"RBL Bank Limited Financial Performance for Q3 and Nine Months of FY '19"

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MANAGEMENT TEAM

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Earnings Call of RBL Bank Limited to discuss the financial performance for Q3 and nine months of FY '19. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vishwavir Ahuja, Managing Director and CEO, RBL Bank Limited. Thank you and over to you, Mr. Ahuja.

Vishwavir Ahuja: Good Evening, Ladies and Gentlemen and thank you for joining us on the Earnings Call for Q3 and for the nine-month period of this year. I hope you have had a chance to go through our press release and the investor presentation which has been uploaded on our website. I will briefly talk through our performance highlights and then open it up for questions. I also have my colleagues from our management team with me who will also address your queries as we go along.

Briefly, on the macro front, we have seen this quarter that RBI's stand continues to be neutral though recent data indicating benign inflation could lead to a more dovish stand going forward. Liquidity injections by the Reserve Bank through OMOs has improved systemic liquidity though with cash in the system being high and expected to increase in the coming months, liquidity may continue to remain tight in the near-term. We also expect the deposit curve to remain steep unless there is a significant change in RBI's stand.

On to our financial performance for the quarter gone by. For the quarter ended December 2018, our advances grew 35% year-on-year with wholesale and non-wholesale businesses growing at 25% and 51%, respectively. Our wholesale and non-wholesale segments continue to see traction with the split of businesses between them being at 57% and 43%, 57% being the wholesale business and 43% being the non-wholesale business. Our deposit base also continues to see strong growth at 35% year-on-year led by CASA growth of 38% year-on-year. CASA percentage is up marginally from 24.03% in Q3 2018 to 24.57% in Q3 FY '19.

Now, talking about revenue growth, net interest income, and margins, revenue growth has seen strong momentum and has grown 42% year-on-year in Q3 FY '19. Our net interest income growth at 40% continues to be higher than our loan growth. Our overall yield on advances improved 25 basis points QOQ to 11.16%. This increase has been driven by a combination of continued pass through of MCLR increases and changing mix of business in favor of non-wholesale businesses. Our sequential improvement in NIMs continues in this quarter as well with our NIMs increasing to 4.12% from 4.08% in the last quarter and 3.89% in the equivalent quarter last year. As indicated in our last call, the pressure on interest rates has continued in this quarter though we believe that there are signs of rates picking out in the next few months. Our cost of deposits have increased by 18 basis points QOQ to 6.83% in Q3 from 6.65% in Q2. A similar increase on 19 basis points were seen in cost of funds to 6.63% in Q3 from 6.44% in Q2. Even as we have seen sharp increases in market interest rates, we are quite satisfied with the outcomes on the re-pricing of our liability book over the last couple of quarters.

As we have been saying over the last few calls, we are now increasingly able to pass through increases in MCLRs as the loans come up for repricing. We increased our MCLRs between 10 to 35 basis points across tenures in this quarter. In this quarter, our wholesale book yields have increased by 15 basis points on a sequential basis. Given the interest rate outlook and tightness in liquidity, we believe that cost of funds will inch up further from here, but the expected gradual change in mix of our advances book towards non-wholesale businesses along with the pass through of MCLR hikes, and our funding mix between CASA, attractive refinance borrowings and customer deposit book give us comfort that we will be able to maintain NIMs going forward.

Our non-interest income grew 45% year-on-year and our core fee income grew 50% year-on-year in Q3 FY '19. Our non-interest income was 36% of our total income for the quarter. As in previous quarters, retail fee growth has seen granular growth across distribution, cards, client Fx income, and general banking fees. Our total fee from retail linked businesses was approximately 70% of the total fees.

Coming to operating expenses and net profit for the quarter. Our cost-to-income ratio was 51.6% for Q3 '19, 250 basis points lower than equivalent quarter last year and flat quarter on quarter. As previously stated for the full year, we expect our cost-to-income ratio to be around 52%. We stated this earlier, as we continue to make investments, be it in accelerating our branch rollout, in premises expansion, and in technology etc.

For Q3 FY '19, our net profit increased by 36% year-on-year to 225 crores. Our ROA for the quarter was 1.27% marginally higher than the previous quarter. Our ROE has also improved to 12.4% in this quarter as against 11.6% in the previous quarter. Our financial performance continues to broadly track to our guidance for FY '20.

Now, let me discuss the business performance for the various business segments. In our wholesale book, we saw 25% year-on-year growth. Within wholesale, C&IB grew 28% and CB grew 20% year-on-year. As I mentioned earlier, yields are improving in our wholesale book as competitive pressures abate and MCLR pass through also continues. On a QOQ basis, we have seen increase of 15 basis points in wholesale yields as I stated earlier.

The non-wholesale business book continued its growth momentum growing by 51% year-on-year. Within this, the retail asset segment grew 56% and the development banking and financial inclusion segment grew by 42% year-on-year. We also saw gross yields pickup for the non-wholesale businesses by 20 basis points quarter-on-quarter to 14.3%. This was driven by product mix as well as yield improvement in the MCLR-linked loans.

In the retail asset business, credit card and secured business loans which is LAP were the primary drivers of growth. Our LAP business continues to be stable in terms of delinquencies with gross NPAs at 0.7%, which has remained in this range for more than a year. This is primarily because of the business model adopted in terms of cash flow based client assessment, selective on target customer segments, and choice of collateral with over 97% of all of our collateral being self-occupied.

The cards business now stands at 1.4 million cards as of December 2018. The festive season gave a boost to new card acquisition and we acquired 290,000 new customers versus 260,000 in the previous quarter. The retail spends also saw a growth of 5% quarter-on-quarter and 133% year-on-year. We also completed an upgrade of our card system and successfully migrated a million customers to the new Vision Plus system with First Data Corporation. The new system significantly enhances our capability to offer new innovations and better services to our customers while giving us the confidence to manage scale.

Coming to the DB&FI segment, the micro-banking business grew 46% year-on-year. We added 56 BC branches in the quarter taking our total BC branch count to 956 across 19 states. The gross NPA continue to reduce in line with our previous guidance and was at 0.88% below the 1% mark indicated in our previous calls. We have also provided for almost the entire demonetization impacted portfolio. In this quarter, we also rebranded our subsidiary, Swadhaar, to RBL Finserve Limited, and recently have taken on-board a senior industry veteran as its CEO. The overall credit environment remains stable in micro-banking, though we did see a few districts getting temporarily impacted by Cyclone floods in Tamil Nadu and Orissa. However, the impact is negligible on the portfolio as it is restricted to a very few districts and a strategy of geographical diversification with no state beyond 15% exposure has ensured that the impact is minimum at a portfolio level. Retail-Agri book remains flat versus the previous quarter in absolute terms and declined year-on-year. Its overall contribution to the overall book advances is now only 3%, which is in line with the strategy to reduce the exposure till the market environment becomes more favorable.

We have been seeing NPA increases in this segment led by the spate of farm loan waivers announcements in different states and customers stopping to pay their dues. We are hopeful that a lot of these accounts will become current as state governments give details on eligibility at a customer level and disburse the waiver amounts. However, given the small Agri exposure to the overall book, we have been able to absorb this impact without any significant change in the banks overall GNPAs, in fact gross NPAs of the bank have come down.

Our bank level GNPA percentage was 1.38% in Q3 FY '19 and net NPA was 0.72% as against 1.4% and 0.74%, respectively, in Q2, which means two basis points reduction in both GNPA and net NPA. Our restructured assets stood at 0.9% in Q3, security receipts position was at 0.05% of our advances and there was one ARC sale in the quarter for cash. Our net stressed book, which is net NPA plus restructured was flat QOQ at 0.81%.

Our deposit base continues to see healthy growth at 35% year-on-year. CASA grew 38% during the same period. CASA ratios were at 24.57% as I said earlier improved marginally. The retailization and granularity continues to increase in our deposits with healthy liquidity coverage ratios. Our daily average LCR was 119% for the quarter.Our cost of funds for the quarter was 6.63% as against 6.44% in the previous quarter.

We added 20 branches, 19 in Metro locations and one urban branch in the third quarter. In the fourth quarter, we expect to add another between 25 to 30 branches, and for the full year FY '20, our plan is to add between 60 and 70 branches taking the total branch count to between 380 to 400 by the end of fiscal year FY '20. A majority of these branches will be in Metro and urban locations. We also added 56 business corresponding branches in the third quarter of '19 largely through RBL FinServe. We now have a total of 288 bank branches for the bank as a whole and 956 BC branches of which 221 are banking outlets. Of the 956 BC branches, RBL FinServe accounts for 427 branches.

Our capital adequacy ratio is 13.8% with Tier 1 capital adequacy ratio of 12.52% as of December 31, 2018.

I am now going to summarize and then we will take questions. Our NIM trajectory continues to be strong and we are confident of maintaining it around the current levels. We are tracking well to our financial metrics and our 2020 goals. There is a stronger focus on our liabilities franchise through expansion of our distribution network largely in Metro and urban areas, and lastly, our asset quality continues to remain stable, with that now we open this call for questions and answers.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We take the first question from the line of Henrik Milton from Coeli. Please go ahead.

Henrik Milton: It is regarding the Indian real estate market, have you had any impact from the bad credit within the real estate market?

R. Gurumurthy: We have not had any impact at all, we actually are very small players in this space as far as lending goes, there is a bit of it in the retail business that we do as working capital loans in real estate is only collateral primary source being cash flows, elsewhere we are very small in this, working capital players largely, we are not otherwise part of this industry.

Henrik Milton: One question regarding your card business, you had a very nice improvement of the number of cards issued, are you first of all in the card business now?

Harjeet Toor: Yes, that is correct in face we turned profitable more than a year back and today delivered ROAs in excess of the bank ROAs.

Moderator: Thank you. We take the next question from the line of Rahul Maheshwari from TCG Asset Management. Please go ahead.

Rahul Maheshwari: Sir, just on the Slide #19 I just wanted to ask on in spite of such a high AUMs advance growth, the mix between the processing fee if we look at has fallen in on a year-on-year basis, can we take it that the processing fee as a percentage has been reduced in terms as compared to the previous year, one is this? The second as we have found your cards business has been improving on a sequential basis, so where is the trajectory of this proportion of credit card fees would be taking any color on that part that how much is the processing fee as a percentage of the overall revenue and the cards fees business and on the GNPA in the credit card segment?

Jaideep Iyer: I will just take this at the processing fee, I think processing fee itself has got, one would be from retail loan growth and the second would be from corporate loan growth. The corporate loan growth part thus tend to be a little bit up and down because it depends on the kind of growth that we see in a quarter. Also, from a percentage standpoint, it has remained stable to overall fees partly because cards is obviously growing at, the total fee income from cards is growing at a very healthy pace, so cards contribution has gone up from 40% to 41% this quarter.

Rahul Maheshwari: Generally, what is the range for the processing fees that is being taken across previously and this year, the range of the percentage fees I am asking?

Jaideep Iyer: Range of percentage fees would be between let us say 0.1% to about 1.2%.

Rahul Maheshwari: That has remained through previous year also?

Jaideep Iyer: Yes, there is no change at all in that.

Rahul Maheshwari: On credit cards and the segment?

Harjeet Toor: On the cards, your question was on GNPA?

Rahul Maheshwari: On cards the fees part, first where the trajectory would be there and what is the range of percentage fees that is being charged, what is the GNPA quality on the credit card segment and the growth outlook, also you have a partnership with Bajaj Finance, so now what is the next strategy that would be taking place or where is the journey going forward?

Harjeet Toor: Let me answer the fee component, the cards has multiple fee lines, the large one is being obviously the spend base interchange fee, you have the annual fee, you have the processing fee, and then you have other fees like insurance, recoveries, penal charges, etc., etc. For us, the total cards fees or part of the revenue hover around between 50% to 52% of the total revenue and that has been stable and that has been holding out and we expect that to continue as we move forward. The cards growth perspective, today if you see we are acquiring about a lakh of cards a month. We expect this trajectory to continue and we will hopefully by the end of this year move towards may be 1.7 to 1.8 million cards and then the trajectory from thereon will continue. The GNPAs are stable. We run at GNPAs in the region of about 1% to 1.1% in cards and we continue to do so.

Rahul Maheshwari: Sir, how much time does it take in terms of cost acquiring the credit card and the breakeven which you do?

Harjeet Toor: Card typically breaks even anywhere between 16 to 18 months.

Rahul Maheshwari: What is the costing being done for cards?

Harjeet Toor: There are various costs involved, so roughly I would say anywhere between Rs. 4000 to Rs. 5000 a card.

Rahul Maheshwari: Last question, Sir, the RBI divergence did we receive the report from RBI or is there no divergence at all?

R. Gurumurthy: We have not yet received the report from RBI, we do not expect anything either.

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

Manish Karwa: First on the deposit front, after a long time we are seeing SA actually growing at a really good pace, is this all granular SA or there is some component of corporate SA as well in this quarter?

Surinder Chawla: Actually, if you notice the Savings Account numbers have been growing quarter-on-quarter for the last three or four quarters. We just had one quarter of a stable number when I had mentioned that we are actually rebalancing our portfolio trying to take it towards more granularity, but for the last three quarters we have been growing at a healthy clip, and no, there is no big participation of any big ticket in this at all, it is all granular.

Manish Karwa: On your loan book, just wanted a broad thought, while we may be small in all the segments like credit cards, personal loans and microfinance, but collectively these three segments are now close to 20% of our loan book, is there a thought to have a cap on these loans or let it grow as much as they can because in the overall industry terms, it is still pretty small?

Vishwavir Ahuja: I will give you a top-down perspective, we have been saying for a while that between wholesale and non-wholesale we in two to three years' time expect to get to a 50:50 balance in terms of our advances. Right now, we are still slightly overweight on the wholesale banking side, but the natural traction in the business is such that I think in this time period that I have indicated, we will get to that balance, I mean broadly that is where it stems from. Now, within that there are other aspects to our strategy which allows each of these business segments to grow at a fairly if I may say rapid pace to reach scale and I think individually if you see the cards business by next year will be a pretty handsome scaled up business and already in terms of new card acquisition and cards spends, we are among the top five and just in terms of ranking in 12 to 18 months from now, I think we will be among the top may be five or six players somewhere in that range, so I think businesses are reaching scale gradually. If you take the micro-banking business, again if you just take that piece out and treat it as a business by itself and compare with other peers in that space who do micro-lending, again we are in the top seven or eight players in the country. These businesses continue to grow at 40% to 50% per annum will hit decent scale numbers with good returns.

Manish Karwa: Last question, on your credit card fees, would it be fair to assume that as the number of credit cards in the spends keep growing, fees will also keep growing by roughly similar proportion on an absolute basis?

Harjeet Toor: More or less yes, it is kind of because this is granular in nature and it is on a card basis and since card gets renewed every year, more or less you could say that it will continue in the same trajectory.

Moderator: Thank you. We take the next question from the line of Nitin Agarwal from Motilal Oswal Securities Limited. Please go ahead.

Nitin Agarwal: Sir, firstly the rejection rate in the MFI business has increased this quarter, so any color on this and outlook on MFI business? Second what was the ROA that we are making currently in the card business like until recently we used to indicate that these ROA is slightly higher than the portfolio ROA, so where have we reached there now?

Harjeet Toor: Let me answer that question on the rejection rate, the rejection rate typically moves a little up and down. We have put some new bureau rules, and therefore, you may have seen a little bit of an uptick in rejection rate this time. As we start using analytics on our portfolios, we will see this happen, but I guess you will have to see a trend over a few quarters and not just look at one particular quarter. As regard the card ROA is concerned, we do not share ROAs specifically by product, but I can tell you that it continues to improve.

Nitin Agarwal: The other observation is that RWA to total assets this quarter has improved pretty sharply, so what has driven this improvement?

Jaideep Iyer: Nitin, couple of items here, one is we got more of our loans rated externally which allows us to free up capital. Second I think last quarter we had an unusually high mark-to-market number because of sharp movement of the foreign currency dollar which is reversed, so the amount on which you have to keep capital has come down, so I would not say that the average capital consumption should continue to be concerted in the 30 to 40 basis points range and RWA to balance sheet should be in the 79% to 80% range in general.

Nitin Agarwal: One last question is how is the revolve rate on a credit's card trading because if I look at in terms of total spends in the quarter, that number is nearly 5% higher on a quarter-to-quarter basis, but in terms of consumer loans we have 20% higher, so how is the revolve rate trending in the card business and some color on the delinquencies if you can share that?

Harjeet Toor: The revolve rate continues to be as mentioned in our last calls as well between the 45% to 46% by balance and about 25% to 26% by customers, that has not changed and that continues to be in line with that. The increase in spends which you saw was the bump up on account of Festival, and therefore, there were specific programs which were done to encourage customers to spend on this particular card versus their other cards and that is the reason why you saw the spend.

In terms of delinquencies as I said, our NPAs continue the same. We have not seen any change in delinquencies and so is the case with the industry as well. As of now, the industry also delinquencies seem to be stable.

Moderator: Thank you. We take the next question from the line of Abhishek Modi from Asit C Mehta Investment. Please go ahead.

Abhishek Modi: My question is with regard to slippages, I think there are around 200 odd crores, correct Sir, this quarter?

Vishwavir Ahuja: Yes.

Abhishek Modi: But they have increased because of which credit card or something also means ILFS or means SLR, I just want to know that in future quarters will there be more with any idea with regard to slippages because which sector specifically?

Vishwavir Ahuja: Same period last year was also 210…

Abhishek Modi: But quarter-on-quarter it has increased, Sir?

Vishwavir Ahuja: Quarter-on-quarter has increased.

Vishwavir Ahuja: I think it is a combination of, we had some slippages in the Agri portfolio partly driven by farm loan waivers, so we have kind of absorbed that slippage completely. In addition to that, the run rate on cards while as a percentage of the balance will kind of remain steady, but given that the growth that will also kind of keep inching up in Rupee terms. In percentage term the loan book, I think we should kind of be here or come down, so I do not think we expect this to significantly move up further.

Abhishek Modi: Mainly it is card business and Agri portfolio, correct Sir?

Vishwavir Ahuja: Correct, out of which cards is absolutely normal in line with expectations and as per the business plan. On Agri of course, we have had a slightly additional run rate.

Abhishek Modi: ILFS is not affected your slippages?

Vishwavir Ahuja: We had clarified in the last quarter, we do not have any meaningful exposure to ILFS at all.

Abhishek Modi: The cards will be debit or credit card or both?

Vishwavir Ahuja: It will be credit cards, yes.

Abhishek Modi: Sir, with regard to capital adequacy, if I just observe previously it was around 15% the capital adequacy Basel 3 overall, currently it has come down a bit, I know because of loan growth and all, but are you having any proposals to increase the capital by issuance of bonds or something like that?

Jaideep Iyer: On non-equity capital, yes, we can always consider bonds. We need to have some stability on interest rates which we are already beginning to see a bit whenever the market conditions are good, we can do a Tier-2, but we are quite happy with the current level of total capital. In this quarter, we have been stable sequentially on total capital.

Moderator: Thank you. We take the next question from the line of Lalitabh S. from Sharekhan. Please go ahead.

Lalitabh S.: Sir, couple of things, first of all if you can share the breakup of provisions this time and are you building up some floating provisions amount, if yes, then what is the amount as of now and what was this in Q2? Secondly, there is a significant reduction in the RWA by total assets on a sequential basis, so is there anything to read into it or is it because of different risk weights?

Jaideep Iyer: I will take the second question first quickly, I think I just answered that question. We have had the benefit of some of our credits getting externally rated at better than BBB which allows us to release capital, so which is why I think this quarter we were sequentially flattish plus we had the benefit of Mark-to-market client fx outstanding coming down because of reversal in Dollar-Rupee as compared to Q2. I think on a trend basis, we will expect RWA to assets to be closer to between 79 and 80 than the current level of 78. On provision breakup, we have given details of outstanding provision across businesses which is quite straightforward, that is on Page 25.

Lalitabh S.: Are you looking to build any floating provision kind of a buffer for yourself?

Jaideep Iyer: We have kind of stated in the past that we would want to kind of build a provisioning on our microfinance portfolio once we have cleaned up our demonetization book, so from next year we do have a proposed plan to kind of walk forward on that path. We will have to see how conditions evolve, but currently that is the thought process.

Moderator: Thank you. The next question is from the line of Rajeev Pathak from GC Investment. Please go ahead.

Rajeev Pathak: Sir, just on the cards business, we have been acquiring almost 3 lakhs in a quarter, so how much of this will be through the cobranded cards and how much is our own cards?

Harjeet Toor: Roughly, 60% comes through the cobranded cards and the balance is the other partnerships etc. which we have for our own customers.

Rajeev Pathak: Out of the total outstanding of 1.43, how much will be the cobranded?

Harjeet Toor: About 45 odd percent is the cobranded portfolio and 55% is the other portfolio.

Rajeev Pathak: How do you see the trajectory in the cobranded, is the propensity of piling on more cards more in the cobranded part or how do you see that mix?

Harjeet Toor: The current trajectory will continue because we have some other partnerships on our core cards as well will continue, so I expect the mix to remain largely similar.

Rajeev Pathak: How is the fee structure in this cobranded card, is it after parting the sharing fees or anything, how does it stack vis-a-vis our own cards?

Harjeet Toor: We did mention earlier as well that we expect the ROA on the cobrand portfolio with Bajaj to be roughly similar to the one which we have on the other portfolio as well, so we do not expect much change.

Rajeev Pathak: The delinquency on the cobranded part, is it different than the?

Harjeet Toor: That is lower because it is a tested portfolio and we also expect it to be lower.

Moderator: Thank you. The next question is from the line of Bipin Set from HDFC Securities. Please go ahead.

Bipin Set: I am getting the drift on your longer term evolution very, very clearly and there is no doubt that you are a solid business on with a solid trajectory, no challenges there. What is interesting is that given the current challenges on the liability side that smaller banks and NBFCs have faced, I can see a very strong deposit accretion also and that is inspiring. Now, perhaps you can give us some insight on why that is playing out or how that is playing out. I can see you are about 24.5%

CASA at the end of the last reported quarter and 75.5% of your deposits are term deposits, so what is the granularity there and that will really give me a picture on how stable these deposits are, there is no question that you can grow at 25-30%, 30-35% rate, but you need to fund the raw material, so how stable is this liability management here?

Vishwavir Ahuja: I think Surender will give you a little bit of picture on the CASA and the granularity, but just a quick clarification I do not think small banks or banking sector had any issues on liquidity.

Bipin Set: It is not that they have issues, all I am saying is that there is an increasing feeling that the banks with a large footprint and very established CASA franchises will not face a challenge in raising money and the smaller players might be under some kind of challenge as we move forward, so the people who built great franchises will certainly do very well and I am completely convinced that banks like yours have a much better than average chance of doing this, but it would help to know the granularity?

Rajeev Ahuja: Bipin, this is Rajeev, let me just address a broader think and before Surender chimes in, again as you rightly said this is evolutionary and its contingent and many things coming together. One is your brand time in the market, consistency with various segments, what you choose to do, what you chose not to do because these are all very long gestation investments you need to do to build an effective liability franchise which as you know is the highest level of inertia. Secondly, what is important is that in the interim as you rightly said, we are funding a 35% growth with a combination of deposits which is really the core, an additional segment through the borrowings which are long-term borrowings against specific assets which actually help us manage this growth without sacrificing or compromising on the cost of funds as well as duration of liabilities. All of these have to go hand-in-hand. I do not think you can just fire on one engine.

Clearly, as you have seen and we have been chatting about it that every year or so we would add between 40 and 50 mainline branches which are deposit branches and as your base expands, your ability to expand that footprint which is still critical in terms of client credibility and a kind of a standing as a bank will only keep enhancing. You have seen that we have added 20 mainline branches in this quarter and we expect to do another 25-30 in the Q4 and next year between 60 and 70 branches additionally. As the base increases, please realize that unlike the small finance banks, we have an existing platform which has been battle tested a set of people, a set of clients which are now three to six years old on that base to grow is a lot different than growing ab initio. The challenges SFBs face today is not dissimilar to the challenges we faced around 2011, 2012, 2013 when we were a very, very nascent brand, so all these things actually graduate you to a more diversified portfolio of liabilities, more granularization and very important for us is to maintain a very strong liquidity coverage, so as you know the last four to five months has been very, very challenging from a liquidity environment for the general market. As banks, we may have benefited relative to NBFC, but still our LCRs in the last three months have averaged around 115 to 120. We take that very seriously because of the high growth characteristics we have, so in all of this I think you will see us keep improving our overall franchise and the ability for us to get more and more retail. Now that is a journey, Bipin, it is not going to happen on every quarter. I think you will see us a year from now doing a lot better. Our branch locations are very, very targeted now. We are going into existing segments where additional branches actually improves the ROI not just for us, but also from a customer perspective and that is very evident in terms of the same market sales growth we see relative to a very new nascent market, so I will just turn it over to Surender to talk about some of the details on this.

Surinder Chawla: Thanks, Rajeev. Just to add to what Rajeev said, I think for any liabilities franchise to do well, it is important to figure out what are the constituents of the liabilities franchise, so branches, digital strategy, segmentation, transaction banking, evolution of new businesses which are technology led and how do you really provide the same as services around that and so on and so forth. We have been at it for each one of these sub-segments for the last four or five years, some of them have really started to do well already and some of them will actually evolve and become better in the next one or two years. Granularity as you said is critical and we have been focused on it right from the beginning, in fact when the interest rate wars were going around in the market around savings, we actually opted out and chose not to really go after some very high cost deposits. We are very, very focused on making sure that the granularity around the businesses continues to actually either stay stable or actually improve, and from a retail perspective, very, very focused on making sure that our customers who come in, one, the Constitution of that is largely individual and that is very granular in nature, and secondly, we ensure that we make these customers stay with us longer by use of digital and by use of selling multiple cross sell products across the segments, so a combination of all this is really helping us maintain the granularity as well. Just to give you some indicated figures, on the term deposit side our business numbers on term deposits less than one crore have actually stayed stable around 60% on the retail side, which is a very good number given that anything less than one crore is really, really granular. The tenure and longevity of these deposits, about 85% of these deposits on the retail side are above one year in tenure, so again showing that these customers are staying with us for longer and similar figures on the savings account side as well. We have metrics around each one of these across zones, across branches, across business segments, and everybody is tasked not only on the top line number, but on every granular part of the business as well.

Bipin Set: Surender, if I may just argue with you a little bit here, so this less than one crore being 60% or so, this 60% metric has it remained stable as you have grown at this 30% to 35% rate. Over a year, let us say has it been stable, has it just moved around by maybe 100 BPS this way or that way or is there a big movement either side that would be great to know?

Surinder Chawla: Actually, it has gone up a little bit, but more or less one year it has been stable, June '17 of 58%, December '18 of 58%, it has gone up a little bit.

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

M. B. Mahesh: Sir, couple of questions from my side, one again a question to Harjeet again here, if you look at the increase in branch network on the MFI side which you have done through the subsidiary, there has been a marked increase in places like Assam and West Bengal in the current quarter, just trying to understand how should we read into it because what we see in the industry right now is that almost everyone of the MFI industry seems to be focusing only in this particular region, just trying to understand how you are reading into this development?

Harjeet Toor: What you see let us say over the previous two quarters to this quarter on these two specific states is the fact that we have just entered these states about few quarters back and a certain bare minimum branches will come up there. I think we will pause a little for West Bengal and see what is happening, but Assam seems to be fine, and therefore, we should see branches going there. East in itself was underpenetrated, and therefore barring Bihar, you will see branches coming up in those states as you move forward. We also do not have much in UP, and therefore, we were waiting for post-demon effect to settle down before we actually start opening branches there.

M. B. Mahesh: Sir, the main worry seems to be that almost everyone wants to go into East right now and that is where the bulk of the worry comes in, look probably the system is creating pressure on that particular region, but you do not seem to be too worried about it?

Harjeet Toor: No, we have got our own checks and balances in place, so when we decide to get into a district we see how much of let us say exposures already exist there. We have tinkered with our borrower norms as well and there was a previous question which said that why is your rejection rate gone up because we have added a few more rules and checks into our bureau parameters, and therefore, keeping that in mind I think we are more or less confident and okay with where we are going.

M. B. Mahesh: Second question, when you say other BCs, how do you define this, is it specific amount of branches which the other BCs have is earmarked to you on what basis is other BCs defined?

Harjeet Toor: Other BCs, the purpose was to differentiate between RBL Finserve which is our own company and other BC partners. All branches which are there irrespective are exclusive to us.

M. B. Mahesh: What would be the total employee base in RBL FinServe today?

Harjeet Toor: Somewhere about 4500 or so. We have also actually moved people from the bank into RBL FinServe on both the financial inclusion and MSME side.

M. B. Mahesh: The entire MFI business, including MFI business has 4500 employees is it?

Harjeet Toor: Yes, that is right.

M. B. Mahesh: One final question, there has been a fair amount of our ROE generation in the cards business for the industry, do you by any chance foresee the regulators looking at the amount of money which is being made and in the past you have seen some level of intervention on the interchange fees, have there been any discussion or talks on from the RBI on this specific issue?

Harjeet Toor: Not really, so interchange is something which RBI does not touch on the credit card perspective because it is also linked to the fact that how much of free credit period do you give, so keeping that in mind and the fact that this has a particular type of loss business, we not really expect anything to come there. Now, within these categories of interchange which we see, I mean we have categories where interchange is only 90 basis points and we have categories where you get the full interchange as well, so there are categories in which the interchanges are lower, but I think on an overall basis, as of now do not see much happening there.

Moderator: Thank you. The next question is from the line of Ankit Agarwal from Centrum Broking. Please go ahead.

Ankit Agarwal: Sir, just wanted to understand on the LAP portfolio if I understand a large part of it is done through the DSA network, so this portfolio also we have seen a very strong growth, so what is the thinking on that part because as I understand this would be actually dragging ROAs on the company basis? Secondly, Sir, would also want to understand on the credit card portfolio incrementally what is the share between Bajaj versus our own cards, and also thirdly, Sir, what is our broad thinking on unsecured versus secured book, where do we see that going ahead? Lastly, Sir, at what ROE/ROA level are we looking at for the next fundraise?

Harjeet Toor: Let me start with the LAP portfolio, the way we do LAP is actually to provide a hedge to the overall retail book, that is a secured business which we do, it is done particularly as business loans against cash flows with self-occupied property, low-risk is expected to remain stable and that is what we have been seen. This is a little unlike the bulk of the LAP market, the way it gets done and that is our purpose, so while you are right this does not give you an ROA of what you have rightly liked, but it does provide stable base to your portfolio towards any downturns which happen in the future, so that is our strategy on LAP. On the card side, I think we mentioned about 55% of the book is non-BFL cobrand and the balance is what is the BFL, and roughly the reverse is in terms of number of cards which is there, so that is on the card side.

Ankit Agarwal: For the incremental, 55% is coming from Bajaj?

Harjeet Toor: As I said about 55% to 60% comes in from number of cards incrementally as we move forward.

Ankit Agarwal: Just wanted to understand on the strategy in this particular segment is it not restrictive for us in future, so if suppose Bajaj gets into other lines of businesses and the overlap between what we do and what Bajaj does goes up then is it going to be restrictive in future for our targeting customers, which are coming through the Bajaj channel?

Harjeet Toor: The way I see it is that we have lots of cobrands which exist, Bajaj is one of them. I think it gives us the unique advantage of being able to tap in a tested base in markets beyond the top 20-30 cities which normally card players target, but having said that we continue to kind of grow our partnerships and our own franchise as well, so I do not think we are kind of the card businesses going to be determined by how much business we do only through this particular partnership. The other piece I think you should also understand is that if you look at the number of cards which we do from the Bajaj base is just a fraction, I think they have upwards of 30 million customers, so we are only targeting a small base out of which we are comfortable with.

Ankit Agarwal: The unsecured versus secured?

Jaideep Iyer: I think on the unsecured versus secured, we have been in this range for a while. I think given the fact that there will be some increase as a proportion from credit cards and partly microfinance, I think the endeavour would be to kind of improve the mix or shift the mix a little bit more towards secured in other products as well as on the profit side. I do not expect this to dramatically change over the next couple of years.

Ankit Agarwal: Sir, ROE target before fund raising?

Jaideep Iyer: I do not think we have a target, I think we have seen an improvement sequentially for the last few quarters, I think we are on track for a broadly improving ROA/ROE over the next five quarters which is up to March 2020 as per our stated goals for 2020, and I think it is important for us that we will raise capital at a significantly better ROE than what we raise the capital last time. If you look at our Tier-1 ratio, I think at 12.5 and maybe 30 to 40 basis points burn every quarter, we should be good for somewhere between four to five quarters, and therefore, we will kind of target a capital raise within the next fiscal, earliest would be within this calendar.

Moderator: Thank you. The next question is from the line of Akash Dantanni from HDFC Securities. Please go ahead.

Akash Dantanni: I have two questions on the borrowing side, firstly what would be your hedging policy on foreign currency borrowings, and secondly, what would be the factors that influence the quantum of collaterallized borrowings under CBLO?

Jaideep Iyer: On foreign currency borrowings if that is converted into Rupee for lending into Rupee then it is fully hedged, mostly for the full period, but otherwise for substantially long period if not for the full tenure of the loan. We do not really run unhedged exposures. The only foreign currency which we do not hedge would be obviously because it is lent in Dollars either onshore or in the GIFT branch.

Akash Dantanni: So would that be majority of your Forex borrowings or what would be the percentage that is let out in Forex terms?

Jaideep Iyer: The GIF borrowings would be about $200 million and the onshore book would be additional approximately $600-$700 million, so to that extent we have a matched lending foreign currency assets as well, the rest would be hedged completely. On the CBLO, there is no policy. Basically, quarter end you see excess flow of funds where you have no choice but to deploy it in either LAP or CBLO, so sometime we are lenders, sometimes if we have excess G-secs which we are running, we could use that for short-term requirements of funding, so there is no policy there.

Moderator: Thank you. We take the next question from the line of Raj Mohan, an Individual Investor. Please go ahead.

Raj Mohan: As the growth in credit cards rapidly makes it head towards 10% of your overall advances, this is where you had earlier indicated your comfort and exposure would be, within the growth from here on would be more even across segments in non-wholesale or are you finding new segmental opportunities as you assume the size and distribution capabilities?

Jaideep Iyer: As we have gotten comfortable with the trends that we have seen in cards and the opportunities in this business, I think in the last couple of calls we have indicated that this proportion of the book will grow. We are quite comfortable with the kind of opportunities we are seeing in this business and specifically with respect to microfinance plus cards, we had indicated that we could go up to somewhere around the 23% to 25% of our loans over the next few years, so I think we will unless we see any specific meaningful headwinds in this business, we are happy to kind of grow it faster than where our overall loan book is, so I guess we will kind of see how the opportunity pans out and then continue to strategize around that.

Raj Mohan: Coming to your wholesale side, how the green shoots you are see on the wholesale side and how are you getting more comfortable with growing beyond working capital funding, basically with capacity utilization around India heading to levels which would see incremental private CAPEX, are you seeing this opportunity becoming more materially clearer in the corporate, you are catering to on the working capital side, and as an extension are you open to Government business which has been doing a lot of heavy lifting in the past?

R. Gurumurthy: Sorry, what would you mean by Government business here?

Raj Mohan: Instead of private associations that you already have on the working capital side on the wholesale funding wherein you would see more opportunities and looking at whether you are basically okay with exploring even Government businesses?

R. Gurumurthy: We do engage a decent bit of public sector units also on working capital, so it is not that we do not do that. As commonly understood Government business story is obviously at this point of time transactional stories restricted to just the three private sector couple of banks historically, but other than that PSUs, we do work with them on the working capital space.

Raj Mohan: With capacity utilizations in India heading towards levels wherein you will see incremental CAPEX, are you seeing this opportunity becoming more material in the corporates you are catering to on the working capital side?

R. Gurumurthy: Opportunity to address the capacity story, bits and pieces here and there. At this point of time, I think we are seeing enough opportunity in the working capital space to not really kind of built out on the long-term book, but yes bits and pieces happening, yes.

Moderator: Thank you very much. We now conclude the Q&A session. If you have any further questions, please contact RBL Bank limited via email at ir@rblbank.com. On behalf of RBL Bank Limited, we thank you for joining us this evening. You may now disconnect your lines.