Axis Bank's Q1FY25 Earnings Conference Call

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Moderator: Ladies and gentlemen good day, and welcome to the Axis Bank Conference Call to discuss the Q1FY25 financial results. Participation in this conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation has not been sent. Unauthorized dissemination of the contents or the proceeding of the call is strictly prohibited, and prior explicit permission and written approval of Axis Bank is imperative.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of the briefing session. Should you need assistance during this conference call, you may please signal the operator by pressing star then zero 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 with us Mr. Amitabh Chaudhry, MD, and CEO; and Mr. Puneet Sharma, CFO. I now hand the conference over to Mr. Amitabh Chaudhry, MD, and CEO. Thank you, and over to you, sir.

Amitabh Chaudhry: Thank you, Neerav. 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 summarize 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 focused 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.

Puneet Sharma: 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.

<u>Asset quality, provisioning and restructuring</u>

▪ 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.

▪ To reiterate, the gross slippage ratio for Retail, CBG and Bharat Banking segments declined YOY. 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.

Chintan Joshi: Hi, good afternoon. Can you hear me clearly?

Puneet Sharma: Yes, Chintan good afternoon. We can hear you clearly.

Chintan Joshi: So if I can start off with asset quality and you gave us a lot of numbers, a lot of details so thank you for that will be helpful when we look at the transcript, but if you kind of look at what went wrong this quarter, is it mostly lower recoveries? And is that election linked? If you could give us some color around which products specifically led to that increase in slippages and whether this is an industry trend as in -- when you talk to credit bureaus you are seeing it across the industry. Those kind of commentary would also be helpful. So number of threads to pull on here. I'll leave it to you on what way it is best to explain this development?

Puneet Sharma: Chintan, thank you for the questions. Let me synthesize all of the data I provided earlier in the call in two key messages. The first key message is the Q1 FY25 annualized net credit cost is not reflective of the credit cost we believe as the franchise we will run through the full year because it's impacted by timing differences. I think that's the first key message we want to convey.

What are these timing differences if I were to emphasize, roughly 55% of the increase in net credit cost has happened because of lower recoveries and upgrades in the corporate loan portfolio. Please appreciate that corporate loan recoveries are episodic in nature. We do expect the recoveries to happen, the timing of which could move between one quarter to a second quarter.

So 55% of it is explained by lower recoveries and upgrades and the first message that I indicated stands. I hope that gives you a clearer picture of what we are trying to indicate through all of the data we have provided.

Chintan Joshi: And is there any deterioration in any segment that you see either in your data or an industry data?

Puneet Sharma: So Chintan we have been saying this for a while. The industry as well as us have been running at credit costs that are well below through cycle levels. We are seeing increase in credit costs across the retail unsecured portfolios which is to be expected given that you can't remain at trough levels on a through-cycle basis. The way we measure our portfolios is we have risk benchmarks for lending that we do. We said this last quarter, we maintained it in the current quarter. For our portfolios, we still haven't reached our internal risk benchmark yet.

Therefore, yes there is a deterioration in asset quality across some parts of the book, but not concerning enough because they have not reached our risk thresholds. Please also appreciate that we've called this out previously. We may not have like-to-like comparable numbers because as a Bank we provide 100% on unsecured retail loans on day 91 and therefore my credit cost for the same level of slippages may not be reflective of same level of slippages of another peer bank. So I think you should keep that in mind as you do number comparison.

Chintan Joshi: And then the second question was on your NII and NIMs. Could you call out the interest on tax refund element and excluding that, how should we think about the NIM outlook for the remainder of the year?

Puneet Sharma: Chintan, the way I would request you to think about it is because of the seasonality of slippages there is more than normal interest reversal in the quarter 1 as compared to quarter 4. And if you look at what we put out on Slide number 9 of our investor presentation you will see that the extra interest reversal on seasonality has been offset by the interest on income tax refund. So on a core business basis we've seen a 1 basis point compression in margins is what we have seen play through in the current quarter.

Chintan Joshi: And the outlook?

Puneet Sharma: Chintan the outlook has that I consistently provide is we do not have guidance on margins on an annual basis or the short term. Our structural guidance is 3.80% on a through-cycle basis. We have now operated at a 25-basis point cushion above through-cycle margin for a couple of quarters. We will make all efforts to ensure we retain as much of the margin as we possibly can. But we are watchful of the competitive intensity in the market space for deposits as we get into the rest of the fiscal year.

Chintan Joshi: Sorry, that was occupational hazard.

Moderator: Next question is from the line of Mahrukh Adajania from Nuvama.

Mahrukh Adajania: So again, on asset quality, you called out in the presentation, your BB and Below has increased by 6 billion. Any sector or any vintage of this loan because there's an increase in stress investment as well, right? And then some of it is in loans. So is it the same account or any particular sector?

Puneet Sharma: Mahrukh, thank you for the question. Mahrukh, a couple of things you must note that the investments -- for us, if an investment has been made and remains unrated, it will go into the BB and Below category. On the loans, there is effectively very, very small effect. And the third item you must understand is, the investment circular forced us to mark-to-market the investments. In fact, you would be surprised to note that my BB and Below mark-to-market was a positive mark-to-market, which has resulted in an increase in the BB and Below book.

So actually, the value of the investment was higher than its carrying cost. The circular required me to recognize the MTM. I've recognized the MTM and consequently, the BB and Below book has moved up. There is nothing that is to be read into those numbers. It is for the two effects, unrated equity investments fall under BB and Below and the transitional reserve impact, which I called out earlier, has resulted in the rupee increase.

Mahrukh Adajania: Got it. So basically, the only increase in BB is what we see in the loans, correct?

Puneet Sharma: Thanks, Mahrukh. But that's a very small amount and a very granular loan. It's very small. It is very granular loans and average ticket sizes of that book is sub INR 40 crores. So that is BAU. I don't think there is anything that indicates wholesale asset quality in any shape or form.

Mahrukh Adajania: Got it. And my next question -- so I have two questions. One is on the interest on income taxes. If you see the other interest, that's roughly gone up by INR 200 crores. Would that be the interest on tax refunds or that's not the way to calculate?

Puneet Sharma: That will be a good indicator, Mahrukh.

Mahrukh Adajania: Okay. And just one last question. Because of the whole revaluation thing for all banks, including yours, the investment yield seems to have moved up by over 10 basis points. So will that be a stabilized yield now assuming that rates don't change?

Puneet Sharma: Mahrukh, I can't speak for other banks. The 10 basis points is not true for us. We are very happy to transparently call out the fact that for us, the investment reserve that we could have potentially recorded through the P&L, but we have taken where the reserve is INR1,700 crores on a gross basis. So let's break this up. It was INR1,700 crores of P&L that could have been recognized on a realizable basis now will never come through the P&L.

The accretion and amortization component that you're speaking of, which is accretion and amortization on discounted securities, which could not have been realized under the previous circular but can now be recognized under the current circular is amounting to roughly about INR 78 crores for us on a first quarter basis. So by no stretch of imagination does that translate to 10 basis points, the number is negligible. I won't be able to speak for other banks.

Mahrukh Adajania: But the yield seems to have moved up, right? No, but the investment yield seems to have moved up, right? That's why I'm asking. As in the investment income is very strong.

Puneet Sharma: Mahrukh, that's a function of the underlying portfolio. So we now have a higher-yielding portfolio for the book that we run. It has not got to do with the Master Directions on 1st April.

Moderator: Our next question is from the line of Rikin Shah from IIFL.

Rikin Shah: I have three questions. First one is on the loan book growth in this quarter. So if you look at sequential growth, the Retail and SME is virtually almost flat, and the bulk of the growth or accretion has come from the corporate in this quarter. So just wanted to understand if there is any change in underlying thought process or strategy. So that's question number one. The second one is on the non-staff operating expense, which has...

Moderator: Rikin, can you speak a little louder, please?

Rikin Shah: Sure. I'm hoping that my first question was clear. So I'll repeat the second one. The second one is pertaining to the non-staff operating expense, which has come off sequentially. So would you be able to share which opex lever were you able to pull back in this quarter? And should we think this as a beginning of moderation in the opex going ahead?

And the third question is on the fee income. So while 1Q, there is some seasonal weakness in the fee income. But even the card and payment fee income seems to have decelerated. So anything meaningful to read into this? Those are my three questions.

Rajiv Anand: This is Rajiv. I'll take the first one. We are seeing a reasonable amount of opportunities on the corporate side. And as long as it meets our underwriting standards and pricing standards, we are happy to put those on. And if you see the growth that we have seen this quarter, it is fairly broad-based as well.

Rikin Shah: But Rajiv, we hear about a very competitive pricing in the corporates from many banking peers and retail SME was the core strategy pillar, wherein we were growing faster. So I just wanted to understand not only from this quarter, but from a medium-term view, is this something that one should be extrapolating, or it is just kind of the opportunities that presented in this quarter, and we took that?

Rajiv Anand: You have two questions there. I think they've always been guiding for the last many quarters that are focus sectors, as we call them, particularly the MSME and mid-corporate sectors. We will continue to see strong growth. Nothing has changed as far as that's concerned. You continue to see strong growth there. It is meeting our underwriting standards. It is meeting our pricing standards. And as far as that is concerned, I think you should see the proportion of MSME within our portfolio and MSME plus Mid-Corporate continuing to grow. I think they're at about 21-odd percent currently. I think that number will continue to grow.

For the rest of the portfolio, I think there will always be -- and this whole issue of is pricing competitive? That's a conversation that we've been having for at least 2 to 2.5 years now. I think the corporate sector will always be competitive. But I think there is -- like I said, there's enough opportunities for us to pick and choose such that we are meeting our underwriting standards and pricing standards and be able to grow profitably. And remember that this also brings other businesses to our current account, transaction banking, etcetera. And so therefore, to that extent, it is reasonably profitable as well.

Munish Sharda: This is Munish Sharda. On the retail asset side and also on the SME side since you asked that question, we earlier also called out that we have a well-calibrated risk-adjusted return on capital model, which we use to look at our businesses comprehensively and see where we need to grow, and where we'll get the right returns. So we -- on a retail asset base, if you look at Page 22, we've grown our retail asset by about 18% YOY. Our preferred segments in some areas like rural loans and SBB, which will make good returns on capital, we have grown at 26% and 24% YOY.

Our commercial banking business where we get many more opportunities with our clients to do deposits and other fee products, etc, continues to deliver healthy growth. And these are some of the segments where we will continue to push forward for more growth. So this is the full view on the asset businesses, including retail assets and the SME business.

Amitabh Chaudhry: And normally, first quarter is always slower than the last quarter. So doing quarter-to-quarter comparison might not necessarily be appropriate here.

Rikin Shah: Yes, Amitabh, it wasn't from the overall growth perspective, just the mix of the growth where it's coming from.

Amitabh Chaudhry: Yes. So our consistency on the RAROC driven model continues. We will drive businesses, which give us the right return on capital. And given the deposit constrained environment, anyway we are in a way constrained in terms of how much we can grow our balance sheet or the asset side also. So there is a waterfall. We manage the waterfall quite actively. And each of the business leaders know what is possible, what is not possible, and that's how we drive our growth quarter-on-quarter.

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

Abhishek Murarka: So two questions. The first one is just going by the explanation that 55% of the increase in credit cost is due to the timing difference. If I sort of back, it out, the credit cost would probably fall by around 30 basis points. But even then, we would be a little higher than the averages we were clocking earlier. In light of this, is this like -- ex of the 30 basis points, is this like a new normal? And if so, how do we get back to the 1.8% kind of ROA? Are there any other levers in the P&L? So that was the first question.

The second question is regarding the growth in personal loans and credit card. Now overall, if you see the industry commentary so far from peers and also yourselves, you are seeing an increase in credit costs in those segments. And within retail, those are right now the growth drivers. So do you see any kind of slowdown in those segments? And if so, which other segments can pick up the slack to keep your overall growth at about 14%, 15%? So yes, those are the two questions.

Arjun Chowdhry: Abhishek, this is Arjun. I'll answer the question on credit cards and personal loans first. I think Amitabh mentioned this just now too. We keep calibrating our growth in terms of where we see the best returns and returns are measured by RAROC, as we talked about. So there will be a constant calibration in the composition of the balance sheet.

We also know that the personal loans and cards deliver a higher RAROC if done well. Yes, you're right. We have -- in fact, called it out in our investor presentation that this is the first quarter where we did just under 1 million cards. Otherwise, we have been doing close to 1 million cards for the past 10 quarters.

So we've taken action where we needed to based on what we saw both in our portfolio and the industry and what we saw from the bureau. Since both cards and personal loans are unsecured, we are fairly prompt and we have a very dynamic model, which tells us how those portfolios are behaving, and we take those actions very quickly.

You would have noticed that the pace of growth has been tempered to reflect that. That being said, the areas for growth will come by a continued calibration of the balance sheet and continue to grow it to maximize the returns that we deliver on that. So we categorically believe, no, we don't see this as a new normal. I can speak only for our portfolio, but I don't see the first quarter annualized number has been the new normal for either personal loans or cards. I talked about some of the calibration actions we've taken. We fully expect that those will play out over the next three quarters, along with other actions that we are taking and will show significant improvements from there.

Puneet Sharma: Abhishek, thank you for your questions. Let me pick up the math that you're trying to do. And I request you to probably refer Slide 60 of our presentation. I'll work with the numbers you articulated so we'll keep it apples-to-apples. So you said if you backed off the 55% that I spoke of, we will be about 30 basis points lower, so 97 minus 30 takes us to 67 basis points.

I'm presuming you're comparing the 67 basis points to the 50 basis points same quarter last year because that will be seasonally adjusted and an equivalent comparison. So yes, that is -- that was the purpose of indicating that there is a timing difference. So please do adjust for the timing difference whichever way you compute it.

The second aspect I would request your attention to is something that I called out earlier as part of my opening comments. 32% of the gross slippages for the current quarter are linked accounts, which are standard. And please appreciate those accounts will continue to pay us. And as the slippage gets regularized, the linked accounts also get regularized. When the linked account slips, we also create a provision on that linked account. Therefore, that needs to be factored in.

To your last sub part of your question on where do we directionally see credit cost? We have consistently been saying that credit costs for the system and for us cannot be at the levels they have in fiscal 2024. They need to move up primarily driven first by slowdown of recoveries and upgrades which we are starting to see. Please appreciate gross slippages across Retail, CBG and Bharat Banking are lower on a year-on-year basis.

So is there signs of clear stress on the portfolio? Answer is no. Hopefully, that gives you a comprehensive color of what and how you may want to think about that number. But we are very clearly stating that Q1FY25 annualized number is not indicative of full year credit cost for us as a franchise.

Abhishek Murarka: Got it. Appreciate that Puneet, just one thing on that linked account. So is that also part of the accounts where you're providing 100% or 91 DPD or I mean the accelerated provision is also kicking in for those accounts or is it a different segment?

Puneet Sharma: So Abhishek, if the linked account is an unsecured retail loans it will attract 100% provision. So if it is for home -- so let me explain with an example. The home loan was a lead qualifying account and the personal loan got classified because it was a linked standard account. Home loan will attract home loan product provision and the linked personal loan will attract 100% provision which is my policy.

Abhishek Murarka: Understood. By any chance possible to share how much of that 32% is unsecured retail?

Puneet Sharma: Abhishek, we don't put that data out. I'm sorry, I won't be able to give you that information.

Abhishek Murarka: Thank you so much for the answers that was really clear. Thank you.

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

Kunal Shah: Thanks for taking the question. So as you indicated with respect to the focus on LDR and maybe in terms of the constraint on loan growth. This quarter we are still seeing some expansion in LDR and that to maybe corporate is something which is driving the growth. So would it be okay to assume in terms of you being comfortable with more than 90% odd LDR as well or how should we look at it in terms of the growth between deposits and advances?

Amitabh Chaudhry: So Kunal, we stated it last time also that we have -- obviously RBI had reached out to various banks on their LDR strategy. We have gone and submitted our strategy to RBI which they have accepted, and we are operating within the parameters of the strategy which we have outlined to the regulator. So this quarter also continues to reflect the flexibility we have, and we believe, and we are very sure that we'll continue to operate within those flexible parameters. Let me -- I think Rajiv and Neeraj if you want to add?

Neeraj Gambhir: I think Amitabh has captured it well. We have basically -- it's well within the norms and the parameters that we have sort of talked about. LCR continues to be close to 120% and thereabouts. And incrementally, as Puneet also mentioned earlier that it is the accretion to the deposits which is driving the asset side of the business and hence there is a good sort of calibration between the two.

Kunal Shah: Okay. So it would be more LCR or still in terms of the LDR in terms of maybe the strategy that you would have laid out and the flexibility that is available?

Neeraj Gambhir: I would say both are important at this point in time. LCR is a regulatory requirement. LDR is not a regulatory requirement, but it is something that the regulator and the analyst community watches quite closely. So we pay equivalent attention to both, and both are in some senses managed and paid equal attention to.

Kunal Shah: Sure. And the second question is on slippages particularly within the retail. Any trend which you are seeing in terms of almost like 2% odd slippages wherein the skew is more towards the unsecured compared to thereof secured in this particular quarter?

Amit Talgeri: This is Amit here. So we haven't seen too much of a difference in terms of where the slippages are coming from. It's been uniform across, but like Puneet explained we've been looking at what the industry data is as well with the bureaus. We've seen a spike -- a slight increase in unsecured across the industry primarily driven by high leverage typically loan stacking that's happening. We've seen some parts of that in our portfolio as well.

But we've been taking proactive risk actions for close to 6 to 9 months now. And one of the key leading indicators that we really look at is early risk and that is well within the guardrails. So the way we've been kind of calibrating our strategy around risk in unsecured is that we have with guardrails across multiple segments. And within that also we are looking at both at a portfolio level, early risk at different cohorts and each of that is within the guardrails. And what we do is, obviously we keep looking very closely given the increased focus around unsecured and that's something that we will continue to really watch for.

Kunal Shah: Okay. Thank you.

Moderator: Thank you very much. Next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Actually, I just had two questions. One is perhaps just a doubt when I try and connect the dots between slowdown in card sourcing this quarter, the slowdown in the PL growth. And the last comment that Amit made about the pickup in unsecured and then therefore pickup in corporate loan growth. So what does it imply? Does it imply that the bank will now start changing the loan book mix perhaps as the risks start to unfold in the unsecured?

I appreciate that these are still early trends and early days, but we don't know. I mean the whole system has grown this book at a rapid clip, maybe your growth has trended lower over the last 4 years. But just trying to understand because the messaging has been pretty common this quarter. Appreciate it.

Arjun Chowdhry: Yes. Sure. Thanks, Rahul. This is Arjun here. So I'll try and answer it comprehensively. So there's always a lag between credit card sourcing numbers because the card gets booked first and asset builds up with a lag after that. So if you look at the slowdown in the sourcing numbers right now, then the impact of that in terms of the book growth will be felt some time down the line. As we mentioned, we keep calibrating our book. If you look at the asset spread, particularly on the retail side, we keep calibrating our book based on the RAROC that we see on each of the portfolios, and we take action based on what we see in the mix of that book.

So personal loans and cards are traditionally high RAROC businesses, but they also go through periods of stress being unsecured assets in their nature. So we take a holistic view on that one, and we keep moving it back and forth in terms of what will maximize the returns from the asset pool, which we see on a holistic basis. I hope that answers the question which you had.

So we will continue to change that mix strategically from time to time. And you will see those inter segment allocations changing so that we can maximize the returns that we have on a risk-adjusted basis.

Rahul Jain: Sure. Appreciate it. So can I just ask a follow-on question? So Puneet just said 34% of the downgrades happen due to the linked accounts. Can we understand what was the nature of the downgrade, if you can? If not then, generally trying to understand, so does it mean that the slowdown in PL & CC could be temporary and next few quarters, we can again start seeing pickup in this portfolio? Or will try and see again, quarter-to-quarter how things are moving. Because one could be late also, right, in assessing the cycle, you would want to avoid the type 2 error?

Puneet Sharma: Rahul, thank you for that question. I just want to just place an administrative correction. I heard you say I had indicated 34%. I just want to clarify. I had indicated 32% of gross slippages are attributable to linked accounts or have been updated in the same quarter. So I just want to be clear that the number is 32%. No, maybe I had articulated it incorrectly earlier. So I just want for good order sake, to set the record right. It is 32% is what we are working with.

I think to your question on how do we think about our portfolio? The principal basis of how we think about our portfolio is risk-adjusted return on capital and that is the driver of capital and liquidity on our books. Personal loan, credit cards or for that matter, any other product as long as it delivers the right RAROC to us, we will allocate capital and liquidity to it. The RAROC allocation and liquidity allocation is the quarterly exercise at the Bank. So we have an outlook for the year, but we plan this on a quarter-by-quarter basis, and that's how you will see us execute in this tight liquidity environment.

Rahul Jain: Appreciate it. One last housekeeping question. So the RWA density this quarter went up by 300 basis points. Can you explain what could be the reason behind it?

Puneet Sharma: Rahul, thanks again for the question. The 300 basis points increase in RWA intensity is, as per the capital adequacy circular, operations risk true-up happens in the first quarter of the year. So effectively, if you are a growing franchise, then your revenues have grown. And if you have seen our trajectory, our trajectory has been pretty steep. Roughly, that gives you an uptick on risk-weighted assets. So op-risk adds to risk-weighted assets. So nearly 50% of the increased risk-based is operations risk.

The balance is 2 factors. The balance sheet mix has changed. So cash balances between last quarter and now are lower. And lending to RBI last quarter to now is lower.

So the balance sheet mix change has impacted the balance. Direct answer to a question that I think you're looking for is my loan risk rate intensity has not changed between the 2 quarters. I hope that gives you a comprehensive response to what you were looking for.

Moderator: Thank you. Next question is from the line of Anand Dama from Emkay Global.

Anand Dama: So now we have completed the Citi integration, is it possible for us to share what is the retention ratio in terms of number of cards, employees, deposits, loans and the integration costs, I think by now it's likely over. So how should we see this cost to asset ratio moving towards over the next 3 quarters?

Arjun Chowdhry: Yes. So look, thanks for the question. But consistent with the earlier quarters too, we don't share specific numbers, but I can tell you now with the integration successfully behind us, that on every metric that we had set out when the acquisition was done, we have met or exceeded that metric, whether it be retention on balances, whether it be retention of customers or employees or even with the spending that we are seeing on the card.

We've also been able to derive significant synergistic benefits by taking the best practices and that was one of the important thesis behind the acquisition in the first place. So we've taken synergistic benefits and the best practices from the erstwhile portfolio, being able to apply them to a much larger portfolio, whether it be cards, whether it be banking and being able to derive those benefits as well.

So I think in every which way, not just the system migration, which went up quite well on this last few weeks ago. But on every other aspect of the integration as well, it has met or exceeded the expectation, which was set out when the investment case was made.

Anand Dama: Puneet, can you talk on cost to asset ratio?

Puneet Sharma: My apologies, I understand the question was addressed to me. Sorry, I didn't catch the question. Could you help me with that again, please?

Anand Dama: So can you basically, tell us like how the cost to asset journey is going to be over the next 3 quarters? This quarter, we have seen some moderation. So how do you see that on these 3 quarters?

Puneet Sharma: So like I have consistently indicated the philosophy with which we manage expenses and what we have delivered in the quarter are in line with our previous articulation. We have said we would like to continue to invest in the franchise, given the opportunity. Where we are required to tighten our belts, we do have the ability to tighten our belts. You have seen some of that happening in the current quarter.

Directionally, what I can indicate on expenses is expenses for last year were growing at the 27%, 29% YOY growth range. You will see moderation in growth of costs through fiscal '25 is the broad directional comment I can offer. We do not offer a cost to asset guidance.

Moderator: Thank you. Next question is from the line of Punit from Macquarie Capital. Please go ahead.

Punit: Just one data keeping question. Could you let us know the breakup of term deposits between retail and bulk?

Puneet Sharma: Thank you for the question. I would guide you to a comment I had made in the Q4FY24 results conference call. We had clearly said in order to ensure comparability to these market players, we will not be disclosing the RTD & NRTD breakup. We will disclose the LCR composition of our deposits and total deposit growth. I will guide you to Slide 7 of our investor presentation. The LCR as proportion of retail term deposits is 57% for the Q1 FY25, and the total deposits and the average balance of deposits and average deposit growth numbers are on the slide also.

Punit: Okay, thank you.

Moderator: Thank you. Next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Yes. So just on the retail gross slippages, you mentioned that it was INR 4,229 crores this quarter. If you could just help us how much of that was agri and what would be the comparable QOQ and YOY numbers?

Puneet Sharma: Piran, thank you for the question. We don't give that breakup. We report Retail as a composite number. And I can give you the retail YOY and QOQ number, but we will not split it up by segmental for one quarter alone.

Piran Engineer: That's also okay. If you could just help us with that?

Puneet Sharma: Just give me 20 seconds. I will just give you the YOY number and the same quarter last year. So we were at INR3,585 crores Q1 last year, and the equivalent number was INR 3,110 crores in Q4FY24.

Piran Engineer: That's quite helpful. Then secondly, I just wanted to understand better quantitatively, if not qualitatively, what percentage of your PL customers have another PL from another lender in the industry?

Arjun Chowdhry: So look, we do track the level of indebtedness of our customers, as you know, as is everybody else en route, but we're not allowed to put that number out in the public domain, and we prefer to keep it directional.

Piran Engineer: But would it be directionally increasing or stable? If you could just mention that?

Arjun Chowdhry: It's not increasing at any fast pace. It is in line with our expectations. Also, please keep in mind that we make our offers based on a dynamic situation as we assess for every customer because we do continuous refresh of our portfolio with the bureau. So that's a moving and dynamic number. It's not an increasing trend, if that's what you're alluding to.

Piran Engineer: And if I may just slip in one last question. Transaction banking fees have been rather tepid for a few quarters. What could be done to improve growth trajectory here?

Neeraj Gambhir: So look, transaction banking fees is always a function of the fact that how much of the clients operating cash flow goes through your counter. As the technology quotient in this space has increased, we have also made a significant amount of investments in that space. For example, a lot of large and new-age FinTech customers want to integrate with the banks only through API route, and the Bank has invested quite considerably in that space towards Project NEO.

We continue to sort of make progress in that space through our recently launched NEO for Business app. We have considerably revamped our capabilities in the corporate and Internet banking space through 'NEO for Corporates' introduction. So all of these investments and the efforts are basically making sure that we are able to provide best-in-class state-of-the-art solution to our clients.

And a lot of the inroads that we have made in the transaction banking space is through a very bespoke client-specific solutioning, not just to the large customers, but also, in many cases, to government customers as well. So effectively, this space is actually becoming more and more of a technology play as compared to vanilla network or distribution play.

Piran Engineer: That's helpful. Thank you so much and wish you all the best.

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

Jai Mundhra: Sir, I have a question as a trade-off between margins and loan growth or deposit growth. So our margins are -- as you said that we have 25 basis point cushion over versus through the cycle margins, but deposit growth or loan growth, loan growth is slightly below system and deposit growth is slightly above the system. So between the 2, do you see a possibility wherein you can step up on deposit growth or loan growth without compromising too much on the margins? How do you think between the trade-off between the two?

Puneet Sharma: Jai, thank you for the questions. We operate our business to grow profitably, which is why we've consistently said RAROC is the base framework on which we plan balance sheet growth. As long as we're getting profitable growth, we will grow it. The overall constraining factor that we have now been calling out for a couple of quarters is deposit growth will constrain advances growth.

As long as deposits are available at the right price and of the right quality, we believe that the franchise has enough distribution muscle to grow 300 to 400 basis points faster than industry on the asset side. That's how we are thinking about our balance sheet. Ultimately, there is a constraining factor, but growth will not come at the cost of profitability.

Jai Mundhra: Sure, Puneet. But if we look at the advances growth has been actually a bit lower than system, if you adjust for the Citi acquisition in the last 3 to 4 quarters, while profitability, of course, has been either on the ROA or maybe on the NIM side has been much protected. So do you think you can do something on the deposit side to step up on the growth or it is too sort of volatile to call out that?

Puneet Sharma: Jai, thanks for the question. I think the point you're raising is can I accelerate deposit growth to drive advances growth by compromising a bit on profits? I don't think that's an equation we are agreeable to, or we are working towards. Let me break that response up for you. We have worked very hard to improve the quality of our deposit franchise, and which has fed into our net interest margin journey.

The outflow rates on our deposits have fallen by 400 basis points over the last 2 years. That is substitution of bad deposits with good deposits. And therefore, that is a journey that we'd like to stay focused on. Consequently, picking up incremental deposits just to report higher growth is not what we are philosophically aligned to.

What we are clearly articulating is as long as we get the right deposits at the right price, the franchise is strong enough to grow faster than market over the medium to long-term, and we feel confident that we'll be able to do that. I hope I'm being able to address your question, but I think we're very clear in our thinking, and we've been very consistent with our response to how we think about balance sheet growth and profitability for a while now.

Jai Mundhra: No, that helps. And lastly, in the opening remarks, you mentioned that -- and maybe Amitabh mentioned that INR5,000 crores of contingent provision/prudent provision, you also mentioned ECL in the same breath, right? So assuming -- is it fair to say that this kind of provisioning will suffice as and when you move to ECL or on a ballpark basis? You think you may need something more also?

Puneet Sharma: Jai, I think it's impossible to comment on sufficiency of the provision absent a final guideline. What we have done is we used to have a COVID provision. The COVID risk did not play through. We had always indicated we will never write back that provision. We have named asset-specific provision philosophy. We do not carry contingent provisions or floating provisions on our balance sheet.

This is the only pool-based provision we have, and what was kept aside for COVID has now been earmarked for ECL transition. It is no way an indicator of excess or short provision required on actual transition date because we need to wait for the regulators' final guidance on how and when ECL will get implemented.

More specifically, the reason I cannot give you a categoric response is in the draft discussion paper, there was a concept of floor provisioning apart from model-based outcomes. We'd like to see what the circular states on floor provisioning, because that will determine or change the quantum of provision the system and we would need as part of the actual transition. The reason we've kept this funding aside, obviously, is to make sure that the transition impact is minimal to net worth, and that's why we put this funding aside.

Jai Mundhra: Thank you and all the very best.

Moderator: Thank you very much. Ladies and gentlemen, we'll take that as the last question. I'll now hand the conference over to Mr. Puneet Sharma for closing comments.

Puneet Sharma: Thank you, Neerav, for this evening. Thank you, everyone, for taking time and patiently going through the Q&A with us. If any questions remain unanswered, please reach out to Abhijit and the IR team, and we'll be very happy to respond to them separately. Thank you. Have a good evening.

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