"RBL Bank Limited Q2FY17 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the RBL Limited Q2 FY17 Results Conference Call hosted by Axis Capital Limited. As a remainder, 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Agarwal from Axis Capital Limited. Thank you and over to you sir.

Praveen Agarwal: Thank you. Good evening everybody and welcome to the Q2 FY17 Earnings Call for RBL Bank. We have with us Mr. Vishwavir Ahuja – Managing Director and CEO, Mr. Rajeev Ahuja – Head Strategy, Mr. Naresh – CFO and Mr. R. Gurumurthy who heads the Risk and Governance. I would request Mr. Vishwavir Ahuja to take us through the key highlights of the quarter. Post which, we will have Q&A. Over to you sir.

Vishwavir Ahuja: Thank you and good evening, ladies and gentlemen. Thank you for joining us on our first earnings call since we have been listed in August this year. I hope by now you had a chance to go through our press release, the quarter's results and the investor presentations which have been uploaded on our website.

Since this is our first results publication since our FY16 Annual Results, I will talk through our highlights for the first half 2017 because this is our first presentation and the half year has been concluded. In case there are questions on either Q1 or Q2, we can take it up in the Q&A that will follow. I will speak for the next 7 or 8 minutes to take you through the performance highlights for the first half of this year and then we will open it up for questions for the next 45 minutes or so and we will be trying to cover as many questions as possible and if any of them are not covered, please feel free to reach out to us separately and we will make sure that we address them.

So to begin with, the first half has highlighted that we continue to see strong growth in our various businesses. We had a very strong and broad-based loan growth of almost 44% year-on-year with our wholesale and non-wholesale businesses growing 42% and 48% respectively. Similarly, our deposit base has also seen healthy growth of 38% year-on-year led by an even higher CASA growth of 52% on a Y-o-Y basis. Our operating profit has increased 74% to Rs. 404 crores. Our net profit for the first half of this year increased 62% to a number of Rs.206 crores. This does not include the mark-to-mark charge or the adjustments that we have made to our recent investment in Utkarsh Microfinance. After factoring in this adjustment, which is approximately Rs.28 crores on a pretax basis, we still have a very healthy 47% net profit growth in the first half of the year to a number of Rs.187 crores.

Advances; just in terms of flavor of our loan book, our wholesale book comprising of corporate and institutional banking and commercial banking. Commercial banking is largely the mid-market and the SME business. Both these, in toto is about 61% of the total advances book. The yields on the wholesale side have reduced, but on the non-wholesale side, they have held up well due to better asset mix and higher proportion of fixed rate loans. Within the business segments, we are continuing to see strong growth in our large corporate book as well as in our retail assets and financial inclusion in development banking business. All of these business segments have grown at more than 50% year-on-year. We have detailed this in our advances slide in the investor presentation.

As far as deposits and cost of funds are concerned, deposits have also seen a healthy growth of 38% as I mentioned earlier, CASA growth was very strong at 52%, savings accounts in particular increased by over 100% during the same period. CASA ratio now stands at 19.9 as of September 30th 2016, up from 18% at the same time last year. Our cost of funds has been coming down and has reduced from 7.8% which is at the end of first half last year to 7.2% at the end of September this year due to general reduction in market rates as well as improvement in CASA. Total revenue growth has seen similar traction, which has been 49% on year-on-year basis for the half year and 56% year-on-year for the second quarter. Our net interest income grew 53% for the half year and 60% for the second quarter year-on-year. Our NIM has improved by 10 basis points to 3.1% during the first half year on a Y-o-Y basis. Non-interest income grew 41% year-on-year on the half year basis and 51% on a quarter basis, year-on-year. Our core fee income grew 48% year-on-year for the year. We are continuing to see strong traction in our non-interest income especially in non-credit linked fee growth. Our distribution, client FX income and general banking fees are all showing strong growth.

Operating expenses ratio has reduced to 54.4% for the first half FY17 as against 60.9% for H1 last year. We are focused on better utilization of investments done earlier before we add more branches. We will continue to keep investing in the second half of this year to see greater traction in branches, brand, technology, people and distribution.

Asset quality; on asset quality, we continue to keep a very close watch given the stress in the macro environment has not fully subsided. Our growth in net NPA percentage has been largely stable with gross NPA at 1.1% and net NPA at 0.55% and provision coverage ratio of 60%. Our restructured assets are also quite low at 0.08%. Net security receipts as a percentage of total assets was 0.03%, down from 0.18% in September 30, 2015. No ARC sale during the quarter and technically, we have no instance of SDR advances either, although one may come up in the next quarter, but at this moment, there is none. There is no 5:25 refinancing or any S4A case done by the bank. So we are completely clean on all these counts.

As you are all aware, we successfully completed our IPO in August where we raised Rs.832 crores. We have since completed Rs.330 crores tier II capital fund raise from the CDC Group. Consequently, our capital-adequacy ratio after including the profit for the first half of this year has improved to 15.07% of which the tier I component is 12.5% approximately post these fund raises.

I want to once again mention the investment we made in Utkarsh in an important development, we made an equity investment of 9.99% stake in Utkarsh Microfinance which is one of the licensees for a small finance bank. We are working to establish a very strong strategic partnership and extend the bank's distribution footprint and strengthen our financial inclusion initiative across the rural hinterland. The premium paid for the acquisition has been fully provided for in our financials for this half year. Those are our broad highlights, I think.

To summarize, we are very much on track in terms of our metrics that we have planned as part of our so called Vision 2020. Our business growth remains strong. We continue to see improvement in our CASA, increase diversification of our non-interest income, better operational efficiencies, cost-to-income ratio and improving other return ratios including ROA, etc. We will now open it up for questions.

Moderator: Sure. Thank you very much. We will now begin the question and answer session. We have the first question from the line of Siddhart Purohit of Angel Broking. Please go ahead.

Siddhart Purohit: Sir, congratulations for the good set of numbers. Sir, just one clarity that this 28.5 crores of that provisions etc. is purely for the premium paid to for the acquisitions right?

Vishwavir Ahuja: Yes, on a pre-tax basis, that is the number, entirely for that.

Siddhart Purohit: And sir just what would be your credit cost guidance for this year, are we like will remain at the similar level what we have done or any moderation that you are seeing?

Vishwavir Ahuja: So the credit cost guidance, you mean it for the balance of the year?

Siddhart Purohit: Yes, for the entire year FY17, what would be the annualized credit cost?

Vishwavir Ahuja: It is I would say the second half of the year will reflect lower credit cost compared to the first half of the year.

Siddhart Purohit: Fair enough and sir just last question that another 2 years well capitalized and also looking at the base, we have enough potential. So is it fair to assume that we will have a little better growth compared to the first half in the second half, shall we see more traction in the second half, normally what happens in the…

Vishwavir Ahuja: You are asking this question in terms of?

Siddhart Purohit: In terms of balance sheet growth.

Vishwavir Ahuja: Let me put it this way. In the past also when we were doing the IPO rounds, this question is obviously the most obvious question. How fast will this bank grow and I think obviously the bank is growing at a fairly fast clip and we have guided somewhere in the range of 30%-35% over the next 3-4 years in terms of CAGR growth. So this quarter was better than that and this half year was better than that, we hope to see whether we can maintain that, but broadly I will say we will stick to a long-term sort of indication in this respect.

Moderator: Thank you. We have the next question from the line of Kartik S of Investec. Please go ahead.

Kartik S: Could you speak a bit on your capital consumption for the quarter, how the risk weights moved and what has been the tier I consumption?

Vishwavir Ahuja: We added Rs.3000 crores exactly in fact of this weighted assets between July 1 and September 30th, but in the meantime there has been capital accretion also. Tier I has actually moved from 10.6% to 12.5%.

Kartik S: Does the 12.5 include the profits for the first half sir?

Vishwavir Ahuja: Yes, it does.

Kartik S: Including the profits, alright and in general our leverage still remains at the higher end of where private banks generally operate, what are your thoughts in terms of what is the comfort level on the leverage front and the bottom tier I ratio that you would be comfortable with?

Vishwavir Ahuja: So, it is 12.5 now and my point here is that the way we are growing and consuming capital to answer your question, we will be perhaps looking at 12-15 months timeframe before the next round of capital raise may happen. On an overall capital adequacy basis, we are at a comfortable 15.1%. Broadly that is the indication.

Kartik S: And the 3.4% margins would have an element of equity capital getting into the P&L. Excluding that, what would you see the normalized level for our markets?

Vishwavir Ahuja: The impact is about 5 to 6 basis points and otherwise it will trend at approximately 3.35% to 3.4% NIM and also in another way of answering your question, we consumed between 70-75 basis points of capital every quarter.

Moderator: Thank you. We have the next question from the line of Shiv Kumar of Unifi Capital. Please go ahead.

Shiv Kumar: Sir, I just had one query regarding the stake in Utkarsh, what is the long-term strategy of RBL for Utkarsh and is it just the first of many base which RBL is going to do in the future? What is the strategy behind such deals, I just wanted to know your view on that?

Vishwavir Ahuja: This bank took a position 5 years ago to be one of the leading players in the area of financial inclusion in development banking and in the agri ecosystem and overtime, we have proved that this is an area which is of considerable strategic importance to the bank and we have created a very viable, profitable, successful business model in this space and we are growing rapidly. So this is an area which makes enormous sense to the bank in terms of its overall strategy and therefore couple opportunities which allow us to penetrate deeper and deeper into the unbanked and under-banked segments and also allow us to extend our product portfolios and allow us to extend our distribution footprint, we look at those opportunities, therefore strengthening our overall inclusion franchise in the same spirit.

Shiv Kumar: Sir you were mentioning that you will be using microfinance institutions at the distribution channel.

Vishwavir Ahuja: As I said, it is a strategic move, penetrate deeper and deeper into the financial inclusion space which is an area of strategic importance to the bank in this space.

Shiv Kumar: Sir one more query if I am allowed to, sir can you give us some color in the growth which you are witnessing in the CIB segment, as in the sub-segment which are driving this growth?

Vishwavir Ahuja: Asking me a question in the financial inclusion space?

Shiv Kumar: In the CIB segment, the corporate and investment banking segment.

Vishwavir Ahuja: The growth is significantly over 40% growth in the wholesale banking space.

Shiv Kumar: Yes sir. So what are the segments where you are seeing good demand in the wholesale banking segment?

Vishwavir Ahuja: The composition of our growth is concerned, much of that is in the area of the larger corporates and the larger mid corporates.

Shiv Kumar: And still increasingly the incremental growth is coming from the non-funded loan segment, can I say that sir? NFB funded?

Vishwavir Ahuja: In relative term, that is true.

Moderator: Thank you. We have the next question from the line of Rohan Mandora of Equirus Securities. Please go ahead.

Rohan Mandora: Thank you sir for taking my question and congratulations on good set of numbers. Sir, I am looking at your slide #19, which talks about risk weighted asset by total assets, in that if I look at the trend it has increased from 68% in FY16 to close to 78% in 1H FY17. So just wanted to understand what is driving such kind of significant increase in the ratio and if you look at compared with 1H FY16, it has declined from 75 to 68 and again up to 78%. So, why this kind of volatility?

Vishwavir Ahuja: So I was answering the question that the relative proportion of investments through government securities etc. has reduced. We have been bringing that down in terms of the discretionary portfolio and the proportion of non-funded assets and foreign exchange has risen in the meantime, which attracts greater risk weight. So that is what causes the movement.

Rohan Mandora: Fine and sir I am just trying to understand a little bit on your retail portfolio like what would be the commission of home loans, LAP, personal loans, credit cards outstanding, some color on that, your retail side if you could give?

Vishwavir Ahuja: So 53% of the portfolio is LAP, 13% is cards of the retail book, personal loans is 5% and business loans is 14% and then there are others which is small business lending etc.

Rohan Mandora: And sir within LAP, would we be giving these offers for…?

Vishwavir Ahuja: Let me explain this before your question comes. The way we do LAP is we do it as a proper cash flow based prudential lending structure. So we are just not giving money based on simple availability of collateral etc. Basically these are loans given to business owners where we look at the overall cash repayment capacity, cash flow earning stream and we are taking the property as additional collateral. So typically that is the structure of our LAP loans.

Rohan Mandora: So as I understand from the discussion, these would be more of a kind of business requirement loans rather than just a LTV kind of loan.

Vishwavir Ahuja: Absolutely right, almost 100% of the portfolio structured like that.

Rohan Mandora: Okay and sir just last thing. Within the credit cost movement that I was looking at for your business managing segment, it just showing a slight figure of increasing quarter-on-quarter from 95 basis points to 167 basis points.

Vishwavir Ahuja: You are looking at the 1.7%, that number?

Rohan Mandora: No, the slide #14, the right bottom chart, so just some explanation on that on BBB side and business managing segment?

Vishwavir Ahuja: Yes, so that is not, you are looking at business banking?

Rohan Mandora: Business banking in CB.

Vishwavir Ahuja: See, the business, first let me explain the retail part, which is BBB. Now, the proportion of this business even two years ago was almost negligible and therefore as business has grown, it is operating at what you would expect planned levels of credit cost. I don't think they are out of whack or extraordinary in anyway. So they are operating at the planned level of credit cost. When you look at the CB portfolio, which is the big corporate SME portfolio, their credit costs have been relatively higher than the rest of the business that we have. Pretty much if you see, do you have slide #19 with you?

Rohan Mandora: Yes sir.

Vishwavir Ahuja: If you go to slide #19, and look at the right side first of that slide #19, you will see just look at the first column, you will see the total CIB, it is only 0.36%, CB is 3.4%, total BBB all put together LAP, business loans, personal loans, cards is 1.26% okay, which is what I meant as being within reasonable planned levels. Agri is 0.6%, right? And the financial inclusion development banking we know which is one of the corner stones of our success story is only 0.3% and even if you see historically, these have been very stable portfolios. So if you take it in entirety, everything seems to be reasonably well managed. The only thing which is a slight outlier has been the commercial banking that mid-market/ SME portfolio. Now that is something, it is part of our balance sheet, it is something that we have said there is a high opportunity, but at the same time this has been one area where over the last 2-3 years it has also been a bit of a learning experience for us and we have taken slightly higher than expected. If I may say credit costs here, however, slippages have been completely controlled, now they are starting to come down and the portfolio is much tighter, much more higher quality and therefore even from this segment, going forward we will expect lower and lower and lower credit costs. So it is on the basis of this overall mix that I made a statement earlier that we will see the trending down further of credit costs, even though the total NPA today remains contained at 1.1% but should trend better. I think I have answered that in fair detail.

Moderator: Thank you. We have the next question from the line of Kaitav Shah of SBI Caps Securities. Please go ahead.

Kaitav Shah: My first question to you is on the loan growth within the segments, CB and agri seems to be growing lower than the other segments. So what are the challenges that you are facing in these verticals and what would probably be the ideal loan mix over the next one year, one and a half year?

Vishwavir Ahuja: Good question, the CB I just described in great detail, I hope you were listening to that answer and therefore it is deliberate that we first tried to get into that business, run it for a while but as the seasoning effects we saw, we felt we need to tighten the entire risk management construct around that. So deliberately we slowed it down, we have bring down the credit costs and once you really bring it down to the right level, then we will see how we need to rebuild that, very straight. So as far as agri is concerned, again agri has been a good fast growing business, at the same time you are well aware that this whole space has seen 2 consistent years of massive droughts and so on and so forth, so it is a space we have interest in, we understand it well, we have done a good job, we want to maintain a high quality portfolio. So that is the first part. So in keeping with the environment, I think our growth is well calibrated and it is sufficient to ensure that we meet all our priority sector requirements in this space and meet and we have in fact even exceeded. The second part is, it is also a seasonal business, there is a bit of seasonality within the year in this business. So the agri growth therefore obviously is going to happen in calibrated**,** now it seems that in the next 3 to 6 months, we expect this space to overall on a macro basis start improving and we may push faster as far as this is concerned, so that is one aspect whereas in the other segments as I very clearly pointed out, we see high quality growth happening whether it is in the CIB space, whether it is in the financial inclusion space or whether it is in the retail lending space. These all are so called high quality prudential fast growing engines at the movement.

Kaitav Shah: Okay, so can you just explain what are the ticket sizes that you have seen in CB and is it like a structural macro challenge that you are seeing or was it for specifically your bank?

Vishwavir Ahuja: No, not specific to our bank, I think it is this space has those inherent challenges and I think they have much written about and talked about. So the point here is that here also different banks, different institutions, different methods, there is a concept of program lending based on and so on and so forth. We have come to the conclusion that is not the right way to do this business. This needs to be done on a targeted customer by customer risk managed basis. So where there is an RM risk manager and all you need to cover it very tightly on that basis. So therefore some of what we did on a batch or a training program basis, we have moved to a very direct risk managed model. In the process we have definitely brought the, if I may say credit goes down and we have better grip on this. So there are certain fundamental issues in this space and the only way to go around them is to manage them more tightly.

Kaitav Shah: Okay sure and what would be the mix say over one year that you see?

Vishwavir Ahuja: In terms of the overall business mix?

Kaitav Shah: Yes sir.

Vishwavir Ahuja: So we are at approximately, like I said 60-40 or 61-39 right now, wholesale, nonwholesale. Now, ideally and also in terms of how the businesses are trending, the relative proportion of wholesale will come down because the retail and the financial inclusion and those businesses are growing faster. So that is the trend line. What we have indicated earlier is that by 2020 we need to be on a 50-50 basis. Let us see how the movement happens but that's directionally we are going and it is trending that way also.

Kaitav Shah: Okay sure, sir in terms of geography, East has been gaining significant share. So again would that be a focus strategy and would that continue to inch up or?

Vishwavir Ahuja: No, there is no particular reason why, I mean it could be just the way it has trended, I mean we have been historically in Maharashtra, we expanded to the North. So the first thing we did was our historical franchise of Maharashtra and Northern Karnataka. So we expanded further down South and into the Northern corridor. So we saw burst of growth in these 2 areas, then we went East, so obviously with some focus on East, the numbers are now ramping up but at the same time there is no particular regional bias here. We want North, South, West, East, we are sort of focusing on all fronts from a geographic emphasis point of view.

Kaitav Shah: Okay sure, thank you. Sir one more question if I am allowed, in terms of non-interest income, we have highlighted by 2020 we should be one third of the income, I mean we are already there. So what is it that we expect, could we expect fee to assets or something go up from here or would it trend at these levels?

Vishwavir Ahuja: So as far as the non-fund business is concerned, yes as a proportion we have been doing rather well and we just felt that on a scaled-up basis, one third proportion is probably the right mix to have, when you keep scaling at a very fast rate, also want to make sure that what we are doing, we are doing on a prudential basis and the mix should not give rise to in order it risks, the attempt to grow fast and also as retail proportion increases, there will be some upward movement in the relative mix of non-fund to fund basis.

Kaitav Shah: Okay sure, sir what would be the slippages for 2Q for the quarter?

Vishwavir Ahuja: Kaitav, you are asking in terms of credit cost?

Kaitav Shah: No, the gross slippages.

Vishwavir Ahuja: 1%, its on page 18, it was 1% annualized, which was lower than the slippages in the past.

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

Avinash Singh: Can you please provide the breakup of yields between different classes of retail loans in terms of like yield on LAP, personal and card?

Vishwavir Ahuja: We will do that. So let us take LAP first, that is 11.5%, cards is closer to 20%, the rest are somewhere in between, business loans is 19% that is it. So LAP 11.5, cards is 20 and business loans 19.

Moderator: Thank you. The next question is from the line of Rahul Gupta of Morgan Stanley. Please go ahead.

Sumeet: Hi, this is Sumeet here, so the first question is basically RBI recently had an internal working group proposing to bring all banking outlets on par with bank branches and this could also include a bank’s business correspondent network, so just wanted to hear your thoughts on that how can this benefit RBL?

Vishwavir Ahuja: So if I may take you to slide #24 and just used that to explain our distribution, if I may say network and strategy. We have even historically used a very interesting combination of our direct branch outreach then what we call BC branches, which is a concept may be work over with a very few set of dedicated corporate BC partners and we use their, if I may say branches as dedicated for our needs. So there are 201 branches, there are 430 BC branches in addition and these branches are very tightly managed by a huge number of people, almost of 230-240 strong colleagues of ours who managed these partnerships very tightly, making sure governance, risk management technology in compliance is according to our specifications and these were very tightly managed, so these are all so called dedicated extended outreach and then the 3rd level of distribution is we work with very other institutions for which are nothing, we do not extend credit and these are partnerships which are more like distribution partnerships, it could be an Oxigen, it could be a BookMyShow, it could be several other distribution companies where there are outlets with our point of sales vis-à-vis we are and we use these channels, multiple channels therefore to effect the whole range of businesses and transactions that go through our systems. Even in the 3rd category, right now they are activated largely for micro remittances etc. and the volume throughput that we are experiencing through this 40,000 plus CSPs, customer service points put us among the top few players in the country in terms of transaction volumes among the entire banking system. So this is very much FMCG style and the recent RBI, to answer your question in the long-winded manner therefore flexibility that has therefore bit afforded is only something that is completely reinforcing and endorsing our strategy and helps us even more.

Sumeet: Okay, got it. Second question is on your margins, so if I look at last quarter margins were close to around 2.8%, this quarter 3.4% and 4th quarter was 3.2%, so there is some bit of volatility, wanted to understand is that just because of lead lag in interest rates, rate cut etc. or there is something more to this?

Vishwavir Ahuja: Look, some part of it is a lead lag effect, yes, some part of it is also that fundamentally to a small extent, the cost of funds has come down little more than the yield compression that we have experienced in certain categories and therefore that has led to a, I would say 20 basis points is a fundamental improvement in overall margins whatever movement you are seeing, the rest can be attributed to lead lag and some of the other and business mix could be another reason, you understand and the third reason is that as I have mentioned earlier to one of the questions are even our investments proportion has come down and the proportion on loans relatively has gone up, so all these things are contributing to the changes in the spread or the dip.

Sumeet: Yes, so from third quarter onwards, you will see the full impact of free funds because you raised capital towards the end of the quarter, so basically what kind of margin progression should one expect going forward, how much of this will be offset by potential cut in lending rates or this is something this should go up even more because of full free funds impact?

Vishwavir Ahuja: Yes, so we are expecting another improvement in this area. It may not be the reduction in rates, may not be replicable totally but at the same time we do expect based on the various reasons I have outlined earlier for the margins to continue to improve. Again it is in sync with our overall long term indications that we gave heading into next year and the year forward.

Sumeet: And any update respect to this fee income from trading of PSL certificates, did we have some fee income from that line this quarter?

Vishwavir Ahuja: Yes we did, we had approximately 8.5 to 9 crores over the 6 months period, I am talking full first half year. So we have always carried surplus. Our priority sector compliance has been in excess every year over the last several years and therefore we had the room and the flexibility also.

Sumeet: Got it and last question from my side is, would you have the weighted average savings account deposit rates for the quarter, basically SA deposit cost?

Vishwavir Ahuja: 6.5.

Sumeet: Okay and what was it same time last quarter if you have it handy?

Vishwavir Ahuja: 6.5 and 6.6, okay.

Sumeet: 6.6 was same time last quarter, is it?

Vishwavir Ahuja: For the current position. It is approximately between 6.5 and 6.6.

Moderator: Thank you. We have the next question from the line of G Vivek of GS Investments. Please go ahead.

G Vivek: Just wanted to have your views on the microfinance sector industry potential in India and the recent equity stake taken by you and what is the type of arrangement you have with the Satin Creditcare, the banking correspondent part?

Vishwavir Ahuja: Yes, in some sense I have answered this question in great deal earlier.

G Vivek: Sorry, I missed out.

Vishwavir Ahuja: I will be happy to do it again. So again I go back to the point that the financial inclusion development banking piece is a very critical strategic component of our bank's overall business strategy and we have been building it overtime on the credit side and so on and so forth. So I mentioned about partners, I mentioned about branch networks and certain close-knit BC corporate partnerships that the bank has which gives us both extended outreach and ability to originate and distribute loans and other kinds of financial products including insurance and others, so these are holistic partnerships. Satin is one of them. It is about 8 or 9 such, so that is on that side. Then I have talked about our extended outreach through the customer service points which were the distribution partnerships where we do basically again remittance and insurance and another services. So that is the whole gamut in terms of our architecture and that is it. So we have Satin type where we have more holistic partnerships which are across multiple products including credit, remittance, savings, insurance, etc. and then we have more specific, looser partnerships which are more in terms of creating our extended distribution outreach to handle micro payments and others where we come in and those are the 2nd level of partnerships that we have.

G Vivek: Coming to the microfinance sector sir, there are 2 camps, one is very positive and second one is saying that it is scary and bubble waiting to be burst, so what is the take on it sir?

Vishwavir Ahuja: Look, our take what it is that the way we are going about it is in a brick by brick basis or we are building this multi-channel tightly controlled partnerships that I explained when we worked with a corporate BC partner where there is a credit involved, then I repeat, the entire governance, the risk management, technology compliance is controlled and managed by us. Just to give you an example for these 8 or 9 partnerships leading to about 430 branches, we have almost 200 plus people managing these partnerships across these four key criteria. So the whole idea is how well you control the model and I do think that we are seeing genuine tractions and even if you see the track record and the credit profile of this business over the last 4 years or last 2 years that we have highlighted, so far our total NPA in this category has not exceeded 0.4%. So whether it was 3 years ago, 2 years ago, 1 year ago or even today, it ranges between 0.29 to 0.35, 0.36, so it has been a good business for us, we are still continuing traction here.

G Vivek: And what will be the impact of this Jandhan aadhar and mobile on private banks and your BC work and the microfinance company sir?

Vishwavir Ahuja: As again I tried to explain earlier that all these things have actually benefited us. The fact that we have been able to create an outreach capability which is technology driven, where distribution last mile, all of that we handled ahead of the curve with all the developments in the ecosystem whether it is technology and data driven or whatever it is the fact that we have built credentials in this space, we have created where we have got now more than 2 million customers. Five years ago, we had literary no customers in this space, we have 100,000 customers. Today, we have 2 million customers in this space. We have 41,000 outreach points and all these developments that you are talking about actually work in our favor therefore.

G Vivek: Fantastic sir, so nice of you. So opportunities are multiplied by these initiatives.

Vishwavir Ahuja: Yes. I do not want to brag here but this micro payments business that we were just talking about through these points is growing at between 8%-10% per month. The credit business as you can see is growing at almost 50% per annum and so on and so forth. So it is very de-risked, it is well managed, it is well rounded in terms of product and revenue diversification and so on and so forth. So there are many nice elements to it.

G Vivek: So these are our differentiators also on income?

Vishwavir Ahuja: Yes.

Moderator: Thank you. We have the next question from the line of Abhishek Sahu of Citi Group. Please go ahead.

Abhishek Sahu: My question is how we positioned for this year in terms of investment in people and branches, are we largely done in terms of our hiring and branch expansion plans and what kind of cost growth for this year are you targeting?

Vishwavir Ahuja: Okay, so we are continuing to grow including in terms of growing our direct networks and our alternate networks. So to answer your question, people, branches, distribution, technology, all of that is continuing if I may spend, we expect approximately brand that we not forget that and post IPO that has become even more important. So therefore I think we have not actually given any guidance on this, but I think the whole idea is that revenue growth should be at least 10% higher than the expense growth. That is the way one is looking at it and so far we have been tracking about 32%-33% OPEX growth, so that is the range. As you can see, topline is growing much faster than that which also allows us to get the benefit and the flow through of the investments we have made in the past which are largely done but there is going to be a continuing spend also. But the operating leverage going forward will always be a positive one that is the answer.

Moderator: Thank you. The next question is from the line of Mihir Ajmera of Enam Holdings. Please go ahead.

Mihir Ajmera: Just the question regarding the SDR you mentioned in your initial remarks, could you just give some guidance on what is the quantum that you are looking for and which sector it would be in?

Vishwavir Ahuja: I do not think we can give any guidance on that at this moment because it is not something that is crystallized, I only indicated to highlight the fact that we have nothing so far but 15-20 days later somebody comes in and tells you said there is nothing, so I do not want anybody to catch us on the wrong foot. So net-to-net our story today is our total security receipts stood nil, our ARC sales is nil, our SDR is nil and our 5:25 scheme and S4A case is nil.

Mihir Ajmera: Understood, I also assume that the quantum is not enough actually from what you say?

Vishwavir Ahuja: It is not that, yes.

Moderator: Thank you. The next question is from the line of Hiren Dasani of Goldman Sachs. Please go ahead.

Hiren Dasani: Yes, first of all sir congratulations for the very successful IPO and also detailed disclosures on your presentation which is quite encouraging. Just one point on the segment wise breakup of the NPLs, if you look at the commercial banking and the corporate and investment banking, NPL increases between let us say March and September, would you think more or less this is now done, this is where some of the few kind of accounts on the watchlist or you think this will further increase from hereon?

Vishwavir Ahuja: Not at all. I actually commented in great detail a few minutes ago that there is a lot of stability in the credit quality and credit cost associated with the CIB, DBFI and more or less the agri business. The BBB business which is the retail lending space is following trendline levels and reasonable levels as far as NPA. CB was an experience which we went through, it was a good business, we believe in it which is a mid-market business. However there were some aberrations which we have completely controlled and already credit costs are coming down and will continue to come down.

Hiren Dasani: And on the CB side whatever 150-160 crores is debt, number is debt.

Vishwavir Ahuja: Sorry to interrupt you, quarter-to-quarter, it was flat to down, so it is there now and you will see it every quarter now.

Hiren Dasani: And my question was is it like one or two chunky NPAs there or at least take over many accounts?

Vishwavir Ahuja: Definitely, these are SME type of accounts, so there is no chunkiness, there are no chunky accounts there. It is the nature of the beast it is the business model issue, honestly I will tell you. Like I explained earlier rather than doing this of the basis of what is called program lending and so on and so forth those structures, this needs to be done on an individual risk management, risk assessed basis. That is the model learning and from that learning we have converted, we had some of those traders and commodity and all of that which you can put templates around that and do it on a templated basis. That was our learning that is not to do that business even though they are akin to that kind of activity and lending behavior but one should not do it that way. Fortunately, our total portfolio in that space is small, very easily in terms of pulling back, correcting, readdressing the model issues which we have done and now we treated like any other type of wholesale lending activity, we follow similar risk management practices, similar coverage strategies and similar practices. So that is being the process of evolution and progression here.

Hiren Dasani: Yes and just to be clear what is the ticket sizes which you are looking at in this segment typically?

Vishwavir Ahuja: Sir, we lend from Rs.5 to 7 crores going up to Rs.20 crores per piece for lending.

Hiren Dasani: And just one question on the microfinance acquisition and the one-off provision which you provided during the quarter, is it just the premium which you paid over the book value which you had to provide or what is it here?

Vishwavir Ahuja: Exactly that, just that, exact amount of premium paid over book value. Rs.28.6 crores pretax is the provision.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta of Trivantage Capital. Please go ahead.

Sarvesh Gupta: I wanted to understand your retail liability strategies in terms of CASA, so if you can throw some light on what kind of average SA and CA balances you have, what is the proportion of salary accounts amongst them and what do you see the growth going forward in your CASA that would be very helpful?

Vishwavir Ahuja: So let me start answering your questions, then I will get the facts as we talk. So basically we believe that and which has been empirically proven across the banking system over the last several years that CASA has a direct proportionality or correlation to size, scale, distribution, networks and branding and visibility and growth over time and the amount of technology and digitization that will happen in that space going forward. So it is directly proportional to these, if you take any bank when there were 100 branches, 500 branches, 1000 branches, you will see percentage CASA also change accordingly, so one is that and our journey has also witnessed that I might even say then on a comparative basis, relative to size we may have even done better in most cases. So CASA growth obviously today is touching 20% of CASA and that is the highest levels that we have reached and that has been progressively improving. So now coming to your answer, the average current account balance that we have is Rs.5 lakh and the average SA balance that we have is Rs. 25,000, if I may say the structure of our liabilities as far as we are concerned of which the salary component is not very large, I can say that and I may not be able to give you the exact number at this moment.

Sarvesh Gupta: Understood sir, thanks a lot. Sir one more question, one data point was on your spreads, what was the spread this quarter, overall spread and how does it compare against last quarter and Y-o-Y?

Vishwavir Ahuja: It was 3.4.

Sarvesh Gupta: Sir, I am not talking about the NIM, the spreads if you can provide us?

Vishwavir Ahuja: For the first half year, it was 2.86; for the last quarter, 2nd quarter, it was 3.08.

Sarvesh Gupta: And how does it compare Y-o-Y?

Vishwavir Ahuja: It was 2.67 for the same half year last year and 2.71 for this quarter last year.

Moderator: Due to time constraints, we will be able to take one last question. We have the last question from the line of Yuvraj Ramachandran who is an individual investor. Please go ahead.

Yuvraj Ramachandran: There is one question on the net interest margin, the increase on net interest that you have posted which is 53.7%, your advances have grown just by 44%, so even discounting the fact that your cost of funds have come down from 7.6%-7.2%, where is the increase in interest income of 53.7% coming from?

Vishwavir Ahuja: Yes and part of it is like I said we got higher spreads.

Yuvraj Ramachandran: So can you throw some light on this asset mix of this higher spread and is it sustainable?

Vishwavir Ahuja: So there are 2 effects to it, one is the improvement in the relative interest margin that over this period. Our cost of funds came down, our overall yields also came down but cost of funds came down more than the yield giving our debt positive effect on account of higher margin that is the part of the reason. On a standard growth of assets, we got higher than proportionate growth in interest revenue that is the first, then interest revenue. The second was that the mix of the businesses that we have, have changed. The higher yielding businesses largely of the retail side grew faster. The retail and financial inclusion portfolios grew faster which was relatively higher yielding and therefore the relative contribution to overall debt interest revenue was higher. The third was that the investment book was brought down lower and that was replaced by interest yielding assets, so therefore that also contributed to net interest level. So 1, 2 and 3 are the combined effect of the result.

Moderator: Thank you very much. That was the last question ladies and gentlemen. In case of questions are left unanswered or if you would like to ask any more questions, you may e-mail your questions at ir@rblbank.com. I would now like to hand the conference back to Mr. Praveen Agarwal for any closing comments.

Praveen Agarwal: On behalf of Axis Capital, I would like to thank the management team of RBL bank and participants for being on the call. Thank you very much.

Moderator: Thank you. On behalf of Axis Capital that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.