“RBL Bank Limited Q4 FY17 And Full Year FY17 Earnings Conference Call”

May 02, 2017

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Moderator: Ladies and gentlemen, good day and welcome to the earnings call of RBL Bank Limited to discuss the financial performance for Q4FY17 and full year FY17. 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 telephone. 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 Mr. Ahuja.

Vishwavir Ahuja: Good evening, ladies and gentlemen and thank you for joining us for our quarterly as well as our full year earnings call. I hope you had a chance to go through our press release, our quarter results and the investor presentation which has been uploaded on our website. I will speak for the next 15-20 minutes to take you through the performance highlights for the fourth quarter of FY17 and related topics. As in the past, we will then open it up for questions for the next 40-45 minutes and we look to cover as many questions as possible. I also have my colleagues from my management team with me who will also address your queries as they come up. In case any questions remain, please reach out to us separately.

In terms of an overview, as you are aware this quarter represents the first quarter in the aftermath of the demonetization drive of the government. There have been some consequential impacts, both positive and negative in this period. On the positive side, businesses which have high dependence on availability of currency such as development banking and financial inclusion and agriculture are seem to be bouncing back; however, the hazard associated with farm loan waivers and the challenge in collections in certain pockets largely for political reasons has created some stress in our micro-banking portfolios.

I am relieved to report that the impact for our bank has been relatively modest. I am also glad to report that as far as all other businesses are concerned, we continue to see sustained growth and improvement in operating profitability. Overall, loan growth was broad based. There is almost 39% year-on-year growth with our wholesale as well as non-wholesale businesses growing 39% each respectively. Our deposit base continues to see healthy growth at 42% year-on-year led by higher CASA growth of 68% year-on-year basis. For fourth quarter FY17, our operating profit increased by 75% to 282 crores and our net profit increased by 55% to 130 crores over the same period last year.

For full year ended March 31st 2017, operating profit increased by 70% to 920 crores and net profit grew 53% to 446 crores over the same period. I would like to add here that 446 crores is being reported after a reduction of 17 crores on a post-tax basis for the adjustment we made for the one time impact of our investment in Utkarsh. If you look at the profit before that, it would have been 463 crores. With that overview, I will briefly discuss the various aspects of our financial and business performance.

In our wholesale book comprising of corporate and institutional banking and commercial banking businesses, we saw a growth of 39% year-on-year. Within the wholesale business, corporate and institutional banking grew 51% and commercial banking grew 18% year-on-year. The commercial banking segment had experienced some credit challenges previously which we had talked about in earlier quarters. It has now seen an improvement in asset quality in both the previous quarter and this quarter. Gross NPA in this segment has reduced from a peak of 3.4% in September 16 to 2.5% in March 17. We are seeing continued improvement in the space and further recovery will allow us to continue to grow in this space albeit cautiously. In our retail asset segment, the advances grew 55% year-on-year. While we continue to remain watchful on the underwriting norms in the current environment, our growth trajectory is now at pre-demonetization levels.

On the credit cards front, our new co-branded credit card with Bajaj Finance has become operational in this quarter and early signs are promising. My colleague, Harjeet Toor who looks after this business will separately touch upon this little later. In our development banking and financial inclusion business, we saw an overall growth of 32% year-on-year. As I mentioned earlier, there are still pockets of concern in certain markets, but collections in the micro-banking segments are still challenged for reasons that have been well documented. We together with the industry bodies are working to take remedial steps, although in recent times, the collections have improved in these specific markets. We expect that more clarity will emerge on this over the next few weeks.

Lastly, on our agriculture portfolio, we are seeing growth of 20% year-on-year. As in previous years, we continue to meet all our priority sector requirements comfortably. You will find more details on our advances slide in the investor presentation.

On the yield front, there has been a reduction of approximately 50 basis points on an overall basis largely led by the reduction of rates in our wholesale business. On the non-wholesale side, the rates have held up well due to better asset mix and higher proportion of fixed rate loans. We reduced our MCLR in late February which also had a marginal flow-through effect in the quarter IV 2017.

Now I will talk about deposits and cost of funds. As mentioned in the beginning, our deposit base has also seen healthy growth at 42% year-on-year. The CASA deposit grew by a very strong 68% during this period. Saving account growth increased by 119% year-on-year during the same period. CASA ratio increased to 21.94% at the end of the quarter compared to 18.64% as at March 31st 2016. On a Q-on-Q basis, current account deposits grew 12%, savings account grew 7% and term deposits grew 17%. Of the increase in CASA on account of demonetization, in Q3 17 a reasonable proportion of the same has remained with the bank. Our cost of funds is down from 7.3% in Q4 '16 to 6.7% in Q4 '17 due to general reduction in market rates, progressive reduction in deposit rates as well as improvement in CASA.

In terms of revenue, the growth has seen similar strong momentum and has grown 54% year-on-year for the quarter. Our net interest income for the quarter grew 47%, NIM has increased by 29 basis points to 3.49% for the same period. We have been able to maintain NIMs at steady levels through a judicious mix of assets and liabilities. Our non-interest income grew 66% year-on-year and our core fee income grew 50% year-on-year over quarter 4 '16. We are continuing to see strong traction in non-interest income especially in our non-credit led fee growth. Our distribution, client FX, trade finance and general banking fees are all showing strong growth. Our operating expenses ratio came down significantly to 52.1% for the quarter from 58% in quarter 4 '16. For the full year FY17, our operating expense ratio was at 53.4%, a reduction from 58.6% for FY16. While there is a planned improvement in our cost-to-income ratio, this reduction is higher than our internal plans primarily because we backended some of our investments in people and technology. There are planned increases in our investments in FY18 as well and we expect to see slightly higher cost-to-income ratio in the coming quarters of FY18. This will also include the investments through expenditure on a co-branded card with Bajaj Finance. That said, we still should be within our guided range for 2020 on our overall cost-to-income ratio as per our vision 2020 goes. In the quarter ended March 31, 2017, we have expanded our distribution footprint by adding 24 branches, 69 business correspondent branches and approximately 9,100 customer service points taking the total to 239 branches, 572 business correspondent branches and over 57,600 customer service points respectively.

Asset quality, our gross and net NPA percentage has increased with our gross NPA at 1.2% and net NPA at 0.64% against 1.06% and 0.52% respectively in the previous quarter which was quarter 3 '17. Last year on March 16, these numbers were 0.98% and 0.59%. We had a bank credit level credit cost of 31 basis points for the current quarter compared to 14 basis points in Q4 '16 and for the full year '17, it was 87 basis points compared to 62 basis points for the previous year marginally higher than our estimates. The increase was due to the RBI directive in March-April 2017 which is very recent for recognizing certain accounts as NPAs. To give you a very brief background on this directive from RBI, we were required to recognize 5 accounts as NPAs. Of these 5 accounts, 4 were closed out and recovered immediately in the last fiscal year itself which is March 17. The one remaining account that we have recognized as NPA was in our corporate and institutional banking segment. The value of this in terms of gross NPA was equivalent to 22 basis points or Rs. 66 crores in value as we have provided 50% of the same in terms of provisions in quarter 4 itself. So if I take this 22 basis points of provision because of this one account, if I take that out, then our gross NPA would have been at 0.98% which is exactly the level which was there on March 31st 2016. Our restructured asset levels is quite low at 0.25% as compared to 0.28% in the previous quarter. There is no change in the security receipts position which is 0.03%. There are no ARC sales. There is no SDR, there is no 5:25 refinancing or there is no S4A case in the bank.

I would also like to briefly speak on the trends that we are seeing in our micro-banking portfolio which is part of our development banking and financial inclusion business. While the overall business environment has seen an improvement, we are still seeing some challenges in a few pockets. As a result, 90 plus DPD, 90 day plus DPD which was 0.6% as of third quarter 2017 is estimated to be approximately 4% at present. However, the impact on our portfolio will be buffered by recoveries over the next 2 to 3 quarters as the situation in the impacted markets improve. In addition, we have cash security from our partners which will further minimize potential losses to within 2% of the outstanding micro-banking portfolios.

Given the still challenged macro environment, we estimate our overall credit costs for FY18 to be between 70-75 basis points including any potential one-off impact due to the stress in the micro-banking portfolio.

Capital adequacy ratio, our capital adequacy ratio stood at 13.72% which included a tier I position of 11.39% as of March 31st as against 14.63% and 12.14% respectively in December 2016. As you will realize, our tier I capital consumption was slightly higher in this quarter at approximately 75 basis points as opposed to an average of 60 basis points per quarter because of two broad reasons. One, because of relatively faster growth in on and off balance sheet business items which was 45% in quarter four versus 31% in quarter three and around 10% basis point impact due to higher amount of dividend in quarter four compared to the past 3 years average which is factored for CRAR competition through the year. Our board has subject to the approval of shareholders proposed a dividend of Rs. 1.80 per equity share in the current financial year.

Like we spoke off in the last call, we continue to see opportunities to sustain our growth cycle and therefore we will maintain our investment program in technology branches, retail and mass banking segments.

Lastly, we recently opened a branch in the IFSC banking unit at the GIFT City and capitalized it with an initial capital of $20 million. We believe that the IBU or the international banking unit will help us access international financial markets and we will be able to offer a range of products and services to our clients. We are already seeing interest from our clients in working with us through the IBU.

To summarize, we continue to be on track in terms of growth in operating performance and are confident of achieving the metrics we had planned as part of our vision 2020.

We will now open it up for questions. I will also request Harjeet to give you perspectives on the micro-banking business and the Bajaj Finance co-branded credit card relationship. Let me hand it over to Harjeet first and then we will get to the Q&A.

Harjeet Toor: Thank you Vish and a very good evening to all. My name is Harjeet Toor and I head the financial inclusion and retail lending business for the bank.

Let me first begin by talking about our financial inclusion business. This business caters to small and micro businesses and individuals in semi urban and rural geographies, people who do not have much access to organized finance and banking services. This business consists of two parts. One is our MSME business focusing on small businesses like the kirana store or small manufacturing or service businesses which we see in typical small towns and semi urban areas. The second is and as of now the larger part of the financial inclusion business is our micro-banking business, which focuses on microenterprises and individuals in rural markets. I guess the future strategic outlook in this business would be of far more interest to you all and therefore given the recent issues that the microfinance industry is facing post demonetization, so let me talk about it a little more.

The micro-banking segment has been one of our focus segments for the past few years. We firmly believe that despite the challenges we have seen in the last few months, this business segment offers great opportunities for us. From a geographical penetration standpoint, we are still in only about 215 odd districts in the country across 13 states and therefore there is still a large geographical coverage that is still to happen. 30% of our 540 odd branches were open last year itself and hence our growth in the future will primarily come from the new geographies we have recently entered or will enter in the future. We see the current JLG, our group loan product as an entry product into this customer segment. We intend to start deepening our relationship with these customers and look forward towards banking the entire customer household; the husband, father and other members of the joint family. Our current model of dedicated **BC** branches backed by our own employees and supported by CSP points enables us to provide complete banking solutions across liabilities, savings, insurance and lending. We have already started tests on providing small business loans to customer households. Vintage customers normally move out of the group loan structure through individual loans. Two wheeler, consumer durable loans, home improvement loans would also be offered to these customers. Therefore this business will not be concentrated only around JLG loans. We also believe that with the full banking relationship, we would mitigate the events like the recent ones which have happened. Our experience has been that customers behave very differently when they have individual relationships with the bank, something which we have experienced on our MSME portfolios in the same markets which have faced some stress on the financial inclusion or on the micro-banking side. Technology and analytics will drive a lot of change in the way business has done currently and we believe that increasingly risk analytics and risk scorecards will play a very important role in underwriting and portfolio monitoring. Over the past few years, there has been concentrated push by the government to direct banks to facilitate this financial inclusion agenda. For us, this business not only contributes to this agenda, but more than that it is of immense strategic importance to us. We believe it provides us a strong differentiation in the market and helps us build scale profitably.

To sum up, this business model is attractive and has immense potential for growth. One of the risks of the kind we have seen in the last few months could crop up and we have to be dealt with. On a risk adjusted basis, this business continues to be a strategic business for us which we are very excited about.

From here, I will move on to the most exciting new business which we have embarked upon, which is the partnership with Bajaj Finance. As a brief, credit card business which is about 3.5 years old is an important consumer business for us and we intend to be amongst the top 5 players in the credit card industry in the next few years. As per us, the credit card market is highly underpenetrated with just about 28 million cards as against say 800 million debit cards in the country. Majority of the card players are focusing on the existing customers and concentrated in the top 20 cities. With the surge in payments digitization and e-commerce, the need for credit card is there across segments and markets and this is the right time to expand the market by addressing these underpenetrated segments. Bajaj Finance as we all know is the leader in the consumer finance segment with over 12 million customers and acquiring 6 million customers every year. They have presence in over 200 cities and target all sections of the customer segments across salaried, self-employed with or without credit history. More than 60% of these customers do not have a credit card. A partnership with Bajaj Finance provides us not only with the perfect platform to expand the credit card market but also grow the business to scale. We are hopeful to add a couple of million cards over the next 5 years. We have jointly developed a unique product which has 4 cards in one; credit card, a loan card, a cash card and an EMI card, all rolled into one. It is truly a SuperCard. Further access to over 34,000 of their merchants allows us to provide unique offers to our customers. We strongly believe that together we can build a scale of business with superior profitability by leveraging each other strengths, which will lead to lower cost of acquisition, lower operating cost and much lower credit costs as these are all tested customers of Bajaj Finance. Both companies are investing in technology and digitization to achieve the scale planned. Significant investments will be required to support the ramp up for the first two years before we see flip into profitability. In a normal card business, this kind of scale takes 4-5 years and that much time to make money as well. The business went live in February and has been received well as per early indications. We already booked around 30,000 cards. We are incorporating the learning into our processes before we press the pedal fully. We hope that this business will grow at our anticipated volumes in the future. Thank you.

Management: Thank you, Harjeet. We are now open for questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Rakesh Shinde from AMSEC. Please go ahead.

Rakesh Shinde: Just wanted to ask overall in this quarter, I think overall your unsecured lending has increased from 20% last year to 32%. So I think there is some change of methodology in this quarter. So can you just throw some light on what it is exactly?

Vishwavir Ahuja: I am glad you asked that question. I should have probably covered it in my commentary earlier. But I appreciate you are asking that question. So indeed there is an RBI dictated change in methodology which has caused this change to happen. The impact of this change is exactly 15 percentage points which means that on the same basis on the same methodology as last year, the secured portfolio would have been 78% and the unsecured portfolio would have been 22% if the same basis had continued. Now this has happened now. I will give you the reason what the change is. The change is that, earlier if you had an account, which had adequate security, then it was treated as a secured account and an account which had no security or a meager security was treated as an unsecured account. Now RBI is saying that if you have an account which is even largely secured even with 90% secured, 10% portion has to be treated as an unsecured exposure and the whole account cannot be treated as a secured account. So from every account which has some residual, if I may say, unsecured exposure to take that account out and classify it now as unsecured exposure. So this is part number one to the answer. Part number two to the answer is that this largely therefore applies on the corporate wholesale exposure, yes? This kind of a situation. And as far as the other exposure of our bank is concerned, as we have talked about again and again we have a significant exposure in the micro-banking development banking and financial inclusion portfolio and that taken together is about 14 point some percent which is essentially unsecured. So for a bank like us where that proportion of that business is relatively higher than some of the other players in the system, you will find that being classified therefore as unsecured and therefore it will appear as being maybe slightly higher than relative to some other players. So there were two parts to the answer. One is the change in methodology which has caused a 15% shift from the past and the second part of the answer is that in our case, of the balance unsecured a significant portion is contributed by our mass banking if I may say exposure.

Rakesh Shinde: Which is predominantly unsecured one?

Vishwavir Ahuja: That is which is predominantly unsecured, yes sir.

Rakesh Shinde: Yes. And another thing is that, in your breakup of rated exposure compared to last year I think BBB- and BB+ lending has been increased. So any specific reasons and is that and all causing some amount of capital consumption too?

Vishwavir Ahuja: If you see the trends, actually in all the higher rated exposures, the net exposure has increased. So if you take AAA, AA+, A, it has improved from 3.3% to 5.3% to now 6.8%. If you take the next category of AA-, it is now 13.6% and taken together there and then so on and so forth and actually the BB+ portfolio has actually come down and is about the same. And there is a gradual shift from the lower rated exposures to slightly better rated exposures and we also have a concept in the bank of measuring the average portfolio rating of the entire portfolio and on the weighted average portfolio rating, actually year on year the average rating for the bank has improved.

Rakesh Shinde: So what will be the average rating on the overall portfolio?

Vishwavir Ahuja: So we have a scale of basically 10 which is equivalent of sort of public rating benchmark, so for instance a AAA is a one, a AA- is a two, that is how we rate internally and basically rating of 7 will be BBB-. So you know, the higher you go, the worse the rating. So in 7 we have to category A and B, 7A is equivalent to BBB- and everything 6-5-4 becomes better and better. So our average portfolio rating is about 5.5 which means significantly better that the base investment grade which is 7A. Then there is 6 which is equivalent to a BBB+ and then there is 5 which is equivalent to single A. So it is somewhere between single A and BBB+, the average rating.

Rakesh Shinde: The last thing on the slippage from your wholesale book, you said there were 5 accounts and 4 has been recovered and one account has slipped into NPA which is of 66 crores, so that is on which sector sir?

Vishwavir Ahuja: It is from the EPC sector.

Moderator: Thank you. Next question is from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.

Rahul Maheshwari: First of all, I have 2 questions. As you have said RWA growth which is there in the presentation that has grew by 39% as compared to the assets growth of 24%. So, can you give a color on that whether we are lending towards to the much lower rated exposures kind of thing that is why the shift little bit towards the BBB and BB exposure?

Vishwavir Ahuja: No, I do not know it was the RWA to total assets was 77.4% at the previous quarter it is now 76.3%, it was hardly moved.

Rahul Maheshwari: No, I am comparing between the FY16 and FY17 the 800 bps which has been increased that the lending, definitely the percentage has increased, so it shows towards the higher risk weightage is there. So, can you give color on what is the higher risk weight that has led to a 76%?

Vishwavir Ahuja: So if you see, our G-Sec portfolio which is sort of zero risk weight has actually gone down. So, the mix has changed. So it is just because of the change in mix. But by reducing our investment portfolio, we have actually improved NIMs and made the overall balance sheet usage more efficient and that is how the flip side is what you have seen, but actually it was proactively managed for greater efficiency rather than it being a reflection of rating profile.

Rahul Maheshwari: And my second question is towards your exposure is more construction which is 5.4% and real estate which is 4.4% and in real estate it has more exposure towards the funded exposure, so currently the RERA is coming, so what kind of the exposures which are there towards in this particular sector. Can you give some color on that how much it would be impacting?

Vishwavir Ahuja: No, in both the spaces that you have mentioned, we do not see any impact from a potential NPA scenario, because these are 2 sectors with very highly rated names and as well as RERA impact is concerned, it is nothing.

Rahul Maheshwari: And the last question is sir, as you have said going forward, the objective is to enhance the cross selling part. So what is currently the cross selling ratio of the bank and what is the objective, what is the target cross selling ratio and what are the initiatives of strategy being taken?

Rajeev Ahuja: Businesses has different metrics on cross sell, I mean, so for instance our retail businesses which are really where we have deposits etc., our cross sell ratio has moved from almost one plus to more like 2.5 – 2.7 and there, I mean if the trajectory is positive as we engage more and more with the clients obviously using technology and widening our product base, our wholesale cross sell ratio which is really where our relationship managers are cross selling not just lending products but trade foreign exchange, payroll and other retail products that is actually a fairly healthy ratio it is more in the region of 4 to 5 and that is something we, it is a business model where the RM is supposed to handle all aspects of a client or a client looks business opportunities both at the corporate level as well as the individual level.

Rahul Maheshwari: Because as compared to the industry ratio, normally the ratio ranges between 2 to 3X and in your case, in wholesale it is 4 to 5. So, what are the segments means in terms of MFI business where you told in beginning the focus and attraction is taking place so, because 4 to 5X as compared to the industry 2 to 3 is very high kind of thing. So, what are the products that are making?

Vishwavir Ahuja: So Rahul, I think, so let me just clarify in the retail business which is a deposit business when we sell an insurance, mutual funds, credit cards, lending product to the retail, those all are counted as cross sell which is where I said it is 2.5 plus today. In the wholesale business where I deal with corporate institutional clients, mid-market clients, sophisticated SMEs, we do lending plus, plus, plus. Those pluses are trade, foreign exchange, pay roll, cash management and actually most well run banks, if you take the top 3 or 4 private sector banks and foreign banks their cross sell ratios will be at least 4 to 5. I mean, in fact that is how you make your risk adjusted ROA on the wholesale business and those are the businesses I am talking about. The microfinance business is not a high cross sell ratio. Having said that, we do banking services, remittance, micro insurance, but this is still in early stage. So, we do not want to go and give you some guidance on that but the more developed parts are our retail businesses as well as our wholesale businesses.

Moderator: Thank you. Next question is from the line of Rahul Ranande from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranande: Just looking at the provisions for the quarter. So the provision for the quarter are 82 crores of which advances are 43 crores. So does this include the standard asset provision?

Vishwavir Ahuja: Yes, it does.

Rahul Ranande: The others provision for 39 crores, what does that comprise of?

Vishwavir Ahuja: So, if you go to slide number 35, on advances, if you see the breakdown of 82 it is all on advances only

Rahul Ranande: And just curious to know, just going to Slide #43 which deals with micro-banking, just curious to know about the buckets from 61 to 90 days, so where have been the other buckets kind of way below industry delinquency levels. So, just curious to know why we are higher than the industry in that bucket specifically in the 61 to 90?

Harjeet Toor: So, you need to keep in mind that in our case are November – December buckets were far lower because we were able to collect old currency and that is the reason why you see the 91 bucket for us is much smaller, therefore it is just a flow through which is going in that is the middle bucket which you are seeing which is slightly higher than the industry. Because the industry is largely composed of MFIs, which had a problem in November and December, so their bucket movement into 90 plus happened earlier.

Rahul Ranande: And whereas we were able to collect the old….

Harjeet Toor: That is right.

Rahul Ranande: And just for clarification, so the 3.9% which is greater than 90-day mark, you are saying that 2% of it is anyway covered by the guarantees that we have received from the correspondence, is it?

Harjeet Toor: We roughly expect about half to be covered by the guarantees which are cash guarantees which are there.

Rajeev Ahuja: That is how 3.9 half is about 1.92%.

Rahul Ranande: And the rest we will have to recover from the …

Harjeet Toor: That is right.

Rahul Ranande: And we are fairly confident of recovering, I am just asking because we have this 2.3% following up into the 90 days soon.

Vishwavir Ahuja: So, you need to keep in mind that currently there are a couple of markets which are facing stress which is basically Maharashtra and Northern Karnataka. One has not seen much of improvement happened in these markets and that is going to be a long haul. All the other markets from UP to Uttarakhand to MP have recovered pretty well and therefore that is where we will see faster recovery happening. But these 2 markets, I think will take at least a couple of quarters.

Rahul Ranande: But just if I heard clearly, so the credit cost guidance of 70 to 75 basis points by FY18 will anyway include, the kind of the difficulties you might face in this micro-banking.

Vishwavir Ahuja: Yes, very much sir.

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

Alok Ramachandran: Just wanted to know on the slippages front, the accounts that you have mentioned that has slipped just wanted to know the major of the accounts that has slipped and also the nature of accounts that have actually recurred.

Vishwavir Ahuja: No, as I explained to you the slippage is essentially according to mainly going to that one account and I already gave you the quantum of that and the industry segment.

Alok Ramachandran: That is about 405 crores, right sir?

Vishwavir Ahuja: No, that is 66 crores. What is the number you are saying?

Alok Ramachandran: The total slippage in the quarter is around 400 crores or so.

Vishwavir Ahuja: But we have still recoveries of 311**.**

Alok Ramachandran: 285 crores.

Vishwavir Ahuja: You seeing the change, Yes.

Alok Ramachandran: Yes exactly, that is the absolute number for the quarter right. So just wanted to know with this 400 crores is on account of 5 accounts that you mentioned in the call.

Vishwavir Ahuja: That is right.

Alok Ramachandran: Of which, I would want to know the nature of the accounts, the industry that they have slipped.

Vishwavir Ahuja: No, actually they never slipped, that was an RBI way of looking at it. By the time they pointed it out that they should have been NPA, they have already recovered actually.

Alok Ramachandran: So they were recovered and what is the …

Vishwavir Ahuja: No, in the sense they have already recovered even before. The thing is that RBI reviewed old books. They look at 2016 and they start making their estimations and they sent that report. Actually on the date of the receiving the reports, these accounts had already been recovered. Yes, they were no longer existing on the bank's books.

Alok Ramachandran: And the one that is yet to be slipped, how much is the quantum amount that has been slipped in the quarter?

Vishwavir Ahuja: Yes, 66 crores.

Alok Ramachandran: That is 66 crores ….

Vishwavir Ahuja: 22 basis points in gross NPA.

Alok Ramachandran: And any guidance on when will you recover these accounts, any timeline?

Vishwavir Ahuja: It was already provided.

Alok Ramachandran: You are fully provided for a …

Vishwavir Ahuja: 50%, no it is just happened. In fact, there is a large consortium bank they still have to provide, we have provided. Yes, so we are a little ahead of the game and despite that we have provided 50%, we need not have done 50%.

Moderator: Thank you. Next question is from the line of Ketav Shah from SBICAP Securities Limited. Please go ahead.

Ketav Shah: This is pertaining to the fee income. So how it has done, I think very well, how do you see the traction going ahead?

Vishwavir Ahuja: Look, as far as traction on fee income is concerned, we are confident of maintaining the growth momentum, handsome growth momentum across all aspects of the fee income. So, whether it is foreign exchange, trade finance, processing fees, general banking, distribution related, etc. and cards not to forget that. So they are all growing well, all I will say at this stage is that we have given a 20-20 guidance which is indicating a certain overall growth and the fact that 33% of our total income or one third of our total income will come from other income lines, fee income. So, we are completely confident on maintaining that.

Ketav Shah: So, the second question relates to the MFI space, since you are I think leaders in that category also, just wanted to understand what sort of solution is kind of getting arrived at in a couple of weeks or whatever the timestamp you indicated. And second is do you see contagion risk as in terms of probability challenge for you over the next 6 months, which could either lead you to upgrade the credit cost guidance etc. and how do you …

Harjeet Toor: So, your first part of the question was in terms of how do we see recovery happening and what will happen. The way we see it is that typically the fact that in these 2 markets which we are talking about the general perception was of a loan waiver which would happen and that is the reason why customers have not paid. The reality is that the loan waiver has not come through in these markets and if the loan waiver was to come through for example like in UP, it is not applicable to microfinance clients. As a result to which over a period of time, the clients will realize that this waiver is really not going to help them and this is perhaps the only way they can get finance from organized players like registered MFIs or banks. And therefore that is how these customers then start paying back to get their credit history in order to be able to avail more loans. Now it is a long drawn process, it will take a couple of quarters but that is what we expect to play out. Your second question, I think was on the contagion that can it spread to more markets, that is a difficult one to predict. As of now, the affected markets barring these 2 have improved and we have not seen any adverse signs of the farm loan waiver which was happened in the UP on the micro finance sector. But we will have to see as we go along.

Vishwavir Ahuja: Sir, can I just add one more dimension to it, I think Harjeet mentioned in his preamble. See for us, financial inclusion is not just JLG or the microfinance bit. We are a lot more already than that and he has alluded to MSME, individual loans, business loans, small agri and affordable housing in semi urban and rural India. So yes, in the next 3 to 6 months, there are obviously very specific geographical challenges which we are dealing with. On a long term basis, actually the way to think about this market is, are you a complete banking provider in that segment or ecosystem or village and that has been our peg in our positioning for last several years. It is going to get more and more interesting that full service institutions perhaps could ride some of these contagious or contagion much better than just one product companies that is our belief.

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

M B Mahesh: As a breakup of the business banking and the DB and FI business?

Vishwavir Ahuja: So, the BBB business basically consists of products like LAP which is about half 54% in fact of BBB. Then we have unsecured business loans which is 13%. We have a small PLP, personal loans portfolio which is about 5% or 6% and then we have cards, which is 15% and then we have category other than which we have OD against fixed deposits, we have mortgages, we have a little bit of working capital book. So, there are these few small products which are there. And on the DB and FI, we have the micro-banking which is about close to 52 odd percentage, then we have MSME which is about 8% and the balance is our book where we lend to MFIs directly.

M B Mahesh: Sir, this book of 52% that you have in MFI was that number close to 40% last quarter?

Vishwavir Ahuja: No, we were about half-half there as well.

M B Mahesh: Should I just multiply this into close to about a 3% gross NPA for the quarter and adjusted for a 50% we should get as a guarantee on the loans?

Vishwavir Ahuja: Not on the MFI.

M B Mahesh: They are talking about the micro-banking portfolio.

Vishwavir Ahuja: Exactly, that is 2000 crores right.

M B Mahesh: Yes, I am just trying to see what was the addition of the MFI books for the current quarter in the NPA line?

Vishwavir Ahuja: So, there are 2 elements you need to keep in mind. One is the NPA which we said will be as of now is looking like 4% and then is the hit to the provision line, which is going to be as per the provision norms of RBI and will be helped by the cash guarantee.

M B Mahesh: Just trying to understand, in slide 43 you have 3.9%.

Vishwavir Ahuja: That is right.

M B Mahesh: So, if I look at the previous quarter you had a loan book of somewhere close to about 3600 crores.

Vishwavir Ahuja: Yes.

M B Mahesh: So, should I multiply 3600 x 50% x 4%?

Vishwavir Ahuja: 2000 crores is what you have to multiply by.

M B Mahesh: But you would have made an adjustment for the cash guarantee that you got for the quarter sir? Or you wait for it.

Rajeev Ahuja: No, we have not made the adjustment yet.

Vishwavir Ahuja: As of now these loans are not NPA because they had a dispensation that the clients could not be declared NPA than the last quarter.

M B Mahesh: So, it is expected to come if any in the next quarter.

Vishwavir Ahuja: That is right. Just to clarify the number is not 3000. It is 2000 approximately.

M B Mahesh: No, it is 3600 but 50% of it happens to be the exposure which is directly related to.

Vishwavir Ahuja: Correct, which is fine. With that portfolio, it is just fine.

M B Mahesh: The second question is on your composition of the loan book. Again, is there a broad breakup as to how are you looking at the composition between the wholesale and non-wholesale piece over the next few years?

Vishwavir Ahuja: Advances?

M B Mahesh: Yes, the reason I am asking is that you see spurts of lending for example in this quarter in power, real estate. Just trying to understand broadly is there a thought process as to how are you going to have a mix in the next coming years?

Vishwavir Ahuja: No, but we do not do power and real estate. The real estate exposure that you see, is given to one or 2, if I may say, very high quality corporate houses and so while it has to be categorized that real estate is basically corporate loan given to AA plus rated institution. So, we do not do power, real estate and all of that. Firstly let me answer in that way. Secondly our loans, we have also given you industry wise exposures, which shows that our portfolio is very well diversified across various industries. Thirdly, right now we have a 61-39 mix of wholesale and non-wholesale right? And if you will see inherent in the growth momentum of the various businesses, the retail type of the non-wholesale businesses are growing slightly faster than the wholesale businesses and therefore that mix and that is directionally also where we want to take the business. We want to improve the mix towards more non-wholesale, so that in a 3-4 year perspective, it is closer to 50-50 and that will also help from an overall perspective of returns because these are high yielding businesses etc. And it also therefore improves the overall financial metrics for the bank and directionally also it creates so much more granular mass banking, if I may say profile for the institutions. So, that is how directionally we are taking this. There is no good change in strategy as far as the corporate or commercial banking businesses are concerned which is essentially, we are largely a working capital lender. We avoid infra, long term loans and certain sensitive sectors like you mentioned, cement, steel, infra, power etc. We do have some exposures in the renewable energy sector, etc. But there again we do look at high quality names.

M B Mahesh: And my last question is on your OPEX line. Staff expense is running at about 18% as compared to where the balance sheet growth this side. Non-staff expenses have seen a very sharp jump on a Q-o-Q basis and also the average cost of CASA for the quarter. Thanks.

Vishwavir Ahuja: Yes, so as far as staff expenses are concerned, I think in terms of the operating productivity is concerned that is improving. As far as the growth in the other OPEX is concerned that is extremely well planned it is essentially on branches, technology, branding and all that sort of stuff, which as I have said earlier will continue in the current year because we need to do a lot more of that. Our spend on building, highly technology enabled digital platform is absolutely a complete commitment on the part of the bank. We have a very good positioning in profile in that space. We are the go to bank for startup companies and fintech companies and our payment platform is one of the leading payment engines in the country among various banks. Already I think in terms of the small ticket payment volumes that growth of system, we are probably number 5 in the country among all financial services players. So that is indeed where the future spends of the bank are going to take place and that is directionally where we are going. So the OPEX growth will continue at about the same growth percentage. What is improving is employee productivity and what is also improving is the economies of scale from certain businesses which are crossing a certain threshold of size and escape velocity.

M B Mahesh: There is no one-off in these non-staff costs for the quarter?

Vishwavir Ahuja: No.

M B Mahesh: Because 150 has gone straight away to 195, so a sharp jump.

Vishwavir Ahuja: That is because we have added 29 branches, some 100 BC branches, 9,000 customer service points, if I am not mistaken in the last quarter

M B Mahesh: And the average cost of CASA?

Management: The average cost is 6.7% for savings, not counting current accounts, only savings.

Moderator: Thank you. Next question is from the line of Vibha Batra from Fairconnect. Please go ahead.

Vibha Batra: My question is on micro-banking again where 90 plus delinquencies are at 3.9%. Sorry not micro-banking, this is the BC model and someone asked about the cash guarantee and in the presentation also mentioned there is 3% to 5% cash guarantee. So technically speaking if the delinquencies do not rise beyond 3.9%, there should be no losses to the bank, is my understanding correct?

Vishwavir Ahuja: No, we did not exactly say that. We said that up to 50%.

Harjeet Toor: So, I just want to clarify you have to understand that in a uniformly spread way your assumption is ….

Vibha Batra: So, there would be some cases where delinquencies would be much higher than 3% to 5%.

Harjeet Toor: In the affected markets, it will be more far higher and therefore the bank will incur loss of that.

Vibha Batra: So, in those markets which are affected basically Maharashtra, these have gone bad, I mean not really immediately after demon but in the recent months. So is the situation worsening or is it stable?

Harjeet Toor: So, Maharashtra problem started towards the last week of December and had worsened till about February end. We have not seen any improvement happening so far.

Vibha Batra: And have you continued your BC business there or you have curtailed it, like some of the MFIs are clearly curtailing the business in the districts and also it to give a strong message to the borrowers.

Harjeet Toor: So, typically what happens is that when you have an affected district or a branch, you have villages there where the repayment is not happening and then you have villages where the repayments still happen within the same district. So, in places where customers are repaying, we do enhancement of those loans in terms of they get their renewal loans as and when they come up. But we do not do any fresh disbursals and that is the positive sign for other customers as well, so that they know that we will continue to lend, but in places where we see the repayment behavior impaired, there we do not lend and all the entire focus is on collections.

Vibha Batra: And if we were to add up your total exposure towards microfinance sector, BC model you are lending to MFIs, there may be some investments also in the form of PTCs or assignments. What would that number be like?

Vishwavir Ahuja: I think 4,122 crores is the total number, including MFI lending and what is not included in this is PTC which is about 400 to 500.

Vibha Batra: And out of this, so say 4600 crores how much would be assignments which do not have any first lock guarantee?

Harjeet Toor: We do not have assignments. In this 4600 crores, you should remove about 350 crores which is MSME.

Vibha Batra: So 4300 crores and you have no assignments in this. And there are no assignments, so technically speaking you have some layer of protection in all the loans.

Harjeet Toor: That is correct.

Vishwavir Ahuja: Yes, very much.

Vibha Batra: And my second question is on this tie-up with Bajaj finance on credit cards. Bajaj finance itself is a very big player on cross sale and they do lot of technology, analytics to kind of give personal loans to kind of their own customers and you mentioned that you hope to build new customers through this credit card line, would it be correct to understand that relatively better customers would go to Bajaj and it is the lesser penetrated on you to credit would come to you?

Harjeet Toor: No, so first of all the customers who are coming in this cards, the co-brand card arrangements are all existing customers of Bajaj and in fact the better ones of them are what are going to be given the card. So the ones which have been there with them for longer periods of time have had taken more lines are the ones which will come is where I mentioned that they have a lot of customers, what I had said was they have a lot of customers which are not carded and therefore while they are good credit customers because of the distribution to smaller markets, the card penetration in those customers is not there and that is what we will use to be able to expand the business.

Moderator: Next from the line of Abhishek Sahoo from Citi. Please go ahead.

Abhishek Sahoo: My question is on the commercial banking portfolio, there the NPLs have trended lower for the last couple of quarters. But you have also mentioned that you are slightly cautious on increasing the growth rates on that segment. What would make you turn more positive and constructive on that segment?

Vishwavir Ahuja: So, let me answer it this way. One year ago like I said the situation was reaching a point where it was beyond our threshold of risk comfort and we felt that we should slow down, get the portfolio under control within our underwriting benchmarks and at the same time we have strengthened the team and the risk management processes even further and we are seeing all the positive effects of that every quarter and honestly even subsequent to March 31st quarter even in the current quarter, we are seeing that the portfolio quality will improve even further. And so today our confidence levels are coming back in this business and we will, when I said cautious, I meant will cautiously grow faster not sort of cautiously sort of build this business but cautiously grow faster. So, certainly in 2017-2018 compared to an 18% growth last year, this year we expect to grow at least at 25% to 30% in this space, at least if not better. So, that is how to put it, we are much more confident. The team is very strong and my eminent colleague Vincent Valladares, who was with Citi bank for 22 plus years ran their mid-market and SME business in India for several years and then for all of Middle East. He joined us 6 months ago and is now leading this business and brings tremendous gravitas. So, the confidence level in this space is much higher today. So, I was just being a little cautious in my commentary, but we have high hopes for this business going forward.

Abhishek Sahoo: And secondly on CASA, could you give us some sense of what the average CASA ratio during the quarter would have been?

Vishwavir Ahuja: So, as far as average and period end, there is hardly any difference. I do not think there is a difference of more than 5 basis points.

Moderator: Thank you. Next question is from the line of Praveen I from Cholamandalam Securities. Please go ahead.

Praveen I: So, my question was on NIM improvement sir. So, basically if we see the credit deposit ratio has fallen from 89% to 85% on a Q-o-Q basis. The yield has fallen by 50 basis points. Sir, I just missed out on that point as to why their yield has fallen 50 basis points quarter-on-quarter that was one question. And to continue the question if we see the cost of funds has only marginally declined by 20 basis points. So, what exactly is contributing to the NIM improvement?

Vishwavir Ahuja: Yes, so I said 3 things. If you see the yield in the retail non-wholesale portfolio has actually remained stable, it has not gone down. In the wholesale portfolio it has gone down largely because of the decline in the interest rates in the environment as a whole. You know very well that the rates have come off significantly across the entire industry and we have also followed that trend in bringing the rates down, so that is one thing. So, that is what brings down the yield in the wholesale portfolio only. However, as far as the funding costs are concerned as we have re-priced our deposits which were also maturing from time to time, that cost of deposits has also come down and also from our other funding process, the cost of funding has come down. So, cost of funds has also gone down and then the next effect is because of the higher CASA. As you can see again that the CASA proportion has grown compared to the overall mix and that has also therefore contributed to a lower overall cost of funds and finally the mix itself, if you see the last concluded quarter in that quarter while our overall mix historically was 61 : 39. In this last quarter, it was actually 52 : 48 which means the retail contribution was 48% that means much higher in relative proportion at better yields. So, all this has contributed mathematically to the improvement in NIM.

Praveen I: And my second question was on the agri segment sir, so finally on a Q-o-Q basis we have seen the pickup in the growth. So, what kind of traction are we seeing going forward?

Vishwavir Ahuja: Some of it is related to harvest and new crop, so what you saw November - December we were flat Q-on-Q partly because of cash and I think you have seen some growth in this quarter partly because we have disbursed. So, some of it is recouping of that lost time, some of it is related to farmers investing and in the June quarter post harvest you will see it down again. So, this is cyclical related to harvest but on the whole the trend line is positive year-on-year.

Moderator: Thank you. Next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: Just one clarification on the slippages part. So, when you received the RBI intimation, you downgraded those five accounts in this quarter and because they were kind of a standard with you, you simultaneously upgraded them?

Vishwavir Ahuja: No, that is not true. The RBI intimation came in March 2017. These accounts related their observations related to the state of these accounts in March 2016. So, they were actually giving a report on a historical perspective. So, the five accounts that they named, the four accounts are already repaid by March 2017 they were already not in our books, they were recovered and repaid. So, we did not have to do anything. We just simply had to ignore those four names from the RBI report and only one was the standing account that standing account we have considered. So, there is no other way of saying this that is the way it happened.

Jay Mundra: So, if I were to ask you what is the total let's say wholesale slippages for this quarter out of 405 which is the total slippages for the bank? What were the wholesale slippages?

Vishwavir Ahuja: Let me explain in another way to you. If you go to page 19, we have given you NPA by business segment. If you take that December quarter end, 0.33% gross NPA in the CIB segment. That has gone to 0.84%.

Jay Mundra: So, that is roughly the only slippages portion …

Vishwavir Ahuja: That is only because of one account entirely. In fact, if this account had not happened, gross NPA in the CIB book would have been lower than 0.33%. Actually there is no slippage, in fact there was positive movement but for this one name. Same is the case in this CB segment and so on and so forth. Net-to-net, as I said to you 22 basis points for the bank as a whole gross NPA impact of this one account, if you net this off it comes to 0.98% gross NPA. Last year March 2016 was 0.98%, last quarter December end it was 1.06%. So, actually speaking we would have gone from 1.06% to 0.98% overall which is an improvement. But this one account has added 22 basis points. It is not a complicated math.

Jay Mundra: And sir secondly you mentioned that MFI business is the key priority and key focus idea for the bank and if I include let's say direct exposure and indirect exposure, it is roughly around 4,000 crores which is roughly 14%-15% of our gross loan book?

Vishwavir Ahuja: Yes.

Jay Mundra: Sir, just wanted to know if you have any target that this business being the key business, is there any internal target that it should not exceed such levels or may be internal target for this business?

Vishwavir Ahuja: I will answer this question in my own way. Firstly as I said in a 3-4 year perspective, we want wholesale, non-wholesale to be close to 50-50. Now if non-wholesale has to be close to 50, then certainly the biggest component will be BBB, which should be 25% to 30%. Then agri, some part of it may be 5%-7% that leaves the remaining 17% to 20%. So, again it will follow through in the overall diversity and the diversification of the portfolio that this can this will be since all businesses are growing and growing nicely, even if this grows at the same pace, it will remain in 16%-17% to 19%-20% range.

Moderator: Thank you. Next question is from the line of Anand Jain, individual investor. Please go ahead.

Anand Jain: Sir, the first question is on account of macroeconomic current account segment and the second question is account of are we looking at subsidiary into housing finance mainly for the rural segment?

Vishwavir Ahuja: So, Anand the MSME current account business in the urban markets is very good and strong as you have seen we have been increasing our base there. I think you are more alluding to the rural business or semi urban business on small businesses. Let me put it this way that there is a significant traction on digital cheques, any FD, RTGS, it is coming of a very small base. So, we are able to go and get complete banking for some of these customers. The level of current account usage is still modest relative to the urban markets but it is improving and obviously if you are a lender, you try to bank the entire wallet of the MSME customer. Secondly on housing, I do not think we will set up a separate subsidiary for housing. We are attempting small experiments in our rural business on housing which are more for our customer base already which is either farmer or non-farmer. But those are for our existing customers, we are not expanding into other areas on housing yet.

Moderator: Ladies and gentlemen, 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. On behalf of RBL Bank Limited, we thank you for joining us this evening. You may now disconnect your lines. Thank you.

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