# "Axis Bank Fixed Income Investor Conference Call to Discuss the Q4 & FY 2016 Results"

**April 28, 2016**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Axis Bank Fixed Income Investor Update Conference Call to discuss the Q4 and FY 2016 Results. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Jairam Sridharan – CFO of Axis bank. Thank you and over to you sir.

**Jairam Sridharan:** Thank you Ladies and gentlemen, good evening. Before we begin, I would like to mention that some of the statements made during today's discussions, may be forward-looking in nature and may also involve risks and uncertainties.

I welcome you to our conference call for the presentation on the bank's performance for the 4th Quarter and Final Year 2016. On the call with me, are my colleagues; Mr. Sidharth Rath – President & Head (Corporate Banking), Mr. Saugata Bhattacharya – Chief Economist, Mr. Shashikant Rathi – Head (Treasury & Market) and Mr. Yousuf Syed – Head (Fixed Income Investor Relations).

I would like to start by highlighting that during Q4 we have taken a series of steps to provide better disclosure, further strengthen our balance sheet, and set up a framework for more transparent monitoring of our performance. We hope that you find these steps useful.

The Key Themes for the quarter's performance.

1. **Asset Quality**: The asset quality situation on the ground has not improved materially. Stress in select sectors continues to dominate the trend. Our asset quality metrics like GNPA, NNPA, and provision coverage have remained largely stable on a sequential basis. However, the stress environment remains elevated and the operating environment challenging. We have also shared a new disclosure around a Watch List that the Bank's management assesses to be the key pool of potential future stress in the Corporate Lending book. We have also shared sector wise NPA and provision details under our Basel III disclosure requirements. We will discuss these disclosures in further detail later.
2. **Healthy core earnings driven by strong NII growth**: Underlying earnings quality remains healthy, with NII growing by 20% year on year for Q4FY16. Core operating profit for the quarter and year was up by 15% and 21% respectively. PAT for Q4FY16 declined marginally to Rs 21.54Bn and for the year was up 12% at Rs 82.24Bn.
3. **Advances Growth driven by Retail**: Growth momentum is healthy with loan growth at 21%. The share of Core Retail Advances excluding FCNRB deposits is now at 39%, up from 37% last year.
4. **Strong performance on the Retail Franchise**: The Retail franchise of the Bank had a good quarter – with Saving Accounts growth of 20% yoy and core retail loan growth of 25%. We believe we are now the 4$^{th}$ largest credit card issuer in the country. Our key subsidiaries in the

brokerage and Asset Management businesses are also playing their role in this franchise building for the Bank.

5. **Strengthening Capital position**: Overall capital efficiency of the Bank improved in Q4, with our Tier I ratio increasing to 12.51%, compared to 12.07% last year and 12.35% in Q3 despite healthy Balance Sheet growth. RoA and RoE for the quarter stood at 1.68% and 17.31% respectively.

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

Starting with Asset Quality, the Bank's Corporate Lending Watch List has been hosted as a separate disclosure on our website and I hope you have had the opportunity to look at it. The Bank's management assesses this Watch List to be the key pool of potential future stress in the Corporate Lending book. We assess the size of our Watch List to be around Rs 226Bn in Outstanding. About half of this list comes from Iron & Steel and Power sectors. Our disclosure offers further color on the composition of this Watch List, and our expectations on slippages from this pool over the next 2 years.

As indicated in my initial comments the operating environment remains challenging, Stress levels in wholesale lending remains elevated system-wide. We are witnessing similar trends in our book. Barring a strong revival in domestic economic growth and sustained global recovery in commodity demand and prices, the outlook for these select sectors remains very cautious.

During the quarter, fresh slippages into NPA stood at Rs 14.74Bn. On a cumulative basis for FY16, we have added Rs 73.45Bn to NPA.

In terms of movement of GNPAs, up-gradations and recoveries in Q4 were at Rs 7.80Bn and write-offs at Rs 3.30Bn. Consequently, the net addition to Gross NPA pool during the quarter was Rs 3.64Bn.

Provisions and contingencies other than tax for the quarter were Rs 11.68Bn against Rs 7.10Bn last year. Of this, provisions for loan losses were Rs 6.06Bn, provisions for standard assets including unhedged foreign currency exposures were Rs 2.57Bn, provisions on SDR accounts Rs 0.22Bn and there was a write back of Rs 0.17Bn on account of other provisions.

We added contingent provisions of Rs 3Bn during the current quarter.

In the standard assets provision bucket, we have provided roughly Rs 1Bn against one entity in the food sector as per an RBI directive to all Banks with exposure to that entity. As per the directive we are required to set aside 15% provisioning against this account by June 2016, starting with 7.5% in Q4.

Our annualized credit costs for Q4FY16 were at 69 bps. For the full year ended March 2016, this metric stands at 111 bps including the usage of Contingent Provisions in Q2 & Q3. If we *exclude* the usage of Contingent Provisions, credit costs were at 96 bps for the full fiscal year 2016.

Our net restructured book stands at Rs 80.72Bn with fresh restructuring of Rs 9.27Bn during the quarter. This was all on account of the shifting of the DCCO (Date of Commencement of Commercial Operations) of a single project. On a cumulative basis for the full fiscal year 2016, we have added Rs 22.67Bn to our restructured book of which Rs19.49Bn was on account of change in DCCO only.

We witnessed Rs 3.96Bn of slippage from the restructured book during Q4. Annualized slippages from the Restructured book continue to be around 25% of the Restructured book on a 2 year lag basis.

During the quarter the Bank has implemented Strategic Debt Restructuring (SDR) in 4 accounts, where the underlying loan amount was around Rs 2.05Bn. The Bank has also implemented the 5/25 scheme for 1 account where the aggregate loan amount was around Rs 1.70Bn.

The cumulative value of the underlying loan amount for SDRs and 5/25 undertaken by the Bank for FY2016, was around Rs 5.75Bn and Rs 37.40Bn respectively.

We have sold sub-standard assets worth Rs 3.49Bn to ARC during the quarter for a consideration of Rs1.10Bn, for which we have received Rs 0.25Bn in cash and the balance Rs 0.85Bn in SRs.

Asset quality metrics of the Bank remained stable on a sequential basis, with GNPA at 1.67% as on end March 2016 from 1.68% in Q3. Net NPA improved to 0.70% from 0.75% in Q3. Our provision coverage ratio has been stable at 72%. Our endeavour will be to keep the provision coverage ratio above 70% going forward by the end of the year.

As on 31$^{st}$ March 2016, the aggregate impairment viz. Net NPAs and Net restructured assets as a percentage of net customer assets stood at 2.95% vis-à-vis 3.06% as on 31$^{st}$ December 2015 and 3.15% as on 31$^{st}$ March 2015.

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

Our operating profit growth engine continues to deliver healthy numbers despite the tough operating environment. Overall operating profits were at Rs 43.99Bn, a growth of 10% over Q4 last year. Net of Trading profits and gains on profit repatriation, the Bank’s core Operating Profit grew 15% yoy. NII constituted 63% of Operating Revenue and was up by 20% on the back of steady NIMs and healthy loan growth. NIM for the quarter was 3.97%, with Domestic NIM at 4.24%. Cost of funds during Q4 was 5.84% compared to 5.86% in Q3, and 6.26% in Q4 last year. The sequential decline of 2 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.

We have witnessed the banking sector move towards a marginal cost based lending rate system starting from April 2016. We have also announced our MCLR rates for various tenors.

Currently only new floating rate loans will be contracted with reference to MCLR and the existing Base Rate linked loans will move to MCLR benchmark on their reset date. This shift will happen gradually over the year, and we expect the pricing of our liability base to move in tandem. We do not currently foresee any significant impact on margins due to the transition to MCLR based lending. We expect our NIM to remain above 3.6% for FY17.

Fees constituted 31% of operating revenue. Growth here was muted, at 6%, due to decline in Corporate fees and flattish Transaction Banking fees, which restricted overall fee growth. However, Retail fees had a growth of 15%, and Treasury had a Fee growth of 12%.

During the quarter, miscellaneous income was up by 20% YoY mainly due to receipt of dividend from subsidiaries of Rs 0.77Bn compared to Rs 0.18Bn in Q4 of last year. We also booked Rs 1.69Bn of exchange gains from repatriation of profits from our foreign branches compared to Rs 1.56Bn in Q4 of last year. The sharp sequential jump in miscellaneous income is also due to higher cash recoveries of Rs 0.83Bn compared to Rs 0.30Bn in Q3.

Operating expenses in the quarter increased by 15% YoY and 13% sequentially mainly driven by the higher number of branches opened during this quarter. Despite this increase, the Cost to Income ratio of the Bank for the quarter was steady at 39%. The employee base for the year increased by 19% representing 7,905 additions on a net basis. On a full year basis, our Cost-Income Ratio improved by over 200 bps to 39% compared to 41% for fiscal year 2015. We expect our Cost-Income Ratio to be below 40% for fiscal year 2017.

Core Operating Profit growth continues to remain healthy at 15%. However, the higher credit costs trajectory continues to restrict similar trends in PAT level, 1% decline on a YoY basis.

The return ratios for our shareholders stayed healthy this quarter. The ROE and ROA for Q4 was at 17.31% and 1.68% respectively.

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

Aggregate loan growth remains healthy, at 21% yoy. Retail lending continues to grow strongly, with a yoy growth of 25% this quarter, excluding loans against FCNR-B deposits. A few details on this growth- Our Retail Lending growth continued to be led by HL, Unsecured PL and Credit Cards. Overall Retail loans (i.e. including loans against FCNR-B deposits) grew 24% YoY. 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. 97% of the bank's credit card originations in the quarter were from existing customers of the bank. On unsecured lending, this proportion is around 80%.. More than 40% of incremental retail loans in Q4 were sourced through our branches. The credit quality of retail loans continues to remain healthy. During the second and third quarter of FY17 the loans against FCNRB deposits are likely to mature. It will also lower our liabilities by similar amounts.

Our Corporate Advances portfolio had a yoy growth of 22%. As indicated in our previous call, we continue to find attractive refinance opportunities for highly rated corporates that are new relationship additions to the Bank's franchise. 79% of new sanctions in the corporate book were to companies rated A and above. Presently, 62% of outstanding corporate loans are to companies rated A and above. The Bank's exposure to the iron and steel sector as on March 2016 stood at 3.4% of which around 60% are rated "A" and above. We have witnessed some downgrades in this sector during the quarter.

In fiscal 2017, we expect the Bank's Credit growth to be around 18-20%.

The fourth theme is the continuing build-out of our **Retail Franchise,** and the increasingly important role that is starting to get played by some of our subsidiaries.

We continue to invest heavily in broadening our network footprint. During the quarter, we opened 99 domestic branches. With this, our branch additions for the year goes up to 315, up from 187 new branches opened in FY15. We expect to continue our increased pace of branch openings into next year, and plan to open 350-400 new branches.

Savings Account balances at quarter end grew at a strong 20% yoy, up sharply from the low of 12% yoy growth we registered in Q2. Current Account balances also had a healthy performance with a growth of 13%, thus driving an overall CASA growth of 17% yoy. Our overall CASA share in deposits was 47% at the end of the quarter, around 400bps higher than Q3 and 256 bps higher than Q4 of last year. CASA deposits on a daily average basis for the year grew by 15% and comprised 40% of total deposits. On a daily average basis, SA deposits grew by 14% and CA deposits grew by 16%. CASA and Retail Term Deposits continue to form a strong base at 81% of total deposits. 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.

The Bank had 2.41Mn credit cards in force as of 31st March, making it perhaps the 4$^{th}$ largest card issuer in the country. The credit cards portfolio saw a substantial increase in spends by 40%, to Rs 93.56Bn from Rs 66.95Bn for Q4. For the full year, the growth was 44%, from Rs 135.35Bn to Rs194.32Bn.

Our Retail Franchise Strategy is focused on five key relationship categories - loans, deposits, payments, investments and protection. Our intent is to build lasting relationships with our customers by serving their needs along each of these five categories. In this regard the increasingly important role being played by some of our subsidiaries is worth mentioning.

In terms of total Assets Under Management, Axis AMC occupies the 11$^{th}$ position in the industry.

In FY16, Axis AMC emerged as one of the fastest growing asset management companies in the industry. Axis AMC saw average Mutual Fund AuM rise by 42% during the last financial year, compared to industry growth of 14%. Axis AMC's investor base has now crossed 1.5 Mn, with over 600K customers added in FY16.

Our broking subsidiary Axis Direct started its journey in 2011 and in 5 years has crossed a customer base of 1 million customers. Axis Direct has been awarded the 'Best growing Retail Broking House' consecutively for the last 3 years at the Dun & Bradstreet Equity Broking awards (FY14, FY15, FY16). Axis Direct launched its Mobile app earlier this year and is already the leader in Mobile Trading volumes as a % of total trading volumes, with 20% of all trading volumes having shifted to the app. Market beating performance by the AMC and best in class technology adopted by our retail brokerage subsidiary helps further strengthen the bond customers have with the Axis family.

We continue to see strong momentum towards the adoption of digital channels by customers. Our transaction volume on Axis Mobile more than doubled in Q4 on a yoy basis, outpacing every other channel by a wide margin. It is worth noting here that, Forrester Research has rated Axis Mobile as the best banking app in India. Electronic channels now contribute 51% of all customer induced transactions in our retail base.

The fifth and last theme relates to our comfortable ***Capital Levels*** and sustained delivery of healthy ***Return Ratios*** for our shareholders.

The Bank improved its capital levels materially in Q4. As of March 31, 2016, our total Capital Adequacy Ratio is 15.29% with a Tier I CAR of 12.51%. Compared with a Tier 1 ratio of 12.07% as of Q4 FY15, this indicates that the Bank has accreted capital during FY16 to the extent of 44 bps. Our capital level is also materially higher than the 12.23% Tier 1 CAR the Bank had after we raised our last round of capital.

We continue to deliver healthy returns for our shareholders, with the full year ROE and ROA at 17.49% and 1.72% respectively.

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 growth at 8% has lagged our overall growth trajectory materially. We hope to reverse this trend favourably in fiscal 2017. The Credit Deposit ratio of the Bank was at 95% at the end of Q4. This included a domestic CD ratio of 82%. When we include Infrastructure Bonds as part of our Deposits base, our domestic CD ratio changes to 80%.

Risk Weighted Assets for the Bank stood at Rs 4,039.49Bn and grew by 17% on a YoY basis.

We currently have Security Receipts with a gross value of Rs 8.85Bn on our books. We have since taken Rs 1.14Bn of marked to market (MTM) depreciation on these SRs and they are currently held at a Net Book Value of Rs 7.71Bn. Almost the entire MTM depreciation impact emanates from SRs obtained during fiscal 2014.

Our exposure to "highly leveraged corporates" as we have shared in the past, was just under 8% as on 31st March 2016. We have created a special team that is focused on finding resolution mechanisms on some of the problematic assets on the books. We have been seeing some early success with some borrower groups, including some in the last few weeks, through monetization of assets.

Here is our Business Outlook summary for FY17 for the Bank:

- Credit Growth: Around 18-20%
- CASA ratio: Around 40%
- NIM: Above 3.60%
- Cost to Income: Below 40%
- Branches: 350-400 new branches
- Operating Profit: High teens growth in PPoP
- Credit Costs: Around 125 bps, with a possible adverse scenario of 150 bps
- Provision Coverage: Above 70%

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

1. **Asset Quality**: Stable during the quarter but stress remains elevated. The disclosures should help you all to gain more insights into the health of our corporate loan book.
2. **Healthy core earnings growth**: Core operating profit engine remains healthy, with core operating profit for the year up by 15%.
3. **Balanced Advances Growth**: Growth momentum remains healthy with contribution from both retail and corporate.
4. **Retail Franchise building out well**: Strong recovery in Savings Accounts growth, emerged as the likely 4th largest credit card issuer in the country and strong performance across retail facing subsidiaries.
5. **Capital position and return ratios remain strong**: with Tier I ratio of 12.51% and RoE of 17.31%.

With this, I come to the end of my comments. I would like to hand over to Mr Saugata, Chief Economist to talk about macro economy outlook.

**Saugata Bhattacharya:** Thank you Jairam. I will try to keep this brief. Thank you all for being on the line, I will be happy to take questions at the end.

India's growth inflation mix, indicates that there is room for further monetary policy easing. We expect there is a high probability of a further 25 basis points cut in the Repo rate. There could be another 25 basis points cut if the rains are good and inflation remains under control.

We are still keeping our FY17 growth outlook at 7.7%, up from about 7.5% that we expect for FY16. But if the rains are good, I think we can easily see growth topping 8%. Government is committed to fiscal consolidation. We expect that the Centre will stick to its fiscal deficit target of 3.5% of the GDP but we are a little concerned about the fiscal deficit of the states. The overall fiscal deficit within budget deficit of the states needs to be monitored to track if they have reached 3% of the GDP, particularly after they are taking on State Electricity DISCOM bonds.

RBI has modified its liquidity management framework shifting to a neutral structural position from a deficit. We see that the move to the neutral position to be quicker than we had earlier anticipated and quicker than their own projected one to two years' timeline.

The USD-INR pair remains very stable, but we expect a gradual depreciation over the year lead by inflation and interest rate differentials. Bank credit growth is likely to be inching up moderately at growth rate of 10.5% YoY as on 15th April. But this needs to be interpreted cautiously given that there are various starting date issues for both FY17 and FY16. We expect credit growth to pick-up moderately to about 12% to 13% over the course of FY17. The overall outlook as Mr. Sridharan mentioned remains challenging. CAPEX revival will take some time but it is not going to happen immediately. I think good rains will start this process. I think there is some likelihood of global potentials plus global volatility given that there is some underpricing of risk, which looks evident in the system, economic activity will improve but at a much slower pace than we had earlier anticipated, with this I close my comments, thank you.

We will be glad to take your questions now.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Viacheslav Shilin from Deutsche Bank. Please go ahead.

**Viacheslav Shilin:** I have one overall question. You mention at the beginning of your presentation that the operation environment in the banking system and overall in the economy remains challenging, Can you please elaborate what exactly in your views makes the operating environment challenging despite lot of efforts of the government to revive the economic growth? Thank you so much.

**Jairam Sridharan:** Alright, you have started with the very hard question. The observation that we have in the operating environment is that while there are some strenuous efforts that are being taken by the government of India and by specific State Governments and other government departments, we are not yet seeing any increase in the private sector CAPEX cycle. Till we see that, it is going to be really hard for us to see sustainability of any kind in growth momentum particularly for banks. The other thing that we see is that while there has been some improvement in the commodity price cycle and some of the government interventions have held, a lot more is required for some of these firms to be in a position to service all the debt that they have taken on over the last couple of years. This coupled with the draught like situations that are prevailing in many parts of the country has created an environment in which operating businesses in nominal terms are witnessing very limited growth in their top line. For banks like us who depend a lot on private sector CAPEX and a private sector profitability to drive the business, this environment is a very challenging one. Now to your question of what can get this to turn around, I think Saugata had some remarks that were pointed in that direction. Certainly, it begins with the amount of rainfall we get after 2 years of poor rainfall. If this jinx gets broken, CAPEX spending by government departments, particularly the railways, can be a big boost and it can really trigger a cycle of CAPEX and have a multiplier effect. The commodity price cycle will also help. Any strengthening in commodity prices will make some of the domestic producers, who are extremely troubled currently, to have better margins. Now all of this, while somewhat dependent on government action, cannot be mandated which makes the job of the government a little bit complex. That said, we see that the government and the different departments of the government are trying really hard to figure out the right intervention in each of these markets to break the logjam. We hope they succeed, however at this point of time the evidence is that movement is slow.

**Viacheslav Shilin:** Thank you so much

**Moderator:** Thank you. The next question is from the line of Shankar Swami from Standard Chartered Bank. Please go ahead.

**Shankar Swami:** I have a couple of questions, one on your watch list which has been disclosed, I think that is a pretty good initiative and we appreciate your transparency there. Just wanted to check if you also include restructured loans as a part of the watch list?

**Jairam Sridharan:** Yes, restructured assets are indeed a part of our watch list. We have a chart in our disclosure which shows that 72% of restructured assets have been qualified to be on the watch list. So when we did our screening process, we kept all accounts that were not NPAs under consideration set for the watch list. Than as we go through our evaluation process, we found that about 72% of the restructured assets are on the watch list.

**Shankar Swami:** I see that in Slide #5 of your presentation. Thanks. Final question. You have some maturities coming up in next month and then later next year. How is your international balance sheet shaping up? Do you think there will be more funding requirements for you in the next 12 to 18 months as well as any plans to issue dollar capital? I know that your capital levels are comfortable so you are not in any immediate need for raising capital, but any guidance on that would be useful.

**Jairam Sridharan:** I think you have said it. Immediately there is no need for us to raise capital, but we continuously look at the markets, review the positions and, as we have been guiding earlier also, look for a favourable window to go out and raise capital. A lot also depends on how my offshore offices perform and how their book grows which again depends on the growth of the corporate book in India.

**Shankar Swami:** On the asset quality front, you have painted a pretty realistic picture. Things in the next 12 to 18 months or even more do not look that positive, and this is a sector wide phenomena, so would it be right to say that your NPA levels will definitely not peak in the next 18 months?

**Sidharth Rath:** We are not going by NPAs per se, we are talking about the credit cost. What we have been guiding is that our credit cost will remain around 125 basis and in adverse conditions it can go up to 150 basis point. We have also pointed that out of this watch list about 60% might slip into NPAs over the next 8 quarters.

**Moderator:** Thank you, the next question is from the line of Varun Murali from JP Morgan. Please go ahead.

**Varun Murali:** Bank has now moved to the MCLR based regime. What is the immediate impact that the bank is viewing on terms of pricing of corporate loans, both new loans and existing legacy loans and is that expected to have an impact on the interest income going forward?

**Jairam Sridharan:** The transition from the base rate regime to the MCLR regime has happened. We see that all banks and market participants have maintained consistency in their pricing regime. We have not seen any disruptive pricing or predatory pricing in any tenor point or any particular asset class. Therefore, even though the transition has happened, there is no material impact from the margins perspective. Impact on margins may happen as banks get more comfortable with the new regime and they might start experimenting. But as of now one has not seen anything material on that front.

Now, to your question of generically is MCLR likely to have a direct impact on margins, our internal simulations suggest that the margins are largely being maintained at least for the forthcoming year. We have no reason to worry about margin compression driven by MCLR, The theoretical construct of MCLR being such that the lending rate and the deposit rate move in tandem, it likely maintains a certain level of stability to margin.

**Moderator:** Thank you. The next question is from the line of Desmond Lee from Wellington Management. Please go ahead.

**Desmond Lee:** Hi, thanks for hosting this call. I have a few questions. Actually again focusing on the watch list, RBI has done asset quality review early on for the Indian banks and I thought of it as a clean review of the books. But still new loans are been put up for stress. I would like to understand the difference between watch list created by you and what AQR should have achieved. Looking at slide 5, I see that only quarter of highly leverage groups is included on the watch list. How are you comfortable with remaining 75% of the leverage group that is not on watch list? Last question. How much provisions have already been put up for Rs 226 Bn of assets on the watch list?

**Jairam Sridharan:** Thank you, your first question was on the existence of the watch list itself and why something like this should exist when AQR was just done and what the process differentials were. If you look at the RBI's AQR process, the primary objectives there was around the appropriate application of the Income Recognition and Asset Classification (IRAC) norms. RBI has a set of guidelines and norms around income recognition and asset classification and they went in and did a deep dive across all banks at industry level to see whether the IRAC norms have been applied in letter and in spirit. So if you look at the Deputy Governor Mr. Mundra's presentation which is hosted on RBI's website where he talks about what were the key finding of AQR, one of the key themes he mentions is what he calls round tripping. In other words, the IRAC norms in letter are being maintained but essentially in spirit they have been violated because there is a round tripping of disbursements and payments that is happening in this system. Those are the kind of things that RBI has gone in and looked at and where ever they have found anything like that, they have essentially asked for that to be put as part of the AQR list. So conceptually AQR has looked for accounts that are already NPA but are not being shown as such on the bank books. Our watch list is conceptually different. Our watch list is about accounts which are not currently NPA and are perfectly fine in terms of their payments; However, there is a weakness in them that we can see and there are reasons to believe that there is stress in these accounts due to which they could become NPA. So it's a forward looking disclosure rather than AQR which is sort of backward looking and looks at accounts which should have already been classified as NPA.

Now I am taking your last question and then we will come back to the second. Your last question was about provisions we have against these assets. There are 3 classes of provisions that we have against these assets. The first is the standard asset provisioning, A large proportion of these accounts are standard, so they are going to have the standard asset provisioning. Then to the extent that some of the accounts are restructured, they are going to have the restructured asset provisioning and third level is the contingent provision that we have created as a pool which would be available at provisioning cover for these assets. You will notice that in this quarter, we added 3 Billion Rupees to our contingent provision pool. It is the beginning towards building up a buffer to protect against the losses that might come from the watch list pool over times to come. However, we have also disclosed that on a going forward basis, we would like to keep our provision coverage ratio in the 70% kind of range and what that means is that as and when slippages keep happening, we expect to pay as we go for the provisioning from our operating profit.

The third question which was on why there are 75% of the leverage groups that are not on the watch list. The process that we went through, for the assessment and creation of the watch list, was a whole set of rules. Whoever hit one or more of those rules triggers, gets qualified to be assessed in detail by our risk management team led by our CRO. The team did a thorough account to account level study and handpicked accounts that qualify to be on the watch list. The 25-75 split that you see is an outcome of the process. It was not an input to it. Now, why would an account be part of leverage group but not be a part of the watch list? To explain that let me first state that the leveraged groups that we have spoken about in the past is the industry norm around leverage groups. It includes those 8 or 9 corporate groups that were part of various debt reports and market assesses them as highly levered. This is not an internal bank classification. When we look at these groups and we look at who did not make it to the watch list, we find that there are broadly 3 sets of reason for those accounts that did not make it to the watch list:

1. Our exposure is with the better financial sound companies within the same group. For example, there is a group on the highly levered list which has a port company which is actually in a very different financial shape and our exposure is to that company. There is another group which is on that highly leveraged list who has a housing finance company with very different financials. Our exposure is to that company. There is a third group who is a domestic airport company. Here again our exposure is only to that company which does not suffer from leverage problem like other similar companies.
2. We have a very specific asset monetization plans in play with some of those assets and we have identified accounts in which the promoter groups are already deep in discussion to monetize some of the assets for extinguishing our loan. Only exposure amount that is over and above that is considered for watch list.
3. Some of the groups are into many verticals and some verticals are inherently more stable from an operating economic perspective than others and our exposures might be to those verticals. For instance, one of the 'leverage group' has an oil vertical which is in much better financial position and has better long-term financial structure. Our exposure is to this entity within the group. Our exposure to another leveraged group is towards power vertical entity which is in much better economic shape. So those are the sort of reasons why an account could be part of a leveraged group from a parented perspective but might not make it into our watch list. I hope that answers all your questions.

**Desmond Lee:** Can you provide some rough idea of the provision coverage on the assets in watch list taking into account standard provisions, contingent provisions, restructure provisions and other provisions?

**Jairam Sridharan:** Standard asset provisioning is 0.4%. Restructure provisioning is going to be anywhere from 5 to 20%. You know the proportion split between that and the size of our contingent provisions. You can just add them up to get the overall provision coverage number. Right now our provision coverage is not going to look great. It is going to be in the single digit percentage. Our intention is to continue to build the contingent provision pool at every possible opportunity when we have one off gains. Rest we will fund through operating profit margins.

**Moderator:** Thank you. The next question is from the line of Anthony Cheung from JP Morgan. Please go ahead.

**Anthony Cheung:** Sir, we have noticed that the interest income growth is quite strong but the growth in trading and fee income of the bank has not been as strong. My question is do you expect to try and continue as the pace of rate easing in India slows down?

**Jairam Sridharan:** Thank you for the question. If you look at our NII, as you rightly pointed out, growth has been really strong. Our NIMs have been quite strong and loan growth has been steady and that has resulted in fairly strong interest income. However, our fee income growth has been tepid at 6% growth in the fourth quarter. That's because on the corporate banking side, we have decided to move up the rating curve and as one get to better ratings corporates, ability to generate credit link fees really diminishes. Since this has been a large source of fees for us, it has resulted in muted fee growth as we are making this transition. However, some of our flow based fee income stream, both on the corporate side in the form of transaction banking and on the retail side in terms of retail deposits and lending or our credit card business, the fee income is actually speeding up. This year will be the year of transition when some of these flow based fee income streams will become much more dominant than the fund based fee income stream and so hopefully the income growth will come up in the quarters to come. On your question around trading income, if you look at the full year basis, our trading income growth has been quite good. In fourth quarter, our trading income fell but that is because in the fourth quarter last year we had a specific trading window of government securities which we were able to utilize and this quarter that opportunity did not come up in the fourth quarter. Trading is not the business in which we expect steady income streams every quarter, so we are not perturbed by occasional quarters in which the trading income growth is negative.

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

**Sidharth Rath:** Thank you ladies and gentleman for joining this call. Our investor relationship group is there to help you in any other follow-up query that could be there. Thank you and good evening.

**Moderator:** Thank you, on behalf of Axis Bank that concludes this conference. Thank you for joining us and you may now disconnect your line