Axis Bank's Q2FY24 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to Axis Bank Conference Call to discuss Q2 FY24 Financial Results.

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On behalf of Axis Bank, I once again welcome all the participants to the Conference Call. On the call, we have Mr. Amitabh Chaudhry – MD and CEO and Mr. Puneet Sharma – CFO.

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

Amitabh Chaudhry: Thank you, Neerav. Good evening and welcome everyone. We have on the call, apart from Puneet, Rajiv Anand – Deputy MD and Subrat Mohanty – ED, and other members of the leadership team.

In Q2FY24, we continued with the focus on GPS metrics that we had set for ourselves a couple of years back. This performance and balance sheet quality of the Bank is now significantly different from the past which gives us confidence in sustaining it across cycles. Let me briefly explain these structural changes.

- The current level of **18%** plus ROE is delivered at a much lower risk-weighted asset intensity than in the past.
- This has helped the Bank become self-sufficient on capital. The Bank accreted **18** basis points of CET 1 capital in Q2FY24 and **54** basis points in H1FY24 with CET 1 levels now at **14.56%**.
- On Profitability, there is a visible improvement in quality and consistency of the Bank's earnings. In Quarter 2, the Bank delivered among the best core operating profit growth driven by one of the best margin and fee performance amongst large private Banks.
- On Loan Growth, all the three segments have grown above **20%** with SME book growing **9%** QOQ.
- On Deposit Quality, we have improved meaningfully with one of the best LCR outflow rates and CASA ratio in the sector today. On digital

and tech, our people, product, APIs and system architecture continue to be among the best in class. It is validated by so many successful partnerships across the Bank and its new product launches, which I'll share later during the call.

These structural improvements provide us the flexibility to build the Bank for the future with investment in our chosen areas of distinctiveness, namely Digital, Bharat Banking and Customer Obsession Sparsh while working on synergies from acquired Citi businesses.

We continue to remain focused on 3 core areas of execution of our GPS strategy namely:

A. Embedding a performance driven culture
B. Strengthening the core
C. Building for the future

I will now discuss each of one of these areas:

A. Embedding a performance driven culture

There is a visible improvement in the retail deposit growth and the quality of our Deposit franchise.

We have made solid progress in improving the quality, granularity and premiumization of our deposit franchise through multiple Bank-wide transformational initiatives. The results of these already reflect in our improving retail deposit performance.

- The growth trajectory of retail term deposits continued to improve with **15%** year-on-year and **4%** quarter-on-quarter growth on a period end basis and 13% year-on-year and **4%** quarter-on-quarter on QAB basis.
- Low-cost CASA shares were at **44.4%,** among the best in the industry and compounding at **15%** per annum for the last three years.
- In the last two years, the Bank's outflow rates of Basel reporting bases have seen reduction by **550** basis points and are now trending closer to the best in the Indian Banking sector.
- During the quarter, we achieved the milestone of opening the **5000th** branch and added **207** branches and **110** new centres to widen our distribution network to **5152** domestic branches.

We continue to see all-round growth across businesses. We've seen market leading growth in our focus segments.

- Within retail lending, we continue to drive balanced growth across the product portfolio.
- The retail disbursements in Q2FY24 were the highest ever for a non-financial year closing quarter.

- Corporate loans grew **21%** YOY and **3%** QOQ, led by a healthy pick-up across sectors. The disbursement pipeline for Q3 continues to be healthy.
- MSME segment continues to remain a key growth driver for the Bank. The combined portfolio of mid-corporate, SMEs and small businesses grew **33%** YOY and **9%** QOQ, and now constitute **21%** of the loan book, up over **680 bps** in last 3 years.

B. Strengthening the core:

- On Wholesale Banking, we have strengthened our capabilities in the Transaction Banking and Treasury segments in the last 2 years.
- Our API led Transaction Banking NEO proposition offers strong product market fit and continues to witness strong adoption. The interest amongst corporates continues to grow at an accelerating rate with **2.3X** customers onboarded in September over last year. Similarly, transaction volumes and throughput have surged by **~5X**.
- Additionally, "NEO for Business" which is our mobile-first, "Banking and Beyond Banking" MSME proposition designed especially for SMEs went live in the current quarter. We have about **~5,000** businesses being on-boarded every month with strong adoption rates. The offering has many standout features when compared to market offerings by banks and fintechs. Please refer to slide 40 of our investor presentation for more details.
- Under NEO, we will also be launching in this quarter, "Neo for Corporates" - our platform for the large corporates. With full rollout of Neo, Axis remains on track to become the Operational Bank of choice for our Corporate Banking clients.

C. Building for the future

Digital Banking performance continues to remain strong

- We have rebranded our award-winning mobile app, as '***open*** by Axis Bank'. Its balance sheet continues to deliver strong growth with over 50% increase in deposits and loans. ***open*** is now roughly 5% of the Bank's overall business and we intend to increase contribution by 3-4x by fiscal 2027.
- As part of the ***open*** by Axis Bank launch, we have introduced several changes to our mobile banking app and internet banking portal. In addition to branding changes these include a revampí landing page, hyper personalised nudges, personal finance management, vernacular language for internet banking etc. Our app continues to remain the highest rated mobile banking app on the Google Play store with rating of **4.8** based on over **2.2** million reviews.
- Continuing our aspirations to be a leader in new platform businesses, we launched Credit on UPI on pilot basis working with NPCI. We aim to launch this for customer usage in the coming quarter. Further, Axis Bank was among the first banks to integrate with the Public Tech

Platform for Frictionless Credit (PTPFC) launched by the RBI and RBI Innovation Hub. The bank offers MSME loans in under 5 minutes leveraging this platform.

Bank-wide programs to build distinctiveness continue.

Our big bet on Bharat is growing from strength to strength.

- In rural advances, the balance sheet added in the last 24 months is **2x** the size of the balance sheet added in the previous 4 years (Sep'17-Sep'21).
- Our distribution footprint has increased to **2,373** Bharat Banking branches complemented by a **63k+** strong CSC VLE network. We have scaled up with marquee names such as ITC, Bayer, and Airtel payments bank, demonstrating progress and success of partnership and value chain approach.
- Our digital co-lending platform is live with **8+** partners and we have more products and partners lined up to go live on the platform this year.

Sparsh, our customer obsession program, is making an impact on our customer experience scores.

- We believe that only a deeply embedded culture of Customer Obsession can help us sustain this journey. Earlier this month, we celebrated Sparsh Week, a pan Bank event with a focus to listen to our customers, act on it & celebrate.
- Over the last 18 months, NPS across retail customer journeys has moved up to **139** over an indexed baseline of 100

On Citibank Consumer business integration:

The employees and the customer integration so far is on track. We are also witnessing synergy benefits coming through with improvement in productivity and best practices transfer across the organization.

One of the key strengths of Citi was the customer service capabilities. The erstwhile leadership team of Citiphone is leading the upgrade of our service architecture in line with the best-in-class standards.

In Closing:

- We believe the Indian economy is relatively well placed in context of the uneven and slower global growth outlook. Higher crude oil and food prices remain key risk for CPI inflation, and we expect the policy rates in India would stay higher for longer.
- We expect the Banking system credit and deposit growth, both to be around the 13% mark for the current fiscal excluding the HDFC Limited merger impact. We feel confident that Axis will grow at **400** to **600** basis

points faster than the next merger industry credit growth over the medium term. We remain focused on our GPS strategy and our areas of distinctiveness in building an all-weather institution that will stand the test of time.

I will now request Puneet to take over.

Puneet Sharma: Thank you, Amitabh.

Good evening and thank you for joining us. We continue to make good progress towards building a stronger, consistent and sustainable franchise. Amitabh has discussed the business and transformation projects, The salient features of the financial performance of the Bank for H1 FY24 and Q2 FY24, across:

1. Operating performance
2. Capital and liquidity position
3. Growth across our deposit franchise and loan book
4. Asset quality, restructuring and provisioning

is as follows:

Key financial parameters for H1 FY24:

1. Consolidated ROE% at 19.04%, improving 179 bps YOY
2. Consolidated ROA% at 1.81% improving 15 bps YOY
3. CET1 at 14.56%, net accretion (including profits) of 54 bps
4. NIM at 4.11%, improving 33 bps YOY
5. Operating profit at Rs 17,446 crores, growing 28% YOY
6. Core operating profit at Rs 17,028 crores, growing 19% YOY
7. PAT at Rs 11,661 crores, growing 23% YOY
8. Cost to income at 49%, flat YOY

Our operating performance for **Q2FY24** was healthy across NIMs, fee and credit cost lines:

1. Consolidated ROA% at 1.83%, Consolidated ROE% at 18.67%
2. CET-1 accretion in Q2FY24, including profits was 18 bps
3. NIM at 4.11%, improving 15 bps YOY, 1 bps QOQ
4. NII at Rs 12,315 crores, YOY growth of 19%
5. Fee at Rs 4,963 crores, YOY growth of 31%, granular fee at 93% of total fee
6. Core Operating profit at Rs 8,733 crores, QOQ growth of 5%
7. Cost to assets at 2.41%, increasing by 16 bps YOY
8. Net credit cost at 0.42%, improving by 8 bps QOQ, higher by 4 bps YOY largely due to lower recoveries from prudentially written-off accounts.
9. PAT at Rs 5,864 crores, increasing 10% YOY
10. GNPA at 1.73%, declining 77 bps YOY and 23 bps QOQ
11. NNPA at 0.36%, declining 15 bps YOY and 5 bps QOQ
12. PCR% at 79%, largely flat YOY and QOQ
13. Standard asset coverage of 1.32%, All provisions by GNPA ratio is 150% improving 1128 bps YOY

Net Interest Margins

- Yields on interest earning assets have improved by 116 bps YOY and 14 bps QOQ. The increase in yield on interest earning assets during the quarter was largely sufficient to offset increase in cost of funds. As a result, NIMs improved 15 bps YOY and 1 bps QOQ.
- Included in Q2FY24 NIMs, is interest on income tax refunds and other one-time items that contributed 2 bps to NIMs as against nil in Q1 FY24.
- As we had indicated in our Q1FY24 commentary, the marginal cost of funds has broadly stabilized. We expect deposit costs to increase further over the remaining part of the financial year but the pace of deposit cost growth will most likely moderate. Hence our NIMs will be driven largely by our ability to pass increased cost of funds through better pricing of assets or improvement in mix and other structural NIM drivers we are working on.

Our progress on structural NIM drivers continues, with improvements across all variables on a YOY basis:

Improvement in Balance sheet mix: Loans and investments comprised 89% of total assets at September 23, improving 317 bps YOY;

- INR denominated loans comprised 95.8% of total advances at September 23, improving ~ 280 bps YOY;
- Retail and CBG advances comprised 69% of total advances at September 23, improving 32 bps YOY
- Low-yielding RIDF bonds declined by Rs 7,990 crores YOY. RIDF comprised 2.14 % of our total assets at September 23 compared to 3.09% at September 22.
- Composition of liabilities measured through average CASA% remained flat YOY at 43.31%
- Quality of liabilities measured by outflow rate improved ~ 550 bps over last two years

We had strong fee performance in the quarter. Fee income stood at Rs 4,963 crores, growing 31% YOY and 11% QOQ. 93% of the fee is granular.

- Total retail fee grew 38% YOY and 11% QOQ
- Fees from retail cards grew 42% YOY and 5% QOQ
- Fees from TPP grew 62% YOY and 72% QOQ
- Commercial cards fee income grew 27% YOY and 17% QOQ
- CBG fees grew 9% YOY and 27% QOQ

Trading profit and Other income at Rs 71 crores was flat YOY and declined by Rs 528 crores sequentially, mainly on account of lower treasury income.

Operating expenses for the quarter stood at Rs. 8,717 crores, growing 34% YOY and 6% sequentially. It is pertinent to note that there were no Citi BAU expenses in Q2 FY 23.

- Integration expenses contribute 4% of the YOY growth in % terms and ~ 13% of the YOY cost growth in rupee terms;
- The balance YOY increase in rupee crore expenses other than above can be attributed to the following reasons: (i) 9% linked to volume; (ii) 51% technology and growth related and (iii) balance 27% to BAU.
- Technology and digital spends grew 36% YOY and constituted ~ 8.5% of total operating expenses.
- Staff costs increased by 20% YOY. We have added 10,832 people from same period last year mainly to our growth businesses and technology teams.
- QOQ increase in operating expenses is largely attributable to the cards business including non-recurring expenses incurred for cards benefit rationalization and increased prudence in actuarial valuation of cards reward points.

Operating expenses to average assets stood at 2.41%, higher by 16 bps YOY and 9 bps sequentially. The acquired Citi business is entirely retail which understandably runs at a higher cost and return ratios. The Citi business will be ROE accretive post integration. The cost ratios will remain sticky till the Citi integration phase is over.

Provisions and contingencies for the quarter were Rs 815 crores, lower 21% QOQ. The Bank has not utilized any of its COVID-19 provisions, this provision is entirely prudent.

For Q2FY24 - Annualized Gross credit cost is 70 bps, lower by 4 bps YOY and QOQ. For Q2FY24 - Annualized net credit cost is 42 bps, increasing 4 bps YOY and declining 8 bps QOQ. The increase in YOY net credit cost in attributable to lower recoveries and upgrades from prudentially written off accounts from the corporate portfolio.

Subsidiaries contributed 7 bps to the consolidated annualized ROA and 37 bps to the consolidated annualized ROE this quarter

The cumulative non NPA provisions at September 30, 2023 at Rs 11,758 crores, comprising (i) Covid19 related at Rs 5,012 crores; (ii) Restructuring provisions of Rs 648 crores, includes unsecured retail at 100% provision cover and the rest at first bucket NPA rates, (iii) standard assets provision at higher than regulatory rates of Rs 2,266 crores and (iv) weak assets & other provisions of Rs 3,832 crores.

Our journey to be self-sufficient on capital is progressing well

- Our total capital adequacy ratio including profit is 17.84% and our CET-1 ratio is 14.56%. The prudent COVID provision translates to a capital cushion of 48 bps over and above the reported capital adequacy ratio.
- The RWA% of the Bank at September 30, 2023 stands at 67%.

Growth across our liabilities and loan franchise

Please refer slides 19 and 20 for details around the quality of our liabilities franchise and slides on our loan franchise.

- Total Deposits on a QAB Basis grew 16%. Our CASA ratio on QAB basis was 43.31%, flat YOY. Our granular retail term deposits on a QAB grew 4% sequentially.
- Our loan book is granular and well-balanced with retail advances constituting 58% of the overall advances, corporate loans at 31% and CBG at 11%.
- ~69% of our loans are floating rate. ~47% of our fixed rate book matures in 12 months.
- Break-up of the of the floating rate loan book by benchmark type and MCLR re-pricing frequency is set out on Slide 11 of our investor presentation.

Retail book

- Retail advances grew 23% YOY and 4% sequentially, ~ 76% of the book is secured.
- Q2FY24 Retail disbursements grew 47% YOY and 24% QOQ, with similar trends across secured and unsecured products. Disbursement growth at a product level is as follows - LAP grew 47% QOQ, Home Loans grew 26% QOQ, Small business banking disbursements grew 39% QOQ and PL disbursements were up 29% QOQ.
- Cards and PL portfolio grew 72% YOY & 25% YOY respectively.
- The credit card spends in Q2FY24 grew 72% YOY and 4% QOQ.

Wholesale Banking Coverage

We are progressing well in our endeavor to build a profitable and sustainable Corporate Bank. Details of rating composition, incremental sanction quality is set out on slide 36.

- Domestic corporate loans book grew 33% YOY and 4% QOQ.
- The offshore wholesale advances are largely trade finance related and primarily driven by our GIFT city branch.
- 97% of the overseas standard corporate loan book in GIFT city branch is India linked and 91% is rated A- and above.

Commercial banking

The commercial banking book grew 27% YOY and 9% QOQ. The quality of the CBG franchise we are building, and strong relation led approach is reflected through:

- CBG New to Bank book grew by 38% YOY.
- 88% of CBG loan book is PSL compliant.

Coming to the performance of our subsidiaries

Detailed performance of the subsidiaries is set out on Slides 69 to 75 of the investor presentation.
The domestic subsidiaries reported a total H1 FY24 net profit of Rs 689 crores, growing 18% YOY. The return on investment in domestic subsidiaries was ~ 53%.

Axis Finance:

- In Q2FY24, overall Assets Under Finance grew 31% YOY. Retail book grew 49% YOY and now constitutes 44% of total loans
- H1FY24 PAT grew 26% YOY to Rs 265 Crores, and healthy CAR at 17.9%.
- Strong asset quality with net NPA of 0.31% and negligible restructuring.

Axis AMC: Axis AMC's overall quarterly average AUM grew 5% YOY to ~ Rs. 259,800 crores, H1FY24 PAT stood at Rs 189 Crores

Axis Securities: Axis Securities' broking revenues for H1FY24 grew 36% YOY to Rs. 457 crores and PAT grew 14% YOY to Rs 113 Crores

Asset quality, provisioning and restructuring

- Asset quality continues to improve with declining Gross NPA and net NPA. The Slippage, GNPA, NNPA and PCR ratios for the Bank, and segmentally for Retail, CBG and Corporate is provided on slide 60 of our investor presentation.
- Q2FY24 gross slippage ratio (annualized) stood at 1.49%, declining 39 bps YOY and 38 bps QOQ, the lowest for the last 12 reported quarters.
- Gross slippages for the quarter was Rs 3,254 crores, lower by 4% YOY and 18% QOQ. Our CBG and CRG slippages are well contained and declined on a QOQ basis. Further, for the quarter ~ 39% of the gross slippages are attributed to linked accounts of borrowers which were standard when classified or have been upgraded in the same quarter.
- Net slippages declined 25% QOQ. Net Slippages for the quarter were Rs. 1,269 crores, of which Retail was Rs 1,405 crores, CBG was Rs 84 crores and WBCG was negative Rs 220 crores
- Recoveries from written off accounts for the quarter was Rs 664 crores.
- Net slippage in the quarter adjusted for recoveries from written off pool was Rs 605 crores of which retail was Rs 953 crores, CBG was Rs 25 crores and wholesale was negative Rs 373 crores.

To summarise, Axis Bank is progressing well to be a stronger, consistent and sustainable franchise:

- This is visible through (i) organic business driven CET 1 accretion in the quarter of 18 bps and 54 bps for H1 FY24; (ii) our covid provision buffer of 48 bps of CAR, (iii) overall coverage at 150% of GNPA, and (iv) limited covid restructuring at 0.19% of GCA.
- Consolidated ROE for H1 FY 24 at 19.04%, improving 179 bps YOY, an outcome of disciplined execution.
- Our liability franchise is progressing with outflow rates falling by ~550 bps over the two years. Improvements planned over the next 7-8

quarters should deliver results with some inter quarter fluctuations which are normal for a business of our scale and size.

- We are well placed in the current macro environment, we continue to closely monitor the geopolitical environment, inflation, liquidity, cost of funds and its impact on our business.

We would be glad to take your questions.

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

Mahrukh Adajania: Good evening. My first question is on OPEX. Puneet, you mentioned that there is some non-recurring item in other OPEX explaining the steep QOQ increase in that item. So, could you quantify it? That's my first question and I have another one on deposit growth?

Puneet Sharma: Mahrukh, thank you for your question. We are not putting the absolute number out on what the quantum of the one timer is on a QOQ basis. I just want to clarify for you that we've done two things on operating expenses; (i) we have become more prudent on the way we actuarially value our cards rewards points, so there's a one-time charge for an actuarial catch up that is sitting in the OPEX for the current quarter, which should be non-recurring and (ii) second is some bit of rewards rationalization that took place in the quarter. We've upfronted the cost of that rewards rationalization. That's the two broad heads that have largely contributed to the QOQ increase. But there will be other BAU items for a growing business that we would incur.

Mahrukh Adajania: Okay. Because if you exclude the integration expenses that have grown, I mean that have kind of declined, right, there's a Rs. 100 crore decline in the Citi related integration expenses. So, if you exclude that, then the OPEX has actually grown over 7% QOQ, so do we expect that high growth because I mean if some other expenses are going to compensate for one-off this quarter, then I mean just some broad guidance even on near-term OPEX?

Puneet Sharma: So, Mahrukh, I think I have consistently maintained that integration expenses will be Rs. 2,000 crores incurred over 18 months. I have also indicated that 75% of that expense is time-proportioned and 25% of that expense will be incurred episodically to accelerate the closure of the transaction. So, if you take what I had indicated previously, the cost for the quarter completely represents the time accrual that I would have spoken of. In the last quarter, we accelerated some of the expenses, which I had anyway always indicated would be episodic. So, this Rs. 100 crore decline is just the function of when we incur that Rs. 400 crores of expenses, which is the 75:25 proportionality that I spoke of. To your second point on whether we would provide an indication on what short-term OPEX would look like, I think we're sticking to the fact that the opportunity that we have, given where NIMs and credit costs are, allow us to continue to invest in the franchise, our investments are going into our growth and technology related business. If you look at slide 14 of the investor presentation, 51% of the expense growth is under those two heads. The BAU

OPEX growth is also called out there. That is a good proxy of what you should see on a BAU basis for growth to come through. There is clearly a one-time operating expense for the two-line items I have called out, which ideally should not recur as we move forward.

Mahrukh Adajania: Okay. And my other question is on deposit growth. So, you've done a very good job in improving the quality of deposits. However, the deposit growth is lagging loan growth. Obviously, you had excess LCR, which you could have used and you have, but do you have any more excess LCR or now will deposit growth be in line with loan growth? And then does that mean some sort of a pause in the structural improvement of deposit quality that has already occurred over the last 2 years?

Amitabh Chaudhry: We mentioned that as far as LCR outflow rates are concerned, we are now perhaps the best in industry. We can't keep improving on this. Actually, I do believe that there is some scope for us to play around with that number depending on how things play out and see whether we can continue to use that to fund our loan growth. So, from our perspective, we have various levers in hand, which is going after term deposits and support our balance sheet. Look at our outflow rates and see what we can do and how much we lend, continue to work on some of the other levers which we have on the deposit side and we'll be using all those levers depending on how the market plays out and where the positives are. So, I don't want to get boxed into how it will play out in the next couple of quarters, just please be assured that the management team is on top of what these variables are, how they can be used and that's exactly what we demonstrated in the quarter that has just gone by.

Moderator: Thank you. Next question is from the line of Chintan Joshi from Autonomous. Please go ahead.

Chintan Joshi: So, I want to continue the conversation on deposit in terms of the levers you have, how high are you willing to let the loan deposit ratio go up? I appreciate it will fluctuate quarter from quarter, but what is the kind of ceiling that we can think of in terms of loan deposit ratio? And then I have one more on provisions?

Rajiv Anand: The metrics that we work of is LCR because see ultimately it's not just the quantity of deposits that's important, but in this new LCR regime, not new anymore, but in the LCR regime, the quality of deposits has become as if not more important and so therefore the metrics that we work, the point that you're making is off is LCR and typically you will see if you see many quarters, our LCR range has been around 115 to 120. That's the range that we like to keep it.

Amitabh Chaudhry: Let me just add to what Rajiv said, we pulled across it rightly. Please understand that if you look at our term deposit growth across all our segments, it is about 22%. We are doing as well as anyone else out there on the TD side. It's not that the franchise is not firing from that perspective. We are signing up a number of partnerships. We have the maximum number of partnerships where I would say on the retail side, which will ultimately feed into this franchise. One of the reasons why we did ‘open’ was to also scale our liability franchise digitally. So, if you look at the number of branches which we have added, it is also one of the highest in the last couple of quarters. So, our investments continue on one side. Secondly, the franchise has shown the capacity and the capability to fire. And as Rajiv rightly pointed out, we focus more on LCR and driving the business through LCR.

Chintan Joshi: Okay, thank you. And then, if I look at your total provision coverage ratio at 150%, it compares quite favorably with peers. I'm wondering if there is potential of release into capital into equity here at some point in the future or do you hold these provisions against kind of identified issues?

Amitabh Chaudhry: So, our intention at this point in time, which we have been quite consistent about is that we have no intention of releasing our COVID provisions. We can't keep calling it COVID provisions forever. So, by March 2024, we will take a call on where do we put them across, but our intention is not to write back any of it at this point in time. We will keep it for the future rainy day.

Puneet Sharma: Just to supplement what Amitabh said, I just want to make it abundantly clear that these are prudent. They do not reflect any risk on our book as we see it today.

Moderator: Thank you. Next question is from the line of Param from Nomura. Please go ahead.

Param Subramanian: Thanks for the opportunity. My first question is on the retail card fees. So, if I look at the retail card fees which you've disclosed, it's up 39% YOY. The spends, the credit card spends you're showing is up 72%. So, I just wanted to understand what's the reason for the disconnect here? That's my first question?

Arjun Chowdhry: Yes. Thanks for the question, Param. So, the fees number which you see represents an overall holistic view on the nature of fees and it wouldn't be exactly linearly mathematically correlated with the spends. Also do keep in mind that the year-on-year growth in spends also represents the acquired portfolio of Citi, which had a different fee structure from what the Axis book has. In absolute terms, though I must tell you that 39% is quite a good number to see fee growth. That's a focus area for us because we want to diversify the earnings pool that we've seen in the cards business as well.

Param Subramanian: Yes, I got that. So, 70% includes the Citi fee, but I just wanted to understand because the credit card fee I understand would be the bigger driver within the retail card fee, right? So, I just wanted to understand both these numbers are like for like comparable. Why is there a gap because one would have expected those retail cards fee to be higher?

Arjun Chowdhry: No. The retail card fee comprises non-spend related items as well. There are items related to annual fee, joining fee, payment charges, all kinds of other fees and the fee structures of the Citi portfolio and the Axis portfolio were quite different. The spend number is the 72% doesn't include the spend coming from the Citi cards portfolio, which is not in the baseline of the previous year. That's why the spend number is showing a higher percentage growth rate than the fee number. Some part of the fee does come from the spend and that is dependent on the interchange rates as you well know, but not all of it. And that is why we are seeing that as the spend goes up, the spend will continue to grow faster but elements of fee which are not related to spend will obviously not grow at the same pace.

Param Subramanian: Got that. And my second question is on the margins. So, how far along are we on the term deposit repricing? And secondly, this quarter, we've actually shown an expansion in the loan yields, which I think some of our peer Banks have not shown. So, I just wanted to understand parts directionally, you know what segments are driving this expansion in yields and how we see that progressing going ahead? Yes, that's it from me. Thanks.

Amitabh Chaudhry: Give us some credit for doing a good job. Well, we have worked very hard to get to this point. So, yes, I mean it partly reflects the fact that our overall loan mix has changed. Some asset categories have grown faster than some of the others, but you know we have always talked about 4 or 5 things which we are driving within the Bank. We're driving cost of funds, we are driving the RIDF numbers, we are driving how we can change the product mix, we are driving the overall yields. So, this effort is coming because of lot of factors which are being driven at the same time and we are maintaining it quite consistently. We also are running a project to see as to how we can price the right yield for an individual customer. I mean ultimately there is a price point, there is a tenure and there is an amount which is perfect for the customer and makes sense for the Bank. You know, all of us use pricing grids. We are running a project internally to actually create a pricing for individual customers, so there are a lot of things which are happening below the surface which have allowed us to get here and it has not been an easy journey. It will not remain an easy journey because some of the repricing, you know the rates have hardened. So, the repricing is still left, but we have been stating consistently that we will continue to work towards ensuring that we remain in the same zone. That's the kind of the phrase we've been using forever. And I think this quarter’s numbers reflect the fact that we've been able to keep the same zone at the higher end of the zone.

Param Subramanian: Yes. Thank you so much, Amitabh. Just one more bit on the term deposit repricing as well, if you could speak a little bit about that. Yes, that's it from me. Thanks a lot and congratulations on the quarter.

Puneet Sharma: Thanks for the question on term deposits. Our marginal cost of funding has stabilized. So, at the margin, we're not seeing an increase in deposit expenses. The base book will continue to reprice. The pace of repricing of the base book, i.e. the change in cost of funds, should slow down as we get into the subsequent quarters in the year, but we do see a few more quarters for base book to get fully repriced in this cycle.

Moderator: Thank you. Next question is from the line of Abhishek from HSBC. Please go ahead.

Abhishek: Hi, Amitabh and team. Congratulations for the quarter. So, I have one question on personal loans. Can you talk a bit about, you know, there have been indications by the RBI that it is a little cautious about it. You yourself I think last quarter had mentioned that there was some pressure in the less than Rs 50,000 ticket size segments. So, if you can talk a little bit more about a) whether the RBI has asked Banks in general to be a little, go a little slow on this. And b) also if you can talk about how much of your personal loan portfolio is from top, let's say, Tier-1 versus Tier-2 and where does the stress lie really in the overall personal loan pool?

Amitabh Chaudhry: So, you're absolutely right. I think especially RBI Governor has been calling out the growth in personal loans for quite some time and obviously if the regulator is calling it out, we have to take full cognizance of what is being said. On the flip side, we obviously have our risk guard rails. We're monitoring it very closely and we are very clear in our minds that the growth in personal loans, if it comes, it has to come not at the cost of risk guard rails or lowering our risk, but it has to come because we are reaching out to more customer segments, our distribution reach has improved, our overall efficiency of the process has gone up and so we are able to get at the same risk quality, more customers and so we are able to grow that portfolio. So, let me first get that principle out and we have mentioned that we are seeing stress build up in loans below Rs 50,000, our share of loans below Rs 50,000 is much smaller, I will ask Sumit and Puneet to expand. So, we are watching these parameters closely. We are not seeing any deterioration, but we are fully cognizant at the same time of what the regulator is saying. I'm not aware if the regulator has called some players specifically and asked them to curtail it or not. It is not in public domain, so I'm not aware of it. But let me ask Sumit and Puneet to kind of expand on some of the other facts.

Sumit Bali: Abhishek, Sumit here. So, Rs 50,000 and below is where we believe there is stress that portion for us is almost nil. We don't play in that segment and we have consciously chosen to be away from that segment. Historically, if you see large part of our personal loan sourcing is from ETB customer and as we grow, that number has maintained. The number last quarter also was 83%. Contribution from ETB segment, this quarter also the number is 83%. In addition to that, now we have a few partnerships in place where again, those customers are known to the Bank, and we also have their transaction data with the partners. So, our score card is therefore much more richer for those set of customers. So, we are not seeing stress build up. We are in control of the situation. And as Amitabh said, we're not compromising risk or volume at all.

Abhishek: And Sumit, just to clarify, in your PPT it says that 100% of the PL is given to the salaried segment. Is this incremental or on book 100% is to salary, then nothing is given to self-employed in terms of PL only?

Sumit Bali: So, salaried personal loan is given only to salaried customers. So, the number you see again, salaried personal loan is to salaried people only. Separately, we have a business loan which is given to self-employed people that is classified under the Small Business Banking. That's a book of about Rs 12,000 odd crore, which is behaving even better than the personal loan.

Abhishek: So, that is a personal loan given to business owners. So, that's why it's classified there and not in your PL book?

Sumit Bali: Yes. So, that's an unsecured loan given for business purpose to SME or professional, hence it is classified as business installment loan.

Abhishek: Got it. Thanks for that. And my second question is actually on your fee. So, if I knock off the card fee and the third-party fee, what remains is the asset and liability related fee. Now if I look at that fee, that has not grown much, I think that is declined about 3% QOQ, whereas there has been a reasonable amount of growth in your assets, especially the loans, personal loans and other loans. So, why has that gone down?

Puneet Sharma: Abhishek, thanks for the question. I think I just request you to think about non cards and non-TPP fees with reference to disbursements and not to loan book because some of the fee is earned at disbursement. So, you will see the fee behave as disbursements behave. So, that's one element. The second element that I would want to flag off to you is as a franchise, we are at 1.53% fee to total assets which basis numbers I see is near best in class in the industry. I think inter-quarter fluctuations will happen in a business our size. But I would request you to consider the fact that at 1.3% fee to assets, we have a very healthy fee profile as we stand, 93% of our fee is granular, which makes it sticky and recurring. On an inter-quarter basis, it will be a number that will keep moving around, but I don't think you should read too much into it.

Abhishek: Actually, yes, I was looking at the disbursement number and your index disbursement has gone up from 118 to 146 in this quarter. So, that's why I thought that line item would have gone up more. Anyway, thanks for the clarification and all the best for the future work.

Moderator: Thank you. Next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: So, the first question is with respect to home loans. Last quarter also, you highlighted that work is in place and we should see the growth visible in the quarters. But still when we look at it, it's like a much lower pace, hardly like 2% sequential growth, 9% year-on-year. So, when do we actually see the traction and building up and the initiatives out there?

Sumit Bali: So, Kunal, Sumit here, a couple of statistics. Quarter-on-quarter, home loan disbursement is up 26%. If I look at our previous quarter number, our book was quarter-on-quarter minus 0.5%. This quarter it is plus 2%. So, we are seeing good momentum build up. These numbers from here on will continue to improve. We have taken couple of strategic initiatives which are going live. In addition to that, even the normal business is growing. That initiative would be additional to the regular BAU business.

Kunal Shah: Sure. And secondly, in terms of the overall employee addition during the quarter of almost like 4500, so in the opening remark, it was highlighted that most of them were towards the technology and included in this technology cost which we highlighted, or this is across this segment, that number is also getting higher?

Puneet Sharma: Kunal, thanks for that question. What we did call out was that a large part of our OPEX growth, which is the comments we made is 51% of our OPEX growth is towards technology and growth-related businesses. On the headcount, the headcount is pan Bank. Please appreciate that we also added, as Amitabh indicated, 204 branches in the quarter. There would be headcount that would be deployed for that business in addition to all of the growth that we are delivering. So, the headcount growth will be principally across our business teams plus technology team. That's the key message that I would request you to please take away.

Kunal Shah: And one last question, anything with respect to attrition in Citi deposit because if we look at maybe in terms of this lower deposit growth vis-à-vis the other peers even in absolute term when we look at the traction that still seems to be like 15, 20 odd thousand crores vis-à-vis like more than 50 odd thousand crores for the other players. So, obviously you said like you would not split between both after the merger, but qualitatively any sense if it's largely because of that?

Arjun Chowdhry: No. So, Kunal, actually you're right. We can't split it. It's now a combined book. But qualitatively, let me reassure you that from the day it came over, the Citi deposit book has actually been growing and it's been growing a little faster than it was in the prior period. So, you can rest assured on that front that it is not leading to any sort of depletion. In fact, there are more accounts being opened and there are more balances in those accounts now.

Moderator: Thank you. Next question is from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh: Just two questions. So, one is to what level would be comfortable taking your unsecured book to, it's about 11% odd, but directionally what level could you take it to? And the second is in terms of the difference between your gross credit cost and net credit cost. So, as we mature in the cycle, how would you think about the differential between the two? These are my two questions and congratulations on the good numbers. Thank you.

Puneet Sharma: Saurabh, thank you for the question. If you look at slide 60 of our presentation, our gross credit cost is about 70 basis points, our net credit cost is for the quarter at 42 basis points, so there's roughly a 28-basis points gap. The same number for the previous quarter would have been a gap of 24 basis points. So, there will be inter-quarter fluctuations, but directionally the way we seeing this pan out is asset quality is holding up well. Gross credit cost is the number we should monitor. The jaw between gross credit cost and net credit cost will shrink simply because recoveries and upgrades will not be at the same pace that we have had previously. So, that's directionally how gross and net credit cost would move. My request again is please don't look at gross and net on a sequential quarter basis or on a quarter-on-quarter basis because wholesale recovery is episodic and can change that number. A good way to look at that number in our minds is on a full year basis. Directionally, recoveries and upgrades are likely to decline as we move forward. That's our view for ourselves. That's also our view on how industry will behave given how we see it.

Saurabh: And secondly, sir, on the unsecured, what percentage can you take it?

Rajiv Anand: So, on the point about unsecured, the way that I would request you to think about it is that if you see slide 16, the RWA intensity of the portfolio is not changing. I mean, it's been around just moving around 66%-67% for the last 6 to 8 quarters. I think that should give you an indication of how we're thinking about risk. The intent here is not to increase the risk to be able to deliver 18% ROE. The intent is to deliver 18% ROE with this level of RWA intensity.

Moderator: Thank you. Next question is from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Good evening, sir. Question on OPEX, right, so we have given that you know we are committed to 2.0% OPEX to cost and that is excluding Citi expenses and integration. So, if you can tell us what is the number right now if we were to exclude Citi expenses and integration, integration one can deduct, but what is the like-to-like number as of now?

Puneet Sharma: Jai, thanks for the question. I think there are two ways to answer it. We can deduct Citi expenses and give you the cost to assets ratio, net of Citi expenses. We've always indicated that we will not report Citi numbers separately because it's an integrated balance sheet. When we announced the deal, we said that Citi operates at roughly 200 basis points higher cost to assets than us. They were 5% of the business, so 10 basis points. So, the other way to answer your question is adjusted for Citi against the 2.41% that we have reported in the current quarter, the outlook will be around 2.10% would be the target as we would stand.

Jai Mundhra: Sure, understood. That is clear. And secondly on your comment on deposit pace moderating, the pace of deposit cost moderating, of course that is visible in your numbers so far. But I mean just observation that since March, right, our total deposit growth has also been very muted. So, for the last two quarters, maybe you have not, let us say if you were to accelerate the pace of deposit growth, would the current run rate would also sustain? I mean any thoughts there that if you were to accelerate from here onwards, the behavior should also be similar, is that the correct understanding?

Puneet Sharma: Look, I think for our comment is marginal cost of funds have stabilized given our own growth aspirations, our call out remains that there will be an increase in cost of funds/cost of deposits, that pace should slow, the incremental increase to slowdown in the consequent quarters. We stay true to what we think we need to deliver on growth and our comment on cost of funds is in light of the growth we think we would like to deliver.

Moderator: Thank you. Next question is from the line of Piran Engineer from CLSA India. Please go ahead.

Piran Engineer: Thanks for taking my questions and congrats on the quarter. Some of them have been answered, but I have a couple remaining. Firstly, on your sharp increase in repo link loans in the last two quarters, that too without much growth in home loans, is it fair to say that you're moving to better quality corporates or is it just more bargaining power in the hands of the corporates now?

Rajiv Anand: Almost all the lending that we do on the SME side is repo, so it's not just the retail side. Even all of the SME, which is around 10% of our portfolio would comprise repo.

Piran Engineer: But that hasn't increased much in the last two quarters, right? It's actually just flat at 11%. So, whereas your share of repo link loans has gone up from 41 to 46, so I'm presuming its large corporates that are being repriced?

Rajiv Anand: So, large part of the increase is from the SME side, as I just explained, there is some repricing that's happened on the corporate side as well that would explain this increase.

Piran Engineer: Okay. Fair enough. Secondly, just getting back to a previous question on what explains the increase in loan yield when loan mix has largely been the same, is it fair to say that just some lagged impact of MCLR hikes that were taken 6 months back or have we increased rates across product?

Puneet Sharma: Piran, thanks for the question. I think like I called out in the structural NIM journey, one is portfolio composition which is Retail, SME and Wholesale. But there's another driver under that which is the product mix. Further, there has been a driver which is RIDF reductions as we see them. Lastly, there is a driver on the currency composition of the advanced book, so it's not just one lever where you see constant performance, which is wholesale, retail, SME. But the other 4 levers that I have spoken of have meaningfully moved in our favor, consequently helping us improve overall portfolio yields. You will get the directional input on slide 12 of our investor presentation. We have given you directionally where each of those levers have moved.

Piran Engineer: Thanks for that. And lastly, just a clarification, did I hear Amitabh say 28%-29% retail TD growth?

Puneet Sharma: No, Amitabh indicated that on a year-on-year basis, the RTD growth is 15%. That's the numbers that we've reported. So, that's the accurate number that you should be looking at please.

Piran Engineer: Yes. I just want to confirm that. Thanks a lot and all the best.

Moderator: Thank you. Ladies and gentlemen, we'll take the last question from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Good evening everyone. So, my question is on the branch expansion. We have seen a pickup in branch expansion this quarter. So, how are we looking at that trend? And also given our specific guidance on cost to asset, what sort of branch expansion are we baking in over FY25?

Ravi Narayanan: So, as we had mentioned couple of quarters back, we are looking at doing about 500 branches this fiscal and we are on the path to delivering that. So, this is something which is there in the public domain. So, that's what we are headed for in terms of branch expansion and the way we look at branch expansion is to look at white spaces across states and different geographical catchments and see how we can establish both in terms of local intelligence as well as analytics to ensure that these 500 are established. That's how we have moved towards what we have done as 200 odd branches in the first half and we are confident we will do the 500 this year.

Nitin Aggarwal: Right. So, basically what I want to understand is like the way we have explained the rise in OPEX from the baseline to the current quarter, what are the levers that we have when we look at a decline over FY25, what will bring it down? What components will possibly like drive this reduction?

Puneet Sharma: I think the directional answer to that question would be 1) growth productivity benefits for all of the digital and tech investments that we're making should flow through over a period of time. You would also note that we've been in the process of transitioning the book from a mix perspective of 47%-48% wholesale, 52% retail. So, now roughly 58% retail, 42% holds at the CBG. Given where we've gotten to, we have now started seeing over the last couple of quarters wholesale growth and retail growth match each other and therefore proportions haven't changed. Wholesale growth comes at a much lower cost to assets ratio. And therefore, as the book now grows across our segments, we should see some optimizations come through. So, we do have a plan on being able to optimize where we need to get to. I would, however, reiterate what I said to an answer to a question earlier. We would like to continue to invest in the business as we move forward. The opportunity set that we see is large, and if that means continuing to invest to deliver the right outcomes and other lines of our P&L, we'll continue to do so. The 2.1%, we have indicated around 2.1% including Citi is what we would target on FY25 exit. If we have to review that number, we'll come back to you, but as of now, that number stands.

Nitin Aggarwal: Right. And I have one more question on the credit card business, the ETB mix of card has declined quite sharply. Like, how do you look at that and any threshold on this that you would like to maintain? I understand that the KTB mix was going up and just why this decline, but any threshold on ETB share that you would like to observe?

Arjun Chowdhry: Yes, thanks for the question. The way I request you to look at that and to contextualize it is to look at partnerships as a whole because there's also in addition to just ETB and NTB in the form of digital partnerships, we have a very amenable mid path which is what we call the KTB, i.e. known to the Bank where we are able to underwrite customers a lot more effectively based on the wide-ranging set of partnerships we have and the data which those partners are able to call into an underwriting score. So, we use that very effectively and we've been able to grow that book quite well. We have noticed that the data which the partner put together also is quite a good predictor on current behavior. So, that's holding out pretty well as well. Therefore, as we continue to invest in partnerships as a means of growing both to get the numbers and to deliver higher customer value, we will find that the ETB-KTB mix will keep moving. We also keep an eye on that, and we'll keep calibrating that in the quarters going forward. But in a particular quarter, the mix could change. For example, you could have offers running with a particular partner, which would then in that quarter increase the mix. So, I'd request you to look at that in the context of three segments, ETB, KTB and NTB rather than the traditional way of just two segments.

Moderator: Thank you very much and I now hand the conference over to Mr. Puneet Sharma for closing comments.

Puneet Sharma: Thank you, Neerav. Thank you everyone for taking the time to join us on our call this evening. Wishing you and your families a very Happy Diwali and all the best for the upcoming festivities. If any questions remain unanswered, please do reach out to our IR team or myself and we'll be very happy to pick them up. Good evening.

Moderator: Thank you very much. On behalf of Axis Bank, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.