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.

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.