



“Earnings Call of RBL Bank Limited to Discuss the
Financial Performance for Q2 and H1 FY '19
Conference Call”

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MANAGEMENT TEAM

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Moderator: Good Day Ladies and Gentlemen and Welcome to the Earnings Call of RBL Bank Limited to discuss the financial performance for Q2 and H1 FY '19. 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 this conference call, please signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishwvir Ahuja, Managing Director and CEO of RBL Bank Limited. Thank you and over to you, Sir.

Vishwvir Ahuja: Thank you. Good Evening, Ladies and Gentlemen, and thank you for joining us on this earnings call for Q2 and first half of FY '19. I hope you have had a chance to go through our press release and the investor presentation, which has been uploaded on our website. I will briefly talk through our performance highlight and then open it up for questions. As usual, my colleagues from our management team are with me and who will then address your various queries.

On the economic and banking front, this quarter has been an eventful one, uncertainty around the exchange rate, oil and global trade challenges have kept markets and policymakers busy. System liquidity remains somewhat skewed although RBI interventions should help to bring it back to normal. We have also been keenly watching the challenges faced by the NBFC sector triggered by a couple of events. We have done a detailed review of our own NBFC exposures and are happy to report that we do not see any challenges in our portfolio.

Onto our financial performance for the quarter gone by:

As we have seen over the last few quarters, we continue to see opportunities across all our business segments and our growth momentum has been sustained. For the quarter ended September 2018, advances growth was 37% year-on-year with wholesale and non-wholesale businesses growing 33% and 43%, respectively. Our deposit base continues to see strong growth at 31% year-on-year led by CASA growth of 35% year-on-year. CASA percentage is up from 23.67% in Q2 FY '18 to 24.51% in Q2 FY '19.

Talking about our revenue growth, net interest income, and margins:

Revenue growth has also seen some very strong momentum and has grown 40% year-on-year in Q2 FY '19. For the first half year, the total revenue growth was 39% year-on-year. Our net interest income growth at 41% year-on-year in Q2 FY '19 and 43% growth year-on-year for the half year period was higher than our loan growth. Our overall yields on advances improved 34 basis points year-on-year and 9 basis points quarter-on-quarter to 10.91%. I am happy to report that in this quarter, NIMs have further improved 4.08% from 4.04% in Q1 FY '19, which is the last quarter. Our cost of deposit has increased by about 7 basis points to 6.6% in Q2 from 6.58% in Q1 given the tightening interest rate environment that we are in. A similar increase of 8 basis points was seen in cost of funds to 6.44% in Q2 from 6.36% in Q1. However, due to a very

judicious mix of refinance and other stable borrowing sources, our overall cost of funds actually turned out to be lower than our cost of deposits.

We are quite happy with our outcomes on the re-pricing of our liability book in the backdrop of the sharp increase that we have seen in market interest rates. As we had spoken of in the last quarterly call, on the wholesale book, we have been able to pass through increases in MCLR as the loans came up for re-pricing. We increased our MCLR by about 20 basis points on the average in this quarter. Our wholesale book yields have increased by 19 basis points quarter-on-quarter and we expect this to inch up further as full impact of MCLR increases come through. Given the interest rate outlook, while cost of funds will continue to inch up from here even into the next quarter, then the expected gradual change in mix of our advances book were retail along with the pass through of the MCLR hikes and our funding mix between CASA, attractive refinance borrowings, and retail term deposit book is thus efficient comfort and we will be able to maintain NIMs going forward. Our non-interest income grew 38% year-on-year while our core fee income grew 60% year-on-year in Q2 FY '19. We continue to see strong granular growth across distribution, credit cards, client FX income, and general banking fees. We had an MTM loss in our investment book of about 11 crores in this quarter, which we have fully provided for in the quarter itself.

Let me now talk about operating expenses and net profit for the quarter: The cost-to-income ratio was 51.5% for Q2 FY '19, 270 basis points lower than Q2 FY '18, and marginally higher than the previous quarter. However, we have said in the past, our investment program continues and we expect to inch up slightly over the remainder of the year, but despite that our cost-to-income ratio for the full year should be within 52% which would be little over 1% lower than the previous year. For Q2 FY '19, our net profit increased by 36% to Rs. 205 crores over the same period last year. Our ROA for the quarter was 1.26%. ROAs improved 7 basis points year-on-year. Our ROE was at 11.6%, which also improved in this quarter as against 11.2% in the previous quarter. We continue to broadly track on our financial parameters to our guidance for FY '20.

Let me now discuss briefly the business performance in the different segments. Our wholesale, non-wholesale segments continue to see strong traction as I said earlier. The split between wholesale and non-wholesale advances stood at 59:41 quite similar to the previous quarter. In our wholesale book, we saw a growth of 33% year-on-year. Within that, C&IB, which is Corporate and Institutional Banking grew at 35%, and commercial banking grew at 28% year-on-year. As I have mentioned earlier, yields are improving in the wholesale book as competitive pressures abate and MCLR pass throughs continue. On a QOQ basis, we have seen an increase of 19 basis points in our wholesale yields and we expect this to further improve basis the pass-through of MCLR, and addition of fresh book which will reflect the current operating environment. In the non-wholesale book, we continue to show strong growth momentum and it grew by 43% year-on-year. Within this, the retail asset business grew by 45% year-on-year and the Development Banking and Financial Inclusion business, DB&FI as we call it, grew by 37%

year-on-year. In terms of yields, the non-wholesale business yields were flat quarter on quarter at 14.07% for this quarter.

In the retail asset business, the credit card business continued to show robust growth with the card base more than doubling year-on-year to 1.2 million cards versus 0.5 million cards a year back. The business continues to be amongst the top five in the industry in terms of retail spends per card and in terms of new card addition. As mentioned in earlier calls, our strategy of issuing cards with an annual fee not only increases the fee contribution, but also ensures higher customer engagement and retail spends making it the preferred card in the wallet. The card fee income continues to grow in line with the growth in the card numbers. Coming to the DB&FI segment, within that the micro-banking business continues its growth momentum and grew by 55% year-on-year driven through new branches opened last year. As part of our geographical diversification strategy, no state contributes more than 15% of the portfolio. We currently operate this business in 19 states. The MSME business focusing on the small businesses in the Tier-3 and -4 markets grew by 62% year-on-year on a relatively smaller base though as most of the branches added in the last year have started contributing meaningfully.

In micro-banking, the gross NPA continued to reduce and I am happy to report that the GNPA is now down to 1.72% as of Q2 FY '19 and has been progressively coming down since last year as you would have noticed. As mentioned in our previous call, the demonetization impacted portfolio will be fully written off this year bringing the GNPA to under 1% by the end of this fiscal year. The new portfolio built from January 2017 continues to display strong credit behavior with the 90 day plus delinquencies at around 0.33% only. Overall, while the credit environment remain stable, we continue to be watchful and periodically tweak up credit criteria and portfolio investments to ensure portfolio risk performance is within our internal benchmarks. On overall asset quality, our bank level GNPA was 1.4% in Q2 FY '19 and net NPA was at 0.74% as against 1.44% and 0.78%, respectively in Q2 FY '18. On restructured assets, our restructured assets stood at 0.07% in Q2 FY '19. Our SR position was at 0.06% of our advances and there were no ARC sale in the quarter. Our overall stressed book, which includes GNPA plus restructured stood at 1.47% as against 1.85% in Q2 '18.

Deposits and cost of funds: Our deposit base continues to see healthy growth at 31% year-on-year. The CASA deposits grew by 35% during the same period. CASA ratio increased from 23.67% to 24.51% in this quarter. The retailization and granularity continues to increase on our deposits with healthy liquidity coverage ratios. Our daily average LCR was 110% for this quarter. Our cost of fund for the quarter as I reported earlier was 6.44% as against 6.36% in Q1 '19. We have added two branches and 53 business correspondence branches in this quarter. We now have 268 branches and 900 BC branches of which 213 accounted as banking outlets. Out of the 900, our own Swadhaar is about 375 branches, which is our 100% subsidiary. Our capital adequacy ratio is at 13.75% with Tier-1 capital adequacy ratio of 12.47% as of September 30, 2018, as against 14.56% and 13.13% as at June 30, 2018, including profits.

I would like to summarize and leave you with a few key highlights for the quarter gone by. NIMs continue to see improvement and we have maintained our NIMs above 4% milestone and we remain confident of maintaining NIMs around current levels in FY '19. We are tracking our growth metrics on advances and deposits and are confident of maintaining this range for this year and the next year. Credit cost continue to be in line with our guidance, with our provision coverage ratios consistently improving. Our ROAs and ROEs continue to improve and we are broadly on track for FY '20 targets. With that, we will now open up the call for question and answers.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Nitin Agarwal from Motilal Oswal Securities Limited. Please go ahead.

Nitin Agarwal: Sir, I have three questions, firstly we have been reporting successive improvement in margins over past many quarters, now it is funding cost moving higher and credit deposit ratio also looking high, what is the outlook on margins going ahead, can this be sustained or we can expect further improvement? Secondly, do we have any exposure to IL&FS and if any, if it is towards any SPV or a corporate loan, and thirdly, what is our view on real estate and NBFC lending in the wake of recent developments?

Jaideep Iyer: Thanks Nitin. I will just take the first question on margins, so clearly I think given the combination of improved funding, CASA ratio improvement, the ability for our MCLR book to be re-pricing as we go forward along with slight continued mix improvement between retail and corporate. We are quite confident of maintaining and maybe even marginally improving the margins as we go ahead in the current year. Just to kind of give you a little bit of perspective, for example, in the current quarter even if we had assume that the mix improvement would not have happened with respect to credit cards, we would have probably been down by about 3 to 4 basis points, but the improvement in the mix allowed us to actually increase the margins by about 4 basis points, so despite what is happening from an ambient interest rate environment, we are quite confident of stable to slightly improving margin for the current year. On IL&FS, we have one small, less than 15 crore kind of a performance guarantee, which is fully cash collateralized, so effectively nil exposure on that front and then we have a derivative exposure where the client is deeply in the money, so the bank owes the client on a mark-to-market basis on the derivative exposure, so again nothing from the company to us, so that is the exposure to IL&FS so really nothing to talk about.

R. Gurumurthy: On the NBFC again, we have been always selective on the kind of names we bank with, so almost 85 plus percentage of our exposure in this space is in the highly rated A and above space, and a bulk of it would be AA and better, the good stuff. Similarly, real estate has been a very small exposure, there is nothing below this in any case in that space and in the real estate space, we have always had a conservative view. It is not in the last quarter or two quarters, it has been the story for a long time now, so our exposure is as you would have seen in the book barely 3%

odd in the space and again restricted as working capital exposure to very select developers in few markets, that is about it and portfolio is good, we have no concerns.

Nitin Agarwal: One more observation, I noticed the yield on our wholesale book is currently around 8.63 in the first half Fiscal '19, while our MCLR during the same period has been between 9.25 to 9.5 range, so what explains this difference, does this also imply that we are looking at a very significant re-pricing on the wholesale because now that we have increased our MCLR rate, one-year MCLR to 10%?

Jaideep Iyer: Nitin, there is an element of about 18% to 20% of our book in foreign currency which is blended into that rate that you are seeing at 8.72. The Rupee interest rate book would be approximately 9.8+ in terms of yields. Having said that, we do expect the yields to go up because we do business at six months MCLR and one-year MCLR and some amount of three-month MCLR, so as the benchmarks kind of come up for re-pricing, we expect the book to go up, and of course, the new book happens at yields which are currently reflected in the markets, so we do expect the Rupee yields to also to go up largely in line with our cost of fund increase.

Moderator: Thank you. The next question is from the line of Manish Karva from Deutsche Bank. Please go ahead.

Manish Karva: I just wanted to have some more details about the credit card and specially referring to Slide 40 and 41, specially on Slide 41 the advances breakup that we have given, how do you differentiate between term and non-term?

Harjeet Toor: Anything which is on a fixed EMI basis is called term. Now, typically in credit cards, you largely have customers which convert their spends into shorter tenure of consumer finance loans which could be three, six, nine or 12 months, so that is the part which is term. The non-term book is the one which basically reflects the spends as well as a little bit of what is the revolve where customers pay interest.

Manish Karva: In the next slide, the consumer loans that you put out is that related to the term loan?

Harjeet Toor: Yes, that is right, so if you look at it, I think what it means is that we currently do about close to a 1,30,000 consumer finance loans a month. These are the customers which would typically swipe their cards and then convert that into a loan.

Manish Karva: Roughly, it means that 64% of which is non-term that is obviously an higher yielding book and 36 would be somewhat lower in the credit card space as such?

Harjeet Toor: The 64% will have a small component which will be the high yielding. The majority of the balance would not yield anything because these are spends which customers do and on the due date they pay up.

- Manish Karva:** Your overall fees and within which the credit card fees, do they reflect directly on the spend, all the fees are related to spend or there is a processing fees also when they convert their loans to consumer loans as such?
- Harjeet Toor:** You are right, the fee has multiple components. There is obviously this interchange fee which is related to spends which is about 37% to 40% of the total fee and the balance fee is split equally amongst what we call as annual fee, which is either a customer takes a card or at every anniversary they pay a fee. Then we have processing fee which is related to the fee of consumer loans and then balance is penal fee, insurance etc. which comes in and recovery.
- Manish Karva:** On the microfinance business, how much of the loans are now originated by Swadhaar versus the other BCs?
- Harjeet Toor:** Approximately 45% to 47% of the book of the originations now come from Swadhaar.
- Manish Karva:** Then the yields that Swadhaar charges versus other BCs are similar or there is a big difference there?
- Harjeet Toor:** No, the yields are similar, so ultimately you may have some let us say states where you may have Swadhaar and another BC also operating, so as a bank we would offer the same product to the customer irrespective what the channel BC is in between, so whether it is Swadhaar or another BC.
- Manish Karva:** If you can just help giving the retail loan breakup also?
- Harjeet Toor:** On the retail loan side, our key products are LAP which roughly accounts for about close to 11% of the bank's book advances. Then you have business loans, which is about 2.7%. We have a small personal loan book which is about 1.5% and then we have cards which is at about 8%, and then we have retail Agri where the contribution has been kind of coming down and is now at about 3.4%. DB&FI breakup has already given there under the DB&FI head.
- Manish Karva:** The numbers that you gave as a percentage, they are percentage of retail plus DB&FI is it?
- Harjeet Toor:** No, it is the total advances of the bank.
- Moderator:** Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** Sir, why is there a rating downgrade in terms of the internal debt exposure in AAA, AA plus, AA from 8% to 6% this quarter?

- Jaideep Iyer:** There will be some internal downgrade that would be one or there would be repayments of AAA and new business for AAA would have been less and it would be AA, largely moved to AA and AA minus category.
- Amit Premchandani:** Nothing to do with IL&FS here, right?
- Jaideep Iyer:** We just clarified, let me repeat we have less than 15 crores, which is fully cash collateralized. Effectively, there is no credit exposure in IL&FS.
- Amit Premchandani:** On the credit card side, there is 80 crores increase in the credit card fee income on a YOY basis, how much of that will flow through in the PAT numbers or PBT numbers just on a broad basis, any increase in this fee income will move to PAT or large part of it is taken care of by the expense increase on the card side?
- Harjeet Toor:** I think it is difficult to say whether an element of revenue will flow directly to PBT or not, but I think in the last call also we had reiterated that the card business is profitable and makes an ROA which is in excess of the bank's average ROA, and therefore, it is on an upward trajectory in terms of the contribution to the profit line.
- Amit Premchandani:** Credit cost at the card business are below the trend that you expect the card business or they are moving higher above the trend, just color on that?
- Harjeet Toor:** When we look at credit cost for card business, the way we measure that is we look at the new card originations done on a monthly basis and compare that to a peer set of banks from the bureau and our benchmarks are usually about 50 to 75 basis points less than the peer set of banks. Currently, we operate in that kind of a level, so we are okay with it, however, this is a fairly dynamic process where on a monthly basis we keep tweaking our scorecards depending on what is the through-the-door mix and we manage the credit cost basis that.
- Amit Premchandani:** In terms of yield on wholesale book, you have clarified that some part of it is overseas funded or currency denominated, but say the same MCLR is there one year hence how the current yield move 8.50, 8.60 what you have reported?
- Jaideep Iyer:** There will be couple of factors into play there. I do not expect a meaningful change in the ratio of foreign currency to Rupee book, but if that changes either way that would have an implication there. In terms of Rupee yields, as of now we are seeing that we should have an incremental increase given the past pass throughs which is yet to come through and the new business which is happening at a potentially higher rate. It will also depend on the mix between corporate and institutional banking versus commercial banking because corporate banking yields would be lower than commercial banking, so there will be multiple factors, but if I put together all of these, my estimate would be that this should go up anywhere between 10 to 20 basis points next quarter.

- Moderator:** Thank you. The next question is from the line of Pranav Gupta from Birla Sun Life. Please go ahead.
- Pranav Gupta:** I have one question that is in the SME or commercial banking fees where the GNPA's have almost doubled year-on-year, is it because of seasoning in the book or what are the trends that you are seeing there and how do we look at it going forward?
- Jaideep Iyer:** I guess this is largely coming from the Agri portfolio which we merged into between retail and commercial banking, so this is a relatively dated book. I do not think we are seeing anything meaningfully in terms of credit deterioration of the book which is originated over the last couple of years.
- Pranav Gupta:** So you are saying that it is majorly because of the regrouping of advances that you have done?
- Jaideep Iyer:** Correct.
- Pranav Gupta:** Sorry, I missed that but you had clarified the breakup of fees that you gain by cards, could you just repeat that?
- Harjeet Toor:** I had said that there are four elements in card fees, one is the interchange which is roughly around 40% which is the fee we earn on account of the spends on the card and the balance is split evenly amongst annual fee, processing fee, and the other fees which is there, which other fees includes your recoveries, your penal, your insurance etc.
- Pranav Gupta:** The processing fee will be largely on the loans that have been converted to EMI?
- Harjeet Toor:** That is right.
- Moderator:** Thank you. The next question is from the line of Ajit Kumar from ULJK Group. Please go ahead.
- Ajit Kumar:** Sir, I have one question, on Slide Number 36 in the investor presentation, there is a diversified industry mix, the exposure to NBFC is 4.3% of the total loan portfolio and it was written something that NBFC excluding HFC mean excluding housing finance companies the exposure is 4.3%, may I know what will be the total exposure to NBFCs?
- Jaideep Iyer:** Approximately 700 crores, housing finance is approximately 700 crores, all of it is A or better and almost 85% is AA or better.
- Moderator:** Thank you. The next question is from the line of Raj Mohan, an Individual Investor. Please go ahead.

Raj Mohan: Though you have indicated 30% to 35% growth in provision 2020, do you think the industry as a whole is presenting more velocity due to the already vacationing of space by impaired PSBs and now with the fluid state of the NBFC sector, in this scenario would our strategy be to embracing this higher velocity opportunity and thereby garnering higher growth than the 30%-35% or do you think prudence demands that our existing bandwidth would be put to optimal use only if we stick with the previously mentioned core figures?

Vishwvir Ahuja: I think you have very rightly answered my question in the second half of your comment. This is something we took a very hard and close look at the time of our IPO and as you know we kind of put out this long-term guidance from 2016 to 2020 at that time, and at that time we felt that if we can consistently stay at this level then all the things and underwriting standards and risk management structures that we have in place which we believe are very conservative and very tight, we will be able to ride the good times and the bad times and then still be able to maintain this kind of, if I may say journey and growth rate, and fortunately, we are able to demonstrate that indeed through this period of time which has seen some good times and have seen turmoil also, we have been able to maintain the consistency of our growth trajectory, so like you rightly said prudence demands that while there can be the occasional market opportunity which we will certainly look at, but you cannot bank on it on a long-term basis, you take it as it comes. We will grow to the extent that we can digest it with surety and safety, that is the way we want to look at life.

Raj Mohan: How would you weigh the green shoots in the economy vis-a-vis the stress in the financial sector; with the stress on the NBFC sector, is there a possibility of any collateral damage on the industries that you are servicing?

R. Gurumurthy: Theoretically, yes, collateral damage one does not know how it can spread the contagion. Obviously NBFCs have touched multiple sectors in the economy, so their being unsteady for whatever reasons impact their borrowers or their lenders like mutual funds, obviously there can be lot of other contagion impacts. It could be I think brave for me to step up and say we understand all the contagion impacts that will happen there, but having said that I think we are watchful, we tend to stick with the best of the players in the business in each industry that we play with. People that are better positioned to whether strong compared to other people, and you just keep monitoring this on an ongoing basis. There is no other way other than being vigilant all the while.

Vishwvir Ahuja: I mean this is not to sound boastful, but I hope you will appreciate that in a situation like IL&FS which was rated the way it was, I mean our bank as effectively no exposure or if it did have some exposure we collateralized it with cash in a manner that we do not hurt ourselves and I do not know how many such institutions will be there right now to talk about in that manner.

Raj Mohan: But do you still feel the green shoots in the economy are fairly material and they are continuing to grow despite the stress that you are seeing in the recent past in the financial sector?

- R. Gurumurthy:** There are green shoots to put it differently, yes, there are opportunities in terms of what the market is showing. Certainly, in some of the sectors and new-age stuff logistics or whole bunch of things, but it is not the old CAPEX driven story that we have seen. These are in that sense still more uncertain type in that. There are green shoots, but you got to pick and choose.
- Raj Mohan:** One final question as far as CASA goes, has the recalibration between HNI and non-HNI deposits happened which sort of led to a sluggishness in the overall CASA number? Also is there scope for acceleration in CASA a notch above the 0.75% to 1% every year that you were targeting?
- R. Gurumurthy:** You got to understand the CASA is growing, that 1% is also look at the rate of deposit growth, it is on top of that, so CASA is actually growing at a much faster pace if you look at it just on a standalone basis and absolutely compared to industry most certainly, the 35% growth in CASA for the quarter is a significant number, but long-term I think CASA will have to be also calibrated in terms of what we understand the CASA, CASA if it means granularity, CASA if it means cost of funds, I think a lot of that we have achieved in any case, so if it is a question of what we understand, but I think yes we will obviously keep trying as opportunities present themselves, but it is a serious growth that we are seeing now.
- Moderator:** Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.
- Darpin Shah:** I know if I look at the presentation around 50% of our book is in BBB and below and couple of large corporate banks have been saying that incremental stress is flowing from BBB and below book, so can you provide some insight on this book and how do you see asset quality?
- R. Gurumurthy:** Let me address this first thing, when we put a BBB and below, it is our internal rating. If I actually map it with the external world, it will possibly be a notch better in most cases, that is Number One. Number Two, this is what we call as obligor ratings that we use whereas if the facility ratings would again be on an average a notch or two better across-the-board which means the security structure, tenure of the loan, all of those components. The third part is the kind of business we do, we have largely a working capital bank, so if you look at the duration of the lending book that would give you the other color, so putting all of this together at this point we see absolutely no reason to be incrementally worried about the nature of the book that we run.
- Jaideep Iyer:** Just to add to what Guru was saying, if we look at facility rating, the BBB book actually falls by about 10% to 12%, and if we take external rating then it falls by another 10%. The problem with external rating is it will be about 75% or 80% of our book, so which is why we have to give internal rating map to external ratings, so our internal ratings happen to be significantly more conservative and that is why despite a BBB book which we show I think the slippages and the NPA numbers are what you ultimately end up seeing.

- Darpin Shah:** So even if I consider the external ratings and 10 percentage of improvement, so still at 33%-34%...?
- Jaideep Iyer:** Even it is 20%, external would be 20% improvement.
- Darpin Shah:** So additional 20% you are saying?
- Jaideep Iyer:** Correct, 47 will go to 27, but that will be on an 80% of our book because all of our book is not rated.
- Darpin Shah:** Second question is our other OPEX has seen a sharp jump on a sequential basis, so any one-off there or it is largely to do with the cards business?
- Jaideep Iyer:** Substantially to do with the cards business.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from Motilal Oswal Securities Limited. Please go ahead.
- Nitin Agarwal:** Just wanted to check there is a proportion of advances in less than one year tenure has declined sharply this quarter, this is like contradictory to the trend what we have been seeing in past few quarters, so what has driven this?
- Jaideep Iyer:** I think the last quarter was honestly an exception, the trend will be more in the mid-60s that we will see as a stable trend.
- Nitin Agarwal:** Second is on the micro-banking and credit card business now they have been growing at such a rapid rate and forms nearly 16% to 17% of the total book, so what mix of them are we comfortable within our total portfolio?
- Harjeet Toor:** We had said that the micro-banking which is currently at about 8 to 8.5 would be in the region at about maybe 10-10.5 kind of a number that is what we could look at over the next couple of years, and cards really depends on the opportunity, but cards is not a very heavy advances book, so I think somewhere even if we grow at the rate we intend to grow, it will somewhere peter out between 13% to 15% of the bank advances.
- Nitin Agarwal:** So potentially 25% can come in from these two segments?
- Harjeet Toor:** Yes, over the next three to four years.
- Nitin Agarwal:** Lastly, where are we on the ROA terms in the card business now?
- Harjeet Toor:** We normally do not share ROAs, but I can tell you that we are above the bank's ROAs and improving.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: First is on the SA deposit growth about 10% to 11% this quarter, just your thoughts on how the new customer acquisition is happening at the bank and overall what was the sort of reason for the sharp slowdown that we have seen? The second was the percentage of retail Agri, I missed that number, and the third question was on the MFI customer base, I think there was a sequential decline just wanted to check what was the number last quarter versus this quarter?

Surinder Chawla: On the SA deposit I will take the first part of your question, the SA deposit has continued to grow, however, we have been focused like I mentioned in the last quarter as well, very focused on making sure that we get granular deposits and we get customers who stay with us and not necessarily participate in the aggressive rate war that was continuing in some parts of the segment of SA book, so we have recalibrated our strategy to make sure that the growth is very granular and consistent, and therefore, we get new customer acquisition which stays with us and is not necessarily rate sensitive, so that is really the reason for a marginal slowdown, but I will not even call it a slowdown because it is more essentially what we are wanting to do. We have obviously at the same time enhanced our focus on the Current Account book, and a lot of our strategies are on the Current Account whether it is retail or wholesale has started to play up very nicely and the technology driven solutions are on the bank's business that we kind of operate as well has started to yield results and our transaction banking has also started to take a big momentum upward, so all of that is helping on our overall CASA book.

Dhaval Gada: If I just chip in with a follow up, so where are we in terms of average cost of SA deposit and if you could share what percentage of our SA is now above 1 crore versus maybe start of this year, and the second part is what is the run rate that we have on the new-to-bank customers?

Surinder Chawla: Our SA cost is in the range of 6.37 and it is actually been almost in that same range for the last couple of quarters in spite of the fact that the rates have been rising. Our book on SA, which is above 1 crore has steadily been declining in the last one-and-a-half years from about 50 plus to around early 40s, so there has been a significant granularity that has come in there as well. In terms of new customer acquisition, the customer acquisition is very healthy and increasing and we have also obviously pushed the digital acquisition channel and now acquiring new retail customers, so now digital acquisition actually does about 40% to 50% of our new customer acquisition, so from that perspective as well we have increased our customer acquisition without really looking at the cost of acquisition which is much lower than the physical world.

Dhaval Gada: I think there was sequential decline in the number of active loans in the micro-banking segment, so just wanted to check, I think the number last time was 2.9 million and it is about 2.2 million, so is it correct?

- Harjeet Toor:** The 2.9 million which we had to report were customers which also included customers with deposit accounts, so micro-banking as a business has both deposits and loans, loans has increased actually.
- Dhaval Gada:** Where was it last quarter, if you have the number ready?
- Harjeet Toor:** I do not have the exact number, but it would be in around 2 million kind of a range.
- Dhaval Gada:** What was the percentage of retail Agri loan book at the end of the quarter?
- Harjeet Toor:** 3.4%.
- Dhaval Gada:** Do you have the number same period last year because I think you have reclassified, so just wanted to ensure the YOY numbers?
- Harjeet Toor:** Agri was a little over 5% and that has kind of come down.
- Moderator:** Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.
- Jai Mundra:** Sir, just one question and one clarification, one question is on term deposit so if you can also bifurcate how much is retail and how much is wholesale?
- Surinder Chawla:** I think about 55% of our deposits are branch deposits, the rest would be non-branch, mid and small corporate, large corporates all over the place the rest.
- Jai Mundra:** Secondly Sir, on this credit cards slide the detail that we have given on the Slide 41, so just to get it correct, so this would be quarterly number, so 4200 is the quarterly spend of which around 790 crores is the amount which has been converted to loans, right?
- Harjeet Toor:** That is right.
- Jai Mundra:** Just from this quarter perspective is around 20% of the spending which is getting converted to loans, is that the correct?
- Harjeet Toor:** Correct.
- Moderator:** Thank you. The next question is from the line of Supratim Basu from Americorp Capital. Please go ahead.
- Supratim Basu:** I had couple of data questions and couple of strategy or capital structure related ones, so first is outstanding guarantees and LCs, would that constitute the total of your contingent liabilities?

- Jaideep Iyer:** In addition to that, we will have foreign exchange contract which would come in contingent.
- Supratim Basu:** So what would be the total quantum of your contingent liabilities?
- Harjeet Toor:** I think the LC guarantee is the customer business, I think the foreign exchange contracts while being customer business really do not have...?
- Supratim Basu:** So that would be pass through right, so basically this 16,000 odd crores is the contingent?
- Jaideep Iyer:** Correct.
- Supratim Basu:** Now, you said something earlier which is that you are primarily a working capital bank and this is kind of reflected in your tenure as well by 64% of your loan book is less than one year, my question is that how much churn do you see on a quarter-to-quarter basis or year-to-year basis and if the churn number is low, can you actually classify these working capital loans as a tenure of less than one year because effectively it is like an ongoing business that you have with the customer?
- R. Gurumurthy:** That is a good theoretical construct, actually most of this cases we have reasonably decent churn running through us. The challenge on some churn would be my ability to handle the churn in terms of some of my own cash management tie-ups and products, which is something that we have been building over the last few years and as we build those, the churn actually flows back into us. We see the churn either directly into our account or coming as a sweep from somewhere else, but as part of working capital management that is something that we do focus on.
- Jaideep Iyer:** In addition if we have a cash credit facility that anyway gets classified on a behavioral basis, so there are two types of working capital loans, one could be a term loan which is for two months, three months, six months which gets classified on the term and there is cash credit facility which is effectively an overdraft facility for one year which is given that gets classified on the behavior and typically would be having a behavior of about two-and-a-half to three years.
- Supratim Basu:** So you would be classifying it as part of those tenures then, that is what you are saying, right?
- Jaideep Iyer:** Correct.
- Supratim Basu:** Then is the cost income ratio that the bank currently has kind of a mirror image of this tenure of your loan book?
- Jaideep Iyer:** Not really, because I think the corporate book whether it is CIB or commercial banking I do not think it is very cost heavy, so the costs are more from an increase in distribution branches, obviously retail assets including credit card, so that would be where the costs are going, I do not think the fact that we have a high churn corporate book is any reflection of costs.

- Supratim Basu:** In which case, would you say that you are pretty much now at absolute cost number where you have significant operating leverage for the next two to three years?
- Jaideep Iyer:** Theoretically yes, but we will continue to expand our branches and footprint, so we would want to continue to invest, and therefore, rather than kind of taking the operating leverage so quickly I think we would continue to kind of invest because we still believe that we need to add to our footprint.
- Supratim Basu:** So we should not be expecting a cost-to-income ratio of say 40% in about three or four years' time?
- Jaideep Iyer:** Three to four years is bit of a long time to kind of crystal ball gaze, but if we look at the next year or so we would probably be improving our ratio let us say 1% to 1.5%.
- Supratim Basu:** On an annual basis?
- Jaideep Iyer:** No, I am saying next maybe one or two years, after that the improvement can get better.
- Supratim Basu:** The last bit is really, I mean this is the only concern that I really have with the bank and we discuss this last time we had met, which is your capital adequacy, you are fairly thinly capitalized and I worry that if you have a systemic shock which you have not looked out for, it could lead to problem in terms of your being able to raise capital on-the-fly?
- Jaideep Iyer:** I guess two things here, I think we believe 13.5% to 13.7% currently is extremely healthy capital adequacy ratio. To some extent, one should also look at capital adequacy with respect to the risks you run. We believe we have a granular book on retail and we run a low-risk book on corporate, so if I kind of strategically use that to look at where our minimum threshold should be, we are far above that. Obviously, from a regulatory standpoint we are anyway significantly higher.
- Supratim Basu:** The original plan that you will raise capital only in second half of FY '20 or later than that, that still stands?
- Jaideep Iyer:** That still stands, correct, we would be comfortable on a Tier-1 range of somewhere in the 10 to 11 range and we do not expect to go below that range before let us say latter part of Fiscal '20.
- Moderator:** Thank you. The next question is from the line of M B Mahesh from Kotak. Please go ahead.
- M B Mahesh:** I just have a couple of questions here, first question is has there been any change in commentary on your cards and unsecured business because I think a couple of quarters back you said that the cards business is unlikely to touch 10%, but looking at the early commentary you made you said the combined business of cards and MFIs could touch closer to 25, so just wanted to check has there been any change on that one?

Harjeet Toor: We do not expect that number to get hit in the next one year or one-and-a-half years, I was just giving a longer term perspective when we become 4 to 5 million cards, so it is from that perspective that where do we see it going in the longer term, otherwise, we are at about 7.8%-7.9%, I think we will be in the 10%, 11% kind of range in the next one year or so at max.

M B Mahesh: But reductionally you seem to be lot more comfortable with the 25% number over the long term?

Harjeet Toor: Over the two businesses, yes. If the way we are growing our cards business and the performance in terms of our risk parameters continues, then yes, we are fairly comfortable because by that time we would have had a far more seasoned book as well.

M B Mahesh: The 1.8 million cards for this year, 3 million for next year, and five for the year after that remains, there is no change for that number?

Harjeet Toor: As of now if we continue performing the way we are then, yes, that looks like.

M B Mahesh: Second question is to Jaideep, has there been any change in definition because last quarter we had financial services being as a part of the exposure, this quarter we have NBFCs, are these two same or are these two different entities in the classification?

Jaideep Iyer: These are effectively the same, there is some reclassification which has happened, so given the focus on NBFCs, we have kind of called it NBFC and it includes what was financial services. This includes asset financing, this includes all forms of NBFCs except MFI which is given separately and HFC which we mentioned in the call of about 700 crores book.

M B Mahesh: In the last quarter it showed 1650 crores, this quarter if I add the combined exposure between all the three, it is about 4500 crores; 2600 crores of NBFC, 1170 of MFI, and about 700 crores of HFC?

Jaideep Iyer: There has been some reclassification Mahesh on this, which is why we are presenting it this way. The other difference is that this is outstanding versus what we used to give as exposure which included limits or outstanding whichever is higher.

M B Mahesh: A question to Vishwvir, we have been writing-off loans of about 60 crores, roughly about every quarter, now on a trailing two-year basis if I look at the growth in the numbers, there seems to be a reasonably high write-offs, any idea as to where are we writing off these loans and when does the pain in the Agri portfolio stop? The second question is on the OPEX side, are you broadly comfortable with the fact that the underlying employee growth seems to be much slower than where the balance sheet is growing excluding the cards and the unsecured business?

Jaideep Iyer: On the write-off Mahesh predominantly we write-off cards and MFI to unsecured book, cards follows a highly accelerated provisioning and write-off policy and MFI also is getting written off

most of the demon- part of the portfolio is getting written off that is how the GNPA number has come down from 5 plus to 1.7 and probably will come down to closer to one by the end of the year. Your second question was on OPEX and people I must clarify that we had a lot of people sitting on the bank's book monitoring the MSME business, which we have now moved to Swadhaar and which has now become a 100% subsidiary, so that was about 200 odd people which moved and there will be another set of people who would move over a period of time because we believe that a better efficiently managed structure, so if we combine the two our increases have happened better than what is reflected in the numbers that we show, and I think the second half of the year will see more people joining specially on as branches get opened because we continue to say that we will open about 40 to 50 branches this year and since current first half has been little low on that, all of that would kind of come in the second half consequently with additions in people.

M B Mahesh: Final question to Vishwavir, we still maintain that 14% exit ROEs for this year and much more improved number over a medium-term?

Jaideep Iyer: Mahesh sorry, Vish has just stepped out, we had mentioned that 13.5% exit ROE for this year, give or take we should be there, maybe a little short if at all, but nothing materially short.

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