"RBL Bank Limited Q1 FY-19 Earnings Conference Call"

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MANAGEMENT TEAM

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Moderator: Good day ladies and gentlemen and welcome to the Earnings Conference Call of RBL Bank Limited to discuss the financial performance for Q1 FY19. 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 management discussion 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 & CEO of RBL Bank Limited. Thank you and over to you, sir.

Vishwavir Ahuja: Thank you. Good afternoon ladies and gentlemen. Thank you for joining us on this earnings call for first quarter FY19. I hope you have had a chance to go through our press release and the quarter results and the investor presentation which has been uploaded on our website.

I will as usual, briefly talk about our performance highlights for the first quarter and then open it up for discussions. My colleagues from the management team are also here with me to address your queries.

On the macro front, the picture is mixed with revival of credit growth, supported by both private and government consumption. At the same time, we are faced with some headwinds on inflation, interest rate movements and global trade challenges.

I will come straight to our financial results which you know are sort of satisfactory on all accounts.

We continue to maintain our growth momentum across all our businesses. For the quarter ended June 18 our advances grew 36% Year-on-Year and wholesale and non-wholesale businesses growing at 31% and 43% respectively. Our deposit base also continues to see strong growth at 27% Year-on-Year led by CASA growth of 40% Year-on-Year. CASA percentage is up from 22.09% in Q1 FY18 to 24.42% in Q1 FY19. Revenue growth has seen strong momentum and has shown 38% Year-on-Year growth in Q1 FY19. Our net interest revenue grew 46% Year-on-Year in Q1 FY19 significantly above our loan growth.

Our overall yield on advances improved 26 basis points Year-on-Year and 34 basis points Quarter-on-Quarter to 10.82% in Q1 FY19. I am happy to report that in this quarter we have crossed the 4% mark in NIMs ending the quarter at 4.04%. On a Year-on-Year basis our NIMs increased 50 basis points. This has been achieved despite an increase in cost of funds in Q1, some of which we were able to pass on through increase in MCLRs.

I want to take a moment to talk about cost of funds and how we see it impacting our NIMs in the coming quarters.

We have seen our cost of funds increased by 17 basis points Quarter-on-Quarter. Directionally we expect cost of funds to inch up marginally from here onwards. However, we are fully confident of maintaining our NIMs above 4% owing to two important factors.

First, last year our wholesale book saw a fair amount of pressure on yield front due to competition. We have increased our MCLRs over the last 6 months and now we are seeing yields improving on the wholesale side.

Secondly, our increasing share of non-wholesale businesses which are at significantly higher yield is helping us improve our overall yields.

These two factors in our view are giving us comfort that we will be able to maintain NIMs around the 4% range in the near term.

Our non-interest income, other income grew 27% Year-on-Year in Q1 FY19 while our core fee income grew 58% Year-on-Year in Q1 FY19. As in the past we continue to see strong granular growth across distribution, credit cards, client FX income and general banking fees. We had an MTM loss on our investment book of Rs. 24 crores which were fully provided for this quarter and we have not taken the benefit of the RBI dis-concession. In spite, of this our overall securities trading business was positive during the quarter.

Our cost to income ratio was 50.8% for Q1 FY19, 200 basis points lower than last quarter and 20 basis points lower than Q1 FY18. However, as we continue to invest in our franchise, in branches, technologies and retail asset business we expect cost to income ratio to be in the range of 52% to 53% for the full financial year.

For Q1 FY19 our net profit increased by 35% to Rs. 190 crores during the quarter. ROA for the quarter was 1.26%. ROA has improved 7 basis points Year-on-Year. Our ROE is also improved by 26 basis points Quarter-on-Quarter to 11.16% in Q1 FY19. We continue to broadly track on our financial parameters to our guidance for FY20. Let me now briefly discuss our business performance in different segments.

Our wholesale and Non-wholesale segments continue to see strong traction. This split of wholesale and Non-wholesale advances stood at 59% and 41%. Our wholesale book which comprises Corporate and Institutional Banking (C&IB) and Commercial Banking (CB) we saw a growth of 31% Year-on-Year. Within the wholesale businesses C&IB grew 31% and CB grew 30% Year-on-Year. As I mentioned earlier we are seeing yields improve in our wholesale book as competitive pressure abate and new opportunities open up. On a QOQ basis we have seen an increase of 10 basis points in our wholesale yields and we expect this to further improve this is the pass-through effect of MCLRs.

In the Non-wholesale business, contribution to the bank advances continues to inch upwards in-line with the strategy of balancing the book between the two segments. The business continues to show a strong growth momentum and grew 43% Year-on-Year. Within this the retail asset business grew 45% Year-on-Year and the financial inclusion, what we call DB&FI segment grew 39% Year-on-Year.

In terms of yields the Non-wholesale business improved yields by close to 110 basis points Year-on-Year and 30 basis points Quarter-on-Quarter to 14.04% for this quarter. This is largely on account of the changing mix of business as highlighted earlier.

Within retail assets, the card business continued to show robust growth with the card base just shy of a million cards at the end of the quarter. The business continues to be among the top 5 in the industry in terms of retail spends per card as well as new card additions. We are seeing a healthy uptake of cards in the Tier-2 markets as more and more individuals are shifting their regular spends onto the card. The business now is a significant and steady contributor to core fee of the bank and contributes 40% to the total core fee income of the bank.

This is largely led by conscious strategy of issuing cards with an annual fee which not only increases the fee contribution but also ensures higher customer engagement and retail spends making it the preferred card in the wallet. The card fee income is expected to grow in-line with the growth in card numbers.

In terms of the development banking and financial inclusion segment, before I talk about our performance in that space I want to briefly talk about our acquisition of Swadhaar Finserve Private Limited.

As you would have seen in the press release we have now acquired 100% of the equity in Swadhaar. This is an important strategic acquisition for us and by doing this we now have control on a large part of our distribution network in this space. With Swadhaar, we now have a direct presence in 18 states and union territories through 348 business correspondent branches. As you know we have been building this business over the last 7 years with the help of our BC partners and we believe this acquisition will enable us to scale up further to become a significant player in this segment.We see meaningful opportunity to add new products and services backed by strong technology and analytics capability.

Coming to the performance of this segment the micro banking business continued its growth momentum and grew by 66% Year-on-Year as the new branches opened in the last 2 or 3 quarters added to the new businesses. The book today contributes around 9% of the total bank advances. As part of our geographical diversification strategy no state contributes to more than 15% of the portfolio. We currently operate this business in 19 states.

The MSME business focusing on small business in the Tier-3 and Tier-4 markets grew 68% Year-on-Year as most of branches added in the last year has started contributing meaningfully.

In Micro Banking the GNPA continued to reduce and I am happy to report a GNPA of 2.54% as of end of Q1-19 as compared to a peak GNPA of 5.17% as of December 17 and 4.07% previous quarter. As mentioned in our last call the demonetization impacted portfolio will be fully written off this year bringing the GNPA of the entire portfolio to under 1% by the end of this financial year.

Approximately two-thirds of the impacted portfolio has already been provided for and the balance will be done in the next 2 quarters. The credit cost impact of the remaining portfolio is already built into a forecast for this year. The recovery efforts on the portfolio continue through a separate collection team and we continue to see encouraging results. The new portfolio built from January 17 continues to display strong credit behavior with 90 days plus past due at around 0.38%.

Overall we continue to be confident about the growth engines in the non-wholesale businesses, secured, unsecured businesses and the MSME loans, Credit Cards and Micro Banking as the credit environment remains conducive both for individuals and small businesses and as we add more geographies in our distribution. Our investment into portfolio analytics, risk management and collections continue as we grow these businesses.

On to asset quality, our bank level gross NPA percentage was 1.4% in Q1 FY19 and Net NPA at 0.75% against 1.46% and 0.81% respectively in Q1 FY18. Our restructured assets stood at 10 basis points in Q1 FY19. Our security receipts position was at 0.06% and there was one ARC sale in the quarter on a full cash basis. We are flat in our overall stressed book, i.e. GNPA plus restructured at 1.5%.

On Deposits and cost of funds, our deposit base continues to see healthy growth at 27% Year-on-Year. The CASA deposits grew by 40% during the same period. CASA ratio increased from 22.09% in Q1-18 to 24.42% in this quarter. The realization in granularity continues to increase in our deposits with healthy liquidity coverage ratios. Our cost of funds for this quarter was 6.36% as against 6.19% in Q4-18.

In terms of our distribution network we added a total of 40 business correspondent branches in this quarter. We now have a total of 266 bank branches, 847 BC branches of which 199 are classified banking outlets.

Our capital adequacy ratio is 14.57% with Tier 1 capital adequacy ratio at 13.14% as of June 30^{th}, 2018 (with interim profits) as against 15.33% and 13.61% respectively as on March 31 2018. The capital consumption was slightly higher this quarter owing to the one-time yearly adjustment for operational risk.

To summarize I would like to you leave you with a few key highlights for the quarter gone by. NIMs continue to see improvement and we have crossed the 4% milestone in this quarter. We remain confident of maintaining NIMs at about 4% in FY19.

Credit costs are expected to be steady and are in line with our guidance. We have improved our provision coverage ratio to 60% plus this quarter and we expect to at least maintain that same going forward.

Our ROA and ROE continues to improve, and we are broadly on track to our FY20 targets.

Lastly the acquisition of Swadhaar is an important milestone for us. It now gives us greater control in achieving our stated objective of strengthening our market position in the inclusive banking business and allows us to aggressively pursue multi product opportunities in this space. With that we will now open it up for Questions and Answers.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Ashish Sharma from Enam Asset management. Please go ahead.

Ashish Sharma: Just on the NIMs and the Yield part. You mentioned in your opening remarks in guidance that you expect NIMs to sustain at 4% but we have seen this sharp improvement in yields in Non-wholesale category. Do you see this sort of sustaining? What are the reasons for such a strong improvement in the yields? So, if you can throw some color on that.

Vishwavir Ahuja: Yes, I mean as we said that even on the wholesale side we expect the yields to have bottomed out in with the effect of increasing the MCLRs, even though wholesale leads have marginally improved in this quarter by about 10 basis points and we expect that with some of the actions we have already taken in the last few weeks, some of that will further improve even in the wholesale segment and the yields on the non-wholesale side have been attractive and they are holding up nicely. So, as far as the combined effort is concerned that despite a marginal increase in cost of funds, the overall yields we are confident can be maintained at over 4%.

Ashish Sharma: Second question would be on the OPEX. We have seen an improvement in the cost to income ratio. What would be the guidance for the same? How much more improvement we can see and what will be the sustainable run rate for the same?

Vishwavir Ahuja: Yes, So, there we have been saying again and again that we are in a fairly active investment mode and even during this year we will make investments in our branches, in our technology, in our retail asset lending franchise, essentially on the card side and in other areas too. So, actually the first quarter typically is a bit slow when it comes to the investment program of the year.

And in that sense, I think while 50.8% cost to income ratio is interesting, but it will sort of level out in the above 52% range. That is what we have guided that for the year as a whole. It will be in the 52% to 53% range which will be on an annualized basis an improvement over last year but at the same time we do not expect that to go down beyond that level.

Moderator: Thank you. The next question is from the line of Pranav Gupta from ICICI Securities. Please go ahead.

Pranav Gupta: Yes, on the cost side you have answered the question saying that first quarter is slightly lean in terms of investments but if we look at our vision 2020 and your ROA target of 1.5. What would be the major leverage you would say which will help us achieve this target?

Vishwavir Ahuja: Yes, in a sense that as you are seeing that from that point of view we have been showing consistent improvement in ROA every year and even in this quarter compared to the equivalent quarter last year it is a 7 basis-points improvement in ROA. So, based on the, I mean that trend in fact is continuing and we are very confident as we said earlier of maintaining that ROA improvement consistently over the next several quarters.

Pranav Gupta: Also, could you throw some light on how you are seeing such a stark improvement in fee from cards and how much of that would you attribute to the partnership with Bajaj Finance and how it would be the in-house attribution towards that?

Vishwavir Ahuja: So, I think that as far as the fee part is concerned we have already commented that because of the way we run the card program with annual fee structures and so on and also the interchange that we get on the spends, there is a strong fee generation that happens in our card business. Now in terms of new acquisitions let us just say that about 40% is our direct acquisition and about 60% comes from the Bajaj partnership. But frankly speaking in terms of contribution to fees it is equivalent to number of cards being acquired.

Pranav Gupta: Okay, so you would say that attribution to fees is more towards our acquisition rather than Bajaj Finance?

Vishwavir Ahuja: No, 40% is our acquisition and 60% comes from Bajaj.

Pranav Gupta: In terms of the numbers.

Vishwavir Ahuja: Similar. It has been similar ratio.

Harjeet Toor Let me give you some breakdown if that helps. So, in terms of number of cards, we are roughly about half-half. Between our portfolio which is Non-Bajaj and Bajaj co brand cards. In terms of our outstanding, 60% is Non-Bajaj and 40% is Bajaj. In terms of spends about 45% is Bajaj and 55% is Non-Bajaj. So, broadly if you see, I would say the fee income generated would be in the region of about 55% - 57% our portfolio and the balance coming from Bajaj portfolio.

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

Rahul Maheshwari: I have three questions. First of all, during the quarter the capital consumption on Quarter-on-Quarter basis has increased by 110 bps, whereas the management commentary was that normally the capital consumption would be in 40 to 45 bps, what is the reason that capital consumption that has led to such a fees increase?

Jaideep Iyer: The first quarter has the burden of an increased operational risk which comes in because of the standardized approach that bank follows wherein the calculation of the operational risk is based on the last 3 years profit. And therefore, we add the latest year and you drop the year which was 3 years back and therefore the denominator that base goes up and therefore the percentage of risk goes up. That has been the predominant driver.If I exclude that impact then I think the sequential capital consumption is slightly lower in Q1 than Q4. So, we will continue to guide 40 to 45 basis points on an average per quarter of Tier-1.

Rahul Maheshwari: Earlier you had guided that the micro banking would be restricted towards the 9% of the portfolio on an overall advances but after acquisition of Swadhaar which is mainly into the micro banking and the MSME part still would you remain stick with 9% or it can move the needle upside?

Harjeet Toor: As far as the acquisition of Swadhaar, Swadhaar was a BC partner, so in any case that portfolio was reflecting in our books. So, currently also we are also at the 9% levels and we will continue in that range. What Swadhaar does for us is it increases our distribution capabilities of distributing MSME as well as other products. So, that is one. And second is we have a complete control on our distribution network as well. So, that is the positive which it brings us.

Rahul Maheshwari: And third in terms of the Agri exposure. What is our total Agri because this time we have bifurcated between the retail and the wholesale but overall where it stands? As few quarters you had told there was a stress in Agri and you have taken most of the hit in terms of provision but now where do you find the outlook for the Agri division?

Harjeet Toor: Okay, so on the Agri side of the business we had last time also said that we had restructured the business and had slowed down the acquisition given the environment which is there. If you notice the advances, advances have come down on the retail side by almost about 13% Year-on-Year. I think the environment is still tricky.

There is a Karnataka loan waiver currently which is to be processed. There are couple of more states which may go that route. There is election which is to come in. So, as of now we are kind of maintaining our portfolio and just focusing on our existing customers till there is much more clarity around this segment.

Rahul Maheshwari: And how much it contributes to your overall book Agri as a part?

Harjeet Toor: Agri to the overall bank advances retail agri is about 3.7%. It used to be 5%, it has kind of come down.

Rahul Maheshwari: And how much it is hitting into commercial banking the wholesale part?

Harjeet Toor: Very little. Even put together it is under 4%.

Vishwavir Ahuja: Let me explain it in different ways. The total agri portfolio, corporate and retail is under 4% of the book. It used to be 5 plus and has been coming down every quarter. It is now under 4%. Having said that, as we have said in previous quarter also we have restructured our approach. The corporate piece which is very small, somewhere around Rs. 250 crores or Rs. 300 crores maximum which is not even a percentage or 3 quarter of a percentage of our balance sheet is now merged with the so called commercial banking side because that is how it needs to be managed.

That is a corporate agri, it is a wholesale activity, we are now managing it directly there. But the number is miniscule. So, I do not think you should say it place any stress on that. That leaves the retail agri piece which we are managing as retail agri and showing that number also. So, that number as Harjeet just pointed out, is about 3.7% and that is not a significant number, at the same time there are certain risks associated with that portfolio which Harjeet has just explained and I think we continue to manage it tightly and quite effectively and are basically managing it such that there need not be any concerns.

Rahul Maheshwari: And there was a strong recovery on Quarter-on-Quarter basis during the quarter any of the corporate, can you just highlight what is the recovery going forward as compared to base quarter?

R. Gurumurthy: It was one particular case that we spoke about which slipped and we recovered completely back, 100% recovery on that. Other than that, it is all granular, small stuff.

Vishwavir Ahuja: We need to re-explain that. A particular account became NPA and got recovered within the quarter. So, it was 100% and 100% back. So, the net effect is 0 both within the quarter.

Rahul Maheshwari: But it is showing as additions and recovery?

Vishwavir Ahuja: It is showing as additions and recovery. The amount was Rs. 27 crores, so Rs. 27 crores technically became an NPA within the quarter, technically got recovered 100% for cash, money in the bank within the quarter but just in terms of the way it has to be shown it shows as additional Rs. 27 crores and recovery Rs. 27 crores.

Moderator: Thank you. The next question is from the line of Sagar Shah from KSA Securities. Please go ahead.

Sagar Shah: My first question is regarding I just wanted to know that have you factored in the bond interim losses actually which RBI has given the window for four quarters to spread out but have we done in this particular quarter?

Vishwavir Ahuja: Yes, as I explained that on a net position basis taking our entire securities portfolio we were on a net positive, we had a net profit in that business in the quarter. However, there was a portion of MTM losses on the investment book as part of that. We have fully absorbed that because we could because we had enough profits and we have fully absorbed that and therefore nothing needs to be taken forward for the remaining quarters of the year.

Sagar Shah: Okay, my second question was regarding to as a general I am seeing your unsecured advances is nearly almost 33% and I can see the tenure of the advances for this quarter is almost 71% is below one-year tenure of advances. So, just wanted to know that how is the business model? How are we working? Are we a working capital bank or bank of like something like we are providing more to commercial banking of our working capital purposes?

Vishwavir Ahuja: So, again this has been our basic strategy and philosophy on the wholesale lending side throughout where we largely try and run a short duration lending book on the wholesale side which is tilted towards short term working capital-oriented loans where we have very strong clients with whom we have long term relationship and where we are very comfortable with the credit profile. We do to some extent do some medium-term lending to those companies. Having said that the portfolio is heavily weighted towards as you can see under one-year kind of exposure.

So, that philosophy of the bank has been so, continues to be so. And therefore, there is no change in that position and the wholesale book is largely secured as you will appreciate. So, the bulk of so called unsecured piece essentially comes from the non-wholesale side where I can approximately say that 50% of the total retail or the non-wholesale lending is secured and approximately half is unsecured to understand it in simple terms.

Sagar Shah: Going ahead are we targeting more of secured as compared to unsecured or are we comfortable with this actually?

Vishwavir Ahuja: No, we are quite comfortable with this level. We have been operating at or around this level for quite some time. We do not want to take it further towards unsecure. We do not want to also take it much further towards secured. I think this is a fairly good combination in terms of our portfolio mix and what we do is to look at the risk rating profile of our businesses which is also again reflected in another slide where you can see the quality of the entire asset portfolio as reflected on page 22, it just shows you a very healthy rating or credit rating perspective or the asset quality perspective where in term of ratings as you can see that a very high percentage almost 94.3% is investment grade and better. That number has been consistently 92%, 93% plus.

Sagar Shah: But wanted to know that, are the yields higher in the unsecured portfolio as compared to secured?

Harjeet Toor: On the retail side, yes. You have cards and you have microfinance both having significantly higher yields.

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

MB Mahesh: I have three questions. One, if I could have breakup of the retail loan book? Second, what would be rough contribution of fees from the wholesale segment in your overall non-interest income? And the third question to Harjeet, that is just in continuation to what was asked in the previous quarter. At this point of time we just wanted to understand do we see a very high contribution of revenues coming in from two major businesses which is the MFI as well as the cards business given the fact that these are reasonably high yielding portfolio and whether the cards business at this point of time is breaking even at the operating profit levels?

Harjeet Toor: I can broadly tell you in the retail side, roughly about 12% to 13% of the total bank advances are what we call as LAP and working capital, about 2.8% is bill, cards is about 6.9%, Agri we said was about 3.7% and the balance I think 1.2% or 1.3% is personal loans. So, that is broad breakup for the retail. To answer your second one on the card side where you were asking me whether we are breaking even or not, yes cards is not only at the operating level, cards is making money at a PBT level as well and is delivering more than the bank ROAs as well. So, it has already crossed that hump and is on the path of therefore increasing its profitability.

MB Mahesh: And if our understanding is right, is the contribution of the MFI and the cards business at the revenue line now crossing somewhere close to about 30%, is the business too skewed towards these two businesses as we speak today and more you add these small ticket loans and are you not inherently increasing the riskiness of the portfolio?

Harjeet Toor: You should not consider cards with small ticket loans because the risk profile is very different there. If you leave that aside, then you have microfinance which as we said is a business which we are comfortable with the credit cost of around 1.5% on a steady state basis including the provisions for let us say the events which might happen.

Keeping that aside then we have LAP which is almost about half the book of 40% or 47% book of retail which is again less than 1% kind of NPA level. So, that perspective we are fairly maintaining the mix to take care of the risk levels which is there.

MB Mahesh: And contribution of fees to the wholesale business?

Jaideep Iyer: So, Mahesh, it is about 60% retail 40% wholesale. One another thing Mahesh I wanted to add was that during this entire time in, even continuing further a lot continues to be invested in the analytics and the portfolio management side of this business because that is the mantra to actually run the unsecured side of the business. And that is what gives us the confidence to continue to grow cards.

MB Mahesh: We do not dispute the point that there is a fair amount of investment. I am just saying that when you look at the way the cost growths have changed over the last, since the time you have gone into the arrangement with Bajaj there has been significant pullback, it appears to be that there seems to be significant pullback in expenses at the bank level especially on the liabilities side or probably on the other segments of the business. Just trying to understand is this good or bad?

Vishwavir Ahuja: So, I just want to tell you one, I do not think that has been done and second is that even if I look at the Bajaj portfolio itself is profitable. So, that is also breakeven and started making money.

Jaideep Iyer: So, basically our MFI and Cards business are already where the costs are showing after accounting for those costs. Those are running at profitability higher than Bank's ROA. So, in-fact it is actually funding the potential expansion on, whether it is technology, whether it is investments into the branches and distribution. So, I think the investments into liabilities have got multiple factors.

You need to be having a certain level of control on how you grow. I do not think it is restricting us from our investment availability perspective. We are also conscious of the fact that the dynamics of that business is dramatically changing with what is happening from a digital standpoint. And therefore, while we agree that currently the 260 branches has to go up, but we do not see ourselves becoming a 1,000 branch bank as a necessity at all. So, those are the factors which are also critical in our inputs onto how do we grow that business.

Moderator: Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir, just on your retail loan book, I just wanted to know whether we have seen pickup in the yields what percentage of this retail book would be let us say new to credit customers?

Harjeet Toor: Very marginal actually. If I was to break it up LAP and business loans none, everything is to credit tested customers, cards maybe about 10%, it is new to card, and in microfinance about 25% is new to this. So, it is broadly I can very safely say that almost the entire pieces to credit tested customers. I think just to add, I do not think the correlation is between a higher yield and a new to bank or a new to credit customer at all. I think one of the peculiarities was that the microfinance business, given a lot of NPAs in the last year from a base 10 point is now kind of getting written off and fully provided for. So, that optically is increasing the yields as well. So, there is no correlation between an increased yields that you are seeing versus any extra risk that is happening. There is no change at all in the risk profile of that business.

Jai Mundhra: Sure. And if you can also provide a rough breakup of this self-employed and salaried also within let us say LAP or basically that, so LAP is anyway so that is not required. And secondly on this Swadhaar acquisition the employee that we have inherited, have they been absorbed in the banks or how does it work? I mean are they still let us say under the banner of Swadhaar or they would be at some point of time would come under bank's purview?

Harjeet Toor: No, they continue to be under Swadhaar banner and would continue to remain so. It will always remain, it will run as a distribution arm of the bank as a subsidiary and will be an independent entity from that part of it.

Moderator: Thank you. The next question is from the line of Ritesh Badjatya from Asian Market Securities. Please go ahead.

Ritesh Badjatya: My question is already answered, so thanks for the opportunity.

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

Ravi Singh: Could you help us understand qualitatively which are the areas where investments are still going on and driving OPEX was of 40% or so? In the context that around 59% of loan book is corporate and commercial where theoretically operating leverage should be very high, and that segment also has been growing at 30%, 40% in recent years?

And our OPEX too has at 2.9% is similar to a predominantly retail bank. So, what is the disconnect here, I mean what are those investments which are driving the high cost bps and how should one look at the OPEX growth in relation to the loan growth over coming years?

Vishwavir Ahuja: I think we have mentioned earlier as well that a part of it is going in the retail side of the business where the acquisition or the book growth is what is driving this. If you look at it, we have still not reached a size where our new acquisition or new growth which is coming in is a let us say a smaller multiple of the book itself.

So, if you look at it, we are almost doubling our book every year, which means we are requiring more than what we have which is what is resulting in a high upfront load in terms of an acquisition cost which is a concern, and that is what drives up your operating margins. So, while these businesses make money, the run rate expenses of these businesses as long as this growth continues will be there till our base becomes big enough to be able to absorb the acquisition.

Ravi Singh: Fair enough. Beyond the new business and new customer acquisition cost is there any large big investments still pending or do you think that part is over in terms of distribution expense and IT or any major investment?

Vishwavir Ahuja: Yes Ravi, I think as we mentioned the three areas of focus really is starting with branches, lot of investment and technology digital and the third is really expansion of our retail client acquisitions scaling up as Harjeet mentioned. So, all these three areas are getting the focus. Obviously, this phases out over a quarter, so you have to kind of see it over a long period of time. But these are the three areas of investment.

And even as we let us say increase our branches it is not necessary that the RM count will be the same as we used to have earlier because we have many different ways of accessing customers digitally first and then servicing them through RMs or a call center. So, there are many, many channels which are not so geared up as a traditional bank would have five, eight years ago. So, it is a little different mix of channels physical, digital, as well as partnerships which is driving the investment upfront.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: I have got two questions. One in your Tier 1 ratio, have we expect this year dividend in Quarter 1 Tier 1 ratio and second question is that if I look at your savings account deposits, for now almost about four quarters now we are at about Rs. 5,500 crores to Rs. 5,800 odd crores. So, in the overall grade numbers this is one number which is sort of not showing growth, any particular reason?

Jaideep Iyer: On the first question no, we have not taken dividend because typically we do not want to kind of assume what dividend will be paid out. So, that part will come one shot in Q4.

Kashyap Jhaveri: Sir, now under the new accounting standard the previous year’s dividend will be provided once you pay out, right?.

Jaideep Iyer: That was more an accounting presentation in any case. Typically, if we have to look at capital and therefore profit addition one methodology could be that you assume a dividend that will be paid out for this year and proportionately reduce its quarter-on-quarter. We have not done that.

It is not reflected this is the change in accounting that is happening. It is anyway just an estimated number in that sense. So, dividend has not been accounted for.

Kashyap Jhaveri: Between September last year and June this year, there has not been much change actually in the savings account deposits?

Surinder Chawla: So, on the savings account side, eventually what we have been really concentrating on is to make sure that the mix between granular deposits and slightly large ticket, HNI customers kind of deposits start to improve for us. When we had launched the savings account drive essentially three or four years back, task was a very big segment that we had gone after. And it also came at a slightly higher cost.

So, we have been kind of making sure that a granular our deposits grow very, very significantly. So, what we have done is we have got more stable deposits, we have got more granular deposits and obviously our customer acquisition has therefore come down on that as well. So, you may find a little bit of a slow growth on the high value ticket size but overall the quality of the franchise has improved tremendously. So, we are now in a very, very comfortable position and I think the numbers will keep going up from here.

Moderator: Thank you. The next question is from the line of Shirish Jain from NVS Brokerage. Please go ahead.

Shirish Jain: Sir, my question is how much of the NPA portfolio belongs to the unsecured part of the advances and how much is towards the secured, if you could provide us the proportion?

Vishwavir Ahuja: You know one way of understanding that is to go to Page 24. And you will find that it gives you the split of the gross NPA of 1.4% of the bank as a whole and of which 22 basis points are coming from the large corporate business, 50 basis points are coming from the commercial banking business which means about 72, 73 basis points a little more than a half is coming from wholesale business which are 85% to 90% secured. Approximately less than half is coming from the non-wholesale businesses of which also approximately half is secured and approximately the other half is unsecured.

So, it is very distributive more or less equally. Across the different segments of the bank. So, if the wholesale portfolio which is largely secured has 60% or 59% of the total advances of the bank, then approximately 52%, 53% of the NPS is also coming from that category. And on the other side, again it is equally distributed. So, therefore there is no skew if I may say towards one or the other category. Now in terms of just a model base if I may say, the unsecured businesses which are cards as micro banking potentially will have a slightly higher levels of model risk and therefore the provision requirements will be relatively higher.

But then you start looking at all of this from the point of view of risk adjusted returns. And when you look at that story then they more than justify carrying that level of risk. And as has already been articulated, that both the micro banking portfolios and our card and other non-wholesale portfolios are more than justifying from an ROA basis which are running at above the bank averages, significantly above in some cases. Therefore, they justify that level of risk.

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

Alok Ramachandran: Anyway, treasury losses during the quarter and any RBI dispensation that you have taken for the quarter?

Vishwavir Ahuja: Just to say what we said earlier. We had some MTM losses on our investment book, but our overall trading position was a positive we had a net gain. Therefore, we could absorb the whole thing and yet have a net gain in the quarter. So, we did not need to and we did not choose to spread these over the subsequent quarters of the bank.

Alok Ramachandran: Alright and what is the duration that you run on this portfolio, sir?

Harjeet Toor: So, HTM would be about 5.5.

Alok Ramachandran: On the AFS book, sir?

Harjeet Toor: The AFS book would be about two, two and a half years.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Funds. Please go ahead.

Anand Laddha: Sir, just couple of questions from my side. If you can give the breakup of our retail loan book in terms of absolute amount how much is the LAP, personal loan, credit cards and accordingly if you can give the YoY number for the same quarter last year?

Harjeet Toor: It is there on Page 20. So, I just kind of I think couple of questions back summarized the retail split where we said that between LAP, working capital it is about 13% of the total bank advances are towards this about 2.88% is bill, 1.5% is personal loans, 6.9% is cards, and 3.7% is agri.

Anand Laddha: Okay and what could these numbers last quarter in the sense Q1?

Harjeet Toor: I think more or less the difference you will see is that today when we say LAP we are talking of about 45%, 46% of the retail asset book. That time it used to be about 51% and that difference has moved in because cards has come in which used to be earlier a very less number. So, that has been the major change which has happened. Rest more or less 2% here and there is what is the change.

Anand Laddha: Sir, your disclosures are quite detailed, if you can add the disclosure for retail assets also in terms of breakup of that, that would be great sir. Secondly sir, if you can also give us some color like what is the outstanding credit card numbers we have? How has been the addition to the credit cards in this quarter and if you can give some color how has been the average spent on the credit card between your own credit cards as well as between Bajaj credit card?

Vishwavir Ahuja: Harjeet will continue but we have been given out the card number every quarter. It is not that we have not been giving. We have actually been given, we gave it just now also. We said that it is just under a million cards. We gave the number last quarter and previously also. So, we have been giving those numbers. It is not that we are not giving those numbers. Having said that, I think on the spent I think you are.

Harjeet Toor: Yes, so the card number of Quarter end was 9.8 lakhs as we said we were just a shade below a million. We roughly add about 60,000 additional incremental cards every month currently and our spends blended between RBL and the Bajaj portfolios is about Rs. 10,500 per card.

Anand Laddha: This is Rs. 10,000 per card per month?

Vishwavir Ahuja: Rs. 10,500 per card per month. Yes, that is right.

Anand Laddha: And sir, if you can just give some color like what could be our cost of SA (saving account) same account?

Jaideep Iyer: About 6.4.

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

Sumeet: Hi, Sumeet here. I had a question on processing fees. That has been growing below the balance sheet growth or the loan growth in fiscal 18 even this quarter. So, wanting to understand what is driving that and is that probably the reason why like if I think about the acquisition cost or retail loans and that logically should get offset by processing fees. So, is the gap between the two going up and that is why the reason is playing out in terms of cost to income ratio?

Jaideep Iyer: Sumeet, corporate processing fee will have a little bit of up and down. Q4 it is sometimes better, Q1 is weak, retail seems good pretty much grow in line with the asset book. I do not think there is any noise around that generally speaking. So, that was of the fee part. And the processing fees have grown at about 30% YoY which is a shade lower than what our advances growth has done.

Harjeet Toor: The other question of yours I just want to tell you on the retail loan side, the processing fee is lesser than the cost of acquisition. So, there is a gap. That gap is steady. It has not changed. So, net you do have a little bit of a negative drag for your LAP business loans and personal loans acquisition.

Sumeet: Got it. And second question is could you give indicative retail loan yields loans yields in basically LAP and cards?

Vishwavir Ahuja: So, lap is in the region of about 10.4% and cards interest yields is in the region of about 20%.

Moderator: Thank you. The next question is from the line of Bobby Jayaram from Falcon Investments. Please go ahead.

Bobby Jayaram: Going forward what is going to carry you to the 1.5% ROA, is it going to be higher NIMs or lower cost or how is going to work. How do we?

Jaideep Iyer: I think it will be driven by both NII-to-assets and fee-to-assets partly compensated by cost to assets and obviously provisioning two assets is something which is harder to predict, but that should also come down.

Bobby Jayaram: So, will the NIMs move above 4%, much above 4%? Do you see that over couple of years?

Jaideep Iyer: No, not necessarily in the next two, three quarters. But I guess if you look at next year yes, we could increase that but primarily because of the mix change. So, we do intend to see that the 59:41 ratio will probably move little more towards retail and as that portfolio on a blended basis is higher yielding I think that will drive part of the improvement in NIMs and obviously as we improve our CASA ratios that also helps in bringing cost of funds down.

Obviously the fact that with an increased leverage over the next two years will be a drag because contribution of equity to total liabilities keeps coming down but despite that we expect margins next year to be better. This is what we are seeing today.

Bobby Jayaram: So, are we on target for the FY20 your target of 1.5%?

Jaideep Iyer: We should be definitely between 1.4% and 1.5% maybe exit quarter should be closer to 1.5%.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: On the SA cost particularly the forecast which is currently 6.4% now, what was it last year same time?

Vishwavir Ahuja: June is more like 6.6%.

Jaideep Iyer: Past year June it is about 6.6%. This is tying up to the answer that we gave that task segment contribution has come down.

Roshan Chutkey: Okay and what proportion of your staff balances are now over Rs. 10 lakhs balances?

Surinder Chawla: So, I have a cut above Rs. 1 crore, it is about 40% odd of Rs. 1 crore for us.

Roshan Chutkey: 40% of the SA balances are above Rs. 1 crores plus?

Surinder Chawla: Yes.

Roshan Chutkey: And so you can talk a little bit about your Abacus traction?

Surinder Chawla: So, on the Abacus which is the code name or the internal name for our digital savings account proposition we have been seeing good traction over that proposition in terms of the number of accounts that we have been sourcing and obviously we have been trying to put a lot of effort around the customer base being acquired in a way to make sure that the balance will improve as well and the product holding ratio of these customers improve as well because that is how I think the overall proposition will become a very, very relevant as we go along.

So, the traction on the numbers is very good like we had shared earlier. We almost source as many accounts digitally as we were sourcing from the physical world. The value pool in that segment is still much lesser than the physically acquired accounts, but we see a very good improvement in the average ticket sizes as well over the last nine months or so. But the most encouraging factor that we are now seeing in this portfolio is that as and when these customers come into the bank on a digital platform, the propensity to buy all the other digital products that we are selling is very, very high and not necessarily at the same time.

But the engagement with the bank has gone up significantly in the last nine months that they have been on the book. So, very happy with the experiment. We will resume and we hope and we are very confident that over the next year or so the value pool will start to become very significant as well and will also become a very big channel for an overall acquisition for all products for us.

Roshan Chutkey: Can you share few numbers how many cards, how many SA, are we mobilizing every month, of them how many are digital, how many are physical, if you can just throw some numbers?

Surinder Chawla: The numbers will be little difficult to share on this call but like I said roughly as a particular account that we source are being sourced digitally as well now.

Roshan Chutkey: Okay half of them through the digital?

Surinder Chawla: Yes, in terms of numbers.

Roshan Chutkey: And on the cards business what is the ROA now?

Harjeet Toor: See we do not give out product level ROAs but safe to say that it is higher than the bank ROA.

Roshan Chutkey: And how many of the 4.9 million customers are MFI customers?

Harjeet Toor: MFI customers are close to about 3.9 in fact.

Moderator: Thank you. The next question is from the line of Onkar Ghugardare, an individual investor. Please go ahead.

Onkar Ghugardare: I just wanted to ask in next five years where do you see RBL Bank as of a retail-oriented bank or a wholesale-oriented bank and what would be the mix?

Rajeev Ahuja: Onkar, I think we have been very clear that progressively we will build balance on our portfolio. You can track the last three, four years, you will see the percentage of retail contribution increasing and that is not a fact that wholesale is regressing. Wholesale is increasing too, but the relative contribution is changing, and I think progressively you will see retail contributing more and more. Also, I think what is important to understand is that underlying every segment we do is a whole 360 degrees philosophy around the customer. So, it is just not regarding the asset, there is a lot more which some of which is in progress, some of which will happen over the course of the next several quarters.

So, the idea is to bank the full wallet of the customer as much as possible and in wholesale while advances may not grow at the same pace as retail but there is a larger focus on trade, guarantees, letters of credit, payroll, digital tax management services etcetera which necessarily does not reflect in the advances but the overall profitability of the business. So, our philosophy is balance the book but bank the entire wallet to the extent we can.

Onkar Ghugardare: Okay so the share will be definitely moving up right?

Rajeev Ahuja: It is moving up. If you see last June our relative contribution by wholesale was 61 to 39 retail non-wholesale and right now it is 59 to 41, so in a span of four quarters it shifted 2 percentage points.

Onkar Ghugardare: So, can it be 50:50 per cent in next say five years?

Rajeev Ahuja: Maybe before that.

Moderator: Thank you. We will take the last question from the line of Pranav Gupta from HDFC Securities. Please go ahead.

Pranav Gupta: So, my question is given the growth rate that our bank is delivering one at 13.1%, what level of Tier-1 are you comfortable at before you can raise capital or you look to raise capital?

Vishwavir Ahuja: I think if you take a consumption rate of 40 basis points to 45 basis points then I think as we had suggested last quarter also, this gives us a run way of about seven quarters plus before we hit the 11% sort of Tier 1 level. And I think that is the time when it becomes sort of prudent I would say to think of the next capital raise for the bank. So, therefore I think translated into real terms it can see us through this year and the next financial year.

Pranav Gupta: Okay. And lastly just a data point, could you give us a breakup of provisions credit and non-credit?

Jaideep Iyer: About Rs. 110 crores is provision related to NPAs and that includes standard assets. Then we have about Rs. 25 crores of provisioning on bond book and the others would be other provisions.

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