<u>Opening Remarks – Axis Bank's Q1FY25 Analyst Earnings Call</u>

We have on the call, Rajiv Anand – Deputy MD, Subrat Mohanty – ED, Munish Sharda – ED and other members of the leadership team.

This quarter Axis Bank continued on the path of becoming a resilient all-weather franchise. We delivered higher growth across our focus granular business segments, gained market share in digital channels and products, and improved on key operating and earnings metrics that are best-in-class now. We continue to build long-term competitive advantage with investment in technology and analytics with some cutting-edge use cases in Gen AI and financial crime intelligence.

Let me summarise the Q1 operating performance:

- Core operating profit was up 16% YOY and 1% QOQ driven by healthy operating income growth and moderation in operating expenses growth.
- Execution on the deposits is on track with sequential growth in quarterly average deposits and new customer acquisitions. I will elaborate further on this in a bit.
- Our CASA ratio and fee to average assets continues to be among the best for peer private banks.
- Our focus business segments delivered 24% YOY growth and 1% QOQ.
- The Bank is well capitalized with a CET 1 ratio of 14.06% with net accretion of 32 bps in the quarter.

We stay focussed on three core areas of execution of our GPS strategy namely:

A. Becoming a resilient, all-weather franchise

B. Creating multiplicative forces to build competitive advantage

C. Building for the future

I will now discuss each one of these areas.

A. Becoming a resilient, all-weather franchise

The quality and strength of our deposit franchise continues to improve through Project Triumph, the bank wide deposit transformation program.

- ✓ The Bank continues to deliver higher than industry deposit growth at 13% YOY.
- ✓ On a quarterly average basis, deposits grew QOQ with savings account balances up 3%, Current account balances up 2% and term deposits up 4% sequentially.
- ✓ We have focused on firing up the New to Bank (NTB) acquisition engine for the Retail SA franchise. The past 6 months have been particularly strong on this. In this quarter we saw
    - Retail SA NTB deposits were up 20% YOY with new accounts opened up 8% YOY and balances per account up 11% YOY. If you take the NTB savings accounts opened in a quarter and their balances at the end of it, this quarter was the best in our history.
    - New corporate salary labels acquired in Q1FY25 grew 39% QOQ.
    - Retail SA sourcing is embedded in the scorecards of every customer facing business of the Bank. The asset channels, for instance, have seen a 110% YOY growth in sourcing deposits leveraging their relationship strength.
- ✓ The productivity of Relationship Managers in these 'managed' segments has seen improvement, up 9% in FY24 (exit) over FY23 and up 14% YOY Jun'24
- ✓ Project Triumph continues to focus on productivity enhancement through tech-led solutions, unlocking the top of funnel through open market sourcing and institutionalized push on resource participation and premiumization.

- On the wholesale segment, project NEO continues to drive higher transaction banking flows leading to better current account balances. Our NEFT market share (in terms of value) has increased to ~13% in Q1FY25 as compared to ~10% in Q1FY24.

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

- Our better yielding focus segments including select Retail, SME and Mid Corporate segments together grew by 24% YOY and now constitute 42% of the total advances, up by ~1300 bps in the last four years.

- We will continue to focus on driving growth across our business segments while following capital efficient RAROC model.

Strengthened the Core

We have significant investments made in core information technology (run the bank tech), architecture modernization, cybersecurity and fraud control.

- ✓ Our proprietary Digital tech capabilities is reflected in '*open* by Axis Bank' being recognized as one of the top-rated mobile banking app in the world with rating of 4.8.
- ✓ We have created future ready and scalable platforms to replace fragmented legacy systems demonstrated through successful launch of Neo for Corporates and Integrated Treasury Management. Neo for Business, our MSME proposition, now has 80,000 customers on boarded over the last 3 quarters. In Q1FY25, we won six awards: three from Infosys Finacle Innovation Awards, two from Asian Banking & Finance Awards, and one from Digital CX Awards.
- ✓ We continue to build industrial-strength, resilient core tech platforms. The Salesforce journey that we embarked upon last fiscal is helping us standardize end-to-end retail lending workflows by creating 40+ reusable capabilities across 20+ products.
- ✓ We became the 1st Indian Bank to be ISO certified for AWS and Azure Cloud security practices with a 99% rating score for FY24.
- ✓ We now have a strong, dedicated Financial Crime Intelligence division that combines analytics, digital monitoring, and fraud control capabilities to safeguard the Bank.

B. Creating multiplicative forces to build competitive advantage

- We believe we are well placed to contribute and lead on the broader economic trends of the next decade in India. The multiplicative forces that we have built through One Axis, digital capabilities and a prudent operating model differentiates us and gives us the "right to win".

Citibank Consumer business integration completed successfully:

We completed the final migration of Citibank customers on July 14, 2 months ahead of schedule that we had promised back in Mar'23.

- The integration involved complex tech migration involving 2.1 million customers across multiple products from a franchise that was in India for over 100+ years. We have ensured a smooth and seamless transition for these customers. We came out ahead of schedule for all interim milestones during this period and the data and system transition has gone as per our expectations.
- We have designed products for customers to bring them the best of both organizations and further improve their banking experience through our superior product offerings and technology.
- For a small set of customers with queries, complaints and social media escalations post the event, we have a dedicated post migration hyper-care setup to effectively resolve the same.
- This transaction and the success of our integration program are important markers of our capabilities and our aspiration to create the gold standard in consumer banking in India.

- We thank all the stakeholders for their faith and support. We are also grateful to the RBI and the supervisory team for their continued and proactive guidance during the transition period.
- The business momentum of this franchise remains healthy and ahead of our internal Board monitored targets and adoption trends across products remain better that expected.
  - ✓ Stronger momentum than expected, within 5 days of migration with 7lac+ new-to-bank customer registrations across Axis Internet & Mobile banking platform (9.5L+ unique logins within 1st week).
  - ✓ Transaction volume levels across IMPS, RTGS, NEFT, cheques and cards are in-line with BAU trends pre-migration.
  - ✓ While customers are getting used to the new digital platforms, we have received appreciation across the board for our intuitive & feature-rich mobile application, open

C. Building for the future

Our journey to be future-ready continues to progress led by our focus on distinctiveness elements, namely, Digital, Bharat Banking and Customer Obsession.

Digital Banking performance continues to remain strong

- Our Open by Axis Bank balance sheet continues to deliver strong growth with 55% increase in deposits and 68% increase in loans.
- In this quarter we introduced new FD journeys including for non-liability customers and also launched upgraded journeys for UPI, loans, Savings Account opening etc. The Bank has witnessed significant growth in bill pay volumes on the back of various initiatives.
- Refer to slide 54 on progress on personalisation and nudges. These initiatives have shown significant lift in customer response. The Bank has made good progress on RBI introduced platforms. On CBDC (Central Bank Digital Currency), the Bank continues to be among leaders in terms of innovations and volumes.

Bank-wide programs to build distinctiveness

Our bet on Bharat is growing from strength to strength

- The rural advances grew 24% YOY and deposits from Bharat Branches were up 9%; thereby aiding the PSL and profitability metrics. The balance sheet added in the last 24 months (Jun'22-Jun'24) is nearly 2 times the size of the balance sheet added in the previous 4 years (Jun'18-Jun'22), within risk parameters and with better asset quality outcomes.
- We have expanded our multi-product distribution architecture to 2,511 branches complemented by 69,000+ CSC VLE network across 683 districts and 80+ partners across the industry.

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

- The program has been instrumental in driving higher Net Promoter Scores (NPS) led by enhanced process automation and significant digitization. The Retail Bank NPS score has jumped to 148 from a baseline of 100 in the past 2 years.
- Adi, our Gen AI conversational BOT, is now live for 61,000 frontline employees, empowering them to efficiently address the customer queries.
- We have now entered the next phase of Sparsh, which focuses on a new slate of initiatives.

In Closing:

- We find favourable macros backed by a strong and stable domestic policy environment which bodes well for the banking sector.

- We expect the deposit growth to remain a factor influencing growth in advances in the near term. We retain our stance of policy rates staying higher for longer and foresee the system credit growth to converge towards deposit growth of around ~13% for the fiscal.
- We will continue to be differentiated and distinctive in our journey towards building ‘an all-weather institution’.

I will now request Puneet to take over.

Thank you Amitabh.

Good evening and thank you for joining us. The salient features of the financial performance of the Bank for Q1FY25, across (i) Operating performance; (ii) Capital and liquidity position and (iii) Asset quality, restructuring and provisioning is as follows:

In Q1FY25 our operating performance was stable across NIMs, fee and operating expenses lines. The key metrics for Q1 FY 25 are:

a. NIM at 4.05%, flat sequentially
b. NII at Rs 13,448 crores, YOY growth of 12%. QOQ growth of 3%
c. Fee at Rs 5,204 crores, YOY growth of 16%, granular fee at 93% of total fee
d. Our Expenses for Q1FY25 were Rs 9,125 crores, YOY growth moderated to 11% and declined sequentially by 2%
e. Core operating profit at Rs 9,637 crores, YOY growth of 16%;
f. Cost to assets at 2.54%, declining 1 bps sequentially, we delivered a positive jaw for the quarter
g. Net credit cost at 0.97%, up 47 bps YOY. Gross slippage ratio in Retail, CBG declined YOY. Apart from seasonality for agri loans, about 55% of the YOY increase is attributable to lower upgrades and recoveries from NPAs and prudentially written of accounts largely from our wholesale segment which we believe is largely a timing difference. The net credit cost (annualised) for Q1FY25 is not indicative of our expectations of full year credit cost as Q1FY25 cost is impacted negatively due to timing differences.
h. PAT at Rs 6,035 crores, increasing 4% YOY
i. GNPA at 1.54%, declining 42 bps YOY
j. NNPA at 0.34%, declining 7 bps YOY
k. PCR% at 78%, was largely flat QOQ
l. Standard asset coverage of 1.20%, All provisions by GNPA ratio is 150%
m. Our Consolidated ROA% at 1.70%, Consolidated ROE% at 16.68%. Subsidiaries contributed 5 bps to the consolidated annualized ROA and 42 bps to the consolidated annualized ROE this quarter. Pursuant to the new investment circular, the Bank transferred Rs. 1,219 crores (net of tax) to general reserve. This adversely impacted ROE by 82 bps and ROA by 7 bps. This positively impacted CET-1 capital by 14 bps.

Banks CET-1 including Q1 profit stands at 14.06%, thereby accreting net of consumption, 32 bps of CET-1 capital QOQ. In addition, the Bank has a Prudent other provision of Rs 5,012 crores to be largely utilized for ECL transition. This provision has not been reckoned in the capital computation and translates to a capital cushion of ~40 bps over and above the reported capital adequacy ratio. The Bank assesses its capital position on two pillars i.e. growth and protection. We reiterate that we do not need equity capital for either pillar.

NIM at 4.05%, flat QOQ. Yields on interest earning assets have improved 29 bps YOY. This increase was offset by cost of funds increase on a YOY basis, resulting in a YOY NIM drop of 5 bps. The seasonally higher interest reversal in Q1FY25 as compared to Q4FY24 was offset by interest on income tax refund for which orders were received in the current quarter.

Our progress on structural NIM drivers continues, with improvements across all variables on a YOY basis:

- Improvement in Balance sheet mix: Loans and investments comprised 88% of total assets at June 24, improving 54 bps YOY;

- INR denominated loans comprised 96.1% of total advances at June 24, improving ~ 40 bps YOY;

- Retail and CBG advances comprised 70% of total advances at June 24, improving 225 bps YOY

- Low-yielding RIDF bonds declined by Rs. 9,851 crores YOY. RIDF comprised 1.4% of our total assets at June 24 compared to 2.3 % at June 23.

- Quality of liabilities measured by outflow rate improved ~ 400 bps over last two years, QAB CASA at 40% was flat QOQ. MEB CASA ratio at 42% has declined sequentially.

- Our fee performance was good, reflected in a fee growth of 16% YOY. Our fee to assets improved 3 bps YOY.

    - Total retail fee grew 18% YOY
    - Total wholesale fee grew 12% YOY better the growth in advances reflecting improvements in the franchise and transaction capability

- Trading profit and other income at Rs. 580 crores was largely flat YOY and declined by Rs 548 crores sequentially, mainly on account of DCM and trading performance, lower positive MTM on books and lower treasury income.

- Operating expenses for the quarter stood at Rs. 9,125 crores, growing 11% YOY and declining by 2% sequentially. We have opened 50 new branches in the quarter.

    - The YOY increase in rupee crore expenses can be attributed to the following reasons: (i) 34% linked to volume; (ii) 30% technology and growth related and (iii) 38% to BAU.

    - Technology and digital spends grew 39% YOY and constituted ~ 10.4% of total operating expenses.

    - Staff costs increased by 16% YOY. We have added 9,702 people from same period last year mainly to our growth businesses and technology teams.

    - QOQ decline in operating expenses is largely attributable to reduction in other operating expenses. Our staff costs increased by 7% QOQ. We added 194 people in the quarter.

- Provisions and contingencies for the quarter were Rs. 2,039 crores, higher by 72% QoQ and 97% YOY.

- The cumulative non NPA provisions at June 30, 2024 is Rs. 11,732 crores, comprising (i) Provision for potential expected credit loss of Rs. 5,012 crores; (ii) Restructuring provisions of Rs. 491 crores, (iii) standard assets provision at higher than regulatory rates of Rs. 1,878 crores and (iv) weak assets & other provisions of Rs. 4,351 crores.

<u>Coming to the performance of our subsidiaries</u>

- Detailed performance of the subsidiaries is set out on Slides 69 to 76 of the investor presentation. In Q1FY25, the domestic subsidiaries reported a net profit of Rs. 436 crores, growing 47% YOY. The return on investment in domestic subsidiaries was ~ 54%.

- **Axis Finance**:
  - Overall assets under finance grew 37% YOY. Retail book constitutes 46 % of total loans
  - Q1FY25 PAT grew 26% YOY to Rs. 154 Crores, and it has healthy CAR at 19.35%.
  - Strong asset quality with net NPA of 0.29% and negligible restructuring.
- **Axis AMC:** Overall quarterly average AUM grew 18% YOY to ~ Rs. 2,91,967 crores, Q1FY25 PAT stood at Rs. 116 Crores, growing 27% YOY

- **Axis Securities:** Revenues for Q1FY25 grew 118% YOY to Rs. 426 crores and PAT grew 171% YOY to Rs. 121 Crores. During the quarter, we infused Rs 250 crores into Axis Securities as new equity capital.

- **Axis Capital:** PAT grew 220% YOY to Rs. 49 Crores and executed 22 investment banking deals in Q1FY25.

  We completed the investment of Rs 1,612 crore that was announced in Max Life in the previous quarter. With this investment the Group holds 19.02% of the share capital of Max Life.

Asset quality, provisioning and restructuring

- Gross and net NPA in rupee terms and % terms declined YOY. The Slippage, GNPA, NNPA and PCR ratios for the Bank, and segmentally for Retail, CBG and Corporate is provided on slide 60 of our investor presentation.

- The Gross slippage for our wholesale business increased YOY on account of small value accounts. All accounts were less than Rs 100 crore in individual size. This resulted in Bank level gross slippage ratio (annualized) being 1.97%, increasing 10 bps YOY. We continue to monitor our retail unsecured portfolio's closely and have proactively taken risk actions on growth and underwriting filters as and when required.

- Gross slippages in the quarter were Rs. 4,793 crores. Gross Slippages segmentally were Rs. 4,229 crores in Retail, Rs. 178 crores in CBG and Rs. 386 crores in WBCG.

- For the quarter ~ 32% of the gross slippages are attributed to linked accounts of borrowers which were standard when classified or have been upgraded in the same quarter.

- Net slippages in the quarter were Rs. 3,290 crores increasing 95% YOY. 50% of the increase in net slippages at the Bank is due to lower recovery and upgrades, mainly in our WBCG segment. Net Slippages segmentally were Rs. 2,919 crores in Retail, Rs. 84 crores in CBG and Rs. 287 crores in WBCG.

- Recoveries from written off accounts for the quarter was Rs. 591 crores.

- Net slippage in the quarter adjusted for recoveries from written off pool was Rs. 2,700 crores. Segmentally Retail was Rs. 2,456 crores, CBG was Rs. 13 crores and WBCG was 231 crores.

To summarise, Axis Bank is progressing well to be a stronger, consistent and sustainable franchise:

- Consolidated ROA and ROE for Q1 FY25 is 1.70% and 16.68% respectively, an outcome of disciplined execution.
- The Bank has ample and sufficient liquidity, visible in the average LCR ratio of 120%. Given the increased regulatory focus on C/D ratio as one among multiple metrics to be tracked,

deposit growth could be the key constraint for growth in advances growth in the short to medium term. In the medium term to long term we believe our advances can grow 300 – 400 bps faster than industry.

- We are well placed in the current macro environment, we continue to closely monitor the geopolitical environment, inflation, liquidity, cost of funds and its impact on our business.

We conclude our opening remarks and would be happy to take your questions.