Axis Bank's Q2FY25 Earnings Conference Call

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MANAGEMENT:

MR. AMITABH CHAUDHRY – MANAGING DIRECTOR & CEO
MR. RAJIV ANAND – DEPUTY MANAGING DIRECTOR
MR. SUBRAT MOHANTY – EXECUTIVE DIRECTOR
MR. MUNISH SHARDA – EXECUTIVE DIRECTOR
MR. PUNEET SHARMA – CHIEF FINANCIAL OFFICER
MR. ARJUN CHOWDHRY – GROUP EXECUTIVE, AFFLUENT BANKING, NRI, CARDS & PAYMENTS

Moderator: Ladies and gentlemen good day, and welcome to the Axis Bank Conference Call to discuss the Q2FY25 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: We have on the call, Rajiv Anand – Deputy MD, Subrat Mohanty – ED, Munish Sharda – ED and other members of the leadership team.

This quarter, we delivered steady operating performance led by higher growth across our focus business segments and sequential improvement in key return ratios. We remain committed to build long-term competitive advantage with investments in technology, analytics, fraud control and cybersecurity. The Bank continues to win various external awards and recognition across its different businesses, substantiating the investments and progress made over the past few years resulting in this winning mindset of the Bank.

Let me summarise the Q2 operating performance:

- Consolidated ROA% at 1.92% improved 9 bps YOY and 22 bps QOQ, Consolidated ROE% at 18.08% improved 140 bps QOQ.
- Operating profit was up 24% YOY and 6% QOQ driven by healthy operating income growth and further moderation in operating expenses growth.
- Execution on the deposits is on track with **14%** YOY growth in deposits and **24%** YOY growth in new customer acquisitions.
- CASA ratio and fee to average assets continues to be the best amongst peer private banks.
- Focus business segments delivered strong growth of **20%** YOY and **4%** QOQ.
- The Bank is well capitalized with a CET 1 ratio of **14.12%** with net accretion of **6** bps in Q2FY25 and 38 bps in H1FY25 period.

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 over 200 bps higher than industry deposit growth. We have opened 150 new branches in the last three months, and 200 in the first half of this fiscal.
- ✓ The New to Bank acquisition engine for the SA franchise has trended well. In this quarter we saw
  - SA New to Bank deposits up 15% YOY with new accounts opened up 5% YOY and balances per account up 10% YOY.
  - New corporate salary labels acquired in Q2FY25 grew 11% YOY, with 10% YOY growth in Number of Accounts acquired. Salary uploads in the new book acquired in H1FY25 grew 27% YOY.
  - Deposit mobilization remains a key focus area for the entire Bank. The asset channels, saw 106% YOY growth in deposit balances (MDAB) and 25% YOY growth in NOA sourcing leveraging their relationship and distribution strength.
- ✓ Project Triumph continues to focus on productivity enhancement through tech-led solutions.
- ✓ The SA New to Bank unit productivity of Relationship Managers continue to trend positively with 40% YOY improvement as of Sep'24
- ✓ The premiumization of our franchise continues to progress strongly led by 36% YOY growth in Burgundy assets under management.
- ✓ During the quarter, we expanded our coverage of 'Burgundy Private', the Bank's private banking business to 15 new cities, increasing our presence to 42 locations across India. We believe that there is tremendous growth potential in Tier 2 cities for our bespoke wealth management services, given our deep understanding of customers in these evolving markets.
- ✓ On the wholesale segment refer slides 37 & 39, our industry leading customized solutions across liquidity management, payments and collections continue to drive higher transaction banking flows leading to better current account balances. Our NEFT market share (in terms of value) has increased to ~12.9% in H1FY25 as compared to ~10.4% in H1FY24. We are also seeing strong pickup in CA growth in our merchant acquiring business where we have leadership position with 36% incremental share in new POS installations.

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 20% YOY and now constitute 43% 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 (which we refer to as running the bank tech), further invested in architecture modernization, cyber-security, fraud control, risk and collections management etc.

- ✓ 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 1.3 lakh customers on boarded in the last one year.
- ✓ During the quarter, we introduced two innovative, industry-first digital solutions at the Global Fintech Fest 2024. The Bank launched 'UPI-ATM', an integrated Android Cash

Recycler with Unified Payments Interface (UPI) technology for cardless cash withdrawal and deposits. We also launched 'Bharat Connect (erstwhile BBPS) for Business', in partnership with NPCI's Bharat BillPay Limited (NBBL). This will provide businesses a comprehensive solution to efficiently manage their working capital needs at various stages of the supply chain and streamline account receivables and payables.

- ✓ We also leveraged our capabilities and leadership in payments space to launch UPISetu, a UPI-focused payments platform for businesses and developers in partnership with Setu, a Pine Labs company.
- ✓ We now have a strong, dedicated Financial Crime Intelligence division that combines analytics, digital monitoring, and fraud control capabilities to safeguard the Bank and its customers.
- ✓ We continue to garner several key external recognitions for the capabilities and initiatives we have undertaken successfully in the last few years.

  i. The Bank was featured in the TIME's World Best Companies of 2024 list and was ranked the highest amongst its Indian financial peers.

  ii. The Bank also won several awards including those for Best performance on Profitability, Risk Management and Asset Quality, apart from being recognized for "Excellent Practices and Adoption of ESG initiatives" at the Indian Chamber of Commerce Emerging Asia Banking Awards 2024

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, partnerships and a prudent operating model differentiates us and gives us the "right to win".
- Axis Bank, is the leading UPI Payer Payment Service Provider (PSP) Bank in India. According to data published by the National Payments Corporation of India (NPCI), as of September 2024, Axis Bank holds a market leading share of 30.87% in the UPI Payer PSP space. This achievement is a testament to the bank's unwavering commitment to innovation, customer-centric solutions, and strategic partnerships. Axis Bank collaborates with 15 prominent Third-Party Application Providers. Additionally, the UPI functionality is available through Axis Mobile "Open," BHIM Axis Pay, and Freecharge, a subsidiary of the Bank.
- The integration of erstwhile Citi consumer business that we had completed in July exemplifies the true power of One Axis. Consequently, erstwhile Citibank customers now use Axis digital channels including Open by Axis mobile app and internet banking. The migration was seamless with minimal disruptions to customers in terms of Monthly Active Users, Open is witnessing higher number of customers than were active on erstwhile Citibank platforms. Further, digital activity of these customers across products/services such as funds transfer, FD, Bill Pay etc have gone up materially.

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

- In this quarter, the Bank made several enhancements to its products including redesign of several journeys, new journeys such as opening FD via money from other banks, continued rollout of Neo for Corporates and Neo for Businesses, which are digital channels aimed at corporate and small business customers respectively.

- The Bank was awarded the Best Digital Bank (Private) by Financial Express. In addition to the strong app ratings, awards such as this signify the bank's distinctives in digital capabilities and platforms.

Bank-wide programs to build distinctiveness

Our bet on Bharat is growing from strength to strength

- The rural advances grew 20% YOY and deposits from Bharat Branches were up 9%; thereby aiding the PSL and profitability metrics.
- We have expanded our multi-product distribution architecture to over 2,500 branches complemented by ~62,000 CSC VLE network across 683 districts and 80+ partners across the industry.

During the quarter, we embarked upon next phase of 'Sparsh', our distinctive customer obsession program

- Sparsh 2.0. represents a strategic evolution from Sparsh 1.0., and is aimed towards "Linking Sparsh initiatives to enhanced customer satisfaction leading to improved NPS and better business outcomes."
- The program has been instrumental in driving higher Net Promoter Scores (NPS) led by enhanced process automation and significant digitization. Our Retail Bank NPS score has matured significantly, rising to 145+ from a baseline of 100 in the past 2 years.

In Closing:

- We find favourable macros backed by a strong and stable domestic policy environment which bodes well for the banking sector.
- 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 will continue to invest where necessary to remain 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 Q2 FY25 and H1FY25, across (i) Operating performance; (ii) Capital and liquidity position and (iii) Asset quality, restructuring and provisioning is as follows:

Key financial parameters for H1 FY25:

1. Consolidated ROA% at 1.80%, consolidated ROE% at 17.43%

2. Operating profit at Rs. 20,819 crores, grew 19% YOY

3. Cost to income at 47.21%, declined 207 bps YOY

4. PAT at Rs 12,952 crores, grew 11% YOY

In Q2FY25 our operating performance was stable across NIMs, fee and operating expenses lines. The key metrics for Q2 FY25 are:

a. Consolidated ROA% at 1.92% improved 9 bps YOY and 22 bps QOQ, Consolidated ROE% at 18.08% improved 140 bps QoQ. Subsidiaries contributed 8 bps to the consolidated annualized ROA and 50 bps to the consolidated annualized ROE this quarter.

b. The Bank's Balance Sheet crossed Rs. 15 lakh crore as at September 2024

c. NIM at 3.99%

d. NII at Rs. 13,483 crores, YOY growth of 9%

e. Fee at Rs. 5,508 crores, YOY growth of 11%, QoQ growth of 6%, granular fee at 92% of total fee

f. Operating Expenses at Rs. 9,493 crores, YOY growth moderated to 9%

g. Operating profit at Rs. 10,712 crores, YOY growth of 24%; QoQ growth of 6%

h. Cost to assets at 2.52%, declining 2 bps sequentially, delivered positive jaw for the quarter

i. Net credit cost at 0.54%, down 43 bps QoQ. Recoveries (including recoveries in written off accounts) and upgrades improved by 46% QoQ in line with our Q1FY25 commentary.

j. PAT at Rs. 6,918 crores, increasing 18% YOY, and 15% sequentially

k. GNPA at 1.44%, declined 29 bps YOY and 10 bps sequentially

l. NNPA at 0.34%, declining 2 bps YOY and flat sequentially

m. PCR% at 77%, broadly flat QOQ

n. Standard asset coverage of 1.2%, stable QOQ, All provisions by GNPA ratio is 153%, improving 258 bps QOQ

In Q2FY25, the Bank received favourable orders at ITAT for 6 assessment years commencing AY 2011-12. This has resulted in a write-back of excess tax provisions made in the previous financial years, aggregating to Rs. 550 crores. In addition to specific loan loss provisions, in the quarter, the Bank made provisions aggregating to Rs. 520 crores under the head provision for other contingencies, these are entirely prudent and not for current or future NPA's and should not be construed in any manner as the Bank's assessment of its expected asset quality. Hence, on a net basis the effect on reported results is marginal. Further, we are not expecting any further tax orders relating to similar matters in the remaining part of FY 25.

Banks CET-1 including H1 profit stands at 14.12%, thereby accreting net of consumption, 6 bps of CET-1 capital in Q2FY25 and 38 bps in H1FY25. 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 ~38 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. We may opportunistically evaluate issuing Tier-2 and AT-1 instruments based on market conditions.

In the current quarter we applied increased outflow rates on our "operating deposits" and this increase has impacted our reported LCR% and LCR accretive deposit number. These changes help place us better for the implementation of the draft circular.

NIM at 3.99%, declined 6 bps QOQ, largely attributable to the interest on income tax refund recorded in the previous quarter. Operating NIMs largely remained flat QOQ. Yields on interest earning assets have improved 9 bps YOY. This increase was offset by cost of funds increase on a YOY basis, resulting in a YOY NIM drop of 12 bps.

Our progress on structural NIM drivers continues, please refer to slide 10, with improvements across most variables on a YOY basis:

- Improvement in Balance sheet mix: Loans and investments comprised 90% of total assets at September 24, improving 48 bps YOY;
- Average advances comprised 66.9% of total assets at September 24, improving ~ 40 bps YOY;
- Retail and CBG advances comprised 71 % of total advances at September 24, improving 243 bps YOY
- Low-yielding RIDF bonds declined by Rs. 10,448 crores YOY. RIDF comprised 1.21% of our total assets at September 24 compared to 2.14% at September 23.
- Quality of liabilities at September 24 measured by outflow rate at 25.7% remains amongst the best in the industry but declined marginally YOY, QAB CASA at 40% declined YOY.

Our fee performance was good, reflected in a fee growth of 6% QOQ and 11% YOY. Our fee to assets improved 5 bps QoQ.

- Total retail fee grew 5% QOQ, supported by our TPP business
- Total wholesale fee grew 8% QOQ better than the growth in advances reflecting improvements in the franchise across transaction banking, debt capital markets and our treasury activities

Trading profit and other income at Rs. 1,214 crores improved by Rs. 634 crores sequentially, mainly on account of MTM on investments. Please note that under the current RBI guideline related to investment accounting and recognition norms applicable from April 2024, MTM gains are also recognised through P&L unlike in the past where only MTM losses were recognised and gains ignored.

Operating expenses for the quarter stood at Rs. 9,493 crores, growing 9% YOY and 4% sequentially. We have opened 150 new branches in the quarter and 200 new branches in the H1FY25.

- The YOY increase in rupee crore expenses can be attributed to the following reasons: (i) 19% linked to volume; (ii) 20% technology and growth related and (iii) 74% to BAU, offset by reduction in integration expenses.
- Technology and digital spends grew 31% YOY and constituted ~ 10.2% of total operating expenses.
- Staff costs increased by 19% YOY. We have added 4,091 people from same period last year mainly to our growth businesses and technology teams.
- QoQ increase in operating expenses is largely attributable to our cards business and BAU expenses across all business and functional lines.

Net credit costs / provisions for NPA was Rs. 1,441 cr, declining 44% QOQ. Provisions and contingencies for the quarter were Rs. 2,204 cr, higher sequentially due to prudent provision for other contingencies discussed earlier.

The cumulative non NPA provisions at September 30, 2024 is Rs. 11,815 crores, comprising (i) Provision for potential expected credit loss of Rs. 5,012 crores; (ii) Restructuring provisions of Rs. 466 cr, (iii) standard assets provision at higher than regulatory rates of Rs. 1,912 cr and (iv) weak assets & other provisions of Rs. 4,425 crores.

Coming to the performance of our subsidiaries

Detailed performance of the subsidiaries is set out on Slides 62 to 69 of the investor presentation. In H1 FY 25, the domestic subsidiaries reported a net profit of Rs. 927 crores, growing 35% YOY. The return on investment in domestic subsidiaries was ~ 58%.

Axis Finance:

- Overall assets under finance grew 30% YOY. Retail book constitutes 47% of total loans
- H1FY25 PAT grew 24% YOY to Rs. 327 Crores
- Strong asset quality with net NPA of 0.25% and negligible restructuring.

Axis AMC: Overall quarterly average AUM grew 20% YOY to ~ Rs. 3,12,338 crores, H1FY25 PAT stood at Rs. 244 Crores, growing 29% YOY

Axis Securities: Revenues for H1FY25 grew 98% YOY to Rs. 907 crores and PAT grew 139% YOY to Rs. 272 Crores

Axis Capital: H1FY25 PAT grew 29% YOY to Rs. 87 crores and executed 30 ECM transactions in H1FY25

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 prvided on slide 54 of our investor presentation.
- Gross slippages in the quarter were Rs. 4,443 crores declined sequentially. Our gross slippage ratio also declined by 19 bps sequentially. Gross Slippages segmentally were Rs. 4,073 crores in Retail, Rs. 264 crores in CBG and Rs. 106 crores in WBCG.
- For the quarter ~ 33 % 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. 2,374 crores declining 28% QOQ. Net Slippages segmentally were Rs. 2,607 cr in Retail, Rs. 91 crores in CBG and negative Rs. 324 crores in WBCG.

Recoveries from written off accounts for the quarter was Rs. 984 crores, improving 67% sequentially.

Net slippage in the quarter adjusted for recoveries from written off pool was Rs. 1,390 crores, declining 49% QOQ. Segmentally Retail was Rs. 2,164 crores, CBG was Rs. 31 crores and WBCG was negative 805 crores.

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

- Consolidated ROA and ROE for Q2 FY25 is 1.92% and 18.08% respectively, an outcome of disciplined execution.
- The Bank has ample and sufficient liquidity, visible in the average LCR ratio of ~115%. 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 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.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Hi. I had a couple of questions. Firstly, on deposit growth. You've done a good job in improving the quality of deposits. You've been working on it for a long time. I know you've given a medium-term forecast of growing faster than the sector. But like if you really look at the yearly deposit growth or early loan growth, even if you build a 3%, 4% Q-o-Q deposit growth for the next two quarters, it comes to best low single-digit or maybe low double-digit or very high single-digit.

And that's kind of lower compared to peers. So any plans to accelerate deposit growth from now on, given that the quality has been achieved like increasing rates. That's my first question. And if you could call out the IT refund this quarter, like last quarter was Rs 200 crores is what was called out?

Puneet Sharma: Mahrukh, thank you for your questions, and I'll clarify on the data points that you raised. Last quarter, we had interest on income tax refund, which was recorded in the net interest income line, that was Rs 220 crores-odd. In the current quarter, we have favorable orders from the ITAT, for which, we have been able to reverse tax provisions created in previous financial years. We received favourable orders for six financial years/assessment years. And the aggregated amount of tax provision reversed, and this reversal is sitting in the provision for tax. So below the PBT line, that amount is Rs 550 crores.

Mahrukh Adajania: So there is no IT refund this quarter?

Puneet Sharma: Nothing meaningful to speak of. This is a provisional reversal number.

Mahrukh Adajania: Okay. Cool.

Munish Sharda: Mahrukh, hi, this is Munish. First of all, thank you for acknowledging our work on the quality of deposits. Indeed, we have seen a dramatic shift in our quality of deposits in the last few years, we've been at it, as you just said, as depicted by the improvement in the outflow rates, our CASA ratio, etc, and the growth, which is better in the rest of the industry.

It is obviously, we are focused on increasing the momentum of growth in the business. We are growing at 200 basis points higher than the industry. There are a few levers or pillars that we are working on, which I just want to bring to a notice is also mentioned on Page 18 of the investor deck.

We have been telling you that we are working on a multi-quarter deposit transformation project, improving the customer engagement and the operating rhythm in our branches. And we're seeing good outcomes as a result of that work that we've done over the past few quarters, our NTB productivity, NTB growth rate and premiumization of deposits have indeed shown good momentum in the last few quarters.

We're also focusing on building a micro market strategy. We've opened close to 500 branches last year. This year, again, we are looking at opening 500 more branches. We are working on premiumization of our total base. Our growth rates in our premium accounts in our markets is actually higher than the overall growth rate. But that number, we will continue to focus on our wealth franchise, which is Burgundy Private franchise on top is also growing at a very healthy pace and crossed Rs 2,00,000 crores of overall AUM. We've also added 15 more cities and taking our Burgundy Private presence in about 42 cities in the country.

Our Bharat Banking strategy is also continuing to ensure that we get deposits in the deeper market as well through multiple channels of distribution, and our digital partnerships, including our world's best app on the retail side and the new project on the wholesale side for the customer.

We're also ensuring that we continue to deepen our engagement. If you look at our overall number, in the first half, we've grown deposits at 14% YOY in the first half of the year, and it's our endeavor to continue to push for higher and better-quality growth from here.

Mahrukh Adajania: Okay. Perfect. Thanks. And if at all, I can slip in a third question. If you could explain the vintage of write-offs, right, so it would be old NPLs, right?

Puneet Sharma: Yes, Mahrukh, thanks for the question. I'm presuming you're looking at the NPA walk slide that we published on the presentation Slide 56, and you are wanting details on the Rs 3,119 crores, correct?

Mahrukh Adajania: Yes.

Puneet Sharma: So Mahrukh, as I have previously indicated, we are one of the few banks that writes of loans on a rule basis. So for our Retail portfolio as well as our commercial banking portfolio, we have an auto write-off rule after an account has been provided 100% for a certain number of quarters. So a dominant part of the write-off for the current period has come from our CBG and Retail portfolio.

I have also called out as in the earlier part of my opening comments that we had strong recoveries on the wholesale side. In the Rs 3,119 crores, there will be the residual amount on wholesale accounts that would have been written-off as part of the settlement process. So dominantly, CBG and Retail rule-based with a few wholesale accounts, which would have a tail amount that would have been written off post-recoveries.

Mahrukh Adajania: Got it. Very clear. Thank you so much. Thanks a lot.

Moderator: Thank you. The next question is from the line of Rikin Shah from IIFL Securities. Please go ahead.

Rikin Shah: Thank you for the opportunity. I have three questions. The first one is on the SLR investments. There was a marked jump sequentially in the SLR investments that we are holding. Is this a function of the higher run-off rates that we have applied on some retail deposits and to shore up the LCR?

The second question is on asset quality. While you've called out, Puneet, that the gross slippages are largely from retail, if you could provide some additional color as to whether it's coming only from the unsecured or there are other retail segments, which are contributing to that as well?

And a sub-question would be that the recoveries while they have improved sequentially, would you say that there is still some more catch up of the lower recoveries that we saw in 1Q to come through in the second half?

And the last question that I have is on the draft RBI norms, which were announced recently and specific to the subsidiaries are not allowed to do overlapping businesses. So some of your subsidiaries would be in the lending segment? And what is your preliminary assessment or understanding of this guideline?

Puneet Sharma: Rikin, thank you for the questions. Multiple parts, let me break them up and respond. Your first part was your observation on G-Sec growth on balance sheet. My request to you is please -- and that number will reflect a 10% to 12% sequential growth. Please do not look at that number in isolation. We manage the balance sheet with an interest rate view. So please look at overnight placements plus SLR together.

And if you look at the two numbers on a cumulative basis, there will be a net increase, if you add the two lines up by roughly about Rs 3,800 crores to Rs 3,900 crores, which is in line with the balance sheet growth. So it is just how we have deployed liquidity as at reporting date that shows you the anomaly between the two line items. Overnight placements get reflected in cash and balances with banks, whereas SLR securities get reflected in the investment schedule. Yes, there is an increase in the SLR securities on account of the run-off comment. So yes, that does partially contribute to the increase, but it is not to the extent as visible on the face of the financial statements.

Your second question was the October 4th circular from RBI. I would simplistically state today that the Bank is reviewing and evaluating the implications of the draft circular on our legal and operating model. We do intend to review and make representations to clarify our understanding on the draft circular as it stands today. We will wait for the final guidelines to determine our position on the October 4 circular outcomes.

But the one principal philosophy that we will use as we assess October 4 implication is we will do what's in the best interest of our shareholders. That's all that we are able to comment today. It's very nascent to give you a categoric outcome on what, when and how we would deal with the implications of the October circular today.

I think the third part of your question was retail slippages and color thereof. You fairly observed, as I had called out earlier, retail slippages are a large part of our slippages for the quarter. Directionally, they are coming from the unsecured product segments. We have never given you product-specific details. So we would not like to start doing that now. But suffice to say that it is largely unsecured retail, where we have found slippages in the current quarter. I think that covers all the questions you have Rikin. I hope I have not missed anything.

Rikin Shah: Just one subpart, one was on the recoveries, while it has improved sequentially, but the shortfall from the 1Q, would you say that there is any further catch-up remaining on that? Or this should be general normalized trends going ahead?

Puneet Sharma: No, Rikin, I clearly said that our recovery from written-off accounts for the quarter are actually up 67% sequentially. And the other comment I made was, we had very clearly called out that there were timing differences in quarter 1 performance. And I think we've borne fruit to our initial comments that we will find those recoveries come through. So if you add the two quarters together, you pretty much get what we had promised.

Rikin Shah: Got it. Thank you very much, Puneet, for answering all the questions.

Moderator: Thank you. We'll take the next question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Yes. Thanks for taking the questions. So first is with respect to the loan growth and you alluded when you were answering with respect to the deposit growth. But even in terms of the break-up, if we look at it in few of the segments like home loan, vehicle loans, corporate, we are still lagging significantly to the system average growth. So I think should we still assume that this might continue for a while? And the larger part of the growth will still be driven by higher yielding focus segments more to manage deals?

Arjun Chowdhry: Hi, Kunal, thanks for your question. So if you look at Page 21, we've got a breakdown of the loan growth. Obviously, when we look at our balance sheet, we do so holistically and we do so with two or three aspects in mind. Our primary driving factor is returns on different parts of the balance sheet. Now if you look at the way it's unsecured, which is traditionally a higher-yielding asset book has performed, the return will be affected by the credit stress, similarly on cards, similarly on others. At the same time, we are also acutely aware of the situation in the market, which affects some of the derived demand products, such as auto and home loans.

So we are expecting to see a pickup in the loan growth in this quarter and the next, but we will continue to calibrate the composition of the loan growth, particularly on the retail side in order to optimize the best return while keeping in mind what we will get as placement yields and also what we expect to see as credit losses.

Kunal Shah: Okay. So fair to assume maybe at least in terms of the traction on retail, we will still see the decline, particularly on the unsecured and some pickup on the secured side?

Arjun Chowdhry: I would not qualify it as a decline. We haven't even -- I mean, even here, we haven't seen a decline as a sequential Q-o-Q or Y-o-Y. But yes, it will be calibrated for those segments where we believe we see signs of stress. So we will take early action. And obviously, you will see the composition of that change on a fairly dynamic basis.

Kunal Shah: Okay. And second question is on cost of deposits. So that has still stayed flat this quarter. So how do we say maybe -- are we largely done with the repricing? There has not been much increase in the term deposit rates for us. So should we assume that it stays at the current level given the rates which we are offering today?

Puneet Sharma: Kunal, thank you for the question. I presume you're looking at data on Slide 9 of our presentation. Yes, we've been flattish on cost of funds. We put out cost of funds, not cost of deposits. Effectively, if you look at the way I would request you to think about...

Kunal Shah: Sorry sir, on Slide 7, there is cost of deposits at 5.08.

Puneet Sharma: That's correct. So effectively, if you look at 5.08 flat, even cost of funds have remained flat. The 1 basis point change in cost of funds is principally led by borrowing cost increase. As long as the market remains disciplined about pricing for deposits, we would expect a reasonable part of the back book to be repriced. We'll have to look at how the forward book moves. We, as a bank, have remained very disciplined on deposit pricing, and that is an operating model that we intend to continue to follow on a go-forward basis.

Kunal Shah: Okay.

Rajiv Anand: Kunal, if it's -- I mean if you look at the Fed had cut rates by 50 basis points, ECB has cut the 25 basis points the third time today. And there is already a conversation on when the RBI will cut. Now one can argue on whether the cut is going to come in December or March. But in the environment like that, it is unlikely for deposit rates to go up. And so therefore, to that extent, the pressure to push deposit rates up seems unlikely.

Kunal Shah: No, only question was on re-pricing, we are largely done with respect to the re-pricing on the back book?

Rajiv Anand: See the -- I mean a very large percentage of the book is between, let's say, six months to one year. So you can do the math, I mean on what that number could be.

Kunal Shah: Got it. Okay. Yes, thanks and all the best. Yes.

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Yes, hi. Good evening. Thanks for the opportunity. I have two questions. One is on the CD ratio and LCR, if you can indicate like what is the comfortable like number of threshold that you will want to maintain on this. And specifically, LCR, what really driven this increase in outflow rate? So how are we looking at this going forward in the next quarter?

Puneet Sharma: Nitin, thank you for the question. I think let's start with the outflow rates. As I called out earlier in my conversation on this call, we have -- look, we have revisited the risk weights on operational deposits. And because we revisited the risk weights, the outflow rate has changed, which is the reflection of the number that you see on our investor presentation. The reason for the change or the rationale for the change is we think that's a better representation.

It also places us well for the final LCR adoption in shape and form that it comes out in April. So that's the reason why you're seeing outflow rates move up. Otherwise, core retail outflow rates have remained steady for us on a period-on-period basis. To your question on the CD ratio. You've seen us operate at a CD ratio level over the last three to four quarters. We will operate in a range.

We are very cognizant and respectful of the regulators' outlook on this number, but it is one of the many variables that we look to manage our balance sheet by, it's not the sole variable. Our reported number for the current quarter is a number that we are comfortable with at the moment.

Nitin Aggarwal: Okay. And the second question is on the employee base. There is a very slight decline in 1,100-odd employees this quarter, while you added 150 branches. So how are you looking at the expansion going ahead in terms of how then the branches would work?

Puneet Sharma: Thank you for the question. I think it's a reflection maybe of some of the past questions that we've been asked, that reduction is after the fact that we've added 200 branches, including 150 in the last quarter. Part of it is productivity gains playing through for some of our previous investments that we have made on the digital and tech side.

Nitin Aggarwal: Okay. So we can expect this to continue as in the productivity gains result in lower employee base?

Puneet Sharma: Nitin, I will not offer a comment on individual line items of my cost. I have very clearly stated in the past that for Axis Bank, you should see pace of growth of cost to moderate. We have delivered that in quarter 1 and quarter 2. We are down to 9% year-on-year cost growth. I think that's something that we would like to be measured by. We would not like to offer commentary on individual line items of our cost base, please.

Nitin Aggarwal: Sure, Puneet. Thank you so much.

Moderator: Thank you, sir. The next question is from the line of Saurabh from JPMorgan. Please go ahead.

Saurabh: Hi, sir. Just two questions. So one is on CASA. So it's about 5% on an quarter average basis. What's your outlook for this number for the full year? And if rates were to come down by 50 basis points, would you expect some improvement, especially on your savings account? And the second is on this loan mix, so we've seen corporate and mortgage still growing slowly. How would you think about this rate going out? Thank you.

Puneet Sharma: My apologies, I couldn't hear you clearly. May I request you to please repeat your question?

Saurabh: So the first is on CASA…

Moderator: I'm sorry to interrupt, Mr. Saurabh. I request you to kindly use your handset, sir. Your audio is not clear.

Saurabh: Is this better now?

Moderator: Yes. Please proceed.

Saurabh: Yes. So on CASA, so sir how would you think about this CASA growth going ahead? It's about 5% on a quarter basis, especially on savings account? And if rates were to come down by 50 basis points, would you expect the asset growth -- savings account growth to go up? And the second question is around the corporate and the mortgage growth. Basically, it's been pretty mutish this quarter. Should we expect a similar trend going ahead? Thank you.

Puneet Sharma: So let me start with the asset growth piece. I think we monitor and manage our businesses on a risk-adjusted return on capital basis. Effectively, that's how we would manage our balance sheet. Mortgages honestly still doesn't give you at marginal cost an adequate risk-adjusted return. We like that segment for it being secured, but growth there will continue to remain calibrated till we can find the right kind of outcomes for it. I'll pause there. I'll request Rajiv for his inputs on the wholesale business.

Rajiv Anand: I'm not overly concerned about asset growth on the corporate side and as I've mentioned this many times. On the contrary, we've actually had a pretty good quarter from a corporate perspective and how we've been engaging with customers. Axis Capital has had a fantastic run over the last three months 60% to 70% of the business that they have taken to market are customers of ours. We have gained market share on foreign LCs, RTGS. We now have a 48% market share on NEFT transactions in this country.

GST payments that go through us, 7% of India GST goes through us and they are about BBPS market shares of 18%-odd. So you can clearly see that the transaction throughput that we are seeing is increasing on a day-on-day basis. Amitabh's commentary around Neo for corporates, Neo for business, Neo for treasury is gaining traction and though that is showing up in numbers and is also showing up in current account balances.

Both Amitabh and Munish spoke about the fact that our salary franchise continues to grow quite strongly, obviously supported by the relationships that these corporate bring and finally things like -- because of the fact that we are the transaction banker of choice, and the fact that Corporate India is flushed with liquidity, we get our fair share of term deposits, non-retail term deposits as well as liquidity into our mutual fund, etc. So therefore, the way that we transact with corporates has diversified quite significantly adding to PPoP. We've also had a very good quarter in terms of DCM activity. We have something like a 50% market share on the loan syndication market as well. So we may not necessarily use our balance sheet to support our clients, but we are able to deepen relationships and improve thereof for ourselves.

Saurabh Kumar: Very clear. And just on CASA sir?

Munish Sharda: On CASA growth, as I said earlier, and Rajiv and Amitabh also mentioned, we are focused on ensuring the granularity of our deposits, and deepening in multiple customer segments within the bank. And we expect to continue to push this number. Difficult to give a forecast for next quarter, which we don't give. But in general, all the actions that we're taking across multiple pillars of delivery and deposits, should continue to ensure that we are able to deliver to our objective. If we look at our number, we have grown H1 deposit by 14% over previous year, which is about 200 basis points better than the industry.

Puneet Sharma: And I think you mentioned about the 50 basis point rate cut, I think that's a bit out into the future. So we'll worry about it when it actually becomes to happen.

Saurabh: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Chintan Joshi from Autonomous. Please go ahead.

Chintan Joshi: Hi, thank you for taking my questions. I've got two, one on asset quality and one on NII. On asset quality can we get a sense of how vintages are performing in unsecured credit and would you kind of looking at the various data points you can see, would you say that fresh slippages have peaked at kind of what we've seen in the last quarter?

And on the NII line I wanted to kind of dig a little bit more into rate sensitivity. We haven't really seen monetary policy transmission on the loan book compared to the liabilities over the last three cycles. If you think about rate cuts coming over the next nine months say we get 50 basis points, how do you think the pass-through will be in terms of various products? Any color you could give us on those pass-throughs would be interesting? Thank you.

Arjun Chowdhry: Thanks for the question. I'll cover the first part which is about the vintages. We don't actually give out that level of granular data in the provision. But suffice it to say that we do see a general trend, particularly in unsecured where there is stress across multiple segments. That stress is being driven by indebtedness, it is being driven by higher degrees of loans which aren't necessarily being able to be serviced by those customers. Most of those loans have actually come through after we disburse our loan or our card.

So what we've done in response to that is we have actually taken a very granular look at our own portfolio and try to see what are those -- and we found the multiple set of variables which are actually the drivers of credit cost. Vintage, of course, is one of them, but there are many other things such as obligation to income ratios, degree of indebtedness, the number of inquiries, the nature of the loan, the nature of the geographies, the nature of the occupation, multiple things. So it's not just the vintages, but we do see stress across the board and we continue to calibrate both our acquisitions and our existing stock of loans and cards in line with what we see.

Chintan Joshi: So would you say fresh slippages have peaked or there is still some more clean-up to be done?

Arjun Chowdhry: No, it's too early into the cycle to take a call either way. And I think the way to look at this is that every lender's vintage distribution will be different. So it depends on the proportion of new vintages which they have in their books. So I don't think we would call out a peak or a trough either way.

Chintan Joshi: Thank you.

Puneet Sharma: Thank you. I just like to supplement I think Arjun said that he's seeing stress across the board. Please read and contextualize that comment what he meant to say was stress across the board, was across all unsecured products, across different types of customers. So it's not a broad-based credit comment. That comment has to be contextualized to the unsecured portfolio. And within the unsecured portfolio, the comment is to be construed as there isn't an identified pocket of stress that we are in a position to call out today.

Chintan Joshi: It was very clear. Thank you for that.

Puneet Sharma: To your question on transmission, effectively -- look we do present to you on Slide 9 of our investor presentation, the rate composition of our loan book. The way this will work is on a repo rate cut, our assessment is assets will reprice faster than liabilities. That is the nature of the business. We think that will hold true for the system, but I can comment more specifically for us. It will hold true for us.

My request to all of you would be please review margins not on a quarter-by-quarter basis. Please look at the duration of our assets and liabilities that we disclosed in our annual report. Over a fiscal year, we've been able to manage peaks and troughs reasonably effectively. An example would be in FY '23 when we saw rates moving up. Our margins increased from 3.6% to 4.22% with average margins of 4.02%, 4.03%. In FY '24 where liabilities repriced, but assets remained flat, we still managed to close the year with 4.07%.

So my request is contextualize this discussion or argument on rate cuts impacting margins. We agree and acknowledge first quarter, there will be a negative impact, but we don't manage margins on a quarter-by-quarter basis. Over the duration, we do expect that the structural improvements of our balance sheet should hold us in good stead.

Chintan Joshi: Thank you.

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

M.B. Mahesh: Yes, hi. I just have one question. In the movement of this contingent buffer it was Rs 11,700 crores-odd last quarter, it's gone to Rs 11,800 crores this quarter whereas you have indicated that you had an additional provision of Rs 520 crores which will move through the P&L. Can you reconcile those numbers, please? That's it. Thank you.

Puneet Sharma: So broadly, what we have through the P&L is the Rs 520 crores that I call out. But on the cumulative provisions, if we are making provisions against a non-balance sheet business that number is not depicted on slide 2 as cumulative provision, that is provisioned over and above the cumulative provision. So Mahesh, I make provisions for on-balance sheet exposure that on balance sheet exposure cumulative provision comes in the cumulative disclosure of Rs 11,700 crores moving to Rs 11,800 crores.

I make provisions for off-balance sheet which gets routed through the P&L. But because it's off balance sheet and I use the Rs 11,800 crores to reference to a standard asset cover number, since the denominator does not include off balance sheet, the numerator also does not count that. That will explain the reconciliation gap for you.

M.B. Mahesh: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Pranav Gundlapalle from Bernstein. Please go ahead.

Pranav Gundlapalle: Hey. Good evening. Thanks for the presentation. I just have one question on loan growth. If you look at our loan growth this year, I mean, this quarter at about 11% to almost good 2 to 3 percentage points below the system growth. So what are we really doing differently versus the system? Is it more conservative given the asset quality trends or is the bar much higher in terms of the yield or is it constraints because of the various liquidity requirements, a bit stronger for us versus the system? Just trying to get what is being different for us versus the system?

Arjun Chowdhry: Yes. Thank you for the question. On Page 21, we've given a breakdown of the loan growth, particularly for our retail book. The way I'd like you to look at that and sort of internalize it is, we will -- we've talked about the fact that as a sector, the unsecured segments of our book, do show some signs of stress and those are industry-wide. Those represent indebtedness. We therefore will continue to observe and calibrate our book on the basis of essentially three factors.

One is, where do we see the placement yield being the best. Also in this environment of a slightly stretched unsecured lending book, we will also then need to optimize it for returns and where do we see the predictive losses coming on our book. So if you translate that down, we will continue to calibrate this book. However, the growth per se, if you look at it at a total retail level, it's not very low, it's at 15% YOY.

And while the composition of the book will change going forward based on these three factors which I mentioned, we will continue to strive for growth, but we will be very careful and very cautious about the segments in which we will get that growth. So that's where you'll see some of the changes coming, but we will continue to strive for growth in those segments where we would like to operate and where we believe the returns will be supportive.

Pranav Gundlapalle: Understood. So would it be fair to say that the choice segments are more on the retail side. Therefore, if the system sees a slowdown there, that outperformance that we reported is 4% to 6% of system growth, would probably be lower going forward?

Munish Sharda: No, we wouldn't give a forward guidance on that nature. And also as I said the situation with respect to the stress in environment is also fairly dynamic. So we will -- and some of these loans are also demand-based, for example, auto, for example, home loans. So there are a multiple set of factors that will go into determining the growth for the forward quarter. It will be difficult to give you a number for the future quarters at this juncture, but we will observe it on the basis of those factors which I already mentioned.

Pranav Gundlapalle: Understood. Thank you very much.

Rajiv Anand: On our focused sectors, as we've been calling out, which is basically the MSME sectors, which is all the way from small to mid-corporate space, that book continues to grow strongly, it's grown strongly this quarter as well. You'll see that on Page 44. And I think that to me, it's quite an exciting space. We are seeing a lot of possibilities of growth. We've seen strong growth in this book for the last 5 years. And I see no reason why this book should not continue to grow strongly over the next many years. I do believe that MSME will be what Retail was or MSME will be over the next decade, what Retail was in the previous decade.

Pranav Gundlapalle: Understood. Now my question more was just like at an aggregate level, if you were to pick the three factors I mentioned, where do you see the biggest differentiation versus system? It's -- I'm guessing you're hinting that you have a higher bar on yield versus the broader system?

Rajiv Anand: I think the point that, I just want to reiterate the same point that Puneet made. Ultimately, lending is our dharma, as long as it meets our underwriting standards and as long as it meets our pricing standards we will lend.

Pranav Gundlapalle: Yes, maybe just to be on the point. Your growth is slightly slow. I'm just trying to understand which of those constraints are for you a bit stronger or higher versus the broader system, because you have that 2 basis points, 3 basis points growth gap that exists today?

Rajiv Anand: See, I don't think at any stage, any of us have ever mentioned that this 3% outperformance that we've spoken about is something that we will deliver on a quarter-on-quarter basis. I think it is a medium-term outlook. And I don't want to get too overly focused around this. So for example, just to meet these expectations, I can easily put on growth on the credit side. The credit will be super strong, but may not necessarily meet our pricing standards. That's not the way we want to run our business. We are very confident that into the medium-term, we will find ample opportunities for us to grow such that we are able to meet the broad expectations that we are building.

Moderator: Thank you very much, sir. The next question is from the line of Param Subramanian from Nomura. Please go ahead.

Param Subramanian: Yes, hi. Good evening. Thanks for the opportunity. My first question is on the contingent provisions made in the quarter, Rs 520 crores. I just wanted to ask again what is the need for making the provisions in this quarter? If we think there are no pressing asset quality issues, why are we making these provisions? Because provisions like these depress the profitability and the book value. And we also have significant buffers already, and no real visibility of when this will get written back?

Puneet Sharma: Param, thanks for the question. Please appreciate that, we did have a one-time write-back of Rs 550 crores. We have indicated to you that we want to build a strong and prudent balance sheet, which withstands cycles on a go-forward basis. There was Rs 550 crores of tax write-back. And we thought it was a fair and opportune time to create a balance sheet strength, for which we created the Rs 520 crores prudent provision. So there isn't -- so it's a one-off offset by a one-off. On a net basis, they broadly equalized. So that's the rationale of the prudent provision.

Param Subramanian: Okay. Thanks for calling it out that way Puneet, yes that helps. Secondly, my question is on the LCR and again on the outflow rate. So the outflow rates, like you discussed, is down quarter-on-quarter. Just wanted to check if this regulatory driven because we had this news flow a few months ago about RBI doing LCR audit. If it is related to that, because for some of the smaller banks, we've seen a shift between the stable and the less stable deposits.

And secondly, on the LCR again, how do we plan to -- with the new draft norms coming in, because we're at 115% now, which will probably take us closer to 100% when the new norms kick in. So what are the tools we have at our disposal to navigate the new loans, yes?

Puneet Sharma: Thanks again for the question. I think I don't want to offer forward-looking comments on what we would or can do. It's still in draft stage, so we want to wait for the final contours of that circular. I think all of us understand multiple representations have been made. So we really don't know what shape and form the final guidelines would come. But yes, we'd like to prepare and be ready for those guidelines, if and when they are issued.

Param Subramanian: On the outflow rates?

Puneet Sharma: The operational deposit reclassification, it's simplistic. We have a practice of benchmarking ourselves to best practices across the industry. This was one place where we had a divergent practice, and we've gone ahead and realigned ourselves. That's the change that we see in the current quarter.

Param Subramanian: Okay. Perfect, Puneet. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today, which is from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Yes, hi. Thanks for the opportunity. Sir only one question. On the retail slippages, right, if I were to calculate the retail slippages as a percentage of loans, it could come out let's say, 2.7%, 2.9% in the last two quarters. Considering the way you said that, you keep focusing on the risk adjusted growth and risk adjusted returns, and there have been a little bit rise in the slippages in this -- in the retail portfolio, driven by maybe unsecured. Fair to say that this 2.7%, 2.8% slippages may sustain in the near-term, even if it does not go on because the loan mix is still in favouring of the unsecured book at the moment, so just want to get some sense there?

Puneet Sharma: Jai, thanks for the question. We don't offer guidance on what our slippage numbers would be. Therefore, I'm not going to provide an indication of what the gross slippage ratio for retail would look like in the coming quarters. For Q2FY25, since you've done the computation for yourself, the change in gross slippages on retail has been about 40 to 45 basis points from same quarter last year.

We clearly called out as part of our responses to earlier questions that it is coming from the unsecured business. Our risk and business teams have taken corrective action on segments and products. We do expect those corrective actions to deliver. But we are not calling out a point in time where we think this will peak out, because portfolios run their course. I reiterate what I have said on the previous quarter commentary, portfolios are behaving within the internal risk guardrails we have set out for ourselves.

So we have priced for this risk that we are seeing manifest today. Jai, that's where we would like to leave our response on this. If you want the guidance, unfortunately, I can't give you a direct answer to your question.

Jai Mundhra: Thank you and all the very best.

Moderator: Thank you very much. That was the last question for today. I would now like to hand the conference over to Mr. Puneet Sharma for closing comments. Over to you, sir.

Puneet Sharma: Thank you, Michelle. Before I conclude, I think I want to make two clarifications based on the questions asked on the call. I think there was a question asked by one of the participants, which indicated our guidance or outlook on loan growth to be 400 to 600 basis points. I just want to reiterate that the management guidance is 300 to 400 basis points in medium to long-term. So I just want to make sure that we register that with all participants.

I also want to register one data correction. As part of our opening comments, we have said outflow rate is 22.2%, it's 25.7% as set out on the investor presentation. So that number should be read in line with the investor presentation that has been published and not as stated on the call.

With that, thank you everyone, for taking the time to speak with us this evening. Wishing -- if there are questions that remain unanswered, we'd be happy to take them and respond to them. Please reach out to Abhijit and the IR team. Wishing you and your families the very best for the upcoming festive season. Thank you very much.

Moderator: Thank you, members of the Management. Ladies and gentlemen, on behalf of Axis Bank, we thank you for joining us, and you may now disconnect your lines. Thank you.