



“RBL Bank Limited Q2 FY-21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the RBL Bank Limited's Q2 FY21 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Vishwavir Ahuja – Managing Director & CEO of RBL Bank. Thank you and over to you, Mr. Ahuja.

Vishwavir Ahuja: Thank you. Good evening, ladies and gentlemen and thank you for joining us for a discussion on RBL Bank's financial results for Q2 FY21. I am joined on this call by my other colleagues of our management team who along with me will address any questions that you will have later on.

The last quarter has seen an improvement in the business momentum across all our segments. The macro indicators have also been showing an upswing. We still face business disruptions due to the ongoing pandemic situation but on the whole the situation on the ground is far better than what we saw in Q1. I want to take a moment here to thank all our employees who have displayed resilience and adaptability in these trying times. And because of whom we have been able to continue servicing our customers and also see business growth.

Our distribution network continues to be fully operational while following all precautionary measures as per the guidelines. However, despite the sharp uptick we have seen in certain segments, the overall economic recovery we would believe is still sometime away and as a bank therefore we continue to be cautious. Balance sheet protection, capital conservation and risk mitigation continues to be of paramount importance as has been the case with us for the last few quarters.

However, given the encouraging trends on high frequency indicators and being well positioned on liquidity and capital we have taken the opportunity to cautiously grow in our chosen areas of focus. Now let me talk briefly on the performance for the quarter. We have had another satisfactory quarter from a profitability perspective and also use the opportunity to prudently add to our COVID related provisioning in addition to the regular credit provisions.

Our non-wholesale businesses grew 23% Year-on-Year and 7% sequentially. Because of continued moderation on wholesale advances as per plan overall advances were marginally lower 4% Year-on-Year and declined 1% sequentially from the previous quarter. We expect to see wholesale advances starting to grow from Q3 onwards. Retail, wholesale advances mix stood at approximately 57:43.

Our total deposits grew 4% sequentially to Rs. 64,506 crores. Deposit traction has remained strong in this quarter. Similarly, our liquidity position continues to be strong with a liquidity coverage ratio averaging 171% for the quarter. We are seeing the benefits of our rate cuts on both term and savings deposits and as a result cost of deposits have reduced 28 basis points Quarter-on-Quarter to just below 6%, a 10 year low for us. CASA deposits growth was also strong 21% Year-on-Year and 8% sequentially. CASA percentage was at 31.1% in Q2 FY21 as against 26.5% same time last year and it is also sequentially better.

Year-on-Year this quarter, revenue growth was 6%, NII growth was 7% and other income growth was 3%. This quarter we de-recognized interest and fee income on potential slippages that may happen by Q3 FY21. On a normalized basis, we are now at a firm NII run rate of Rs. 1,000 crores plus on a quarterly basis which we will start realizing from Q4 onwards. As a result of this proactive de-recognition of NII, NIMs came down to 4.34% for the quarter.

The impact was about 50 basis points because of this de-recognition. In other words, if we back of that NIMs were around 4.85% and steady. Our pre-provisional operating profit growth was also very healthy. It came out at Rs. 720 crores, up 12% Year-on-Year and 4% sequentially. As a result of the above and after taking necessary provisions, profit after tax for the quarter was Rs. 144 crores.

Now on asset quality, a little more color. Slippages this quarter were Rs. 145 crores. If the Supreme Court circular were not in effect, slippages would have been higher by another Rs. 90 crores. However, despite not having to report that we have still taken NPA equivalent provisioning on this amount. Our GNPA and NNPA were at 3.34% and 1.38% respectively at the end of the quarter, both sequentially lower.

PCR including write offs were at 74.8% as against 70.5% at the end of the last quarter. As you know PCR has been consistently increased over the last several quarters and has been increased now by 11% only in the last six months. We have made a COVID related provisioning this quarter of Rs. 310 crores which is about 58 basis points of advances. This will take our total COVID related provisioning to Rs. 664 crores which is 121 basis points on our advances.

We do believe that this level is now adequate and healthy. In terms of credit provisioning indication for FY21, as a quantum it would remain within the same ballpark range as last year give or take 5%. In other words, despite all challenges it is consistent with our previous guidance. On our capital position. We have ended the quarter with a capital adequacy ratio at 16.5% with a CET1 of 15.1%. As you may know we now have approval as of yesterday from RBI to go ahead with the capital raise of our Rs. 1,566 crores which was pending approval because of one large shareholder wanting to be above 5% which is Baring Asia which is coming in with a cheque of Rs. 1,000 crores at 9.5% stake.

And the total capital raise of Rs. 1,566 crores, that approval has finally come, and we should be therefore completing this capital raise over the next few days, may be 10 days or 12 days. Including this, our capital adequacy ratio for the quarter would be 18.7% with a CET1 of 17.4%. Before I comeback and talk to you some more, I am going to handover to Harjeet, who will take you through the retail businesses perspective.

Harjeet Toor:

Thank you, sir and good evening, ladies and gentlemen. I will now give you the highlights for the quarter and the operating rhythm amongst our different businesses in the non-wholesale segment. In our micro banking business, we have almost reached business as usual with all our branches now being opened and customer engagement as per expectations. We had seen restriction movement during the last quarter in semi-urban and rural areas as the infection has spread deeper.

Some states obviously had more restrictions than others though things since mid September are much better now. In our business loan segment, we have seen that most of the MSME business in the market have resumed operations, but the business activity levels range anywhere between 40% to 60% depending on the type of business and the geography.

The government assistance through emergency credit guarantee loans has been a success and we have disbursed around Rs. 450 crores as a bank. A little under 80% of what we expected to disburse. This also results in some de-risking of the portfolio as it has given much needed working capital to these businesses trying to get back to normalcy. In the individual segment, we have seen some confidence restored and spends and demands having increased.

In our credit card segment, in June we had reported a moratorium of 21% by value and 11% of customers. When we exited on August 20 this number had come down to 16% by value across 9% customers. Since then there have been more customers who paid and only 9.4% of the portfolio was overdue by end September and now stands at 8.6%.

We have seen a monthly reduction of 10% to 12% on this pool which is likely to continue through quarter 3. If I was to breakup this pool to understand the risk better, 54% of the 9.4% pool have not paid since April or May. This is roughly 5% of our portfolio. Most of our credit losses will come from here. The size of this pool is within expectations.

In addition, only 0.4% of the portfolio is 90 plus DBT by 30th September. We are therefore now more confident of restricting the credit cost on the portfolio to what we had guided to about 9% to 10% on account of the pandemic. That is a little under two times the average credit cost. We are quite pleased to say that despite moratorium extension till August 31st and a relatively slower than expected return to normalcy, we have been able to strict to the loss forecast that we had on this portfolio in May.

Let me now give you some text around customer spends. We have consistently seen pickup in spends from May onwards and in September spends were equal to March 20 levels. On a Year-on-Year basis they were 5% higher. Further the spend for active card has crossed pre-COVID levels clearly indicating that more and more customer spends are moving to the card despite categories like travel and hotels being muted. However, on the other hand, the active percentage of cards are still below pre-COVID levels at 45%, but it is an improvement of what we shared in June. Majority of this fall in active rate is on account of our risk calls on these customers but there are still a portion of customers who stops spending on the cards. Our endeavor is to stimulate their spends with attractive offers especially in this festival season. Let me now talk about new business origination. We started new business in a very cautious manner and are growing this every month as more clarity in terms of environment as well as customer risk data is available.

In micro banking we are now disbursing around 85% of our BAU run rates. We are also seeing regular collections happen. There are pockets in states like West Bengal, Assam, Punjab and Maharashtra where collections are a little challenged both on account of sluggish economic activity and mobility. We have observed a few external influences on customers prompting them not to pay but it is still in very few pockets and not a trend.

In credit cards we issued close to 100,000 cards in September. We should be at our pre-COVID run rate by December and then grow from there. However, business loans are still a little slow at about 65% of BAU volumes. The recovery here will take slightly longer and is a function of businesses being able to recover fully in terms of sales. Needless to say, our credit filters continue to remain extremely conservative and we are looking at every client in terms of their current cash flows, repayment on their existing dues across financials especially during moratorium and a degree of certainty in terms of future business.

Let me now refer to business performance in Quarter 2 FY21. As explained earlier, advances for the non-wholesale business grew 23% Year-on-Year. The retail lending growing at 22% Year-on-Year and our DB&FI at 26% Year-on-Year. As mentioned earlier, new business originations were started in a measured manner and are now gaining momentum. As a result of this on a sequential basis the overall advances book grew by 7.3% Quarter-on-Quarter.

The H1 FY21 yields on the overall non-wholesale book increased 60 basis points Year-on-Year to 16.3%, largely driven by the mix change. Fee income was up 67% sequentially over Quarter 1 FY21. In credit cards, the total portfolio now stands at 2.8 million cards, a slight increase over previous quarter. Our new card issuance is gaining momentum as mentioned earlier. We launched two new credit cards in September. The first is a proprietary card called "YOUUnique" where a customer can build their own card by adding features which are relevant to them from a menu and all this is done digitally.

We also introduced the “Edition Card”, a co-brand card with Zomato. The initial reads are positive with both cards being received extremely well in the market. We expect these to contribute significantly to our new card additions in the coming quarters. As indicated earlier, our spends in September were at par with March. This is an encouraging sign. Our spends for card have moved up now to about Rs. 9,100 per month versus Rs. 7,450 per month in June 2020.

The active rate of our card customers have also moved up from 39% in June to 45% in September. Spend for active card is now higher than pre-COVID levels at a little over Rs. 20,000 per month. I will now talk a little bit about collection efficiencies. In September the EMI bounce rate for our business loans or MSME loans was higher at around 1.5 times pre-COVID levels. While this was much lower than what we witnessed in April at the start of the moratorium but still reflects slow recovery for this segment.

Our collection efficiency was 93% of pre-COVID levels in September and improving every month and we expect it to reach pre-COVID levels by January. In cards, we have seen collection efficiency is at 94% of pre-COVID levels. In addition, we are also seeing healthy pre-COVID recovery rates on our written off pools. In our micro banking business, the focus continues to be on collections even as we started new disbursements.

As mentioned earlier in our last call we had extended the full six months’ moratorium to these customers. As of today, only 6.7% of the customers have not paid us any installment since April. Rest 93.3% have resumed payment. To sum up we are seeing that the portfolio performance and business metrics are broadly in line with our model scenario built out earlier. And we are confident of coming within our business forecasts. As mentioned last time we will continue to keep an eye on the pandemic and its fall outs but are now more confident of getting to BAU growth levels in a couple of months. I will now handover to Mr. Vishwvir Ahuja for his concluding remarks.

Vishwvir Ahuja:

Thanks, Harjeet. I would want to take a few minutes now to briefly summarize how we see our key businesses over the next few quarters. On our wholesale business, we remain cautious and continued to focus on adding better quality names and keep granularity in our portfolio. If you have seen the rating profile in our presentation deck, you will find that the borrowers rated A minus or better are now 75.1% of our rated portfolio and this reflects a consistent improvement over the last several quarters.

We have also had success in reducing exposures in the BBB and below rated portfolio as well. Even as the book has seen moderation in this quarter, we have added 60 new client relationships in the last quarter across product segments of cash management services, digital banking, advances and liabilities. The focus is much higher now on digital solutions enabling us to get sticky current account business along with transactional and off-balance sheet opportunities.

We are already seeing a pickup in this activity in Q2 and expect it to ramp up in the coming quarters. On our non-wholesale business specifically on credit cards and microfinance, we are seeing good business momentum and believe this will continue. These are businesses we like and as I have said in the past we will continue to grow and build them to be amongst the industry leaders.

So even in probably the most challenging year with elevated credit costs for these businesses they will continue to be reasonably profitable and we should see them rebound to pre-COVID return metrics as things return to normalcy. In a way coming out of this extreme stress test for these businesses with respectable outcomes will further give us confidence to accelerate these businesses and gain market share over the next few years.

On our liabilities business, momentum continues to be strong. We see consistently handsome growth in granular retail deposit accretion and this trend will only improve over the next several months. We continue to invest both in physical and digital infrastructure. We have this time in our presentation also given you a flavor of the digital payments business which we expect to grow at a rapid pace given differentiated capabilities and offerings that we have.

We have also seeded a couple of new initiatives like affordable housing which would grow at a reasonable size and scale over the next few years and it adopt us very well into our existing businesses in semi-urban and rural markets. Overall, therefore we are well placed both on capital, retail liability traction and asset quality outlook to grow over the next few quarters. I will stop here, and 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-answer session.

The first question is from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal: I have few questions. One is regarding the collection efficiency in MFI. Now you have said that 6.7% have not paid. So, what is the latest running figure on collection efficiency without including any arrears?

And if you can give some state wise color in this business? And likewise, on the card side there we have reported 94% collection efficiency, is it like including some past dues because we have written like 9.4% book was in moratorium as on September. So, what is it like how do we reconcile these few numbers?

Harjeet Toor: So, let me talk about the microfinance. Microfinance as I said when I gave you the number of 6.7%, I gave you the current number which is as we speak. In September end this was around 91%, as we speak it is about 93.3% and therefore it is improving every month as more and more markets open. As I said there were some issues which we were seeing in Assam, West

Bengal and we are quite confident that as West Bengal opens up in terms of its trains, travel etc this should further improve.

So, barring this I think microfinance there is not much which we are seeing in terms of any concentrated issues in areas. There are a few markets in Punjab specifically last month where there has been some trouble which is now being dealt with and some markets in Maharashtra. Otherwise microfinance is behaving okay. And this microfinance as you would notice is pretty much the similar commentary you will hear from the others as well.

. On the card side, there are two parameters I gave you. One was the collection efficiency which was indexed to 100 pre-COVID which I said was 94. But I think the more important piece which we wanted to share with you was what is the pool which could give us trouble or where our losses will come from.

And that is what I said that if most of the losses were to come from the moratorium exit pool, which was 9.4% as of September end. That is roughly about another 80 basis points have come down as we speak. And therefore, that continues to come down as we are talking. Within this about half of this pool is what is not paid since April and May and is therefore the sticky pool which will therefore give us losses.

So, if you look at this dynamic and then compare it to our forecast of about 9% to 10%, you will see that we will be well within that forecast.

Nitin Agarwal:

Okay. But what are the typical reasons for customers not clearing their card dues? Was those spends more on daily needs, utilities, cash withdrawals or was it discretionary spending? So just to assess the intent of these customers and do you find the difference in the CIBIL score of these delinquent customers versus pre-COVID?

Harjeet Toor:

Yes, so if you really look at it, even if you look at our spend chart and you look at pre-COVID spend mix, almost about 78% of our spend mix is towards daily needs. And therefore, it is not as if these customers typically have spent more on buying something which is discretionary or something else and therefore not able to pay. I think it is a function of the availability of money. On the salaried side some of them have got delayed salaries, salary is not paid, and some have lost jobs.

On the self-employed side, there are stresses on businesses opening and therefore that is what is resulting in their not being in a position to pay. So that is pretty much what it is and the reason why you are seeing slowly, slowly these pools come down is just because with every passing month I think the economic condition and the environment does improve and therefore that give them that little bit of time. So that is predominantly what I could describe the reason to.

Nitin Agarwal: And the other question that I have is on the BBB portfolio. We have seen fair bit of rating upgrades in that portfolio. So, any color on that?

Vishwvir Ahuja: I get that question. See this is something we have been working on now for a year plus. I mean ever since our first episode of a few stressed accounts which came sometime in August-September last year, I think there has been a consistent and a concerted effort and we have been reporting that actively every now and again that we will reduce concentration, de-bulk, granularize, improve rating profile and even reduce the exposures even if you have to for the sake of restoring a very healthy asset quality in the wholesale book so that we are de-risked in the future. And even getting into COVID some of that effort had already happened. The heavy lifting had already happened as far as this is concerned.

So, I think getting into COVID and the COVID impact on the wholesale portfolio on RBL Bank was significantly muted because of the efforts that had already been put into effect in terms of the new risk paradigm, lot of other checks and controls. So, all of that effort was already started several months before COVID hit. So honestly speaking the COVID impact on wholesale book therefore has been rather insignificant. If I may put it that way.

And as it has brought us to a point where we can now be confidently able to show you these kinds of numbers. So, this was work in progress, simple answer is that. And some of this execution was going on, on the ground and the effects are there to see. Our slide 18 shows September 19, June 20 and September 20 you will see consistent and unidirectional improvement on all the sort of in terms of the asset quality profile and the rating profile of the portfolio.

So, it is work done now and I think we are at a point where we can feel sort of we can sit back and relax about the wholesale book and not that we are going to take any chances or be complacent. Our philosophy is not changing in terms of caution, but the fact of the matter is this is the result of all the efforts that are being going on.

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

Jai Mundhra: I have couple of questions. First on this capital infusion from Baring. If you can specify if they would have any board seat and if there is any lock in? And would this also mean any potential change in the existing management team?

Vishwvir Ahuja: So, the very simple answer is that for the sake of everybody's consumption, first let me say that they are coming in with a 9.5% stake at a cheque size of Rs. 1,000 crores and there are three other investors. ICICI Prudential and two other existing investors, Gaja Capital and CDC, Commonwealth Development Corporation. Between the three of them, they are putting in Rs. 566 crores. So that is the composition of their capital raise. And because we were awaiting this

approval for their above 5% which has now come yesterday so now, we will execute and close this in quick time.

Now to answer your question, no board seat, no lock in, no condition. That one-year lock-in is applicable to all because it is a preferential issue but there is no specific if I may say restriction or condition associated with the Baring Asia investment. And obviously therefore no impact on board or management.

Jai Mundhra: And sir, in terms of you have provided a lot more detail on the credit card and MFI book but just to understand it clear that for MFI let us say 6.4% or 6.7% number would this be the outer limit of stress in MFI and how much of this would be covered by FLDG that you already may have?

Harjeet Toor: So, this will be customers who have not started paying. Broadly yes, this should be the outer limit. And FLDG if I was to factor in then it will come down to around 4% odd, this number of 6.7% or whatever.

Jai Mundhra: And sir, similarly in wholesale book now you have given that there is an improvement on Quarter-on-Quarter basis from BB and below book, but that number had Rs. 3,400 crores. How should we see this book? I mean what would be your expectation of this book getting restructured or remaining as it is or may be slipping? Any color on that will be helpful.

Vishwavir Ahuja: Look this question is obviously a very important question. And we have been asked this question on this BB and below every time and it is obviously top of mind for everyone. But the point that we have consistently tried to make and now we are proving it. The proof of the pudding is there. Every time it is assumed and presumed that this will only slip downwards, and we have been saying that in that category of SME names this is the nature of the beast.

They are either low BBB or BB plus type of profiled customers and it is not that they slip even some part of that obviously slips but now history and data is proving over the last several quarters that may be 15%, 20% slip downwards. 15%, 20% move upwards and the remaining stay where they are. This has been now proven again and again. This time we put down some data to prove our point which is what we have been saying every quarter but I think the traction of what we say in terms of going down, in terms of acceptance that knew whatever it is now even through a COVID period and with all the challenges in the environment it is one again being proved.

The fact that and so one thing we did is first to bring down this number. We said make it less. And even then, to be able to establish decisively how much slips, how much improves, how much stays where it is? So, 6%, 6.5% being the total number you can take it that 15%, 20% tends to get upgraded. About the same amount tends to slip and the remaining stays where it is

which is why we do not think it is a big concern, if you look at it holistically from that point of view.

Jai Mundhra: The last two questions. If you can provide collection efficiency at let us say commercial, large corporates, LAP and overall bank level? And the next question I can ask later.

Harjeet Toor: So, collection efficiencies on the LAP which is when I said on the business loans portfolio was around 93% of our pre-COVID levels.

Jai Mundhra: Okay and commercial large corporates and overall?

Jaideep Iyer: It is collection efficiency for large corporates. So now the morat is out so everybody is normally paying as if it was pre-COVID. There is no differential outcome there.

Vishwvir Ahuja: On the wholesale book you will be guided by your standard gross NPA, net NPA, provisioning. That is where the entire thing is reflected. And the credit cost guidance for the year for the business.

Jai Mundhra: And the last question. Just to confirm you said that you are maintaining your credit cost guidance what you had given three months back roughly around let us say what was the same as in FY20. Would this include now restructuring? And is there any let us say positive or negative surprise? Any credit card you have mentioned that will be broadly panning out the way you had thought but any positive or negative surprise is there in other businesses?

Vishwvir Ahuja: I will answer your question very quickly and very straightforward manner. The environment has panned out to be worse than what was anticipated. We all know that. Despite that as I have said earlier, for all the efforts that we have made as management we will be able to contain our credit costs at or around last year's quantum give or take 5%. That is what I have said in my commentary. And I think for me and for my colleagues, that would be a great achievement as far as we are concerned.

So therefore what we are saying is, it is not just quarter, I think we first gave an assessment going back in May and we made this statement and we made it again and we are making it again and that is what we feel now that we are sort of coming out of the bottom and things are improving and things are now life is looking better and better. We are now more confident in terms of being able to make that statement because six months ago it was anticipation.

Three months ago, we were in the thick of it where we had three months of full lockdown and it was according to me a lot of guess work by many at that time. And it was also lot of hope. Today I think there is a lot more certainty when we talk about that.

- Moderator:** Thank you. The next question is from the line of Manish Karwa from Axis Capital. Please go ahead.
- Manish Karwa:** So, my question is also on Cards. So Harjeet, when you said the collection efficiency is 94%, this is 94% of say a normal collection efficiency of 95% odd that you have on cards. So, is it right to assume that collection efficiency currently is around 90% odd?
- Harjeet Toor:** That is correct.
- Manish Karwa:** Okay and that is what you refer that you will have credit losses of around 10% of your card portfolio?
- Harjeet Toor:** Yes.
- Manish Karwa:** The interest income that you have been earning on this unrecognized NPL, all of it has been derecognized in this quarter?
- Jaideep Iyer:** So, Manish, de-recognition has happened to the extent of what all is accrued till September.
- Manish Karwa:** Okay, so is there a one-off element in that de-recognition or it is only for this quarter that it has been de-recognized? I just want to model the income.
- Vishwavir Ahuja:** I will answer that question. The total impact of that is Rs. 80 crores, Rs. 90 crores in this quarter and it will be equivalent in next quarter. May be a little less than the next quarter which means if I was at an NII of say Rs. 1,000 crores plus something, minus this number this quarter and next quarter.
- Next quarter NII there should be some NII growth but then you have to take away this factor. From fourth quarter all of these would have been over in Q2 and Q3. On fourth quarter as we have said very clearly, we will be reverting to a normalized NII of Rs. 1,000 crores plus. Does that answer your question?
- Manish Karwa:** Yes.
- Moderator:** Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
- Saurabh Kumar:** Sir, the way you define collection efficiency in microfinance, do you include overdues, or this is just demand for the month?
- Harjeet Toor:** This is demand for the month. So, since this was the first month September where it was demanded that month, demand for the month.

- Saurabh Kumar:** So overdue or any bad book collection is not included, right?
- Harjeet Toor:** No. They were all in moratorium from April onwards.
- Saurabh Kumar:** No, but in September if somebody have paid more than one month so do you include that or that is what I was asking?
- Harjeet Toor:** See theoretically it will not be possible. In this particular month it would not have happened because the previous months there were no demand. So, there was no overdue from the previous month if they were paying. That is what I was trying to stress. In a normal month I agree with you what you are saying.
- Saurabh Kumar:** And your assumption of credit cost in your MFI portfolio, fair to say it should be now around this 6% number or would you model lower number?
- Harjeet Toor:** No, it will be lower. So, it does not mean that all of this will flow. This is just saying that in the first month we have seen these many customers not paid. And therefore, this will start coming down as we move forward as would some of the customers who paid in the normal course also go delinquent. Both things will happen and then we will have FLDG to cover after that.
- Saurabh Kumar:** Yes, so effectively you should restrict the loss here to something like 3% to 4%? That is what I was trying to get to.
- Harjeet Toor:** That is right.
- Saurabh Kumar:** And just last question, sir. The delinquency in the cards portfolio, if you can just some color where is it coming from? Is it from your open market acquisitions mostly new to credit or is it from your partner portfolio? If you can just give some color on where that 9% is concentrated?
- Harjeet Toor:** Yes, so see in our case the bulk of our book is open market. So, you would not have an existing versus open market. But let me tell you about roughly if I look at salaried versus self employed about 63% is salaried and 37% self employed versus a portfolio of about 70% salaried.
- Saurabh Kumar:** You said 63% salaried?
- Harjeet Toor:** If I look between transactor and revolver; about 44% is transactor and about 56% is revolver.
- Saurabh Kumar:** But you said 63% is coming from the salaried?
- Harjeet Toor:** That is right.
- Vishwvir Ahuja:** Yes, but 70% of your cards are also salaried.

Harjeet Toor: That is what I said. So, it is like a slight tilt towards self employed but it is not dramatically self employed only.

Saurabh Kumar: No, but sir, I mean your average outstanding is not high so I was just wondering why would a person want to default on the credit card or not pay on the credit card, on default but not pay because the assumption is that the credit score gets impacted and the amount is not very high so people can always pay from their savings but that does not seemed to be happening here?

Harjeet Toor: There are customers who have seen their cash flows disrupted and if they have an outstanding of let us say whatever Rs. 40,000, Rs. 50,000 then as of now the environment is also in a way such that they had moratorium and then now hoping on some relief from Supreme Court or restructuring etc. So, there are a few customers who were not paying. I think that is to be expected. Your other question was around new to credit. We do not have new to credit, we have only about 1.5% new to credit.

Moderator: Thank you. The next question is from the line of Utsav Mitra from Falcon Edge. Please go ahead.

Utsav Mitra: My question is when do we expect to hit 1.6%, 1.7% ROA adjusted for tax? So, if you go back to the pre-tax cut the guidance of 1.5% ROA and 16%, 17% ROEs you adjust for tax it moves to 1.6%, 1.7% ROA. How far are we from that in your own estimations as you do your business planning and forecasting?

Jaideep Iyer: So, I think we have kind of coming out of early complex situations over the last 18 months, first on the corporate asset quality and then COVID. I think it is a little premature to start thinking that we have all the parameters all lined up as to what will happen. So, it is a little still early for us to do that but if there is a gun in the head, I will guess that, that should be about 12 to 15 months away at least from a exit quarterly performance perspective.

Utsav Mitra: Got it. And the key movers being the credit costs which come down to a more of a normalized level and your Opex would come down as well? Would those be the key movers?

Jaideep Iyer: Yes, I think the key movers would be obviously one is provisioning which clearly will come down to the normalized levels of each product category. The overall provisioning will still be higher than pre-COVID because the mix will be skewed in favor of certain products which run on high provisioning basis. The second driver would be clearly the mix itself with higher ROA products getting higher share of the overall advances. The third would be we expect excess liquidity has come down.

Today our assets are bloated by almost 15% which should gradually unwind over a period of time because they do not return anything material, but they just expand the denominator. The fourth would be funding costs. We expect there is a lot of juice on the liability side where we

have yet not been very aggressive on cutting rates. We are wanting to kind of continue to give a fillip to retail liabilities and there is a very material traction on that business segment. But again, there is a lot of juice here to cut rates over the next 12 months. So, funding cost normalization will also result in adding to the ROA mix. So, it will be a multiple of factors.

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

Manish Shukla: Given where we stand today on the non-wholesale part of the business especially retail, is there any let us say change of thought process in the segments that you operate and how you want to approach those? The wholesale obviously we have seen a big shift over the last one year but for the non-whole piece given the COVID experience has the thought process changed in anyway?

Jaideep Iyer: Manish, are you talking in terms of the product mix etcetera?

Manish Shukla: Yes, product segments where you want to grow?

Jaideep Iyer: No, I think we are as Mr. Ahuja mentioned in his call, I think if we come out of these stress test at the two profitable segments not consuming capital and being profitable after absorbing the kind of losses we would have gone through. I think we are quite happy with being able to grow those segments. In addition, we are also looking at we have been doing some work and we are now beyond the pilot stage on introducing affordable mortgages which will become material over the next couple of years in terms of at least incremental acquisition or incremental growth contribution.

And then we will experiment with one or two more products which will fit in well with our semi-urban, rural focused over a period of time. So yes, there will be some new products but broadly it should be retail assets, cards, microfinance, mortgage which will drive the growth.

Manish Shukla: Next question is on margins. So, fourth quarter onwards you have a favorable asset mix as well as hopefully lower drive of liquidity on the balance sheet. So, what is the margin level you think you can start sustaining from fourth quarter once you have interest reversals behind you?

Jaideep Iyer: I think we should be getting back to Q1 levels and then slowly improve from there.

Moderator: Thank you. The next question is from the line of Mohit Surana from CLSA. Please go ahead.

Mohit Surana: My questions were answered. Thank you.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

- Rohan Mandora:** Sir, wanted to understand on the NIMs impact into interest reversal of 50 basis points. So, given the slippages that we talked about even including Supreme Court delay or deferred NPAs, the impact of reversal seems to be pretty large. So, if you could explain and help to understand where this Rs. 90 crores is coming in and you are guiding for a similar number for next quarter? What will be the reason for that?
- Jaideep Iyer:** So, Rohan, we have taken estimated actual slippages for Q3 and taken proactive reversal on that portfolio where interest have been accrued till September. So, it is not only for the amount which was becoming 90-day DPD as at September end. It is including what expectations are there on at least the card's portfolio which will slip in Q3 as we come out of the moratorium. So, we have taken interest reversal on that portfolio as well.
- Rohan Mandora:** Right so it is not only on the Rs. 255 crores but additional portfolio outside of Rs. 255 crores as well that we have taken interest reversal?
- Jaideep Iyer:** Yes.
- Vishwavir Ahuja:** It is across the board.
- Rohan Mandora:** And sir, on the cards portfolio just the expected delinquency that we are talking about obviously one of the participants asked earlier but within the self sourced portfolio vis-à-vis the externally sourced portfolio on the cards. Some color on how has been the delinquency mix within that or the expected delinquency mix within that?
- Harjeet Toor:** If you look at, for us a large part of our portfolio is comes through our partner which is Bajaj Finance and if you look at the mix, it is in proportion to Bajaj Finance is slightly better which is how their performance has always been because it is a tested portfolio but largely around those lines.
- Vishwavir Ahuja:** I think what he is trying to say is that there is not much difference between the two but if you want to fine tune it the Bajaj portfolio is a slightly better from a delinquency perspective. And that is what one would expect. Like he said because that is the tested portfolio and credit tested even prior to acquisition. So therefore, one would expect that.
- Moderator:** Thank you. The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.
- MB Mahesh:** The first question is on the corporate book. Of the 18 billion of slippages which happened about a year back where are you with respect to the recovery of that particular book? And also, if you could give some color, are you expecting any major slippages in the next few quarters given that there is one other exposure that the company are aware of in the retail sector? Just trying to understand.

R Gurumurthy: On the first part where are we on this last year slippages. It is a little slower obviously given multiple other issues in terms of how banks are approaching resolution where there are multiple lenders involved. But over the next two quarters we do expect to have some progress on a few key cases in that lot. Currently we factored in our assumptions and as we shared for the full year.

MB Mahesh: And your expectation of slippages from your corporate side in the near time?

Vishwvir Ahuja: Let me answer that. We have indicated previously a total credit cost guidance for the bank as a whole and again today and we have said that, two-thirds or so will come from the retail side and one-third or so will come from the wholesale side. We continue to stick by that. Whether it will come from the legacy? See much of the legacy is already taken care of in terms of provisioning. I do not think that there is going to be new provisioning required on the legacy issue that you asked about.

Bulk that provisioning is done and to the extent that some recoveries have also happened. Some more will happen. They will be an add back for us because we have provided sufficiently for that book. And those provision numbers were reported in previous quarters that how much. Last year itself that was done by March 31st of 2020 and we have reported those exact numbers. So those provisions were done last year itself and done and dusted.

So, from there the net effect if any from further recoveries will be net positive for the bank. Let us forget that now. For the year as a whole from the normal course of business from some of the new names that may have emerged because of COVID or other factors we have indicated for March 21 that about one-third of the total credit cost will be come from wholesale. I think that is the way to look at it.

A specific name that you are saying is included in that perspective. It is not something new from the point of view our planning or forecasting or including in our guidance. And also, I want to add that in that name itself there has been massive, almost 40%, 50% reduction in exposure that has happened in the last three months itself.

So that is indirectly reflected in the exposure reduction in the BB book that we have indicated on slide 18 or so. So, I do not want to get into specifics because we do not get into specifics. But there has been a much better than industry comparison improvement in that situation for RBL Bank largely because of the very superior securities and position that we had in that situation some of which has been monetized and recovered.

MB Mahesh: Sir, the next question too again, I am coming back to Harjeet this time. Harjeet, when you today look at that credit card book and one of the question that we have asked you as well is that why our customers not even willing to pay 5% minimum installment due and prefer to take restructuring or moratorium despite having first nearly about 3, 4 months? The risk of

they slipping seem to be far higher as what the other person in management highlighted that they kind of get a scoring against it?

Jaideep Iyer: Mahesh, Jaideep here. Before Harjeet takes that question, we were running at about 4.5% to 5% credit cost; 5% credit cost in COVID. That was also basically because people did not pay 5%. So, it is the nature of the beast. Sorry Harjeet, you can answer.

Vishwavir Ahuja: But you know that is it. The answer is exactly that, that 5% is going to 9%, 10% post COVID and everything that has happened. And that is according to me; Harjeet, correct me if I am wrong, better than many industry comparisons including some of the bigger names that have recently.

Harjeet Toor: So, Mahesh, it is difficult to, I meant the fact is that we always have a set of customers who finally get over and therefore are not in a position to pay and therefore will go bad. There has been this extra hit on account of COVID and as I have mentioned earlier it is not as if it is just self employed, even salaried guys have got hit as well and that is where the composition is coming from.

If you dig a little deeper you will find that the people who were, let us say if I was to draw a risk scale of 1 to 5 and the people who are let us say on the higher side of 4 and 5 are the ones which will contribute more towards this than the other ones because they were in any case slightly and therefore when a position like this happens they are not in a position to do. It is not that they will just go bad on cards; they will go bad on a lot of other loans as well. But that is the way this happens.

MB Mahesh: And my last question is the question of affordable housing. I think it is a little bit so early to ask this question but nevertheless asking it. Why launched this product today? In the sense that still are kind of in a transition mode on the existing businesses in itself. What was the rationale of because we are going put in some more effort in terms of costs and businesses around making this business to be profitable? What is the rationale in it?

Harjeet Toor: So affordable housing was something which we had seeded last year and wanted to test out the market and the hypothesis that we had a reason to play in this. And largely was around the fact that we had distribution existing for MSME in our smaller tier 2, tier 3 towns and therefore could we leverage that understanding of the market as well as the distribution to be able to do affordable housing.

In the last one year from whatever little Rs. 200 crores odd book we built by the end of last year, we found that this was a good thing to go. Now a large part of this will go towards building a little bit of extra capacity both in terms of people and branches. But these branches are all existing within the already existing let us say MSME branches of about 140 odd branches which we have.

So it is not as if it is a great investment, it is an investment but I think you need to start building it and getting your investment people ready processes going etcetera so that when there is clarity around, the market you are able to run much faster. In any case the housing market had bounced back the fastest even in current times if you really look at it. That is the only asset class which is really doing well there. So those are some of the things. We felt that it was maybe not prudent to set up after having tested it to set our plans back by another year waiting for COVID to finish off.

Moderator: Thank you. The next question is from the line of Amit Kumar Premchandani from UTI Mutual Fund. Please go ahead.

Amit K Premchandani: Harjeet, I had a question on the microfinance book since you have a first loss provision there. If you can just explain what could be the ROE profile of the microfinance book pre-COVID if it was without first loss and with first loss and what has changed post-COVID?

Harjeet Toor: ROE is a difficult one, but I can tell you.

Vishwvir Ahuja: ROA.

Harjeet Toor: ROA we had said that this was on a let us say over a period loss adjusted the ROA is typically are between 3.5% odd and plus that. In years when you do not have any such events the ROA is obviously are much higher. But if you take a 5-year period then that is the way to look at it. It is just so happens that in the last two years every year has been an eventful year right from demon onwards. But yes, that is the way to look at it. Today about 40%, 45% of our book is FLDG covered. So, if that gives an indication.

Amit K Premchandani: So, 3.5% ROA over the cycle you are saying is including assuming 40% is FLDG cover?

Harjeet Toor: Yes.

Amit K Premchandani: Okay and that in the down cycle like COVID can move to a loss or it is still a profitable business even in the down cycle here?

Harjeet Toor: As we had mentioned in the commentary as well both cards and microfinance will be positive and decently profitable after taking the credit cost as well this year.

Amit K Premchandani: And on the restructuring side, what is the pipeline looking like both in the credit cards as well as the microfinance segments? And if you have any proposal on the corporate side?

Harjeet Toor: On the retail side we have not started restructuring. We will be doing that now. There are not too many clients who applied either. Whatever restructuring happens will happen from within the pools which we are talking in any case.

- Amit K Premchandani:** And are you open to restructuring?
- Harjeet Toor:** Yes, we have put out.
- Amit K Premchandani:** Restructuring the microfinance book?
- Harjeet Toor:** Microfinance restructuring has just been allowed. There will be a small segment which will be hop on to this. But this is fairly recent. In fact, microfinance was offered in the last. It came as part of the FAQs.
- Amit K Premchandani:** And any update on the corporate restructuring side how is that kind of panning out given that there have been few names floating around in the newspapers that they have requested for restructuring?
- R Gurumurthy:** No, we have also been seeing the newspaper. Formal invocation has not yet happened. It is a little too early. I think may be over the next month or two we will start seeing something.
- Moderator:** Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Sir, just had a question. The business has slowdown and so as the cost growth has also slowdown. So, any color you wanted to give on the cost to income ratio going forward?
- Jaideep Iyer:** Yes, so cost-to-income ratio will be flattish. I think we will be in the 50% plus, minus range. It will have some pulls and pushes while cost efficiencies will bring this down, but business segment mix will push it up. So, I think we expect this to be in this range. In Q2 specifically we did get the benefit of some of the negotiations that we were continuing from Q1 which fructified in Q2 including for the Q1 period. So that was including lease rental reductions etcetera.
- Vishwavir Ahuja:** And please remember as we have said previously, we continue to add branches. We continue to build our infrastructure both physical and digital and therefore we are investing continuing to invest in the franchise. So, there are costs involved. There is a lot of technology upgradation also that is going on. So, there is an ongoing investment in the business franchise. So that pushes our costs.
- On the other side, there are lots of measures we are taking in terms of improved efficiencies and costs rationalizations etcetera. So, I think like Jaideep said in summary, one sort of cancelled out the other and that is the way we are looking at it. We want to maintain at the current levels of net if I may say efficiencies or ratios. And I think that would be a satisfactory outcome as one is concerned.

- Anand Laddha:** Sir, the cards business is gaining scale. So, would it be fair to assume even for next year also should we see some more cost reduction for us to come from 50% level or it is still sometime away that the cost-to-income ratio will come down below 50%?
- Vishwvir Ahuja:** When the card business revives then the costs will go up.
- Jaideep Iyer:** Cards business typically is more than 50% cost-to-income ratio because it is a very high income, high cost business naturally and also depends on the level of origination that happens in a year. So, as we get back to our pre-COVID level origination, that will push up costs.
- Vishwvir Ahuja:** Yes, initially cost will be go up for one or two years because cards business till you start slowing down the growth rate and reach a certain minimum critical mass and scale your costs will go up because the acquisition costs are very high, other operating costs are very high and it is actually much higher than 50% cost-to-income ratio business except that the returns are so healthy that is more than compensates.
- Anand Laddha:** Sir lastly, on the NII side. This quarter NII are (+1,000) so if I have to add the interest reversal our NII would have been almost closer to 1,100?
- Vishwvir Ahuja:** No, it is 920, 930 right now after the interest reversal. If you add back that 80, 90 it would go to 1,000 plus that is what we were saying.
- Anand Laddha:** So next quarter also should be at 920, 930 levels?
- Vishwvir Ahuja:** Plus, some growth we will see. There will be some asset growth.
- Moderator:** Thank you. The next question is from the line of Pranav Gupta from Aditya Birla Sun Life Insurance. Please go ahead.
- Pranav Gupta:** Just a couple of questions. So firstly, on the MFI, I just wanted a clarification. This 93.3% collection efficiency that you had mentioned, is on September due so say if a customer might have paid in June or July even though EMIs were not due that will not be included in the numerator of this number, is that correct?
- Harjeet Toor:** So technically if you look at it, there were no September dues. The dues were in October. This is assuming that if every customer's due was there is supposed to be there in September. How many customers have paid that? Part of this may have come from advance payments in June and July as well.
- Pranav Gupta:** Yes, so 93.3% were included advance payment which is earlier, right?
- Harjeet Toor:** That is right, yes. Technically all these advances because the due really is in October because March everybody had paid.

Pranav Gupta: So, would you be able to give out the number of efficiencies excluding these advance payments?

Harjeet Toor: I think it will be in the region of about 86%, 87% odd.

Pranav Gupta: Sir, second question is on the cards business. So, is it fair to assume that a large part of the proforma NPA accretion would come from the cards or is it also includes the other businesses as well?

Harjeet Toor: Sorry, a large part of?

Pranav Gupta: So, there was a Supreme Court stay which like to recognition of some slippages. So, a large portion of that will come from the cards business or would it be spread across?

Harjeet Toor: No, so as of September 30th, including that the total NPA in cards was only 0.4%. So, there was no real NPA which was getting formed in September. Your NPAs will get formed only in the quarter ending December and March.

Pranav Gupta: Maybe I will take this offline but just my last question on the corporate side. So only we have seen rejigging of the business and leading to a consistent degrowth but going forward you mentioned that we could start seeing some growth coming from the third quarter. Just wanted to understand what segments this growth will come from largely.

Why I am asking this question is because we are seeing all of the large banks flagged them up in terms of their cost of funds coming down drastically and they have been able to lend at much lower rates than probably a year ago. So just wanted to understand what would be the key focus segments going forward on the corporate side and where a bulk of this growth will come from?

Vishwavir Ahuja: Well, I will answer it this way. We do not have a hardcore wholesale growth strategy right now. For all that has happened there was a certain strategy towards everything that I described so far in terms of bringing that portfolio to a level of quality, stability etcetera whatever I have said. But we do not see that going down anymore.

I think it has reached a point of stability in all respects and now there are occasional opportunities that are coming from here and there from good quality companies, public sector companies, private sector companies etcetera and I think because we are generally well positioned in this space because of our historical track records, relationships and the product sweep capabilities etcetera.

I think we are starting to see growth opportunities. That is where it is right now. I do not think I am putting a decisive number to how much growth will come from this segment. It will be

modest but there will be some growth. That is all we are saying at the moment. The growth impetus is still going to come from the retail side only for the next quarter or two.

Moderator: Thank you. The last question is from the line of Kabir Gulati from HL Capital. Please go ahead.

Kabir Gulati: Actually, I wanted to understand your assessment on accounts which have taken this ECLG facility, assessment in terms of would their activity levels be bit different or lower than their other accounts which had not taken this facility?

Harjeet Toor: See there are two types of people who have taken this. Large proportion of people are who have started activities but are nowhere close to their normal run rate and would need this working capital to be able to sustain themselves. So that is thing which is there. There are few people who have taken this as an opportunistic funding capability as well because it comes at much lower interest rates.

And therefore, to that extent if they are paying off their high cost debts then that has been seen as well. But a large proportion is from people who are therefore now coming out of the COVID situation and their businesses have started.

Kabir Gulati: Nothing against this ECLG facility but at a systemic level may be your assessment that had the ECLG facility not being there then may be the morat level for this SME segment could have been very different from what is coming out now?

Harjeet Toor: Actually morat level initially did reflect that because this scheme came in much later but I think it has been effective because need of the hour to be able to support this because in the absence of a credit guarantee it was very difficult for lenders to be able to take further exposure on these segments not knowing whether they have started, what will happen and how will they come out of it.

Moderator: Thank you. 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 disconnect your lines now. Thank you.