Axis Bank's Q3 FY21 Earnings Conference Call

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Management:	**Mr. Amitabh Chaudhry – MD and CEO, Axis Bank** **Mr. Puneet Sharma – Chief Financial Officer, Axis Bank** **Mr. Rajiv Anand – Executive Director & Head of Wholesale Banking, Axis Bank** **Mr. Amit Talgeri – Chief Risk Officer, Axis Bank** **Mr. Ravi Narayanan – President & Head of Retail Liabilities & Products, Axis Bank** **Mr. Sumit Bali – President & Head of Retail Lending and Payments, Axis Bank**

Moderator: Ladies and gentlemen, good day and welcome to the Axis Bank's Conference Call to discuss the Q3 FY21 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 contents or the proceedings of the call is strictly prohibited and prior explicit permission and written approval of Axis Bank is imperative.

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

On behalf of Axis Bank, I once again welcome all the participants to the conference call. On the call, we have Mr. Amitabh Chaudhry – MD and CEO and Mr. Puneet Sharma – CFO. 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. Wish you all a very Happy New Year and welcome you all to the discussion on Axis Bank's financial results for the third quarter of financial year 2021. Apart from me and Puneet, I also have Rajiv Anand – Executive Director & Head of Wholesale Banking, Amit Talgeri – Chief Risk Officer, Ravi Narayanan – President & Head of Retail Liabilities & Products, and Sumit Bali – President & Head of Retail Lending and Payments also with me on the call.

Domestic economic momentum has continued to improve in third quarter. Economic indicators, we track indicators faster than expected recovery. These include among others GST collections, electricity demand, freight, transportation and vehicle sales. In December, activity seems to have almost recovered to pre-lockdown levels. Demand in crucial sectors like housing, cement, steel, even automobiles have turned out to be surprisingly strong and the rural markets have continued to perform very well. There are of course the sectors we all know that have weathered the pandemic and build upon the strengths such as pharma, healthcare, retail, ITS, but the broader ecosystem seems to be quite resilient. We expect this momentum to continue into FY22 and the forthcoming budget should look to build on these strengths.

We at Axis Bank believe that we are very well-poised to support, grow and benefit from this recovery. We continue to be guided by the three vectors of our GPS strategy and have made considerable progress over the last 24 months and the execution seems to be coming through quite well. The improving economic backdrop coupled with benefits of our sustained efforts to transform the core operations, bring digital to the forefront and work as a much more cohesive and focused organization is reflected in the continued improvement we see and granularity of the deposit franchise, advances, fees, wealth management businesses and subsidiaries.

Let me dive into deposit franchise and its premiumization:

During the quarter, we opened 1.7 million new liability accounts taking the overall number of new liability accounts opened so far in 9MFY21 to 4.8 million. The Bank's savings and current account acquisition grew by 11% and 9% QOQ during Q3 over Q2. It includes digital acquisition for Q3 which was 2.5 times that of Q2 numbers. On a QAB basis, total deposits grew 8% YOY, but current account (CA), retail savings and retail term deposits (RTD) grew 15%, 20% and 17% respectively. Thus, it shows that the stable granular segments CASA plus RTD continues to grow at a healthy rate and as a proportion of total deposits improved by 574 basis points YOY and 175 basis points QOQ.

Our strategy on premiumization and deepening of deposit franchise remains on track. Proportion of premium segments in overall SA mix improved to 37% from 34% YOY. Deepening resulted in existing retail savings balances improving by 24% YOY.

The salary and NRI segments within saving deposits on a QAB basis grew by 24% and 22% YOY respectively. On the advances side, we have seen highest ever quarterly retail disbursements during Q3 led by secured products which grew 11% YOY which has been our strategy. Q3 retail loan disbursements were up 34% QOQ to over 4 times of Q1FY21 and surpassed the pre-COVID levels. Secured segments like HL, LAP and SBB grew 23%, 11% and 35% YOY respectively. Our home loan logins and disbursements for December 2020 touched highest ever quarterly numbers.

Our Deep Geo strategy continues to progress well with 44% YOY growth in Q3 disbursements, 84% of these loans are secured. Rural loan book grew 9% YOY driven by commodity, crop, gold and farm equipment loans. Retail assets fees excluding cards grew 35% QOQ and third party distribution fees continues to grow strongly and was up 28% YOY and 6% QOQ driven by insurance products.

In our corporate and commercial banking segment, we continue to deepen our engagement with better rated corporates, focus on transaction banking products and leverage on the One Axis platform. Our sustained focus and investments in people, products and efforts in the MNC mid corporate and government segments resulted in YOY growth rates of 54%, 39% and 16% respectively. Within the Financials Intermediaries Group (FIG) deepening of relationships along with new customer acquisitions in FIG has resulted in CA growth of 20% and advances growth of 29% in this segment. We have added 452 new relationships during 9MFY21, spread across various segments of our wholesale banking franchise. Again if we include our market leading participation in the TLTRO space at the beginning of this fiscal, our corporate loan book grew 11% YOY during the quarter. We are quite clear in our minds that our focus is to get the NIMs in the business up to a certain level. We do not want to chase asset for the sake of growth. We want the right pricing. So the point I am trying to make is that the growth in the wholesale franchise reflects our desire to balance NIM versus growth.

We continue to strengthen our position as a Transaction Bank and our fee performance in this segment further substantiates our steady progress in this business. Share of transaction banking and forex fees stood at 60% of corporate and commercial banking fees, highest in the last 11 quarters. This feat was possible with segments like current account and cash management services growing by 35% and 74% YOY respectively. We have also been focusing on growing our wallet share of trade and LC business and that has helped forex fees to grow 18% YOY.

We created the integrated commercial banking group last year to have greater focus on needs of SME customers which is one of the most profitable segments of the Bank with high PSL coverage. We embarked on a tech driven transformation project called Sankalp. It helps in data driven credit decisions with minimal documentation, offering simplified products and unlocking value using data for effective customer interactions. Benefits of the same are helping engagement levels improved with clients with RM interactions up 3 times and new relationships added during the quarter up 71% YOY. RMs are now getting the 360-degree view of the client on the field and thus are able to fulfill the client needs versus just selling products. SME loans grew 6% QOQ. The focus is to grow the high collateral Bank business with strong borrowers. The benefits of the One Axis platform is reflecting very well in the strong year-on-year performance of our subsidiaries too which I will discuss later.

On credit cards, overall credit cards spends grew 31% QOQ with retail spends up 26% QOQ. Festive season has helped spends recovered sharply. Further, we see the share of travel, dining, entertainment expenses gradually inching back towards pre-COVID levels. We continue to focus on growing the segments profitably with share of affluent business in overall mix increasing to over 10%. Our Known to Bank strategy and partnership with major players like Flipkart and Google have resulted in 101% quarter-on-quarter growth in new Known to Bank sourcing during the quarter.

On Wealth management business 'Burgundy' continues to be among the top wealth management franchises in the country with assets under management of Rs. 1.95 trillion across the regular and alternate investment solutions. Burgundy Private continues to scale up very well with combined AUM of above Rs. 43,500 crores across 1415 families, up from 372 last year.

On the digital side, over the last few years we have been silently undergoing a digital revolution with One Axis while external attention has been focused on regular business and asset quality issues. If you all refer to slide 32 of the analyst presentation, you will find the Digital Bank in numbers, of which many rank in the top 3. I will call out a couple on a year-to-year basis in the first nine months of FY21. Savings account source digitally improved to 71% from 59%. Proportion of personal loans disbursed digitally improved to 56% from 43%. In the UPI space, we continue to be one of the leading players with 19% market share by transaction volume for 9MFY21.

Going forward, our focus is on reimagining end-to-end journeys, transforming our core and becoming a partner of choice for ecosystems. Our approach to reimagining customer journeys is OPEN. And OPEN stands for O, which is zero-based redesign, putting customers at the center and rebuilding the entire journey with a '0' operations orientation. P is around building proprietary in-house capabilities. We believe distinctiveness and differentiation will come from having something proprietary to us. So we insist that in everything we build, we have a proprietary edge. E is ecosystems capable. Everything we build is built keeping both Axis Bank and partners in mind. And N is all about numbers. We are metrics-oriented, and our focus is on numbers. We understand fully that digital takes time, and many initiatives will actually not deliver. However, we will set up and track key metrics from the get-go so that we can steer products in the right direction.

We have made good progress in delivering some digital outcomes with 17 live products, of which 12 products were launched in the current financial year so far. Many products are in the final stages of testing and will come live in the coming months. The performance on the digital front remains encouraging. On liability accounts, we see a significant improvement on customer metrics. Time to open an account is down 75%. Customer satisfaction is up 31%. Documentation is down to 0. The Free charge platform continues to focus on payments, but has also started introducing financial services products focused towards the millennials and small and medium businesses. We are offering fixed deposits, credit cards on the Free charge platform, which acts as digital customer acquisition engine. And the plan is to keep introducing new products and offerings through this platform.

On asset quality and conservatism, we have consistently adhered to our prudent and conservative approach when it comes to provisioning norms, accounting policies and rating downgrades. Similarly, in this quarter too, we have made provisions on 90 plus DPD accounts not classified as NPA due to Supreme Court judgment, at rates that would have applied in the normal course for such portfolios. Further fee and interest income on the same have also been reversed from the respective fee and interest income lines. GNPA and NNPA numbers are down on a year-to-year basis, even if we reported as per IRAC norms. The Bank has also not utilized any COVID-19 provisions held as on September 2020 in the current quarter. On an aggregated basis (specific, + additional + standard + COVID related), our provision coverage ratio stands at 116% of IRAC GNPA at December 31, 2020, as against 74% in December 2019. We have improved coverage on restructured loans now at 26% compared with 19% in previous quarter. We are well capitalized with total CAR of 19.31% and a CET1 ratio of 15.36% as of 31st December.

On the ESG front, I'm happy to share with you that Axis Bank's CDP and MSCI ESG ratings have improved. In CSR, Axis Bank Foundation has reached almost 0.9 million households as on December 2020 as part of its mission to reach 2 million households by 2025 under its Sustainable Livelihoods program. Our financial inclusion and illiteracy program has also reached close to 0.9 million participants in 23 states and union territories. Please see Slides 44 to 46 for more details.

Our primary motivator for launching GIG-A opportunities during the second quarter as an alternate format was to access talent pools that we are unable to access in a full-time traditional model. We received tremendous interest from over 60,000 applications for the 50 pilot positions but had to expand to 100 roles across the Axis group. The pool of candidates who have joined us are highly skilled individuals. The demographics are promising: 45% diversity in gender and age, 54% have never worked in the banking sector before, 44% of them are outside of metro locations. We will be scaling this over the next 12 to 18 months to a mainstream channel within our overall workforce strategy. As part of the Future of Work initiative, we have also stated that we will continue to work hybrid and committed to no corporate real estate investment in the near term. This of course excludes branches and distribution. And in the past few months, as health concerns have improved, we have successfully launched hybrid working in our large office, with our leaders and middle management coming in twice a week.

Moving on to subsidiaries. Our subsidiaries have continued to deliver superlative performance for many quarters now, and the 9MFY21 profits of domestic subsidiaries stands at 113% of total FY20 profits. If you all refer to Slide 48, you will see that the Bank's investments in key operating subsidiaries stood flat at around Rs. 1,800 cores over the last 2 years, while the CAGR growth in net worth and earnings of these subsidiaries stood at 14% and 64%, respectively. Hence, the value created in the subsidiaries continues to compound for us at a very healthy rate. All this performance is driven by industry-leading performance by the respective subsidiaries.

Let me highlight some of them. Axis Capital remains one of the top investment banks in the country. It has completed 37 transactions in 9MFY21, comprising 31 equity capital market transactions. Its PAT for 9MFY21 stood at Rs. 88 crores. Axis Securities has now evolved into a full-service broker focused on building an advisory model with customer acquisitions for the quarter up 99% YOY, with highest-ever broking revenue in Q3FY21 of Rs. 111 crores. Axis Securities' 9 months PAT was Rs. 118 crores, over 7 times its FY20 PAT. Axis AMC remains one of the fastest-growing AMCs in the country across debt and equity product categories with average AUM growth of 44% in the last 12 months. Axis AMC today is the second largest equity AUM house in the country. Axis AMC's 9MFY21 PAT was Rs. 164 crores, up 140% YOY.

Axis Finance: For Q3, overall ROE for Axis Finance stood at 17.5%, with one of the highest ROEs of 24% and one of the lowest cost income ratios of 9% in the industry for wholesale business. Share of retail in the overall book continues to scale up and now accounts for 30-plus percent of incremental disbursements. No accounts were required to be restructured in our Axis Finance NBFC, and the NBFC arm remains suitably poised to gain market share and grow faster than peers once things start to normalize, with one of the highest CARs at 21.7%. Net NPAs stood at 1.7%. Axis Finance's 9M PAT was Rs. 139 crores. During the quarter, Invoicemart, which has 37% domestic share in trade receivables discounting system, became the first entity to have discounted Rs. 10,000 crores worth of invoices. Since its inception in July 2017, it has facilitated funding of close to 6 lakh invoices of MSME vendors.

While Amit and Puneet will provide you all with more details on the portfolio risk and slippages, let me just make some brief remarks. The restructuring requests remain lower than our initial expectations, which leads us to believe that the credit loss pain emanating from COVID-19 should be transient with moderation in FY22. This outcome however will be predicated on the future economic recovery as all of us are envisaging today. We expect the second half of this financial year's performance will reflect most of this transient pain across the banking and financial services space. As discussed in prior quarters, we have always preferred to upfront the issues related to stress, in line with our conservative stance, and let our collections and recovery teams do their job, which, by the way, has been improving every passing month. Over the past few months, bounce rates have continued to improve. And our demand resolution in December stood at 98%, in line with some of the best in the industry. We may need to make provisions in the near term. But we will recover over the medium term as economic momentum comes back and overall economic activity levels improve across all sectors, especially service-oriented industries.

To conclude, the quarterly earnings performance was punctuated by expected rise in retail slippages. At the operating level, performance has been improving steadily quarter-on-quarter. Asset growth across focus product segments remains strong, and retail deposit franchise continues to improve. Our Digital Banking is gaining from strength to strength, as our product launches intensify in coming months. We continue to build on our conservative stand and now have a standard assets coverage ratio defined as all non-NPA provisions to standard assets of 2.08%. This, along with a strong capital position and comfortable liquidity position, makes us one of the better placed banks in the current economic environment.

We expect credit demand to pick up in the next couple of quarters, once economic momentum improves further post-budget and corporates start making investments. In such an environment, large banks with healthy operational performance, strong balance sheet and capital position, superior operational capabilities and digital prowess are better placed when growth comes back. We are confident of emerging from this crisis stronger and remain committed to achieve our medium-term aspirations. With that, let me hand it over to Amit to take you through the risk segment in more detail.

Amit Talgeri: Thank you, Amitabh. Good evening, everyone, and wish you all a very happy new year. Thank you for joining us today.

Let me now give you some risk insights into the portfolio. We continue on our journey of prudence, which we have embarked on since early 2019. The risk management framework revolving around risk appetite, prudent policies, tightened underwriting standards and efficient collections, has been further strengthened through the pandemic period. As the markets open up, we are pursuing balanced and quality growth within the risk framework. Proactive and preemptive strategies around collections developed during the peak of the lockdown has helped us in improving efficiency parameters across products, and I will talk about this a little later in detail.

Let us now look at each of the business segments, starting with wholesale. The wholesale banking portfolio continues to see significant change since early 2019 with focus on the right customer selection and tightened underwriting outlook. Almost 83% of the standard book continues to remain in the rating category of A- equivalent and better. We have maintained this approach through the last quarter with almost 94% of incremental sanctions in the last quarter having a rating of A- and above, with almost 71% having rating of AA and above. We continue to be selective in lending and focused on lending to top-rated corporates.

Moving to the Commercial Banking Group or the SME segment. While we continue to adopt a cautious approach in lending due to the external environment, we have capitalized on opportunities within the risk parameters in growing the portfolio last quarter. The portfolio continues to be well diversified and granular, targeted at better rated SMEs. Over 80% of this portfolio is SME 3 and better, which is equivalent of A- and above for SME. We see a similar rating mix reflected in the incremental sanctions, which had over 84% new borrowers in SME 3 and above in the last quarter. The portfolio is spread over 35 broad sectors and geographically well diversified in over 120 locations with the average ticket size of Rs. 3.5 crores. As Amitabh mentioned, we have built a new lending platform called Sankalp for CBG, which effectively combines multiple phases in credit processing digitally under one umbrella, ensuring quicker turnaround times and simplification at the front end.

Let me now give you some color around the ECLGS funding that we've done. Under the government's ECLGS program, we have sanctioned funding to over 25,000 customers with a sanctioned value of Rs.10,583 crores and disbursements of Rs. 8,875 crores to SMEs, individuals and small business owners. This is broken up into 2 parts. Under ECLGS 1, we have disbursed Rs. 8,289 crores. And under ECLGS 2, we have disbursed Rs. 586 crores. The funding under this scheme has been provided selectively based on the eligibility under the scheme, due diligence and approval criteria of the Bank. The scheme, as you would probably know, is valid till March 31, and borrowers can still avail of this facility.

Let me now move to Retail. Amitabh mentioned the pivot to secured retail in new acquisitions with over 83% of incremental retail sourcing coming from secured products, primarily mortgages in the last quarter and so far this year. The scoring models and policies have been recalibrated to incorporate variables like moratorium, payment behavior during the last 9 months and bureau performance. Most of the new acquisitions during the quarter are in mortgages to credit-tested customers with average LTVs being around 58%. We continue to remain cautious in the unsecured segments, and sourcing is largely restricted to existing Bank customers based on tightened risk frameworks. At a portfolio level, 81% of the portfolio continues to be secured, consisting of mortgages, the wheels portfolio and rural lending. Our retail unsecured portfolio is around 10% of the Bank's portfolio and 19% of the retail portfolio. And just to reiterate, unsecured portfolio here is targeted at salaried, credit-tested and existing customers of the Bank with salaried and existing customers contributing over 80%, which historically have seen lower default rates. We are also actively leveraging analytics to capitalize on our strategic partnerships, which provide good risk insights for new acquisitions, especially in unsecured.

Let's now turn our focus to collections, restructuring and stress test outcomes. We have followed a 4-pronged strategy around a focused approach to managing the portfolio: One, early identification and rectification of the problem and recognition; two - structured and analytics-based targeted collections; three, selective approach to ECLGS and restructuring; and four and finally, making prudent provisions based on slippage. We had mentioned during our earlier calls that as part of the collections strategy, the team has adopted several strategies, including contactless and digital options, along with advanced analytical and risk segmentations to prioritize collections and effectively reach out to the delinquent customers. Our resolution rates in December across products and buckets have improved significantly from September levels and are at par with pre-COVID levels. In fact, in some of the segments, collection efficiencies are trending better than pre-COVID levels.

To provide you a sense of our efficiencies, the demand resolution across retail segment, which broadly defined as current month resolution versus current month demand, is currently at 98% in December. This was 94% in September and around 97% in pre-COVID. As mentioned earlier, we had significantly beefed up our collections infrastructure by adding more agents and staff, over 10,000 strong now, to handle the incremental volumes. And this is paying off now with demand resolution back to pre-COVID levels. While bounce rates still remain slightly higher than pre-COVID levels as customers adapt to post-moratorium payment habits, improving demand resolution and collections efficiency provides a clear indication of reduced slippages going forward. Collections have doubled from customers who have crossed 90 days in our books but not classified as an NPA due to the Supreme Court directives, and we see this improvement in December over September. Similarly, recoveries from written-off accounts have increased by 70% when we compare December to pre-COVID levels.

If we now look at restructuring, restructuring was offered in line with the regulatory guidelines under the resolution framework of COVID-19-related stress and a Board-approved policy to borrowers impacted by the pandemic. In line with our commentary in the previous quarter, the Bank has been judicious and selective around restructuring loans. The restructured loans at December 31, 2020, stands at Rs. 2,709 crores, which is 0.42% of the gross customer assets. We are not granting fresh COVID-19-related restructuring approvals. And hence, our overall restructuring at a Bank level under the COVID-19 resolution framework will not exceed 0.42% of our gross customer assets, as mentioned above.

So based on this assessment, I would like to give you a quick update on the stress testing we've done on the various portfolios. As most of you are aware, we did a stress test exercise at the start of the pandemic with periodic refresh based on the evolving situation. Just to recap, scenarios were built considering various factors like spread of the infection, time to peak infection, lockdown duration, policy action and time to economic normalcy. The model was subjected to an external review for design, comprehensiveness and sustainability and further enhanced based on additional insights like moratorium, restructuring and collections efficiency. The results of the updated stress tests have been encouraging, and we have seen an overall reduction in stress estimates for slippages for the year in the range of 45% to 50% from our original April estimates.

So in summary, we have chosen to identify the stress early in the portfolio, used ECLGS and restructuring very selectively and hence, recognize the slippages this quarter with lower residual impact in Q4. Efforts around collections strategy are paying off with better efficiencies and demand resolution and recoveries back to pre-COVID levels. The stress models and scenarios indicate a significant overall reduction in stress slippage estimates to previous quarter. We continue to monitor the portfolio closely based on the changing environment.

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

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 Q3 FY21, focusing on our operating performance; capital and liquidity position; growth of our deposit and loan franchise; journey of becoming a more prudent and conservative franchise; and more specifically, asset quality, restructuring and provisioning.

Before we get into the detailed commentary on the financial results for the quarter, it is important for me to clarify that the financial results of the Bank for the quarter, in so far as the profit and loss line items are concerned, have been prepared in accordance with the extant IRAC norms. While determining the impact on income recognition and provisioning, we have considered asset classification at the borrower level and not simply at the facility levels for loans that crossed 90 DPD. This means that the interest reversals per IRAC norms, including on assets not classified as NPA as per the Supreme Court judgment, have been reduced from the interest income line; fee reversals per IRAC norms, including on assets not classified as NPA per Supreme Court judgment, have been reduced from the fee income line; provisions on loans, including on assets not classified as NPA per Supreme Court judgment, have been made at rates as per Bank's internal policy, which is equal to or higher than RBI stipulations and are recorded on the provisions line. The Bank has not used any overlay whatsoever in determination of the income recognition and provisioning for the quarter. The Supreme Court dispensation on asset classification has been used for financial reporting only for the limited extent of reported GNPA and NNPA. We have also discussed the GNPA and NNPA ratios per IRAC norms as part of our commentary and investor presentation.

In addition to the above, we continue to strengthen our balance sheet and our prudence journey continues. The reported profits before tax for the quarter are adversely impacted to the extent of Rs. 1,400 crores on account of prudent choices exercised during the quarter across expense and provision lines. Please note that these provisions are over and above what we needed to do as per IRAC norms. Further, this includes the impact of changes in accounting policies implemented in Q1FY21.

Our net interest income before interest reversals for Q3FY21 stood at Rs. 7,987 crores, representing a YOY increase of 19% and a sequential growth of 8%. NIMs before interest reversal for Q3 were 3.89%, up 17 basis points on a YOY basis and 27 basis points on a sequential quarter basis. The sequential and YOY increase in NIMs before interest reversals are attributed to normal business activity and better liquidity management. Interest reversal for the quarter was Rs. 614 crores, representing a 30 basis point impact on the NIMs for the quarter as compared to 4 basis points in Q2FY 21 and 15 basis points in Q3FY20. This was partially offset by a one-time interest on income tax refund aggregating Rs. 153 crores that the Bank received during the quarter. We have not utilized the NII reserve held by the Bank at the end of the quarter, and we have not created any incremental NII reserve in Q3. Reported NII for Q3 was Rs. 7,373 crores, growing YOY by 14% and sequentially QOQ growth of 1%. Reported NIMs for Q3FY21 stood at 3.59% compared to 3.57% for the same quarter last year and 3.58% for the immediately preceding quarter. Hence, NIMs, despite the large interest reversal, grew by 1 basis points and 2 basis points, respectively.

Our fee income before interest reversal stood at Rs. 3,040 crores, grew 10% YOY and 10% QOQ. Our reported fee income stood at Rs. 2,906 crores, growing 5% YOY and 6% on a sequential quarter basis. The growth in reported fees is impacted by fee reversals, mainly account of slippages in our cards business. 64% of our fee is from our retail franchise, and 36% of the fees comes from the wholesale franchise. Amitabh, as he stated earlier, the granular fee across third-party products, transaction banking and

Forex grew sequentially and YOY. We have discussed that, so I won't dwell on that further.

We have been cautious and not followed a strategy of aggressively monetizing the MTM gain on our SLR book. Trading income stood at Rs. 367 crores, representing a YOY decline by 29% and a 52% QOQ decline. The decline in trading profits on a YOY basis is attributed mainly to a one-off sale of strategic investments aggregating to Rs. 237 crores in the same quarter last year. There is no similar item in the current quarter. Other income stood at Rs. 503 crores, growing 1.3% YOY, an increase of 76% on a sequential quarter basis.

Collection efforts at the Bank are showing early results, recoveries from the written-off pool for the quarter increasing 17% on a YOY basis. Collections on retail assets written-off pool improved 72% on a YOY basis, and this gives us some comfort that recoveries could hold up even on fresh slippages, though with the lag. For the 9MFY21 period, operating expenses stood at Rs. 13,017 crores, growing 5% on a YOY basis. Operating expenses to average assets stood at 1.96% as compared to 2.07% as at December '19. Sequentially, the cost to average assets ratio declined by 1 bps and on a YOY basis by 11 bps. For 9MFY21, cost to income ratio stood at 41%, flat on a YOY basis. Operating expenses stood at Rs. 5,053 crores for the quarter, representing a YOY growth of 12%. On a sequential quarter basis, the costs increased 19%. The increase in the costs are attributable to the following.

Staff costs: Our headcount as of 31st December 2020 stood at 77,015, an increase of 6,425 from the number as at December 31, 2019, and 804 from September 30, 2020. The key reasons for the growth in the staff cost is that we decided to roll out increments for our employees effective October 1, 2020. This increment was not reflected in the previous quarter. Further, we have accrued on an estimated basis the liability that would arise on notification of the rules pursuant to the social security code. This impacts our overall cost income adversely by 131 basis points and cost to assets ratio adversely by 1 basis points and contributes to 3% increase in costs on a YOY and QOQ basis. Please note that this accrual of expense was not mandated and has been done purely from a prudence perspective.

The non-staff cost increased on a YOY basis by 8% and on a sequential basis by 20%. The increase in non-staff cost is attributable to normalization of business volumes. We have earlier discussed this when Amitabh and Amit spoke about disbursement growth, thus leading to higher sourcing costs, promotion expenses, collection expenses for the quarter and our continued investment in technology.

Our operating profit for Q3FY21 was Rs. 6,096 crores, representing a YOY growth of 6%. The core operating profit was Rs. 5,054 crores, growing by 10% YOY. The provisions and contingencies for the quarter were Rs. 4,604 crores, growing 33% YOY and flat QOQ. Important to note: of this, Rs 1,264 crores are purely driven by the Bank's prudent practices. This constitutes 27% of the provisions made in the quarter. Further, the Bank has provided all loans that would have been NPA as per IRAC norms per the extant NPA provisioning policy. The Bank has not utilized any COVID-19 provisions held at September in the current quarter. The reported credit cost for the quarter ended 31st December is 65 basis points as compared to 2% for the same quarter last year. This represents a decline of 135 basis points. However, the credit cost, including provisions made on 90-plus DPD not classified pursuant to the Supreme Court judgment, stood at 3.3% for Q3 compared to 2% for Q3FY20 and 61 basis points for the previous quarter. After factoring the above, the net profit after tax stood at Rs. 1,117 crores. This profit is after considering an adverse post-tax impact of Rs. 1,050 crores on account of prudent choices for the quarter.

The strength of the balance sheet is reflected through the cumulative non-NPA provisions of Rs. 11,856 crores as compared to 4,200 crores at December '19. The key components of the non-NPA provisions are COVID-19 provisions of Rs. 5,012 crores and restructuring, weak assets and other provisions of Rs. 6,844 crores. The standard assets cover stands at 2.08% as compared to 0.78% a year ago, an improvement of 130 basis points YOY. Our provision coverage, quantified as all provisions NPA plus non-NPA divided by GNPA per IRAC norms, stands at 116% compared to 74% December '19, a YOY increase of 4,200 basis points.

Our total capital adequacy is 19.31% and our CET is 15.36%, improving 59 bps and 103 bps, respectively, on a YOY basis. The provisions made by the Bank pursuant to IRAC norms on the Supreme Court standstill accounts are accounted for as other liabilities instead of netting off from advances, as is the presentation convention for NPA provisions. This has temporarily adversely impacted our overall capital adequacy and CET1 by 8 basis points. This value should accrete back to capital upon final decision from the Supreme Court. The structure of the balance sheet enabled us to manage our excess liquidity and NIMs better. We optimized the wholesale funding on the liability side of the balance sheet by repaying, retiring borrowings and lumpy deposits. Average LCR for the quarter stood at 106%. Our exit LCR was at 119%. Our excess SLR stands at Rs. 51,886 crores.

Moving on to our deposit franchise. Most of the points have been discussed by Amitabh. I will focus on 3 key items. If we decompose the growth in deposits, then on a quarterly average balance basis, our SA grew by 14% YOY and 4% QOQ. Our retail SA grew 20% YOY. CA grew 15% YOY and 4% on a QOQ basis, and CASA grew 14% YOY and 4% on a QOQ basis. Our CASA stood at 42%, improving 200 basis points YOY and QOQ.

Our overall loan book, including TLTRO, grew 9% YOY, 1% sequentially. Granular retail assets and high-quality large borrower relationships were the key drivers to our loan growth. Retail disbursements grew 7% YOY and 34% on a sequential quarter basis, driven largely by our secured business. If I just evaluate the December '20 number versus the December '19 number, the disbursements growth was 11% YOY. Wholesale disbursements were better, grew at 34% YOY and 13% sequentially. Commercial Banking grew at 25%, and a large part of these disbursements were secured.

Prudent and conservative franchise: In H1FY21, we had taken actions across accounting policy changes, reserving NII, additional provisions around COVID, and provisioning for estimated probable restructuring pool. We look to provide an update on each of the themes

On accounting policy changes, the net impact on operating profits on account of policy changes implemented in Q1 for the current quarter is Rs. 123 crores. This impacts comparability to same quarter last year.

NII reserves have not been utilized, and we have not created an NII reserve in the current quarter. On COVID provisioning - we have not utilized COVID-19 provision. We continue to hold the Rs 5,012 crores, despite the improvement in the stress models Amit spoke about.

Probable restructuring was significantly lower than our estimates, and provisioning coverage on the said loans has improved. On 31st December, we carry a provision of Rs. 631 crores against a regulatory minimum of Rs. 40 crores on accounts restructured, translating to a cover of 26% of restructured loans. More importantly, 100% of unsecured loans that have been restructured have been provided for.

Asset quality trends: At 31st December, our reported GNPA and NNPA were 3.44% and 0.74% as compared to 5% and 2.09%. Absent the standstill to asset classification post 31st August 2020, pursuant to the Supreme Court judgment, if the Bank was required to report GNPA as per RBI's extant IRAC norms, the GNPA would have been 4.55% and the net NPA would be 1.19%. Even with this addition, this reflects a decline of 45 basis points and 90 basis points on a YOY basis. The Bank's reported provision cover is 79%. The IRAC provision cover is 75% compared to the 60% last quarter. Every segment of the Bank has improved provision coverage on a YOY basis. We have not sold any NPAs to ARCs in the current quarter. Reported slippages for the quarter are not reflective of a normalized quarter. The reported gross and net slippages picture during the quarter has 2 compensating effects: Moratorium coming to an end, resulting in asset aging-based slippage, offset by Supreme Court standstill. We've adjusted the Supreme Court standstill impact by reporting numbers pursuant to IRAC. Gross slippages during the quarter per IRAC were Rs 6,736 crores. The slippages composition was, the wholesale business was 10%, CBG was 6%, and retail was 84%. The net slippages without availing benefit of standstill was Rs. 5,831 crores.

The asset quality at Axis Finance is holding up well with the GNPA at 3.8% and NNPA at 1.7%, no accounts restructured. As we have indicated, the impact of COVID slippages would be visible in Q3 and Q4. Based on collection trends and macro data visible to us today, when compared on an IRAC basis, we believe Q4FY21 will be better than Q3FY21 on the slippage front.

Restructuring: the overall restructuring is 0.42% of gross customer assets of the bank compared to 1.7% that we had estimated last quarter. In value terms, Rs. 2,709 crores have been restructured compared to our estimate of Rs. 11,000 crores for all fund-based loans, implemented restructuring as at the end of the quarter is Rs. 396 crores, which is 15% of the approved restructuring. The linked non-fund-based exposure, on which there has been no change in original terms, stands at Rs. 869 crores. We are not granting fresh restructuring approvals under COVID-19 scheme. And hence, the overall restructuring number at the bank level will not exceed 0.42% of gross customer assets. On a segmental basis, 62% of the approved COVID restructuring is from the wholesale book and 38% is from the retail book. It is pertinent to read slippages and restructuring cumulatively because different banks would have adopted different approaches to both these items. We have a slide in our investor deck which sets out the segmental composition of restructuring on a loan book basis. We would request you to look at that slide for further details. The salient point I'd like to point out is the commercial banking restructuring is near 0% of the CBG book. The fund-based BB & Below book as a percentage of gross customer assets stands at 1.37%, down from 1.42% as of 30th September. The BB book has declined across all 3 categories: Fund-based, non-fund-based and investments. The decline is Rs 396 crores on fund-based, Rs 132 crores on non-fund-based and Rs 188 crores on investments.

In the current economic environment, the bank has not upgraded any borrower who was downgraded into the BB pool based on expected probable restructuring. Technically, these borrowers did not avail restructuring aggregating to Rs. 408 crores, and this could have been upgraded. But we continue to hold them in the BB pool. During the quarter, we've collected Rs. 1,130 crores from the BB & Below pool and upgraded Rs. 612 crores from the BB & Below book. Slippages from the BB & Below book per IRAC norms to NPA for the quarter were Rs. 819 crores compared to Rs. 3,345 crores for the same period last year. Downgrades into the BB & Below book for the quarter aggregated Rs. 1,844 crores as compared to Rs. 3,243 crores in the same quarter last year. In the current quarter, the fund-based downgrades were Rs. 1,543 crores. Non-fund-based were Rs. 113 crores, and investments were Rs. 189 crores. Important to note: after the downgrades in the current quarter, the average ticket size of fund-based loans across BBB+, BBB and BBB- is Rs. 50 crores with no individual fund-based exposure that is 4-digit crores. We request you to look at Slide 40 of our investor presentation for greater details on net NPA.

To conclude, the overall stress in our book comprises our net NPA, BB & Below and restructured loans not included in BB & Below. The overall stress of the Bank aggregates 2.7% on that computation methodology, and we have a provision coverage of 69% on the pool. Hence, net of provisions, the overall stress book stands at 0.9% of net customer assets, declining from 2.3% for the same period last year.

As I close, operating performance is robust, reflected through our NII and core operating profit growth. Capital position remains the best that the Bank has had in years. We carry adequate liquidity buffers. Our retail deposit book continues to remain resilient, with granular deposits growing 16%. Our corporate book mix is improving with significant new origination for better-rated corporates. Our prudence is demonstrated through choices we continue to make on derisking the balance sheet, demonstrated through declining NPA and additional provisions and proactive recognition of stress. The cumulative non-NPA provisions are Rs. 11,856 crores. Our NPA coverage stands at 116%, standard assets at 2.8%.

Last but not the least, our subsidiaries have shown significant traction over the last 9 months. Axis Finance has nil restructuring. The profits of the subsidiaries are growing. Axis Finance continues to be well capitalized. We reiterate our stance of stopping specific guidance. I would conclude by stating that based on the strengthening of the balance sheet and improving trends in data available to us today, we expect FY22 to be a look-forward year for the Bank.

With that, I come to an end of my comments. Thank you for your patience, and we'd be glad to take your questions.

Moderator: Thank you very much. The first question is from the line of Mahrukh Adajania from Elara Securities. Please go ahead.

Mahrukh Adajania: My first question is on outlook. You mentioned that fourth quarter will see lower slippages. You also have standard asset provisions of over 2%. Then why did you say that you will continue to have higher provisions in the near term? That was your comment in the opening commentary in the opening remarks. If you have such a big standard asset provision, why wouldn't you draw from it and why do you continue to guide to higher near-term provision? That's my first question.

Puneet Sharma: Mahrukh, thank you for your question. Puneet here. The point Amitabh was making is we are following a path of prudence of strengthening our balance sheet. The excess provisions that we have continue to lend strength to the balance sheet. The point he made was for slippages, we will continue on our prudence journey in the next quarter. And for slippages that may arise in Q4, we will continue to provide such that FY22 is a look-forward year. Please read his comment in that context.

Mahrukh Adajania: And my second question is that you did mention about balancing growth with NIMs, but that could mean that your growth would be in line or maybe even below overall industry average if a similar growth path continues in the near term. So would you be comfortable with that? Because if you grow 3% to 4% sequentially in the fourth quarter, your overall loan growth may just be 6%.

Amitabh Chaudhry: I think, again, you're misunderstanding what I said. What I said was that, firstly, it was directed at wholesale, not for the entire book. Secondly, what I meant was that we do not want to chase growth for growth's sake at prices, which don't seem to make sense but give us a very low NIM. There are enough opportunities in the wholesale book. We believe as the economy opens up, those opportunities will arise, and we'll be able to capitalize them. So I was trying more to say why our wholesale book is showing the growth it is showing because right now, the demand for loans is coming from corporates who are demanding an extremely low price. And we just don't want to chase that. That was the only limited point I was making.

Mahrukh Adajania: What is the overlap between pro forma slippage and BB?

Puneet Sharma: So the slippages from the BB pool in the current quarter was Rs 819 crores (fund based advances Rs. 580 crores, investments Rs. 225 crores, non-fund based Rs. 14 crores). So if I look at the pro forma slippage of around Rs. 6,700 crores, corporate fund based and investment slippages would have come from the BB pool.

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

Adarsh Parasrampuria: I have a question on how do you look at the risk on these 3 segments, right? Because retail, as you mentioned, there is recognition in this quarter and some more in the next quarter. Can one say that majority of the COVID gets recognized by third quarter? In SME, there would be a lot of ECLGS loan where they've been given extra funding. So the bank servicing of that actually gets tested only next year, right? And even your NPA buildup there has been pretty low. And then that's true for the system as well. And for large corporate, surprisingly, things have held up pretty well. So are there any risk there, right? So if you can just talk about what kind of recognition, say, by the end of FY21, like, would we be left with, say, only credit testing for the SME book going forward? Or how do you look at it?

Amitabh Chaudhry: Let me try to answer, then I'll ask my colleagues to obviously add to it. We do want to say that we expect the fourth quarter provisions and as Puneet just clarified, that we'll continue to provide for slippages and maintain the excess provisions we have. We do expect the slippages to come down in the fourth quarter based on whatever we can see today. As far as ECGLS is concerned, we have, I think, said a couple of times that we have given ECGLS loans selectively. We've been quite careful. We have adopted a stand that we will give it to only those borrowers, maybe they might be corporate or individuals, where we believe that they can survive and sustain the loans and actually come out of it. We do not want and we have not given these loans to people where we believe that we are kicking the can down the road to some extent. So if you look at the amount of ECGLS loans we have given in comparison to some of our friendly competitor banks, it is low. And it is lower, comparatively quite low in comparison with some of the others. So our strategy there has been slightly different. We also said and I think Puneet said in his remarks that we expect next year to be a look-forward year. So that frankly means that we expect all the COVID-related issues to be provided for at a level of conservatism where we don't have to look back and end up making some provisions in the next financial year. So we are hoping as the economy revives, that's the case and that's why we are making that statement. We have been very cautious when we make that statement, but we do hope that's exactly what will happen. Puneet, anything to add?

Puneet Sharma: I think that's absolutely fair, right. Just to give you a sense, if you heard what Amit said in his presentation, that the demand resolution was 94% in September, essentially if Rs. 100 was due, Rs 94 of it saw resolution and Rs. 6 went forward. That number in December is 98, so only Rs. 2 is going forward. So it gives you a sense directionally where we are headed further. And recovery continues to be on the upswing, so both numbers are favorably indicating that.

Amit Talgeri: Our recoveries in this quarter were even higher than what we were seeing in the pre-COVID levels. So from that perspective, the numbers that you are seeing and numbers which our teams are showing appear to be based on whatever data is available to be best-in-class.

Adarsh Parasrampuria: Got it. Just a follow-up on this, when you say a look-forward to year, I understand you're broadly saying that things should normalize as the economy picks up. Just wanted to understand, given how much conservatism we built in the provision, I think what's the risk that you are seeing to this, right, like because the portfolio in corporate has changed drastically; retail, they are cleaning up in this quarter. So what's the risk to our normalization like why are you still very conservative, why still not able to guide to say, yes, we should be normalizing to 100-110 basis points next year?

Puneet Sharma: So Adarsh, let me try and answer that question, and then I'll request my colleagues to supplement. So I think the approach we are following is 2 parallel path. There is a path of strengthening the balance sheet consistently and sustainably. And the additional provisions that we are creating is to consistently and sustainably strengthen our balance sheet. With insofar as new slippages are concerned, we will continue to provide for them. We expect slippages to be lower, which is what we are saying in Q4 compared to Q3. We expect FY22 to be a look-forward year. But if your question specifically is around will we guide a specific credit cost at the moment, that's not what we are doing.

But we've qualitatively told you what we see our book looking like and where we head to. The last point I would like to leave with you for consideration is, please don't equate prudence and conservatism with an implied impact on asset quality on my book. There are 2 parallel journeys that the bank is on. We will continue to remain prudent. That is not a reflection of my asset quality.

Moderator: Thank you. The next question is from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: Yes. I just wanted to check, what is the amount of provisions that you used on account of COVID in those 2 slides?

Puneet Sharma: We have not used any COVID provision in the current quarter.

Abhijeet Sakhare: No, when you have declared these pro forma slippages, there is an increase in the total provision sitting in there. I was just trying to understand, have you used any part of the Rs. 11,000 crores in this?

Puneet Sharma: The answer to the question is no, we have not used any of our COVID-19 provisions. The level of COVID-19 provisions in the previous quarter stand equal to that as of 31st December, no utilization.

Abhijeet Sakhare: Even in the pro forma numbers?

Puneet Sharma: Even in the pro forma numbers. And I'd just like to clarify, my pro forma numbers are my actual numbers. So insofar as my P&L is concerned, the provision that you see on Slide 41 pursuant to IRAC has been routed through my P&L for all practical purposes. So Rs. 4,604 crores is gone through my books as we stand.

Abhijeet Sakhare: So second question, this is for Sumit, just trying to understand the slippages that you have reported this quarter on the retail. You indicated about 85% coming in from retail this quarter. If you could just give us some color, where is it coming from and how comfortable are you on the recovery front on this book?

Sumit Bali: So I'll just give you an indication. So see moratorium got over in September. So since September, the flow-through on the unsecured side, as expected, has happened. On the secured side, I think both is well within what we had guided. So is also actually on the unsecured side. And as we said earlier, I think given the kind of uptick in collection, efficiency and resolution we are seeing, we do certainly see that things in Q4 will be far better. Amit, would you like to add?

Amit Talgeri: Yes. So just to add to that, Sumit, retail slippages that we have talked about that Puneet mentioned, 84% of the overall slippages, are equally split between unsecured and secured, with most of the post-moratorium pain absorbed this quarter. The other thing, which I think Puneet also mentioned, 100% provisions have been made on the unsecured slippages as per the rule-based policy that we have. Last point on this one is that in secured products, like mortgages where you've seen slippages, the inability to enforce legal action, especially around effective tools like SARFAESI, for example, due to the Supreme Court directive over non-classification of the NPA, has had an impact on recovery. The good part there is that the average LTVs for that secured mortgage book is around 60%, so this provides us a strong comfort around the fact that recoveries, once things normalize, will get us back on track. And the last part, I think you mentioned about recoveries. Yes, the recoveries from the written-off accounts in retail have actually increased by 84% YoY. And that's really what gives us comfort around the retail book.

Abhijeet Sakhare: Perfect. Got it. And just one clarification. The moratorium ratio that you have reported last quarter and the number that you give it to RBI, is there a difference on that?

Puneet Sharma: The moratorium that we reported as part of Q2 results, the reference date of that was different from what the reference date for RBI is. And effectively, we had clarified that on the last call as we stand. In any case, in our view, moratorium is not relevant since we are proactively recognizing any stress that we are seeing today.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Bank. Please go ahead.

Anand Laddha: Sir, just wanted to understand, sir, we are carrying significant provision in terms of prudent provision. Is there a number, is there a thought we have in our mind, like, how much floating provision or a prudent provision as a percentage of loan book we wanted to carry or we wanted to maintain across cycle all the time or next year? What could be trigger point when we intend to use floating provision? Is there any thought on that? And then some bookkeeping question, sir. Like, we had reversed some fee income also on the credit card business. If you can give some color, what is your quantum of that fee income?

Amitabh Chaudhry: Well, as far as the provisions are concerned, most of the provisions that we are making are rule-based. Obviously, what we have done on the COVID in the restructuring side was based on a certain formula we had derived internally. And as you realize that based on that formula, restructuring provision was higher, we reversed it. Obviously, we have improved the PCR from close to 18% to 26% on that. So most of our provisions are formula-based, except for some of these COVID and restructuring provisions. We will obviously take a call at the end of this quarter, fourth quarter, whether some of these provisions need to be carried forward or we need to look at anything else in terms of ensuring that our balance sheet is strengthened further. Otherwise, yes, you're absolutely right that based on those formulas, our balance sheet has reached a size and a shape and the provision have reached a size and a shape where nothing further might be required in a significant manner, and that's where we stand today. These are not random provisions we make because we have certain numbers. These are Audit Committee and the statutory orders are signing off based on formula and data which shows what kind of loss we might have taken in the past. Let me ask Puneet to add on the second question you are having.

Puneet Sharma: Yes, I think, I'll just supplement Amitabh's answer. Even the restructuring provision was rule-based and there are guardrails around its utilization. The second part to your question was fee reversal. The fee reversal is Rs. 134 crores for the current quarter, accounted for as a negative on the fee line.

Anand Laddha: And sir, last one, if I may. Sir, we have a guided path in terms of our ROA and ROE, which we are looking for. Do we still believe that we remain on track for that guided part? Probably, that still remains in FY22-23? Or it moves forward?

Amitabh Chaudhry: We are very clear in our minds that it is an important and a critical goalpost for us. Yes, COVID has delayed things a bit. But the entire bank strategy is structured and will continue to remain structured around ensuring that we try to attain that aspirational goal of ROE. We have guided on the ROE, ROA going forward in the future. We believe very strongly that that kind of number pushes us harder, makes us think differently. And so all of the things that you've been doing and all the things that we've been taking are for the long-term to get to that number. So no, nothing has changed from that perspective.

Anand Laddha: Sir, is there any outer time limit where we can expect those, where we'll be closer to our guided range?

Amitabh Chaudhry: As we said that next financial year will be a look-forward year. Hopefully, once we show you the numbers of the look-forward year, which is next year, you can start seeing the path to 18%.

Anand Laddha: I'm sorry, just to take this question, sir, further. Sir, historically, last few quarters, you have been giving a chart on our average provision across cycle. This quarter, there was not there in the chart. So would that be fair, next year, we should move back to our long-term average provisioning cost number?

Puneet Sharma: I would only suggest that since we stopped guidance, we don't want to put out a specific number or guide towards a data point. Our limited commentary insofar as our performance next year is concerned, is FY22 is a look-forward year, and Q4 will have lower slippages than Q3.

Amitabh Chaudhry: I mean I would add, if you read every comment which Puneet has made or Amit has made about what our collection efficiency is, what is the kind of recoveries we are getting on our retail loans, how are we growing the book, what is happening on the wholesale side, how our BB book looks, what is the composition of the BB book, what is slipping from there? I think you have enough data points to be able to hazard a guess in terms of where things are headed. And that's all we're willing to say at this point.

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

Kunal Shah: Yes. So again to touch upon on the retail NPLs. So if you say, like, it was only flat**,** then on the unsecured portfolio that seems to be reasonably higher in terms of the percentage term. So are we more or less done with that? And what caused this entire write-off towards, this quarter we had done a significant write-off equivalent to almost like 70-odd basis points. And if you look at this segment-wise, it is suggesting more towards the corporate rather than the retail. So if you can just say as to what that write-off was towards and lastly, in terms of the provisioning, the Rs. 3,900 crores was towards the pro forma slippages. But when we look at -- so another Rs. 1,000-odd crores would be specific provision in terms of the coverage in this Rs. 4,900-odd crores. How should we read that?

Puneet Sharma: Thanks, Kunal, for your question. I'll answer the second and the third part of your question and then request one of my colleagues to take the first part of your question. Your first question was write-off. The policy that the Bank has is we don't exercise judgment. Our write-offs are rule-based and Board policy approved. And pursuant to the rules that we have adopted, this portfolio was eligible for write-off and has been written off. These are codified. There is limited to no judgment involved in our write-off stance. And you will see this happening consistently. The provisions point that you have of Rs 3,900 crores, they are for the IRAC-related recognition. The Rs. 1,000 crores provision that you see on loan losses is for prior-recognized NPLs and this improves coverage for the NPAs.

Amit Talgeri: Just to add to Puneet, the first part of your question on slippages. Just to reconfirm, retail, we had suggested that the split is equal between unsecured and secured. And for the unsecured slippages, we've done 100% provisioning as per our rule-based policy. The other thing which we also talked about was the fact that in the secured side, we have large part, which is mortgages, which is impacted by the lack of effective legal tools like SARFAESI. So effectively, the pain that we talked about was around both retail in terms of unsecured and secured. Most of the post-moratorium pain has been absorbed this quarter.

Kunal Shah: Sorry, sir, just to follow-up in terms of write off, any color on the segment wherein it has come? Yes, it would be rule-based, but where is it largely flowing from? And unsecured, does it seem to be higher than your anticipation or it was more in line? I understand it is 50 odd percent of 84%, but does it seem to be like higher than the anticipated lines in this quarter or this is what we were anticipating?

Amit Talgeri: So let me start with the last part of your question. So if you recollect what we had looked at is that when we started this whole exercise around stress test that we did. Initially, when we started looking at it on a quarter-on-quarter basis from April, if we look at where we stand today, we are almost around at 45% to 50% lower than our original slippage estimates. And this is across most of the product lines. So to that extent, is it anticipated as when we started off in April? I would think much better-than-anticipated in terms of where we stand today. Secondly, in terms of the pain, like we said, there is a residual portion which would still be there, which is in Q4, residual portion in Q4, which would be lower than Q3.

Kunal Shah: Puneet, on the write-offs?

Puneet Sharma: So Kunal, the write-offs in the current quarter based on the rule engine is predominantly coming from the wholesale book. And I'd just like to also supplement the answer that we gave on the Rs. 3,900 crores provision under IRAC norms. I just want to restate that, as I stated in my opening remarks, that that's at a borrower level and not at a facility level. So even if there was another facility of the borrower that remains standard, we'd classify that. It's counted as slippage, and we've gone ahead and provided for it.

Moderator: Thank you. The next question is from the line of Vishal from UBS. Please go ahead.

Vishal Goyal: So I think the first question is, what is your 30-day DPD book now? I think it was last quarter around Rs. 13,300 crores.

Puneet Sharma: Vishal, thanks for the question. The 30 DPD is not a number that we are discussing. Hence, that's not a number that we're disclosing at the moment, please.

Vishal Goyal: So I think it was more than 30 days, which is what you disclosed last time. Not less than 30, I think, I'm assuming more than 30 days.

Puneet Sharma: So Vishal, the 30 DPD was disclosed in the last quarter in the context of the fact that we had just come off moratorium as at the end of August. We have, as a consistent practice, not discussed that 30 plus. That data point was provided in that specific situation. That situation does not exist as on date. And consequently, we are not providing that data or discussing that data.

Vishal Goyal: No worries. And on operating expense, is there any one-off or any other potential stuff which you have done? I mean it is gone up. But generally, other banks are seeing either stable or some seeing actually decline as well quarter-on-quarter.

Puneet Sharma: So the operating expenses have a couple of items, one, that is recurring but appears for the first time in the current quarter, which is the increments. But like I said earlier, there is a large expense that we have accrued for on account of potential liability under the social security code, which was not required to be done, and that has been done in the current quarter. Therefore, that is out of the ordinary. If I basically net those items out, on a YOY basis my cost would grow by 9%.

Vishal Goyal: So does that cost not expected now in coming quarters? Or that will become part of the BAU cost?

Puneet Sharma: So one is, let me clarify that insofar as I know, we are probably the only bank that has currently estimated social security expenses. The law is gazetted, the rules are not, and we've gone ahead and made that provision. Since it is a gratuity equivalent, the catch-up happens at one point in time. And then on a go-forward basis, you keep reassessing on actuarial. So the current quarter reflects the catch up.

Moderator: Thank you. The next question is from the line of Manish Shukla from Citigroup. Please go ahead.

Manish Shukla: The first question is on loan-to-deposit ratio. If you look at that number as of end of December, we are largely similar to where we were at the end of March. Now assuming credit growth improves into FY22, do you see reasons for start raising deposit rates aggressively?

Puneet Sharma: Manish, thanks for the question. The first part to your question, the loan-to-deposit ratio being flat, I think, needs a slightly detailed answer. We've actually gone ahead and repaid our wholesale term deposits as part of our balance sheet optimization, which, therefore, keeps the LD ratio at the number that you're currently seeing that. At some point in time, once we are done with our balance sheet management, we could look to raise wholesale term deposits again. That will help balance it. And the entire reduction in the liability side on borrowings, NRTD and CDs does enables us to grow, but that's not a preferred route. You will see that our retail SA balances have grown 20% YOY. And we do believe that the retail franchise on the liability side should enable us to sustain the growth that we're planning in the future.

Manish Shukla: I'm sorry, you define retail size less than 1 crore or less than 2 crores?

Amitabh Chaudhry: We define it as individual savings deposits.

Manish Shukla: Irrespective on the size?

Amitabh Chaudhry: Yes.

Manish Shukla: The second question is continuing with Vishal's question on OpEx. How do you see the overall OpEx cost trending next year, either in absolute terms or relative to balance sheet and the whole cost to assets optimization that you are focusing on pre-COVID?

Puneet Sharma: So Manish, I think we are not guiding, but since I've spoken about this in the past, we said a 2% cost to assets is what we were aiming for when we exited last year at 2.09%. We're at 1.96%. We do believe that the range that we've indicated in the past is the range that we will be within.

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

Abhishek Murarka: I just have one question. If you could share the collection efficiency or the resolution rate, or whatever you call it, between secured and unsecured retail. So I know you've given an overall rate, if you could split it between secured and unsecured.

Amit Talgeri: So I think we've given out our resolution rate and demand resolutions across the board as a part of the retail commentary that we gave. We don't have a segregation, we don't disclose on secured versus unsecured. One thing which I can tell you is that the collection resolution rates that we talked about across the board are back to pre-COVID levels. And that just gives you a reflection of where we stand, when one looks at each of these resolution rates. Some of the secured products are actually higher than pre-COVID as well.

Abhishek Murarka: And just between secured and unsecured, would your secured in general have a lower ongoing steady state collection efficiency than 97% or 98% that you spoke about pre-COVID?

Amit Talgeri: Across the board in retail, we have seen demand collections at close to 98%, and this is across almost all the product lines.

Abhishek Murarka: There's no differentiation on a steady state basis between different product lines, that's all you are saying?

Amit Talgeri: So every passing month obviously we've been having a steady state increase. I think Sumit mentioned the fact that we started off with 94% in September. We've moved to 97% and then now 98% in December. And this is equivalent to what we have seen in the pre-COVID days across most of our product lines.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from AMBIT Capital. Please go ahead.

Pankaj Agarwal: So what's driving your relatively high market share in the UPI family? And second, why are you promoting this mode of payment?

Amitabh Chaudhry: Well, I think we have had consistently high market share in UPI ecosystem. We have formed right kind of partnerships. We have continued to win mandates from various players who see Axis as having the right kind of technology and continuous investments that we have made. We believe it is important, anyway for us to continue to differentiate in the marketplace. And given all the partnerships which we have and we are working on, we believe we'll be able to only continue to improve this market share as we go forward. This way, UPI has taken off in terms of number of transactions that are happening on that ecosystem. And not only just the numbers, but the amount of value of transactions which are going through, it continues to give us data on what the customers are buying, what kind of transaction they're doing on a day-to-day basis and it potentially allows us to underwrite those customers in many different ways going forward in the future. So it's not just about market share. It is also a lot about what kind of data sets which we are creating in Axis Bank. Please understand, I've been saying this for quite some time that today Axis Bank has known to the Bank customers which reach almost 15 crores where we have some data sets or data points on customers who have transacted on some platform of ours. Over a period of time, as we get better and better with it, we believe it will position us very well to be able to underwrite these customers for all kinds of products and what we're doing in UPI is a very important and critical component of that strategy. I hope that clarifies.

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

Sameer Bhise: Just one quick question. Is it right to say that the pro forma corporate slippages this time are entirely from BB and below?

Puneet Sharma: Yes, Sameer, that could be a fair conclusion to draw.

Moderator: Thank you. We take the last question from the line of Amit Premchandani from UTI AMC. Please go ahead.

Amit Premchandani: I just need one clarification, the Slide 41 and 42 have provision, including interest capitalization. The numbers are different, one is Rs 17,388 crores and another is Rs 21,695 crores. I just want to understand this Rs 21,695 crore is against the pro forma NPL. And the Rs 11,000-odd crores of COVID plus other contingent provision, is it completely separate from this Rs 21,695 crores?

Puneet Sharma: That is absolutely correct.

Amit Premchandani: Another question, just the last question is, you have given a breakup of market share in credit card income, retail and non-retail. What exactly happened in non-retail that led to such a sharp decline in market share? Was it voluntary? Was it to do with some asset quality headwind that you may have encountered?

Sumit Bali: So on the corporate card side post-COVID, we have been rationalizing exposure. All the travel and entertainment spends itself have come down. So that's what is getting reflected in our overall numbers on the card side. Though on the retail side, our share of spends is up from February levels. On corporate side, that tends to be lower, which is in line with our philosophy.

Amit Premchandani: But does it mean that, generally, you had a disproportionate share of corporate and credit card as compared to the industry and it is normalizing now?

Amitabh Chaudhry: No. That's not a correct conclusion. So we had a similar mix, and now it has even come down further.

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.

Puneet Sharma: Thank you, Janice, for helping us on this call. Thank you, ladies and gentlemen, for taking the time to speak with us this evening and better understand our results. We appreciate your inputs and thoughts and questions. Please do feel free to reach out to us if there are any questions that remain unanswered at the end of this call, and we'd be very happy to pick those up and answer them to the best of our abilities. Thank you for your patience in spending the last 2 hours with us.

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