AXIS BANK

AXIS/CO/CS/1041/2018-19

20th March 2019

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Dear Sir(s),

**SUB.: DISCLOSURE UNDER REGULATION 30 READ WITH PARA A OF SCHEDULE III AND REGULATION 46(2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015.**

The Bank vide its letter dated 19th March2019 had intimated to the Stock Exchanges regarding the schedule of Analyst / Investor meeting / interactions and had submitted the presentations made therein, in relation to the Bank's strategy and its business segment.

Enclosed, please find herewith a copy of Transcript of the aforesaid Analyst / Investor meeting /interactions held on 19th March 2019, at Mumbai.

The same is being uploaded on the website of the Bankwww.axisbank.com

You are requested to take note of above and arrange to bring it to the notice of all concerned.

**Thanking You.**

**Yours sincerely,**

**For Axis Bank Limited**

**Girish V. Koliyote**
**Company Secretary**

Encl.: as above

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Analyst Day 2019

Session 1

**Strategy FY20-22**

**Wholesale Risk and Credit Underwriting**

**Wholesale Banking**

March 19th, 2019

# Analyst Day 2019

## Topic1 - Strategy FY20-22

**MANAGEMENT: MR. AMITABH CHAUDHRY – MD AND CEO**

**Suresh**: The question is infra lending, because one of your peers has taken a view that going ahead they will be extremely cautious in financing large Greenfield projects and basically perhaps infrastructure should be in the purview of government and development finance institutions. We wanted your view on, what is your approach going to be in the cycle towards infra lending? And the second question is on CEO compensation whereby RBI fixed the 200% variable cap. We are yet to see your FY'19 annual report which will come four, five months down the line. But the current compensation for the CEO in breach of the 200% cap or is there an issue with respect to that particular guideline per se?

**Amitabh Chaudhry:** As far as infrastructure lending is concerned, I think we tend to agree with the view which I think you published a couple of days back. It will be very difficult for banks to go and do the infrastructure lending of the kind which was done in the past unless the sponsors or the people who are setting up the project put in much more equity or the government is willing to sign up in ways and means which actually works for us or you can refinance the initial funding which might be coming from government only after certain things have been established. So yes, we are also very clear in our minds that we are not going to finance Greenfield limited equity, no recourse kind of project financing going forward in the future. I am sure Deepak and several can answer this question in more detail during their sessions. As far as compensation is concerned, I think it is the wrong forum to talk about whether we are going to get impacted or not. RBI has come out with a certain guideline. We have reviewed the guideline. Whatever issue if we have any will go back to RBI and discuss it with them and let us leave to the regulator to come to the right conclusion as far as it is concerned.

**Mahrukh Adajania**: I had a couple of questions. The first one is on corporate lending. There are few banks who have been growing aggressively in the past in the private sector and now they will probably slow down. So how would you view corporate growth from here if you have an opportunity to grow 30, 35%, would you take it or would you like to have a certain cap on your corporate loan growth? That is my first question and then I will ask few more.

**Amitabh Chaudhry:** I think our biggest constraint actually would be deposit growth rather than corporate growth. If the right opportunities come along, we will definitely go and take them on as long as our deposit growth can support that kind of advances growth. So no, we have not put any restriction on either our retail or the wholesale side that you can grow only that much but both of them understand that if we cannot get the deposits in place, then it will become a constraint in itself. So, what am I really saying, if the deposit is supported and if the returns are appropriate, if it is 30%, why should we not capitalize on that opportunity because we do believe that we are uniquely placed given all the kind of services we can provide on the wholesale side that we will get those opportunities as and when they come and we will obviously capitalize on that when they come our way.

**Mahrukh Adajania**: The other is on the group holding structure. Has RBI communicated anything about it and how would that impact, do you have any subsidiary which are not in the banking? In the meantime, your expansion plans on insurance to come?

**Amitabh Chaudhry:** We are continuously approached by a lot of groups to actually take a stake in their insurance ventures – life, general, health. Most important thing before we can move ahead is to get an understanding and blessings from the RBI in terms of what they will allow us to do.

**Participant**: What parameters will you monitor to ensure how you are doing on sustainability

**Amitabh Chaudhry:** Yes, you are absolutely right, there is not just one measure which you can use to measure sustainability. When we presented our score card to the board, we have talked about six, seven things which we want to monitor. When you look at say for example credit or risk management or compliance and stuff like that, you can definitely measure it in terms of output but that is bit of a lagged effect. Over and above that you have various mechanisms which are labeled internally, you have maker-checker, you have transactional audits, you have internal audits, you have all kinds of concurrent audits going on which keeps revealing to you if something is happening. So there is not one metric, there are 10-12 metrics which you monitor to ensure how you are doing on sustainability at least in comparison to what you have seen in the past and we are looking at that and some of those scorecards as we go down the line getting kind of reflecting some of those numbers very closely. But there is no one measure which is very simple to understand in some of the other cases. But we have come up with the list of 10-12 metrices which we will monitor very-very closely. By the way some of them are part of my scorecard also. My scorecard is also structured around GPS.

**Gautam Chhugani**: Sir, overall if we look at the sector, you have private sector banks struggling for deposits and clearly deposits have been fluctuating, and when you look at the state-owned sector, that do not have capital but they have some deposits. How do you see the landscape evolving what is the chances of projects happening, where you can get the deposits because the question is can you solve this organically?

**Amitabh Chaudhry:** Firstly, let me start by saying that was a theoretical question which led to a theoretical answer became news of itself. I just want to clarify that, there is absolutely no conversation going on at this point in time with the public sector bank. You are absolutely right, without deposits growth, we cannot get the advances through. I think Ravi in his session is going to talk about where we stand with respect to CASA and our treaty and what is the scope for us is. So I do not want to take that away. I fully understand and appreciate that we are where we are and if we do not grow deposits, we cannot get there. But we very strongly believe, I am using the word strongly, we strongly believe, given the franchise we have, and where we are in comparison to some of the competitor banks in terms of how many customers for example of Axis Bank have opened term deposits with us, I think the scope and headroom for growth for us is multiple times more than what some of the banks have.

**Gautam Chhugani**: Just a quick follow up to that, the other thing is deposits rate, which basically means you have to grow on the assets side to maintain your margins to get the rating, ROE and kind of risk up on the lending side?

**Amitabh Chaudhry:** Yes, if you look at the profile of CASA and RTD for most of the banks, even if you kind of trade up in terms of giving slightly higher return on the term deposits and let us say that is a big part of your growth story as far as deposits are concerned, we believe we have headroom on the CASA side also. I think given the profile of business we have, given the rate at which retail is growing and given what we believe there is opportunity on the wholesale side, the NIMs and what it could translate in terms of ROE for us, we are quite comfortable with where we are at this point in time. Again, when we have the last session, once you heard everyone, we can come back to this question all over again and walk you through why we believe that is the case. But you just hold the thought and hold this answer in your mind and then we will come back to you later.

**Sameer Bhise**: Hi, this is Sameer Bhise from JM Financial. So, you have highlighted focus on OPEX and productivity a couple of times in the last interaction. Can you just shed some light on what are like two, three key areas where really you think is easy picking because cost-to-income is more like an outcome or even cost-to-assets?

**Amitabh Chaudhry:** So first point is that I think the level of cost consciousness in Axis Bank can go couple of notches itself. That in itself is a big change. It is not that people do not worry about cost but yes, I think this whole understanding and institutionalization of the fact that there is a budget, there is a target, we need to save money on a continuous basis, needs to go down a couple of notches as far as the bank is concerned. That in itself is an important change and a big change and that will lead to saving on money. And then what we are doing is we are going and looking at every penny of expense of ours and really asking ourselves a question, is this necessary. That does not mean that overnight we will stop spending money. But as you go through each of those and peel the layers of onion, we are realizing that, yes, there are opportunities for cost savings which maybe we have not focused as much in the past which we should have. So yes, spreading the infrastructure and getting cost efficiency in place, will be an important play for Axis, I mean, on one side, we have not done well, it was maybe we have not been that focus but that in itself also presents a huge opportunity for us to actually reduce the cost-to-asset ratio, and that is why we have gone and talked to the fact that we will get to 200 basis points over a three year period because we believe that yes, there is an opportunity exist and they are clearly visible to us.

**Rahul**: Hi, Amitabh, this is Rahul from Goldman Sachs. So we get the top-down strategy pretty clean, but just to get some of the specifics on the bottom-up changes that you are planning to do from the branch level, can you just throw some more color?

**Amitabh Chaudhry:** For example, branch level, that is part of Ravi's presentation, so he will walk you through that, I do not want to take his thunder away, let him walk you through that in terms of what are some of the changes we are planning there. Please understand at a very conceptual level, it is not that we are a very solid #3 bank, it is not that everything we are doing was wrong, we are doing lot of things very-very well. The difference between #1 and #3 that you are not doing some things as well as the other bank. So the question is looking at Axis in this current context and seen what is our strength and then ensuring that the last mile 10% or 15% is done better than what we have done in the past at a conceptual level, let Ravi talk you about the specifics.

**Rahul:** If you look at how banking has moved in terms of building of assets, it is the concept that we need to have liabilities to drive assets. I think over the last 7, 8-years, moves into asset changing. Can you just elaborate top-down perspective?

**Amitabh Chaudhry:** Axis Bank has always believed in starting the relationship with savings account and then kind of building off from there. That has not changed substantially over the last 10-years. We have now started relationship with the customers with maybe a term deposit at best but starting with the liability side has been the way we have thought about creating customer relationships. That notion per se is not going to change dramatically over the next five to seven years at least because we believe as we said enough headroom for growth and again as Jagdeep talks from the retail lending side and what our thought process on risk is and why we are doing what we are doing and what the differences are, that difference will become hot, that strategy will become quite stark in your mind because I think we are going to show some data around it. There is this concept that while not only you want to go into more with the customers who are actually having accounts with you. There is also this notion that given the franchise which we have created, and we have Sangram who is going to walk you through Freecharge, as to how you can capitalize on freecharge to create a very different set of customers. So they might not be new to the bank, they might not be existing to the bank but these customers are known to you in some form. So rather than really going after asset-to-asset, as you mentioned, which are in a way new for us.

**Kunal:** Kunal over here from Edelweiss. Sir, particularly with respect to the strategy, in fact we have touched upon each and every aspect in terms of cost to income plus the process and finally going to ROE. But in terms of the external headwind or maybe the internal headwinds which would be worrying you, so maybe the external credit cost would be one of the technical determinants for getting ROE back but is the pain over and even maybe retail cycle kicking in? And what would be the other internal headwinds which you would be worried about?

**Amitabh Chaudhry:** So, external headwinds you people know better than I do, I mean, we also keep learning about it all the time. As far as headwinds are concerned, obviously the biggest, call it headwind or biggest thing we have to be cognizant of is this change management exercise, we are not trying to drive a different kind of agility or different kind of way of doing things as we move forward, and internally obviously people see this as a change. And to manage that change successfully, for example, we have brought some leaders from outside, we are going to announce a new structure in April in both retail and wholesale side, almost all the people will be from Axis but still a big change in terms of how we are going and approaching a customer going forward. So to manage that change will be an important headwind from our perspective. Second, please understand and realize that while we have done a lot of work on the broadly defined risk management side, be it operational, credit or otherwise, it is still work in progress and it is very-very important that we very proactively manage this as we go, because if we again run into a situation where something blows up, I think it will be a huge dampener to the management team and the people internally that in spite of all these change these things have not come through. So that would be another headwind in my mind. But I am very-very optimistic about what is possible with the Axis Bank franchise, that is why in many cases we would attract people from outside because they also see the same way. And since I have been here now for close to more than 90 days, I think my confidence in terms of what can be done, what the possibilities are has only increased rather than been dampening in any way or shift, whatsoever.

**Kunal:** And just on the product side, as you highlighted so considering what Axis has been doing all through, do you see any of the product based on this entire RAROC which needs to be discontinued or something**.**

**Amitabh Chaudhry:** So, RAROC was implemented more than a year back in stages, still the processes were getting implemented across all our businesses, but at least on the wholesale side the implementation started about a year back. So the wholesale side of the business is aware of what we are really trying to get here, the decisions are being taken on that basis, it is discussed in our process and it is not new to them in that way. So, already some decisions which we needed to take in terms of what businesses will not do or don't want to do or want to de-emphasis. I think are becoming obvious, project finance, guarantee kind of business. Axis Bank was a very big player in the guarantee side of the business, we are trying to reduce what we do there or at least bring the growth rates down dramatically. There are some other businesses also which, for example, we are relooking at the international side of the business and seeing whether the size and the scope of what we have makes sense for us, given the kind of returns we are making in that business. So all those questions are being asked, as and when we are ready with anything we will obviously reach out to all of you and let you know what exactly we have done. Keep watching the space, that's all I can say. Retail also, regarding the implementation, they are aware of each of the products on the retail lending side of what kind of returns they get, we want to take it to a branch profitability and customer profitability. That will take a little bit more time, and when that starts happening, I think very different, so people like Ravi and Jagdeep will kind of want to have a very different tool to take decisions at the relationship level which does not existing at this point in time but will happen in the next three to six months.

**Avneesh:** Avneesh from BNP. So where do you think Axis Bank in terms of what cross sell process you have

**Amitabh Chaudhry:** So we have not done much of cross-sell as much as you would like. I think if you look at the wholesale side of the business our subsidiaries which could be supporting each other I think were standing slightly further away than what was necessary, I will let Rajeev talk about that. Even on the cross selling on the retail side we have not done enough of it, especially on the asset classification kind of strategy we have not done enough of it. A lot of work is going on, when we are ready we will talk to you about it, but let me just say that that's another huge opportunity for us.

**Avneesh:** Sir, just wanted to understand your strategy on the fee-income, because there also we believe there is lot of scope of improvement as per Axis Bank is concerned. So what is our strategy in terms for enhancing fee income? Number two is that, we are talking about the growth coming back going forward, and certainly we will require capital somewhere down the line. So what is our broad strategy for next two, three years in terms of capital raising?

**Amitabh Chaudhry:** So, let me talk to you about the capital first and then we will come back to the first question. We are right now at CET1 of 11.77% as of December 31, 2018. We will have another 40 basis points or so coming exercise the warrants, they are in the money so hopefully they will. And on the other side of the argument, as we continue to grow we will obviously consume capital. We are looking at our capital strategy, but if you take into account kind of what growth rate we have in our mind and what we believe is possible in the market place, we do not see anything happening in the next 12 months, but post that we believe we will need capital raise. Now we cannot time everything, because when we need the capital maybe the money is not there or when the money is there we might not need capital. But as we stand today, this is where we are. We have capital required for next 12 months and beyond that we will need a capital raise.

Talking about fee income, I think the retail side continues to grow in fees, I think you will have sessions where they will walk you through it, both on the retail lending and the payment side of our fees has been growing quite healthily. And I talked about the wholesale side very briefly to you that for the first time in the last quarter we saw actually the fees decline tapering off, and if we can get the growth back in our wholesale business you should expect the fee numbers to start growing from here on. But at the same time, and in the same breadth I am saying, guarantee business is something which we don't want to emphasize too much going forward, we believe the RAROC returns make no sense and we will obviously try to reduce. We have to support our wholesale clients but we don't want to be kind of out there drumming that business. But overall the fee income growth should start coming back.

**Avneesh:** Sir, and we are also going to relook at some of our non-fund relationships that we have in the past where we have seen growth chipping in…

**Amitabh Chaudhry:** Yes, of course, absolutely. We have gone and looked at every page, we have done a page turner on every account rated BBB and below.

**Mahesh:** This is Mahesh from Kotak. Three questions from my side. One, on the wholesale business, while you kind of indicated that there are about five to seven banks who can do well offering entire suite of products. The question is, when you meet corporates today as compared to where it was six months back, is there a material change in how people perceive Axis Bank? And if you could just kind of highlight, there is a big perception in the market of Axis Bank as compared to some of the front-line banks which are trending at exclusive multiples, do you see the same thing when you are actually meeting the CFOs and CEOs out there?

**Amitabh Chaudhry:** I missed that part, there is a huge difference between banks and…

**Mahesh:** See, when you look at the equity markets they give a completely different market cap for two sets of banks irrespective whether the product deliveries are same. Just wanted to understand, when you speak to corporates do you see that there is a visible perception which is different than what the capital markets are saying?

**Amitabh Chaudhry:** On the wholesale front of the business I will let Rajeev speak, he has been in the bank for a long time but new to the wholesale business. I think every relationship I have met till now, I cannot say I have only met this relationship which feels good about Axis, has very-very strong and positive opinion about Axis Bank and what Axis Bank has done for them over the last 15 years. Now multiples is not reflecting, the reasons I think are very-very different, but as far as our depth of relationships are concerned on the wholesale side, the kind of transactions we have done with lot of these corporates, the kind of business gradually solely we are doing even on the flow side, Rajeev will talk through it, I believe we are quite uniquely positioned to capitalize on those relationships. And some of the pain which we have suffered with some of those relationships to actually go and demand our fair share of business. Now, have we demanded a fair share of business? Maybe not. And as we are doing that, Rajeev will talk about are we getting some positive indications or not.

**Mahesh:** Second question is on the retail branches, we have about 4,000-odd branches and if you again come back, the front line of these banks continued to add branches at some pace. And if you look back and ask the next set of bankers they are asking as to whether we really need to replicate what the front-line three banks are doing. Any thought process? Because what you see on the ground is completely different view on the way customers are behaving at the branch level, whether you continue to put so much amount of fixed cost around these branch network. What is the outcome? And at what point do you actually say that look it is time for us to change this strategy?

**Amitabh Chaudhry:** Mahesh, put yourself in the shoes of either those three banks which continue to add branches and then put yourself in shoes of the banks who cannot afford to add branches and you will get the answers. I mean, some of the smaller banks are not adding branches because it is perhaps just too expensive for them to create the branch network which the top three banks have created.. I am sitting in these top three banks, the answer we have to give which is the right answer is to say that you continue to add branches, you continue to create the gap. And yes, in lot of these markets unless you have a stake on the ground in terms of a visibility of a branch the customers are not willing to trust you beyond a point. I understand this whole strategy so we are not ignoring it, we have put up a separate box out there not for the sake of it because we intend to do a lot of work in that area. By the way, if you look at the kind of stuff which we have done on the digital side, we do stand out positively. We have these ASAP accounts which have been there forever, we are still opening couple of thousand accounts on a daily basis. So we are doing both, but we very strongly believe that we need to get to a 5,000 to 5,500 number on a steady basis and we do not want to get there tomorrow for us to have a presence all over India and be seen as a bank which is visible everywhere. Even today, for example, when we go to some of the corporates, they say you do not have a branch which is close to our office, as an example.

Forget about retail, even the wholesale relationships expect that to happen. So our view is that given deposit growth is a constraint, given we want to be seen as a universal bank, given the fact that we have the opportunity to get there, it is important to put those flags there. Yes, the formats will keep changing as we digitize more and more, but that does not mean that we will not add that. So in another couple of years for us to go to get to that level, after that I think it will start tapering off.

**Mahesh:** Is it possible that the next 1,000 branches come at an overall fixed cost which is currently what it is today?

**Amitabh Chaudhry:** No, they will come obviously at a lower cost because the format size is changing, for sure. I mean, it will not continue to be large size branches, we will continue to reduce the format size of that. We are reviewing it, as we speak, we are reviewing it in terms of what the format sizes we should be going with.

**Mahesh:** And the last question, what is the difference in reporting that you have done today as compared to what it was earlier?

**Amitabh Chaudhry:** There are a lot of changes. So, a couple of things which have happened. One, ED wholesale bank has now coverage team under him and a new head of coverage has joined Ganesh Shankar who was ED of Federal Bank, he has just joined us 10 days back so that is one change. Now we have removed the clutter as far as we also had some RMs in our product side, for example the transaction banking side, so hopefully effective April 1 all that will go away, the entire coverage will be managed by the coverage team under Ganesh and the product guys will support the coverage team. So that is one big change. We have pulled out underwriting completely from wholesale bank which is reporting to our CCO, Chief Credit Officer Deepak Maheshwari, I think he and Cyril are the next speakers, and Cyril is the CRO, so we are kind of pulling out underwriting for both the wholesale bank. And the SME is another big change which we have made. ED corporate center is same, CCO is new, CRO has remained the same. Head IT was reporting to head of wholesale bank earlier, now he reports to me directly. Head of digital banking never existed, that is a new position which has been created. We also have a new head of branch banking, Ravi, who is going to also be coming and speaking to you today. And there are some of the other changes which we have made, we will let you know over a period of time as and when these people join.

**Abhishek:** Abhishek from Deutsche Bank. Sir, just wanted to understand on the strategy bit on growth, profitability and sustainability. So, you said earlier in your piece that you would be pursuing growth ahead of profitability in several businesses. So just wanted to know that what is the threshold of pursuing growth?

**Amitabh Chaudhry:** So, it is coming from this notion that unless you are top four or five in that business segment, you will not. I mean, the disproportionate share of profitability is going, four or five is just a number, but I hope you understand what I am really trying to say. The disproportionate share of income is going to top four and five players for every slice of business we are creating in financial services industry. So unless we are in the top four or five in that business, either we exist or we get to that level. And so when each of the people will come here, especially on the lending side or the payment side or even on the wholesale side, if you are not in top four or five, for example investment banking, if you are not in top four or five it is very difficult to do that business profitably. Same applies to mutual fund, if you are not in the top three you cannot make enough money. So we have to ask ourselves that question as to what does it take to get to that level. And if we can get to that level will we make disproportionate income? And answer in many cases is yes. So there you have to, because we are profitable but we have to kind of say that let's ignore growth and profitability for some time, let's get the growth right, let's get to that level, profitability will come automatically because we are going to ensure that we build this growth in a manner that profitability comes automatically. But unless you get to that level you will remain a marginal player and you will see that as and when people come and speak.

**Kajal Gandhi:** Kajal Gandhi from ICICI Direct. Sir just wanted to know, you talked about this insurance venture which you have planned to do, so whether it would be a majority stake that you would be looking at in the company or a small stake?

**Amitabh Chaudhry:** So, as far as insurance thing is concerned, as I said earlier, most important thing before we can move ahead is to get an understanding and blessings from the RBI in terms of what they will allow us to do.

# Analyst Day 2019

# Topic 2 – Wholesale Risk and Credit

**MANAGEMENT:**
**MR. JAIRAM SRIDHARAN – CHIEF FINANCIAL OFFICER**
**MR. DEEPAK MAHESHWARI – CHIEF CREDIT OFFICER**
**MR. CYRIL ANAND – CHIEF RISK OFFICER**

**Mahrukh Adajania:** Hi, Mahrukh Adajania from IDFC Securities Sir. Sir I just have a couple of questions again over the last one to two quarters there will be many corporates, which seemed to be under stress, so is there any chance of our BB portfolio increasing from hereon, specifically would you see additions in real estates and because that is a sector the residential real estate is undergoing stress and thirdly on the telecom base you have nonfund exposure to the sector, are any guarantees likely to be going by next one to two quarters?

**Deepak M:** As far as BB portfolio is concerned, there could always be short-term fluctuation between one quarter and the next quarter, but on a long-term basis I am sure the BB portfolio will keep coming down because no fresh origination is happening in that sector and there is very little of fresh origination happening even in the BBB sector, so I think on a long-term basis the BB portfolio is expected to come down although there could be some variations between one quarter and the next quarter.

Now on the telecom sector whatever consolidation was to happen has already happened I believe. I do not see any risk of any large guarantees getting invoked in the next quarter or two that is where we are. The telecom sector has a lot of flexibility built-in because the number of subscribers is so large that you increase tariffs by just Rs.10 a month and you have thousands of Crores of money flowing in to each of the telecom companies. So I believe a point will be reached when telecom players will stop competing against each other, which is like wasteful competition or it is hurting everyone. I think going forward telecom sector should do better than it has done in the past.

So in residential real estate we have roughly INR 16000 Crores exposure to real estate of which very roughly about INR 10000 is commercial and little over INR 5000 is residential. As far as residential real estate is concerned, I think it is only about 30% or so which is for residential construction. So I do not see much of a stress there, we have financed largely developers with a good track record and which are leading developers in the states that they are present in. I do not see a significant deterioration there; in any case the exposure size is not very large.

**Jairam Sridharan:** Just to add a little bit on the real estate, a couple of things. I think the bank has put a clear framework in terms of what kind of real estate business it wants to do. So clearly the focus is more on commercial real estate. Again in commercial real estate the major part of our business in terms of LRD, in terms of Tier-I large class A building. On the residential I think we are very clear in terms of what kind of exposure we want to take, it is restricted to developers whom the bank has been dealing with in the past, the large developers, the execution risks have been low, so we do not see the real estate stress that you see in the industry kind of impacting our portfolio at this point in time.

**Vishal Goyal:** Hi, this is Vishal Goyal from UBS. Sir on this BBB part of our book, which is I think still 14% how do you think about that how much we should expect from that book into BB or into BBB and how thoroughly you looked at that part of it, if you can give some colour on that?

**Cyril Anand:** If you look at our BBB book today it is about INR 7400 odd Crores. From where I said what are the things that I look at. One what is the size of this book and I think if you look at the size of the book today it is about 1.4% of our total customer assets.

**Vishal Goyal:** Sorry Sir I think you are talking about BB and below.

**Jairam Sridharan:** Yes.

**Vishal Goyal:** I am talking about BBB, which is I think 14% of the book.

**Cyril Anand:** Yes, and I think on the BBB book, there is one which consistently look at our BBB book I think Amitabh spoke to you about how we look at each individual assets in terms of whether there is a stress underlying. So typically what should be concerned about, is the flow from the investment grade book into the BB book increasing and I think over the last three quarters we have kind of seen that flow to kind of taper down towards close to business as usual, so that is where we are. You will occasionally see slippages from the investment grade book to the BB book, but I would tend to believe that flow has tapered down and it is getting to close to business as usual levels.

**Vishal Goyal:** My assumption is that there should not be any slippages from the BBB or above into BB or very minimal and that is what I think you mean?

**Cyril Anand:** Yes, exactly.

**Abhishek:** Hi, Abhishek here from IIFL. Sir you are speaking quite a bit about the guard rails and sectors of which that you have put in place and when I look at your exposure, capacity exposure that you published. In the last nine months there has been a very sharp increase in exposure to NBFC real estate you touched upon that a little bit and also do iron and steel in real estate I think there has been a lot of increase in the non-fund based and so basically I just want to ask you what are the sectors in which you have put in place and how do you see risk in this incremental book that you have originated in the last nine months and also if you could give a little more breakdown of NBFCs and within residential real estates in terms of maybe luxury or mid size housing projects where the risk lies you can quantify?

**Cyril Anand:** I think one, see there is one thing that we have done over the last three years is to kind of reduce concentration across sectors. Couple of things in terms of Godrej that we have done from this perspective of a very clear single borrower limit, which is linked to the rating grade. On the industries again we have looked at, we look at industries in terms of which are positive, selective and cautious and set limits at the beginning of the year in terms of what kind of exposures we would like to take on each industry. I think the good thing is that this is being cascaded down to the business units, so limits have actually led to reduction in exposure in a sector that we want a reduction. You spoke about iron and steel I think clearly what we have seen is that we have seen movement from overall rated assets in this sector to better rated assets in this sector given the consolidation that has taken place. So while our exposures kind of remain fairly constant in that segment we have actually seen movement to a better rated asset in this sector.

On the real estate you spoke about residential Deepak M alluded to the quantum of our exposure to residential out of the total INR 16000 Crores close to about INR 5000 odd Crores versus that residential sector, but again on the residential there are couple of things that we are very clear about. We want to operate in markets where inventory levels are not a huge issue, we will deal only with promoters and developers who got a clear track record, especially the big ones and our exposure to the luxury segment is fairly small, it is largely in the mid market to smaller range flats that we operate and we also look at entering this residential segment at a more advanced stage rather than at a much early stage. So effectively I think we do not see too much of a stress coming from that end.

**Abhishek:** Sir in the last nine months whatever you would have originated in real estate would that be in commercial, in LRD or would that be in residential, what has been the origination in the last nine months?

**Cyril Anand:** While we have done a little bit on residential I think the focus is more on commercial and LRD as far as the real estate portfolio goes.

**Abhishek:** And Sir some cuts on NBFC?

**Cyril Anand:** Deepak M you want to take that I will then hand it to you.

**Deepak M:** We have about INR 27000 Crores exposures to NBFC's, HFC's that includes financial institutions like an IRFC or HUDCO or the likes. I would say at least 40% of this is to AAA entities, which have no difficulty in raising funds from the market today. There are a few NBFC's, which are struggling to raise funds, our exposure to them is not very large that is what I would say and we do expect the position to stabilize maybe from the next quarter onwards as the busy season comes to an end, but clearly the market has been shaken up by the turmoil in two large NBFC's, which has happened in the past and going forward yes the sector will certainly not have the kind of growth rates that it has had in the past and the stress is mainly in those NBFC's, which are focused on real estate and infrastructure.

**Abhishek:** Just one last question here so you mentioned that your single borrower limits, etc., were linked to rating especially in some of the stress sectors, can you mention what those let us say single borrower and sector limits are and the exposure in it?

**Jairam Sridharan:** we do not disclose such details.

**Rahul:** This is Rahul from Goldman Sachs. Three questions Deepak M I am going to start with you. The changes that you are putting in place, what kind of impact that you have on the business volume? That is number one. Number two is you talk about the asset quality being the key focus KRAs. Let us say three to five years out where do you see the trend kind of what kind of trend you would want to have, of course the answer would be really to be better than industry, but is that really possible and what kind of deviation that we have in that and the third one is you said that we do not disclose the sector or the company level limit, but when you talk about diversification can you just give us some qualitative aspect as to what is the maximum exposure, which will go to maybe -2%, 3% or whatever?

**Deepak M:** Sorry can you just repeat the first one again I just lost track of it.

**Rahul:** Yes, the changes that you putting in place on the credit side what impact it is going to have on the business volume so let us say if let us say 100 was being a little earlier what is the rejection rate now maybe I think you can use an example of HDFC Bank?

**Deepak M:** Yes, see as you would have noticed in one of the slides that this year in the first nine months so this year 94% of the originations in corporate and mid market loans were from A- or better rated companies. So I do not see the rejection rate going up sharply because that culture is already now steeped in to the bank that we will originate better quality loans. So there may be some variation in the rejection rate or the rejection rate may go up a little bit, but not by any significant amount. Which one was the second question about.

**Rahul:** The trends in asset quality.

**Deepak M:** Trends in asset quality. So obviously we have seen the trend for the first nine months so this year where the asset quality improvement has been fairly sharp. We expect the improvement to continue for the next few years in view of the fact that the new loans being originated are of significantly better quality. Yes, the old loans will continue to bother us for a little while, but hopefully the credit quality or the portfolio quality should stabilize in the long run over the next few years and sorry once again, what is the third one.

**Rahul:** The diversification point that you talk about, can you give us some qualitative colour as to what would be the maximum amount of exposure that the bank can take versus what regulatory requirements are or your own internal limits?

**Deepak M:** We have diversification limits across industries and across industry groups and those are reviewed from year-to-year depending on the outlook for the particular industry and it is not that we cannot make any exceptions, but we can make any exceptions only with the approval of the board or the committees of the board. I do not think these diversification limits lead to any constraints on business growth they are designed to ensure that we grow in a well diversified manner without any concentration to any one industry or any one sector or any one group.

**Manish:** This is Manish from Citi. One of the points that you mentioned is potentially there is a need for you to tighten the lending standards, if you were to apply that filter do you still believe that last nine-month origination will still be 94% or will it be lower in terms of if you work with right understanding or if you end up classify a lower number of loans as you remind us?

**Deepak M:** I would say in the corporate sector I think this 94% or let me not stick to 94% and let me take a round figure of 90% will probably stay, but we are creating a mid market business segment, which is currently a part of the large corporate segment, but we are separating it and creating a fresh segment where the majority of ratings will be BBB. In the mid market segment that is the characteristics of the segment you cannot help it, so that part of the business will have originations, which may be 50% of them might be BBB, but we believe it can be managed with better quality underwriting, better focus on cash flow lending and certainly a few of our competitor banks have managed that segment very well and that segment actually has lower NPA's than the rest of the corporate sector.

**Manish:** And let us say instead of 2019, EWS did indicate some glaring symptoms and you did not have the minimum targets as you said, what do you think options did the bank have, having taken those exposures reasonably chunk of exposure and seeing those EWS.

**Deepak M:** Once you have already taken the exposure whatever the EWS might tell you, you cannot get out of it easily if the project is in trouble, there is very little chance that you would be able to get out of it, but basically the underwriting system was not what it should have been.

**Manish:** Last thing how do you intend to link the EWS to the provisioning that you made these are on a stock basis or a flow basis?

**Deepak M:** We make provisioning on NPA's according to the RBI requirements in addition if we feel that any other accounts are likely to turn nonperforming in the next few quarters we have a thing called contingency provisions. So I think Jairam Sridharan would be able to explain that better.

**Jairam Sridharan:** I think the last investor presentation did talk a little bit about provisioning I think the bank is moving towards a more conservative provisioning policy and as part of our regular exercise you would look at assets wherever additional provisioning is required I think that is the way to go, currently the provision cover is about 75%. The other question that you asked about EWS and provisioning the EWS actually predicts the likelihood of a default in a particular account or likelihood of delinquency in a particular account over the next one year so I think there is a actioning around EWS that we have put in place in terms of reduced exposure, do I accept the account or do I take additional security and so on and so forth and I think what we track from an EWS is what actioning has taken place and I think that rigor has been built in over the last few years.

**Gautam:** Sir one thing which you did not address is the risk management involved in management incentives, how our business incentives being changed keeping the future in mind in terms of how we could behave in terms of origination in risk management?

**Deepak M:** No you are talking of management incentives in terms of remuneration or what it means.

**Gautam:** If you originate loan and originate business you get paid for it.

**Deepak M:** So that is more of an HR related question. Jairam Sridharan or Rajiv would be able to address is what I guess.

**Cyril Anand:** Yes, but if you look at scorecards of people in businesses and the second line and people who are taking decision clearly the stability aspects that we talked about our clear focus in these score card, so I think that will drive the change that we plan to it.

**Rajiv:** Gautam at a very basic level if you look at score cards for relationship managers today the weightage is very, very small we have given this change in structure that is happening there is much greater responsibility that is being accorded to the relationship manager itself hitherto what the way if you look at was that a relationship manager will be originator in the sales department thereafter would take care of the credit, now the responsibility of originating the credit, managing the credit rests with the relationship manager and therefore the percentage in KRA for risk is going to substantially increase from April 1, 2019 onwards.

**Sachin:** Sachin from ISEC. Just a quick question, general question on February 12, 2019 circular because RBI seems to be fairly inflexible on the terms of the circular, how do you see this playing out in the future in terms of the 100% unanimity required across lenders and the apparent discrepancy with the NCLT norms.

**Deepak M:** Well yes the latest is that the RBI is not willing to be flexible on February 12, 2019 circular I think that concern which was there on a one-day default has more or less played itself out and many of us have got used to seeing blue chip names in that one-day default list, which does happen from time-to-time and certain expected remittance they do not materialize. So I do not think that circular has created a very difficult operating environment and I think people have now got used to it and the feeling is that it is not that bad after all.

**Sachin:** So my question was more related to the 100% unanimity required between the lenders versus which always makes it more difficult to resolve an actual problem loan, potential problem loan versus the NCLT, which requires a much lower majority?

**Deepak M:** I think almost all the public sector banks and many private sector banks including us have agreed to that 66% formula, which is there they have signed an inter creditor agreement, which authorizes a decision to be taken on the basis of 66% maturity. In the other cases well if a company goes to NCLT and one lender is not willing to agree then the other lenders either have to reach a negotiated settlement with them or the NCLT will take a decision like it is happening in Essar Steel where Standard Chartered is not agreeing to the terms of payment by one of the groups.

*Axis Bank Limited*
*March 19, 2019*

# Analyst Day 2019

## Topic - 3 Wholesale Lending

**MANAGEMENT: MR. RAJIV ANAND – EXECUTIVE DIRECTOR AND HEAD OF WHOLESALE BANKING**

**Suresh:** Changes in the coverage structure that you have brought about because Ganesh has already joined but then earlier the entire coverage team used to report to the ED Wholesale Banking and now you have introduced a new layer. So, what has been the change?

**Rajiv Anand:** One is that the number of segments is increasing. Earlier we just had a SFG client group and a corporate client group and a government client group which is primarily focused on the liability side rather than the asset side. Now the number of segments is increasing. Two is that we used to have in a sense coverage team sitting within the product as well. There used to be a coverage team sitting in transaction banking which used to cover some financial institutions, but the focus of that coverage team was primarily to get transaction banking business but not a salary business for example. So, this whole thing has got cleaned up and will sit with Ganesh and therefore the entire coverage team reports to Ganesh, Ganesh reports to me as also the products including some of the businesses which sit in subsidiaries purely from a regulatory perspective.

**Rakesh Kumar:** Rakesh Kumar from Elara Capital. The question is regarding the funded working capital loan. Now there is some notification from RBI that for more than INR 150 crores, the loan component would be 40% and then 60%. How corporates will readjust themselves going forward?

**Rajiv Anand:** What is basically happening is that the burden of cash management so far was actually outsourced to the banks; so, therefore, corporates could drawdown cash-credit lines as and when appropriate. Now, the burden of cash management is going back to the corporates and so therefore he has to ensure that 40% of WCDL is drawn down and then he has to manage the cash as appropriate. He could use mutual funds or whatever it is to be able to do that.

**Rakesh Kumar:** But would this lead to CP market also? Is there a possibility? And the loan demand overall from them for WCL will come down?

**Rajiv Anand:** That is a function of pricing. Remember that yes, you can do CPs for 7 days, etc., but that is something that happens even today where corporates would arbitrage between a CC line and CP line based on which is cheaper at any point in time. So, therefore, if CP prices are below MCLR for example, they would use the CP market and vice versa. We have seen that happen, right? For almost a couple of years, CPs were cheaper than MCLR and therefore we saw this big move where corporates were raising truckloads of CPs. Today, that is not playing out. Therefore, that will happen from based on what happens to pricing.

**Rakesh Kumar:** Rajiv, your corporate loan growth domestically seems to be at about 13%. Now, where is the growth or the acceleration going to come from because underlying there is no private sector CAPEX that is really happening? So, is it just funding of extended working capital cycles or is it some market share that is seen from other sources coming through?

**Rajiv Anand:** As far as private CAPEX is concerned, I think there is no sort of very large INR 5000 cr and INR 10,000 cr, CAPEX that is happening but CAPEX in the INR 500 cr to INR 700 cr that we are certainly seeing sort of more and more. Two is increased working capital requirements. The third piece is like you said getting market share away from some of the other entities.

**Participant:** I had a question on the profitability. Like you say, 90% of the incremental funding goes to very well-rated corporates so that the NIM proportion will keep I don't know but coming down. Bridged that up with transaction fees and current account, where are you in the journey when you benchmark it with other banks? Probably, Jairam, is that one of the drivers to get into 18% ROE?

**Jairam Sridharan:** Absolutely. I think we recognize the fact that we are going to better-rated corporates, but I think this journey towards rebalancing credit to noncredit income is not something that started over the last 3 months. It is something that we have been pushing for over the last 12 to 18 months, but we are now certainly seeing traction on that as well. Like I said, there is a continued and renewed focus towards ensuring that every rupee of balance sheet that we are using, there is noncredit income that is coming through. And I think you will certainly see that. I think early signs are quite positive and ultimately you should see that convert into better profitability for the wholesale bank.

**Participant:** In that context, is it to say that over the course of next 12 months in terms of what we see when you all report a quarterly numbers, the corporate fee will start growing in line with say the bank or start doing better because only then you are driving more from the same rupee in terms of fees?

**Jairam Sridharan:** If you look at corporate fee in 2 parts, I think the transaction banking fees which is CMS, trade, forex, etc., I think that will continue to juggle out nicely in sort of double-digit growth. What you have been seeing over the last 2 to 3 years is that the corporate credit fee has actually been de-growing quite sharply over the last few years. I think one of the points that Amitabh made as well that in the last quarter after a long time on a Q-on-Q basis, it has been flat. My own belief is that the de-growth on corporate credit fee is perhaps behind us and we should start to see some growth on that in the next 12 months or so.

**Participant:** And that takes care of some businesses on guarantees which you till are relatively cautious of?

**Rajiv Anand:** Yes, the guarantee business I think Amitabh briefly alluded to this as well. I think guarantee business you cannot walk away from. Especially for a bank of our size, we can't say that we will not do guarantees for anybody. So, therefore we will push back to whatever extent possible but for key clients, we will continue to do guarantee business and for that guarantee, we will ensure that we are getting some other businesses as well.

**Prakhar:** Prakhar from CLSA. Rajiv, a couple of questions touching broader aspects of next 3 years. One is what will be the framework of building a sort of either a negotiating platform between the business team of wholesale banking and the credit and the underwriting team? They have a very different goal setting, so what is the framework? Second, basically what you want to do in the mid-market space and why you were staying away in this business? What was the reason and what you think is the headroom for Axis Bank? And thirdly, if you could give a framework of what the corporate it would look like 3 years from now in terms of size, in terms of mix, in terms of incremental share of high-rated corporates? If you could just give a color of what 3 years out the book could look like?

**Rajiv Anand:** On question 1, I would really worry if the relationship managers didn't complain about credit which means that Deepak and his team are being too lax and I think if they complain too much, sort of then perhaps it is an issue. I think the fact that we are certainly going to get some tension between the relationship guys and the credit guys, I think it is pretty much given, but for a large wholesale bank like us, I think that is good tension to have. I think it brings in a sense of discipline but from what little I have seen of Deepak and his team so far, I don't see them to becoming an impediment for our growth. I think it is fair to say that if they are turning down some proposals, it is probably not the kind of growth that we want to certainly see, but I assure you that there is going to be tension between the relationship teams and the credit team and I think in any organization, that in a sense is inevitable and we have got to certainly manage around that.

The mid-market space I think we have made some forays into this a few years ago, 5-7 years ago, with limited success and I think then as it got merged into the CCG segment. I think it's a function of focus rather than anything else and now what we are seeing is that there is going to be a relationship team which will have to live and die by the INR 250 cr to INR 1000 cr company and we do believe that the size of that opportunity is quite large and remember that it also builds a pipeline as some of these corporates go from the mid corporate space into the large corporate space and one of the things I have noticed which is as I met corporates from across the country may not necessarily be at a very large corporate space, but loyalty is a big thing within the corporate space, and I think we have numerous corporates who have grown onto become big businesses and big brands in this country who swear by the fact that when they were relatively small, Axis Bank helped them out and therefore we are pretty much everything that we do; my account, my wife's account, everything is with Axis Bank, and I think in that sense as we think of this business, I do believe that we will be able to create loyalty as many of these entities become much bigger in the next maybe 5 to 10 years and so and so forth.

Finally, your last question was on how does the corporate banking business look 3 years out, I think the large strategic choice is pretty much done meaning that today the retail bank is about 50% of the book, SME is about 15 odd percent and the rest is corporate, I think that choice in terms of where we want to be from a balance sheet perspective is pretty much done. What is going to drive hereon is really optimization of RAROC.

**Rahul:** Going back to the fee income bit, you said transaction banking fee is likely to juggle out. I wanted to understand the competitive landscape because all the large 3-4 banks are clearly going after that, particularly over the last few credit-rating profile of the borrowers. How do you see the Axis Bank will be able to grow at a double digit?

**Rajiv Anand:** Once again, Amitabh alluded to this and one of the things that I have noticed as well is that in many cases, I think relationship managers have in a sense been shy to ask for business and therefore when I go and ask for business, they say this – "Nobody had asked." That is one. Two is, I think the technology capabilities that we have built out – particularly on trade, forex, and cash management – is helping us win fairly large mandates across the country. Therefore, I think that should help us drive growth as well. And sort of the pressure that relationship managers are going to see like I said the fact that you are going to put a rupee out of balance sheet has to be that I certainly want to see a corresponding rupee of fee income pressure that is certainly being exerted onto the relationship managers.

**Manish:** (1) On the overall CASA, how much is the government CASA?
(2) Government CASA of late has actually become rate business and a reasonable part of the CASA profile. Would you be a part of that incrementally?
(3) Lastly, it has been that Axis Bank over the last few years has lost some share, however, you started off with a very high share. Other banks have now become very aggressive. How do you see that trend going ahead on that?

**Rajiv Anand:** I think from a government perspective on savings, it is about 15%, give or take a little bit. I think as far as the rates piece is concerned, I don't necessarily sort of buy that argument. As I have conversations with state governments particularly, there are 2 parts. One is all the mandates that you get from the central government that we get from the state governments. In the state governments, it is really 2 things that work for you. The fact that (1) you have a physical presence across the state and (2) is there a solution that you are providing as opposed to a rate? So, maybe 5 to 6 years ago, it was a relationship business, now it has become a solutions business. So, I can't think of very many cases where we have actually lost business because of a rate. Maybe somebody else has provided a better solution, but I would be very surprised if we have lost any business only because of rates.

**Manish:** Just a follow-up. Would you be hoping to pay higher rates?

**Rajiv Anand:** We are paying. For example, on savings accounts for balances over INR 100 crores, we pay 6%.

**Manish:** And you have also lost some share compared to banks who were erstwhile not present in the government business which is a large chunk. Do you see significantly higher competition?

**Rajiv Anand:** We are certainly seeing more competition within this space, but then like you rightly said, we had a disproportionately high market share within this business. More and more banks have come into this space and I think I am sure both Ravi and his team through branch banking and the solutioning team that we have, we are working hard to ensure that we gain back some of that stuff.

**Nitin:** Nitin from Motilal Oswal. My question is on the role of refinancing activity. Over past few years, refinancing has been like one of the major drivers for corporate loan book. Now with PSU banks coming out of PCA incrementally, how do you see the role of that in future will shape up because given at first like we are looking at a better RAROC rate. In that context, how do you see that?

**Rajiv Anand:** Let us say next 12 to 18 months, I think refinancing will continue to be an important part, may not be a significant part but an important part. What corporates are basically increasingly looking at is to be able to consolidate their banking relationships. Corporates have 12, 14, 16, in some cases I have seen 31 bankers and they are looking to bring that down to between 4 to 6 banks who will be able to provide not just a large sized balance sheet but also capabilities like I said in transaction banking, etc. So, I think refinancing will continue to be an important part at least for the next 12 to 18 months. The hope really is that as we go forward from there, private CAPEX will begin to kick in and then maybe refinancing at that point in time will become less important, but I think it is fair to say that for next 12 to 18 months it will continue to be important.

# Analyst Day 2019

## Session 2

**Retail Deposit Franchise**

**Retail Lending**

**Cards and Retail Payments**

March 19, 2019

*Axis Bank Limited*
*March 19, 2019*

# Analyst Day 2019

## Topic 4 – Retail Deposit Franchise

**MANAGEMENT: MR. RAVI NARAYANAN – HEAD OF BRANCH BANKING**

**Manish:** Manish from Citi. If you look at CASA in retail TD, in value terms, a lot of it is driven by high value relationships like Burgundy, current accounts or task deposits, which have got nothing to do with branches, that sense how do you assess the efficacy of the incremental branch that you are pulling out from a liability relationship perspective?

**Ravi Narayan:** So let me try and correct that understanding to a little bit, whether it be Burgundy, where it be Task, whether it be government etc., the sourcing of most of these businesses also start from the branch and the maintenance of these relationships also impinges on the service levels that the branch creates starting with the branch head and possibly support elements that are there. The relationship manager who are one-to-one mapped on this, also depend on especially in these segments, depend on the ecosystem of seniors and supervisors coming in to help grow those relationship, so yes to that effect there will be elements of higher ticket sizes in these customers, which leaves us with a thought to answer your question that similar profile of customers exist in our base right and the whole idea is to start developing those base customers also in terms of creating one-to-one mappings across various branches and putting that product per customer or engagements with each customer, conversation in each interactions to build them up to that level. Our TD penetration is low. Whole idea is not to just go and sell a TD just because there is a product per customer. TD is the basic element of a conversation starter with the customer and it does not mean that all Burgundy customers have TDs with me. It does not mean that all task customers have a TD, which is currently live with me, so every element of customer relationship comes with a fact that there are certain segments, which inherently will come with a higher value, but there are certain segments, which today we do not know, but have the profile to give us a higher value, so a combination of maintaining the higher value existing customers as well as working on creating that foot-in-door with those customers who have the profile to give me higher value, so it is not as if this understanding that if I call them Burgundy, the branch has nothing to do with it or if I call them task the branch has nothing to do with it. Ab initio the sourcing of most of these customers are from the branch only and in fact that is the customer journey, we also want to create that people as they start showing their value enhancement and engagement with Axis Bank we try and give them the better solutions and better programs and move them up the value chain. So it is a combination, so it is not a straight one-to-one formula, which works, so you are absolutely right that there will always be a tendency to have certain high-value customers, but that gives us an opportunity to also assess inwards and see where we can do much better.

**Manish:** One of the charts you showed size of the branch base to FY2013, how does the cost compare, is it the similar order of magnitude or a lot of size-related cost has been offset by technology-related cost?

**Ravi Narayan:** So a combination of both, so it is never again as I said a simple correlation, both in terms of the size-related cost as well as in terms of rationalization that we can bring in terms of the maintenance cost, a combination of both of this will work, but remember that it is not about the cost primarily. It is about the revenue that you can build on that cost, so to a certain extent the cost can be controlled and which we have controlled and there will still be a leeway in as we go along, but more importantly is in terms of how we are able to create that customer conversation with every interaction both existing and going outside and seeing that for that Rs.1 cost that we have put in, can we ensure that the value accreting into Axis Bank is at a higher delta and today as we speak we have branches, which you know we say that branches breakeven typically in three years and that is proven less than three years, but it is a combination, so you would have certain metro branches breaking even in let us say 10 months. There will be certain upcountry branches which will breakeven in six months. There will be certain rural unbanked branches, which will take the full three years, so it is a combination, so base is the format, base is the opex, base is the kind of catchment owning that we will do is how we will create the delta, which will come from the cost put in, but on a trend basis, the cost is coming down.

**Jairam Sridharan:** Manish if I may add one other thing, if there are three core components to cost of a branch, there is real estate the rental, there is people, and there is the tech and support architecture. This third bucket to your point have gone up over the year, but the first two have both significantly come down the rentals where we can see the size of the branch has come down quite materially and that brings down the rental size and from a people footprint standpoint there was nine people a few years ago when the minimum staff size, which we would start a branches is eight people, now Ravi and his team open branches with even two people, so the minimum number of staff has really come down, so people cost is actually the biggest delta in terms of what happened to the cost per branch?

**Vishal Goyal:** Hi Sir, this is Vishal Goyal from UBS. So if we notice our employee per branch number is the lowest among the peers, which is around 16 versus 18 or above for HDFC Bank or ICICI Bank who has similar size, so should we expect these number to go up or should we expect the number to come down for us?

**Ravi Narayan:** Okay, let me try and answer in a little long-winded manner because you asked this question very important, so what is it that branch banking retail is trying to do in Axis Bank, okay let me try and give that foundation before I answer your question. So very simply put, we are moving from KYC to OYC. KYC is defined as knowing your competition, KYC is defined as knowing your catchment and KYC is defined as knowing your customer. OYC is defined as oversight of competition, overseeing your catchment and owning your customer and what exactly are we trying to do, the metrics of PPC product engagement, etc., what we are trying to do is very simple. We are saying that an account has to complete its journey with Axis Bank to become a customer, this is the journey, account to customer, this is the journey. Axis Bank should be the participant or should be the train on which he does this and complete this journey. This journey is fraught with danger and therefore KYC in terms of knowing your competition and oversight of your competition and therefore competition is defined as coming from not only existing banks, but NBFCs and Fintech**s.** Now when we are trying to do that, we are focused on ensuring that each footprint physically is trying to look at what that catchment is and what is it that the customer composition of that catchment is. So in terms of ensuring that we are getting better value for each interaction that we are having, as you saw we are segmenting our customer approach and saying more and more we want to map on a one-to-one basis with our staff, so it is not about whether the number of staff in a branch will go up or down. I think that is merely a byproduct of what is it that you want to do ultimately on the long-term basis.

On the long term basis, we are trying to say that we will own this customer and in this catchment we know where and what we want to do. Now once we have explained that why we have to do, what we have to do then it becomes easier for each staff to understand what is expected of them. Now given that scenario, if I want to have two more staff in a branch, but having a direct one-to-one mapping with that customer. Today that customer is not owned, today that customer is a drop on the floor, today that customer is not known to the bank. This additional two members in a branch will help me do this journey from KYC to OYC and what is it that we are trying to do. This journey is based on the fact that there are simple elements of financial delivery and ecosystem maintenance solutioning that that staff has to do and we have based it on a very simple five-legged stool which is FLS that the frontline sales, FLS has to do. What does FLS has to do with the FLS right and these are very simple elements. We say we will do save, pay, invest, borrow and shop. These are the five legs of a stool on which I will ensure that my customer resides with me on a very strong basis. Once we do that then at no point of time is the cost or the headcount going to make a difference ultimately, but at the same time let me put it this way that today where we are in terms of our headcount, we are comfortable and whatever headcount will be added on, will be in line with the business that we are projecting and the growth that we are projecting in terms of both new branches as well as how we manage our existing base. So these two elements will determine the headcount, yes we are amongst the lower side in terms of similar size peer group and you are absolutely right on that and we think that is something we will like to build on and that building on will be based on this FLS principle, will be based on one-to-one mapping, will be based on segmenting our approach to our catchment and customers. So I do not see any reason why the growth in headcount should be compromised if we need to arrive at that final destination of making an account into a customer.

**Participant:** Thank you Sir. Question I have it on your branch strategy, so there can be two approaches. One, you tried a cover more white space like the new market, what you try to create a network effect in your existing locations or home market, so where would the large portion of your incremental branches you opened now from here?

**Ravi Narayan**: So I think there was some indication of that in the slide if you see 30% less than three years, 53% were from metro and urban, I think there are two elements to white space, white space in terms of where we are not there and white space in terms of where we should have been even in an existing jurisdiction, so I think metro, urban, semi-urban areas are areas that we would like to be predominantly there, we would like to increase our footprint in some of the developed states and I can off hand take all these states which are there in terms of the development index. There are elements where we would like to look at some of the states where we are quite underpenetrated and those are states that vis-à-vis our own internal assessment and analytics as well as compared to peer group penetration in these markets, so the skew will be in trying to if you saw the metro urban gives you better bank for the buck, it helps us in segmenting better, but at the same time the semi-urban rural centers have their own exciting opportunities of probably unpenetrated segments that we want to look at, so it is a combination, again I will go back to the GPS element. We will do growth both in footprint and business. We will look at profitable growth and we will go to those centers where we are able to sustain this profitable growth, so in terms of feeding in deposits back into the bank.

**Rakesh**: Just one question, like there is shift from SA to SA plus TD, is it tactical long term?

**Ravi Narayan**: So I would further add to that. It is shift from SA to TD plus current accounts all of salary, so let me try and put it. So we have a wealth of SME customers. We have a wealth of transaction banking customers. We have a wealth of corporate banking customers. All of them gives me an opportunity to look at savings both salary, non-salary. The current accounts in the mid-market give me an opportunity to look at savings, FD, and related elements. The existing savings account in my branches which are self-employed gives me current account opportunity. so the point I am trying to make it is not a simple SA to SA plus TD, it is a move from SA to deposit franchise, the liability franchise and again it ducktales in with the fact that I am looking for a customer, I am not looking for an account, I am looking for completing that journey from an account to a customer and whatever solutioning and opportunities that gives Axis Bank, we will be there for asking the first right of refusal and that is what would be the governing principle of engagement with an account holder that allow me to talk to you.

**Participant**: So in that situation other private banks which are offering higher rates on the quasi SA that would continue for a longer time?

**Ravi Narayan**: There are inflection points suffice to say that rate shopping becomes a very transactional contract, rate shopping is I give you money, you give me rate. Once the transactional contract is done and over things come to a standstill, so that possibly is not what we are looking for, what we are looking for again I state is sustainability, is the ability to grow a customer relationship in all it shades and use and for that to happen it has to transcend the rate paradigm, yes in the short run there will be elements, but I think the short run has over, the over was giving a rate differential has been doing it for some time and things are out there in the market, so I think what we are looking for it is sticking to our good old simple basic banking that I want the customer with me.

**Participant**: I think I can just build up to this question like I have personally been a priority customer for 16 years now, from the moment it was introduced. So in the question here is that see as a retail customer, the options for me are increasing tremendously like now you have retail NCDs, you will have some corporate will come out with NCDs because there is some regulation. There are mutual funds. There are ULIPs which still have a tax advantage. So my balances in the account have not grown as much as I have grown as an individual in terms of wealth or money, so are we doing anything in terms of doing more on the deposit side because just CA, SA and term deposit these three products have been there for 40 years. Is it possible in a banking framework to have a differential saving rate for different customers or things like that because otherwise all that a bank can do for a customer like me is cross sell more and more things to me, so you will lose deposits from my side, but you will get income through cross sell, so how is Axis Bank playing this entire game for say the valuable priority customers?

**Ravi Narayan:** Let me try and address it in two steps. One you as such and then the multiple you's who are not yet what you are right so there are two elements that we as Axis Bank would continue to look, so the answer is yes, there was an L&T offer paper, which was there last week and we offered it through our branches. The idea is not to be worried that money from his saving account or FD will move into his offer because it is exciting. The answer is that we made the customer excited about an offer, which probably he would not have been aware of and therefore this is what we want to do with you that we give you the options ourselves rather than looking out and competition is not just about a rate. Competition will also offer in some manner or the other these alternative elements that is Part A. Part B is that such customers like you today exist with me and you are a priority customer and I do not know many others who probably have the same profile till now who probably have the same profile, but were not in my radar, so what we are trying to do is to help the enhancement on the deposit franchise is to start looking for people like you and today technology gives me that wherewithal and the ability to do that deep dive and scan my entire portfolio of existing base and then also look at similar profiles when I am going out into the market right, so both these elements is what is going to help me build the deposit franchise inclusive of the fact that I will be able to give him alternative investment classes and products as we go along, so again it is a matter of going back to the S in GPS, sustainability, so my lookout is not that today's float is getting compromised because I gave you an L&T offer. Is it that will you be with me 12 months from now, 18 months from now just like you have been with us for 16 years and I say it with a lot of humility and gratitude that you are with us for 16 years and that is representative of the inherent strength of Axis Bank and that is what we are trying to build and we saw 21% CAGR is brilliant and the current account portfolio of Axis Bank far supersedes many of the banks in the peer group so all of these are elements that we will build down.

**Participant:** Thanks Sir. Just last followup, I will just add one more. I was also an employee of Axis Bank management batch of 2009. At that time, there was this line that Axis Bank does not have happy customers, but Axis Bank has delighted customers and it started all because this priority banking was a very, very big success, so from this 2009 to 2019 these 10 years like how has this programme progressed in terms of satisfaction, customer acquisition or all across to these customers?

**Ravi Narayan:** Let me put this way that we have a very robust internal service quality assessment programme, which is based on customer feedback. We call it Axis Gold and we have kind of strengthened it over the 12 to 15 months, we are intending to strength it further and some of those elements that you have pointed out comes out through and we also believe that yes like you have kind of resonated, there are multiple customers across the geography who similarly resonate the fact that priority as a programme has indeed worked and worked well for the customers as far as Axis Bank is concerned and as I say to conclude your point is that we are not in the business of miracles, but yes we will put an institutionalized processes to ensure that there is magic.

**Kunal:** Kunal from Edelweiss, so firstly as you highlighted in terms of the overall maybe the customers are we seeing in the industry that customers are using the deposits account more transactionally rather than savings instrument and that is the reason all across we have seen it to be like heavy flows into the saving deposit, but not those kind of a flow into the term deposit because there are other savings avenue also, which are available and since our focus is may be to penetrate into the savings deposit customers, how critical would pricing and product flexibility be as a strategy?

**Ravi Narayan:** To answer your question, if I quickly ask how many people of you have FDs in a bank, raise your hand. If I ask that question I guess at least 50% of you if not more would have FDs in a bank, but if I were to ask the same question to a set of a segment of customers who have just joined jobs, I am sure none of them will have an FD with a bank and the same question, if I have had to ask my colleagues in a bank probably 100% of them will have an FD in the bank, so the point is that how conveniently you are making the ability to bank and take a product with a bank is what determines the product holding if I may use that term with the bank. Similarly at what stage in life you are to ensure that what is your prioritization of your financial needs, so a combination of both of this will determine that whether it a transacting savings account or savings account linked to an FD. I am very happy with the transacting saving account also because a transacting savings account helps me get better insights or sharper insights about a customer than a saving account, which does not transact too much right and that is also a good thing for me when I am trying to look at creating solutions in a prepackaged way or in terms of a propensity element for these customers, so overall if I were to look at it, it is a mixed bag. There is no one single answer to your question. It is about where you are in your lifecycle and that is where it stands and in terms of penetrating more.

**Kunal:** Just in terms of pricing do we need to increase the rates?

**Ravi Narayan:** I think Axis Bank and Jairam can correct me. Axis Bank as we stand today, I think we are fairly on the upper strata of pricing for retail granular deposits that we offer and I do not see any reason why we should get into any kind of contractual obligations with the higher rate and so on and so forth. The potential if you see is at 4%, 6% of penetration. There is only upside. There is no downside at all there, so I do not see a reason why we should get into a rate paradigm here.

# Analyst Day 2019

# Topic - 5 Retail Lending

**MANAGEMENT:** **MR. JAGDEEP MALLAREDDY - HEAD OF RETAIL LENDING**

**Abhishek**: Hi, sir, this is Abhishek from IIFL. The question is if I look at the retail fees especially as a proportion of your retail assets, that yield has been coming off over the year despite your asset mix actually moving from home loans to more of personal loans, credit cards and secured. Why is that happening and do you see any correction in that?

**Jairam Sridharan:** I do not think we have put out a disclosure on retail lending fees. The total retail fee is the trends that you are noticing is more driven by what is happening on the liability side particularly third-party fees and some regulatory interventions with respect to fees that we will charge on the deposit customers and those regulatory interventions can compress some of the fee earning ability on the liability side, but on the lending side, fees have actually been growing extremely robust, fee-to-assets continued to grow, but that is not in our disclosure. Abhishek, if I am not mistaken, I do not think we have put out retail lending fee separately.

**Jagdeeep Mallareddy:** Fee to asset is not a problem in retail lending.

**Abhishek**: Liability fee compression actually offset the improvement on the asset side?

**Jagdeeep Mallareddy:** Yes, and the positive delta continues to be the CA fees Sanjeev will talk about in a minute, but what you have said is correct.

**Abhishek:** If we look at the total retail loans in the system, we are probably back at the mix that we saw in 2008 just after the crisis. What is your perspective on the risk and the red flag emanating in retail lending?

**Jagdeep Mallareddy**: From a risk perspective, what we really look at given our portfolio mix, first is the real estate prices, how they are moving and if there are corrections, what impact could have on us, second is about given the large salary base that we sell our loans to, what could happen if there were job losses or salary cuts or wage cuts, etc., and the third thing is about leverage, whether household debt to GDP, how is it moving and how is leverage happening at a customer level apart from the whole systemic level. So let me take a minute to talk about each of these which we track and which we monitor very closely. In terms of correction in real estate prices, it is something that we have seen prices being very tepid over the last couple of years and we have also seen correction in certain pockets like NCR, etc., we have made choices to make sure that we are underweight in some of these geographies where we see price correction. We are not very comfortable with the composition of how construction is going, etc., We have seen price corrections in the luxury segment, typically the high ticket properties, again, very-very small exposure that we have on this space. So that is something we constantly monitor and watch and make sure that whatever we are observing goes back into our underwriting strategy and acquisition strategy so that we do not really get into those markets where we feel we are not very comfortable with way things are panning out. The second is in terms of job losses or salary cuts. We have not yet seen any of that, but we do track this at industry level. Given that we have a lot of customers who are salaried customers, we monitor the industry from where these salary customers come and we kind of keep tracking the industry to make sure that whatever patterns or early sign that we can see are again fed back into our underwriting and acquisition strategy. The last is about household debt to GDP. Again, if you look at that right now what India is about at 25% household debt to GDP, gone up by about 6 percentage points probably over the three, four-year period, much-much lower than what you see in developing countries which is about 40%-42% and much higher at 70%-75% in the advanced countries. From our own perspective, if I look at how our portfolios are performing and how we are looking at it, if you look at personal loan, for example, over the last five, five-and-a-half years, our average ticket size has gone up from about INR 2,70,000 to INR 3,05,000. If you look at the personal loan risk right now is much-much lower than the long-term average risk that we are watching. If you look at home loans, our risk levels are much lower than the long-term average. If you look at auto loans, the kind of at the long-term average right now, if you look at LAP, we are much-much lower than the long-term average. But if you look at farm loans or the rural lending side, the farm loans are much higher than the long-term average given the current environment that we are seeing. Though the other pockets which are much lower than the long-term average, farm loan is one sector or one segment of that which is currently much higher. So, we do watch all of these. We have our monitoring dashboards in place. We monitor the debt like at a customer level at an aggregated level of its entire wallet and not just about a particular product exposure that we have taken on the customer. And because we also sell a lot more to our existing deposit holders, there is so much more wealth of information we have about them in terms of the account behavior, how is the money being spent, what are the transactions which are happening in the account which allows us to make sure that we constantly have a pulse on the leverage of the customer.

**Sameer**: Hi, Sameer from JM Financial. In your experience, how is the cost of acquisition of some of the retail assets moved in the last three, four years maybe across products?

**Jagdeeep Mallareddy:** So definitely our cost of acquisition has come down over the last three, four years. It is also because of the channel mix that you choose in terms of cost of acquisition. If you are doing more of existing or deposit customers of the bank, that cost will be far more cheaper than getting more new to bank or through other channels which are much more expensive. Also, the fact that digital is ramping up very well for us over the last one year, again, that is a channel which comes at a very-very low cost of acquisition. So we do see that cost of acquisition is coming down for us, but it is more because of the channel mix that we have chosen in our new origination.

**Sameer**: But just to follow up, if third-party sourcing is kind of evaluated, would you say that the same phenomenon holds that cost of acquisition has come down?

**Speaker:** I think we have seen some moderation on the third-party origination also.

**Mahesh**: This is Mahesh from Kotak. Just a clarification, Jairam, in all your quarterly calls, you indicated 85% of sourcing happen from internal customers, right?

**Jairam Sridharan**: Internal customers, last quarter for example you saw that 85% of our origination were to internal customers, but not all of them are sold by the branches themselves. We have three broad channels of sourcing – there are branches, there is our own proprietary sales force and then there is a third-party. So, our branches contribute, I think, about half comes from our branches, another just over a third comes from our proprietary sales force, the rest comes from the third party right now. It is possible that I have an existing customer of the bank to whom we are selling a loan product but it is not being sold at the branch, either a third-party guy is reaching out or my proprietary sales force is reaching out.

**Participant**: Just one clarification, the earlier one indicator has not changed for you, right, in across all products?

**Jairam Sridharan:** No.

**Participant**: It remains as stable as what the Credit Information Bureaus are suggesting?

**Jairam Sridharan:** Yes.

**Vishal Goyal**: This is Vishal Goyal from UBS. I think we saw the slides around what percentage of your PL is coming from deposit customers. Is there a similar data that what percentage of personal loan customers already have a loan either from us or from somewhere else, anything on that?

**Jagdeeep Mallareddy:** That is a part which is inputted into our underwriting norms because when we look at the fixed income to obligation ratio, we do factor in the amount of personal loan that we are giving, what would be the installment of that, plus the existing installments that the customers are already serving in and all of that goes into the fixed obligation to income ratio. And also the fact that as they are selling more to our existing deposit holders on the personal loan side, we are also able to qualify and make offers to customers and at that stage we have a fairly good visibility of the total leverage that we have across the system and gives you an opportunity to align to the customers.

**Kunal**: Kunal from Edelweiss. Again, if we look at the retail loan, what would be the proportion of the sub-prime and below-prime which CIBIL also generally gives it out what is the PL and CC in terms of the incremental loan origination? So below 600 score if we look at it, what would be the proportion of loan origination?

**Jagdeeep Mallareddy:** Very negligible.

**Nitin**: Hi, sir. Nitin from Motilal. Given that on the retail side, 80% of our growth is coming from the cross-selling to the existing customers, so in that context sir, growth in the customers or acquisition needs to be pretty high over the next few years. If you can give some color as to how we are panning in terms of new customer acquisition and what target do we have?

**Jagdeeep Mallareddy:** Jairam clearly said we will not give you any forward-looking statement. Having said that, I just want to let you know that we have enough runway in terms of growth by cross-selling to our existing deposit customers. That number currently is around the mid-single-digit number and we believe that there is more opportunity to cross-sell to existing deposit customers and also the fact as Ravi sells more and more new accounts into the system that also becomes opportunity for us to cross-sell. I think there is enough runway around that piece.

**Nitin**: When you say there is a mid-single-digit is what we have actually converted to cross-sell like what we have already been able to cross-sell, so how much was the gross number to whom cross-selling and we got this result?

**Jairam Sridharan**: There is a slide coming up in Balaji's presentation after lunch which will stack up some of the issue, what proportion of our base is qualified by us internally for any sort of loans. When Jagdeep said that mid-single digit penetration that he has achieved on lending, that comes from a base of something like 35% or so. Balaji will talk about it in his presentation.

**Participant**: If you can talk about the lending products that you are trying to bring, I know it will be very small right now, but where can those products go over two, three years?

**Jagdeeep Mallareddy:** I think in the afternoon, Sangram and all will cover some parts around how we are leveraging on freecharge to offer lending products, etc., I will leave it for that section. Probably we will get more details in that section.

# Analyst Day 2019

# Topic 6 – Cards and Retail Payments

**MANAGEMENT: MR. SANJEEV MOGHE - HEAD OF CARDS AND MERCHANT ACQUIRING BUSINESS**

**Rajini:** Hi this is Rajini from Investec. I want to know what is the revolver rate on our credit card portfolio and how many of the customers are converted into EMI customers?

**Sanjeev Moghe:** Revolver rate I do not think I mentioned the number over here, but it is in a range where we are pretty comfortable. Do keep in mind that revolver rate beyond a level that is going to write-off, where we are right now, we are comfortable.

**Rajini:** I am asking this because banks above you HDFC, ICICI and SBI is around 30% to 35% is a very high number, so would that be the same for us also?

**Sanjeev Moghe:** For the entire industry revolver rate my sense is net of about 32% or 33%, you are talking about number revolver rates, amount of revolver rate is going to be slightly higher than that.

**Rajini:** I am talking about is amount revolver rate?

**Sanjeev Moghe:** No that number is not right.

**Rajini:** The number is not right?

**Sanjeev Moghe:** I am not going to put the number out, but my sense is most of the industry is in a certain ballpark that ballpark will be roughly 5% to 10% of each of this, the lower you are the risk will also be lower, the higher you are the risk might be slightly higher then it is a matter of each banks being comfortable with where they are that is the first point. Second point of course is EMI is a good way of catching two things, one is conceptually you can make some more money from a transactor because EMI does come whether you are making revenue from this side or some customer taking interest, you make some revenue on the transaction. Second is it actually prevails it is spilling over to some other player on the consumer durable side. Most of the transactions on EMI are still in the conventional consumer durable arena whether it is online or offline. We see a pretty interesting play for us before this by the way I was in Bajaj so our reasonable view on what you can do on EMI, the platform and the runway is very big, it is not confined to certain industries, we will play this out fairly aggressively and we will play this out aggressively across all forms.

**Rajini:** If the revolver rates are so high, is there inherent risk in the business model, is that priced in through the interest yield we are pricing in all of that?

**Sanjeev Moghe:** It is boxed in. There is never a point that you would say revolver rate is too high of course it is 10% to 15% is very low because you are going to keep in mind, we will keep talking about credit card interest rate finally you will only make money from revolvers and some of the fees that you have, but you need to be comfortable with it, my sense is right now the way the revolver rate for us and most of the industries that I am aware of, we are in a fairly okay spot. If you are asking me is there any initiative I have to say drive the revolver rates up no. As long as stays within a certain ballpark we are comfortable.

**Nilanjan:** This is Nilanjan from Jefferies. Any thoughts on the new stuff that Reliance, which is doing on the merchant side?

**Sanjeev Moghe:** Okay two things obviously what they are doing, they will do, the skills that they will normally do. The point is what is your merchant strategy. For us we believe merchant strategy is intrinsically linked to the entire need that the customer has, the merchant is not only looking at a terminal. Some of the needs that a merchant also has is where does my money then go, is it which current account do I have, on the current account and this is my transaction can you do something, is their lending option as well? How do you currently go about solving the other things that he has for example how do we file a GST for example, I am really talking about small merchant, and lastly is it a universal solution that you are giving me or do I need to tie up with you for plastic then separately I will talk to somebody else for UPI solution and somebody else for something else, so is your solution is universal, so all of these four, five things if you actually put together of this current account, lending solution, universal accepting solution and may be some value adds, it depends upon who has all of this put together, lastly depends on distribution to you reaching first or somebody else reaching first. Okay I think it is all going to play out at all points of time in the acquiring industry, there is a new player, somebody cut rates some this year, somebody else does something else next year. The industry will keep playing it out as I have shown to you our six to seven years growth rate is pretty healthy and we will continue to see healthy growth rates as we go along. There will be some challenges that is what we are here to deal with. We will see how it plays out. There are lot of those reports, we will see as it plays out, I would say we are reasonably ready.

**Rakesh:** This is Rakesh from Elara Capital. In the RTGS transactions, we have relatively higher proposition of interbank transaction so what is the nature of those transactions?

**Sanjeev Moghe:** Do not look at RTGS, I would not have too much of view on that, Jairam maybe you have had?

**Jairam Sridharan:** I am not sure to answer the question.

**Rakesh:** My question is that in RTGS transaction like we have fairly higher proportion of the transaction, we are doing on the interbank basis compared to all other banks, so what is the kind of transaction we are doing with other banks?

**Jairam Sridharan:** Regular FI transaction I will come back to you. It must be regular FI transaction because we have relationship with lot of banks, but that must be larger part of it, but I will come back to you.

**Rakesh:** Secondly on the mobile banking side, Paytm in the last three months they have taken a lot of market share and volume and value so what is the way forward there and because they are taking markets from all the leaders so your opinion on that?

**Sanjeev Moghe:** On mobile banking again we will comment on what we do, we do it. We are a leading player on the mobile banking charts also you saw it. We believe that it is actually able to engage the customer with you on the mobile banking app itself and then you allow him to do transactions on that whether it is commerce or within the bank itself, you will continue to see a healthy growth rate and the other way to look at it, actually it is not just in terms of what he is doing in terms of transaction, is he engaged with you on the mobile app the data that I showed you actually tells us and there is some data I have not shown you by the way. It is very interesting so if you are actually able to keep your customer with you on the mobile banking app why will he come to you of course those are the reasons that we need to solve for so we are doing certain things today, we have certain capabilities we will keep building those capabilities, but if you actually have a customer come back to you two times, three times, four times on the mobile app, it could be checking whether my salary has got credited, it could be what is in my bank account, I need to transfer some money to my mortgage, it could be whatever, it could be what is the offer Axis bank has put out for me today, it is Wednesday what is it for me today. All of those are reasons that you need to keep finding, but if you are able to engage him on that you will find enough and more returns, some of which will reflect in the mobile banking share, lot of it will reflect in other matrices in the business itself and we have shown you some data and believe me we have only shown some data to you. There is lot of very interesting data on that.

**Saurabh:** This is Saurabh from JP Morgan. What share of your cards and phone will be active as of now and what is the metric you are watching there?

**Sanjeev Moghe:** So we monitor you track 30 plus so we track all of that Sir, we track write-off it so all of that and Jagdeep had actually put out the chart in terms of comparison, we have just made a statement, we are well below the industry risk right now, how do we track it as say 30 plus, 90 plus we track coincident and obviously some of these parameters you only have for us. What we have for industry is only certain parameters and the rest is only for yourself. The idea is first to know are you in control as you know that let us say a scenario we are not in control then you obviously do a fairly deep dive in terms of are you okay by every parameter for new bookings are you in control, for the portfolio are you in control, if growing as robustly as we are, are you in control at lag level as well. All of these are indicators if you look at look at very, very closely on the risk side of it. What is the first part of the question you asked?

**Saurabh:** I would say again like a point about revolver rate everybody in the industries at certain ballpark in terms of activity risk or activation risk and we are in the ballpark. You may obviously always have some outliers let us say a couple of MNC banks, etc., which might be outperforming, but more or less everybody is in a certain ballpark and we are in the same ballpark.

**Saurabh:** Sir what is the percentage of consumer durables financing as a percentage of credit and outstanding?

**Sanjeev Moghe:** I will know the percentage of EMI. Now we also understand a lot of transactions happen, which are actually consumer durable transaction, but do not come to us as EMI. Third part is obviously a normal transaction get converted to EMI post sale on your statement you see and you converts, we will only know the first exquisite part, otherwise I have Vijay Sales transaction about Rs.20000 and I do not know what it is because all I know is Rs.20000, so it is very difficult to classify 1 and 3, one is you did a normal transaction, non-EMI transaction at VIjay Sales or let us say Flipkart for a minute. I will only know the amount you bought. Third is the component where you actually bought Rs.20000, you convert it to EMI later on, I will not know these two as consumer durables. The second component EMI talks very closely to consumer durable right now, what I know explicitly as merchant EMI, what we call as Merchant EMI that number is a fairly good percentage for us obviously my sense is it is only the tip of the iceberg internally I know the potential very, very well. My sense is compared to where the entire industry is compared to some of the leading players within banks outside banks we still are not even touching the tip of the iceberg.

**Saurabh:** It will be like early 20s or like what would be the rate?

**Sanjeev Moghe**: It will be in early teens, but we do not know one entry.

**Saurabh:** Sure and industry will be somewhere about?

**Sanjeev Moghe**: My sense is couple of the banks might be doing better than us.

**Saurabh:** But then their rate could be about 40%, 50%?

**Sanjeev Moghe**: Not merchant EMI that I know for sure irrespective of what is put out there, Merchant EMI nobody is 40% to 50%.

**Saurabh:** On the fee side can you provide a broad breakup of these that you typically get on credit cards on the annual fee?

**Sanjeev Moghe**: On credit card you have almost I think 25 lines of fees, difficult to put the breakup, so you have annual fees, you have delinquency related fees, bound statements so on so forth then you actually have the biggest component, which we interchange so all of these components come and they sit in the column, which is fancily called fees.

**Saurabh:** What was the broad breakup?

**Sanjeev Moghe**: Largest component will be interchange.

**Saurabh:** What will be that percentage?

**Sanjeev Moghe**: We just say that amongst the various components the one you would worry about is delinquency related penalties whether it is over limit charges or overdue charges, etc., those are the ones you would worry about, they are not a meaningful part.

**Mahesh**: Mahesh from Kotak. One question see a lot of market share gains that you probably are getting today because the amount of reward points that you are offering on the table as well so in terms of the deals, which you are getting out there so if you can just broadly kind of discuss qualitatively is there material difference between what you are offering in the table in terms of ROA for the shareholders compared to what the frontline bank has and in that sense are you getting the best deals from the dealers that you are speaking to?

**Sanjeev Moghe**: Okay you understand obviously some part of the game is blind in the sense that you do not have these ROAs out either for us or for others, my sense is everybody is playing in a certain ballpark and you obviously know internationally what is the industry plays at, we are all in that ballpark. If somebody is putting more money out there we track it pretty closely in terms of what we call internally as portfolio and product cost and we are fairly comfortable with where we are right now. My sense is in a competitive sense whether you are talking about people above us or below us, I do not see an area of concern, are we under punching in the market, are we under rewarding our customers no, your concern was are we over rewarding our customers something I would be keep getting asked very often, my sense is equally the answer is no and you can go card by card, you can go platform by platform in terms of card below Rs.500, cards from Rs.500 to Rs.1500 and super affluent cards, etc., we are pretty much rewarding the format somebody may choose to reward lifestyle, we may choose to reward travel those are calls that you make and you tune your portfolio, but in terms of serving our customers right, my sense is we are fairly on the ball right now.

**Mahesh**: The clarification is from the dealers when you are doing these reward points out there, is the same deal available to you as compared to what the other players is getting on?

**Sanjeev Moghe**: First answer is no way to know. Second obviously the relationship does help and we believe we are getting the right deal and we do walk away from deals. If you believe the value is not right or we do not participate in some of the deals, which are out there, if you believe the value is right we go for it and then we try to clinch the deal. My sense is we are pretty fine.

**Mahesh**: One clarification the card base, which you said is about 19%?

**Sanjeev Moghe**: Keep in mind lot of our base is actually new to bureau that is a very important point, we know the customer and when you talk about this to your partners we are actually value it a lot as compared to some other players who might have actually been getting a customer who is already on bureau, he might be here, he might be there, lot of our base is new to bureau so when you sit down for a deal and discussion with the merchant, last merchant partner it actually helps you get a lot of value from the deal irrespective of what your size currently is.

**Mahesh**: Non-card customers is about 80%, there would be a fair amount of card base, which is sitting up with other banks or do you think that the rest of the base that you have out there is largely under penetrated from a card perspective?

**Sanjeev Moghe**: Let me break it up into 19% that we have currently with us and then 81%, which is not with us. On both customers that we give a card to lot of it is actually new to credit, it is known to us he is a customer, but he is new to credit and we also have data, which tells us that if a customer takes a card from us he actually stays with us, it is not like he is looking at it as first card from Axis and then he shops around here and there, he actually stays pretty loyal with us. For the 19% we cut it equally for the 81%, we have data in terms of what is the bureau penetration and what he holds outside, etc., that is even better in terms of others not having. Then it is a matter of can you penetrate and how many can you stamp, how many can you stamp as cuts Jairam was saying Balaji will cover in the afternoon, you have to understand in India obviously beyond certain level you may not be able to stamp in so leave out that constraint people were stamping, there is no difference in terms of people we have given a card from people we have not given a card. In terms of holding results or holding with others.

**Gautam**: My queries on the profitability of the credit card, do you see any risk emerging to that in terms of we hear a lot about the regulator essentially starting on these conversations that in industry levels if the customers are indeed prime, prime plus, super prime customers why should certain rates where they are, do you see any risks emerging to that banks are currently able to enjoy.

**Sanjeev Moghe**: You have a second question?

**Gautam**: The second is around disruption risk whether you see a risk in terms of regulation or in terms of disruption?

**Sanjeev Moghe**: Sure while the industry is fairly profitable, things can pan out and for that you actually look at what is happening in the world, what is happening that is the other perspective that regulators have, I do not see a big risk something disruptive can always happen, but we have to understand the fact that in India when interchange and discount on the debit card. There was some level below which government also supported it, do I see therefore that is playing out for credit card I would say the risk is low, you can never say the risk is zero, but you do have to watch out pretty closely and any concerns, which come in from the regulatory you actually have to step in pretty proactively and explain your perspective on that so I do not see it playing out actively. The second question was can there something else be disruptive, which can affect the profitability I do not see it playing out actively, but if something goes wrong on the risk side I think we spoke about it in terms of what levels we track it macro and micro and people keep talking about macro actually sometimes you can be sleeping at the wheel on the micro, you just have to make sure you cannot, so those are the only two things that I see on the risk side of it. Without making it seem very, very casually if all okay you have to monitor it very closely, but currently seems fine and as long as nobody goes berserk and you stay in control you are fine.

# Analyst Day 2019

Session 3

# Business Analytics
# Wealth Management
# Subsidiaries
# The path to sustainable ROE expansion

March 19, 2019

*Axis Bank Limited*
*March 19, 2019*

# Analyst Day 2019

## Topic 7 - Business Analytics

**MANAGEMENT: MR. BALAJI NARAYANAMURTHY – HEAD OF BUSINESS INTELLIGENCE UNIT**

**Sai Kiran:** This is Sai Kiran from Haitong Securities. How important is non-bank transaction related data for a bank to arrive at the decisions, especially in this kind of a digital world where the large companies like Google, Facebook or maybe Amazon who has got more data about the customer are also trying to poach on to the transaction related kind of a business? Do you foresee a scenario where the banks will be direct bondaged with some of these companies and potentially impact some of the accreditations or cross validations?

**Balaji Narayanamurthy:** It is a good question. It is just my personal view on this. See, I think the short answer is, no. A couple of things, and one thing I forget to mention is the emerging privacy world. The things that organizations have done with data and the things they will be able to do going forward are going to be very different. Data is the customers and you are a custodian of the data and not the owner of data, and you cannot just use data from here, there and everywhere, you need explicit customer consent. So we can only use whatever data that the customer has given a consent to use. Its true for Amazon, it is true for bank. The second thing, in my years of experience I have looked lots of kinds of data, I am telling you, in a legal manner, through different projects with different people we have looked at telco data, we have looked at bank data, we also have deposit data, mutual funds, SIPs, because all of them we sell. We have also looked at ecommerce data. And I can tell you that banking and deposit data are very-very powerful, I am not going into which is stronger than the other but some of these things that are in the news and social media data, Facebook, it's not really that powerful. The only thing that fintechs have been able to do well is creating SMS value, it is not full data but you can do that kind of stuff, very soon the regulatory environment is going to expressly forbid it. Long story short, my belief based on my years of experience is banking data have real access to one of the top notches that you are going to get in terms of splitting risk.

**Jairam Sridharan:** One addition if I may make on that, those who don't have or competitors who do not have access to core financial data or banking data will find value in alternate sources like the social media usage information, prepaid phone call user information, etc, that will add some value, but only if you don't have the financial information already. But if you already have an access to financial information, the incremental information value for some of these other things is minimum, at least that has been our experience so far, it is not zero but it is not very high, not high enough that it really fundamentally changes the business model.

**Participant:** Just to add, just want to understand, some of these tech companies also want to get some share of that transactional data, especially on the payment side. Do you foresee this as a threat or in this kind of a new world how would you like to react to this kind of a situation? Because in China we have seen this to grow much faster and some of the business products, especially the banking ones became irrelevant.

**Balaji Narayanamurthy:** See, for doing all of that the business model is more important, that's my answer to this one. So what the Chinese companies have done is they have created business models, platform based business models where the customer has a reason to come over there and give you the kind of data and then you use it for driving business value. There, again, my view is it is about them engaging the customer, which is one of the pieces I talked about in the slide as well, it is about giving a reason for the customer to engage and come to you, then you will get data and then its about using the data best and for your business model and for your business. Banks understand their product much better than let's say a ecommerce company does, they might eventually learn as well but by that time you might pull ahead as well. So that's my take on that.

**Mahesh:** Mahesh from Kotak. Just a couple of questions, when we speak to some of the credit information bureau, one of the common feedback that we get is, while banks sit with a lot of data, a ability to find, implement and decision making is still quite weak as compared to some of the NBFCs that you see out there in the market. How do you react to this statement? Second, the curve that you are building that you showed to us, ultimately the business itself takes a call as to whether he still wants to lend to that particular person or not. So how much of say do you have in building these curves or is it just a post-fact to analysis that is done out here? And thirdly, from an organization perspective where do you see your contribution being the highest, is it on the liability side or on the asset side, how do you see the organization on either side of the balance sheet? Thank you.

**Balaji Narayanamurthy:** See, I don't know about others but we can say, see we have 20 plus models just on the risk side, another 20 models on the propensity side. I am saying that as a way that hey we are able to use it, I think some of the numbers you would have seen in the morning presentation as well, more than a majority of our credit card sourcing comes from these pre-approved programs, it comes from these databases and these databases are scored using the risk models. More than a third, some of our lending programs come from these databases, so these are all real numbers. So these are some examples I can use to say we do it, I don't know about others, I don't know why the bureaus feel the way they do, but we certainly have been using that and that's a reason why it is very tough to do, you need a large team, you need scale, you need all the talent that I talked about. That's why I said, it is not about building the model, it is about the data engineering talent to put all of this together, I talked about the technical talent, I talked about the systems of engagement, it is about the technical talent to push it to the point of decision making. You got to get out of these to come together, it is not easy, but I have given the stats to give you a reason why we believe we are doing it.

The second thing, I think you asked a question, see the culture part, that's why I put this culture, whether people are using it or not, this is the problem we had solved long time ago, thanks to Jairam who was also the retail lending business head and there were times when we used to have these con-calls. These are the kinds of conversations that we had seven years ago, the stuff that you are saying, I can see the customer why should I believe that score, kind of conversation we sorted out seven years ago. So right now when a score says decline a customer we decline, and we have been able to show to our underwriters as well using data that how our risk outcomes are significantly better, these are data that comes from a credit bureau, they are significantly better. We largely believe, due to the risk management framework we have, which is very data driven, including the scores.

The third question you asked on deposits, actually I would say in my view it is fairly equal. The retail lending business the way data works is a little bit differently, it lends itself, it can directly go to the point of decision making, which is will it approve a loan or not, what loan amount to give, the data can go all the way directly, in deposits maybe not yet. But where the data plays a lot of role is in understanding the complexity of the business, you have 60,000 sales force, you have 4,000 branches, 17,000 ATMs, 20 million customers, lot is happening to the interplay and interactions, each of the these interactions and how can you make each of those interactions a little bit better is really where the things I talk about where you put your branches, where you put your ATMs, where you put your people, how do you map your best sales people to the best customers, that is a significant amount of opportunity there as well. And right now if you ask my team, the team is roughly split equally between these two areas.

**Jairam Sridharan:** Balaji, want to talk about the FOREX pricing case study real quick?

**Balaji Narayanamurthy:** Yes. One of the things I think Satish will talk about, Satish heads this business as well as he is familiar. So one of the things we had was this FOREX pricing with this NRI customer segment, and we always used to wonder what is the right pricing, am I charging more, am I charging less, let's take 5 bps more, less here. So we actually did a price test on our retail FOREX and we figured out the price elasticity, this was all inward remittance so we also figured out the benefit we are seeing in our savings account, when the money comes in, sits around the savings account, we added it together to come up with a right pricing optimization. So that is an example of how analytics plays a role outside of the lending business as well.

**Prakhar:** This is Prakhar from CLSA. Balaji, great presentation, and while we have delved a lot about data analytic's use on cross-selling more, understanding the customer better, etc, the first box on your way forward slide was on cost optimization. So could you please discuss where do you see the scope for cost optimization, risk assessment? And my second question is a little more fundamental, when you tie-up with a Google Pay or the outside platforms where you are providing the raise, what sort of data analytics or data insights you get about the customer? Thank you.

**Balaji Narayanamurthy:** See, on the first one, like I said, this is going to be a focus area going forward, like any business project you will start with the biggest cost items to bank, which is people, some payouts you make to your marketing partners, payouts you make to your network partners. Pick up the biggest expense line items and you will start there and you will figure out things with EMI, allocating them to the right business problems, what is the size of budgets we are giving, which are the right allocations of people to the branches, those are all some of the thoughts we have. Some of them we have done, we will do more of that.

On your Google Pay kind of question, so in general we have had this API model of giving our APIs to other players so they can build products on them. So we do see significant data value in them. In fact, one of the strategies that we have is cross-selling to these customers and we have built this model, look at this data and are able to predict just based on that transaction data whether a customer is a good credit risk or not.

**Rahul:** This is Rahul from Goldman Sachs. My question actually is pertaining to the widening of the customer acquisition funnel. While I think it is fairly easy to understand that we have got large pool of customers whom you cross-sell you have the data to, but what about taking this application outside of your existing customer pool, because there is a whole market sitting out there, and there are only NBFCs who have successfully done that. So what are the initiatives that you are taking, can you just throw a light on that?

**Balaji Narayanamurthy:** It is a great question, similar push we are having internally as well. See, there are lots of areas where we have ideas, some of them we have already been doing and lots of ideas that we have. We internally call it known to bank, not new to bank but known to bank, basically kind of stuff we talk about. They may not be using my savings account but they are using my payment handle to make payments. I know about that customer. Similarly, we have, Sangram will come and talk about one of our subsidiaries Freecharge, they are a large customer pool as well. So, we do have, our initial focus is on this known to bank franchise were we have some data. We will also work with external partners as and when the right situation arises. See, ultimately credit risk, you can build models, you can be Google, Amazon, whatever it is, but ultimately you can lend… credit is a responsibility, it is not something that is a birth right in some sense, you got to have some evidence that this person is responsible. And you need the data, whether it is new to bank, existing to bank, Google, Amazon. So, I think fundamentally if we have a reason to believe that this customer is a good credit risk, some reason, and we are able to make some bets on the customer the appropriate product will do it. And we will have the capability o do it better than others.

**Participant:** If we look as far as credit card or personal loans are concerned, or maybe in terms of pre-approved customer, so what would be the relevance of the external data to the internal data? So within the credit card how critical is the bureau score, would it just one of the sub-parameters of the parameters or it is equally relevant?

**Balaji Narayanamurthy:** See, as far as external data, bureau data plays a fairly big role. If you were to ask me for the numbers, I would say 40% to 50% of the information value actually comes from the bureau data. See, remember, bureau data is banking data, except that banks are submitting it and consuming from it. And also there are things like whether the customer is salaried, self-employed, his income, those kind of things that the customer gives to us when he is applying for a loan is also fairly useful in understanding his credit risk profile. So we will use whatever of this data that we can get, provided it doesn't become a huge burden on the customer in terms of getting that information.

**Participant:** And in terms of internal data, so when we look at the history which ICICI, HDFC would be having, and maybe Axis as well, so does it put them in a more advantageous position as compared to that of the other players, because internal data would be like much more critical than what bureau throws in, because bureau has been 10 years and cycle has been much better?

**Balaji Narayanamurthy:** Certainly, that's what I meant. So in terms of the total information value, you can get from the customer application forms, you can get from bureaus and you can get from internal data. And the internal data is as significant as the other means, meaning like if you have both players like the banks that have both, they will have 2x information value.

**Participant:** And when we run analytics at the customer level, how are we seeing the overall consumer leverage as compared to that of the consumer saving? And is it more at a tipping point than where there are more rejections which are happening? Because in last 10 years if you look at it, consumer lending has been doing great, deposits have actually been coming off. So, is the leverage at the customer level too high as of now when we just run the analytics across pure customer base? And just to give examples, maybe if you run the analytics across the state wise data as well, that deposits in the state of Maharashtra is hardly 2%, 3%, and that is what is driving down the overall deposit growth. But at the same point in time the personal loan, the consumption loan is very high in the state of Maharashtra, and that's for West Bengal, Tamil Nadu, all the top five metros. So, is it a worrying signal? And maybe, how do we decide in terms of the expansion of the franchise looking at this data?

**Balaji Narayanamurthy:** See, you are asking big questions, a lot of view points on this. See, I will just say my personal viewpoint, not a official viewpoint or something. See, customer leverage, first thing is we track customer leverage closely, I mean, you talked about bureau, every bank while they give a loan, after they give a loan we will look at the bureau to see what the customers' debt levels are. So, we look at that very seriously, we have the capability and the data infrastructure to look at every customers' debt, not just while taking the loan but after he is taking the loan so that we can identify. Now what we see and also the bureaus tell from their data is that there are pockets of high leverage that are showing up, that is number two. There are pockets of high leverage, particularly in the top centers where already lot of lending is happening. And some of those, but having said that, there is a lot of opportunity as well outside of these top locations there are some customer segments that are not addressed. So if you look at overall Indian population who can be underwritten versus who is getting a loan, right now in my view there is significant opportunity. But it always takes time, lenders start with what are the easiest one and then you go to the tougher one and so on. In that process some local bubbles or some local pockets of over leverage we are seeing, but I have seen the 2008 in the US, I mean, I don't see anything close to that as of now, my personal view.

# Analyst Day 2019

## Topic 8 - Wealth Management

**MANAGEMENT: MR. SATHEESH KRISHNAMURTHY – HEAD OF AFFLUENT AND NRI BUSINESSES**

**Participant:** Satish what has been the biggest challenge in this business because the wealth management is actually been done by the traditional nonbanking institutions or some foreign banks have been pretty successful, but we have actually not seen the private banking space really making a big headway in this business, so what exactly has been the problem in this business?

**Satheesh:** Let me just go back a little bit, like I told you I have spent a fair bit of my career at Citibank and if you look back 2013 and 2014 and you look at the mutual funds pecking order of distributors and this is public data, you would typically find foreign banks at pole position. Like you look at the top three players, my ex employee would be right up there for example, but you look at it today the top three players, two of them are large Indian private sector banks Axis included and one is actually a public sector bank, so I think you are right this was a historic challenge because foreign banks were in the target segment was very clear. It was affluent unlike Axis, which started out as a banker for every Indian in the true sense of the word when we started out in a UTI Bank up north, but I think we are now at a stage where we are able to improvise and innovate and I think the challenge was in terms of the right people beginning because why would the rich want to bank with Axis over UBS let us say or any other foreign bank. I think if you have the right talent that makes a big difference. The right product suite, the right platform and I think historically when I came again I must share with you, we used to have off the shelf tech solutions that we were just picking up and trying to provide solutions. One of the early things that we were able to work on is we said look the first thing that a customer wants to see is he wants to look at his holdings across the bank both the asset side and liability side in a single, one-glance statement, so we have been able to create that. We worked straight with a bank like us, we used Finacle, so we went back to Infosys and said create an embedded investment product solution, which kind of talks to what the customer needs are. So I think the historical challenges are largely behind us. The talent hunt was being clearly taken away by a lot of these other players, but if you look at the talent landscape that is now changing more and more towards Indian private sector banks. You are seeing the product suite, the shear strength of the distribution scale all of that coming together, so I think it is a clear cusp. It is point of inflection if I may and I see it that I think the acceleration will happen even more because it is more like a winner take all market right. If you put your reputation as the best wealth manager everybody wants to come to you, so I think that change and as we are clearly emerging as one of the top four players in the industry now. We are seeing that change and we will see more of this coming to us. Thank you.

**Participant:** Just a quick question on the profitability of this, would you be able to shed some light on the kind of these, you have shared the delta, the CAGR growth, but in absolute terms and then there are players who has disclosed their insights so how do you look at them?

**Satheesh:** I think maybe Jairam is the best man to answer that, but I will just touch upon from a basic benchmarking standpoint. We look at a cost to income right the way CFO drives us is what is the cost to income that you are running at and I can tell you about the industry today and we keep benchmarking with the best players in the industry, the fully loaded cost to income in this industry in roughly 50% as far as the wealth management pie goes and I can tell you we are well within that. Jairam is that fair?

**Jairam Sridharan:** Yes.

**Satheesh:** He would definitely like me to cut my costs even more. Thanks.

**Participant:** I have two questions. One especially on the behavioral change especially on the saving patterns or investments patterns of the public, what are the changes you have seen in the last few years except for the financialization of the savings, what are the few changes you have seen especially on the mass market size? What are those patterns change and how banks are positioned there and the second thing is a lot of fintech companies start to come and poach onto your territory. How do you view this competition playing out for the next few years? Thanks.

**Satheesh:** Let me take the second question first in terms of fintechs, the challenge posed by fintechs for incumbents like us in the wealth management sphere. I will give you a simple example. One of the challenges that a customer faces, if I am customer of a bank typically the customer says look I do not know who my relationship manager is. As you enter the affluent play, I do not know how many of you as customers of various banks have had that situation in your life. I am sure it will be good chunk. What we try to do is we went back to our mobile app right and we put a button there saying call your RM. So right from your mobile app you touch that point and you can straight call your RM simple thing, but I think makes a heck of a difference in terms of the customer experience right. So we are doing that and I think this business is whatever challenges the fintechs could pose this needs an ideal marriage of both high touch and high tech. I do not know of a single example globally where by in the wealth management arena and I am talking of customers having let us say assets of at least $100000 in the bank purely on a pure tech model they are able to build scale right and I am talking from a banking standpoint, so I believe that we are extremely well positioned in terms of the cusp of these two inherent strengths. The first question was around the mass market I think Ravi may have already spoken from a larger branch banking standpoint. I do not know in terms of the consumer behavior, mass market I can speak from a wealth management standpoint that one is of course you said apart from the financialization of assets was other. I think there is active interest to look at products like debt in terms of if you come to the next level and which is why I sighted the example of the embassy REIT, which is a Blackstone embassy co-creation, Axis Capital is the lead fund managers there. So products like these are much greater interest to folks because they are seeing that traditionally if they were investing in real estate and gold it gave them a certain CAGR, returns, but over the last five to six years that is not the case, so customers are seeking for opportunities, which are different from the run of the mill and there are good products that we believe we work with, by the way another interesting thing that we do is we are open architecture model in terms of the product array, so we work with the largest and best fund houses across the country including Axis Asset Management, I think Chandresh will share the thought process and the roadmap ahead for Axis AMC, but we work with some of the top most fund houses and try to work on the right products, which make sense for our clientele and bare in mind I think what also sets is uniquely positioned is our presence in the below typically you look at a wealth management house and you ask them what percentage of your clients are in the top 12 cities. The typical answer will be closer to 100% is all there, but I think Axis Bank's franchise trends has given us access to clients in some of the deepest parts of our country. For example, I do not know, if I tell you we have a great presence in a market like Guwahati for example and stuffs like that, so it really gives us leverage of both the distribution strength, the analytics think tank that we have here and leverage tech in a very strong way and we bring it together with a very sound relationship management team and I think we have rather a lot of rhythm and rigor in their daily curriculum.

# Analyst Day 2019

## Topic 9 - Subsidiaries

**MANAGEMENT:**
**MR. AMITABH CHAUDHRY – MD AND CEO OF AXIS BANK**
**MR. SALIL PITALE – JOINT MD AND CO-CEO OF AXIS CAPITAL**
**MR. CHIRAG NEGANDHI – JOINT MD AND CO-CEO OF AXIS CAPITAL**
**MR. ARUN THUKRAL – MD AND CEO OF AXIS SECURITIES**
**MR. CHANDRESH NIGAM – MD AND CEO OF AXIS AMC**
**MR. BIPIN SARAF – MD AND CEO OF AXIS FINANCE**
**MR. KALYAN BASU – MD AND CEO OF A.TREDS**
**MR. SANGRAM SINGH – MD AND CEO OF FREECHARGE**

**Suresh**: So, while we all know the opportunities in the fintech space, one aspect which completely gets neglected is the aspect of profitability. I do not think any of the fintech players in India make profit, I do not think we are going to make in the foreseeable future also. So can you give us an idea as to how are you thinking about that and when can we see breakeven? And also a question to Amitabh, what is the logic behind acquiring Freecharge, in the sense that many of them have collaborative platforms rather than owning a fintech company where we really do not see profits being generated in the foreseeable future?

**Sangram:** So, let me take the first part of the question. I think the reason why we went on the journey that we spoke about was for exactly this reason that payments is a great way to bring in consumer, but you obviously know that the revenues are very thin out there and on its own it is not going to make financial sense, but eventually if you are able to replicate what a banking franchise does in the real world which is to be able to sell as a product, then the payments business becomes like a cost of acquisition for you and then you are able to see a line of sight to revenue. I think Amitabh said in the morning, our traditional way has been to welcome a customer through the savings franchise and then be able to cross-sell a lot more products. Digital payments is offering one more way of doing the same thing where you bring in a customer through the digital payments route because it is very low friction and high-scale growth, but then the end game has to be able to create other relationships which will be deeper relationships. One totally understands that what you initially create is a very light relationship, somebody downloads an app, start using it for bill payments or recharge their phones or pay for DTH or to do some transaction. But that act creates an opportunity for us to now go in and create deeper relationships through lending, through offering credit cards, savings accounts or investment opportunities to them. I think to the point that you are asking, the complete business model has probably not been done yet and that is one of the challenges and the opportunities that the playbooks have not been written on these businesses, but to our mind, I think the eventual goal has to be able to make at a franchise level, when you look at all the products being offered, to be able to make something meaningful outfit from a financial side.

**Amitabh Chaudhry:** To answer your question in two parts, the matter came to us when it was in distress. I think we acquired at a pretty cheap price, some transactions have happened, post that at a much higher multiple, we did not acquire it to make the money, but we have repositioned the franchise of this particular asset to ensure that over a period of time we can acquire native customers at a certain cost of acquisition which would not normally be possible if you were to do in the digital world. As we mentioned some of the numbers if you see are quite staggering, the number of customers who come on Freecharge site, numbers of customers who actually left details on the site, number of customers who are actually engaging with us on a quarterly basis, monthly basis, numbers are large. Somehow, we have just started the journey a couple of months back. Somehow if we convert those customers to start buying products of Axis Bank, that it can be a great channel for us. That is precisely what we are trying to do with Freecharge and that is where the revenue and the profitability model come from. We will make losses, we will make profit.

It is open platform right now, but as far as banking was concerned, we will be taking them to Axis Bank. we are not trying to sell them, it is absolutely wrong, There are one or two other products being sold, but our intention is that Axis Bank will work with them and offer products which might not be available in some of the normal Axis Bank websites or digital world, etc., So this is another acquisition channel for us, that is repositioning.

**Manish**: Question to Chandresh. What part of the business is sourced by the Axis Bank? And second, how do you see the new TER guidelines impacting business if at all from 1st of April?

**Chandresh:** When we started on this just nine years ago, the bank was like 80%, 85% on non-retail. Two parts to the business – one is I will give the equities business, more retail in nature. The bank is now about 30%, it has come down from the 85%, down to 30%. Fixed income anyway been largely a non-bank reliance, say bank has done some bits of it, some parts of institutional business comes to the bank but the numbers are very small. Yes, we are significantly dependent on the retail side, but that is coming down. Also as I said, building up the other channels we expect that it should come down even further. On the TER guideline, I think it is kind of early to say how exactly it will happen. Obviously, you heard what the big boys have already said in terms of how they are going to pass on the drop in revenues. So I think most of it will probably happen in that fashion. That probably also makes some of the small intermediaries really question their business model, some of them may probably go out of business but I think there will be some consolidation behind some of the other platforms happening. So this will be a period of little disruption. Obviously, the talk of the disruption was lot more when the markets were not doing well. I think there has been some change in there. If the market continues to do well with lower revenues, I think things will kind of even out in the next six to nine months with higher volumes. Certainly if market is really doing well then I do not think it is really much of an issue whether it is in terms of flows or profitability of the intermediaries and so on the profitabilities of the mutual fund house is concerned.

**Manish**: Arun, what is the broad split between broking and non-broking revenue for you and every Axis Securities customer, bank's savings account customer also?

**Arun**: All Axis broking customers are Axis Bank customers as of now. But in future we may look at non-Axis Bank customers also. The broad split between revenue is as of now primarily it is non-broking piece, because that is a much bigger piece and that started from 2007. So, maybe around 20, 25% is now Axis Broking and the remaining is non-broking piece which is the sourcing of the origination business.

**Mahrukh Adajania:** This is Mahrukh from IDFC. My question is for Mr. Bipin. Just wanted to know your outlook on asset quality and you hardly had any NPL, so the cycle has been very bad, you also maintained a watch list and what is the outlook on NPL.

**Bipin**: As I said, going forward also we do not see any problem in our asset quality. We have a very tight monitoring mechanism and real estate again, that maybe one of the concerns area but again

80% of our average today are mostly residential projects. So it is ready to move in inventory, and there we do not find any issue in terms of the asset quality.

**Mahrukh Adajania:** You escape the cycle largely because of good security or?

**Bipin**: Product, clientele and the sourcing.

**Jairam Sridharan:** One the metrics that the management team track very closely at Axis Finance is are we doing any real estate funding where OC is not yet picked. OC received the numbers in very late stage in the project. So all the problems that remain in the very early stage, just the land acquisition stage or immediately after land acquisition that is where most of the problems are. If you have already gone all the way up to OC, very limited problems. That is where the Axis Finance has built a book and hence it escapes not all, it does have one NPA in the real estate sector, but it is a much more well managed problem there.

**Lalitabh:** This is Lalitabh from Sharekhan. Would it be possible for you to share the challenge and the strategy that you see in terms of discount broking in the industry?

**Speaker:** I think on every forum this question comes because all of us read newspaper and we are seeing the discount brokers have gone up ahead the curve. Maybe they do not offer the full service, they do not have a research house, they do not have physical branches and they have customers who do not need research. So obviously, we are watching the market and we are aware of this threat and we have a strategy in place and you should understand that we are a bank and our customer has not only this broking relationship but has a savings account, a locker, a credit card and other relationships. So we have to service him definitely and there are HNI customers. So as I said that yes, we agree the pricing makes a difference and we have a strategy in place and I can only say watch this space.

**Kajal Gandhi**: Kajal Gandhi from ICICI Direct. I have two questions: One on the Axis Finance, what is the geography in which we operate in real estate?

**Speaker:** As far as real estate is concerned, majority of ours in five, six markets mainly from Bangalore, Hyderabad and Pune. So most of our assets are in these regions. NCR, we are close to a single digit number. And we keep reviewing this every quarter that what will be our strategy going forward, in each of the market that we are operating on these five-six cities.

**Jairam Sridharan:** Avoiding Delhi, NCR has been a big call that is being taken at Axis Bank and Delhi which has helped us avoid bad loan cycle. NCR is where sort of the core of the problem has emerged right now. So not being there has been a big help for us.

**Kajal Gandhi**: The next question is on the TReDS platform. TReDS is basically the government platform, correct and A.TReDS is what Axis Bank is doing on that platform?

**Speaker:** No, I will just explain. Reserve Bank of India has given license to three entities to build this TReDS. So A. TREDS is one of the entities and the only entity where a bank has been given license to operate this platform. There are other two entities as well who has the license to operate.

**Jairam Sridharan:** It is not a government owned platform, it is not a common platform between the three entities. Imagine them as three different fintech websites or three different fintech platforms. So, we have built our own and the two competitors have built their own and the client in this case, the SMEs or the buyers who have a choice to register on one or more of these platforms for their factory.

**Kajal Gandhi**: Also, the slide which you shared on this opportunity on the TReDS side, the slide which said $5 billion. Is it capturing everything in factoring that has been like SBI has got to factor subsidiaries?

**Jairam Sridharan:** They have been there for the last 15-years, but if you see the book size now after all the things that have happened in the factoring landscape, the book size is around Rs.1,000 crores. And these numbers are taken from IFC which is the International Factory Community, so these numbers are taken from there.

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# Analyst Day 2019

## Topic 10 - The path to sustainable ROE expansion

**MANAGEMENT:**
**MR. AMITABH CHAUDHRY- MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
**MR. JAIRAM SRIDHARAN - CHIEF FINANCIAL OFFICER – AXIS BANK**

**Adarsh:** Just wanted to clarify, you mentioned a midsize capital raise is part of the 18% ROE trajectory?

**Jairam Sridharan:** Yes.

**Adarsh:** And that will be fairly similar to capital raise like you did in the past, adequate for like two to three years of growth?

**Jairam Sridharan:** Yes, I think two to three years has been our philosophy stated in the past and we broadly think that is what it should be.

**Adarsh:** Jairam, the other question is, a lot of the historic data that you have shown show that you are off the peaks in some metrics, you can get back again and some you cannot, but one could argue that over a period of 2007-2008 to 2013-2014 was abnormally good, which led to abnormal losses?

**Jairam Sridharan:** Correct, yes.

**Adarsh:** So taking a 10-year history does not really say that you can get back there right, so I am just trying to understand in that context specifically relating to margins?

**Jairam Sridharan:** That is a great question Adarsh and the intent behind showing some of this is not to say that just because we have been there in the past we will get there in the future, there is no gravity in the finance business, it is not as if I will automatically get back to some core financial performance, we will need to do some things right to get there. As of now on margins for example we know what the margins are of the various businesses and we know what choices we are making in terms of the shift in margins and that if we just play that out, it tells you that you will get there now. There could be a situation where margins systematically get compressed. One could make a macro argument that says that when India was a 7% inflation economy, you could expect certain things as net interest margin, but if you are systematically 3% interest rate economy those same margins are not possible, it is an argument that is quite valid, I totally agree with your viewpoint that you might just never get back there. There are some things even structurally we would not get back there because of the choices we are making, fee is one of them right because of the business choices we are making. Even if macro sort of situation remains exactly you know what it has been, we will not get back to the same fee to asset ratio because we have just chosen to go down a different path with respect to how we originate our fees. But things like margins, things like cost we do not think belong in that category. We do think there are specific levels that are business or management choice driven and we are making those choices to actually move in the right direction.

**Sachin Sheth:** So you had mentioned the 47 bps of average CET1 consumption, but at that period in the last 10 years, the risk weights were quite different I guess from today and as we go more into retail and more into say for corporate lending I guess the risk weight should be lower and therefore capital consumption could be lower?

**Jairam Sridharan:** Yes, it could clearly. On average, risk weight in retail is lower than the risk weight in corporate and which in turn is lower than risk weight in SME, so that business shift can help a little bit from an RWA perspective. All of you have tracked our numbers and you know, our RWA intensity has been improving quite significantly over the last year, year-and-a-half. I do not know how much more is there of that improvement to carry on, it is probably a little bit, but I would not bet too much in that direction, but you are right there is RWA play that exist and some of it is business choice and some of it is management action that we can take.

**Rahul Jain:** Jairam, two questions, first is on the opex side, if you actually look at, I think clearly the opex to assets have peaked. Now when you think about from the retail asset standpoint you also have some element of cost, which is variable in nature, so it is directly correlated to the growth of retail assets, right, at the same time we need to continue to expand our distribution network, so how much of a delta one can expect in numbers from a qualitative standpoint 10, 20, 30 basis points?

**Jairam Sridharan:** I think we have talked about 215 basis points today going down to just under 200, right, so we are talking about 15 basis points delta in cost to assets. We think we have broad line of sight in that direction I do not think we have locked down 15 basis points worth of savings. In retail liabilities, the single largest expense is staff and in retail lending it is cost of acquisition. Cost of acquisition, it is directly proportional to the business you do only if your channel mix is the same. Jagdeep showed a great chart in the morning, which said 5% of your small business originations one year ago used to be from digital, now that is 58% that fundamentally shifts your cost of acquisition dynamic. Because now here you are not incurring like a fraction of the cost that you were incurring before, so you could actually see acquisition cost grow disproportionately slower than assets even in businesses like retail lending. And in fact I would argue that businesses like retail lending in cars, is a prime candidate where cost saving opportunities or the cost efficiency opportunities are the greatest. Similarly in branch banking operations - mid office and back office, there exists cost saving opportunities, but some of these other businesses, corporate, SME, etc, there is not that much to do.

**Rahul Jain**: Just some clarification of this, 15 basis points of savings takes into account the distribution expansion that you will do…

**Jairam Sridharan**: Of course.

**Rahul Jain**: Just one clarification also, you talked about all the cost savings you will do by moving to digital channels, but would not it also get reflected in pricing of those loans?

**Jairam Sridharan**: In our business that have originated digitally let me not go much further, we are quite profitable.

**Anand Dama**: So regarding your share of retail assets, so we have not really talked about to what is basically the level of retail assets that we are looking at may be in the next two to three years as such, so any thought on that?

**Jairam Sridharan**: I think Amitabh touched on this in the morning, there was a time in the past where we had a very specific design strategy around what we wanted to do with business mix, we said we want to become more retail, we used to be 20% something in terms of retail as proportion of total loans; over a period of 8 to 9 years we have gone from 20% to 49% retail. We no longer have a grand design with respect to the portfolio. At this point of time we are going to be guided by wherever RAROC exists opportunistically. We will pursue the opportunities that offer best returns for the capital that is what we will pursue, there is no grand design or three year out business mix that we are planning out right now.

**Anand Dama**: But in the morning again Amitabh said that we will certainly put growth before profitability because first we need to build a scale and automatically the profitability will come as we actually build a scale, so in that case I think we need to have some business target that we got to give it to the people down the order, so that they actually deliver on that scalability part first and then can also deliver on the profitability.

**Amitabh Chaudhry**: I do not say put growth over profitability.

**Jairam Sridharan**: That will be dangerous, but if it all there.

**Amitabh Chaudhry**: What we said is in some businesses where we do not have the scale, without getting to scale we will never get profitability that is all I meant. Let me just clarify, I think in the subsidiaries you saw and heard some of the business leaders that we do not have the scale and that is visible in the profitability, that is all I meant.

So in businesses like broking and AMC, you saw that we showed that profit chart, profits are falling we are perfectly comfortable with it, we do not really mind that profits are falling in these because we believe that we want to invest in them right now, we do not want to start optimizing their profitability at this point, we want them to get to scale, so in some of those businesses that is somewhere it is valid, that somewhere is not valid in retail lending. In retail lending we need profitability and we are not going to be okay if Jagdeep and his team tomorrow said boss cut my profit targets in half I will give you twice the growth no thanks.

**Anand Dama**: And the last thing on this 18% ROE that we are talking about that we want to reach in two to three years as such, once we reach there how do we sustain that 18% ROE for the next five to seven years because we are now becoming more and more granular, we are getting more into retail?

**Jairam Sridharan:** I will take one part of that question and then I would request Amitabh to jump in on the sustainability part, see one thing you will notice a little bit different about my presentation is my conversation has been about how to drive sustainable ROE expansion. I have not found a clear path all the way up to 18% and the honest fact is that if we start drawing out the map and we know what some of the levers are, we get a large part of the way there, but getting all the way up to 18% is still not a certainty. There is a little bit of stretch involved. Amitabh has taken on the challenge to say I want to put that stretch number out there even though I recognize that there is not full line of sight to getting all the way there, and I am sure all of you have your excel sheets, which I am sure will get you to some numbers 15% to 16%, maybe the more generous of you are already getting to 18%, but I do not think all of you are getting to 18% and we too have slightly different versions of the same excel sheet. So we are not too far off, but it is true that we think there are enough glimmers of opportunity that are out there, which make us feel that 18% is possible, it is not a certainty so please do not take 18% as a guidance, it is our target it is what we are working towards. Now your question on sustainability and how to sustain whatever that expanded ROE is. Now the sustenance, that has been a big challenge for us in the past and there is a lot of internal rewiring that needs to happen to get us there and Amitabh has already done a lot of thinking and a lot of work in that phase and a lot of changes internally to get there. I would request him to talk a little bit of that.

**Amitabh Chaudhry:** Well, idea is not just to get to 18%, touch it and then come to go back to 15% to 16%, we do want ROEs to sustain at 18% level. So we have to start taking action today thinking of three to five years down the line and not think only about the next 12 to 18 months. For example the digital business we have an idea what we want to do there but what form it will take could be very, very different from what we are thinking today, it will be partly determined by market, it will partly be determined by how much success we get in terms of focusing as we attempt, but our endeavor will be to have enough scene in play, which are five-year, three-year or one-year play because we have to have all of those brought in the pie or otherwise if we start thinking about okay how to sustain 18% at the end of second year, we will never get there, we will touch and come back. So I can only say that we are thinking five years down the line, we have put our neck out in the digital business also. We have decided on who the leader is, we have idea what we want to do, we have roadmap, these are the things which are quite clear, and some of the things are not 100% clear. But the biggest story for our sustenance is we do not want the negative result that is I think the first message we are giving. We have negatively surprised market few times. So we want to first stop that. Once you stop that, then we can start to give the positive surprises, I think negative surprises should be stopped and that is what we have been moving towards.

**Anand Dama:** So can we say that there will be no negative surprises anymore?

**Amitabh Chaudhry:** No, we are trying. All of us here are trying very hard. If we keep trying and not succeed then I will not be there in front of you standing here.

**Manish**: On your subsidiaries, I believe only Axis Finance will require capital, would you be providing that or overtime you will want them to access capital markets?

**Amitabh Chaudhry:** We will be providing it. We have absolutely no intention to list them as yet.

**Manish:** There will be no subsidiaries that you will want to list?

**Amitabh Chaudhry:** No at this stage, we want to capture the value in the business line, very clearly.

**Manish:** Sure on capital raising at what point of Tier-1 capital or CET1 capital would you want to start thinking about raising money?

**Jairam Sridharan:** Manish our story in the past has been that we want a margin of safety of 200 basis points over regulatory minimum in addition to the capital contribution buffer. Essentially what that broadly translates to is, if we get to below 11% in terms of CET1 for a couple of quarters, we will start seriously considering it. If we ever go below 10.5%, we will certainly go for capital raise.

**Manish:** And lastly when you talked about 18% ROE, is it likely that in the current scheme of things that we will run with much lower leverage compared to what we would have run in the previous cycle? Which means our ROAs have to be sustainably higher than what we have done in the past?

**Amitabh Chaudhry:** We think while there is a little bit to your leverage point, I would not overstress it. I think today our sort of net-worth to assets is about 11x to 11.5x whatever it is, I do not think we are talking about 9x, there might be a little bit there, but not really more than that. Remember that we were delivering ROE, which were 21% not 18%, so we are now talking 18% so 18% with 11x or whatever 10 to 11x gets into particular ROA numbers, I mean you all know Maths better than I do, I am sure.

**Jai Mundhra:** This is Jai Mundhra from B&K Securities. Sir you have been mentioning about RAROC based decision making and the outcome which we have said 18% percent is on ROE basis, so just to tie up between the two, I mean, would you have any let us say the number which also measures you on risk adjusted basis, so let us say RoRWA or something of that sort.

**Jairam Sridharan:** Internally we look at RoRWA but that is not going to be primary metric that we want to publish or talk to you all about. We know what the RWA intensity of various business are and there are choices that we are making in terms of mix between some of those business in the short-to-medium term, which we know will lead us to particular RoRWA so but that is not our primary metric. RoRWA is like going to midway stop and ROE is a final shop so we will encourage you to remain focused on the final stop.

**Sachin:** Just a question on the ED for retail that expecting to come onboard, now your individual retail has made presentation and has shown the way forward as well. What will the ED retail do? Is there likely to be a change in any of this strategy?

**Amitabh Chaudhry**: Let me just say this, there is a lot of stuff which you have seen today has been a result of common view which has emerged after discussion with all the people involved. Some of those views are obviously reflected in some of the slides which have been presented. So I do not expect that to happen.

**Krishnan:** Just a couple of things I wanted to touch upon, number one, how are you rebuilding credibility with the regulator that is number one, the second slightly related is what are you doing to address operating risk or operational risk, I think that is one of the thing that you mentioned during the call. It would be great if you could just throw some light around operational risk?

**Amitabh Chaudhry**: As far as the regulator is concerned, obviously one of the first step which we have taken is that we have new compliance officer who is two notches above the previous incumbent. So as a first step, the first indication we have given to regulator is that we are very serious about it. Obviously as part of my exercise after introducing myself, I have gone and met all of these other people in Reserve Bank of India and assured them that we will take compliance very seriously, but end of the day, it will be our actions that will work and the kind of the work which we do and showcase them over a period of time, is what will convince them that yes we are on the right track. So just talking and engaging and building the relationship will not get us through fully. It's our actions which will finally get us there. As far as the operational risk is concerned there could be easily a presentation we could have done here, I think our operational head is a very, very strong individual, the problem is operational information can't be captured in four slides, they are not just one thing, we will be running through pages and pages of sort of things which we have done because from an operational perspective we have to look at every business and see what the risks are and then decide on from process, design perspective how you are going to take care of that particular operational risk. We have reassessed those businesses so we are either shutting them down or we have decided to shut them down. The risk team has done a very extensive exercise on operational risks of Reserve Bank and we have gone and we have captured all that. We have processed mapped all of that processes. We have looked at from an operationally perspective, from a software perspective, or a compliance perspective, what are the controls we need to build in, either we hardwire them or we build in a major check in kind of control or we do a concurrent audit, all of that might be required to make sure that all these things have been taken care of. Recently RBI inspection report has come. I think we are looking at everything just been pointed out there, extremely seriously and we are also taking action there, but over and above that, end of the day the risk is dependent on the people who are executing the transaction and a lot of effort is happening at that last mile where transactions have been undertaken. So we have now new digital monitoring team. We have a lot of concurrent audit happening in the system. We are also hiring individual where we are going to roll in all the transactional audit, robotics process automation and some of that stuff under the individual so that we can not only look at operational risk but we can use various techniques, and say these are the levels to improve or reduce the level of risk adjusted businesses. There are surprised audits being done, there are mystery audits being done. There are lot of things which are happening to ensure that we do not repeat from the mistakes which we have done in the past, that does not mean we will not but I think definitely the level of operational risks are coming down.

**Krishnan:** Amitabh, very usual presentation just a fundamental question, the way the corporate book, the direction it is taking and the retail books direction it is taking, do you think it is fundamentally more useful to have an independent credit function which reports directly to you in the retail and probably the corporate the way you are going with, working capital and you are actually setting ground rules whereas in case of retail there are new businesses which are new to the bank and all where we probably need an independent committee to assess risk and what are your thoughts on that?

**Amitabh Chaudhry:** We are pulling out the risk side completely from Jagdeep and is being put into this function that individual has been hired should be joining us in sometime, we have decided as a concept that even underwriting and ops will be pulled out of Jagdeep and we are telling Jagdeep that we want the usage of your time in focusing and growing our business rather than managing some of these things, so yes, conceptually we have said we will pull out risks underwriting and ops from business across all other businesses and we are active and all this will happen very soon.

**Jairam Sridharan**: That was the last question. Thank you very much everybody.