"Axis Bank Fixed Income Investor Earnings Conference Call For Q3 FY'17"

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Moderator: Good day, ladies and gentlemen and a very warm welcome to the Axis Bank Fixed Income Investor Earnings Conference Call for Q3 FY'17. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. I am now glad to hand the conference over to Mr. Jairam Sridharan – CFO, Axis Bank. Thank you and over to you sir.

Jairam Sridharan: Thank you. Ladies and gentlemen, good morning and good evening!

Wish you all a very happy new year.

I welcome you to our Conference Call for a presentation on the Bank's performance for the third quarter and nine months of the financial year 2017. On this call with me are my colleagues Mr.Shashikant Rathi,Head, Treasury and Markets and Mr Yousuf Syed- Head Fixed Income Investor Relations. At the end of this presentation, we would be glad to respond to your questions. For parts of this call, we expect to refer to slides in our quarterly Earnings Presentation, so you might want to keep the presentation handy.

Key Highlights for the quarter's performance.

1. **Slippages come off the peak, continue to be driven by Watch List:** Total slippages reduced 48% QOQ to Rs 45.60 Bn. Watch List has now reduced to Rs 110.91 Bn.
2. **Visible impacts of Demonetization on both sides of the Balance Sheet**: Sequential deposit growth was aided by demonetization while loan growth moderated.
3. **Operating profits steady, driven by treasury**: Underlying earnings remained steady, with operating profit margin at 3.10% of average assets. We increased Provision Coverage Ratio this quarter from 60% to 64%. Net Profits declined 73% YOY to Rs 5.80 Bn.
4. **Retail Franchise remains stable, reflects the impact of Demonetization**: CASA balances grew by 21% YOY and the CASA ratio was 48%. The share of Retail Advances stood at 43% in total loans. Retail now forms 45% of the Bank's fee income. Card Spends grew 82% YOY.
5. **Strong Capital position**: The Bank further strengthened its capital position during the quarter. At the end of Q3, our Tier I ratio stands at 12.99% compared to 12.35% at the end of Q3 FY16.

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

Let me begin my detailed comments with our perspective on the macro situation as it looks for Indian banking today.

December capped a year of surprises, from the UK Brexit referendum to US Presidential elections. However, these events were largely overshadowed by the unprecedented exercise in India to end legal tender status of large denomination bank notes, and the resulting procedures to replace these with new currency. The impact on banking business has been significant, with deposit growth up by almost 15% YOY and 4% QOQ, even as credit growth slipped to 5% YOY and down 2% QOQ based on latest data available. The flood of liquidity via bank

deposits have pulled bulk term deposit rates sharply lower, facilitating conditions for steep cuts in bank lending rates.

Given the current liquidity situation and inflation outlook, we are hopeful about some further, though limited, monetary policy easing by RBI over the next few months. However, the larger stimulus perhaps will need to come from the fiscal side. The extent of stimulus the Government is able to provide, both via boosting discretionary incomes of households and increasing spending on investment will determine the pace of economic revival going forward. At present however, private sector appetite for fresh investments remains low. And a pickup in this sentiment is imperative for credit demand to revive. In this context, overall demand might remain muted for much of FY18. With this macro backdrop, let me now discuss the Bank's performance in greater detail.

Starting with **Asset Quality**.

- I draw your attention to slide 25 in the Investor Presentation. Gross slippage for the quarter declined 48% sequentially, but remained high at Rs 45.60 Bn during this quarter.
- We have increased the Provision Coverage Ratio on NPAs from 60% to 64% in this quarter. Driven in significant part by this increase, the credit cost for the quarter was at 3.61%.
- In April 2016, we published what we called a Watch List. These were accounts the management assessed to be the key source of stress in our Corporate Lending book over the next 2 years. If you flip to Slide 26 of the Earnings Presentation, you will see that the Gross NPA ratio of the Bank has increased to 5.22% at the end of December 2016, up from 4.17% in September 2016, while the Watch List has reduced to 2.8% of customer assets in December, from 3.5% in September and 6.20% at the beginning of the year.
- Moving on to slide 27, in absolute size, Fund Based outstandings of the Watch List accounts have declined to Rs110.91 Bn from Rs 137.89 Bn at the end of Q2. Total slippages from the corporate lending book stood at Rs 36.83 Bn for the quarter, of which 70% came from the WL portfolio.
- Cumulatively, over the first three quarters of this FY, the dissolution rate of WL was 51%. There were no exits from the WL in this quarter.
- Slide 28 shows the top 10 sectors in WL outstandings. Power and Iron & steel remain the top 2 sectors contributing 64% of the outstanding WL loans of Rs 110.91 Bn.
- Moving on to slippages outside the WL, slide 29 captures the key metrics. Over the first 9 months of this year, 85% of corporate slippages have been from the WL, and 15% from outside. The key sectors that have contributed to non WL corporate slippages during the quarter are Iron & steel and Infrastructure construction. If we further see the period when these loans were originated 98% of non WL corporate slippages were originated in FY11 and prior, similar to the WL vintage mix.
- Net slippage (before write-offs) in retail and SME stood at Rs 2.74 Bn and Rs 3.82 Bn respectively. For loans smaller than Rs 10 Mn, RBI has offered a dispensation to defer the down grade of certain categories of loans (CC/OD, crop loans and term loans for business purpose) with sanctioned limit of Rs 10 Mn or less, that were standard as on 1st November 2016 but would have become NPA for any reason during the period 1st November 2016 to 31st December 2016. Loans aggregating Rs 400 Mn as on 31st December 2016 qualify for the

aforesaid dispensation across Retail and SME segment and consequently have not been subjected to downgrade in Q3 FY17.

- Total recovery and upgrades for the Bank stood at Rs 3.50 Bn. For 9M FY17, the annualized credit costs were 329 bps. As mentioned in our call last quarter, we continue to expect credit costs for H2 to be similar to what we experienced in H1.
- Based on the level of recognition in the first three quarters and our outlook on the corporate lending portfolio, we expect fiscal 2017 to exhibit peak levels of slippage and credit costs in this credit cycle.

To round up our discussion on Asset Quality, some final metrics:

- During the quarter, the Bank implemented Strategic Debt Restructuring (SDR) in 2 standard accounts. The underlying loan amount is Rs 5.01 Bn The Bank has not implemented any 5/25 and S4A during the quarter.
- The cumulative outstanding value of the underlying loan amount for SDRs and 5/25 undertaken by the Bank so far, is around Rs 13.60 Bn and Rs 29.92 Bn respectively.
- During the quarter, the Bank sold assets with a gross outstanding of Rs 240 Mn and a net book value of Rs 40 Mn to ARCs (asset reconstruction companies) against net sale consideration of Rs 50 Mn in cash.
- To get a sense of the overlaps among different restructuring dispensations, I invite you to look at the Venn diagram on slide 26. As this diagram indicates there is a 50% overlap across different categories with our disclosed WL.

Before I move on to the other dimensions of the Bank's performance, let me spend some time on the impact of Demonetisation.

Demonetisation has led to a sharp increase in system liquidity. Simultaneously, we have also seen a reduction in incremental credit demand. Over these last two months, we have witnessed sharply higher deposit growth and subdued credit growth. This has resulted in incremental deployment of funds being more skewed towards short term investments. We have also seen yield on incremental advances turn lower.

Our incremental deposit accretion during the demonetisation period was largely in line with our incremental market share of deposits. This resulted in an increase of 3.82% QOQ in our CASA deposits, from Rs 1699.62 Bn to Rs 1764.51 Bn. If you refer to slide 22, you can see the impact in this quarter on lending to retail customers. As you can notice, we saw a distinct slowdown in disbursements in Rural Lending, Home Loans and Loans Against Property. Some other businesses like Auto Loans and Personal Loans were relatively less impacted. Credit appetite in the corporate banking segment remained lack lustre and SME segment saw lower growth on the back of heightened repayments.

Slide 12 presents some more information on the impact of Demonetization during the quarter. We saw cash deposits surging nearly 28% and withdrawals reducing 59% compared to baseline. The number of branch transactions pertaining to withdrawals reduced significantly

towards the end of the quarter, but remained above pre-demonetisation normal. On the flip side, electronic payments surged significantly, with our card spends growing 82% YOY, and UPI payments picking up from a zero base.

As volumes grew, we enhanced our suspicious transaction reporting (STR) process, adding multiple new triggers on cash deposits, outward remittances, dormant accounts, Jan Dhan accounts and bullion accounts. Resultantly the number of STRs filed by the Bank in this quarter increased significantly. We continue to report these increased STRs to respective agencies, who in turn visited few of our branches to investigate some of these accounts further.

Let me move on from demonetisation now to address the asset side of our balance sheet.

- Aggregate loan growth reduced during the quarter to 10% YOY. Loan growth continues to be driven by Retail.
- Retail lending continues to show healthy growth, with a YOY growth of 22% this quarter, excluding loans against FCNR-B deposits. A few details on this growth -
  - Retail Lending growth in the quarter has been led by Auto loans, Unsecured PL and Credit Cards.
  - As indicated before, disbursement growth has slowed materially on some products like Agri Lending, Home Loans and LAP in this quarter.
  - The credit quality of retail loans continues to be steady.
- The Corporate Advances portfolio had a YOY growth of 4%.
  - Overall demand for corporate credit continues to be tepid, and we have limited visibility to improvement on this front in the short term.
  - 83% of new sanctions in the corporate book for the fiscal year so far were to companies rated A and above. Presently, 63% of outstanding corporate loans are to companies rated A and above.
- Given the developments in this quarter, we expect our initial credit growth expectations for FY2017 to see moderation.

Let us now move on to the Bank's **Earnings Profile**.

- I request you to refer to Slide 14 of the earnings presentation.

- Operating profit for the quarter was at Rs 46.40 Bn, a growth of 16% over Q3 last year. Operating profit margin was at 3.10%, compared to 3.29% in Q3 last year and 2.95% in Q2FY17.
- Despite the various headwinds operating profit performance has remained healthy, driven by treasury gains. NII growth at 4% has been muted driven both by lower margins and slower loan growth. Fees have declined by 4%. Within this, Retail fees continued to be an area of strength, with a growth of 8%. Card fees were up by 23% YOY but lower than growth trends witnessed in the past.
- NIM for the quarter was 3.43%, with Domestic NIM at 3.61%. As you can see from the waterfall chart in slide 15, NIM compressed by 21 bps in this quarter on a QOQ basis. The

lower slippage numbers this quarter compared to Q2 resulted in a favorable variance of 6 bps in NIM. There were two primary NIM compressive effects – Q3 witnessed certain Balance Sheet structure changes in the form of higher deposits, higher cash in hand & reserve requirements, change in mix of assets and liabilities. We estimate the Net NIM impact of the said Balance Sheet structure changes to have been 10 bps. Another 23 bps of NIM compression in this quarter was driven by the new regulatory guideline by RBI on recognition of interest on SDRs and S4As.

- For the nine months ending December, our NIM has been 3.62%. We expect our full year NIM to be around 3.60%.
- Changing compositions of the lending book are important to understand as one tries to build NIM expectations for the future. To give you a sense of the Bank's trajectory on that front, we have included slide 16 in the investor presentation. This slide shows the composition of our book by rate type, and how it has been changing over recent quarters since the beginning of the MCLR era. We hope you find this useful.
- Cost of funds during Q3 was 5.51% compared to 5.68% in Q2 FY17, and 5.86% in Q3 last year.
- Fees declined by 4% and constituted 23% of operating revenue. Mix of Granular fees continued to grow, with retail and transaction banking fees together constituting 74% of our fee income in the quarter. Corporate Banking fees in the quarter declined by 30% YOY.
- The interest rate environment in the quarter has been conducive to significant gains in the trading portfolio of the bank. During the quarter, trading income stood at Rs 15.25 Bn up 352% YOY.
- Operating expenses in the quarter increased by 23% YOY.
- The Cost to Assets of the Bank was at 2.12% for the quarter and 2.03% for the nine months.
- Provisions and contingencies increased by 433% YOY due to the elevated slippages and increase in Provision Coverage Ratio of over 400 bps undertaken during the quarter. The Bank shored up PCR from 60% to 64% QOQ.
- During the quarter, we have not utilised any contingent provisions, which continue to be at Rs 1.60 Bn.
- PAT for the quarter declined by 73% on a yoy basis.
- The annualized RoA and RoE for the quarter stood at 0.39% and 4.44% respectively.

Moving to our **Retail Franchise** now.

- Let us start with Slide 19 in the Earnings Presentation.
    - Transaction volumes at ATMs declined by 13% on a YOY basis, while branches and digital increased by 99% and 73% respectively.
    - Mobile banking spends in Q3 reported a growth of 69% on a YOY basis, boosted by demonetization.
- On slide 20, you see our continued investments in developing a deeper branch network. We continue to open a steady and sizeable number of branches quarter on quarter, and opened 105 in Q3. So far we have opened 307 branches in fiscal 2017 in line with our plans to open 350 - 400 new branches.

- Aided by demonetization, Savings Account balances at quarter end grew at a 27% YOY while Current Account balances witnessed a growth of 9%, thus driving an overall CASA growth of 21% YOY.
- Our overall CASA share in deposits was 48% at the end of the quarter.
- CASA deposits on a daily average basis for the quarter grew by 31% and comprised 44% of total deposits. On a daily average basis, SA deposits grew by 31% and CA deposits grew by 30%.
- CASA and Retail Term Deposits continue to form a strong base at 81% of total deposits. Redemption of FCNRB deposits worth USD 1.62 billion happened during the quarter.
- The Bank had 3.1 Mn credit cards in force at the end of the quarter, making it the 4th largest card issuer in the country. Slide 23 shows the steep growth trajectory that we have seen in cards spends in the last few months. As you see here, our cards portfolio saw an increase in spends by 82% YOY to Rs 157.50 Bn from Rs 86.35 Bn for Q3.
- The Bank continues to make significant investments in customer facing digital payment solutions. We are one of the first banks to enable cashless payments at toll plazas across the country. We are delighted with the early positive response to the Axis Pay UPI, as shown in the spends chart on slide 12. We believe UPI is an innovation that has the potential to fundamentally transform the digital payments landscape in India. In the coming months, you will see digital payments come to life as you board a bus in Bangalore or a metro in Kochi. We have partnered with the Bengaluru Metropolitan Transport Corporation (BMTC) and Kochi Metro Rail to offer the country's first open loop smart cards for transit. These solutions offer integrated services to commuters by offering them cashless bus and train travel, as well as access to all 1.8 million card accepting outlets across the country. Leadership in these emerging electronic payment platforms offers the Bank a unique opportunity to build new payments business for the future.

Finally, let us touch on our ***Capital Levels***.

- As of 31st December, 2016, our total Capital Adequacy Ratio (including 9M profits) is 16.59% with a Tier I CAR of 12.99%. This compares with a Tier 1 ratio of 12.03% as of Q2 FY17 and 12.35% as of Q3 FY16.
- During Q3, the Bank raised Additional Tier 1 capital in the form of perpetual debt instruments, amounting to Rs 35 Bn which has further strengthened our overall capitalization levels.
- Slide 6 in the presentation lays out the impact of various items on our Tier 1 ratio this quarter. Growth consumed 75 bps of Tier 1, the new guideline consumed 11 bps, additional capital raised contributed 74 bps and the gross accretion to reserves was 60 bps, making for a net accretion of 48 bps of capital in the quarter.
- The annualized 9MFY17 ROE and ROA were at 6.30% and 0.58% respectively. As the impact from higher slippages recedes and benefits of higher investments in branches and employees kick in, we expect these ratios to improve.

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

- SME loan growth stood at 5% YOY. This space has been impacted materially by events in recent months. We are watching the developments here closely.
- Risk Weighted Assets for the Bank stood at Rs 4,334.39 Bn and grew by 12% on a YOY basis.

Finally, I would also like to highlight some of the achievements of our key subsidiaries.

- Axis AMC - The AMC reported 43% YoY growth in average AUM with 37% growth in total number of folios. Axis Long Term Equity Fund continues to be the largest ELSS fund in the industry with AUM of Rs 104.09 Bn and also among the top 10 equity funds in the industry.
- Axis Direct - The Retail broking franchise continues to show steady growth. Axis Direct has improved to the no. 5 position from no. 6 among all broking houses in terms of unique trading customers on a 12 month rolling period basis. Adoption rate for customers trading on the mobile platform continues to remain among the best in the industry.
- Axis Capital - The Institutional Equities and Investment Banking franchise continues to perform well. During Q3, Axis Capital successfully co-managed two IPOs in the automotive component manufacturing and beverages sectors.

As I close, allow me to re-summarize the key themes of the quarter:

1. **Asset Quality**: Slippages have come off the peak, reducing 48% QOQ; continue to be driven by Watch List. The Bank improved its PCR from 60% to 64% QOQ.
2. **Business Growth:** Loan growth momentum impacted by demonetization in the near term. Expect our initial credit growth expectations for FY2017 to see moderation.
3. **Earnings**: Steady operating profits but driven by treasury gains this quarter.
4. **Retail Franchise**: Loan growth remains healthy, digital payments and transaction trends have witnessed strong growth.
5. **Capital position**: The Bank further strengthened its capital position during the quarter with a Tier I ratio at 12.99% compared to 12.35% at the end of Q3 FY16.

With this, I come to the end of my comments. We would be glad to take your questions now.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Rosemary Fu from Bank Pictet. Please go ahead.

Rosemary Fu: I want to thank the management for such a detailed presentation; however I do have some more questions. On certain pages, I would like to get a bit more colour. The first one is on page 27. In terms of your watch list outstanding, could we get some more color in terms of what is the rationale of the watch list coming down quite substantially from last quarter to the third quarter? And the other question is for the demonetization. I remember the RBI had temporarily asked banks to keep higher cash reserve. I remember that was a temporary. So are you still keeping a higher cash reserve or was the time period for it further extended by RBI?

Jairam Sridharan: Thanks for your questions, Rosemary. On your first question, regarding slide 27, which is reduction in size of the watch list, much of the reduction is happening because those accounts

are getting recognized as they spill over into NPA. So if you see the waterfall chart in the same slide, you will see the movement in the NPA on a 9 month basis where they start at 226 billion and end at 110 billion and you will see that the large part of that reduction is explained by account slipping into NPA and therefore stepping out of the watch list. On your other question of the higher cash reserve ratio, which the reserve bank had asked for during a small part of the demonetization period, has since been removed. It was a short duration in which those higher ratios were held. If you were to look at slide #15, where we talk about the movement in our net interest margin, you would see a 10 basis point reduction in net interest margin because of a variety of factors related to balance sheet structure. One of those factors is precisely the point that you have mentioned which is the higher cash reserves that we have to keep in this quarter. That is part of the 10 basis points compression in net interest margin. I hope that explains. Thank you.

Rosemary Fu: Sure, but do you mean that was temporary it is done already?

Jairam Sridharan: Yes, it is done.

Moderator: Thank you. The next question is from Joe Lo from Serica Partners. Please go ahead.

Joe Lo: My question is why iron, steel and power sectors are still under stress given that the Indian government has supported the sector by raising the import tariffs? Despite this better industrial environment, I see that iron and steel remained your second largest sources of NPA. So I want to understand that and what you think looking ahead about iron & steel and also the power sector. These are my questions, thank you.

Jairam Sridharan: Thanks for your question Joe. You are right that the government in India has made some intervention in the iron and steel sector to improve the operating environment and it has had an impact. The iron and steel prices realized by the manufacturers are better and that has flown through into better operating profits for iron and steel manufacturers. However the underlying balance sheet structure of the major players continues to remain extremely leveraged. Thus, while the improvement in operating environment has benefited them, it has not been sufficient to take care of the underlying problems of highly leveraged balance sheet. So they continue to remain under threat of slippage and being unable to serve the debt that they have taken on during better times. That continues to be situation in iron and steel. In power, again the government has come in with some new policies last year to try and improve the situation and things have improved a little bit on the distribution side of the power sector. However, the benefits have not yet transformed. The rest of the value chain there and the power generators which is where most of the Bank’s exposure lie, have not actually seen much benefit as one might have anticipated, given what happen in the distribution side. So one is hopeful that further policy tools will be exercised by the government in making the situation better but as things stand right now, the situation in these two sectors continues to remain threatened.

Moderator: Thank you. We will take the next question from the line of Esha Maroo from JP Morgan. Please go ahead.

Esha Maroo: I had a question around asset quality. Of the current watch list of 110 billion, what is the guidance on future conversion into slippages out of this residual watch list and secondly what is the expected trend in non-watch list slippages going forward because these have exhibited increasing trend quarter on quarter.

Jairam Sridharan: Thanks, Esha. See as far as slippages are concerned, whether watch list or outside of watch list, I will reiterate the guidance that we have given in last quarter end which is as far as the rest of this financial year is concerned, we expect total slippages in the second half of the year to be meaningfully lower than the slippages we saw in the first half of the year. However, we expect the credit cost to remain roughly the same driven by the fact that we want to keep provision coverage high and increased provision coverage in this later half compared to what we saw in the first half. However, we have not offered specific guidance yet on where we are seeing FY'18 slippages to go. Our internal assessments are going on right now and we expect to share something and put something out in the public domain as we share our quarterly results at the end of the fourth quarter.

Moderator: Thank you. We will take the next question from the line of Harsh Bansal from JP Morgan. Please go ahead.

Harsh Bansal: Could you provide some guidance on your retail and SME book and what are the growth numbers you are looking at and how do you think the asset quality will pan out in these segments? This is my first and my second question would be, any slippages in the non-watch list names, have you seen any surprising big names there, some large corporate exposure going down?

Jairam Sridharan: Thanks, Harsh. So to your first question on what is happening in retail and SME, we see organic demand in retail continues to be strong. It has been threatened somewhat particularly on the home loan side with demonetization and potential impact on real estate prices. However, on a more secular basis, one continues to be optimistic about the overall organic demand growth in retail. So as has been the case for the last few years, retail will likely continue to be the source of strength as far as the growth trajectory on the asset side is concerned. Now on the SME side. The underlying demand was pretty good and we started seeing a good sort of increase in our growth numbers on the SME side till demonetization. What demonetization has done is actually put some temporary breaks on the SME sector as people have gone a little bit more into wait and watch mode as they are trying to figure out how their business models are impacted by the new disruption. As far as asset quality on both these sides are concerned, SME and retail have been fairly stable and continues to be so. On SME, the same is true except that again because of demonetization there might be some impact on the underlying business models, some of the promoters and hence we are going to watch that space closely in the coming few quarters to get a more meaningful sense of how asset

quality there is going to pan out in the next few quarters. You had another question Harsh; sorry I am forgetting what it was.

Harsh Bansal: Sir my second question was regarding the slippages that you have seen from your non-watch list portfolio- any big corporate accounts or anything, any surprising big names there?

Jairam Sridharan: Not really. If you see the total corporate slippages that have come from outside of the watch list, that amount was something like Rs. 9.5 billion and if you see the sectoral distribution of that 9.5 billion, you see a fair sort of distribution. Even among our top 5, there is a fair amount of spread even among sectors. So if you just do the maths backwards from there, you will realize that there is no single sort of big chunky name that is part of that group.

Moderator: Thank you. We will take the next question from the line of Amitabh Arolkar from Arab Banking Corporation. Please go ahead.

Amitabh Arolkar: My question references slide 28. You have a percentage for the watch list portfolio which is dominated by power. Is this a single one-off entity or you got multiple power projects, multiple companies that are part of that?

Jairam Sridharan: There are multiple companies here, Amitabh. No single exposure within the watch list is larger than 10%, in fact much lower than that. Even our largest exposures within the watch list are in single digit percentages of the watch list. So, power comprises of multiple entities.

Amitabh Arolkar: So which means out of the 110, is it safe to assume 50 billion is the current watch list for power or the current exposure to the power sector?

Jairam Sridharan: That is right.

Amitabh Arolkar: And as far as your normalized provision coverage ratios go, do you expect to get back to the seventy levels anytime soon or will still be under stress over the next couple of quarters?

Jairam Sridharan: I think when we reached 60% provision coverage last quarter, we had mentioned on the call that we feel uncomfortable with how low this number has fallen and we would like to bring it back up. Now that we are sort of in a mid-60s, we feel a lot more comfortable with where we are. So you might see a stay around here or maybe increase it a ted move directionally towards the 70, but we are comfortable with where we are right now.

Moderator: Thank you. We will take the next question from the line of Simran S from Standard Chartered Bank. Please go ahead.

Simran S: My question again goes back to the slippages, but away from the watch list. I am just trying to understand if one looks at the composition sector wise, it is very similar the slippages coming from the watch list versus the non-watch list. So how come these accounts were not in the original watch list and what has led to them suddenly becoming NPA over these quarters and

given that the proportion of non-watch list slippages has now been high for a couple of quarters. Is there not a case to be made for revision of this watch list and what kind of confidence can we have in the 2.8% kind of figure for potentially stressed assets?

Jairam Sridharan: Thanks for your question, Simran. Very fair question. If you see the composition of the non-watch list slippages either by sector or by vintage etc., you are right that it is not dissimilar from what we had on the watch list. When we created the watch list, we applied multiple filters and multiple criteria to evaluate whether certain accounts qualify to be on our watch and after looking at them on an account to account level basis kind of judgmentally given what the individual operating performance of these were and what the specific circumstances in term structure was on accounts. We drew a line someway around the risk rank order and identified sort of weakest accounts at the watch list. As the last two quarters have panned out, one may sort of get a impression that may be in the drawing of the line and identification of the watch list we could have been more liberal and incorporated more accounts. You are right that the accounts are not very dissimilar in character from the watch list accounts and in fact if they have been very dissimilar, that could have bothered me a lot because that would mean that there is some fundamental insight about risk that we just missed in creation of a watch list. What this shows is that the fundamental identification of risky pockets was right, the drawing of the line as to what makes it into the watch list and what does not, that probably could have been a little bit more conservative.

Moderator: Thank you very much. As there are no further questions from the participants, I now hand the conference over to Mr. Jairam Sridharan for closing comments.

Jairam Sridharan: Thank you very much everyone for taking time out of your day to attend our conference call. We are happy that we have been able to give you the requisite information. Thank you very much and have a wonderful day.

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