelerating our progress as we look ahead.

I will take you through a business performance in Q3 and Puneet will go into the details of financial performance later.

Like I mentioned earlier, the business momentum was strong in Q3.

We delivered deposit growth of 22% YOY and 3% QOQ (on Quarterly Average Balance basis) and added 2.15 million new customer accounts

Advances grew by 17% YOY and 7% QOQ. The growth was strong across all 3 segments of Retail, Corporate and Commercial Bank. The impact of digitization and streamlined customer journeys is bearing results and we find greater customer engagement and conversion.

At 0.77 million, we achieved highest ever credit cards acquisitions in this quarter. We became the second-largest merchant-acquiring bank in the country

Our Burgundy franchise is one of the top brands in Wealth Management with an AUM of Rs 2.67 lakh crores. We saw a growth of of 37% YOY and 3% QOQ

Our mobile banking app is among the highest rated Banking app on Apple Store (rating of 4.6) and Google Play Store (4.6)

We successfully executed the industry-first blockchain enabled domestic trade transaction. We are also one of the first private banks to have gone live on the national portal of Indian Customs to collect Custom Duty payments. We also successfully concluded structured derivative transactions under the new RBI regulations.

Our asset quality is top notch, slippages and credit costs further declined in Q3 on YOY & QOQ basis. The balance sheet buffers are at an all-time high.

Margins improved 14 bps QOQ and fee income grew 15% YOY and 3% QOQ

The combined 9MFY22 PAT of our domestic subsidiaries stood at Rs 872 crores, higher than full year FY21 earnings.

Our operating profit grew by 17% YOY and 4% QOQ. PAT was up 224% YOY and 15% QOQ.

We continue to make significant investments in building digital and tech capabilities, invest in new age talent and work on transformation projects across our businesses. Our near-term costs remain slightly inflated because of this. We are at the back end of this investment cycle now. We are seeing the returns on these investments flowing through gradually but surely.

I'll take you through the business performance of key segments now.

On the liability side, we continue to build granularity and focus on premiumization. CASA deposits on a QAB basis grew faster at 25% YOY and 7% QOQ. The CASA ratio stands at 44%, Last year it was 42%.

Customer acquisition was strong on back of the implementation of our key transformation projects. I have already mentioned 2.15 million new liabilities accounts opened in Q3, up 29% YOY. Total 6.2 million accounts have been opened so far in the nine months, up 28% YOY. 1.76 lakh savings accounts were opened via digital ECIP compared to 1.22 lakhs in Q2, up 44% QOQ. We had 37% YOY and 9% QOQ growth in new current account customers.

We continue to focus on deepening relationships across the government businesses. During the quarter, we signed MOUs with the Indian Army, Indian Navy, Kolkata Police and Maharashtra Forest Department among others.

Our focus on premiumisation continues with 67% YOY and 8% QOQ growth in QAB balances for Burgundy and Burgundy Private accounts. The consolidated Wealth Management business has grown to be the fourth largest in India in a reasonably short time of less than 3 years. The evolution of the Burgundy franchise is a great example of the strength of our One-Axis approach to serve our customers by bringing the Bank and its subsidiaries as a single unit to offer a range of solutions

Burgundy customers have grown at a compounded annual rate of 22%. As of Dec'21, we have over 1.9 lakh Burgundy customers spread across India and other countries. The Burgundy AUM at Rs 2.7 trillion has grown at a compounded rate in excess of 27% over the last 3 years.

On credit cards and payments, I've already mentioned we added 0.77 million cards in Q3. This is the highest ever for any quarter and up 174% YOY and 40% QOQ. There are more strategic partnerships that we are entering into and we see better risk and spend performance in this portfolio. Also, our organic growth has been strong on the back of new liability account growth that we have seen.

A significant portion of this growth today is also driven by the advanced rule engines built by the analytics team. 40% of credit cards were acquired through Known to Bank partnerships across Flipkart, Google Pay, Freecharge and others, up from 21% in FY21 and 6% in FY20. We have 1.72 million Flipkart Axis Bank Credit Cards in force, making it one of the fastest growing co-branded portfolios since its launch in July 2019.

The credit card spends in Q3FY22 were up 52% YOY and 22% QOQ, faster than industry and now trending well above pre-covid levels. The card advances were up 10% QOQ.

We are also now the second-largest merchant-acquiring bank in the country with an installed capacity of 8.42 lakh terminals. We have gained an incremental market share of 42% till November this fiscal. The merchant business is another example of the 'One Axis' approach with innovative offerings to grow the business across deposits, lending and fees. We are the 1st bank to lead with a feature rich and pocket version Android terminal for retailers. We are building a network of partners to grow this business. We are the first Bank to lead with a feature-rich and pocket version Android terminal for retailers. We are building a network of partners also to grow this business.

On advances and disbursements: Loan growth was strong at 17% YOY and 7% QOQ led by strong all-round performance across the business segments. The overall loan book continued to trend upwards sequentially for the 6th consecutive quarter. The risk parameters continue to trend down during this period.

The Corporate loan book grew 13% YOY and 7% QOQ as our domestic loans picked up 7% YOY and 8% QOQ. Mid corporate was up 44% YOY and 17% QOQ. The growth is spread across different sectors, driven primarily by organised retail, engineering, petrochemical, industrials, real estate etc.

The retail and SME segments continued their strong sequential uptrend for second straight quarter growing 18% and 20% YOY and 6% and 9% QOQ basis respectively.

The 'Bharat Banking' focus is working well. 'Bharat Banking' segment delivered a strong 56% YOY and 50% QOQ growth in disbursements in Q3FY22. We witnessed one of the best quarters in terms of gold loan disbursement also.

Moving on to tech transformation digital banking, I mentioned in the past calls about the transformation of our technology stack. Our 1,500 plus tech and digital colleagues are working on 30-plus initiatives that are transforming the core and building future-ready capabilities. We now go live with 25-plus new tech or digital capabilities every quarter on the back of this initiative.

On cloud, our leadership continues. We have established the largest VDI set up in Indian banking with 2,300-plus virtual machines. We already have 55-plus of our critical applications on cloud and the migration is getting quicker every quarter.

On APIs, the Bank is committed to open ecosystem proposition to build dedicated partnerships using a market-leading API strategy. We have deployed more than 300 APIs across retail and corporate channels.

Specifically on digital business this quarter, in consumer loans, retail lending grew 33% QOQ, it contributes upwards of 52%, to key product lines such as personal loans. Axis was among the first banks to go live on the account aggregator framework. The first products to go live are auto loans and personal loans. With international travel reviving a bit in Q3, our digital FOREX card issuance saw good growth; in Q3 digital contributed 40% overall FX card sales.

Digital investment and wealth journeys continued to see strong growth with digital MFs in 9MFY22 growing nearly 2x YOY. We launched a new digital savings account aimed at millennials that offers digital rich features and 10-15% cashback for purchases on the leading ecommerce platforms. Our D2C Savings Account acquisition saw a growth of 50% in this quarter as a direct result. We also witnessed best ever MAU (monthly active users) on our Mobile app this quarter. On Whatsapp, we crossed 3 mn registered customers in Q3.

Last quarter, I spoke about project Neo that aims to build a world class corporate digital bank. We have made strong progress and we expect the first journeys to be in beta phase in Q4

On UPI, our market share stood at 15% and we managed more than 22 million transactions daily with minimum rate of technical declines for remitter transactions. We now have ~ 5.4 million non-Axis Bank customers using our Axis mobile and Axis Pay apps

A few updates on our progress on ESG strategy that we outlined last quarter. During the quarter, we entered into USD 300 million loan guarantee program with GuarantCo towards accelerating the E-Mobility eco-system in India. This program that was announced during COP26 event in Glasgow, will also support our commitment of incremental financing of Rs. 30,000 Crores to sectors with positive social and environmental outcomes by FY2026. The Bank also won the award for 'Best Sustainability-linked Bond issued by a Financial Institution' for its USD 600 million Sustainable AT1 Bond issuance in Sept 2021, at the recently announced The Asset 'Triple A Country Awards' 2021.

In closing, we continue on steady upward movement on business and financial metrics across all the lines of businesses, along with a positive customer change within the Bank.

We have made significant investments in technology, digital and multiple business transformation initiatives. This has meant a near term rise in costs, but has set us on the right trajectory to deliver on our GPS strategy.

We are optimistic and confident about our future. I will now request Puneet to take over.

Puneet Sharma: Thank you, Amitabh. 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 Q3 FY'22 focusing on our operating performance, capital and liquidity position, growth across our deposit franchise and loan book, asset quality restructuring and provisioning.

Our operating performance is robust. Improvements are reflected in NIM, continued buildup of granular fee and our PAT growth. Net interest income for Q3 FY'22 stood at Rs.8,653 crores, representing a YOY growth of 17% and a QOQ growth of 10%. NIMs for Q3 FY'22 stood at 3.53%, increasing sequentially by 14 basis points (bps) and declining six bps YOY. The same quarter last year, we had interest on income tax refund aggregating to Rs.153 crores contributing eight bps to the net interest margin. Adjusted for this, the YOY NIM grew by two bps.

Improvement in NIMs over the medium term will be driven by balance sheet, mix shift from investments to loans, and within loans the currency segment and product composition towards better yielding assets. Continued improvement in the low cost deposit base and quality of our deposit franchise and reduce share of low yielding RIDF bonds, currently standing at 3.8% of our assets.

The improving liability franchise has resulted in cost of deposits declining by 49 bps YOY and nine bps QOQ.

The Bank has been improving the risk profile of its loan book. Our NII as a percentage to average risk weighted interest earning assets stands at 7.25%, improving 39 bps YOY. Net interest income for Q3 FY'22 stood at Rs.3,840 crores, representing a YOY growth of 31% and a sequential QOQ growth of 1%.

Our fee income stood at Rs.3,344 crores, growing 15% YOY and 3% QOQ. 92% of the fee is granular, 65% of our fee is from the retail business and the balance from the wholesale franchise. The fee for the quarter is after giving effect to some customer focused actions taken by the Bank including reducing fees across many charge types mainly in the retail liability area. The reduction in fee is long term, but we do believe that it is the right thing to do as we build a sustainable franchise. Fee from cards grew 21% YOY and 8% QOQ. Fees on third party distribution grew 33% YOY and 13% QOQ. Fees from our digital channels grew 20% YOY and 3% QOQ.

Our operating expenses for the quarter stood at Rs.6,331 crores, growing 25% YOY and 10% on a sequential quarter basis. Staff cost increased by 16% YOY and remained stable QOQ. We've added 9,250 people from the same period last year mainly in our growth businesses and technology. We have continued to maintain the social security code provisions.

Other operating expenses grew 30% YOY and 15% QOQ, mainly attributed to higher business volumes, higher collection expenses, IT expenses and statutory costs comprising PSLC and DICGC premium being higher.

The YOY increase in rupee crore operating expenses can broadly be bucketed to the following reasons; 24% of the increase in expenses is volume linked, 41% is attributable to investing in the future growth of the franchise and technology, 21% is attributable to collection expenses, COVID expenses and statutory expenses and the balance 14% is the BAU growth.

The sequential QOQ increase in rupee crore expenses can be attributed on a very similar pattern; 21% to volume growth, 50% for future growth in technology spends, 8% is attributable to collection expenses, COVID expenses and statutory and 21% is BAU expenses.

Operating expenses to average assets stood at 2.15% for Q3 FY'22, higher by 19 bps YOY and three bps on a sequential quarter basis.

Operating profits for Q3 FY'22 is Rs.6,162 crores, growing 17% YOY and 4% QOQ.

The Bank has not utilized any of its COVID provisions in the current quarter. Provisions and contingencies for the quarter were Rs.1,335 crores, declining 64% YOY and 23% QOQ. 61% of the NPA provisions on loans for the quarter are from flow forward provisions towards aging of assets recognized in previous quarters.

Annualized credit costs for Q3 FY'22 is 0.44%, declining by 258 bps YOY and 10 bps QOQ.

PAT stood at Rs.3,614 crores, growing 224% YOY and 15% QOQ. Annualized Q3 FY'22 ROE stood at 14.19% improving 928 bps YOY and 147 bps QOQ. Nine months annualized ROA and ROE stood at 1.12% and 12.21% respectively.

The strength of our balance sheet is reflected through the cumulative non-NPA provisions at Rs.13,404 crores, comprising of COVID-19 provisions of Rs.5,012 crores. Restructuring provisions of Rs.1,569 crores at first bucket NPA rates. Weak assets and other provisions at Rs.6,823 crores. The standard assets cover defined as all non-NPA provisions for standard advances stands at 2.03%.

Our provision cover defined as all provisions NPA plus non-NPA divided by GNPA stands at 130% improving 1,406 bps YOY and 576 bps QOQ.

The Bank is well capitalized and is carrying adequate liquidity buffers. Our total capital adequacy ratio, including nine months profit stood at 18.72% versus 15.33%. The Bank called back Rs.3,500 crores of tier one capital with requisite regulatory approvals during the quarter. The impact of this call back to tier-1 capital was 50 bps during the quarter.

The prudent COVID provision of Rs.5012 crores translates to a capital cushion of 63 bps over and above the reported regulatory capital adequacy ratio. Our average LCR for the quarter was 113% and our excess SLR was at Rs.82,935 crores.

The RWA of the Bank as at 31st December 2021 stands at 63% compared to 66% as at December 2020. The improvement in RWA percentage is reflective of the quality of business being done by the Bank.

Growth across our liabilities and branch franchise, Amitabh discussed the strong progress made on the liabilities franchise in his opening remarks. I would request you to please refer slides 7 to 10 of our investor presentation for further details.

Our overall loan book grew by 17% YOY and 7% sequentially. Our loan book continues to remain balanced with retail advances constituting 55% of overall advances, corporate loans at 35% and CBG portfolio at 10%.

The retail book represents healthy characteristics with 80% of the book being secured. Domestic retail loans grew 18% led by secured products like home loans with 20% YOY growth, LAP 28% YOY growth and small business banking 51% YOY growth. Retail disbursements grew 37% YOY and 19% sequentially. Disbursements to unsecured products continue to grow with personal loan disbursements growing 39% YOY and 15% QOQ.

We are progressing well in our endeavor to build a profitable and sustainable corporate Bank. The wholesale book grew 13% YOY and 7% QOQ. Details of rating composition, incremental sanction quality is set out on Slide #28 of our presentation.

We continue to have strong positioning in GST and RTGS payments with a market share of 8% each. The offshore assets grew 44% YOY. The growth in our overseas corporate loan book is primarily driven by our GIFT City branch exposures. 94% of the overseas standard corporate loan book is India linked and 91% is to A-rated corporates and above.

The commercial banking business grew 20% YOY and 9% QOQ. The commercial banking CA deposits on a quarterly average balance basis grew by 15%. The overall fees from CBG increased 14% YOY. CBG customers contributed to 19% of our burgundy franchise. Each of these reflects the strong quality of the relationship-led franchise that we are building in this segment

Our ECGLS share is low, dominated by ECLGS-I and II. Asset quality metrics on the CBG segment has held up very well with net slippages of just Rs.40 crores, negligible restructuring and substantially improved PCR in the segment at 74% as of December '21 versus 52% as of March '20.

Detail performance of our subsidiaries is set out on slides 55 to 62 of the investor presentation. “One Axis Strategy” is playing out well. The domestic subsidiaries reported a net profit of Rs.872 crores for the nine months FY'22, up 61%. This translates into a return on investment of 64% on a standalone basis. The subsidiaries profit now account for 8% of the consolidated profits and accrued 9 bps to the consolidated ROA, and 84 bps to the consolidated ROE.

Axis Capital continue to maintain its leadership position in ECM, completed 43 transactions in the nine months ended FY'22.

Axis Finance: The build out of retail franchises on track with the retail book growing 3.6x YOY and now constituting 29% of the overall book as compared to 13% a year ago. Axis Finance book quality continues to be strong with near nil restructuring and net NPA of 0.9% and an ROE of 19.8%.

Axis Mutual Fund’s overall quarterly average AUM grew 43% YOY in Q3 FY'22. Its overall average AUM market share in Q3 FY'22 stood at 6.6%, up from 6% in Q3 FY'21.

Axis Securities during the quarter added 0.13 million customers, up 47% YOY. Its ROE for the nine months FY'22 was 43%, up 90 bps on a YOY basis.

Asset quality provisioning and restructuring. Overall asset quality has been improving sequentially for the Bank as we had indicated last quarter. The GNPA, NNPA PCR ratio of the Bank and segmentally for retail SME and corporate are provided on Slide #45 of our presentation. GNPA percentage was 3.17%, improved 138 bps YOY and 36 bps QOQ. The net NPA was 91 bps or 0.91% improving 29 bps YOY and 17 bps QOQ. Our PCR is healthy at 72% improving 186 bps QOQ. The gross loan slippages for the quarter were Rs.3,332 crores, lower than Q2 FY'22 by 38%. Retail gross slippages declined 44% QOQ. Gross loan slippage ratio for the quarter stood at 2.08%, improving 304 bps YOY and 131 bps QOQ. Net loan slippage for the quarter was an absolute Rs.97 crores, down from Rs.676 crores in Q2 FY'22 and a decline of 86% QOQ and 98% YOY. Net loan slippage in retail were negative in the quarter.

For the commercial banking group, it was 40 crores and for the wholesale banking segment was at Rs.151 crores. Net loan slippage ratio for the quarter annualized is 0.06%, improving 380 bps YOY and 38 bps QOQ.

In addition to loan slippages, the Bank has classified during the quarter Rs.812 crores of pass-through certificates, rated AAA as at 31st December 2021 as NPA. The originators of the retail loan pools underlying the PTC has requested the Bank for permission to grant moratorium to the underlying borrowers to which the Bank had consented in accordance with the PTC terms. Since the PTC is an investment and not a loan, a technical position has been taken that moratorium could not be granted and hence these PTCs have been classified. The Bank has recovered in FY'22 an amount of Rs.764 crores from these pools. And none of these pools are overdue after factoring the moratorium. We do not expect any loss from these pools. 21% of the outstanding will be further repaid in FY'22, 58% will be repaid in FY'23 and the last 21% will be repaid in FY'24.

Provisions in the quarter against this slippage aggregates to Rs.203 crores and it translates to 11 bps on credit cost, has been charged to the P&L for the quarter.

Net slippage ratio at a Bank level on an annualized basis is 0.55%, improving 346 bps YOY. Incremental implemented COVID restructuring during the last reporting period was Rs.287 crores. Total outstanding restructuring under COVID-1 and 2 in aggregate stands at Rs.4,643 crores and is 0.63% of gross customer assets. Overall provision coverage on restructured loans stands at 24% with 100% provision on unsecured retail loans. The 'BB and below' pool of the Bank declined sequentially. More details of the pool and restructuring are provided on Slide #46 of the investor presentation.

As I close, we summarize that the Bank's journey so far and the broad outlook on key performance drivers.

Our balance sheet resilience is visible through strong capital adequacy. Legacy NPA issues been behind us with net NPA at 0.91%. Limited COVID restructuring at 0.63% of GCA, provisions by GNPA at 130% and gross NPA ratio at 3.17%.

Consistency and quality of granular liability growth is visible. The average CASA balance to average deposits ratio has improved to 44%.

Growth is healthy in our granular businesses, both secured and unsecured. Focus growth segments in wholesale comprising SME, mid corporate which yield better RAROC continue to grow faster at 20% and 44% respectively. In the 9MFY'22, domestic subsidiaries have exceeded full year profits for the last financial year. In Q3 FY'22, the delivered NIM is better than the guidance given last quarter. We maintain that Q4 FY'22 NIMs will be better than the NIMs reported in H1 and should be in the range of 3.45% to 3.5%.

We will continue to invest in the franchise. We expect to exit FY'22 at a 2.20 cost-to-assets ratio higher than our earlier estimate. We stayed committed to our 2% cost-to-assets target on an FY'23 exit basis. The intensity and impact on lives and livelihoods, length of time of COVID wave 3 and resultant government policy action remain a key monitorable.

We would be glad to take your questions now. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question answer session. The first question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: My first question is on operating expenses. You shared a fair bit of detail. But on operating expenses for the quarter, could you share what percentage of OPEX is tech spend?

Puneet Sharma: The way to think about it is our technology spends to total OPEX will be in the range of 7.8% to 8% of total expenses for the Bank.

Mahrukh Adajania: My next question is on credit costs. Of course, asset quality has been very good and your credit costs have declined substantially. What is the outlook from here on as in that you of course have a normalized range of credit costs, but would we see credit costs lower than normal in the short term given that you already provided a lot in the earlier quarters?

Puneet Sharma: We don't provide a specific guidance on credit costs. As I have previously said, the way to think about credit costs for Axis Bank is we have a long-term average credit cost that the Bank has, there are pluses and minuses to that long-term average, the lumpiness of the wholesale business has disappeared. Therefore, from the long term average, given the quality and the granularity of the wholesale business we have built out, the credit costs should move down. We have moved our PCR percentages which is the provision cover on to the rule based engines we now operate at 15% to 20% higher than where we used to previously operate. In the long term average, we used to operate at a PCR of 50%, 55% our rule engines are now resulting in a PCR of 70% or thereabouts. So, you need to factor the incremental provisioning at least in the short term in terms of how you think about our credit cost. And lastly, we have articulated that we feel comfortable growing our retail unsecured book. It will give us better NIMs but it will accrete to credit costs. On a risk adjusted basis that book will continue to be profitable and additive to the Bank. And amalgamation of these four factors is how I would request you to think about our credit cost outlook as we move forward. We don't have a specific guidance that we put out.

Mahrukh Adajania: What would be your medium term ROE outlook? When you think of M&A which is kind of big for your balance sheet size, what will be the maximum ROE dilution that you'll be comfortable with in the short term, so what would be your medium term target and how M&A plans fit into that?

Puneet Sharma: I have previously called out the fact that our aspirational ROE target is 18% and we have visibility that i have called out in the past towards 16% to 16.5%. So, I stay true to those statements. In terms of our M&A strategy, the way we think about M&A is that we will evaluate individual opportunities as they present themselves. There is no framework that I can offer to you that a given structure on ROE is what will be acceptable or not. There are many aspects that go into an inorganic acquisition or M&A activity; one of it is financial. We will be cognizant of all variables as we make choices in the future.

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

Kunal Shah: So, two questions; firstly, in terms of the OPEX even though it was covered but when we look at it may be in terms of the future growth and related to digital agenda, what would be the nature of that because the sequential uptick also you mentioned like 40% is coming in from there, so is it more related to acquisition, what would be the nature of those incremental OPEX? Second is in terms of the movement of BB and below if you can give if there are any slippages coming in from there and what would be the upgrades in that entire movement wherein BB and below has actually come off?

Puneet Sharma: On the digital agenda we have multiple unique digital properties that we continue to build. Amitabh in his opening comments spoke about openness and architecture and the integration that we're looking to do with all of our partners, we are working on end-to-end digital journeys both on the retail and the corporate side. We have the Neo Bank initiative that is running in parallel, plus we are incurring expenditures in hollowing out the core, moving a lot of our technologies stack to the cloud. So, the tech investments is both around ensuring that we have a resilient operating franchise and building for the future and therefore those investments are likely to continue in the foreseeable future insofar as the Bank is concerned.

Kunal Shah: So, as you mentioned this will continue as well but maybe the intensity would also be similar in terms of the increase or we are done with the larger part of it, it's been front ended and now it should come off a bit?

Puneet Sharma: The way I would address that question is instead of speaking specifically on technology spends and how they will play out, I think technology is an evolving field, it will need continuous investments. I would rather leave you with overall comment on costs. What we feel reasonably comfortable on is on an FY'23 exit basis we should revert to our 2% cost to assets number that we have previously demonstrated is reachable for us. So, the mix of the spends may continue to change but you will see a moderation in overall cost to assets.

Amitabh Chaudhry: To add to what Puneet said, we have close to 18 large projects which are being managed directly by our management committee members and when you think about cost as the benefits of these projects start flowing through, they obviously speak to your expenses too because then you can drive more volumes hopefully with better productivity and lower customer acquisition cost. So, you get that benefit but at the same time it also gives you the leeway and headroom to continue to invest in digital, technology, transformation, analytics and stuff like that. So, we're trying to balance both based on whatever we see today is the kind of guidance which Puneet is giving to you. So, I hope it gives you some bit of insight.

Puneet Sharma: Kunal, to your second part of the question, the slippage from the BB pool was around Rs.800 crores. It includes one technical slippage of ~ Rs.160 crores which is downgrade and upgrade in the same quarter partially. The upgrades from NPA to BB pool is ~ Rs.355 crores, and all other downgrade plus balance reduction movement would be the balance ~ Rs.194 crores.

Moderator: The next question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Just wanted to stress a little more on the other OPEX part. If I look at other OPEX to total income, it was at around 35% this quarter. If I look at 1H, it was at 30%. And if I look at other large private banks, the other OPEX to total income has been in and around 24%, 25% mark. If I look at Axis Bank FY'17 to FY'21, other OPEX to total income, it is already at 28%, 29% on an average. We have already been spending between FY'17 to FY'21 spending 400 bps higher than the large peers. That gap has increased from 400 bps to almost 800, 900 bps. Given that historically you have been spending more than peers on this. And when do we see the Bank reaching at 25% mark in line with the other large peers?

Puneet Sharma: Maybe I will put it differently for you and then answer your question directly. There are two variables that we can look at from an expense ratio perspective. One is cost to assets and the second is the cost to income. The cost to assets number has been steady and the growth that you have seen in our cost to assets give or take what we see for larger peer Bank competition, we are in the same range both on a relative shift as well as the absolute number that we are operating at. So, yes, there's been a cost escalation for the large banks between five to eight bps, we are eight bps, and some other banks may be at five. So, we're not really seeing a divergent cost escalation with assets as the denominator or earning assets as the denominator, whichever way we look at it. The metric that you're comparing is cost to income. Now, there will be multiple impacts on the income of the Bank, especially since you've looked at a time series, for example, we chose not to restructure, therefore, we had the higher interest reversal impact that came through on the income line. And we ourselves have called out the fact that there is an improvement journey that we need to undertake. So, there is an income effect that is playing out in the ratio that you're looking at. So, while all franchises continue to invest, our ratio of other OPEX to income look higher. As both OPEX moderate to 2% cost to assets and my earlier commentary on the call saying we have a NIM trajectory that we are working towards, you should see positive traction on that number, assuming that we are able to deliver both the statements that we have made in the course of this conversation. So, my request is please, for the moment stay focused on cost to assets because that's a variable we are focused on in driving our business.

Gaurav Kochar: But even if I look at cost to assets, some of the peers have seen moderation in cost to assets, the larger banks have seen cost to assets moderating for them. So, even if I compare the absolute delta, maybe from a longer term time series FY'18 to FY'21 or nine months FY'22 the cost to assets for us hasn't gone down as much as for peers if I were to you look at it the way you're saying. The point remains that the other OPEX seems to have been higher versus peers for a long period of time. So, is it only tech spends that you would attribute it to for the last three to four years?

Puneet Sharma: Gaurav, again, I think we probably need to look at the numbers in a little more detailing. But if I was to just offer you a comment, again, I will go to total cost rather than other OPEX to total assets. The reason I will go to total cost very simply is the staffing mix of different entities could be different. That could cause one differentiation when you pick up only one element of the cost structure. So, insource versus outsource, insource is in staff, outsource is in other OPEX. There have been certain conscious calls that we have made, for example, social security code, debits that we have taken ahead of peers, which will be sitting as part of our expense number escalations. So, I think there are nuances to it. At least our reading of the numbers is we are in a tight range on an incremental cost to assets of five to eight bps with the exception of one large private Bank. And we're not seeing a very large differentiation being called out in incremental expenses. That's how we see it. Like we said, we continue to remain focused on getting the cost to assets back to 2% on an exit basis in FY'23. And if we are able to achieve that, you will see moderation in the ratio that you have just called out.

Gaurav Kochar: If I look at absolute borrowing, that is up around Rs.20,000 crores sequentially. If I look at the CD ratio, that is up 200 bps, but it is still down from pre-COVID levels of 90% that used to have. If I look at LCR, it's still around 113% And if I look at excess SLR that you have disclosed in the PPT, that stands at Rs.82,000 crores. So, any reason for this incremental borrowing -- is it locking, fixed rate borrowings in anticipation of rising rate environment, is that how we should see it?

Puneet Sharma: It's a mix of three things. The first is we have raised long term infra bonds which has contributed to increase in borrowings. They are tactically a good instrument to have. They don't attract some of the regulatory prescriptions, don't attract ANBC computation. Second will be a period impact because what you're seeing is a point in time number, not the average number. And three is structurally as the balance sheet grows, we could have used borrowings to balance out the balance sheet. The other reason on an overall basis is you will notice that our foreign currency trade book has gone up and that is typically aided by offshore model. So, as that book increases which is short term in nature, you will see an impact in borrowings. So, it's an amalgamation of these four factors that have resulted in the borrowings increase. I think it is the normal course of business, nothing exceptional for me to call out for you.

Moderator: The next question is from the line of Sumeet Kariwala from Morgan Stanley. Please go ahead.

Sumeet Kariwala: I had this question on LCR, which is 113% versus 120% last quarter. Just wanted to understand what's driving this? If I look at your deposits that's quite decent, but I think so maybe it's to do with term deposits where quite a bit of growth has come from the wholesale side. So, that's one. Second is something that you are trying to do on the overseas loan book is that also a factor. And third is even on CASA, is there some growth that is coming from the government side and it has higher run off rate and that's why LCR is not accreting. So, just some thoughts on that.

Puneet Sharma: We have discussed the quality of our liability and the journey that we are on the quality of our liability franchise build out. Many parts to your question. Let me address each part. In our investor presentation we have called out the government SA growth is at 49% YOY. It is off a smaller base than retail SA, but it has grown at a healthy pace. And it has outflow profile that is slightly different from pure retail SA. So, yes, your assertion that it will have an impact on LCR, does exist, but overall that liability is profitable and deployable just given the cost of funds at which it comes through from a Bank standpoint. So, it is accretive to the business, may not be accretive to LCR from a long term 8 to 12 quarters journey that we've spoken of in improving our LCR profile in terms of outflow. The second part of your question on the moderation of the LCR from 120% average to 113% number. It is a function of both asset growth picking up and therefore redeployment from investments to assets. And that is primarily one of the causes for the LCR to moderate. You're also seeing the commensurate benefits come through on NIMs. Overall, we continue to remain focused on getting the quality of our liabilities right. The journey is ongoing. I have previously said it is an 8 to 12 quarter journey and we will see progress there on. So, those are the reasons why the LCR has currently moderated. We remain focused on improving that number as we move forward.

Sumeet Kariwala: Second question is on corporate loan growth. So, there's some decent pick up this quarter. You talked about SME, mid corporate doing well and those being your focus segments. Large corporate also did well this quarter. Should we expect that to sustain, any thoughts on that?

Ganesh Sankaran: I think as we said earlier, we have focused on growth in the chosen segments. So, our performance is a reflection of our staying on that journey. As already articulated by Amitabh and Puneet, I think we have seen good growth in mid-corporate, we have seen a handsome growth in CBG, which is one segment below the mid corporate. We're also seeing some pickup in working capital utilization as economic activity is coming back, a small improvement over there. And across the board, we are seeing credit offtake across renewables, roads, industrials, chemicals, disbursements coming back in NBFCs and the like. So, we believe that we will stay this course. We are quite optimistic about sustaining the growth.

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

Nitin Agarwal: So, my question is on the provision that we are having, like almost Rs 134 billion. So, when do we really plan to utilize the COVID provision like COVID wave one and two we have seen the impact and business is fine, and the outlook on the rule-based provision also that we do?

Puneet Sharma: If we break up the Rs.13,400 odd crores provision, the Rs.5,200 crores is the COVID provision. The outlook that we have is it's purely prudent. It is not reflective of underlying risk on the book as we see it. To your question on utilization, our current assessment is that there is a risk model that we have. And as a consequence of the risk model the prudent provision continues to stand. We do not expect it to utilize that provision, basis the results with the risk modeling in FY'22. And on a longer term basis, directionally, we believe that we would carry this provision structurally forward to lend strength to the balance sheet rather than utilize it even post-COVID. The balance provision of the Rs.8,000 crores that we have is entirely rule based. And as the underlying asset quality improves or deteriorates, the provisions will get released or topped up on our financial statements. So, that's the overall outlook on Rs.13,400-odd crores of provision that we have.

Nitin Agarwal: Puneet, just on that, this quarter also we have made rule-based provisions, am I right because like the asset quality is pretty much very strong this quarter what we have reported as such overall and still we have made. So, when will really be the scenario that you stop making or like drawdown on these rule-based provisions, what sort of slippages will that be?

Puneet Sharma: That is the beauty of the rule-based provision. And in fact, in my opening comments, I have specifically called out a number which was a large part of my provisions for the current quarter are on account of flow forward provisions from prior periods, i.e. an NPA was recognized in the prior period and illustratively. under the rule it got provided, let's say 50%. Because of elapsation of time, the provision moved from 50% to let's say 75% in the current quarter. So, that 25% provision that we topped up by the rule engine has gone and hit the P&L. Like I said, if this asset gets resolved, which is there is either a recovery or upgrade, the provision will automatically end up getting released into the P&L, which is the reason why you're seeing zero net slippages or near zero net slippages but a provision come through on the P&L. This continues to work better on PCR and continues to strengthen the balance sheet. So, we feel very happy with the rules that we currently have.

Nitin Agarwal: Two data points that you can share, like how much NPL aging provisions have been made this quarter given higher slippages that we experienced a year back? And secondly, what are some of the largest ticket sizes in the BB and below pool average we have disclosed?

Puneet Sharma: So, effectively from a BB pool absolute size, I have always said that there is with the exception of one non-fund-based facility, there is no four digits crore exposures left in the BB pool. The average is a fair reflection. There are no outliers in that pool as compared to the average number is what I would call out. And to your question on what part of the cumulative provisions for the quarter was flow forward, 61% of the NPA provisions were on account of flow forward. So, if I was to mention the number for you, we give the breakup of the provisions in Slide #47 of the investor presentation, loan loss provisions are Rs.790 crores, 61% of that provision would have come from prior period flow forward.

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

A Parasrampuria: If you can give the walkthrough that you gave for the quarterly increases and YOY increase in other OPEX any time during the call will really appreciate, Rs 5,000 crores number is up to Rs 6,300 crores? We're just taking what you have guided cost going from 2% to 2.2% number in a year, was there a guidance for an exit FY'23?

Puneet Sharma: Yes, FY'23 exit was 2%, that is the directional comment I made. And to your YOY number. If I look at the YOY cost increase 24% of the YOY cost increase is volume linked, 41% of the YOY cost increase is related to investing in future growth of the franchise and technology, and 21% is attributable to collection expenses, COVID expenses and statutory expenses. Statutory expenses comprise CSR, PSLC and DICGC premium and 14% is organic BAU expense growth on a YOY basis.

Moderator: The next question is from the line of Rahul Maheshwari from Ambit Asset Management. Please go ahead

Rahul Maheshwari: My two questions. First, as in the opening remarks, you had mentioned about the 30 digital initiatives that has been charted out by the Axis Bank. Can you give some insights into what are the metrics that is helping you to chart out, what is the output that is coming, whether in terms of the market share or whether in terms of cross-sell stickiness, volume growth? And second question was more about that, no doubt every segment is firing for you. But can we expect that going forward as the project finance and the private CAPEX starts taking place, the growth rate into the corporates will mirror the kind of growth rate that would be panning, that has been seen into the retail segment?

Amitabh Chaudhry: So, as far as the digital part is concerned, we are working on our digital Bank across three things. One is we are trying to see what kind of customer propositions we can take to our customer. Second is what we can do about digitizing the Bank itself. And third is what we can do about digitizing all the customer journeys for every product and service I take to the customer. So, when we talk about 30 plus initiatives, it is across all these three businesses. So, for example, digital Bank team is working and leading the project on Project Neo, this is a project which I mentioned as part of my remarks. And obviously IT will also be involved, business also be involved, but it’s digital Bank, which is driving the project from the front. And on the other side, banking might be involved in completely revamping mobile side. By the way we are going to launch new version of our mobile app in this quarter. And we will be working on that too. They might be coming out with some very specific new product offering or they might be working on some specific APIs which will allow us to embrace a completely new partnership. So, it varies across. The focus is on these three areas. We have a certain principle on the basis of which we decide how we are going to engage and manage these projects. And that's why the number of these projects has gone from very few to now close to 30 such initiatives. On the loan growth, you mentioned about the private CAPEX picking up. I have said that if the opportunities are there for us at the right price, within our overall risk framework, we are going to be aggressive and we are going to grab those opportunities that come our way. And it's not just for loan growth, it is for bringing the entire wholesale Bank and Axis group to those companies. So, we're not going to just stop at loans, we're going to go for all the wholesale banking products, we're going to go for capital raising, we will try to see if we can do some business on the Axis Finance side, promoters need support, so on and so forth.

Rahul Maheshwari: Amitabh, just a follow up on this thing. Definitely, we have seen quarter-on-quarter improvement but the kind of quality of delivery that has started taking place, how confident are you or can we expect such kind of consistency or sustainability to maintain? I'm not asking for number but directional view will be very helpful.

Amitabh Chaudhry: If there are no disruptions in the economy and if it continues at the current pace, you should expect something similar from Axis.

Moderator: The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: Is it possible for you to give some granularity in terms of expense, how much basically it goes for maintenance, how much is for the new age tech? Do we also capitalize our tech because I think beyond P&L, there is a lot of spend that we'll be doing on front as well, so if you can give some granular details?

Puneet Sharma: Anand, we don't really break out our tech spends with that level of granularity. I think we put out two sets of numbers. One is that our tech spend as a percentage of our total expenditure is about 8%. That's one variable that we specifically call out on tech spends. And when we compute this variable, we factor in depreciation on CAPEX, that has been incurred for technology. So, 8% is all subsumed number, CAPEX is the cash flow, the OPEX is reflected in depreciation which is absorbed.

Anand Dama: You said 8% How much would be last year?

Puneet Sharma: I gave a range to a question I answered earlier that for the current year it is 7.8% to 8% range. It was lower last year. We have effectively said that our tech spends have grown by 40% on a year-on-year basis. The proportion or the percentage would be lower in that period.

Anand Dama: Even in the rural book, you have very strong growth. What is happening over there, which segments are we looking?

Munish Sharda: We had an excellent quarter in the rural book in Q3 FY'22. Across all product lines, we saw growth in disbursals and balance sheet. This was one of our strongest quarters. Year-on-year disbursements grew about 56%. And this growth came across all our segments, including farmer finance and gold loans, farm equipment finance and microfinance. We also saw growth coming through in the enterprise lending, which is a rural enterprise and the MSME lending in the rural markets. There also we saw substantial growth. This is one book we want to grow and we want to also grow other revenue in this line of business. We expect the growth to continue in the coming quarter as well.

Moderator: The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just wanted to understand the growth on the SBB as well as the MSME book. Some of your larger peers also have reported strong numbers there. How is the market share shifting or what is driving this like secular growth towards some of the larger private names, your sense there, is it just newer geographies or some material change in terms of the way these guys are being looked at by you?

Sumit Bali : On the small business banking, we are seeing newer clients also come through and the existing client looking at a full suite of solutions from the Bank. The growth on this segment has been strong, and we are seeing utilization pick up. This quarter, we've seen the business installment loan portfolio also pick up and we are now spread across 145 locations. Almost 85% of the customers have prime scores as per our internal scorecard.

Amitabh Chaudhry: On the SME side, we're seeing something similar. So, it's all about being in the market. We have been growing this. We talked about, again a transformation project to SME, a couple of quarters back. And we are seeing the impact of that come through. We obviously again want to be very sure that we continue to operate within the guidelines we have laid for ourselves, but opportunity is large. And yes, I think a decent proportion of this business could be coming from public sector banks. But let's also not run away from the fact that some of this business also comes from friendly competitor banks too. Sometimes the customers are not happy with the facilities or the services receiving from the existing banks. And opportunities do come to every Bank, so it's not just us. And if you are in front of the customer with the right resolution, you do get an opportunity to take over the facilities and limits of those customers also across both SME and business banking. So, that's pretty much a part of competition that would happen with multiple banks.

Sameer Bhise: The statement which says that it is one of the most profitable segments of the Bank. So, any quantum you would want to mention like in terms of degree versus a typical retail business?

Amitabh Chaudhry: If these are high growth businesses, as we call them, then we would like them to grow faster than the growth rate of the overall business. But, it's easy to make that statement, but we need to do that within the risk guidelines. See, please, we have worked very hard to get where we are in terms of overall asset quality. We don't want to just give it away because we have to grow for growth sake. So, yes, opportunities are there, our market share advances is not large enough for us to really worry about that whether it is possible to grow or not. I think those opportunities exist, but as long as business guidelines are maintained, we will go after every possible business that comes away.

Ganesh Sankaran: The fact is that most of these are PSL businesses that make it significantly attractive for the Bank to pursue.

Moderator: The next question is from the line of Alpesh Mehta from IIFL Securities. Please go ahead.

Alpesh Mehta: I may have missed this, but I just wanted to check on a YOY basis, there have been some restatement on the balance sheet as well as the reported gross NPLs. So, what is it regarding?

Puneet Sharma: On YOY basis, restatement of the balance sheet would have been only on netting down of the overseas FCNR(B) deposits alone. It was an accounting position we changed in Q1 of the year and therefore we would have carried forward. I do not think we have restated anything on the GNPA side. So, the balance sheet has been gross down on the assets and liability side for the overseas deposit product that the Bank used to have.

Before we take the next question, I just want to address Nitin's question on what proportion was flow forward. Nitin, I guided you to Slide #47. The Rs.790 crores is a number net of recoveries. So, you should apply 61% to about Rs.1,400 crores to get the flow forward number. So, effectively the entire loan loss charge to the P&L and some more would be on account of flow forward. So, just want to make sure that I register the correct denominator to multiply 61% to your question.

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

Nilanjan Karfa: Puneet, I heard that you mentioned we did some reduction in fee income across some products. Would you clarify which products we incorporated this? Any long-term and short-term view that the management has which necessitated this step? And for these specific products do you now believe we are similar to comparable banks or lower?

Puneet Sharma: You would recollect that we are driving a franchise that is getting us close to the customer and getting to be more customer-centric. What I called out earlier in my opening comments is that we periodically review charges and as part of our charge schedule review, we have optimized charges in favor of customers in order to build brand salience and customer centricity. We think it's the right thing to do. It is principally across our retail liability products and like I said it is a one-time correction that we think we are done with. Review process that internally takes place by the management team periodically, but that has been the normal course.

Nilanjan Karfa: Just from a clarity perspective, assuming the volume growth remained whatever it is, how much did we sacrifice roughly because of these changes?

Puneet Sharma: We're not calling out a specific number. We are just saying that effect already sits in the base fee number for the current quarter and therefore from hereon, the volume effect should be positive if the transaction volumes improve from a customer standpoint.

Moderator: The next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: A couple of questions. First one, I'm just looking at Slide #12 where you have given this advances mix by rate type. Now, just clarifying a few things so that that covers the entire loan book, right, the 100% of the loan book.

Puneet Sharma: That's correct.

Abhishek Murarka: And the 34% which is repo linked that would not have repriced upwards because the repo has not moved?

Puneet Sharma: I will let you draw that conclusion, but yes, the repo rates actually have not moved in the quarter.

Abhishek Murarka: There's any premium or anything else that you can change in those loans or contractually they are absolutely linked to the repo, that's what I wanted to check?

Puneet Sharma: The way the product works which is also within the RBI guideline is there is a marketing trait, which could be repo or any other marketing benchmark and then there is a credit spread. And the regulator as well as the market practices, if there is a material change in the underlying credit of the customer, banks do have a right to change the credit spreads. That's how the product is designed and that's how the product is contracted and priced for.

Abhishek Murarka: Because what I'm really driving towards is when I calculate the yield on advances there's a 13 bps QOQ increase and given that almost one-third of your book might be linked to the repo and hence wouldn't have repriced, also incremental book if I look at there's more amount of corporate this quarter than last quarter. So, I'm just finding it difficult to reconcile an increase in yield on advances sequentially, that's what I was just trying to get my head around?

Puneet Sharma: The yield on advances sequentially actually has improved for the exchange effect, has improved for currency change effect. Those are the two drivers apart from the drivers that we are looking at from a yield improvement perspective.

Abhishek Murarka: I'll take it offline perhaps. The second question is basically on rural, now a lot of NBFCs have actually called out a bit of softness in rural demand and maybe some commentary by other industry players also there. Where are you finding this growth -- it's simply a base effect or are there some pockets of demand where some other competitors are unable to tap, just wondering?

Munish Sharda: Our growth is coming on the back of three, four things. One is on the back of reaching out to our existing set of customers a bit better in the Bharat market. As you know we have called out a strategy on Bharat Banking separately. So, we are bringing about inordinate amount of focus in going deeper into these markets and working with our existing set of customers with focused teams. So, that's one. Secondly, we are doing some new products and some new focus strategy on the enterprise side in these markets with the MSME and agri enterprises, that's why we are seeing growth. And third I won't say it's a low base effect but there is a large opportunity in this market and we need to do a bit of a catch up in this segment as a percentage of our overall asset strategy. So, as we move forward on the back of new products, processes, our branch distribution expansion, working with agritech and fintech companies and working on some digital models, we think that we'll be able to play at a much higher scale in this market.

Puneet Sharma: Abhishek, to your question since you referred to Slide #12, part of the explanation for the yield expansion sits at the bottom right-hand table of Slide #12, the five bps of interest reversal lower will also play through the yields.

Abhishek Murarka: Yes, Puneet, but I try to calculate that, so that's why I said I'll take it offline, so I'll probably check with you after the call.

Moderator: 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, Janice for being such a gracious host. Thank you, ladies and gentlemen for joining us this evening. It's been a pleasure. We hope we've been able to clarify questions that you've had of us. We'd be very happy to engage with you if there any follow-on questions that you would have. Wishing your families and you a safe season and all the very best. Thank you. Good evening.

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