Axis Bank's Q2 FY25 Media Conference Call

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Moderator: Ladies and gentlemen, Good Day and Welcome to the Axis Bank Conference Call to discuss the Bank's Financial Results for the quarter ended 30th September 2024.

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

On behalf of Axis Bank, I once again welcome all the participants to the Conference Call.

On the call we have Mr. Amitabh Chaudhry, MD&CEO; Mr. Rajiv Anand, Deputy Managing Director and Mr. Puneet Sharma, CFO.

I now hand the conference over to Mr. Amitabh Chaudhry, MD&CEO. Thank you and over to you, Sir.

Amitabh Chaudhry: Thank you, Michelle. Apart from Rajiv and Puneet, we have on the call 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.

Let me share key highlights of our 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.

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 14% YOY and 2% QOQ. We have opened 150 new branches in the last three months, both urban and rural 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 salary Number of Accounts acquired. Salary uploads in the new book acquired in H1FY25 grew 27% YOY.
- ✓ 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 strong 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.
  - 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.

Strengthened the Core

We have made significant investments 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.

- ✓ 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 now have a strong, dedicated Financial Crime Intelligence division that combines analytics, digital monitoring, and fraud control capabilities to safeguard the Bank.
- ✓ 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

- Axis Bank, is now 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.
- The integration of erstwhile Citi consumer business that we had completed in July exemplifies the true power of One Axis. 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 distinctiveness in digital capabilities and platforms.

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 franchise 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 everyone. Q2 FY25 operating profit was up 24% year-on-year. Our PAT was up 18% year-on-year. Our consolidated ROA was 1.92%. Up 9 basis points and 22 basis points year-on-year and Q-on-Q respectively. Our consolidated ROE at 18.1%. The entire business execution was aided by the steady growth and deposits and advances. Moving to our healthy operating performance, our net interest income grew 9% year-on-year. Net interest margin was at 3.99%. Fee income grew 11% year-on-year and 6% quarter-on-quarter. Retail fee grew 11% year-on-year and 5% quarter-on-quarter. Granular fees are at 92% of our total fees. Our operating profits was up 24% year-on-year and 6% quarter-on-quarter.

Operating revenue was up 16% year-on-year and 5% quarter-on-quarter. Operating cost growth moderated to 9% year-on-year. Our H1 FY25 operating profit at INR20,819 crores was up 19% year-on-year.

PAT at INR12,952 crores was up 11% year-on-year. H1 FY25 consolidated ROA was at 1.8% and consolidated ROE was at 17.43%. We've delivered steady growth in deposits. CASA continues to be the best amongst large peer banks. On a month-end balance basis, total deposits grew 14% and 2% year-on-year and sequential quarter. Term deposits grew 21% and 4% year-on-year and sequential quarter basis. Our CASA grew 4% on a year-on-year basis.

On a quarterly average balance basis, term deposits grew 21% year-on-year. Current accounts grew 13% year-on-year and our savings account balances grew 1% year-on-year. Our average LCR during Q2 FY25 was 115%.

Loan growth was delivered across our focus segments. Our net advances grew 11% year-on-year and 2% on a Q-on-Q basis. Advances (gross of IBPC) sold was up 12% year-on-year and 2% Q-on-Q. Retail loans grew 15% Y-o-Y. SME loans grew 16% Y-o-Y. Corporate loans (gross of IBPC) sold grew 6% year-on-year.

Our small business banking loans grew 23% year-on-year, 6% Q-on-Q. Our mid-corporate business grew 18% year-on-year, 5% Q-on-Q. Our small business banking business plus our SME business plus our mid-corporate business now constitute total advances aggregating to INR2,22,080 crores. This translates to 22.2% of our total loans and this is up 800 basis points in the last 4 years. We are well capitalized with a self-sustaining capital structure and carry adequate liquidity buffers.

Our overall capital adequacy ratio stood at 16.61% with a CET1 ratio of 14.12%. We net accreted 38 basis points of CET1 capital in H1 FY25 and 6 basis points in Q2 FY25. INR5,012 crores of other provisions, not considered in our capital adequacy computation provides an additional cushion of 38 basis points over the reported capital adequacy ratio.

We carry an excess SLR as of 30th September of INR76,769 crores. We continue to maintain a strong position in payments and digital banking. We are the largest player in merchant acquiring with a market share of 20%, incremental market share of 36% in the last 1 year. Bank achieves the number 1 position in UPI payer PSP space with a market share of 31%. *open* by Axis Bank remains amongst the world's top rated mobile banking app on Google Play Store and iOS App Store with a rating of 4.7 and 4.8 respectively. We have 15 million monthly active users on our app. *open* by Axis Bank and Axis Pay have 13 million non-Axis Bank customers, 26.9 million customers on WhatsApp banking. Our credit card CIF market share at 14%. Our credit card spends grew 15% year-on-year.

Asset quality is stable. We've added prudently to non-NPA provisions in the quarter. GNPA at 1.44%, declined 29 basis points year-on-year and 10 basis points Q-on-Q. Net NPA at 0.34% declined 2 basis points Y-o-Y. Q2 FY25 annualized net credit cost was at 0.54%, down 43 basis points sequentially. Q2 FY25 gross slippage ratio annualized at 1.78%, declined 19 basis points Q-on-Q. Net slippage ratio annualized at 0.96%, declined 41 basis points Q-on-Q. Our PCR continues to be healthy at 77% and our aggregated coverage ratio is 153%, coverage ratio representing all provisions by GNPA.

Our key domestic subsidiaries delivered strong performance. H1 FY25 profit at INR927 crores, up 35% Y-o-Y, with a return on investment in domestic subsidiaries at 58%. Axis Finance H1 FY25 PAT grew 24% Y-o-Y to INR327 crores. Asset quality metrics were stable. ROE was at 15.79% for Q2 FY25. Axis AMC H1 FY25 PAT grew 29% year-on-year to INR244 crores.

Axis Securities H1 FY25 PAT grew 139% year-on-year to INR272 crores. Axis Capital H1 FY25 PAT grew 29% year-on-year to INR87 crores and we executed 30 ECM deals in the first half of the current fiscal. With that, we will open up for questions. Thank you.

Moderator: Thank you very much, Sir. We will now begin the question and answer session. The first question is from the line of Saloni Shukla from Economic Times. Please go ahead.

Saloni Shukla: Yeah, Hi. Good evening. You know, I just wanted to understand the overall picture for the bank. We are seeing asset quality deteriorate. We are seeing higher slippages. There is higher loan loss provision. Then you are growing slower than the system on loan growth. You have a NIM declining. So what exactly is happening?

Are we entering? I mean, you're the first bank in terms of large private sector bank. So just wanted to understand, is this what we will see for the system or is it specifically only for you? I mean, are we seeing a system-wide slowdown or something? Can you please explain that?

Puneet Sharma: Saloni, Thank you for the question. I would like to clarify a few of the observations you have just made on a generic basis. Let me start with the comment that you made saying gross NPS are increasing. Actually, gross NPS have declined sequentially and year-on-year. Same quarter last year, our gross NPA was 1.73%. It's 1.44% as on date. Gross NPAs for the previous quarter was 1.54% and are 1.44% now. So both year-on-year and sequentially, asset quality has actually improved when reflected on a gross NPA basis. Net NPAs have also improved year-on-year from 0.36% to 0.34%. So I would like to clarify that asset quality at

Axis Bank isn't deteriorating as was possibly interpreted by the reading of the numbers at your end.

Saloni Shukla: But you have higher slippages?

Puneet Sharma: I will move to the slippages number. Again, on slippages, you had indicated higher slippages. Our Gross slippages quarter -- the previous quarter were 1.97%. They've improved to 1.76% for the current quarter. So there's actually a sequential improvement on gross slippages. Net slippages have improved from 1.37% to 0.96%. So again, there is actually an improvement on asset quality when measured on the slippage number.

If I measure asset quality on credit costs, our credit costs last quarter on a gross basis were 1.19%. It is actually improved to 0.90%. So that's a 29 basis points improvement in gross credit costs. If I look at net credit costs, they have improved even further from 0.97% to 0.54%. Overall, what I would like to indicate to you is asset quality for Axis is not as commented or observed in your initial observation.

Now let me break up the provisions and contingencies that you alluded to. And I would request you to look at Slide 56 of our investor presentation. On Slide 56 of our investor presentation, we very transparently break up loan loss provisions and other provisions. Our loan loss provisions from the previous quarter have actually reduced by INR1,100 crores. We had INR2,551 crores of loan loss provision in Q1. It's down to INR1,441 crores in Q2.

Overall, provisions and contingencies have increased simply because we have prudently provided for non-NPA assets. Please appreciate, like I indicated on my call earlier, we have INR5,012 crores of provisions that we don't count towards capital. In the same spirit of prudence, we have provided another INR520 crores for non-NPA assets in the current quarter, which is reflected in the other provisions line, which is why you see the total provisions and contingencies broadly remaining flat quarter-on-quarter. I hope that provides you full context and color on asset quality and provisions.

Saloni Shukla: Yeah, I was looking at the Y-o-Y number, anyways.

Puneet Sharma: Sorry?

Saloni Shukla: I was looking at the Y-o-Y number. Yes, please. On loans, if you could throw some color.

Puneet Sharma: Yeah. So I think you had two other questions, which was margins and loan growth. If I request you to go to Slide no. 9 of our investor presentation, the margin decline of 6 basis points that you are pointing to is not a margin decline. Our spreads have remained relatively flat. Our spreads are down by 1 basis point. The balance 5 basis points is nothing but we had called out - we had received an income tax refund interest, aggregating to INR220 crores plus last quarter. We had called that out as a one-time item. That item has not repeated in the current quarter. So, the core business margins actually have remained intact quarter-on-quarter.

Coming to growth, broadly if I was to benchmark myself with industry, I think both on advances and deposits, we have tracked or have been better than industry advances and credit growth, both on a year-on-year basis for both variables. I will pause there. I am very happy to take a follow-on question.

Saloni Shukla: Yeah. And could you give me some information on this IBPC corporate loan book that you have sold, INR10,000 crores? Was this in this quarter?

Puneet Sharma: See, we continue to manage our balance sheet for liquidity and asset growth perspective. Not all INR10,000 crores would have been sold in the current quarter. There would be parts that were sold in the previous quarter and parts sold in the current quarter.

Amitabh Chaudhry: Saloni, can I say something? It's Amitabh here. I think we do need to understand and appreciate that the current conditions do present a lot of variables which are tough. While we say we have excess liquidity, on the other side the deposit rates are not coming down. There are clear guidelines in place in terms of what CD ratio you can have. We are seeing some worsening of asset quality in some of the unsecured and some other asset classes.

The interest rates which are being demanded by customers or good customers is also not increasing. In such an environment, to be able to deliver a steady NIM, to be able to deliver, after the first quarter improvement in asset quality and use the policy also to make provision should be seen in a slightly different light than I think how you started off your questions. I just want to kind of land that with you a little bit. Thank you.

Saloni Shukla: Sure. Thank you, Sir. I appreciate it.

Moderator: Thank you.

Puneet Sharma: Saloni, just a clarification. I am presuming, apart from the IBPC number, the 10,000 number that you quoted was from our UFR Note 6, which is the INR10,369 crores number. That is our debt capital market business. Those are syndicated loans. So that is not part of the IBPC disclosure. Just for abundant caution, if that is what you were referring to. Thank you.

Moderator: Thank you, Sir. The next question is from the line of Preeti Singh from Bloomberg. Please go ahead.

Preeti Singh: Hi. I had a separate question actually around climate risk reporting. I know RBI is putting together a risk information system. Just wondering what the bank is doing to really look at climate resiliency in its portfolio.

Amit Talgeri: Thanks so much for the question. Just to give you a brief background, we do have a Board constituted, you know, ESG committee, which is actually monitoring all that we do around ESG and climate risk. There is a quarterly cadence where we report what we do around climate risk. Specifically to answer your question, we have been in active discussions with the regulator as well, as part of multiple working groups around some of these mark guidelines and what we have been doing around that.

And, specifically in terms of the portfolio, we do have something called a hazard heat map, that we track all our portfolios across wholesale, commercial, and retail, and look at vulnerabilities based on events and do present them to the Board periodically. And the other thing that we also do is on the corporate side, we do track performance standards in terms of climate risk for all our lending proposals.

And what we do is, we also look at the mortgage portfolio, specifically around each of these where we have had issues around, let's say, floods or cyclones, etcetera. So in totality, what we do is all of this is captured as a part of the climate risk. And this is reported as part of a review that we do both on the risk side as well as from an ESG point of view.

Preeti Singh: Got it. Thanks. Second question was related to the CD ratio. I know that Axis Bank CD ratio is slightly high. Are you looking to sell down part of your retail portfolio as we're seeing other banks do it to bring this down?

Puneet Sharma: Thank you for the question. I think we are comfortable operating within a band on CD ratio. So as of now, that is not under consideration in so far as we are concerned. In the normal course of our operations, we evaluate all liquidity measures available, but a sell-down of loan portfolio will not be for management on CD ratio, in the Axis context.

Preeti Singh: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Agashe from PTI. Please go ahead.

Ashish Agashe: Thank you so much. Yes, Sir. You mentioned about the difficult operating environment and you included that there is worsening of asset quality, especially on the unsecured front. So, in the fresh slippages, gross slippages, how much of it would be coming from the unsecured bit, Sir?

Puneet Sharma: Thank you for the question. Actually, we did not allude towards worsening of asset quality. We actually said sequentially asset quality has improved for us. That is reflected in the gross slippage number. As

I had called out previously, our gross slippages are lower period-on-period. Our net slippages are also lower period-on-period. If you would like the numbers, I could call them out again.

Effectively, if you look at our gross slippage ratio, it's improved by 19 basis points quarter-on-quarter and our net slippage ratio is improved by 41 basis points quarter-on-quarter. I think you had a data question on what was the composition of the gross slippages.

Ashish Agashe: Yes, Sir.

Puneet Sharma: The composition of our gross slippages for the quarter in rupee-crore terms was INR4,443 crores. Again, in rupee-crore terms, it has declined sequentially. So, actually an improvement. Gross slippages from a segment basis was INR4,073 crores retail, INR264 crores for our CBD business and INR106 crores for our wholesale business.

Ashish Agashe: Okay. And is it fair to deduce that a bulk of the retail is unsecured?

Puneet Sharma: It will be a composition of our portfolio. It is 71% of our portfolio secured, 29% of our portfolio is unsecured. We make that disclosure in the investor presentation. Incrementally, a bulk of the slippages would be from the unsecured side of the business.

Ashish Agashe: Okay. A small question actually on the entire deposits front. How are you managing because you spoke about the NIMs side and how the core business has maintained NIMs. So, how are you managing the situation? What is probably helping you? Other banks probably have been a bit more aggressive on the pricing front. So, have you also done similar moves tactically? If you can just throw some light on that.

Munish Sharda: Yes. So, on deposit, as Amitabh said earlier, the quality and the strength of our deposit continues to improve through a transformation project that we are running. We have informed that earlier. We continue to deliver better than industry deposit growth by about 200 basis points. In this quarter, a few things that we are doing apart from the Project Triumph, we have opened 200 branches in the first six months of this year.

We continue to expand our distribution. We continue to see good momentum across our lines, including SAAR, CAR, deepening of our relationship on the asset side, customers where we are seeing 106% growth in our deposit base from the asset customers. We are focused on ensuring that we get every single line of the bank to get deposits from us and we bank the customers on all lines of the business.

We are also seeing good momentum in our salary acquisition. Our salary levels have grown by 11% quarter-on-quarter. Number of accounts have shown healthy growth. More importantly, the quality of the salary franchise has substantially improved in the last 12-odd months. Also, on the wealth side, on the wealth management platform, the Burgundy Private platform also continues to score very well.

Our AUM has now gone beyond INR2 lakh crores and that AUM is growing at a very healthy clip. On the whole, our deposit journey, as we informed earlier, in our earlier sessions, we continue to invest in building a quality franchise, improving the LCR, the outflow ratios, and improving the quality of deposits and the premiumization of the entire deposit base.

Ashish Agashe: Thank you so much, Sir.

Puneet Sharma: Thank you, Munish. If I could just supplement what Munish indicated, I think there was part of your question that was around aggressive pricing and our cost of funds. I would just request you to look at Slide 9 of our investor presentation. In fact, we are one of the few franchises that have had a very stable cost of funds over the last three quarters, at 5.43 moving up to 5.45. I would also like to clearly clarify that our cost of deposits actually have remained stable quarter on quarter. So we are not in the price game for garnering deposits.

If the message that I would like to leave behind for your consideration, please?

Ashish Agashe: Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Subrata Panda from Business Standard. Please go ahead.

Subrata Panda: Hi. So my question is a follow-up to what Amitabh Sir answered to Saloni's question on the CD ratio front. I mean, is there a broad indication from the regulator on where banks such as yours have to be in the CD ratio front?

Management: So, I think we have mentioned in the previous calls that when RBI raised the issue around CD ratios, they had discussions with various banks, including us. We clearly laid out our strategy to the regulator and had intensive discussions with them. We have a clear understanding of what they expect from us, and we are following their understanding since those discussions have happened. And our current CD ratio is in line with what is the kind of direction and discussion we are having with the regulator. So we don't see any concern on that at this stage.

Subrata Panda: Right. Understood. Secondly, I just wanted to understand, what is happening with the unsecured portfolio of various banks. I mean, are you seeing any impact on demand, especially in this festive season?

Arjun Chowdhry: Hi. Thanks for the question. So a couple of things. We are in the early days of the festive season, and so these are early range. But we have seen some encouraging signs in terms of spending picking up, particularly in the sectors which are traditionally affected by, post shradh and then the reverse of it in the festive season, namely auto, E-commerce, and things like that.

As you have also seen, there are quite a few schemes which have been launched by partners which are reflecting well in credit card spending. So, on a seasonal basis, we expect this quarter to reflect. It is a festive quarter, so we expect it to reflect well. In terms of where it is vis-a-vis our expectations, I think it is exactly where we thought it would be, given the fact that there is an overall reduction in the acquisition of cards. But we are not seeing any signs of slowdown in the spending. We are seeing prudent spending remaining in place, particularly on cards. On the unsecured book, there is growth, but that remains calibrated, as you would have seen across the industry.

Subrata Panda: Thank you so much.

Moderator: Thank you. The next question is from the line of Hamsini Karthik from Moneycontrol. Please go ahead.

Hamsini Karthik: Hi. I have two questions. One I would like to understand, how do you expect the RIDF book to sort of run down or reduce? I think the flattening we saw from '21 to '23 - FY were quite steep. From there on, it is a little flattish at INR18,000 crores. That is also having some impact on your margins. So what sort of an expectation do you have there?

Puneet Sharma: Thank you for the question. We have actually had close to a INR1700 crores INR1800 crores runoff on the RIDF book in the last quarter itself. So, it is actually running off. But you are absolutely right. Even the duration of the RIDF book, it does have a long tail as we speak. If I were to look at an estimate over the next four to five quarters, we would expect, maybe a rundown of another INR2,000 crores to INR2,500 crores. And the rest would be in the tail.

Hamsini Karthik: What I also gather, when I speak to other bankers is that microfinance loans or small unsecured loans have been picked up by the Reserve Bank in the recent supervisory rounds across banks, for signs of ever greening, for signs of overleveraging and so on. What has your experience on this particularly been? And, would in any case the provisioning buffer that you created this quarter around INR11,000 crores got to do anything with the unsecured loans?

Puneet Sharma: Thank you for the question. I will take the part on the prudent provision we created for the quarter. We have added about INR520-odd crores to our prudent provision. We have categorically stated that this is not for NPA assets or expected NPA assets. We are very clear that it is not a reflection of the asset quality estimates that we run. This is simply a prudent provision in order to make sure that our balance sheet remains robust and healthy on a go-forward basis.

Munish Sharda: Hi, this is Munish. On the microfinance side - as you know, there is a deterioration across the industry on the microfinance portfolios. We have a small book in microfinance, which we are watching very carefully. Our numbers as of today, as we are, you know, on delinquency numbers, they have shown an increase over the past period, but it is nothing which has gone beyond our risk guardrails and which has gone beyond the industry level. We continue to operate at a level lower than the industry.

We have taken risk actions to ensure that we do not venture out into areas which can get over-leveraged, where over-leveraging may be happening. We are also very careful in having a sharp focus on area-wise, region-wise, state-wise, focus on exposure, etc., which we continue to maintain. So our disbursal has come down.

Hamsini Karthik: Would it be possible for you to quantify your delinquency levels in the MFI book, please?

Puneet Sharma: Thank you for the question. We don't call out segmental delinquency. We have not done that in the past for any of our product segments. We do call out our segmental GNPAs, which are part of our investor presentation. I would request you to look at that. I just want to supplement what Munish said. The MFI book in our context is sub 2% of our loan book, so it's not something that concerns us at the moment from a quantum standpoint.

Hamsini Karthik: Perfect. Just one last question, Sir. So, recently, there were SEBI observations that came through for one of your subsidiaries, Axis Capital. Has the bank taken any action on that? Is the rectification process on? I know you had a Press Release put out on this, but in addition to that, is there any sort of work on that aspect?

Puneet Sharma: Thank you for your question. On Axis Capital, we have offered a very detailed clarification as part of our exchange filings. We have no further update to comment. The gist of the filing was Axis Capital had discontinued that business on the debt capital market side. It is 5 - 5.5% of the total income of Axis Capital, and Axis Capital is 0.7% PAT of Axis

Bank. In essence, from a materiality standpoint, no material impact on the group financials as we see it today.

Hamsini Karthik: Thank you.

Moderator: Thank you. The next question is from the line of Piyush Shukla from The Hindu Business Line. Please go ahead.

Piyush Shukla: Hi. Good evening. I have two queries. One is on your write-offs, which stood at INR3,119 crores in Q2 FY '25, highest in the last 1 year or so. What sort of assets have you written off? Are these corporates or retail? Do you have any exposure to MTNL as well? Separately, I wanted to understand your cost of fund, like Puneet Sir mentioned, has been stable, but with the change in stance from the RBI.

And expectation of rate cuts, though the inflation number this quarter was higher on expected lines. Do you expect borrowing costs to be stable or lower from here on? And a broader guidance on margins, if you can give any work trajectory to follow. Thanks.

Puneet Sharma: Thank you for the question. Let me start with the prudential write-off. Our prudential write-offs are rule-based, as I have always indicated. We do not do judgmental write-offs. So our commercial banking business and our retail banking business follow a rule-based write-off, i.e., we write off the account after it has been provided 100% for a certain number of quarters. So, a majority of the 3119 write-offs comes from the rule-based policy we have and it is on the retail and the CBG business.

As part of our wholesale business, we do recoveries and settlements, but in the 3119 it would be roughly about 10% or thereabouts of that number from a corporate bank side. I think to your next question on where do we expect cost of funds to be given where the inflation print is, I will request Neeraj to probably take that question.

Neeraj Gambhir: So, yes, of course, we have seen a change in the stance from RBI. It is neutral, but if you read the commentary and the post-policy press conference by the Governor, I think we are still very focused on inflation and with the higher print on inflation, I think the probability of a rate cut this year seems a bit low. Any impact on our cost of funds, particularly on the deposit side of the balance sheet. I think will only be visible when we have a very explicit change in the Reserve Bank's rate guidance. So, it seems a bit uncertain at this point in time as to when that will materialize.

Piyush Shukla: On margins, if you could throw some colours?

Puneet Sharma: We do not offer a margin guidance on a sequential quarter basis year-on-year. Our margin guidance is structural, 3.8% on a two-cycle basis. We as of last reported quarter have roughly 20 basis points cushioned over two-cycle. We will make all efforts to retain as much of the cushion over our structural two-cycle margin guidance as we possibly can.

Piyush Shukla: Thank you.

Moderator: Thank you. The next question is from the line of Gopika G from Mint. Please go ahead.

Gopika G: Hi Sir. Yes, so I wanted to ask you, you spoke about NPAs in the retail segment, especially in the unsecured. How did you see, I mean, what about the performance of credit card segment where there are some NPAs on that front and secondly there were some write-offs in this quarter. Where did that come from and I have one more question?

Puneet Sharma: Thank you. On the write-offs, I can respond to it and then request my colleagues to pick up the other parts of the question. Like I indicated on my response to the previous question, our write-offs on our retail business and our commercial banking business are rule-based and on the wholesale are a function of assessment. As you would see dominant part of the write-offs that we would have for the current quarter would be under the rule-based policy that we have.

Gopika G: Yes.

Arjun Chowdhry: So, yeah on the credit card piece as we had guided in the last mentioned in the last call as well, that there are certain segments where there are signs of early stress, indebtedness and we have taken early actions including actions in terms of the number of cards which we acquire, also actions in terms of the portfolio cards which we already have on our books.

So, some of those actions include - taking actions around scores, tightening our scores, some of those actions include curtailment of spending limits and things like that, all of which are beginning to show good results and the early signs that we have seen this quarter show signs of improvement. However, we remain very cautious and very focused on monitoring the performance of that portfolio in particular.

Gopika G: And which particular segment is this? Is this like new to credit?

Management: It's not new to credit or anything like that, but it's - there are a variety of things which we use to assess our segments which include, as I mentioned, the degree of indebtedness, the ability to pay, the vintage of the portfolio as we have called out earlier the vintage of the portfolio is a very important factor as well. So it's actually a multivariate sort of analysis which we do and we go pretty deep in terms of analyzing those segments.

Gopika G: And when do you see these slippages in the unsecured portfolio peaking off?

Arjun Chowdhry: Very difficult to tell at this point of time, but the fact remains that from what the industry data that we have seen from Bureau which is available in the public domain there has been a rise in delinquencies across unsecured for the industry and we have seen similar signs in our portfolio. Very difficult to say that - this is the peak, this is the start etc, but we do keep monitoring and watching this portfolio and if there is any necessary action that needs to be taken we take it at an appropriate time and obviously the objective is to kind of monitor this portfolio closely.

Gopika G: And one last question on the recent RBI regulations on private sector banks investment in subsidiaries. They clearly said that the subsidiaries lay down certain sectors where the subsidiaries cannot be doing the same kind of business. Has the board sort of looked into it and analyzed it and how would this have an impact on Axis Bank and its subsidiaries?

Puneet Sharma: Thank you for the question. The bank is reviewing and evaluating implications of the draft circular on its legal and operating structure. We will assess and where appropriate make representations on the draft circular and we shall await the final guidelines prior to determining our next course of action. Suffice to say that any action that we propose to take on this matter will be in the best interest of our shareholders.

Gopika G: And could you sort of elaborate what clarifications you may be asking?

Puneet Sharma: We would not like to comment on the clarifications we are seeking. The circular came in on October 4th. We are evaluating its implications and like I said, we do want to seek some clarifications and then determine our next course of action herein. When we are ready to make any public disclosure around this subject we will be happy to do it, but it is far too nascent to make any comment on this today.

Gopika G: Sure. Thanks for those answers.

Moderator: Thank you. The next question is from the line of Ritu Singh from CNBC. Please go ahead.

Ritu Singh: Hi Mr. Chaudhry, a couple of times in the call you called out signs of stress in some segments. Of course, unsecured is the one that has been widely spoken about, MFI as well, but I was wondering if you would call out only particular pockets that you are seeing in terms of segments one.

Secondly, on your CD ratio, you said you have been in conversations with the regulator and you sort of implied that the current ratio is where you are comfortable. I am just trying to understand, is there a particular number that was given by RBI? Is that where you are at? That gives you comfort to say that the regulators are here with your current credit deposit ratio?

Amit Talgeri: So, I think Arjun answered that question, initially. But let me just clarify. I think what we have done is we have seen it across all products, especially on the unsecured side. We have seen an uptick both across cards and personal loans in line with what we have seen in the industry.

There are no specific segments or sub-segments within those that we have seen specifically which have seen a spike. It has been across the board. It is across vintage. It is across income segments. It is across scores, both bureau scores as well as internal. But it is primarily around indebtedness and leverage build-up.

That is really down to the fact that a lot of these customers are probably borrowing loans after we have given a loan or after we have given a card. We have seen that in the industry which the bureaus have called out, there has been an increase in terms of customers taking loans within three months and six months. That is really what we have been looking at in terms of the portfolio as well.

From our bank point of view, we have been taking appropriate action in terms of scorecard cut-offs or policy action around unsecured build-up in terms of ensuring that the portfolio quality remains good. On the second question.

Puneet Sharma: Thank you. On the CD ratio, we will reiterate what we said earlier. We will operate under a construct that we are comfortable with. We do not have a specific CD ratio number that we will target. You have seen our results over the last three quarters. So, we are comfortable operating at where we are operating. We are cognizant of regulator feedback but our operating performance reflects what we feel comfortable operating at.

Ritu Singh: Thank you.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time, may we request you to kindly limit your questions to one per participant. Thank you. The next question is from the line of Vishwanath Nair from NDTV Profit. Please go ahead.

Vishwanath Nair: Hi. Just a couple of questions. Firstly, on the deposit front, the CASA deposit base has not really moved anywhere. You said that you acquired a lot more in terms of salary accounts and broader CASA but the deposit base has not really grown. I just want to get a sense as to whether that is something that is of concern or if you are happy with the fixed deposit growing faster?

On the other part, you have seen a dip in loan growth. You have also seen your low-cost deposits not good. I am trying to understand how there is no impact on the spread?

Puneet Sharma: I will take the impact on spread question and hand over to Munish to address the business question you set out. We have discussed to you in our Investor Presentation on Slide 9, our cost of funds. Our cost of funds, are a function of our cost of deposits and our cost of borrowings.

Our cost of funds have remained flat for the last three quarters. 5.43 in quarter 4 of the last fiscal, 5.45 in quarter 1 of this fiscal. We haven't seen an acceleration in cost of funds despite a flattish CASA ratio.

That is principally because we have been disciplined in terms of pricing our deposits over the last nine months. So that is why you do not see cost of funds increased which effectively means pressure on spreads can come only from change of balance sheet construct or pricing of loans. We have been able to manage that at reasonable levels for the previous quarter. Therefore, no compression seems to be reported currently.

Munish Sharda: Hi, this is Munish. On the deposit side, like I said earlier, we are going faster than the industry if you look at the data for one year, three years or five years. We also, from a quality of deposit standpoint and granularity of deposit standpoint, if you look at our Page number 17 of the Investor Presentation, you will see that there is a 110 basis point reduction in the outflow rate which talks about the strength of the new deposit that we are building in the franchise.

Our endeavor is that we continue to grow the granular deposits, get more sticky deposits through the salary franchise, continue to operate at the higher end of the market through the wealth franchise through the Burgundy private franchise and also the premiumization of the deposit book.

Indeed, we have seen a higher growth in our premium accounts and balances in the first six months. We are seeing good momentum in our new-to-bank acquisition and we are boosting this further by selectively and scientifically going and opening branches. We opened about 200, we add about – we have said we will add about 500 branches in this fiscal, most of them in the next two quarters by December - January.

If you also look at our CASA ratios, we had about 40.6%, which perhaps would be among the best in the industry. On the whole focus on granularity, focus on building more secure deposits, building premium deposits, etcetera, is the focus for the bank. Additionally, we have also called out that it is important that we get all our businesses to do more deposits for building digital journeys which are co-terminal journeys for deposits and accounts, getting our retail teams to open bank accounts, of the customer, we are lending money to all of that stuff is also helping us grow the franchise and the volumes. We have seen healthy growth in that as well.

So it's a bankwide strategy that we are pursuing to ensure that every customer who comes to bank with us on any product, we deepen our relationship with those customers across multiple lines, including deposits.

Moderator: Thank you so much, Sir. Ladies and gentlemen, due to paucity of time, we will take that as 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. Thank you, everyone, for taking the time to speak with us this evening. If there are any questions that remain unanswered, please do reach out to our corporate communications team or Asset Axis Bank. We will be happy to take follow-up questions. Wishing you a good evening and wishing your families and you the very best for the season and a Happy Diwali New Year to each one of you. Thank you.

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