"Axis Bank Q4 & Annual FY18 Results Conference Call"

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MANAGEMENT: MR. V. SRINIVASAN – DEPUTY MANAGING DIRECTOR, AXIS BANK
MR. JAIRAM SRIDHARAN – GROUP EXECUTIVE AND CHIEF FINANCIAL OFFICER, AXIS BANK

Moderator: Good day, ladies and gentlemen and welcome to the Axis Bank Conference Call to discuss the Q4 and Annual FY18 Results. Axis Bank team is represented by Mr. Jairam Sridharan - Chief Financial Officer. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation is not sent. Unauthorized dissemination of the contents or the proceedings of the call is strictly prohibited, and prior explicit permission and written approval of Axis Bank is imperative.

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

On behalf of Axis Bank, once again I welcome all the participants to the Axis Bank Conference Call. I now hand the conference over to Mr. Jairam Sridharan to brief all the guests on Q4 and annual FY18 Results. Thank you and over to you, sir.

Jairam Sridharan: Thank you, Margaret. Ladies and Gentlemen, good evening. I welcome you to our conference call for a presentation on the Bank's performance for the fourth quarter and financial year 2018. On this call with me is Mr. V. Srinivasan – Deputy Managing Director. At the end of this presentation, the two of us will be glad to respond to your questions.

Earlier today, we shared two Presentations on our website. Our quarterly investor presentation which is what we usually share as well as a special presentation called 'FY19 Execution Strategy.' During this call, we do expect to refer to slides in both these Presentations, so you might want to keep them handy.

Let me get straight to the key discussion point of the quarter which is on asset quality:

You might want to refer to Slide #48 through #55 in the Earnings Presentation for a discussion on asset quality. In this quarter, we have significantly accelerated NPA recognition in parts of the book that had incipient weakness. We have also applied the February 12th circular of RBI, in a very conservative manner and have recognized a substantial portion of our restructured book as NPA. Gross NPA formation in the quarter was ₹16,536 crores, of which ₹13,938 crores was from the corporate lending book. 59% of corporate slippages were from power, infra and iron and steel sectors. Power sector NPA recognition has increased substantially in this quarter. NPA ratio in this sector has gone up from around 4% at the beginning of the year to 44% now.

The slippages came predominantly from our previously disclosed stress book. Of all corporate slippages in this quarter, 90% came from the BB & below pool. Rating downgrades into the standard BB & below book were broadly similar to the last five quarters on a net basis, at roughly ₹2,500 crores. At this point of time, we are not changing our guidance and expectations on this rating downgrade cycle. We will continue to watch how it goes. But as of now, we continue to believe that there is another 1 to 2 quarters of the downgrade cycle still left.

We have continued to maintain a high provision coverage ratio on NPAs at 65%. With the accelerated recognition that we have done, we believe that the NPA recognition phase of this credit cycle is now nearing completion. The vulnerable book, which can be measured by BB & Below rated accounts reduced by 44% during the quarter.

If you turn to Slide #51, which is where we have shown the long-term trend on this metric, you can see that BB & Below now stands at ₹8,994 crores or 1.8% of loans. It is one-fourth of the 7.3% level that it was at 8 quarters ago. I would also like to state here that the Bank's SMA-2 portfolio at the end of this quarter was less than 0.5% of loans. This is the lowest level of this ratio that we have had since the start of SMA reporting in 2014.

Let me now move to our capital levels:

The Bank's tier 1 capital adequacy ratio at the end of FY18 was 13.04% and a CET-1 ratio of 11.68%. Slide #59 in the presentation lays out the impact of various items on our tier 1 ratio in FY18. If you look at our capital consumption trajectory over the last 10 years, you will see that the Bank has grown loans at a CAGR of 22% over this period, and in this period, we have consumed on an average 55 basis points of CET-1 every year on a gross basis, I without taking into account any capital rates. We expect the next few years to be broadly similar in terms of CET-1 consumption. You might recall that as a part of our capital raise done towards the end of the last calendar year, we had issued ₹2,563 crores worth of warrants, which expires in June 2019. If converted into equity, this would correspond to about 50 basis points of CET-1 accretion at today's RWA levels. When you put these facts together around the long-term capital consumption trajectory, the expected inflow if warrants are exercised and the current levels of capital that we have, we believe that we have adequate growth capital to pursue growth opportunities for at least the next two years, without a need to infuse fresh capital in this period.

Let me now discuss loan growth and the trends we are seeing across our business segments:

Banking system non-food credit growth continued to be steady and stood at 10.5% for the last fortnight of fiscal 2018, partly aided by the low base of last year. Axis Bank's loan growth was healthy and stood at 18% YoY. The Retail loan book continued to grow strongly at 23% with significant diversification in portfolio mix. If you refer to Slide #23, the growth in Retail loans in Q4 was led by personal loans, credit cards and car loans that grew by 45%, 41% and 27%, respectively. All our new engines of growth like small business banking and education loans which we have been talking about over the last multiple quarters continue to see strong momentum. Corporate loan growth was steady at 12%, same as that in Q3, with working capital loans continuing to grow strongly by 63% YoY. In the corporate segment, we continue to focus on four elements - reduce concentration risk, build a higher rated lending book, increase the share of working capital loans and transaction banking revenues and prepare for a move towards deeper bond markets through our DCM franchise. In line with these focus areas, you will notice on slides 42 through 46 that the incremental sanctions that we have made, have been consistently to better rated corporates, 86% to those rated A or better. In our corporate book today, 77% of non-NPA outstanding exposure is to companies rated A or better compared to 68% a year ago. You will also notice that the Bank's exposure to our top 20 borrowers as a percentage of tier 1 capital has been steadily declining and now stands at 121% at the end of this year, down from 287% at the end of financial year '11.

Our SME loan growth improved during the quarter and stood at 19% YoY, partly aided by a slightly suppressed base in March'17. The growth was broad based as term loans and working capital both grew by 28% and 17% YoY respectively. Share of working capital to overall SME book currently stands at 77%. And the focus here continues to be on building a high rated book. At present, 88% of non NPA outstanding exposure in this SME book is to clients rated SME 3 or better.

Let me now move to a discussion on our Retail franchise:

Our strong Retail franchise continues to deliver. The overall deposit growth for the Bank during the fourth quarter stood at 9% YoY influenced by the high base of last year. On an average balance basis, the deposit growth was at 11% YoY. CASA deposits on a daily average basis grew 18% YoY and comprised 46% of total deposits. On a period end basis, savings account and current account balances grew by 18% and 10% YoY respectively. On a daily average basis, they grew by 16% and 23% respectively. Overall, our CASA share in deposits stood at 54% at the end of the quarter. CASA and Retail term deposits continue to form a strong base and stood at 84% of total deposits, up by 281 basis points YoY. Term deposits grew by 4% YoY. With Retail term deposits growing faster at 11% while wholesale term deposits declined by 7% YoY. Slide 17 of the earnings presentation highlights the growth trend in Retail fees for the last few years. At the same time, Retail fees have increasingly become more granular and annuity based. The share of fees from cards has been steadily inching up from 26% at end of FY13 to 38% at end of FY18. Cards fees grew strongly by 30% YoY in financial year '18. Our internal customers on the deposits side continue to be the mainstay of the Bank's strategy for sourcing Retail lending customers. 71% of our new originations on lending in Q4 was from existing customers. 97% of the Bank's credit card and 74% of personal loan originations in the quarter were from existing customers of the Bank. 51% of the overall sourcing happened through our branches.

Given this internal sourcing strategy of ours, we believe that branches remain essential for new customer acquisition and hence continue to make investments in developing an extensive branch network. We opened 114 branches during this quarter, with a total network of now 3703 branches. However, the newer branches continue to get smaller in size. Our leadership position in the digital payment space continues. If you refer to Slide #29, you will notice that the Bank has a strong market share across most digital payment products. In the mobile banking space, the Bank continues to rank among the top 3 players both in terms of transaction value and volumes, as per the latest RBI data. The Bank had 4.5 million credit cards in force at the end of the quarter, making as the 4th largest credit card issuer in the country, with a market share of 12%. Credit cards spend in the fourth quarter increased by 54% YoY to ₹13,167 crores, with debit cards growing by 1% YoY to ₹8,678 crores. The Bank is the second largest acquirer of point-of-sale terminals in the country with an installed base of over 0.49 million POS terminals. We also continued to witness strong traction in adoption of digital channels by customers.

If you look at Slide #33 in the earnings presentation, you will see that 58% of the Bank's active customers are digitally active. 42% of mobile banking customers prefer to use only the mobile app in interacting with the Bank. Mobile banking logins are now almost 6.5 times that of internet logins. These are data points that make us increasingly confident that dominance in the mobile space is a must have for banks in the future.

If you flip over to Slide #35, these highlight our capabilities and strong positioning in the UPI space. We are among the top three payment service providers in the NPCI's UPI ecosystem and currently have 11.5 million virtual payment addresses created across apps. In the fourth quarter, Axis Bank processed 83 million UPI transactions, among the highest in the industry with 17% market share. We currently have 13.95 million unique registered customers.

Moving to the Bank's earnings profile:

I request you to refer to Slides #12 through #15 of the earnings presentation. NII for the quarter was flat at ₹4,730 crores, mainly on account of high slippages during the quarter. For the full year FY18, NII was up 3%. The net interest margin for the quarter stood at 3.33%, with domestic net interest income at 3.59%. Fee income growth for the fourth quarter was muted on a YoY basis but grew 9% QoQ. For the full year fee growth was a tad better with a healthy growth of 12% YoY and constituted 30% of operating revenue. Retail fees continue to be an area of strength, with a robust growth of 22% and constituted 48% of the total fee income. Corporate banking fees in FY18 de-grew by 13% YoY. Trading income for FY18 stood at ₹1,617 crores, down 52% YoY. Operating expenses growth for the quarter and for the full year stood at 14% and 15% YoY respectively, moderating down from the heights of 21% YoY growth reported in FY17. Operating profit for FY18 was down 11%, driven by lower growth in NII and treasury income. Provisions and contingencies for the quarter increased by 178% YoY and 155% QoQ to ₹7,180 crores. For FY18, the provisions and contingencies stood at ₹15,473 crores, higher than ₹12,117 crores witnessed in FY17. For detailed provision breakup, you might want to refer to Slide #62. Net profit for FY18 declined by 93% YoY on account of the higher provisions that you saw in this quarter. Return ratios have clearly seen moderation due to higher impact of provision costs. Annualized ROE and ROA stood at 0.53% and 0.04% respectively.

Finally, I would like to discuss the Bank's business outlook for FY19:

For this, I would request you to refer to the presentation on 'FY19 Execution Strategy.' In this presentation, we have tried to lay out the four vectors that the Bank would like to focus on in terms of our strategy and what we would like to deliver in financial year '19. If you look at Slide #2, you will see four vectors of our strategy identified for this year – normalize credit costs, deliver profitable growth, enhance capabilities and invest for the future. Our top vector of delivery this year will clearly be normalization of credit cost. The accelerated recognition undertaken in this quarter will certainly help in that regard as was the high provision coverage levels we have at this point.

On incremental credit underwriting, we would like to continue shaping new originations in corporate lending towards lower risk businesses. As we look towards the economic landscape in the country today, we feel increasingly confident about our ability to deliver growth in lending and not just on the Retail side, but also increasingly on the corporate side. Clearly, there are signs of pickup in investment climate. The IBC based resolution processes are driving significant loan consolidation led demand and of course as in prior years, the consumer class continues to be healthy. So the opportunities for growth on the lending side are abundant. Our capital levels make us confident that we can participate in this growth pickup as it plays out this year. Needless to say, our deposit franchise needs to continue to deliver, to help us fund the large loan growth that we see in front of us. And we need to eke out more on the cost efficiency front. These will be key focus areas for us on this second vector of delivery for FY19, what we are calling deliver profitable growth. The third vector we plan to focus on this year is enhancing capabilities. In particular, we have identified two key focus areas for the year; a heightened focus on operational risk management capabilities and a talent and tech driven re-invention of our Corporate Bank. The fourth and final vector of delivery in FY19 for us would be investing in the future. There are three areas on this front that we have identified as clear differentiators of the Bank that require continued investment – digital capabilities, analytics and our subsidiaries.

So that in a nutshell is the summary of what we plan to execute on and what we hope to deliver in terms of strategy in FY19. In terms of financial outcomes, our outlook for FY19 is broadly as follows: We expect new NPA formation to reduce quite significantly from FY18 levels. We are at this point of time continuing to look for credit costs normalization by second half of this coming year. We will continue to watch the environment particularly in terms of the resolution space to update that as necessary. We expect loan growth in the high teens to 20%. And as I said before, we expect growth in both the Retail and the corporate segments in this year. We expect CASA growth in the high-teens. We expect margins to be steady around FY18 levels unlike what has happened in the last two years where we have seen continued compression. In the medium term, the Bank expects to achieve an ROE upwards of 18%. And in this year, you will see us take a big step forward towards that goal.

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

With the accelerated recognition this quarter, the NPA recognition phase of this cycle, we believe is nearly complete. Our capital position continues to be strong and we do not expect to need any infusion of capital for at least the next two years. We expect strong growth opportunities next year on both the Retail and the corporate segments. We have clearly defined four vectors of delivery in terms of the Bank strategy for FY19. We now have we believe the capital, the growth appetite and the balance sheet strength to pursue substantial opportunities in the coming year.

With this, I come to the end of my comments. And at this point Srini and I would be glad to take your questions.

Moderator: Thank you very much. We will begin the question and answer session. The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: Just in terms of slippages, so most of the slippages would be in the substandard category because that will determine the provisioning going ahead in the next year right? So, just a clarity on that and when you say the credit costs are normalized in second half this year, normalized to what percent level?

Jairam Sridharan: Sure. So, Mahrukh on your first question on what is the level at which we have made, essentially I am interpreting your first question as what is the amount of provision you have made on the new slippages that have happened and is there a lot of follow on provisions to come on that pool, right? If you see the provisions we have made this quarter, we have made ₹8,100 crores of provisions on NPAs, on a net increase of about ₹13,000 crores of NPAs or net new slippages. So clearly, we have provided upwards of 60% on the new slippages that have happened. So , I don’t expect there to be a lot of follow on provisions coming from this pool. And on your second question, which is, what does normalization look like, we have continually talked about it being closer to our long-term credit history over the last 15 years. With the significant sort of credit cost in this quarter, you would see that, that long-term trajectory, now reflects a long-term average of 110 basis points. So somewhere in that 100-110 range is what we believe is long-term normal and that is broadly what we mean when we say kind of return to normalization.

Moderator: Thank you. We will move to the next question which is from the line of Nilang Mehta from HSBC Global Asset Management. Please go ahead.

Nilang Mehta: My question was more regarding management and with light of the 2019 execution strategy, we have been hearing different news flows on churn in the corporate side of your Bank in terms of management bandwidth. If you could elaborate how do you expect to reinvent the Corporate Bank in light of these challenges and obviously Shikha's tenure now cut short, how do you look to execute this strategy in terms of some vacuum or some uncertainty?

Jairam Sridharan: Yes, I will take the second part of it a little bit and then you know Srini has a lot more say on the corporate side. See, one of the main reasons Nilang, why we want to specifically talk about our FY19 execution strategy is, irrespective of, the leadership movements at the top of the house, we as an organization want to make it very clear where we stand as far as FY19 is concerned, and as the top leadership team what we are all committing ourselves to in terms of delivering for FY19. The four vectors that you see here are a collective commitment of the top management of the Bank and are intended to give you the investors the confidence that there are some specific things that we are planning on delivering and working towards in FY19. Hence sort of Shikha's movement question doesn't necessarily have kind of direct bearing on it because we are all collectively committed to it. On the Corporate Bank, Srini has thoughts.

V. Srinivasan: Again the same thing, I think what we are saying is the top management is stable. I think we had one change in the Corporate Bank side. We have a new head of the Corporate Bank and other than that, the leadership is stable. And across the Bank as well as in the Corporate Bank, the team is stable and as Jairam is saying, we are committed towards delivering whatever we put out in terms of what we want to execute for FY19.

Nilang Mehta: Srini, can you elaborate on your new hire on the Corporate Bank side and the potential there?

V. Srinivasan: Yes, we have hired S.M. Sundaresan who has joined us from Standard Chartered Bank and he joined us early April. Siddharth Rath is moving outside the Bank and he is currently on gardening leave.

Nilang Mehta: Considering Standard Chartered was the only foreign Bank which had massive NPAs on the corporate side. Corporate banking there seems to be going in the same direction where we were in the past. So it seems not very comforting actually.

V. Srinivasan: I think, Yes, that is your call, but again we have done diligence and we believe that's the right thing to do for the Bank.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Jairam Sridharan: Could we have couple of data points? You know I was just looking at the Slide #52 and if you can help me tally a couple of numbers. So we started with a gross NPA of let's say 250 billion and non-NPL stressed book of about ₹160 billion. And I think, last quarter you said is about 50 billion of non-funded exposure to the BB & below. Could you tell me how these numbers stack up? And additionally for Q4 and Q3 as well, could we have the non-funded book whose funded part has already become an NPA?

Jairam Sridharan: Yes, so the non funded book in the non NPA BB& Below pool is now ₹2,400 crores, which was upwards of ₹50 billion last quarter is now ₹24 billion.

Nilanjan Karfa: I mean the non funded to those corporates whose fund has already become NPL.

Jairam Sridharan: It is roughly over ₹1,000 crores.

Nilanjan Karfa: How was this in the December quarter?

Jairam Sridharan: I don't have that readily at hand.

Nilanjan Karfa: And second question, when you talk of SMA-2 which is less than half a percent of loan, do you mean the gross or the net loans?

Jairam Sridharan: Sorry what is the difference? You mean provisioning?

Nilanjan Karfa: Yes, because provisioning is obviously a very large number, that is a very big change.

Jairam Sridharan: Of the denominator?

Jairam Sridharan: The denominator is gross customer assets. It is less than half a percent of gross customer assets.

Moderator: Thank you. The next question is from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal: So the question again is on page 52, just any sense on what is the breakdown in terms of sectoral breakup of this ₹9,000 crores which is less ₹9,000 crores plus I think ₹2,400 crores which is non fund?

Jairam Sridharan: Let's continue with the call, I will see if I can get it.

Vishal Goyal: Sure. And the other thing is, like if you could just give us the movement of this particular Watchlist, like from last quarter wherever we left, because I think you used to give that very nice Slide #earlier where you show the movement like what was the total number last quarter and how that number basically has changed to now ₹9,000 crores. Because, there seems some deletion, some addition and since you are saying 90% of the corporate NPA came from BB and below, so either there is a ₹70 billion kind of addition to the BB and pool. Is that a right way of looking at it?

Jairam Sridharan: Right, there is a lot of sort of put and take that has happened here. Firstly, remember that any upgrades that happened during any quarter, upgrades from NPAs end up going back to sit in BB right? So, all the upgrades that we have had during the course of the quarter end up going back there. Our downgrades from BBB to BB in the course of this quarter were roughly similar to what we have seen in the last 4-5 quarters, roughly ₹2,500 crores, I think I mentioned that in my opening remarks, so that hasn't changed. Till last quarter the accounts that were there in BB and below, a lot of them were SDR, S4A type of accounts and there were investment instruments. In SDR and S4A accounts, the equity instruments were also associated with them. So when these accounts became NPA, all those investments became NPA as well. That is about 10% of the total slippages in this quarter. Roughly ₹1,300 crores is that SDR, S4A related equity instruments. So since there is nothing more of that nature left in the book, the investment part of the BB book which was ₹1,300 crores last quarter is near zero now. So that 10% comes from there. And then there is about ₹11,350 crores of slippages from the opening pool which makes up 90% of the total corporate slippages. There are some upgrades coming from NPA into here, give or take ₹1,500 crores. That's the sort of overall math of how we go from ₹16,000 crores to under ₹9,000 crores in the course of this quarter. While I have added the overall pool, the vulnerable pool, if you look at the sectoral distribution, 24% of this is power and another roughly 15% is infra and another about 20% is other metals. And the others are there is a longer tail.

Vishal Goyal: And one last question if I can, on these downgrades, you know which is being consistent at 12 to 25 billion roughly, how do you think about that?

Jairam Sridharan: Yes Vishal, a lot of the large accounts are kind of done, as we look at the downgrade pipe, I have been saying this for the last few quarters. Two quarters ago, we said there are 4 more quarters of downgrades left and then last quarter we said three and now I think there are 1 or 2 quarters of downgrades left. Let's see how much, there is a little bit left but maybe not more than a quarter or two. But I wouldn't say that we are fully done with the downgrades cycles just yet.

As you might see on slide 49, total standard fund based outstanding in the power sector is about ₹10,000 crores and about 35% of it is, so about ₹3,000-3,500 crores is rated BBB. I wouldn't be surprised if out of that ₹3500 crores, you see some more downgrades into BB coming up over the next couple of quarters. But I think we have only about a quarter or two more left of the downgrade part of the cycle. This quarter for the first time we actually saw a couple of accounts upgraded from BB out to BBB. We haven't seen that in a long time. So the fact that we saw the first upgrade is probably the sign of a slowing down in the net downgrade cycle as well.

Vishal Goyal: So, how much is the upgrade in the quarter? Sorry, from the Watchlist?

Jairam Sridharan: From the Watchlist, nothing. Well, from the BB, it was below ₹1,000 crores Vishal, not a huge number and there were only two accounts. But as I was saying, we have not seen any in a long time. So even these two accounts seem like something.

Moderator: Thank you. The next question is from the line of Roshan Chutke from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutke: Same question, again going back to the question that Vishal was asking, so about ₹2,500 crores is the slippages from the stress pool right?

Jairam Sridharan: It is the rating migration downwards from BBB to BB, yes.

Roshan Chutke: It is to my calculation suggests about ₹5,400 crores of downgrades from or inflows into the BB and below bucket.

Jairam Sridharan: Yes**.** So out of that you need to take out whatever was recovery and upgrade coming from below, not from above.

Roshan Chutke: Right, recovery and upgrades amount is how much we need to pull into this bucket?

Jairam Sridharan: Roughly ₹1,500 crores, give or take.

Roshan Chutke: Alright. So what is the total amount which is flowing into the BB and below bucket outside of the upgrades or outside of the positive flow, what is the negative flow into the BB and below pool all put together?

Jairam Sridharan: About ₹2,500 crores comes from top, about ₹1,500 crores comes from bottom and the rest are slippages. I mean, give or take, that's broadly it.

Roshan Chutke: Sure. And can you just comment a little bit on the Retail and SME slippages as well? That seems to be a very high number.

Jairam Sridharan: Is it? It's not actually, like if you see numbers in Retail etc., they are pretty much at the same level if not lower than what they were in the last quarter. On a net basis, we are looking at a sum of ₹491 crores in Retail and about ₹67 crores in SME. So no they are not actually large numbers at all.

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

Kunal Shah: So, again coming back to the slippages outside of the corporate book, so that seems to be somewhere around ₹2,600 odd crores, maybe I think net slippages.

Jairam Sridharan: That's **o**n a gross basis.

Kunal Shah: Yes, so on ₹2,60,000 crores of maybe the ex-corporate loan book, it's like ₹2,600 crores of slippage which is like 4% kind of a run rate. So that definitely seems to be higher than what has been there earlier. So anything to read into it, particularly in this particular quarter or any product segment which are throwing in this kind of slippages?

Jairam Sridharan: Kunal, you might recall that till a couple of quarters ago, we never disclosed the gross and net separately, particularly in the Retail segment where we used to only talk about net. The reason being that in Retail, the delta between gross and net tends to be very high. A large amount flows into gross and a very large amount actually gets recovered and so the net amount is always small. Only in the last two quarters, that we actually started disclosing this metrics and you will see that what you are seeing now is fairly consistent. The delta between the gross and net is always high. A lot of money actually does get recovered within the course of the period in Retail in particular, and that's why you see that it is nothing out of the usual, the net slippage ratio in Retail plus SME continues to be very much in control.

Kunal Shah: And, if you can give the movement in NIMs the way we used to give it earlier. So maybe how much has been the interest income reversal in this quarter?

Jairam Sridharan: See, there is a meaningful reversal I mean, you can imagine we had nearly ₹13,000 crores of net slippages, so the delta is meaningful. I don't have the number readily at hand Kunal, unfortunately.

Kunal Shah: No, because only thing is maybe today we are at in terms of the exit quarter, it is 3.33 and again you highlighted NIMs to be somewhere around FY18 level of 3.45. So, that again seems to be like hardly like 10-15 bps kind of improvement and I think in this particular quarter interest reversal should have been much higher. So are we guiding maybe structurally otherwise ex of maybe the slippages, NIMs are trending down?

Jairam Sridharan: No actually, ex of slippages NIMs if anything are trending up, I don't think there is any structural pressure on NIM at this point .The interest rate structure is going the other way. You are right the NIM compression would be about give or take about 10 basis points, for slippages in the quarter on a QoQ basis. See we are not providing any margin guidance. So you can make your own assumption and it will be probably better than ours.

Kunal Shah: And lastly, in terms of fee income, you have highlighted two reasons why Retail fee income has been lower in this particular quarter. But how are we looking at the overall fee income trend in FY19 and are these the only two reasons why the Retail had such a low fee income?

Jairam Sridharan: Yes, I mean those are the two big reasons why we see in Retail, there is also some internal changes in terms of classification but really those are the two main reasons. But overall, on a fee basis, fee broadly in line or maybe slightly below advances growth is what you should expect to see next year.

Moderator: Thank you. The next question is from the line of Sreesankar Radhakrishnan from Prabhudas Lilladher. Please go ahead.

S. Radhakrishnan: Jairam, a quick question you mentioned about what is the kind of an exposure that we still have in the power sector. But all this outstanding on the watchlist is it already in production or is it still work-in-progress or still to be completed?

Jairam Sridharan: The power sector, the total funded-exposure that we have is ₹9,700 crores and very little of it is under construction. Most of the under construction stuff has slipped. The total power sector

NPA ratio in this quarter moved to 44%. So clearly everything that was stressed and where the project had not been completed, etc., has all gone to NPA status. So we do have slightly challenged projects here but nothing as challenged as some of the stuff that we have had in the past where there were challenges on project completion, on PPAs, on coal blocks, etc. So these are clearly the better of the lot but still as I mentioned before about a quarter of them are in BB and about a third of them are in BBB, so it is not like these are rocking assets but all the kind of the worst pool of this has now been recognized NPA.

S. Radhakrishnan: If I look at the earlier standard restructured plus SDR and S4A, etc., which probably was not in the NPA bucket. That as a percentage of your total advances how much is it today? Is it 1.8% what you have given?

Jairam Sridharan: If you refer to Slide #52, there we have looked at all the different kinds of vulnerability, netted them off against each other and then looked at them against customer assets. Now if you want to look only at the restructuring dispensation which is CDR, SDR, S4A, 5:25 outside SDR, and see how much of it as a proportion of customer asset, that is on Slide #51 and that is 40 basis points.

S. Radhakrishnan: Okay, if I may push in a last question. When you have mentioned that you got the first quarter and second quarter probably you may see enhanced credit cost. So, by the end of fourth quarter where do you see your ROA and ROE going up?

Jairam Sridharan: We are not providing specific guidance on ROA-ROE, it so much depends on what happens to the recovery and resolution environment, the numbers can be wildly off. So we do not want to hazard a guess at this point.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: On the power side, so I understand that bulk of the NPA this quarter happened in under construction project. Can you give any color like what is the resolution for this project? Does the Bank need to make 100% provision on the under construction project?

V. Srinivasan: I think the resolution mechanisms are on, you have seen interest in some of these power projects. There are bids of different levels. Clearly, there would be haircuts but there is possible resolution happening. Actually, if you look at tariffs rates, I think clearly tariffs rates have moved up. So to that extent I think, the interest is coming up but there would be haircuts as far as the sector goes and clearly reasonable amount of resolution will happen.

Anand Laddha: Okay. Sir, my question specifically was on under construction projects. Do you see the consortium of banks coming together and completing under construction projects or they will be left where they are?

V. Srinivasan: Most of our projects, the large projects have completed under operation, possibly they are not running because of coal or PPA.

Anand Laddha: Okay. And the second sir, when you say that in second-half, the provision cost would normalize and first-half the slippages will remain a little bit elevated, are you factoring in any resolution in the NCLT in your assumption?

V. Srinivasan: See, when you talk of slippages, we are basically saying that from what we have seen over the last year fresh slippages are going to be lower. The resolution process, what it entails and what will happen is something which is getting increasingly difficult to predict. Once we see the first few resolutions happening, I think a level of comfort will be there in terms of predicting the future course and that is why I think we are being a bit conservative and saying the second-half will possibly be the place where we will see credit cost moderate.

Anand Laddha: Okay. Sir, you also mentioned your long-term credit cost assumption is 110 basis points or 100 basis points but if I look at your loan book now almost 50% - 60% of the loan book has become Retail SME and there the credit cost will be lower. So, in that case, as compared to historical level of our loan book composition, wouldn't the normalized credit cost be significantly lower than 100 basis points - 110 basis points?

Jairam Sridharan: It is a fair point. I think the data that we shared with you all is an unmodified data. We are not adjusting it for the business mix. So on an unadjusted basis, the just simple arithmetic average of the last 17 years of credit cost comes out to 110 basis points. You are right, if the business mix has shifted towards the lower credit cost businesses, then the adjusted expectation should be a little bit lower, we will see how that plays out.

Anand Laddha: Okay. And lastly, you have just mentioned that UK subsidiary of yours has not been audited or audit has not been completed. Can you give some color what is the size of the UK subsidiary book, loan book, was there some part of the watchlist also sitting in there also?

Jairam Sridharan: No, it is a subsidiary. So none of our loans actually sit there, it is a separate company and it is a fairly small one. So it is not material from an overall perspective and essentially there are some sort of procedural or process issues due to which their audit did not get completed.

Anand Laddha: And can you just give the break-up of your recovery and upgrades? This quarter it is almost like a large number ₹4,000 crores. Is there any lumpy element in that?

Jairam Sridharan: There were a couple of lumpy assets, but I cannot tell you more than that. There were two lumpy assets.

Anand Laddha: So what could be the proportion of that?

Jairam Sridharan: About half let us say.

Anand Laddha: Okay. And the balance half was very granular.

Jairam Sridharan: Yes.

Moderator: Thank you. The next question is from the line of Manish Karva from Deutsche Bank. Please go ahead.

Manish Karva: Jairam, you have not given any details about your subsidiaries performance this year. If you can share some of that, please.?

Jairam Sridharan: Yes, if you saw our disclosures we have today declared the standalone financials. One of our smaller subsidiaries, Axis Bank UK, has not completed its audit process yet. So today we did not adopt the consolidated account. We will do that over the course of the next few days and then I will be able to share with you a lot more information, and we will put up the subsidiaries information that we usually share on the website as well.

Manish Karva: So you are not even sharing for Axis Capital, Axis Securities, etc.?

Jairam Sridharan: No, we have not adopted all the subsidiary accounts, it will be inappropriate for me to talk about it.

Manish Karva: Okay. And just coming back to your NPL especially the BB book which is pending, so you have like ₹9,000 crores plus ₹2,400 crores of the non-funded book, right?

Jairam Sridharan: Correct.

Manish Karva: And I think to an earlier question also you were to give the break-up of this book. Would it be fair to assume that all the power exposure is a part of this book now?

Jairam Sridharan: Not all the power exposure, about 24% of this listed power; and 15% is infrastructure; and another 20% is like iron and metal.

Manish Karva: Okay. And the last question, you have a decent provision coverage. Are you comfortable with this coverage ratio and should we assume that this is a kind of coverage ratio that you will maintain?

Jairam Sridharan: Yes, Manish we have been fairly consistent in saying that we want to be in the 60% to 65% kind of band on provision coverage. In this quarter while we had a lot of new NPA formation, we decided to retain our provision coverage at the top end of our range which is at 65% which is what we have done. Yes, we continue to be comfortable with that 60% to 65% range.

Manish Karva: Okay. And lastly, as you are saying the general interpretation is that the credit cost should be higher for the next two quarters and thereafter it should go back to normalized credit cost which you refer close to 100 basis points, fair?

Jairam Sridharan: I think, that is fair. While we wait for another question there was a comment earlier about how much of our power exposure is under construction and I was just looking at one of the prior quarter decks where we have talked about this. Two quarters ago that proportion was about 13%. So now in the standard assets, it will be single-digit percentage if at all of under-construction.

Moderator: Thank you. The next question is from the line of Venkatesh Sanjeev from Pictet Asset Management. Please go ahead.

Venkatesh Sanjeev: Got a couple of questions. First one I am referring to your Presentation on FY 2019 strategy. So you spoken about the reinvention of the Corporate Bank, can you just elaborate this what is the new Axis Corporate Bank is going to look like? What are the products, what sort of profitability and stuff like that?

V. Srinivasan: I think we have been talking about this clearly in terms of two things – one in terms of the loan mix, in terms of working capital versus term loans, trying to change that mix, it was term loan heavy some years back, trying to make that more balanced that is one effort which is on in the Corporate Bank. Second is in terms of credit income to non-credit income of what we call flow-based revenues and trying to make the flow-based a higher proportion of the overall revenue pool of the Corporate Bank. And of course digital, on the transaction side we have made a lot of investments on the digital side to make sure we have the value proposition across all the transaction banking products whether it is trade, FX, or cash management. We have made investments in providing an integrated platform to customers to sort of increase wallet share and that is bearing fruits. I think these are three dimensions across we will work on the Corporate Bank.

Venkatesh Sanjeev: So is it right to say that you are kind of reducing risk profile by going towards working capital and lower risk segments?

V. Srinivasan: I think if you look at our incremental sanctions which we keep putting out, we always keep saying more than 80% of our sanctions to A rated companies and above I think that would continue.

Venkatesh Sanjeev: So does it mean that going forward the ROEs and your Corporate Book may not be as good as you have seen in the past?

V. Srinivasan: Not necessary, right? Meaning if you look at overall revenue profile, the revenue profile can change but the returns can still be quite good.

Jairam Sridharan: And thirdly, we expect much higher through-the-cycle ROEs which is the key reason why we are doing this. We truly believe that on risk-adjusted return on capital basis through-the-cycle, the kind of business that Srini is describing -- smaller ticket, working capital flow-based, a lots of non-fund based fee income, a liability side profile and limited exposure in the project or long-term term lending side, and better-rated corporates, that profile of business through-the-cycle does give a better return on capital.

Venkatesh Sanjeev: Because you had mentioned you are looking at something like 18% ROE on a medium-term basis, I guess 18% on Retail is pretty much achievable. But do you think that this business can also achieve 18% sort of ROE?

Jairam Sridharan: Yes, between this and SME, yes.

Venkatesh Sanjeev: Okay, that is one. The second one was slightly on a different topic. On the insurance side what are your thoughts on your tie-up at Max, it is a couple of years for renewal but what are your thoughts about your own manufacturing versus getting a stake in Max and going ahead with Max for a longer duration?

Jairam Sridharan: Sure. See, Venkatesh, if you look at our FY 2019 execution strategy that should tell you what our big focus areas are, and we have talked about the four vectors and in the short-term given everything that is going on in the Bank, it is important for us to remain focused and try to do a few things and get them right in FY 2019 and that is why we have put out this four-vector strategy. And at this point of time, we are comfortable with where we are on our relationship with Max and I will sort of leave it at that.

Venkatesh Sanjeev: Because a few months ago you were talking about manufacturing your own products, is that back burner right now.

Jairam Sridharan: What I say is that the deck on execution strategy appropriately covers in the new context where we are as a Bank, what our key focus areas are and we want to remain focused on these and deliver them.

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

M. B. Mahesh: Sure, just a couple of very basic ones, provisions break-up if you can just kind of give that and the second, provisions and the security receipts that you have outstanding and development that happened during the course of the quarter, you increased savings interest rate on select quantum but we did not see any response from some of the few competition out there. Were there any specific segments of business where you thought there was a vulnerability? And also, why did you lose the bullion license from RBI, thanks.

Jairam Sridharan: Those are a lot of questions. I will try and sort of remember all of them. The provision break-up you see on Slide #62, it is a regular slide we present. So if you go there, you should see for quarter-on-quarter, what the split is.

M. B. Mahesh: Security receipt outstanding.

Jairam Sridharan: Security receipts outstanding is ₹2,900 crores or something like that that has not changed in the last multiple quarters. And your third question was what?

M. B. Mahesh: The savings account change and the bullion license.

Jairam Sridharan: Savings account change there is a particular segment in which, this is not a defense thing, it is playing offense thing, this is one segment in which we were seeing and are seeing some opportunities and hence, the move. If it works out, it works out, if it does not, we will be perfectly happy to go right back. So we will see whether that particular segment play is working out or not.

V. Srinivasan: On bullion well, it is an annual review which RBI conducts, and we are working with RBI to see what best to do in terms of renewal of the license.

Moderator: Thank you. The next question is from the line of Krishnan ASV from SBICAP Securities. Please go ahead.

Krishnan ASV: Two questions that I have, one – I just wanted to understand I mean is there an element of discretion in how much of recognition has gone through in the March quarter? If yes, then why would you still have say ₹9,000-odd crores of BB and below? Why would you not recognize all of it in one go, that is one. The second question is just your Retail strategy, I think a lot of your investment thesis is now anchored on the fact that it is a low credit cost business that we are building and hence the next cycle credit cost will be significantly lower than what we have seen in the past. Just want to understand what has been your strategy in building that Retail growth? Are we missing out any red flags, are we making the mistakes that we might have made in the earlier cycle as far as corporate lending is concerned?

Jairam Sridharan: Sure. Thanks for your question. The first part of your question if I understand it rightly is you guys seem to have gone a particular distance in terms of cleaning up the book why not go "The Whole Way". I mean, see, our thinking is we have done what we think is a sort of appropriately conservative. We have tried to be as conservative as we can, identify pockets where there was incipient stress and recognize it. Within the limits of the regulatory guidelines, we think this is the most appropriate thing you know for us to do. There is always going to be a line that you draw and there are always going to be some accounts just on the other side of that line. So, it is a sort of a never-ending process of saying why did you stop here and not do few more accounts. Wherever we had significant worries and risks or where we saw that there is an incipient stress building up, we took action. Also, it is important to point out that a vast majority of the accounts that slipped in this quarter are not NPA with any other Bank in the industry as per CRILC**.** So we are in effect the first bank to turn all these clients NPA. So we have in that sense gone out the fairway quite a bit in recognizing stress pools and identifying them and marking them as NPA. So, we have done basically the best that we thought as appropriate. Srini, would you like to add something?

V. Srinivasan: I think, it is not fair to assume that any asset which is BB rated is going to slip. I think that is also not a fair assumption.

Krishnan ASV: It almost seems like that, Srini, if you look at the track record that you all had over the past few quarters it does seem to imply that there is a very high chance, that is the reason I call BB and below because it is below investment grade

V. Srinivasan: See, it makes sense for you to sort of make the appropriate assumption, as we have said BB is about 1.8% of customer assets right now, at one point of time it used to be 7.5% or thereabouts; so is it going to eventually settle down at 1%; 0.5%; or at 30 basis points, I do not where it is going to settle down and you should make your own sort of assumptions on that one.

Krishnan ASV: Okay, fair one. What are your views regarding the second question on retail?

Jairam Sridharan: Yes, thank you. In retail we have a portfolio mix which is made up of many-many businesses, so retail is not a significant business entity there is sort of weighted average of a lot of different businesses, all of which have a very different risk-return profile. So you got to actually constantly look at the risk-return sort of mix on that. Our key thinking from a risk management perspective and retail has been sell to your deposit customer and that is why we pay so much emphasis on how much of our business came from existing customer. We talk about it every quarter, we show you the trend line and the design principle has been that the more unsecure the product, the greater the proportion of it should come from existing clients of the bank. And that is why you see in business like credit cards, we do 100% from existing clients of the bank or existing deposits customers of the bank. A similar product like personal loans, you will see 75% of it coming from existing customers of the bank. But a product like home loans is at the other end of the spectrum, you will see maybe only 40% of it coming from existing customers of the bank. But even their proportion will be at least 40, so that is the core design principle is you first get a deposit account, see throughput information and identify risk you want to take and then cross sell to them, that strategy has worked well for us so far and if we look at the quarterly information that we get from credit bureaus in terms of how retail customers of Axis Bank behave when compared with the same vintage retail customers of competition, we feel very good about the data that we see in terms of the overall risk levels. So we feel very comfortable with the kind of portfolio that we are building right now.

Krishnan ASV: Is there a re-rating imperative given the kind of delinquencies we have recognized in Q4 and we are indicating we may be recognizing in the first-half 2019? Is there a rating agency in place?

Jairam Sridharan: See, I mean you look at the overall ratios of the bank, you look at the net NPA ratio three and a quarter. You look at the CET-I ratio, roughly 11.68, you see the overall capital adequacy ratio at whatever 16 odd percent. The ratios all absolutely spot on and you look at the incipient stress book which is pretty much the lowest it would have been in a long long time and as I mentioned in the call. An SMA book which is less than 50 basis points of the loan and pretty much no large ticket size loan left in the vulnerable pool. So those are fact and you know we will as a lending institution and as an institution that gets its borrowing rated, we will continue to always be in touch with rating agencies, but the facts are pretty self-evident.

Moderator: Thank you. We will move to our next question which is from the line of Mayank Bukrediwala from Goldman Sachs. Please go ahead.

Rahul: Yes. So the retail and SME slippages that we saw in this quarter, can we break-up between how much was from say core retail and how much was from SME?

Jairam Sridharan: Yes, let me give it to you. SME ₹67 crores; and retail is ₹491 crores.

Rahul: Okay. So out of you know ₹2,600 crores; ₹491 crores is retail and remaining is SME?

Jairam Sridharan: No, I am talking about the net slippages, Rahul. Net slippage is ₹491 crores in retail; ₹67 crores in SME.

Rahul: Okay. Can you give it on a gross basis as well as if possible?

Jairam Sridharan: I do not have it readily, we do not usually share segment level gross slippages. But see, the reason why we do not do retail and SME on a gross and net basis, fundamentally retail you do see a lot of gross slippages and a lot of recoveries and upgrades happen in the same quarter and hence, the net number is always stable this has always been the trend, there is absolutely nothing new in that in this quarter. There is one you heard me mention on last quarter's call that we are making a small change in the way we kind of recognize in the retail and the smaller ticket accounts that fast forward some of the recognition processes, you see some effect of that in the gross number in this quarter but as you can see in the net number that does not make much of a difference.

Rahul: So from the subsequent quarter this number you think will come down to ₹ 800 crores to ₹ 1,000 crores that we have seen in the previous quarter.

Jairam Sridharan: I think you will see the net number is fairly stable, you are not going to see the net numbers move. You might see the gross numbers move a little bit but you will see the net numbers pretty steady.

Rahul: Understood. The second question again this BB and below the pool, the flow into that, so that was about ₹ 5,500 crores. Now, again you made a very pertinent point about your upgradation going into that pool. Now, the same thing would have been seen say in the last few quarters. So one was to compare on a sequential basis and how would have that number moved, can you give us some sense around that?

Jairam Sridharan: It is only in the last two quarters or three quarters that you have seen any upgrades at all. So in the quarters prior that dynamics is actually not relevant. It is only in the last couple of quarters that it is relevant. More so in this quarter than in the prior quarter. Last quarter you probably about ₹ 1,500 crores getting upgraded into BB from NPA, this quarter you probably saw about ₹1,000-1,500crores of that nature. In the prior quarters, you can pretty much ignore; it was not really very much.

Rahul: Okay. And this is the run rate that you think will kind of continue from, the reason I am asking is we have emphasized on this point of building better-rated profile kind of a corporate book and this number at least on ratio terms appear slightly at the higher end hence, this question.

Jairam Sridharan: Sorry, which number is high you think?

Rahul: The movement into BB and below, if I were to use the corporate portfolio?

Jairam Sridharan: So that point is pertinent and as I mentioned before, the movement from BBB into BB has been kind of ₹2,500 crores range and that is not an acceptable situation on an ongoing basis. If it continues to be the case three quarters from now that will be disappointing and that is why every quarter I mean over the two quarters I said Yes, we think about four quarters was left. Last quarter I said Yes, there is about three quarters left and this quarter I am saying there is about a quarter or two left of that sort of downward migration of rating from. So our story on what is the pipeline of potential downward migration of ratings that has not changed in the last three quarters. That pipeline is reducing but it is not down to zero yet, there is another quarter or two of that level of downward rating migration that is still left I think.

Moderator: Thank you. The next question is from the line of Ravikant Bhatt from Emkay Global. Please go ahead.

Ravikant Bhatt: I would like to first take up the previous discussion which happened on the net interest margin, your domestic NIMs have stayed quite stable quarter-on-quarter. I mean in the quarter you have had significant slippages and you did mention there would have been interest reversals on account of the high slippages that you have recognized. Despite that your NIM staying stable just about down a basis point is a bit perplexing. So I mean what other factors a mix of slippages what would have really contributed to the stability? Because in the previous quarter's when you have had slippages I think the NIM was actually declining quite rapidly.

Jairam Sridharan: There are two elements to keep in mind here. One is the fact that you know there have been more slippages in the overseas book, so you see the overseas margin actually compress meaningfully. So that does reflect that. The other dynamic to keep in mind is compared to quarter three, we have a full quarter benefit of the capital raise in this quarter.

Ravikant Bhatt: Got it. What would have been slippages from the overseas book if you can share that of the total slippages?

Jairam Sridharan: We do not share on overseas versus domestic basis, unfortunately, sorry.

Ravikant Bhatt: No, worries. My second question is on management change which has been triggered by the regulators, one were to go back what has been reported in the media. I guess this is only in the second instance wherein the regulator has been at a disagreement with the bank, the previous one being the diversion on the asset quality. So I mean I think, it would help if you could just briefly let us know what exactly was the discord or disagreement that the regulator had and you have a fairly strong bench strength, why was an internal candidate not considered for the post of CEO, why go into longish six month kind of search for the new CEO somewhere else.

Jairam Sridharan: See, the second part of your question, unfortunately, we cannot answer, it is not appropriate for management to take that question. I think it is absolutely appropriate for the board to look at the entire talent landscape to figure our future leader. So I mean it is about prerogative to look at a broad spectrum and it is not for us as executive team to comment on that. As far as your first question is concerned in terms of regulatory conversations. See, any specific communication that a regulator might have had with the bank is in this regard is privileged information, it is impossible for us to talk about it. But broadly speaking Shikha has been here for nine years and you know there was a chance that she could have stayed for a little bit longer, she went ahead and requested for that time to be curtailed and that was accepted and that is that. I do not necessarily want to go into the details of why that might be etc. we are moving on as an organization, we have, as you said the management team, the employee base, the customer franchise to have a successful business going forward which is independent of any individual and what we have tried to articulate in our Strategy Presentation for FY 2019 is that we also have a fairly clear strategy of what we are planning to execute on in FY 2019 irrespective of what happens in the corner office.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question on the overall credit cost you have talked about in last year when in the beginning of this fiscal year FY 2018 the credit cost guidance was 2% to 2.5%. The overall credit cost for the full year is working out much higher. Now we know in this quarter we have taken accelerated provision on the incremental slippages. So in terms of normalization of credit costs, does it mean it will be front ended and the provision will be very heavy in the first-half and there will be sharp decline how it works.

Jairam Sridharan: The reason why we have been reticent about actually talking about quarter on quarter credit cost guidance any earlier you know, reversion to normalcy is that one does not know exactly how the IBC process is going to play out and how the resolution cycle are actually going to happen and how long they are going to take. But if your implied question is, Yes is there sort of any “sort of deep recognition exercise” that is going to happen in the first quarter or two, the answer is no. I mean from a recognition perspective whatever we saw and what we think needs to be done is done in this quarter, we will see but we are not at this point of time guiding to sort of immediate reversion to sort of long-term business as usual. We think it will take a couple of quarters, we will see how it goes.

Manish Ostwal: Secondly, what kind of corporate loan book growth we are looking in FY 2019?

Jairam Sridharan: See, there is a lot of opportunities right now. At an overall level, we are looking at high teens to 20% kind of loan growth and we think a lot of corporate opportunities exists right now.

Manish Ostwal: Because some of our peers are growing very aggressively corporate loan book growth so from that context whether we will be growing 20% kind of loan book on higher base or it will be much lower.

Jairam Sridharan: See, we do not have a growth target as I mentioned during my opening comments. From a book shaping perspective, we wanted a particular kind of balance in the book, we have already achieved. At this point of time, there is no grand design in terms of what we want the overall kind of proportion of book to be going forward. At this point of time, it is all going to be about where the right RAROC in whichever segment is, if we see the right RAROC opportunity we will go pursue it whether it is retail or SME or corporate.

Moderator: Thank you. We will move to our next question which is from the line of Pritesh Vora from Incedo. Please go ahead.

Pritesh Vora: I am coming back to again the assets quality, you have mentioned the gross NPA movement there. So can you tell me exact amount coming from the NPA assets upgrading to the BB and B grade and that downgrading from BBB to BB and below? What is the exact number?

Jairam Sridharan: Roughly about ₹1,500 crores.

Pritesh Vora: Right. And from BBB to B is how much?

Jairam Sridharan: ₹2,500 crores roughly.

Pritesh Vora: All right. Okay.

Jairam Sridharan: both the same amount.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: See, just looking at the long-term trend in the margin or maybe the credit yield, what we have seen is that you know since, FY 2011 we always had rising margin and rising credit yield, even though pressure building on the credit quality side. So it is very contradictory that maybe we are building more risk on the other side of the book and still we are for the next year we are again guiding for the stable margin. So, could you just elaborate on this issue?

Jairam Sridharan: I am not sure, I understood the question, to be honest. See, the way we see it as credit quality gets better, the proportion of your book that is non-interest earning will reduce and that should expand your margin. Also, as rate environment, if it is on an upward trajectory over the course of the next year, your margins should have an expansive trend. As you have seen about 50% of our book is on MCLR and our MCLR has been going upwards. So all that is margin expansive influences. But as we move the corporate lending book more and more towards better-rated clients that will have a margin compressive effect. The net of this is what you will see in the overall margin trend which we are broadly guiding for stability in the next year. I hope that explains.

Rakesh Kumar: That we understand. But the thing is since FY 2011 if you see like maybe FY 2015 or so like you know the gross NPA number rose from 1.1% to 5% kind of a number. But still, you know the credit yield is rising. Like again, we are seeing for the next year we will maintain the margin. So are we building some risk on the other side of the book that is my limited question?

Jairam Sridharan: When you say other side which other side you mean?

Rakesh Kumar: Maybe on the retail side are we building on a more risk from the retail side that is what I want to understand.

Jairam Sridharan: No. The short answer is no. I do not think I am fully understanding the math of where you are coming from. But essentially remember importantly the gross NPA metric that you are looking at does not impact margin. The net NPA metric impacts margin and the net NPA metric has increased but it is still only 3.4%. So it is not increased sort of to a level where it will start having that big sort of visual impact on margins. And that has happened and the reason why net NPA metric has not risen as much is because we are paying for the increase in NPA ratios every quarter by keeping high provision coverage ratio. So the higher you keep your PCR, the lower is the impact of credit risk on margins and because we have kept PCR very high, you do not see the margin get impacted as much even as gross NPA ratios go on.

Rakesh Kumar: Okay. Just one more question on the second-half we have guided for close to 110 bps or 100 bps of credit cost, what would be that number in the first-half?

Jairam Sridharan: We are not guiding on quarter specific or first-half, second-half credit cost. Thank you.

I think, Margaret, we are pretty much out of time.

Moderator: Sure, sir. Would you like to add any concluding remarks?

Jairam Sridharan: No, I think, we are good. Thanks everyone for very active participation in this quarterly discussion. I hope you have a very nice evening. Thank you.

Moderator: Thank you. On behalf of Axis Bank, that concludes the Conference Call. Thank you for joining us and you may now disconnect your lines.