



“RBL Bank Limited’s Q4 & Full Year FY20 Earnings Conference Call”

May 07, 2020



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Moderator: Ladies and gentlemen, good day and welcome to RBL Bank Limited Q4 and Full Year FY20-Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Vishwvir Ahuja – Managing Director and CEO of RBL Bank Limited. Thank you and over to you, Mr. Ahuja.

Vishwvir Ahuja: Thank you. Good evening, ladies and gentlemen. And thank you for joining us for a discussion on RBL Bank’s financial results for fourth quarter and financial year 2020. I’m joined on this call by other members of our management team, who will address your questions later that you may have. I will request you to bear with us as this is going to be a slightly longer presentation than usual, as we would like to go over important areas of our business and balance sheet.

This is an unprecedented time we’re living in and the pandemic continues to impact countries and economies even as we speak. Governments, regulators, and policymakers world over have taken a number of economic measures to try and alleviate the impact. The size and scale of the challenge ahead leads us to believe that even India will see a prolonged impact on the economy, industries and small businesses and individuals. In this backdrop, we continue to be very cautious, conservative and focused on preservation of the franchise. The overriding emphasis at RBL Bank shall be on balance sheet protection. And we will therefore, continue to tighten risk filters further to manage and preserve credit quality, maintain surplus liquidity and conserve capital and remain well capitalized throughout. Given the macro economic situation, prevailing pre COVID a great deal of this was already accomplished. But the current environment has made it all the more important.

Before we get into details, I want to take a brief moment to place on record our sincere appreciation and gratitude to all our employees across the bank. Over the last month and more, these employees have been working tirelessly and ensuring that there is minimal impact, if any, to banks, customers and our operations. Primary focus has been on taking care of the health and safety of the employees as only then can they effectively serve the customers and community. The bank was proactive in setting up a quick response team to handle the entire COVID situation. This has immensely helped us over the last few weeks to run our operations relatively seamlessly. All our essential business requirements are being fully met during this lockdown by enabling work from home for the critical staff. 95% of ATM’s in non-containment areas are working without any disruptions or cash outages. 98% of our overall branch network has been operational during the nationwide lockdown. We have beefed up our information security and cyber security risk measures to mitigate potential risk and threats during this period. Before, I discuss details of the financials and the events relating to COVID and the likely impact on FY21, I thought it would be useful to lay out at a little higher level as

to how we are seeing this period in the longer correction phase we had embarked upon in July 2019. In some manner, what would the bank be when COVID is substantially addressed.

- First, we had acknowledged that some concentration issues in our wholesale business portfolio would be progressively addressed, that is on the mend and will be pursued systematically this year also.
- Second, we had identified retail assets, cards and financial inclusion as the areas of continued investment and building eventually market leading franchises. Even as we take additional credit costs in these areas because of COVID, we believe that post COVID they will revert to becoming key drivers of our ROA and give us market leadership. To that we add building organically a secure housing loan business, that investment is being maintained.
- Thirdly, expansion of our deposit franchise will continue getting the focus except the combination of physical and digital has become even more interesting for us, given the customer behavior during these last six, seven weeks.
- Finally, continued investment in technology cloud, analytics has helped us significantly in maintaining our services during the lockdown period. We are going to bet more on this in the months to come. This will eventually build significant operating leverage, especially in retail and rural, when these markets come back post COVID.

Moratorium

Now we will quickly talk about the COVID related moratorium under the RBI guidelines. Please note that the data is as of April 30th.

In micro banking, our collections for March were completed before the lockdown. In the micro banking and agri segments, which is 13.5% of our advances, we have since extended it to all our (+3) million customers and supported it with an outreach program to almost all of them.

In credit cards, which is 18% of our advances, while we offered the moratorium to all our 2.8 million customers, approximately 13% of them have availed it.

In retail loans, which is 22% of our advances. Again, while we offered it to all; 46% of the customers have availed the moratorium.

On the wholesale side, which is 44% of advances, about 22% of the customers have taken the moratorium. In respect of these wholesale clients who have asked for moratorium, we have assessed that business requirements, discuss the impact and implications of opting for the moratorium and giving it to customers on the condition that all their other lenders also gave them the moratorium. We have proactively taken some COVID related provisions on the retail portfolio which we will discuss a little later. We have also undertaken a thorough review of

portfolio under various scenarios in the credit cost and NPA estimations which we will detail later. Our base assumption is of an extended lock down until early June, and for life to live back to normal in a gradual manner thereafter.

Now let's talk about the performance highlights for Q4 and the full year FY20:

Briefly on performance highlights for this quarter:

Advances grew 7% year-on-year, declined 3% sequentially from the previous quarter. Retail wholesale advances mix was 56% and 44% respectively.

Our wholesale business declined 16% year-on-year 13% sequentially, reflecting the planned portfolio redesign. Non-wholesale businesses continued to grow 35% year-on-year and 7% sequentially.

Deposits overall marginally declined 1% year-on-year however, based on the muted asset growth and the capital raised in December 2019 end, the bank maintained surplus liquidity throughout, in fact significant surplus liquidity throughout the full year. Our average LCR for the full year was 154% and for Q4 itself was 161%.

As we reported previously, there was some decline in deposits in March because of specific circumstances prevailing in that month. However, we are pleased to report that all deposit segments are now stable and growing and our deposit position as of April 30th crossed 60,000 crore, which is up 4% from March 31st.

CASA deposits grew 17% year-on-year and 2% quarter-on-quarter. CASA percent was 29.6% as of Q4 FY20, this is against 26.8% previous quarter and 25% for the same period last year. Pertinent to note that CASA grew sequentially in Q4 2020. CASA ratio in fact as of April 30th, or the higher deposit base is approximately 31%.

Our cost of deposits fell 31 basis points to 6.4% sequentially in this quarter. Our branch expansion continued with 62 branches in FY20. Again, largely in metro and urban centers. We were actually on track to end the financial year with 400 plus branches, but for the lockdown ended the year at 386 branches. In addition, we ended the year with 1,245 BC branches of which 651 branches were of RBL Finserve, our subsidiary.

Revenue growth momentum was strong through the year, going even into the fourth quarter. In the fourth quarter, total revenue grew 8% sequentially to 1,522 crore for the quarter. And for the full year, the revenue was 5,540 crore, which reflects a growth of 39% year-on-year.

Our NIMs were at 4.93% for the quarter, an all-time high. For the full year NIMs were 4.56% on the average, which are 42 basis points over the previous year. Net interest income growth

momentum was also strong both sequentially and for the full year. It was 1,021 crore for Q4, 11% sequential growth over our previous quarter and for the full year NII was 43% higher at 3,630 crore. The overall yield on advances improved 19 basis points quarter-on-quarter to 12.53%, again largely because of the business mix. Non-interest income also grew 3% sequentially to 501 crore for fourth quarter 2020. For the full year, non-interest income grew 32% to 1,910 crore. Our core fee income grew 29% to 1,746 crore for the full year.

Our cost to income ratio was 49.7% for the quarter and 50.3% for the full year FY20.

Our pre provision operating profit, PPOP grew 4% sequentially to 765 crore and for the full year it grew 42% to 2,752 crore. As a result of the above and after taking necessary provisions, PAT for the quarter, profit after tax for the quarter was 114 crore and for the year was 506 crore.

In terms of asset quality, our gross NPA closed at 3.62% as against 3.33% at the end of the previous quarter. Net NPA was in fact marginally down at 2.05% as against 2.07% in the previous quarter Q3 FY20. As we took higher provisions to significantly increase our PCR. PCR percentage was increased by 6% from 58% to 64% as at March 31st to 2020.

Our overall SMA1 and SMA2 as of March end is 0.38% and 0.55% respectively, lower quarter-on-quarter. After taking the impact of the standstill as per the April 17th RBI circular. SMA1 was only 0.09% and SMA2 was 0.44%. On this portfolio we have taken actually the full 10% provision.

In this quarter, we fully recognize the remainder of the stress of approximately 300 crore on our legacy stress corporate book of 1,800 crore. After taking additional provisions in Q4 the total provisioning is in excess of 60% in respect of these names. We have proactively taken 115 crore of additional provisions on account of COVID.

This includes the following:

Based on the April 17th, circular requiring provisions on the standstill accounts. We have taken the full 10% in this quarter itself, rather than 5% each in this and the next quarter.

In addition, we have taken accelerated 100% provisioning as opposed to our normal policy of 70% on the existing NPA book of credit cards.

We have also taken additional contingent provisioning on the overall retail book.

In order to raise our PCR as I said earlier, we have significantly added to our provisioning on existing NPAs largely in the corporate portfolio. PCR is now 64% sequentially 6% higher as compared to Q3 FY20.

Talking about liquidity and capital position:

While we have briefly spoken about this earlier, we want to emphasize that we are maintaining excess liquidity of 7,000 to 8,000 crore at present with LCR averaging in excess of 155% or 156% in April.

Even so, we continue to grow deposits sequentially and target further granularization of the same based on a much larger retail franchise, which is now operational with our additional branches.

Given our recent branch expansion we expect the deposit traction to grow at a healthy pace once the restrictions are lifted. Expansion plans for FY21 encompass both physical branches and technology lead branches, services, technology lead services.

We have been ramping up our digital platform and I want to briefly highlight some of the trends that we are seeing.

We currently acquire 500 savings accounts per day digitally. We expect to increase this to a 1000 per day over the next three months.

Digitally source RDs, FDs have doubled over the last few months and digitally stored deposits are now 65% of all retail deposits.

Our chat bot “**RBL cares**” launched in January this year is seeing more than 1 million conversions per month of which 40% are new customer inquiries.

Our CMS collections and payment volumes have surged by 40%.

Our Aadhaar enabled payment services AEPS have seen three times increase during lockdown, 300% increase during lockdown.

On our capital position our equity raise in December end has helped us maintain comfortable levels of capital. We ended the quarter with our capital adequacy ratio at 16.45% with a CET1 of 15.33%.

Now, let me talk a little bit about the COVID assessment:

We’ve done a thorough bottoms up review across our wholesale and all our segments of our retail businesses. Based on the above mentioned base case scenario, and its consequential impact, we have estimated that the level of resilience of the portfolio over a relatively prolonged recovery cycle.

We have tightened our risk assessment criteria across the board. Particularly on the corporate side, we continue to reduce exposures through timely intervention and proactive management. This is further to the steps that we took in the previous year where we significantly right sized our entire portfolio under review and our new target operating model for the wholesale business, which is based on a significant de-bulking of the portfolio.

As a result, our concentration in top 10 and top 20 borrowers and groups has declined sharply this past year. Our top 20 group exposures have reduced by 4% to 18%.

Majority of our incremental exposures this past year have been to A minus and better rated customers. A minus and better rated customers account for 72% of all our rated exposures now, up from 67% in FY19.

Deduction in exposures in the BBB and below rating scale, have further de-risk the book. All these measures put us on a better footing as we tackle COVID related challenges.

Customers in wholesale who have availed MORAT have almost, are almost fully secured and with sizeable levels of liquid hard collaterals and route at least, a proportionate share of their operational cash flows through us, giving us enough insights on their operations. Our approval is also conditional on other banks approving their morat request as well.

We have done similar analysis on our retail portfolio, in the retail business, you would be aware that over the last three quarters, we have been continuously tightening our acquisition filters towards the relatively low risk segments.

We did sacrifice a little bit of growth in doing this. Even on the portfolio front we have started taking steps in bringing down exposures on the relatively riskier segments. We've done a detailed stress testing of our cards and business loans portfolio. And I've already laid down our collection strategy including significant enhancement to the collection capacity.

In the micro banking business, we are continuously engaged with our customers and we are quite confident that the bounce back to normalcy will be much faster.

Pre-COVID, we had expected our credit cost be much lower in FY21 as compared to FY20. However, based on the above, we expect credit costs in the FY20 to be in similar range to FY20 give or take 5, 10 basis points.

Within this, we expect the split to change, from more wholesale and the less retail to the reverse, where we expect wholesale and non-wholesale split of credit cost to be approximately 40:60.

At this point, I will hand over to Harjeet, my colleague, to take you much more detailed color on our non-wholesale businesses. And I will come back later to do a wrap up.

Harjeet Toor:

Thank you sir. Good evening ladies and gentlemen. I will try and cover details of non-wholesale business in two parts. First would be to give you some insight on the strong business performance in quarter four FY20. Then, I would talk about the business environment that we expect to be there for another six months and how will we navigate it.

As already mentioned, in Q4 FY20, the non-wholesale business grew by 35% year-on-year and is now 56% of the total advances. The retail loans business grew by 41% and the financial inclusion business by 23%. The overall growth could have been more this quarter but for the lockdown towards the second half of March 20. About 800 crore of loans could not be disbursed in this period. Yields on the non-wholesale business were flat quarter-on-quarter at 15.6%. but we're up 100 basis points year-on-year. The credit card business issued 3.5 lakh cards in Q4 FY20 taking the total number of credit cards in the portfolio to 2.8 million cards. You would notice that the new card issuance in the last three quarters has not shown much growth.

This is on account of tightening of customer acceptance scorecards since quarter one last year, and cutting out 20 to 25% of business which we felt could be vulnerable. This was done much before the COVID-19 problem came to the fore and should stand us in good stead going forward. The credit card spends were similar to quarter three FY20 at 8,250 crore. The usual growth in spend was countered by the drop seen in March 20 post lockdown.

Approximately 500 crore of spends were lost on account of the lockdown. Spend reduction in March also resulted in the more than usual bump up in the term book percentage, which was at 47%.

Adjusted for the spend drop, it would have been around 45%. From a risk perspective, term balances are better as the portfolio consists of 75% customers that are pure transactor and hence these balances are at significantly lower delinquencies. The spin drop plus the moratorium lead late fee reduction resulted in a fee income drop of around 15 crore in March.

The micro banking business grew by 28% while the MSME business on the other hand grew by 25% year-on-year. In the micro banking business, we were able to complete almost the entire collection for March 20. Before the lockdown we were however, not able to complete a new disbursements for the month. Let me now talk about the business environment outlook. We've seen gradual lifting of restrictions start from fourth of May. While the green and orange zones will see faster removal of restrictions and resumption of economic activity. We believe that red zones will take longer, and we can see somewhat of smooth movement of people only by end June, July. We've have planned our business for this year accordingly.

We expect the rural economy to pick up first, especially in the segments we operate in. This is on account of very low infection rates, good crop and monsoon forecasts, government stimulus and also due to localized operations of our customers business. These are largely micro businesses providing essential services and will bounce back within a few weeks of the lockdown opening. We've been in touch with around 2.5 million customers in the villages and found that majority of them are confident of getting their businesses back on track.

We today have 853 of our BC branches around 80% of the total which are already open and have also seen some bit of economic activity return for our customers. In the business loan, for the business loan customers that is LAP, it will take much longer to recover from this shock, within these businesses, those focus on domestic markets and consumption will bounce back much faster than those having exposure to international markets in terms of imports or exports. Retail goods, groceries, essential services, pharma, FMCG, hospitals, et cetera will bounce back first. Businesses linked to aviation, travel, restaurant, entertainment will have a more difficult path to recovery. Fortunately, our exposure to this segment is less than 5%. And even that is backed by good collateral. The moratorium is well received by this segment as their EMI is just shift by three months and the tenor gets extended accordingly. The EMI amount remains the same which does not cause any burden.

In the credit card segment, we've seen a unique behavior in terms of customers trying to conserve their cash flows and opt for a moratorium, this is across segments salaried and self-employed. Salaried is about 70% of our customer base and also across risk bands. It does not even discriminate between customers who have paid in full versus those who revolve. The good part is that only about 13% of customers have availed the moratorium till end of April 20.

We're also observing that customers are making payments during the month to reduce their interest cost. We expect the impact of any job losses to be felt over a period of time. Even if job losses are not significant, we can expect salary freezes, deferment of bonuses incentives, and in some case salary cuts, which could cause some pain.

Let me outline some of the immediate focus areas we've been working on.

The first is collection capacity buildup. We expect significant loading of early delinquency buckets when the moratorium ends, for this we have already added extra capacity. Both at the tele-calling and field level. In addition, we have moved some resources from businesses to collection for the next three to four months. On an average, the collection capacity across the retail businesses has been expanded 2.5 times. During this lockdown our collection call centers have been operational and have been operating from home.

The second focus area is regarding portfolio interventions. In a cards portfolio, you would recall that over the last few quarters, we had been intervening on customers, which could be relatively riskier by reducing our exposures to them. We've been reducing limits for some and

for others converting outstanding balances to EMI at low rates, where we believe that their ability to pay interest in the future may be impaired. In addition, advanced early warning triggers based on the Bureau and other transactions are being used to pick up risky behavior early and cut exposures. All other positive actions like limit increase, loan on phone, balance transfer, et cetera have been temporarily suspended. In loans, we have put a significant part of our portfolio on daily enhance bureau triggers. Objective is again to pick up early warning signals and suitably modify the collection strategy proactively. In micro banking as mentioned around 853 branches already open, we have near nil attrition and have been able to get all loan officers to join back. This was facilitated by the fact that all staff are paid their salaries in April. We've explained the moratorium to customers, and they are happy with the facility and are confident that they would start paying the moment their business will start.

I would now like to give you some portfolio insights in terms of customer segments and the risk levels we're carrying in some of these portfolios:

We've also included some of these points through additional slides in our investor deck this time.

First, I'll talk about credit cards. 70% of our customers are salaried. The self-employed acceptance criteria for the balance is much more stringent and therefore delinquencies are only about 30 to 40 basis points higher than salaried.

82% of our customers have another credit card at the time of a card being issued. We refer to this as the carded segment.

95% of these customers have cards issued by the top four players in the industry. Therefore, our carded segment is quite similar to these top four players.

These carded customers typically have loss rates that are 50% of those where there is only a single card. This has been tracked and published by the credit bureau. We also observe a similar trend in our own portfolio.

68% of our customers have an age greater than 30 years as compared to 60% for the industry. The higher age group denotes more stability in terms of profession, and lifestyle as these customers have more work experience and also support a family. The delinquency level also decreases with age as is seen in the portfolio.

70% of our customers have an existing relationship with either RBL or BFL, Bajaj Finance Limited where we have additional information and comfort of knowing the customer and all these are credit tested.

The most important fact is that our portfolio delinquencies measured at 90 days past due rate are 27% lower than that of the industry. And we should keep in mind that the top six issuers including us account for 90% of the industry.

Similarly, our early vintage delinquencies measured at six months for 30 DPD, are around 28%, lower than the industry.

I'll now come to micro banking:

Our state and district level caps ensure that we don't have concentration in any particular geography.

The top five state contribution has been coming down and is now at 56% versus 62% for our peers and the peers include two of the largest banks in the segment, two large SFBs and prominent MFIs.

97% of districts have less than 1% concentration to the portfolio. Only 10 districts have a contribution between 1 to 1.5%. And just two districts which have been traditional districts have between 1.5 to 2 all well within our caps.

The average outstanding per customer is at 21,100 versus nearly 25,000 for our peers. Even our average ticket size for new loans is at about 34,700 versus 40,600 for the industry.

Our business growth has been driven by new customers in newer geographies rather than ticket size growth, ticket size has increased at just 7% per annum over the last two years.

Now let me come to loan against property:

Average ticket size is around 1.4 crore and has been consistent over the last few years. Average LTB on the portfolio is around 63%.

95% of the collateral is residential or business premises, majority of which is self-occupied. There is an even mix between manufacturing service and trading. So there is no concentration to a particular type of business. Exposure to industries impacted by COVID is less than 5%.

Let me now give some color on our expected business trajectory:

In our base case scenario, for our retail businesses, we expect our new business to have a slow start post lockdown reaching 70 to 80% of our BAU run rate by September and October. Overall for the year new business will be slightly lower to flat versus FY20.

For FY20 the cards base is likely to end around 3.3 million versus 2.8 million today, an addition of roughly about 500,000 to 600,000 cards. The overall advances are expected to

grow in the region of about 12% to 15%. We have the ability to ramp up businesses should the opportunity arise in terms of stability in the economic and credit environment. And we don't expect demand to be a challenge here. With that, I would now like to hand you back to Mr. Vishwavir Ahuja for his concluding remarks.

Vishwavir Ahuja:

Thank you Harjeet. So, I want to leave you with a few thoughts in summary. If I have look at FY21 relative to FY20 our journey perhaps has been delayed by 8 to 10 months because of COVID. The COVID situation will impact almost all of the financial services industry and our endeavor would be to exit FY21 not just stronger in balance sheet risk management, liquidity provisioning, but also come out sharper on strategy and stronger in the competitive position in our chosen segments and markets.

We have the necessary scale capital, talent and the abilities to do so. We are confident of being able to deal with the challenges that we may encounter on account of COVID.

Our focus in the near term will be on balance sheet protection, PAT risk management, capital preservation and maintaining high levels of liquidity and Cost Management.

In a wholesale business, we will continue to consolidate and right size exposures given the external environment.

In our retail businesses, our focus will be on boosting our collection efficiency and close monitoring of the portfolio and selectively growing our business post lockdown.

Our provision coverage ratio has been significantly increased (now 64%) and we propose to increase it further in the subsequent quarters.

We are extremely well positioned in most of our retail businesses, where because of the underlying demand, they have the propensity to bounce back strongly when there is a revival post COVID.

There is a huge operating leverage embedded in these businesses. Meanwhile, we will ensure that we continue to invest in our deposit franchise through both branches and digital solutions.

We will also ensure that CET1 is close to 15% for FY21, which reflects robust capital adequacy, the regulatory requirement is 9.5%.

With that, we will now open up the call for questions and answers.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Darpin Shah from HDFC Securities. Please go ahead.

- Darpin Shah:** So the first question is the numbers which you mentioned about moratorium is it by number of borrowers or by value?
- Vishwavir Ahuja:** Number of borrowers, yes.
- Darpin Shah:** So by value can you please provide the numbers like you mentioned credit card 13% of your borrowers have availed moratorium. So can you specify the value as well in each of the segments?
- Harjeet Toor:** 24% by value.
- Darpin Shah:** In credit cards?
- Harjeet Toor:** Yes, right.
- Darpin Shah:** Okay, for retail loans?
- Vishwavir Ahuja:** So if we if we give you the number across the business, the entire business is about one third.
- Darpin Shah:** Overall it will be one third?
- Vishwavir Ahuja:** Yes.
- Darpin Shah:** Okay. Sir my second question is, also if you can throw some light?
- Vishwavir Ahuja:** Then I'll further give you further clarity. On the wholesale side it is about 20 to 23% by value and number and on the retail side by value, it is a little higher.
- R. Gurumurthy:** So the average that's largely driven by microfinance and agri.
- Darpin Shah:** So, sir my second question is, if you can provide some, throw some light on how do you see your BB and below book, moving in FY 21, how much slippages can we expect from there or what built up can you see?
- Vishwavir Ahuja:** Do you have access to slide number #23?
- Darpin Shah:** Yes.
- Vishwavir Ahuja:** So the question to your answer is completely detailed out there. So if you want I can read it for you..
- Darpin Shah:** Sir I'll have a look at it. Thanks.

- Moderator:** Thank you. We take the next question from the line of the Rohan from Equirus Securities. Please go ahead.
- Rohan Mandora:** Sir on the slide #23 when we are talking about certain exposures in BB and BBB which are slightly lumpier, so if you share some color on which sectors they are from and what kind of outlook do we see on those exposures?
- R. Gurumurthy:** There's no sectorial kind of story around it. It's diversified across the board there. So, I am only talking about the large exposures, the three or four that we've spoken about in BB, we have spoken about total about five exposures that kind of relatively larger and for a couple of them in the BBB space. Again, there's no single sector or anything, I think it's kind of diversified, secured except for that one exposure that we clarified in BB, which is unsecured and non-funded which something that we are watching. Absolutely, that's a telecom sector exposure.
- Rohan Mandora:** Right, but sir I just want to understand on these 6, 7 exposures what kind of probability are we internally assuming in terms of default, just to get a sense on what kind of slippages can come from the wholesale phase?
- Jaideep Iyer:** I think that situation will evolve, out of these names one odd name we will be a little worried. I don't think in other cases, the reflection of the rating is necessarily reflective of the strength of the company at this stage is what we believe. So, I guess we should be worried about one odd name.
- Rohan Mandora:** Sure. And sir like for FY21 we are guiding for higher credit cost from the retail vis-à-vis from the wholesale, so within that any particular segment where we are expecting a slightly higher mix, in terms of credit cards and as per your LAP?
- Harjeet Toor:** So if you look at it, in the COVID kind of a situation you would expect credit cost to come from cards because of job losses. And you would expect the business segment or the MSME segment to give you some credit cost as well because that segment will take time to recover. The micro-finance we do not expect while you will have little enhanced credit cost but I don't expect any significant increase there. Because that segment or that sector, we are expecting to bounce back much quicker.
- Rohan Mandora:** Sure sir. And sir just lastly on the MFI piece, could you share the split on the portfolio value wise in terms of sales, the rural, semi urban and urban locations how is it and also in case there are any recoveries that we have seen from the four, five stressed asset groups which have slipped in FY20?

- Harjeet Toor:** So, in the microfinance, almost about 80, 85% of our businesses is rural. And that's been traditionally the way we've built this book and in terms of recovery, I'll just let you know on the corporate side.
- Jaideep Iyer:** So, the historical book is now provided almost 60% so at a portfolio level we will probably be reasonably in line with our expectation maybe by piece of recovery in some amount.
- Vishwavir Ahuja:** No, but he is saying has there been any recovery. Yes if you see there is a slide which gives you the slippage and the recovery. So that recovery is largely from one of the corporate accounts.
- R. Gurumurthy:** Yes, corporate account but yes.
- Moderator:** Thank you. We take the next question from the line of Abhishek Murarka from IIFL. Please go ahead.
- Abhishek Murarka:** So, two or three questions. First, on the MFI side, you said that 800 odd branches are now operating and all your field officers are back, but can you give some color on whether they are able to hold center meeting or collect anything at this point of time given that anyway we are in the moratorium period. And if there is any kind of incremental disbursement being done either as an emergency loan or any kind of demand, how is that being met?
- Harjeet Toor:** So, I'll answer this first. So understand that the majority of these branches have opened in the last one week or so. Post the 4th May opening and therefore, the initial lot of loan officers have visited the villages and met customers, too many center meetings have not yet started. That is something which will happen as we go forward. From a collection point of view, we've still had voluntary collections which are coming in where customers walk into our branches and give that collection. Since we've not held center meetings, we've not yet introduced the emergency or the cash loan or the small ticket loan, which we will do. So, there is a plan to give loans ranging between 6,000 to Rs.10,000 to customers who demonstrate repayment of their EMIs and that I think will happen over the next 30, 45 days.
- Abhishek Murarka:** Okay. The second one is on cards. So, given that spends are likely to come off quite significantly. What is the outlook on your revenues and the margins, et cetera that you would be making from this business. Second, actually before that, through your slide on this spend almost bouncing back, right from June to March. What is the probability you assign to this forecast because end of the day it's a forecast and you yourself in your opening comments you said that, things are going to slowly come back to normal over a longer period of time, starting June. So isn't this a little aggressive to expect that between June to March the spends will be pretty much back to December, January, February levels?

- Harjeet Toor:** So, look at it this way. If you look at the composition of our spends, you will find that the spend contribution from areas which will remain affected over a longer period of time are much lower. That's one, second is that while we, in the month of April we saw spends go down by about 60 odd percentage. Since May 4th, there's been a 35% increase of spent from that level, just the fact that some markets have started opening, we are still and majority of the red markets are still not open. So there is a pent up demand which is there, which I think will therefore be able to bring the spends up. And there are categories of spends which have therefore taking over, groceries utilities, digital entertainment, media those are the spends which are coming to the fore, insurance and then therefore that's giving us some confidence that it should come back. When I was talking about it slowly coming back to normal was more in terms of movement of people, meeting customers, et cetera in the red zone that is, what is going to take time but, the moment online opens up and even before COVID about 55% of our spends were online. We expect that proportion to go even higher post COVID.
- Abhishek Murarka:** Okay. And just lastly on this deposit, so you gave a CASA number as of 30th April, what would be the retail TD number at that time, 30th April?
- Vishwavir Ahuja:** I think that data is also normal, 59 some percent.
- Jaideep Iyer:** So, Abhishek I think branch banking source deposit should be 59, 60% range.
- Abhishek Murarka:** Sorry, Jaideep, I couldn't get that?
- Vishwavir Ahuja:** The branch source deposit should be about 60%, slide number #30 has that exact information.
- Abhishek Murarka:** Okay. 59 as of April 30 also?
- Vishwavir Ahuja:** No, it's March 31st numbers there. April 30th couldn't be worse, it will be better.
- Jaideep Iyer:** Similar range.
- Moderator:** Thank you. We take the next question from the line of Dhaval Gada from DSP Investment. Please go ahead.
- Dhaval Gada:** A couple of questions. First is on the cost front. Just if you could give some sense of the overall FY20 OPEX. How much was attributable to the MFI and the credit card business and the second dimension to it is, in the overall cost how much is sort of variable linked to business and can be sort of rationalized if growth doesn't pan out as expected. So some sense around the cost?
- Jaideep Iyer:** So, Dhaval if you look at the cost increase in fiscal 20 versus fiscal 19 approximately 70, 75% of that should be business linked and bulk of it to cards. And like Harjeet elaborated, but in microfinance there won't be much cost because the BC payout actually netted from the interest

income. And besides that, the cost is not a whole lot significant. And almost all business in microfinance and cards, a large chunk of it is variable because there's a lot of origination cost which is paid upfront on origination, so if business slows down, a bulk of the cost will come down.

Dhaval Gada: And overall sort of ability to sort of manage costs do you see some sense around that fixed variable?

Jaideep Iyer: So, I guess as I mentioned, the retail businesses mostly will be running on variable costs, so a slower business would mean decrease in cost. And, overall I would expect us to because we invested in branches last year, which will become fully costed this year and we will open more branches, I would expect not more than 5 to 10% increase, actually not even 5 maybe, low single digit increase in cost over the coming year.

Dhaval Gada: Understood. And the second question is on margins. So, I understand that the mix shift is driving this expansion along with the funding cost coming down, just in the context that next year you do expect rise in retail slippages and that to in the cards specifically, how does the interest income impact and overall margin outlook look like for next year?

Jaideep Iyer: Dhaval, I think quite a few moving parts on margins, but I would say we should be coming off a bit on margins, primarily because we will continue to sit on a lot of liquidity and that would be one reason and second, the mix change will not be as dramatic as we saw in this year. So, I would say margin flattish to slightly lower because the benefit of cost and the yields will largely go in tandem.

Dhaval Gada: Right. And the last one is on, this stress test that you guys carried out on the retail portfolio. What kind of income impact have you assumed to arrive at some of the stress numbers and if you could just elaborate a little bit of how much bad it can be some color around income impact and the impact on our portfolio?

Harjeet Toor: So Dhaval, as per the retail side, if you look at it, we did say and I did say that expect the growth to be in region of about 12 to 15%. Income would actually grow.

Vishwvir Ahuja: Income levels in the economy?

Harjeet Toor: No, I am talking stress asset number. I think the income would grow the costs would come down dramatically, because understand that the acquisition will be low.

Dhaval Gada: Sorry Harjeet. Actually, what I was referring to will be existing portfolio and consumer, what kind of impact have you assumed in the borrower profile as far as their income is concerned just to understand on the stress test. Any detail that you could share on this, how you approach the entire business that would be useful.

Harjeet Toor: Okay. So the way we've gone about doing this is, that we've assumed that the current level of moratorium and therefore the deferment of customers not paying would continue for a good three, four months. And that would build up your frontline buckets, which would then the resolution rates also would come down because of the kind of impact which will happen. It's very difficult to assume the job loss rate at this moment or the reduction in salary levels, so the best thing we can do is to see how many customers would therefore not be in a position to pay and therefore would flow through, and what would be our resolution rates. So we've deteriorated both, we've increased the entry into buckets and deteriorated the resolution rates for at least the next four, five months. And that is what will result in whatever credit cost increase if you will see.

Dhaval Gada: Understood and just one related question to this, important number would be the moratorium because that is your anchor. How is that number moved maybe last 15 days versus where we are at the end of April, just to understand how this percentage is moving. Is it like, grown substantially in the recent weeks or have been study after the initial increase, because that will change the entire calculation?

Harjeet Toor: So it's a pretty dynamic number. So it actually started with a higher number in cards, and then by the end of April came down because customers then make payments so but, I expect this to remain at this level till the moratorium doesn't finish, we have this and it's a little complicated because you have cycles of payments when it happens every time a cycle ends, the moratorium number goes up. And then balance of the month the customers pay back. And therefore that number comes down again. So on an average, I think it's safe to assume the number which we have given will stay.

Moderator: Thank you. We take the next question from Pranav Gupta from Birla Sun Life Insurance. Please go ahead,

Pranav Gupta: So firstly on the moratorium on the wholesale side. So you spoke about 22% in terms of number of customers and value availing the moratorium. If you could give some sense on the discussion that you have with these corporates on whether, what are the reasons why they're looking to avail this moratorium, is this to conserve liquidity or is this because of the top line impact that they might have seen, some sense on what discussions you would have had with these customers?

R. Gurumurthy: Actually it's a mix of lot of these things, including for some people just wanting to keep a liquidity buffer as they get through this phase. So it's a mix of reasons that we see, given that it's not been an automatic model. So we kind of reviewed every case and looked at the COVID impact that has happened to them impacted their business during this period. And as we see the road ahead. Broadly speaking, I think for some people, it's obviously a business currently not functioning at the level that they would function on revenues, not showing up. It's a broad mix

and it's come from across the scale of ratings, it's not an isolated to somebody weaker or stronger. It's across the scale.

- Vishwavir Ahuja:** But you can add even some of the better guys.
- R. Gurumurthy:** That's what I am saying across the scale.
- Vishwavir Ahuja:** No, they have kept the liquidity buffer.
- R. Gurumurthy:** In fact, there's a whole bunch of people who actually while we have given a moratorium, they've preserved that liquidity with us independently.
- Pranav Gupta:** Okay. Any sectorial color on this part if you can provide that will help?
- R. Gurumurthy:** Not really, actually there is no sectorial concentration at all, it's regionally distributed.
- Pranav Gupta:** Okay. My second question is on the additional provisions related to COVID that you have taken. So just to clarify, this is all the three included that you spoke about right, so 10% as per the RBI guidelines 100% instead of 70% on the credit cards, NPA and an additional buffer on the retail book is that right?
- R. Gurumurthy:** Correct.
- Vishwavir Ahuja:** And general bump up in the PCR, which we have applied as accelerated provisioning on corporates.
- Pranav Gupta:** Right. But the three that you mentioned earlier were a part of this 115 crore number is that right?
- Harjeet Toor:** That's correct. The first three were part of 115, and the bump up in PCR is the additional.
- Pranav Gupta:** Right. And just one last question, if you could quantify the positive impact of the capital raise on the margin that will be helpful?
- Jaideep Iyer:** That should be about 20 basis points.
- Moderator:** Thank you. We take the next question from the line of Manish Karwa from Axis Capital. Please go ahead.
- Manish Karwa:** My question is on the card segment. Harjeet, did you mention that the April spends are down about 60%, is that a right number on a compared total?
- Harjeet Toor:** Yes, that's correct.

Manish Karwa: Okay. So, as far as the lockdown stays, we can assume that spends would be down to this extent?

Harjeet Toor: No, so as I said that, from May 4th onwards, we've seen about a 35% increase in the spend. So as markets start opening, we've already started seeing the jump in the spends happen.

Manish Karwa: Okay. And, on the cards front you are saying that 24% of value have taken moratorium, just is there any difference between someone paying a 5% and revolving and taking a moratorium from an interest charged perspective?

Harjeet Toor: No, the interest charge is the same except that the 5% which he would have otherwise paid is also now revolving.

Manish Karwa: So you mean that only 5% as a customer you could have get away by not taking a moratorium and paying only 5%?

Harjeet Toor: That's right. But unfortunately, it's not only the revolving guys who have taken the moratorium, which is what I was saying, there is this general behavior to conserve cash. So we've seen almost about half the customers who have taken moratorium actually never evolved. They were all, they used to all pay in full. So it's just that people have just felt that, for some time, let's just conserve cash and then see how things happen and that is why, over the period of the month then you see some of them start paying back and the moratorium percentage then starts coming down.

Manish Karwa: So you mean to say that one fourth of the book has actually taken moratorium and paying 40% interest?

Harjeet Toor: By balance yes.

Manish Karwa: Okay. And on the fees related to cards. Now if a large proportion of the cards are used for groceries spent then I would assume that the per spent fees for us would also be lower right as I understand groceries are not less than cards used anywhere else?

Harjeet Toor: No not very dramatically because it depends, the large stores sometimes you get lower fee but smaller stores that's not the case. But if you really look at it, while proportionately it looks like as a grocery has really jumped up. It's only for these two, three months. Ultimately it will come back to the spends before the lockdown where also we had 30% spends going to grocery and stores.

Manish Karwa: Okay. And we make about 250 crore of fees on cards. Now with spends down like 60% in April and May be say 30% on an average for few months. Would it be right to assume that fees on card should also decline little bit more than that 30% number?

Harjeet Toor: So, Manish so about a third of the fee comes from interchange income from spends. We, and this time, I don't know if you've had a chance to look, but on slide 51 we've given you our forecast on spends. So on a full year FY21 basis, we expect the spends per card to be about 12% lower. So it's on that one third of fee where we will lose 12%. So fee yes, on pure spend fee there will be a drop. But there is going to be some increase on the interest income because as your first part of the question which you were alluding to, because of the fact that many customers have availed moratorium the interest incomes will go up.

Manish Karwa: Right. And what are the other component of credit card fees like 33% is on spends, which are the heavy, other heavy components for us?

Harjeet Toor: So broadly you can divide it into something called application and processing fee which we have which is the fee on the card plus whatever cross sell we do in terms of either conversion to loans or insurance, et cetera. There's a cross sell fee, which we do. That's about one third, one third is the spend fee and one third is the other fee in which the large component is the penal fee. Which for the moratorium period is what we will not get.

Manish Karwa: Right. And as a breakup of fee you also have a processing fee, which is like 13% of the fee that is also card related or that's related to other loans?

Harjeet Toor: No processing fee so there is an application fee which is related to cards, the processing fee for all, a large part of that comes from all the spend conversions into loans.

Jaideep Iyer: No, but Manish if you talking about the presentation slide that processing fees is excluding cards, cards is all bunched up into one number this will be more other retail and corporates.

Manish Karwa: Okay. And lastly on the cards front, to by what extent we have cut limits for cards if you have a number as in?

Harjeet Toor: So this is basis risk bands so there are customers who would have gone through a very, very sharp reduction but that's on the upper end of the high risk band which we see. For majority of the customers the limits will remain where they are. But wherever we see any trigger, we've cut limits and the limits could be cut from 20-25% to all the way down to 80%, 90% as well, depending on what we are sensing from the customer.

Manish Karwa: Okay. And roughly in terms of number of cards how many number of persons, how many so how many persons you would have cut limit, would it be a very large number?

Harjeet Toor: You could assume about 12% to 15% of the total base of 2.8 billion.

Manish Karwa: Okay and lastly on the cost front related only to cards. Now, I believe that you will have to invest a lot on collections, which you also alluded that your collection capacity has gone up by

2.5x is there a scope to reduce cost on the card front itself, because at a time when revenues would be down cost probably may come into play, because generally it's an heavy cost product. So, but if you have to spend on collections, then the cost ratios can change on the negative side for us?

Harjeet Toor: No, so look at it this way. A large so, I'm going to acquire slightly lesser cards than last year on a base which is almost 70% which is higher than last year. Therefore, my cost to NR will drop significantly this year and that is what is going therefore partly take care of the credit cost increase which will come. It's despite the collection cost increasing the other costs which are dropping is very sharp.

Manish Karwa: Okay. So pre credit cost in the card segment profitability, you are saying could actually get better purely because you will earn more and your new cost will actually come down?

Harjeet Toor: That is right. So anytime you slow down a fast growing business your profitability will improve.

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

MB Mahesh: Just a couple of clarifications on the comments that we made to the earlier question again. Is it fair to say that the OPEX will remain flat on a Y-o-Y basis on the card business?

Harjeet Toor: It will marginally increase but the ANR is also increasing and revenue is also increasing. It's growth is a small proportion of let's say the revenue increase.

MB Mahesh: You would amortize, you don't amortize the origination costs, you just kind of upfront?

Harjeet Toor: No, we don't. We take it up front.

MB Mahesh: Just one clarification on the credit cost I don't know whether you are going to answer this question, but I'll try this out again is there an arrangement on the credit cost between your relationship with Bajaj?

Harjeet Toor: No. Credit cost entirely sits on our P&L.

MB Mahesh: Just to kind of, just to take this back again, so the question that you indicated that this year the retail cost will dominate the cost, outside of cards are you worried on some of the other products like a business installment and probably businesses which you have originated through channel partners?

Harjeet Toor: So all our business loans, get majority of them get originated to channel partners. I don't think the channel of origination has any bearing on the riskiness of the customer because the credit

assessment, et cetera is all being done by bank officers who are credit officers. The channel only helps in getting the customer to you and therefore, helping you complete the documentation. So, I don't see that stress, From a business installment loan perspective, which you're talking about that portfolio is about 2%, 2.5% yes, being unsecured we will see an increase there. But the large part of business loan sit in LAP, where as I had mentioned earlier, that's a fairly granular book, very secure, traditionally much lower almost about 44, 45% of the industry credit cost that should sustain. And even if we see some NPAs coming there, the ability to be able to therefore get back our loan exposures will be very high and the credit cost there in any case, it being secured, is only about 15%. So it's not going to cause a big blip to the credit cost number.

MB Mahesh: Okay, so if I had to kind of ask this question, so you're expecting the entire jump in credit cost for the retail to be just dominated by the cards business?

Harjeet Toor: Cards will be the large part, the other part which will come in is whatever little come from the unsecured businesses or the small MSME business which we have which is about 1100 crore or so in the DB&FI space but those numbers are relatively smaller because the portfolio is small.

MB Mahesh: And a question here on the SMA data, thanks for sharing this but one of the challenges that one sees is that the relationship between the SMA data and the slippages that one sees appears to be fairly low you seem to be showing extremely quick slippages once it reaches SMA-1 and 2, is that a fair observation?

Vishwavir Ahuja: Not at all.

R. Gurumurthy: No, I think what we saw, sorry please continue.

MB Mahesh: I just kind of explain this question. So, if you look at, you had about 700 crore of slippages, 709 crore of slippages this quarter and you had about 1050 crore a quarter before and 1377 crore in 2Q FY20, now when you just go to.

Jaideep Iyer: So, Mahesh this quarter we have recognized NPAs besides the necessarily not on the DPD basis also.

MB Mahesh: But this is true for even the previous quarter

Vishwavir Ahuja: But for the previous quarter we took it on that corporate portfolio the five accounts.

R. Gurumurthy: That's what I am saying the last quarter correlation that year, was an aberration because one.

Vishwavir Ahuja: He is saying what the slippages were coming from the BBB.

- R. Gurumurthy:** No, our SMA does not represent the any slippages below because slippage is high. That is exactly what I am saying.
- Vishwavir Ahuja:** The much of what happened in 2020 in the last three quarters was largely because of a specific handful of names, which we have talked about repeatedly. And in fact, bulk of the stress has come from there. And those names the previous year were not in the SMA buckets for nobody, for no bank. And there were in fact retailed very well. So, it was just one of those circumstantial things that happened, aberration that two, three promoter oriented groups, which had high levels of promoter leverage, we've gone through that story many times. So it's come from there, but, but otherwise, no, highly rated companies have remained highly rated companies and that portfolio correlates well to its rating profile or credit profile.
- MB Mahesh:** Just a clarification here is that while we identified about 1800 crore at the beginning of the year, they don't seem to have moved into the SMA buckets in the first three quarters at the pace at which one would have thought it just kind of seems to be suggesting that it continue to remains in either in SMA zero or standard, but they quickly seem to have kind of come in place of 1 and 2 and then slipped off across is that the way to look at the 1,800 crore as you kind of indicated at the beginning of the year, that's the question?
- R. Gurumurthy:** SMA is just a statistical number. Some of it is our estimation of what will happen to these accounts, knowing that they are servicing as of today, but will get out in the next quarter or the following quarter. So this was estimates made by us upfront saying that these people can probably service up to this, probably up to this and so therefore, our estimation was right in that they will slip. So it's a question, then the SMA just becomes a statistical number as to based on DPD. So you'll have to kind of isolate this four odd groups as an aberration to the whole process and then look at the rest.
- MB Mahesh:** Perfect. I'll just take it offline. My only point was that, we should have seen it in SMA-1 and 2 in the previous as in the bunch of that 1800 should have probably been seen in the SMA-1 and 2 in the earlier quarter, that's the limited point.
- Vishwavir Ahuja:** We will take it offline, but if you go back to our commentary two quarters ago. There was not a single day DPD in any of them.
- MB Mahesh:** Perfect.
- Vishwavir Ahuja:** If you see my July 22nd commentary, where we gave a forecast, that none of these names are even one day DPD. But we know because of the fact that, circumstance that this is about to happen, maybe we spoke too soon but having said that. The fact is, they have fully serviced their June 30th interest on time without delays. So, if we flag then we flag them, now whether right or wrong, but the fact is they were neither badly rated at that time, nor did they start

going into delinquency. But it was very clear that the way the rapid degree the risk events were unfolding, that this is a question of a one, two, three quarter story.

MB Mahesh: So just one last question out here, you have seen this if you look at the frontline bank it seems to have been significant amount of improvement in the cost of funds, as compared to where you see most of the mid-tier banks, have you ever thought of kind of revisiting your entire approach of, is there a thought process on concentrating credit and MFI bank because we seem to be building some level of expertise in that space. Is there a scope for a re-thought into every business that why do we actually do wholesale banking at this point of time, if it doesn't generate the required profits out here thanks.

Vishwvir Ahuja: Okay, we'll take it offline. For 8 years, it paid the bill so beautifully. Just because of one year and five accounts, it doesn't destroy a business. Why don't you go back and backtrack the metrics of this business over the last six, seven years and see that on a what you call your risk adjusted basis what returned it was throwing up. So it allowed us the space to build a retail business in this meanwhile, we didn't reach this scale of retail business, overnight it has taken us some time and investments. So the fact of the matter is, that we have run the wholesale business for almost 7.5, 8 years at a net NPA of less than 40, 50 basis points. Which is why even with slightly higher cost of funds, but with a decent margin, it may not be more than 1, 1.5%. But with collateral income coming from fees, from foreign exchange, from cash management, the net return, the net of 40, 50 basis points of credit cost or less, actually became a very decent business. And it allowed us to build the institution over time and allow enough latitude to build a granular retail business, invest in branches, invest in technology, invest in platforms and then build a scale business that was always a strategy.

MB Mahesh: My point was not that, my point was that, look now you have built two excellent businesses on the cards and the MFI platforms, we are just trying to argue things the other way around. Have you just thought, because there are card companies out in the world which have proven to be successful models as well. So that's the only point, that's the only part. I'll take this offline.

Moderator: Thank you. We take the next question for the line of Ravi Singh from HSBC. Please go ahead.

Ravi Singh: My question is on card business again, on this moratorium is there any distress between salaried and self-employed customers in terms of taking moratorium?

Harjeet Toor: No, there's not much difference at all.

Ravi Singh: Okay. It doesn't seem intuitive, right. Because self-employed would have definitely seen some loss of income while salaried people are still seeing some salary income?

Harjeet Toor: Yes, the funny thing is that forget cards, and across the industry when you even look at loan check bounces, the rates are fairly similar for salaried and self-employed, the rate of increase

of cheque bounces. So, that's what I was talking about, there seems to be a behavior in which people are trying to conserve cash, because they just want to pass a couple of months to see what is happening. And therefore, in overall quantum term, the interest cost is not that prohibitive, while the rate may sound very prohibitive in cards. It still on a Rs.50,000 outstanding the interest cost for three months is about Rs.3,500. So, it's not as if it's that prohibitive, and therefore, that's what seems to be driving the behavior.

Ravi Singh: Okay. And assuming this moratorium ends in May, how will you approaching this portfolio because everything will become due in June, you don't have option to reschedule like to have in another segments. So, are the customers aware of this fact and will you be actively offering conversion to EMI sacrificing some income just to ensure that quality is protected over long term?

Harjeet Toor: Yes, good question. So, currently in this period there is a very active plan for these customers, which is going on to ask them that if should they want to convert to EMIs and therefore, that's where we would see customers who genuinely are seeing stress, would therefore do that because they can at least both in terms of outflow as well as in terms of interest rate, they get a benefit and the customers who have generally just taken it, then don't take the EMI because they know that once the moratorium ends, we'll just pay it back. But as I said, half the customers who've taken this have never revolved before.

Ravi Singh: Right. And just finally, when you are doing your assessment of possible credit cost from this portfolio during self-employed could still be where you would see significant increase in the credit cost versus salaried even though both going to be using moratorium right now?

Harjeet Toor: Yes, that is correct self-employed could be more, but understand that the self-employed proportion, One is not very large, and second is currently from the starting base, they're just about 30. 40 basis points higher in terms of their loss rates. But if I look at pure percentage loss rates self-employed will be higher, but their contribution is not going to be very significant to the overall loss rate, which we'll see on the portfolio because ultimately, it's a salaried portfolio largely.

Moderator: Thank you. We take the next question from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Thanks for the opportunity. Just wanted to ask on cards business you said that a sizeable proportion of people who have taken moratorium are up on revolvers category but if one were to think on revolvers if the situation persist slightly longer. Is there a case that the potential risk to their book which is exposed to revolvers could be substantially higher than we can kind of estimate right now because, these customers from a approach perspective, find it better off to pay 30% plus interest, rather than repay and close the outstanding?

Harjeet Toor: Yes, so first I had said that almost half the customers who have taken moratorium are not revolvers, which means they have always paid in full. So it's not as if there are proportion of customers taking moratorium and revolvers is higher than the other. Having said that revolvers will always be higher risks than people who pay back in full and that's the reason why there is, that interest rate which they pay.

Sameer Bhise: Yes, agree. But could the quantum of risk which follow which flow through could be substantially higher than we can probably manage, because they were priority exposed to multiple cards or something like that?

Harjeet Toor: No, so multiple card is not the challenge people with more cards actually have half the loss rates. I think the issue which is there which we are saying is that if I've assumed if revolvers typically are at X percent loss rate, which we've assumed can they significantly increase, possible. But the way we've stressed tested it, we have assumed that the current proportion of moratorium will actually continue, irrespective whether they were revolvers or transactor for three to four months. So therefore, within that, in normal circumstances, what will happen is, what is expected to happen is that the transactors will be pay back and the revolvers will slightly increase but on the overall we have stress tested that as well. And the other piece is that, there is therefore that active piece which we are doing on the EMI conversion. So these people who are in stress find it much easier if you convert their outstanding into a loan let's say year to two years in tenor at an interest rate which is lower and therefore that gives them the breathing time to be able to service the outstanding.

Sameer Bhise: Okay, fair enough and secondly any thoughts or commentary if the morat were to extent it by 90 days, how would the book react the credit card or even otherwise?

Harjeet Toor: I think the people who wanted morat kind of took it so, I guess that's the thing you will see now for another three months or so. So we'll have a wait and see as to how does it pan out. But, I certainly don't see a whole bunch of people coming in. Unless there are a huge job losses or the economy really goes down completely without any government stimulus, then yes, things could deteriorate a little further but otherwise, it's going to be more or less the same you, percentage wise it will be the same the customers may change because some of the guys who have holding it for a short period of time just conserving cash may didn't decide that six months is too large a time for them to bear the interest.

Moderator: Thank you. We take the next question from the line of Kunal Shah from ICCA Securities. Please go ahead.

Kunal Shah: Just I'm trying to try one number, you highlighted that we had a dropped to 15 odd crore say on card businesses in Q4. And then if I try to co-relate to one third of the income, what you highlighted from interchange, inter charge, and maybe spend per card will be like 12% lower. I think actually, the impact in it was only hardly 15 days in March and still we saw 15 crore kind

of an impact on fee income. So wouldn't the impact be much higher if we have to look at it in Q1?

Harjeet Toor: No, the 15 crore impact had a large portion of penal fee which was not there, a lot of penal fee had to be reversed right because March, there was a moratorium.

Kunal Shah: Okay, so this is all kind of part of that.

Harjeet Toor: So, there are two elements to this, there is a spend reduction but there is a penal fee as well.

Kunal Shah: Okay, so it's not entirely spend reduction?

Harjeet Toor: No, it's not. Okay, got it?

Kunal Shah: Secondly, in terms of COVID related provision, so there is no contingency buffer as such maybe, wherever RBI it was needed in terms of the SMA-1 and 2 that is what we have provided and on credit card, maybe we have accelerated the provisioning. But besides that maybe whatever we are seeing that 300 crore is on the wholesale portfolio and there is no buffer as such say for maybe in the coming quarters whatever thing would come in from COVID?

Jaideep Iyer: So, Kunal I think we are one as you mentioned accelerated the provision on wholesale, second we have the 115 crore provisioning that we said, out of which part of it towards accelerated card provisioning, the other part is on the retail portfolio where we have estimated basis some level of over dues which were existing on March 1st, so it is on that portfolio which is naturally going to offset to that extent offset the provisioning challenge that will come later.

Kunal Shah: Okay, but besides that there is no contingency as such, maybe retail is also based on the overdue as of that day?

Jaideep Iyer: Yes, because how do you otherwise assess right, you have to assess basis something. And then we've also added to the stress sector provisioning basis sectors, which we believe are, though the portfolio size for us is small, but you've taken provisioning there as well.

R. Gurumurthy: But that is since standard asset.

Jaideep Iyer: Yes, all that since standard asset provisioning correct.

Kunal Shah: Okay. And lastly, in terms of this wholesale, this entire recalibration strategy. So, this quarter, we had seen a good run down out there. So, will this continue for a while or maybe more or less we have achieved a particular proportion of it and now we will go slow and the rundown will not be soon high on the whole thing?

Jaideep Iyer:

So Kunal, the pace of reduction is obviously higher in fiscal 20. There will be marginal reduction, if kind of forecast basis, whatever information we have now in terms of economy, I think the wholesale book will be marginally lower is our estimate. But not necessarily as sharp as we saw let's say Q-on-Q.

Moderator:

Thank you. Ladies and gentlemen, that was the last question for today. We now conclude the Q&A session. If you have any further questions, please contact RBL Bank Limited via email at ir@rblbank.com I repeat the email id is ir@rblbank.com. On behalf of RBL Bank Limited we thank you for joining us this evening. You may now disconnect your lines, thank you.