"RBL Bank Limited Q1 FY 2018 Earnings Conference Call"

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VISHWAVIR AHUJA	**:**	**MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER**
RAJEEV AHUJA	**:**	**EXECUTIVE DIRECTOR & HEAD – STRATEGY**
NARESH KARIA	**:**	**CHIEF FINANCIAL OFFICER**
R. GURUMURTHY	**:**	**HEAD – GOVERNANCE, RISK & CONTROL**
ANDREW GRACIAS	**:**	**HEAD - FINANCIAL MARKETS**
BRIJESH MEHRA	**:**	**HEAD – CORPORATE, INSTITUTIONAL & TRANSACTION BANKING**
HARJEET TOOR	**:**	**HEAD – MICROBANKING, CREDIT CARDS, RETAIL & MSME**
SURINDER CHAWLA	**:**	**HEAD – GEOGRAPHY, BRANCH & BUSINESS BANKING**
VINCENT VALLADARES	**:**	**HEAD - COMMERCIAL BANKING**
MANOJ RAWAT	**:**	**HEAD - AGRI**

Moderator: Good day, ladies and gentlemen and welcome to the Earnings Call of RBL Bank Limited to discuss the financial performance for Q1 FY18. 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 * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishwavir Ahuja, Managing Director and CEO of RBL Bank Limited. Thank you and over to you, Mr. Ahuja.

Vishwavir Ahuja: Thank you. Good evening, ladies and gentlemen. Thank you for joining us for RBL Bank's earnings call for the first quarter of financial year 2017-2018. I hope you had a chance to go through our press release, quarter's results and the investor presentation which has been uploaded on our website. I will speak for the next 15 minutes or so to take you through the performance highlights for the first quarter of FY18 and related topics. As in the past, we will then open it for questions for the next 40-45 minutes and will look to cover as many questions as possible. I also have my colleagues from my management team with me who can also address your queries. In case any questions remain, you can reach out to us separately.

In terms of a general overview of the environment, I would describe the last quarter as one which may set the tone for the future performance of our country as well as the banking industry. Over the past few months, the central and state governments came together as one matured federal democracy and approved a landmark indirect tax regime in the form of GST. While in the short run, there would be some challenges of implementation and carry forward inventory related issues, GST is expected to bring in greater transparency and enhanced availability of business transaction data. As a consequence, we expect faster enhanced credit availability for businesses. Apart from increasing the tax rates for banking services, GST is not likely to have any significant negative cost impact on our bank.

The other two important developments are implementation of the bankruptcy code and RERA. Bankruptcy code is in its early days of implementation with required infrastructure still being set up. While initial cases indicate that borrowers are able to challenge the process and therefore cause some delays, it is hoped that there are few positive outcomes and right judicial precedence will pave the way for an effective implementation. RERA should provide a relatively transparent operating environment in the real estate sector and should therefore make buyers more confident with their purchase plans. That should help sure of the sector demand in the medium term, although in the short term there would be some challenges in the sector.

Some of the negative developments were also there in the form of farm loan waivers announced by some states and continuing challenge in certain districts in 2 or 3 states post demonetization with regard to small value loans in the micro banking space. With that overview, let me come to our business.

Overall loan growth was 40% year-on-year with wholesale growth at 37% and the non-wholesale business is growing at 44% respectively. Our deposit base continues to see strong growth at 37% year-on-year growth led by strong savings deposit growth of 121% year-on-year. For Q1 FY18, our operating profit increased 69% to 311 crores and our net profit increased by 45% to 141 crores over the same period last year. Our credit cost for the quarter was flat at 31 basis points compared to the previous quarter but higher than the credit cost of 19 basis points in Q1 FY17. Compared to Q4, there was an increase in credit cost in micro banking and agro business, while in all other businesses we saw a flat to a reduction in credit cost.

With that overview, I will briefly discuss the various parts of our financial and business performance and let me start with advances and asset quality.

Wholesale advances; in our wholesale book comprising of corporate and institutional banking ("CIB") and commercial banking stock mid-market, we saw a growth of 37% year-on-year. Within the wholesale business, corporate and institutional banking grew at 47% and commercial banking grew at 18% year-on-year. Our NPAs in CIB segment were flat quarter-on-quarter and on a percentage basis they were marginally down.

Last quarter I have talked about normalization of the credit challenges in the commercial banking mid-market portfolio and a stabilization of that portfolio. The gross NPA in the segment has been coming down over the last 6 to 9 months and have now remained stable in this quarter. We continue to grow this business cautiously. In terms of yield, the wholesale book yield was at 9.2% in this quarter compared to 10.19% in Q1 FY17 mainly due to the interest rate dynamics in the market. Just for reference, in Q4 2017 it was 9.9%.

In the non-wholesale book, as you are aware it comprises of our branch and business banking ("BBB") portfolio which includes secured business loans i.e. LAP, unsecured business loans and personal loans and credit cards and in addition to that, we have our development banking and financial inclusion businesses and our agri businesses. These are the 3 major components of the non-wholesale book. The overall non-wholesale book yield in this quarter was 12.82% compared to 13.39% in Q1 FY17. Approximately, half the impact of the reduction in yield was because of the interest reversal in the micro banking portfolio which was classified as NPA in this quarter and the balance is in the other businesses reflecting the changes in the market rates.

Now giving you some details of our branch and business banking portfolio, the advances grew at 63% year-on-year. Within BBB, the secured loans are 63%, the credit card book is around 18% and with a launch of our cobranded credit card with Bajaj Finance last quarter, we have now crossed 77,000 cards and approximately 48,000 was the addition in the last quarter. Our overall card portfolio has now grown to 3.6 lakhs cards as of June 2017 and the yield of the BBB segment is steady at 13.8% in this quarter. NPAs in the BBB segment were up very marginally in line with our business model.

In terms of our development banking in FI business, financial inclusion business which comprises of micro banking, MSME and inclusive finance institutions, we saw an overall growth of 32% in advances year-on-year. As of now in the micro banking business, we are not seeing a risk of contagion despite several states announcing farm loan waivers. The non-impacted geographies continued to show a robust demand and our portfolios include fresh disbursements and are now reflecting collection trends at pre-demonetization levels.

In our previous quarterly update, we had expressed concerns with regard to collection in the micro banking portfolio in certain pockets for reasons beyond the control of the industry which are well documented and understood. Since then while overall business environment has improved the recovery in the impacted districts of the 2 or 3 states has been slow and marginal. Our endeavor of constant engagement with the customers and deploying additional people in the impacted geographies has helped contain the damage. Our portfolio delinquency, 30 days plus dpd as of this quarter end is 6.4% i.e. 145 crores and is less than half of the industry average. As a matter of some more detail on NPAs in this portfolio, our 90 days plus dpd which was around 4% in March 2017 as I had reported last time remains around 4% in June 2017, but is likely to inch up towards 5%-5.5% by the end of this financial year, net of the partner FLDGs that we have. The reason is that while customers are making regular small payments, they are unable to clear the EMIs every month leading them to slip into LPA. However, regular small collections are expected to continue over the tenure of the loan. We expect therefore potential losses in this financial year to be around 2% to 2.5% range of the outstanding micro banking portfolio after adjusting the cash security which we keep from our partners.

Just for information that in this last quarter we did not adjust any of the cash security or the FLDGs that we keep from our partners and we have kept it for a later date. And in the sense therefore we have recognized whatever we saw in terms of the delinquency.

Lastly on our agri portfolio, we have seen growth of 24% year-on-year, while our agri portfolio also had very low gross NPA thus far. The recent farm loan waivers announced by certain states is impacting the repayments even on the loans which are not eligible for such waivers. As a result, our gross NPA in the segment has increased from 0.86% last quarter to 1.03% in this quarter.

To summarize, at Bank level our gross and net NPA percentages have increased from 1.2% to 1.46% and net has increased from 0.64% to 0.81% respectively. Compared to March 17, almost 80% increase in gross NPA in absolute terms is coming from the micro banking portfolio. In fact, if you see this on a percentage basis, out of the 1.46% gross NPA that we have as of June, in terms of shift, 28 basis points of that increase has come from the micro banking portfolio, the agri and the micro banking portfolio which means if I have to back it off, then the movement would have been from 1.2% to 1.18% which means for the rest of the portfolio of the bank there is actually a reduction in the gross NPA of the bank. We also took an additional standard asset provision on telecom and iron and steel sectors as per recent RBI circular on the subject and have provided an additional 35 basis points on top of the 40 basis points which is already there, which has added approximately one basis points to the overall credit cost. This is a small amount as we do not have a very large exposure in these sectors.

Our restructured asset level is very low at 0.24% as compared to 0.25% in the last quarter. Basically, there is no change in this book and hence this is just a denominator effect. There is no change in the security receipts position which is at 0.02% and there are no ARC sales, SDR, 5:25 refinancing or S4A case in this quarter done by the bank. We also have no exposure to the 12 accounts identified by RBI for insolvency proceedings. As a consequence of increased provisioning on the micro banking portfolio, we expect an increase of about 10-11 basis points in our credit cost for FY18 as against the 70-75 basis points estimated earlier for the year as a whole.

Now let me come to deposits and cost of funds. As mentioned in the beginning, our deposit base has also seen healthy growth at 37% year-on-year. The CASA deposits also grew by 64% during the same period. Within CASA, it is really the saving account deposits which are leading the growth showing an increase of 121% year-on-year. CASA ratio has therefore increased from 18.5% as of June 30th 2016 to 22.1% as of June 30th 2017. There is some moderation in fact even some flow back in current account balances during just gone by quarter because of the cost demonetization effects, in other words the spurt that we saw during the monetization has moderated to a large extent.

Our cost of funds is down from 7.3% in Q1 2017 to 6.5% in Q1 2018 due to general reduction in market rates, progressive reduction in our deposit rates as well as improvement in CASA. Our cost of deposits had reduced from 7.5% in Q1 2017 to 6.7% in Q1 2018.

In terms of revenue, net interest income and NIMs, revenue growth as has been seen, has witnessed a very strong momentum and has grown 54% year-on-year for the quarter. Our net interest income grew 55%, our NIM has improved by 74 basis points year-on-year at 3.54% and is slightly higher compared to last quarter which was at 3.52%. In terms of noninterest revenue, there has been a growth of 53% year-on-year and our core fee income growth has been 48% year-on-year over quarter one FY17. We are continuing to see strong traction in our non-interest income especially in our non-credit linked fee growth. Our distribution, credit cards, client FX income and general banking fees are all showing good growth. The contribution of revenue from securities trading was pretty high in this quarter as was in the first quarter last year which was at 29% as against 17% for the full year last year but I think it was still about 25% in the first quarter of FY17.

Coming to operating expenses, our operating expenses ratio came down further to 51% for Q1 2018 from 55.3% in Q1 2017. Sequentially also, this is lower than Q4 FY17 which stood at 52.2% despite opening new branches etc. This has happened mainly because of higher revenue growth in securities trading in Q1 FY18. However, as mentioned in our previous two quarterly updates since our investments in infrastructure, branches, people and technology continue, our operating expense ratio would likely to see some increase during the course of the year. That said we will still be within our guided range for 2020 on our operating expense ratio as per our Vision 2020 goals.

In Q1 FY18 we have expanded our distribution footprint by 5 branches apart from the 24 branches we opened in the last quarter. We added 58 business correspondent branches and approximately 10,000 customer service points this quarter. We now have a total of 244 branches, 626 business correspondent branches and 68,000 customer service points respectively. Of the BC branches, the 626 BC branches, 151 branches have been classified as banking outlets pursuant to the recent revision in the branch authorization guidelines by RBI.

Coming to capital adequacy ratio, our capital adequacy ratio stood at 13.06% and tier I capital adequacy ratio was at 10.82% as of June 30th, 2017 without taking the Q1 profits, as against 13.72% and 11.39% respectively as of March 2017. As you would be aware, our Board of Directors has subject to approval of the shareholders at the ensuing annual general meeting to be held on August 4, 2017 proposed a preferential issue of 3.26 crores equity shares at a price of 515 per share for a total consideration of Rs. 1,680 crores. The capital raise is expected to be completed in early August. This capital raise is in line with what we have communicated earlier in our earlier conversation and it prepares the bank among other things for its planned future growth and investments. Like we spoke of in the last earnings call, we continue to see opportunities to sustain our growth cycle and therefore will maintain our investment program in technology branches, retail and mass banking segments.

Finally, restating our Vision 2020 metrics. To summarize, we continue to be on track in terms of growth and operating performance despite some of the temporary environmental challenges and are confident of achieving the metrics we have planned as part of our Vision 2020. I will now hand over to my colleague Harjeet Toor to briefly speak about trends in our micro banking portfolio and our future outlook on this segment. Thereafter, we will open it up for questions and answers. Over to you, Harjeet.

Harjeet Toor: Thank you, Vish. Good evening, ladies and gentlemen. I would like to take the next 5 minutes or so to briefly share with you the status of the micro banking market and our outlook on this business.

What started as a rise in delinquency on account of cash flow disruption and unavailability of cash on account of demonetization has now largely become a political interference and loan waiver related issue. While most of the markets have shown signs of recovery, the problem is now isolated to identified districts in namely three states; Maharashtra, North Karnataka and Central Madhya Pradesh. As expected, farm loan waiver announcements have not further impacted the micro banking portfolios. In fact, customers are now more or less clear that these waivers are not applicable for them. We have seen green shoots of recovery in pockets of the impacted districts with about 25% to 30% of the customers starting to payback in small amounts. However, the pace of the recovery is slower than what was expected and while these customers are paying small amounts as repayments, in most cases they are still not being able to pay their full dues and therefore may slip into higher delinquency buckets and subsequently into NPA. The recovery therefore will be long-drawn over the next year or so.

On a macro level, the competitive landscape of this business is changing and the learning post demonetization will force some changes in the operating model. One of the major shifts over the last 6 months is that banks including SFBs now control around 65% of this market. The smaller MFIs are finding it difficult to absorb losses and facing erosion of capital. Further, it is becoming evident that for this business to be profitable and sustainable, it needs to be geographically well-diversified across a large number of states and the fundamental model of small regional operators in this segment is under question.

With banks becoming significant players in the market, we expect the following to happen: The engagement at an individual level with the customer will go up due to cross-sell of other banking products across savings, payments, remittances and individual loan products. We expect this to significantly alter the repayment behavior as was seen in individual loan portfolios during demonetization in the impacted markets which continue to perform satisfactorily.

Vintage customers will need to be moved out of the group model into individual loan relationships as this model is not suitable for high ticket sizes. Data and analytics will play a significant role in not only developing product offering, but also deciding the amount of exposure and the collection strategy to be followed. There could be some dilution in the group security model and groups may serve more as a purpose of providing cost efficiencies and administrative convenience than just social guarantee. As a bank, we are confident of taking advantage of the above industry developments and we have already started taking steps to incorporate these learnings into our business model.

We believe that episodic risk will continue in this business. The only way to manage this is to build enough cushion in loan loss provisions almost to the tune of 1.5%-2% per annum as against historical trends of about 30 to 40 basis points. At the same time, geographical diversification, enhanced customer engagement and stickiness through other banking products will change the repayment behavior especially in times of stress. The demand for credit in the rural areas continues to be strong and only about a third is met through micro banking. No other credible alternative has emerged in the last 6 years. This business model provides us the infrastructure to target the rural segment efficiently and profitably.

With the recent RBI announcements around banking outlets, we believe there is tremendous potential for us to move forward in our endeavor of banking the rural houses. Thank you. Now open for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Ritesh Badjatya from Asian Markets Securities. Please go ahead.

Ritesh Badjatya: Sir my question is regarding to your cost income ratio which is now 51% which is our Vision 2020 document in line with that. So is this number will be sustainable at 51% or it will be between 51 and 54 that kind of the…

Vishwavir Ahuja: You have already answered my question, thank you. And I said that in my commentary also. So because you see what has happened is that in some ways, the investments that we are making and will continue to make are happening at a slightly slower pace compared to the revenue growth and in terms of revenue growth, in terms of margins etc., we have turned out to be pretty satisfactory and the efficiency in fact ratios have improved faster than we had anticipated, yes. But that does not mean that we will not invest. So like you very rightly put it, 51 to 52 is the range that you should take it at for 2020.

Ritesh Badjatya: Second question is your processing fees percentage is coming down to 31% versus average of 38%. So going ahead, what will be in that range?

Vishwavir Ahuja: I would say that this is at a fairly good level, comfortable level and given the nature of the overall environment, I think that this is a more reasonable level rather than what we may have seen a little higher in the past. So I would say the current level probably are more reflective of the state of affairs in the market. And at the same time, you need to consider the fact that our fee pool overall you are seeing more and more diversification. So in a way, it is a positive.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Baroda Pioneer Mutual Fund. Please go ahead.

Ashwini Agarwal: Sir, I got a couple of questions. First of all, can you give a little color about the growth which is coming in the corporate banking, which are the sectors and whether it is a term loan or the working capital loan?

Vishwavir Ahuja: So I think in our presentation, we have given out the sector wise mix of our businesses also, yes. Broadly in terms of the wholesale business, it is divided between our large corporate which is the CIB book and the mid-market book which is the CB book. That data is available. Then if you look at, I do not know if you have access to our presentation on page 18 of the slide, so it gives you the entire maturity profile of our advances.

Ashwini Agarwal: No, I am not looking at maturity profile, the sector wise and whether it is a term loan, whether if you see in last one year in a corporate banking, the growth has been very good, it is 47%. So what is the sectoral mix in which you have lent?

Vishwavir Ahuja: Slide 19 got the entire sector base distribution of our advances. It is very dispersed, very well diversified across several industries. There are no industry concentrations, the highest exposure we have to any industries about 5% and so on and so forth. Again the details are there on page 19 and I do not know if that was an implied question. In terms of term and short term, two-thirds of our book and more is in less than one-year category. And the same trend continues from the past into the present. If in fact in the last quarter, the shorter end, the one year and less has been proportionately higher than even the historical average.

Ashwini Agarwal: Sir my next question is that we have seen some kind of increase in NPAs in the nonwholesale book especially in the financial inclusion book. Do we see any kind of slowdown in that growth which we have grown this quarter 32%? Is the slowdown likely to be more pronounced going forward?

Vishwavir Ahuja: No, I think we did try to sort of cover that in fair amount of detail in our commentary that we are not going to expect a slowdown in the growth; yes and we, also as was commented earlier, do expect that the moderation in the challenges will start happening from perhaps next quarter onwards. So even there, we may see a positive tapering of the issues around NPA and portfolio quality. So that is the picture as far as that is concerned.

Ashwini Agarwal: And sir any color on what is the exposure in the top 12 accounts which has been denoted by RBI?

Vishwavir Ahuja: Yes, I had commented that we have zero.

Ashwini Agarwal: And something about the branches, you have roughly 97 branches in Maharashtra as compared to 244 overall?

Vishwavir Ahuja: Exactly. Also in Mumbai area alone, out of those 97, we are approximately 30. So in a way if you take Mumbai out, we approximately have 60 odd branches in Maharashtra.

Ashwini Agarwal: So can you give us the color on your branch expansion programs and hiring programs for next 2-3 years to achieve the vision which you have?

Vishwavir Ahuja: Yes. Again, we have talked about in several times earlier that we have sort of extended distribution architecture. It is detailed in slide 28. So that tells you how we, if I may say, distribute our products across direct branches, across business correspondent driven branches and through customer service points and we have, if I may say, distributed model in that sense in three layers of distribution. And in terms of our direct physical branches, we have said earlier we are adding approximately 50 branches in a year and the rest of the distribution happens through either our business correspondent networks or through our CSPs . You should expect that pace of growth to continue through the next several quarters.

Ashwini Agarwal: Out of this 45 branches which you open in last one year, how many of them would be in Maharashtra only?

Vishwavir Ahuja: Only 5 in Mumbai and nothing else. Rest of the expansion has happened in other states and again that picture is there on slide 28 in terms of the spread and distribution of branches across various states of India.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Sir, the first question is on margins, what is the outlook from here as in 3.5, do you see any further levers here or do you think this is broadly a range we should track for the next year or 2 years?

Vishwavir Ahuja: My view is that given the kind of bank we are, we are kind of happy where we are. Even in the past when this question is being posed to us, when we were a little lower on NIMs, we had said that somewhere around the 3.5 level would be a satisfactory level to be at for a fast-growing bank like us at this moment. So, there may be a marginal uptick in NIMs and that is a natural process of trying to continue to improve our cost of funds position largely through better, if I may say, liability management and taking advantage of the interest rate environment in the country. So that could be a little helpful, but honestly having said that at this level if I can maintain it also and keep say between 350 and 360 range, it would be a good satisfactory level to be it.

Abhishek Murarka: One of the things on your balance sheet earlier was that you had a fairly huge investment book which now has come down in proportion steadily because you have redeployed to quite an extent. So what do you think from a composition perspective from 27%-28% of your balance sheet is that, roughly where it remains or there is hope to reduce, but would you like to maintain at a certain level or not?

Vishwavir Ahuja: So in the past, it was a bit high and we received that positive feedback. And therefore we have sort of consciously managed it down. Again I think around the 25% level, this is fairly decent and acceptable.

Abhishek Murarka: Some bit of uptick in margins whatever on residual basis can come from here?

Vishwavir Ahuja: Yes, that is what I said. There could be some uptick.. It is not going to change radically from here.

Abhishek Murarka: Sir the other thing is on entire micro banking and micro finance segment. Mr. Toor gave a fairly optimistic outlook of MFI and upgraded to cross-sell etc. From a more medium term to long-term point of view, what do you think would be an ideal mix of MFI in the portfolio and what kind of mix would you like to contain it at from a sort of medium to longer term point of view?

Harjeet Toor: So we would expect that in about 3 to 5 years, the portfolio would consist almost about 25%-30% of non-MFI loans and the balance would be what we call a JLG loans.

Abhishek Murarka: So you are talking about DB and FI specifically or?

Harjeet Toor: I am talking of micro banking within that. In DB&FI, we also have MSME which currently is at about 9% of that book and that is growing pretty rapidly. Last year, it grew about 100%.

Vishwavir Ahuja: So what Harjeet is saying is that within DB&FI, the MSME proportion will increase and the JLG proportion will reduce.

Abhishek Murarka: In light of basically the discussions whatever come out in the media in terms of you are looking to acquire Bha Fin, that will completely skew the proportion of MFI loans in your overall loan book.

Vishwavir Ahuja: Let me pause you; that is a leading question and frankly, I am not going to answer that because we have commented enough on this matter. So, there is nothing on the table to talk about as far as that is concerned.

Abhishek Murarka: Coming from the fact that it will completely skew the mix and how do you think about that from a risk perspective but anyway, it's okay

Vishwavir Ahuja: No, there is no comment to make.

Moderator: Thank you. The next question is from the line of Ravi Singh from Ambit Capital. Please go ahead.

Ravi Singh: Firstly, thanks for the granularity you provide in your Analyst Presentation. My question is in your BBB book other than LAP in the business loans and cards, last five - six quarters we have seen increase in the NPA. So, is there any comment you have to make there because I assume it is a quite granular book, despite that if there increase in NPA, is it a reflective of a trend which can continue for some time?

Harjeet Toor: Yes, see, our unsecured book is currently about 2.5 to 3 years old and therefore, as they mature the NPA levels would reach the industry average. As we are still below industry average and therefore, till that time you will continue to see this growth and once, this reach a maturity level then the NPA kind of stabilize.

Ravi Singh: Okay. And similar on the AIB book, is it entirely due to farm loan waiver or you think there also, there is a risk of NPAs increasing further?

Vishwavir Ahuja: Okay. Again, historically as you have seen, we have been way below industry NPA levels even in this space, yes. We have been tracking between 16 basis points - 18 basis points in the past and now we are reaching about 1%. Certainly, this movement is because of the recent environmental issues. And all I can share at this stage is that this is a very small percentage of our portfolio and it is something that we are extremely conscious of in terms of the overhang of the environmental political issues. So, we are going to be extremely cautious.

Ravi Singh: Okay. So, my second question is on the risk intensity, so RWA-to-assets or RWA-to-assets plus your non-fund based exposure that number has jumped in this quarter by 30 basis points to 50 basis points whichever you look at it, in fact 500 basis points. So, what could be the reason other than the investment book going down there?

Naresh Karia: Yes, so one is the investment book going down slightly but the main reason is the cash and bank balances that you had as of Q4 last year that has reduced which used to be a low risk weight item. So, other than that the pure credit book is not showing any increase in the RWA ratio.

Ravi Singh: Okay. So, in terms of rating profile of your corporate books, your SME book those trends are stable.

Vishwavir Ahuja: Very stable. In fact, if you look at the relevant sections around both NPA and credit cost, they have actually improved. Like I said earlier, whether you look at NPA or you look at credit cost, if you back off the impact due to the agri and financial inclusion, micro-banking portfolio, actually there has been a portfolio improvement, I mean the asset quality improvement across CIB, CB, other asset classes that we have.

Moderator: Thank you. The next question is from the line of Alok Ramachandran from Future Generali India Life Insurance. Please go ahead.

Alok Ramachandran: I missed the starting point remarks for the slippages, just wanted to know the slippages on account of entirely on account of the MFI business and how would you kind of look to recover in the timelines to kind of have recovery regarding this any color on that please?

Harjeet Toor: Yes, so the slippages as it was detailed earlier was almost entirely on account of micro-banking**.**

Alok Ramachandran: Could you quantify that amount.

Harjeet Toor: So, 80% of the slippages are on account of this.

Vishwavir Ahuja: The total slippage was Rs. 101 crores, Rs. 81 crores was because of this the rest of it in percentage terms actually was less than our trailing average..

Harjeet Toor: And on your question on recovery, I had mentioned that while we are seeing about 25% - 30% of the customers from these impacted markets started to pay back but the amounts they are paying are still small and they may slip into NPA despite paying regularly and therefore, the recovery efforts will be a little prolonged over a year or so.

Alok Ramachandran: And what is the target of the banks to grow this MFI book in terms of the total advances?

Harjeet Toor: We currently, I think, would continue to grow at the pace which we are growing and we have completely kind of isolated the impacted markets and therefore the other markets are tracking well. And DB&FI as a segment for the bank in FY 2020 will be around 20% the full DB&FI which is MSME and the micro-banking segment.

Moderator: Thank you. The next question is from the line of Abhishek Sahoo from Citigroup. Please go ahead.

Abhishek Sahoo: Firstly, on the margin levers that you spoke about earlier, you mentioned that you would like to stay around the current or you might stay around the current range, my question was in terms of the mix between the wholesale and the non-wholesale portfolio where do you see that in the next two to three years, do you think that 60-40 is a fair split or do you see that changing because that can be one of the things that remove the margins?

Vishwavir Ahuja: Yes, very good question. The intended if I may say objective here and in fact even stated earlier in terms of our longer-term guidance is that we want to move in the three - four year timeframe to a 50-50 mix where wholesale and non-wholesale will be 50-50 in that range. So, obviously we want to see a faster and a higher growth in the non-wholesale book. Which if you will track our numbers historically you will find that that movement is happening and even in this last quarter it has gone from 39% to 40%, so 1% movement has happened and while we keep saying, we expect, all our various segments to grow, we do hope and expect the non-wholesale segments to grow faster, yes and overtime to achieve that greater balance in the asset mix. You are absolutely right that is the higher yielding end of the entire asset portfolio and can contribute to better margins. But at the same time in the model itself you need to factor in slightly higher level of planned if I may say delinquencies also. So, on balance it may give you a basis points advantage and ultimately the whole devil lies in frankly as we grow in scale size and you know better economies, it lies in increasing the operating efficiency of our business and also bring down our cost of funds overtime. That is where the whole if I may say operating challenge will be and we hope to work on that very actively, as we have been doing.

Abhishek Sahoo: Sure. And in terms of, if you want to take it to 50% in the branch and business banking segment what kind of investments do you think that will entail?

Vishwavir Ahuja: So, exactly where we are investing, we are investing in our entire branch networks, in our distribution structure, we are investing in technology driven services, in the digitization of many of our frontend and backend processes. If I would say bulk of our investment program is around these, in these very areas. We do want to evolve more and more as a well distributed mass banking institution, you know that will be stated objective and that is where we are and you know we continue to back that.

Harjeet Toor: So, Abhishek, just to clarify the 50% comprises of our rural as well as our urban retail businesses. It includes agri, micro-banking, MSME, cards, business loans, personal loans, etc.

Abhishek Sahoo: Sure. And what percentage of the wholesale loans what percentage is now linked to MCLR versus base rate?

Vishwavir Ahuja: Approximately 70% is MCLR based or maybe a little more.

Abhishek Sahoo: And what was the number last quarter please.

Naresh Karia: 64%-65% we will give it**.**

Vishwavir Ahuja: Yes, maybe 5% less.

Moderator: Thank you. The next question is from the line of Jhanvi Goradia from Motilal Oswal Securities. Please go ahead.

Jhanvi Goradia: Couple of questions, one is the 77,000 cards that you did on account of tie-up with Bajaj, if you could just help me understand where is the benefit in the cost related to this sitting in the P&L, how is the structuring and how is the accounting done?

Harjeet Toor: The cards are booked directly on our balance sheet and therefore the entire revenue and costs sits in the bank's P&L under the BBB segment.

Jhanvi Goradia: Okay. So, what kind of costs are we incurring for this one?

Harjeet Toor: What kind of cost meaning, you are talking about…

Jhanvi Goradia: Yes, the cost of acquisition or…

Harjeet Toor: The cost of acquisition here is usually about 50% to 60% of my regular cost of acquisition because this is done entirely digitally.

Jhanvi Goradia: Okay. And in terms of sharing with Bajaj are we doing that in terms of are we sharing the cost with him or are we passing down some revenue that we earn, how is it?

Vishwavir Ahuja: So, I had in fact in the last quarter shared that the model with Bajaj is that we pay them cost of acquisition, a little bit of spend share and we sometimes use their services for collection, etc., on which they are reimbursed for the activity they are doing for us.

Jhanvi Goradia: Okay. And sir, if you could give me some color on the BBB segment which has grown from Rs. 3,700 crores to Rs. 6,100 crores. In terms of the break-up is it the same if I am not wrong earlier use to be 50% LAP and rest use to be personal loan and credit card. So, is it same or have we accelerated on one of the segments or, how is it?

Harjeet Toor: So, the break-up is similar. So, LAP is about 53% and unsecured business loans are about 14% and cards is about 18% and rest is the other products between personal loans a little bit of working capital, etc., and loans against fixed deposit.

Jhanvi Goradia: Okay. And just lastly, earlier in the call you mentioned that in terms of delinquencies on the card portfolio we are below industry average. Now, if you could just help me understand I mean we do not have the numbers for the industry or even because we do not know the card portfolio for the bank too. So, how far are we and what is the gap between us and the industry and I mean what is the gap between us and the industry mainly?

Harjeet Toor: Okay. So, when I earlier spoke about speaking about the BBB loan losses and the NPAs and which I was sayings as the portfolios mature, these will grow till they reach that level. In cards, it works the other way around because you need a stable portfolio for your delinquencies to actually start coming down because the card portfolio is about 18 months plus on books is where the stability lies and for cards we would actually be about 50 basis points higher than the market as compared to loans where we are about again the similar amount lower than the market.

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

Sumeet Kariwala: I had a question on DB&FI segment. As I understand there is MSME over there is direct lending to MFI and also JLG kind of loan. So, I want to understand first of all what is happening with the segment on direct lending to MFI that would be shrinking if I am not wrong. And what is the growth in the JLG related loans?

Harjeet Toor: Yes, so you are right the exposure to the direct MFI is shrinking and last year quarter-on-quarter if we were to look at over the year we have grown about 45% in the micro-banking space and about 120% in the MSME space.

Sumeet Kariwala: So, what is the share of direct lending now in this micro banking**.**

Vishwavir Ahuja: Okay. So, you can take out Rs. 1,600 crores for the lending to MFI/SFBs

Vishwavir Ahuja: He is saying Rs. 4,200 crores that is the number out of that Rs. 1,600 crores is the direct MFIs. So, if you take that off you are left with approximately Rs. 2,600 crores and out of which…

Harjeet Toor: Rs. 2,250 crore is your micro-banking.

Vishwavir Ahuja: Correct.

Sumeet Kariwala: Rs. 2,250 crore, okay.

Harjeet Toor: Yes.

Sumeet Kariwala: Got it. And you talked about NPAs levels averaging to that of industry as the portfolio seasons. So, do we have a number in mind as to what would be normalized NPA level be in your case based on like normalized loan mix.

Harjeet Toor: Are you talking about BBB or you are talking about the bank?

Sumeet Kariwala: Overall, I am saying overall for the bank.

Harjeet Toor: NPA level overall for the bank normalized.

Vishwavir Ahuja: I think what we have commented is the fact that we expect credit cost for the year as a whole to be in the 85-basis points range that is what we said of which 31 has been in the first quarter and the balance should be in the remaining three months of the year. I had also commented, we expect some moderation in that based on all the commentary that went around the one-off effect that we have taken in this quarter. So, that is how it stacks up. I mean, if you are asking me will my portfolio quality deteriorate? No, my answer is no.

Sumeet Kariwala: Actually my question was a bit different, what I was trying to get at is if I look at BBB, DB&FI, and agri, all these non-wholesale banking segments. And if I look at the GNPA ratio with that it is kind of going up over the last couple of years. Now, the reason as you rightly mention is because the starting point of GNPA ratios in these segments were quite low and as the portfolio is kind of seasoning you are getting closer to industry average levels.

Vishwavir Ahuja: That is right.

Sumeet Kariwala: Yes. So, I was just trying to get to what kind of steady state GNPA ratio numbers will operate at the bank. I can take it offline if it is…

Vishwavir Ahuja: Yes, I think so.

Harjeet Toor: Yes, we will have to get into a little bit of product wise and I can share with you separately offline in terms of product wise how we are as compared to the market.

Sumeet Kariwala: Got it. So, I will take that offline. And cost of savings deposits please for the quarter.

Vishwavir Ahuja: 6.7% and trending downwards.

Sumeet Kariwala: And this is broadly in line with overall funding cost, right? And what is this for term deposits?

Vishwavir Ahuja: Let me just tell you savings account cost of deposits was 6.7% and for term deposit specifically it was 7.4% and cost of funds of the bank was 6.5%.

Sumeet Kariwala: Yes. And do we expect like further improvement with respect to funding cost?

Vishwavir Ahuja: Yes, I said so in my narrative.

Sumeet Kariwala: Okay. And when you said margins could remain stable from 3.5% you are obviously not factoring in the free funds impact that will get in from the capital raise will happen next month, right?

Vishwavir Ahuja: Perhaps not yes.

Sumeet Kariwala: And final question is on the commercial banking segment and I can see growth rates stabilizing over there. When do we start accelerating because it is growing at 18% on Y-o-Y basis which is not kind of the growth that we see in other segments in overall. So, when can we start seeing traction in that?

Vishwavir Ahuja: See, in my statement I said that we will grow in this space cautiously. So, I do not want to say anything much more than that at this moment. I think having stabilized the portfolio quality was the first big objective which we have achieved and I am satisfied with where we are on that now. And we are bringing it within range there. Then the second monkey in the pack is the GST impact which we need to understand, evaluate and take into consideration because in this SME space is where the impact will be the highest, we all know that. And I do not think we should start guessing at this stage. In this particular segment, the GST impact we need to evaluate carefully before we stack up any aggressive plan in this space.

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

Saurabh Dhole: Most of my questions have been answered just a bookkeeping question, how big is the housing loan book?

Vishwavir Ahuja: We do not book housing loans on balance sheet. Yes, Harjeet wants to say something.

Harjeet Toor: So, we had a small book which we bought from RBS and the other home loan book is more liked to the LAP which we do, total book of under home loans will be about Rs. 150 crores.

Saurabh Dhole: Okay. And there are no plans to focus on that because the general market moods seem to be so?

Harjeet Toor: So, on urban the normal home loans not for the moment. We are looking at seeing if affordable housing makes sense.

Moderator: Thank you. The next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: You said basically that out of your micro lending book around Rs. 1,600 crores is direct assignment. So, the actual loss which you are seeing of about 2% - 2.5% is on the total book, right?

Harjeet Toor: Sorry, we do not have a direct assignment book. That is the lending onwards to MFI.

Vishwavir Ahuja: No, his question is that if you take out the direct MFI lending which does not have a problem, okay let us clarify that is clean, okay. That Rs. 1,600 crores is clean, okay. So, now you are saying if I back that off I am left with that Rs. 2,200 crores of portfolio in the micro banking book, okay that is what we are talking about, right?

Parag Jariwala: Yes.

Vishwavir Ahuja: And 2% - 2.5% is of that number.

Parag Jariwala: Okay. So, it is not on the total number, right.

Vishwavir Ahuja: No, on this will have a Rs. 2,000 some number.

Parag Jariwala: Okay. So, out of this Rs. 2,200 do we have some MFI writing that can basically giving a credit enhancement up to 10% ,is that kind of book included here or no?

Harjeet Toor: No, so our business model in MFI is through BCs and BCs do have a FLDG arrangement with us.

Parag Jariwala: Okay. So, can you quantify what portion of that could be of through BC?

Harjeet Toor: So, normally BCs keep in the region of between 3% to 5% of FLDG for the micro-banking book with us and BCs is almost 88% is through BCs.

Parag Jariwala: Yes. So, the losses on the underlying portfolio is much higher than 2% - 2.5%, right? 2% - 2.5% is coming into our book but if you look at actual losses let us say if you have done through BC, it bears around 3% - 3.5% loss and probably you will need 2% - 2.5% so overall loss could be 5% - 5.5% is this the right arithmetic?

Harjeet Toor: Your conjecture is right. But as Vish had said in his commentary, we have not yet utilized the FLDG. So, what you are seeing is something which we book directly.

Moderator: Thank you. The next question is from the line of Piyush Chadda from Ocean Dial Advisors. Please go ahead.

Piyush Chadda: I hear an interesting take on the micro-finance profitability, you said that you should have an annual levelized credit cost of 150 basis points year or so. If we were to extend that line of thought and say at the best part of the cycle what do you think is the provision as a percentage of the book that you will be comfortable with sort of an unused provisioning?

Harjeet Toor: So, when I was referring to as 1.5% to 2% as what you should be provisioning in a normal cycle you will continue to look at credit cost in the region of about 0.4%-odd and the balance goes towards building up that reserve which finally gets used if there is an episodic event.

Piyush Chadda: Fair. What would that reserve be? Would you be comfortable at 3% of the book, 4% of the book at best?

Harjeet Toor: When I said 1.5% to 2% that is the total. So, out of that back off 0.4 the balance is reserve which is getting build up.

Piyush Chadda: Second thing is that you mentioned the client relationship in MFI client goes from just micro-finance to housing loans, etc., you grow the kind of product portfolio you sell to your clients.

Harjeet Toor: That is right.

Piyush Chadda: Is that something you can do with bank corresponding network too?

Harjeet Toor: Yes, because our model with the BC network is slightly different than what happens in the market, we have our own people in the BC branches, so while the BC originates the interest, the management of that entirely takes care by our own people. And therefore, as these BC outlets are now being transferred and classified as banking outlets this model is pretty much possible and that is what we are piloting in a lot of states.

Moderator: Thank you. We will take one last question from the line of Anand Jain, he is an Individual Investor. Please go ahead.

Anand Jain: My first question is on MFI loans. So, I have been like listening to the con-call, I wanted to understand what is the difference an MFI loan versus what we call as micro-banking, first. Second is what is the difference between a pure play MFI versus how our bank gives out loan, example in terms of NPA classification or NPA recognition in terms of there is a maximum yield an MFI can have is around 10%, so what is that which changes from an MFI to our bank that is my first question? Second question is sir we have seen in like eight consecutive quarters the NPAs have gone up. So, when do we see that stabilizing going ahead? And the third question is what kind of attraction are we seeing on the Bajaj Finance Card side?

Harjeet Toor: Yes. So, let me just answer first your query on the MFI versus micro-banking. The reason we refer to it as micro banking instead of MFI or what in the market is called the JLG loans is that as a bank we not only do JLG loans, we open their accounts. And therefore, we are now getting into the process of giving that household other loans as well. So, that is why we choose to call it micro-banking instead of just an MFI. Your second piece was how is lending to this segment different as a bank versus an MFI. Now, MFI typically only does JLG business and is not allowed to do other loans to these customers. Whereas a bank we can provide the full banking suite to these customers. Also there are no restrictions to banks in terms of the lending rates which are to be adopted and that is the second different which happens. Does that answer your question on as far as MFI is concerned?

Anand Jain: Yes, so one more question that I have is you have a centralized MFI data base which prevents multiple MFIs to give out loans to a single client. So, do we also have access to kind of mechanisms?

Harjeet Toor: Yes. So, the data base is through a bureau. So, while banks are not mandated by the regulator that they have to follow the 60,000 to loan principle but usually it gets followed. The data access is from the Credit Bureau which everybody does including banks.

Anand Jain: So, we follow that is what you are suggesting?

Harjeet Toor: So, at the time of origination we know how many loans or what is the outstanding which the MFI borrower has.

Anand Jain: Okay, great. The second question is on NPA stabilizing because it has been like almost eight quarters as far as I remember, there is a reason every quarter like last quarter we had one single client, this quarter we have an MFI, so I just wanted to know when are we looking for NPA stabilization going ahead?

Vishwavir Ahuja: So, see the best answer we can give you at this stage is that, we try to manage asset quality as tightly as possible and there is a certain environment we are a part of. Having said that, if you see that in the commercial banking, CIB, and the other portfolio that we have, we actually stabilized it and we actually brought it down a little bit in this quarter. Now, the whole situation in the micro-banking space it is a black swan event and if you look at every organization you will find there is some reason or the other for the numbers to be the way they are. But the way I look at it that our portfolio quality overall has always been tracking at a very-very satisfactory level. And in many ways, we have managed to maintain that even in the last several quarters. So, if you trace that but for the blip in the one account last quarter and this development it would have been fairly satisfactory level that is one answer. The other answer is that we did not do any retail lending till three - four years ago. That process only started recently and in the retail lending space there is a certain in-built level of delinquency in the business model itself. So, when we did not have any of that obviously you will not see that NPA on the books only when I start lending will I start seeing NPA, so when I was doing only high-quality wholesale lending we were tracking to those levels of asset quality, the minute you bring in higher-yielding, slightly higher risk portfolios into your business, you will have to build in that into your business model and that is exactly what is happening. So, this is an evolving institution and like I have said, Harjeet has said that we will ultimately have to be measured according to the market benchmark that are there. And I think so far, we are doing better than that.

Anand Jain: So, just a continuous question here which is like one is we have a direct exposure in terms of our correspondence and our MFI portfolio, do we also have exposure to MFI institutes like through NBFCs do we also have an exposure through that?

Vishwavir Ahuja: Yes, we do that is the number that we have given.

Harjeet Toor: In the DB&FI there is about Rs. 1,600 crores which is to SFBs and MFIs.

Anand Jain: Okay. So, as of now we do not see any risk to that portfolio or do we…

Vishwavir Ahuja: No. I had commented clearly a few minutes ago that Rs. 1,600 crores portfolio is clean.

Anand Jain: Okay, great. The last question that I have is what kind of traction are we seeing on Bajaj Finance Cards like I think you gave a number of 70,000 cards I guess.

Harjeet Toor: That is right.

Vishwavir Ahuja: Yes, the traction is that we have piloted that sometime in February and it was pilot in the initial stages, it became sort of more active April and between April to June we have put on taken on approximately 50,000 cards, okay. And you can expect that kind of attraction to continue.

Anand Jain: Roughly what is the yield on this, if it is alright if you can on these kind of loans?

Harjeet Toor: We will not comment specifically.

Vishwavir Ahuja: Yes, I think we need to sort of not get into that at this stage, yes.

Moderator: Thank you. We will take one last question from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Sir, a couple of questions. Just kind of continuing on the previous one, just trying to understand on a Q-o-Q basis have you increased your MFI exposure?

Harjeet Toor: Yes, by about 4%.

MB Mahesh: On a Q-o-Q basis this is a direct lending portfolio. So, you have not kind of stopped or kind of stabilized the portfolio right now?

Harjeet Toor: No, so as I said that we have isolated the market where we have a problem. Are you talking about lending to institution?

MB Mahesh: No, the direct that we do.

Harjeet Toor: Direct lending, right. So, that in the other markets the growth continues the way it has been doing so far.

MB Mahesh: Okay. And the second question is on the professional services which is a new sector which has come in your top 10, how easy it has been for you to scale up this business given the fact that it was not there in the last few quarters? And the corresponding question along with it is that how much is the bank dependent on internal origination as compared to external origination and give us the fact that there has been a fair amount of competition to originate from external agents how easy or difficult has it been to put RBL as one of the main places to lend for these players.

Harjeet Toor: So, I will answer second one. So, the second question was more in terms of internal versus external generation and external generation typically happens in the BBB segment and in the micro-banking it is BCs. So, in the BBB segment almost about 80% to 85% of our business comes through external. This will gradually go down as our own customer base in the bank goes up and therefore the cross-sell increases.

MB Mahesh: But are you seeing refinancing of our portfolio by other banks or that has been lesser of a concern for you?

Harjeet Toor: So, refinancing typically is a problem which is usually seen in LAP and there we have measures or steps that we are taking to increase the stickiness with the customer in terms of timely interventions and increasing the product holding with them to reduce that. But that is the product in which you typically see this otherwise in the other products which are business loans or personal loans you typically do not see this.

MB Mahesh: Okay. I assume that professional services is coming in the BBB.

Vishwavir Ahuja: No, it does not. Let me answer that question. Professional services, it is a very good observation that you have made, these are institutional customers they are the big consulting firms including the big four, some leading hospitals, some very leading educational institutions, KPO, BPOs, clinical labs. So, this is how RBI wants us to classify them but basically these are corporate clients.

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