



“Axis Bank Fixed Income Investor Conference Call to
Discuss the Q3 FY2016 Results and Indian
macroeconomic Updates”

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MANAGEMENT: **Mr. Sidharth Rath - President, Treasury and Transaction
Banking - Axis Bank**

**Mr. Jairam Sridharan - President and Chief Financial
Officer - Axis Bank**

Mr. Saugata Bhattacharya - Chief Economist - Axis Bank

Thank you. Ladies and gentlemen, good evening and thanks for attending this call. Let me in the first instance take this opportunity to wish you all a splendid 2016. I welcome you to our conference call for a presentation on the bank's performance for the third quarter of this financial year. On this call with me are my colleagues Mr. Jairam Sridharan, President and Chief Financial Officer of the Bank and Mr. Saugata Bhattacharya our Chief Economist. At the end of this presentation on the financials for the third quarter, Saugata will give a brief update on the microeconomic scenario in India and thereafter we would be glad to respond to your queries

Before we get into the details, I would like to highlight four key themes for the quarter's performance.

1. **Tested Asset Quality:** Based on a sector wide asset quality review undertaken by the RBI, the Bank in this quarter was provided with a list of select accounts for necessary impairment recognition. As a prudent measure, we have incorporated the full expected impact on the Bank in this quarter itself.
2. **Resilient Earnings:** Underlying earnings quality is strong, with operating profit growing by 20%, PAT up 15% and RoE of 18%.
3. **Strong Advances Growth:** Growth momentum is strong with loan growth of 21%, with Retail Advances share at 40%, up from 38% last year.
4. **Powerful Retail Franchise:** The Retail franchise of the Bank had a powerful quarter – with Saving Accounts growth of 16% YOY, retail loan growth of 27%, and retail fee growth of 14%.

I shall dwell on these themes in greater detail as we go along.

Let me begin by sharing our perspective on what the macro situation looks like for the Indian banking sector today.

- o Macro-economic metrics continue to be stable this year though we see some headwinds going into FY17 on the back of subdued private sector investment and implementation of the Pay Commission report. Nevertheless, aided by the fresh Government reform initiatives and investments, we are cautiously optimistic on improvement in the economic and credit conditions going forward. Order flows from higher Government capital expenditures and contracts awarded by the Centre for roads, power transmission lines and urban infrastructure should become visible over the next few quarters.
- o Banking sector credit growth is off its lows earlier in the year but still stands at a modest 11.1% as on 25th December 2015, with most of the growth coming from retail and agriculture credit. This trend is likely to continue through the early part of the next year and current preference of increased reliance on alternate sources of credit will continue. We expect interest rates to remain range bound with the fiscal path detailed in the Budget having a material bearing on the future outlook of the interest rates in FY17.

Let me now discuss the Bank's performance in greater detail.

Let us start with **Asset Quality**.

- o During the quarter, the RBI had communicated to banks the results of its asset quality review of exposures across the sector. A list of accounts for the Bank was identified by the RBI as potentially at-risk from an industry level perspective, and was shared with us. Banks have been offered time till March 31, 2016 to fully recognise their respective accounts and take appropriate provisions. As a prudent measure, we have incorporated the full expected impact on the Bank in this quarter itself.
- o After going through this process of rigorous testing of our portfolio, our asset quality metrics have come out higher than before with GNPA level increasing from 1.38% in Q2 to 1.68% as on 31st December 2015 and Net NPA level increasing from 0.48% to 0.75%.
- o During the quarter, fresh slippages into NPA stood at ₹20.82 Bn including the reclassifications proposed by RBI, which comprised around half of the incremental slippages. On a cumulative basis for the nine months of FY16, we have added ₹57.05 Bn to NPA, including the sale to ARCs made in Q2. If we exclude those sales, the addition in FY16 so far has been ₹38.51 Bn.
- o In terms of movement of GNPA's, up-gradations and recoveries in Q3 were at ₹1.56 Bn and write-offs at ₹6.53 Bn. Consequently, the net additions to Gross NPAs during the quarter were ₹12.73 Bn.
- o Provisions and contingencies other than tax for the quarter were ₹7.13 Bn against ₹5.07 Bn last year, of which provision for loan losses net of contingent provisions were ₹6.26 Bn, provisions for standard assets including unhedged foreign currency exposures were ₹0.71 Bn, depreciation written back on investments was to the tune of ₹0.15 Bn and other provisions stood at ₹0.31 Bn.
- o We utilized ₹2.20 Bn of previously created contingent provisions during the quarter. The balance in the contingent provision account now stands at ₹1.80 Bn.
- o After factoring in the regulatory guidance, as well as our usage of Contingent Provisions, our annualised credit costs for the quarter were at 102 bps. For the nine months ended December 2015, this metric stands at 128 bps. This includes the usage of Contingent Provisions on the assets sold to ARCs last quarter. If we *exclude* the usage of Contingent Provisions, credit costs were at 75 bps for Q3 and 85 bps for the nine-month period.
- o Our provision coverage ratio remains healthy at 72%.
- o Our net restructured book stands at ₹77.45 Bn with fresh restructuring of ₹1.26 Bn during the quarter, which was all on account of the shifting of the DCCO (Date of Commencement of Commercial Operations). On a cumulative basis for the nine months of FY16, we have added ₹13.40 Bn to our restructured book of which ₹10.26 Bn was on account of change in DCCO only.
- o We witnessed ₹7.42 Bn of slippage from the restructured book during Q3. In this context, let me share a couple of details about our restructured book that you may find interesting:
 - Annualised slippages from the restructured book continue to be around 25% of the restructured book on a two-year lag basis.
 - Part of the recent regulatory assessment requires Banksⁿ to build higher provisions in FY17 on select restructured accounts. Due to this assessment, we estimate our standard assets provisioning to increase by around ₹2.50 Bn on select restructured accounts, through the course of the next year.
- o As on 31st December 2015, the aggregate impairment viz. Net NPAs and Net restructured

assets as a percentage of net customer assets stood at 3.06% vis-à-vis 3.13% as on 30th September 2015.

- o Our funded exposure to highly leveraged groups has been stable at around 8% at the end of Q3.
- o During the quarter, the Bank has implemented Strategic Debt Restructuring (SDR) in one account, where the underlying loan amount was around ₹5.00 Bn. The Bank has also implemented the 5/25 scheme for four accounts where the aggregate loan amount was around ₹16.00 Bn.
- o The cumulative value of the underlying loan amount for SDRs and 5/25 undertaken by the Bank for the nine months ended December 2015, was around ₹5.00 Bn and ₹35.00 Bn, respectively.
- o We have not sold any assets to an ARC during the quarter.
- o Finally, let me touch on our short term expectations on the asset quality –
- o Including the utilisation of contingent provisions, our annualised credit costs for the nine months stood at 128 bps. We expect the full year credit costs to be around 125 bps. If we exclude the utilisation of contingent provisions from credit costs, we expect credit costs to be around 90 bps on a full year basis.
- o We remain cautious on our asset quality outlook in the near term. This arises from the fact that pace of improvement in macro-economic parameters has been weaker than we envisaged earlier. The substantial decline in major commodity prices has made the context more challenging for many small and mid-segment non-integrated players in the commodity space.
- o In this context, we expect incremental slippages to NPA in Q4 to be around ₹13.00 Bn.
- o During Q4, we also expect shift in DCCO beyond two years of projects with aggregate debt of around ₹9.00 Bn.
- o For the full fiscal 2016, this would add incremental slippages of approximately ₹70.00 Bn, including the ARC sales in Q2. Further, additions to restructuring would be around ₹23.00 Bn, of which around ₹20.00 Bn would be on account of shifting the DCCO. Excluding the ARC sales, the total additions to incremental slippages and fresh restructuring during FY16 would be approximately ₹74.00 Bn including the impairments on account of the RBI assessment.

Let us now move on to the strength and quality of the Bank's **Earnings**.

Our operating performance has continued to be resilient in this tough quarter.

- o Net profits have increased by 15%, led by the growth in operating profit of 20%.
- o NII constituted 64% of the operating revenue and grew by a strong 16% on the back of robust NIMs and healthy loan growth.
- o NIM for the quarter was 3.79%, with Domestic NIM at 4.04%. We were able to restrict the sequential decline in margins to only 6 basis points despite a 35 basis points reduction in the

Base Rate effective from 5th October 2015, as cost of funds declined almost in line with yield on assets.

- o Cost of funds during Q3 was 5.86% compared to 5.99% in Q2, and 6.17% in Q3 last year. The sequential decline of 13 basis points in our cost of funds is primarily driven by moderation in the cost of term deposits and further aided by our continued focus on CASA.
- o We expect our NIM to remain broadly steady for FY16, however on a medium term basis we continue to maintain our outlook of sustainable core margins of 3.5%.
- o Fees constituted 29% of the operating revenue, and grew by 12%, with equal contributions from Retail, which had a growth of 14%, and Corporate Bank that had a fee growth of 10%.
- o We continue to expect our fee growth to be in mid-teens for FY16.
- o During the quarter, we recognised gains of ₹1.19 Bn compared to ₹0.75 Bn in Q3 of the last year, from a partial stake sale in Max Life recognised under trading profit. We also booked ₹0.76 Bn of exchange gains from repatriation of profits from our foreign branches under miscellaneous income.
- o Our return ratios continue to remain healthy with an ROE of 18.07% and ROA of 1.79% in Q3. For the full nine months, ROE has been at 17.60% and ROA at 1.74%.

I will move on now to the third theme – strong growth in **Advances** portfolio.

- o Aggregate loan growth remains very strong at 21% YOY.
- o Our advances growth continues to be led by Retail lending, which had a YOY growth of 27% this quarter. A few details on this growth:
 - Our growth in Retail Lending was led by home loans, unsecured personal loans and credit cards.
 - Internal customers continue to be the mainstay of the Bank's strategy for sourcing retail assets. Roughly two thirds of the incremental acquisitions for retail loans continue to be the Bank's existing deposit customers.
 - On unsecured lending and credit cards, the Bank continues to focus predominantly on the existing customers of the Bank.
 - More than 40% of incremental retail loans in Q3 were sourced through our branches.
 - The credit quality of retail loans continues to remain healthy.
 - If we were to include SME loans that qualify as regulatory retail, the share of retail loans to total loans would be 45%.
- o Our Corporate Advances portfolio also had strong YOY growth of 21%.
 - We continue to find attractive refinance opportunities for highly rated corporates that are new relationship additions to the Bank's franchise.
 - Given that our focus remains on highly rated corporates, approximately 80% of new sanctions in the corporate book are to companies rated „A“ and above. Presently, 62% of outstanding corporate loans are to companies rated „A“ and above.
 - In our quest to continuously improve the rating mix of our corporate book, we have been comfortable to trade off margins for asset quality.
 - The Bank's exposure to the iron and steel sector as on 31st December 2015 stood at 3.3% of which almost 65% of such loans are rated „A“ and above.
- o Overall, for the current financial year, we expect the Bank's Credit growth to be around 20%.

The fourth theme this quarter was the powerful performance of our **Retail Franchise**.

- o Savings Account balances grew at a strong 16% YOY, up sharply from the 12% YOY growth we had last quarter. We continue to steadily gain market share in this extremely important business, further strengthening the foundation for a vibrant Retail franchise.
- o We continue to invest heavily in broadening our base for originating retail business. During the quarter, we opened one representative office in Dhaka and 62 domestic branches. We have opened a total of 216 branches so far this year, and expect to open around 300 branches by the end of FY16.
- o Current Account balances also reported a strong growth of 17%, thus driving an overall CASA growth of 17% YOY.
- o Our overall CASA share in deposits was 43% at the end of the quarter, steady from the last quarter.
- o CASA deposits on a daily average basis grew by 14% and comprised 40% of total deposits, in which Savings Bank deposits grew by 13% and Current Account deposits grew by 15%.
- o CASA and Retail Term Deposits continue to form a strong 79% of total deposits.
- o Product penetration into our strong SA base continues to be a major driver for growth. Big data analytics led targeting of the known retail customer for sales of unsecured lending, cards or other payment products continues to be core to our franchise building in this space.
- o We continue to see strong momentum towards the adoption of digital channels by customers. Our transaction volume on Axis Mobile increased almost three times in Q3 on a YOY basis, outpacing every other channel by a wide margin. It is worth noting here that in its recent study, Forrester Research has rated „Axis Mobile“ as the best banking app in India.
- o Electronic channels now contribute 49% of all customer induced transactions in our retail base.

Moving on from these major themes, I would like to highlight a few other metrics that you might find useful in understanding the Bank's performance this quarter.

- o Our SME portfolio continues to remain healthy with SME advances growing by 7%.
- o Credit Deposit ratio of the Bank was at 93% at the end of Q3. This included a domestic CD ratio of 80%. As we have mentioned before, given some of the structural changes in the liability origination ability of banks in India, we believe the conventional CD ratio gets less relevant when seen in isolation. For instance, when we include Infrastructure Bonds as part of our Deposits base, our domestic CD ratio changes to 78%.
- o The Cost-Income ratio of the Bank for the quarter was 39%, largely on the back of controlled growth in expenses. On a full year basis, we expect our Cost-Income Ratio to be around 40%.
- o Risk Weighted Assets for the Bank stood at ₹3860.07 Bn and grew in line with the overall balance sheet growth of 18% on a YOY basis.
- o Finally, a comment on our capital position. The Bank is well capitalised with a healthy Capital Adequacy Ratio (including the net profit for nine-months of FY16) of 15.47% and Tier I CAR of 12.35%. At this level, our Tier-I ratio today is even higher than it was three years ago, immediately after we raised our last round of capital. Through this period, all our capital needs in terms of growth, risk movements in the environment, and regulatory changes with respect to capital, have all been met through internal accruals and efficient capital allocation strategies.

Before I conclude, I would like to re-summarise the key themes of the quarter:

1. **Tested Asset Quality:** We have incorporated the full expected impact of RBI's Asset Quality Review for the Bank in this quarter itself.
2. **Resilient Earnings:** Underlying earnings quality is strong, with PAT growth of 15% and Operating Profits growing by 20% in an otherwise tough quarter.
3. **Strong Advances Growth:** Loan growth at 21%, with Retail Advances growth of 27%.
4. **Powerful Retail Franchise:** Saving Accounts growth of 16% YOY and strong growth in our digital footprint.

With this I come to the end of my comments. I will now hand over to our Chief Economist, Mr. Saugata Bhattacharya to also give his views on the overall macroeconomic scenario. Over to you Saugata!

Saugata Bhattacharya :

Thank you Siddharth. I will briefly expand on the summary of macroeconomic conditions that you made in the beginning of the statement. In the backdrop of presumed global financial market volatility, let me again reiterate that India's macro fundamentals remain fairly robust. Its current account deficit had improved from about -5% on GDP down to less than 1% of the GDP now. The fiscal deficit of the union government has improved from 5.7% of GDP down to about 3.9% but it is in this current financial year.

Of course I mean that is due to the drop in commodities prices particularly oil but this is also the result of strong policy measures from the union government measures like fiscal consolidation. decontrol of diesel prices, the direct benefit transfers and of course earlier the curbs on gold imports and all of this has created some space for policy reforms and policy stimulus; however, given the various constraints on balance sheet impairments etc., these measures still have not completely translated into integrated economic activity but this also is due to the fall in export activity, weak agriculture on the back of two straight deficient rain years, weak rural demand and all of this has served to offset the very modest industrial growth and services sector recovery.

Private sector capex as Siddharth also mentioned remains weak due to restructured bottlenecks, stressed balance sheets and sales volume growth of corporates are down. Capacity utilization levels are still not very high. RBI surveys indicate capacity utilization levels of only 70%. Cash flows of companies has somewhat improved but still fairly low interest coverage ratios are pretty bad. NPA levels of the banking system remain high. So all of these have contributed to weak economic activities that we have seen. On the corporate leverage though there is a silver lining that high debt is concentrated in only a few sectors, the balance sheets of the other segments and sector remain relatively robust.

The pipeline of projects is still weak due to these impairments that we have just discussed and the government is certainly trying to debottleneck some of these standard projects but only a few seem have been revived. The collateral for all of this is that the drop in commodity prices and some improved

cash flows demand for working capital has come down significantly and moreover for some partial cause due to the drop to the differentials of interest between banks and other intermediaries there has been some diversion of demand of credit demand away from banks towards the other intermediaries. This partial explains the slowdown in credit offtake to about 11% although we do expect credit offtake from banks to increase gradually in FY2017 probably to about 12% to 13%.

So in this backdrop we expect GDP growth to improve from the current year 7.2% to 7.3% up moderately to 7.6% to 7.7% in FY2017. CPI inflation will average about 5.2% next year that is slightly upwards from FY2016. We expect a small slippage in the center's fiscal deficit up from the consolidation part milestone of 3.5% to about 3.6% to 3.7% although the government still seems to be relatively committed in maintaining it at 3.5%.

So in this environment the growth inflation trade off at this point in time we think provides room for the RBI to cut its policy repo rate further by about 25 probably if this conditions do not play out completely by another 50 basis points and we expect the first rate cut to resume in probably in its April policy. I will be very happy to take vis-à-vis questions that you might have relate to these conditions.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Yi Hu from Invesco. Please go ahead.

Yi Hu: Thank you for the presentation. I have got two questions here. The first question is: given the recent announcement by RBI, how much of the potential new NPLs have been recognized by Axis and how much more of NPLs we are expecting to see and second question is what is the credit accruals for Axis Bank versus the Indian banking sector in a next six months time? Thank you.

Jairam: As far as the RBI guidance is concerned, Axis Bank has incorporated 100% of the impact in Q3 so there is no spillover effect of this in Q4. As we start hearing results of each of the other banks we will get to know what the sectors overall has done. On your question of credit growth outlook, from a credit growth perspective we expect to end this year, the financial year 2016 at a credit growth of 18% to 20% year-on-year and the growth will continue to be led by our retail segment, which we expect to grow around 25%, and we expect the corporate segment to grow roughly around 20%. To go back to the question on RBI one piece that I forgot to mention is that as part of the directive, RBI has also asked banks to provide 2.5% every quarter that is the cumulative of 10% during the entire next year towards a list of specifically identified restructuring account. We expect the impact of that for Axis Bank next year to be in the range around 2.5 billion.

Yi Hu: Thank you for the call and if I can have one more question. What is the US dollar bond plan for next three months and for next 12 months i.e., for the calendar year 2016?

Jairam: You mean to say the plan of the bank to raise bonds?

Yi Hu: Yes dollar bond issues.

- Sidharth Rath:** We will assess situation depending on how the pricing looks or how the pricing of the bond looks as in the overall market. Right now if you ask me we do not have any definite plan in mind but depending on the timing if we get a good window we can go and raise dollar bonds in the markets. We are just looking at a good window opportunity and if it comes we will definitely look at it positively.
- Yi Hu:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Amol Kalan from Wells Fargo Bank. Please go ahead.
- Amol Kalan:** Thank you for taking my question. Sir these 150 borrowers that RBI has listed down can you just highlight in terms of what sectors are these from?
- Jairam:** First of all we cannot confirm the number is 150 for all we know it could be 500, it could be 1500, we have no idea what the number is and there is some speculation in the media about this number but I cannot by any means determine that. The way the process has worked is that each bank has been offered a list of their own. I have no visibility into the list of any other bank and I have no way of knowing whether the names on our list are the same or different as the names on some other bank's list. Given this situation it is really difficult to take a guess on what is there on other bank's list and hence what impact it might have on the way they act in the marketplace. So the only thing we can tell you is the list that we have.
- As I said we have gone ahead in recognizing all accounts on the first list as NPA as asked by RBI. On the other part of the list where we have not been asked to make recognition as NPA but to make provisions towards a list of select restructuring accounts we intend to make all those provisions as they have been asked for in the next financial year.
- Amol Kalan:** Thanks that was helpful and just one follow-up question. Do you have in any way the possibility of contesting with RBI if you feel that some account should not be classified as an NPA?
- Sidharth Rath:** The way we understand the process there is not any discretions.
- Amol Kalan:** Thank you.
- Moderator:** Thank you. The next question is from the line of Seok Poh Yeoh from HSBC Asset Management. Please go ahead.
- Seok Poh Yeoh:** Thanks for hosting the call. Firstly is on asset quality. I think you have around 42 billion of new NPAs coming through which you said half was related to the RBI review. The reason is we take that out the incremental NPA was still very large in the last quarter. So could you give us some colour on what challenges you are seeing there? Also on the SDR the 5 billion booked in last quarter, what is the pipeline that you are seeing for SDR and can you confirm that you can delay provisioning on any

SDR loans that are booked. I also noticed you have some impairments as well steadily entering to your investment book. Could you give us some color on that? Thank you.

Jairam: Firstly, I am not sure you got your data point on gross slippages. Gross slippages in the quarter were 20 billion not 40 something billion that you mentioned. If we just add on for the nine months period the total addition to NPA were 38.5 billion. So I am not really sure where that number came from. The gross slippages in the quarter were 20 billion about half of that came from the RBI exercise on asset quality review. Now on your question on SDR, we did entered into one SDR transaction in Q3. There is a handful more that we are having conversation on right now; however, these conversations tend to be fairly detailed and take a lot of time. So it is not clear to me whether in the short-term any of them are going to fructify and how many but there is a pipeline on the SDR side as well of roughly around 25 billion; however, many of them might now work out or some might work out with a lag.

Seok Poh Yeoh: Sorry before you go on to my third question, if I take out the RBI review for the other gross slippages that you saw last quarter could you give us some colour on that?

Jairam: Yes, on the other slippages we have some slippages in the pharma sector and some slippages in power that is pretty much the bulk of what we had last quarter.

Seok Poh Yeoh: Thank you and on the investment book please?

Sidharth Rath: Impairment on the bond book?

Seok Poh Yeoh: Yes.

Sidharth Rath: The impairment on the bond book is fully provided on the mark to market, which has taken place. Of course, we had one bond which has slipped during the quarter but that has been sold out and entirely taken in the books.

Seok Poh Yeoh: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to the management for closing comments.

Sidharth Rath: Thank you so much for participating in this conference call and I hope that we have been able to address all your questions satisfactorily and I really appreciate taking out your time out this evening for joining us in this call. Thank you so much.

Moderator: Ladies and gentlemen, on behalf of Axis Bank that concludes this conference. Thank you for joining us. You may now disconnect your lines.