"RBL Bank Limited's Q2 FY'24 Earnings Conference Call"

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MANAGEMENT: **MR. R SUBRAMANIAKUMAR – MANAGING DIRECTOR & CEO**
MR. RAJEEV AHUJA – EXECUTIVE DIRECTOR
MR. JAIDEEP IYER – HEAD-STRATEGY
MR. DEEPAK GADDHYAN – HEAD – BRANCH AND BUSINESS BANKING
MR. VIJAY ANANDH- HEAD- RETAIL ASSETS
MR. PARAG KALE – HEAD, SECURED RETAIL BUSINESS

MR. BIKRAM YADAV – HEAD, CREDIT CARDS

MR. KINGSHUK GUHA – DEPUTY CEO, RBL FINSERVE LTD

MR. BRIJESH MEHRA – HEAD – CORPORATE, INSTITUTIONAL AND TRANSACTION BANKING

MR. BUVANESH THARASHANKAR – CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to RBL Bank Limited Q2 FY24 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 the operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. R Subramaniakumar – Managing Director and CEO of RBL Bank. Thank you, and over to you, Mr. Kumar.

R Subramaniakumar: Thanks, ma'am. Good evening, ladies and gentlemen and thank you for joining us for a Discussion on our RBL Bank Financial Results for the Second Quarter Financial Year 2024.

I'm as always joined on this call by Mr. Rajeev Ahuja, Jaideep Iyer and our CFO and other members of our management team who along with me will address any questions that you have.

I'm happy to report that this quarter has been a continuation of our path of improving financial performance and as a result, we are on track to build a predictable and stable balance sheet. We continue to track well to our guidance on return ratios, asset quality, credit cost and operating performance. We continue to see good growth opportunities in our chosen segments, broadly helped by a largely moderate risk environment, enabling us to pursue a calibrated growth path and generate an improving financial outcome. That said, we have taken some steps to proactively create buffers which we will speak on shortly.

Before we get into the operating performance details, I want to briefly discuss the changes, the improvements made in this quarter and the positive impact on balance sheet. You would have seen the details in our investor presentation starting slide #5. We have taken these steps to strengthen the balance sheet and provide transparent, a comparable data of all business segments, which is a better reflection of our operating business model in our financial disclosures.

I will take a few minutes to explain the same:

Firstly, you will recall that we have in the past spoken of creating a contingent provision in our credit card and microfinance business segment over the next year or two. Our Bank has a significant portfolio in credit card and microfinance, which together account for approximately 35% of the total advances of the Bank. These two business segments also contribute significantly to the profitability of the Bank. In years past, both these businesses have had elevated levels of stress due to external events, which has resulted in higher slippages and consequently higher than average cycle credit cost.

In this quarter, the Bank saw a writeback of tax provision of earlier years of Rs.223 crores which is a direct PAT benefit of Rs.223 crores, and hence a benefit of Rs.298 crores pre-tax. Rather than show this writeback as a one-time increase impact, we have prudently decided to use this for creating a contingent provision of 1% base level amounting to Rs.252 crores on both the credit card and micro finance portfolio. Going forward, as well as an ongoing practice, we will continue to maintain 1% on the incremental book of credit card and microfinance. We believe that this is a good first step in building buffers in our balance sheet for these two key businesses. We will look to increase the contingent provisioning further in the future. This provision also will help us in significantly minimizing impact on ECL on this portfolio as and when Bank transition to the ECL framework.

For the sake of clarity, I would want to reiterate that we are doing this as a prudent measure and not because of any underlying asset quality issue that we are anticipating.

Secondly, in our credit card segment as a policy we provide 70% at 90-plus and provide fully at 180-days. We are now modifying our provisioning policies to provide 70% at 90-plus as was earlier and now provide fully at 120 days. The impact of this change was Rs.48 crores. This again is a step to being more prudent in our higher credit cost segment.

So, in summary:

We had a write-back of tax provision of Rs.298 crores, of which Rs.252 crores were used to create a contingency provision and Rs.48 crores were the impact of the policy change in the credit card. You will see the details of this in Slides 5, 6 and 22 in our investor presentation and we can address any questions on these changes in the Q&A.

And lastly, starting this quarter:

The Bank has reclassed the charges paid to our business correspondents. The business correspondents are largely used in our microfinance business with the largest being our 100% subsidiary, RBL Finserv Limited. Historically, the Bank used to net BC charges against the interest income line with the reason that the BCs are paid from the interest income earned on the portfolio. In this quarter, we have taken the decision to reclass this to the expense line for improved and comparable presentation. As a result, we are moving charges paid to BCs to the operating expenses line and consequently, interest income and operating expenses increased to the same extent.

There is no change in operating profit for PBT, PAT, ROA, ROE because of this reclass; however, both NII and OPEX increase by the same amount. I just repeat, there is no change in the operating profit, PBT, PAT, ROA, ROE because of these reclass, only NII and OPEX increased by the same amount. We have done this change for two reasons. Number one, better presentation of the financials as this gives a clearer picture and what is earned across the book.

And two, this is in line with the industry practice. For full transparency and change, we have also shared the financials of the last six quarters both before and after this reclass on Slides 6 & 7.

Now, on to our business performance for the quarter:

Firstly, on growth:

I'm happy to report that we have grown our advances in Q2 at 21% YoY and 4% sequentially in line with our growth guidance. As per our business plan, retail advances have again grown at a faster pace with the growth of 35% YoY and 8% sequentially. Wholesale advances grew 7% YoY. Within wholesale commercial banking has grown 17% YoY and 11% sequentially.

We have been able to improve the momentum in the retail businesses and the retail disbursals. Our disbursals across all our retail businesses other than the card was approximately Rs.4,300 crores this quarter as compared to Rs.4,100 crores the previous quarter and Rs.2,500 crores in the same quarter last year.

Microfinance disbursals were at Rs.1,985 crores this quarter. Housing saw a disbursal of approximately Rs.800-plus crores. The tractors which we call it as the RVF disbursed Rs.270 crores in the last quarter. (LAP) loan against property has picked up well and saw disbursals of approximately Rs.700-plus crores this Q2. These products are growing at a higher rate than the existing retail product, albeit of a smaller base.

In cards we saw an issuance of 5.9 lakhs this quarter. In a nutshell, we continue to see broad-based retail growth this quarter as well.

Our retail asset book has exhibited a strong growth of approximately 35% over the last few quarters and we expect to maintain a 5% to 8% sequential growth in quarter. Our new retail businesses will grow at a faster rate of a lower base. We have seen 190% YoY growth in the disbursement in our home and secured business loan book and have done significantly better in terms of yields on these businesses. The branches and the direct sales today account for almost 20% of our disbursals and we would want to take this close to 50% by the end of this fiscal year. This has been an important focus area as it has, one, reduced the cost of acquisition; two, improved the engagement with our liability base; and three, aiding new liability customer acquisition. All these parameters show that there is improving momentum at the ground level to drive cross-sell and we are increasingly confident of upping this pace.

We have started generating leads in our microfinance segment for tractor loans and hope to start the pilot of lead generation for small business loans and housing loans from this segment by Q4. We are looking over a time to leverage the 1,200 BC points that we have in addition to 500 plus branches.

We are also in the final stages of launching a digital savings account for our valued credit card customers and we have already launched a digital term deposit account which will be used to onboard a broad section of customers from credit card, microfinance and retail products.

On rural vehicle finance - We today have an approximately 4% to 5% of the market share in the areas where we operate, and we continue to expand to the newer states.

We expect to do better in RVF disbursals in H2 of the current financial year. This segment is growing 100%-plus YoY of a low base.

On other vehicles business, we have started disbursal for two-wheeler and used car loans and these will start seeing meaningful traction in Q4.

On deposits:

We saw a 13% YoY growth in overall deposits and a 5% sequential growth. We, however, as planned saw a 23% growth YoY and 8% sequentially in deposits below Rs.2 crores which now forms 43.9% of the total deposits. Our expectation is to increase this proportion in the coming quarters as we aim to get this closer to 50% in the coming quarters. This is led by increased product penetration amongst new and existing loan customers by cross-selling of liability accounts in addition to new customer acquiring.

The process of tapping the existing asset customers for their savings, current accounts has already picked up pace with the specific targets allotted to the branch and other teams.

Growing granular deposits continue to be the key focus for the Bank with the objective of having a diversified liability franchise and also have a large number of customers to whom we can offer multitude of asset products which we now have. This also allows the Bank to grow the customer franchise as the Bank is now enabled on multiple asset products to fulfill the customers' borrowing needs. CASA deposit grew 12% YoY and 1% sequentially. CASA ratio was at 35.7%.

On asset quality:

We have further improved on all asset quality parameters. Our GNPA and NNPA are lower QoQ at 3.12% and 0.78% respectively versus 3.22% and 1.00% respectively last quarter end. Our provisioning coverage ratio is also up sequentially at 75.6% versus 69.6%s last quarter.

We had a total slippage of Rs.541 crores this quarter as against Rs.555 crores last quarter. Recoveries and upgrades were Rs.166 crores. Our net slippages were therefore at Rs.375 crores as against Rs.289 crores last quarter. We also had a total recovery of Rs.144 crores from written off accounts. Of the slippages, 15 crores pertained to the slippages from wholesale and the recoveries of Rs.8 crores, so that the net slippages in the wholesale were Rs.7 crores only. In microfinance our slippages were Rs.60 crores, recoveries and upgrades were Rs.16 crores and our net slippages were at Rs.44 crores. In cards, we had the slippage of Rs.334 crores and the recoveries and upgrades of Rs.43 crores with the net slippages being at Rs.291 crore. Our gross slippages in other retail were Rs.131 crores; however, net slippages in retail were Rs.33 crores because of upgrades and recoveries. Our net restructured advances stood at 0.89%, down from 1.05% in Q1 FY24.

Provisions:

We took a total provision on advances (which is NPA, restructured, contingent and standard asset provisioning) of Rs.766 crores in this quarter. The split up of this is - provision on NPA was Rs.464 crores, The contingent provision on credit card and microfinance was Rs.252 crores and Rs.48 crores was towards credit card provisioning as per the change in our provisioning policy which I just spoke earlier, that is providing 100% at 120 DPD has against 180 DPD. There was a release of Rs.14 crores on restructured advances. The standard asset provision taken during the current quarter was Rs.16 crores. We had recoveries from written off accounts of totaling Rs.144k crores. Net provision on advances therefore was at Rs.622 crores as against Rs.260 crores in the last quarter.

The credit cost for the quarter was 47 bps as compared to 39 bps in the last quarter on a like-for-like basis. The contingent provision and the additional provisioning in in cards owing to change in the policy adds another 43 bps to quarter's credit cost. So, in total, the credit cost was 90 bps. We continue to remain confident of maintaining our credit cost guidance of between 1.5% to 2% this fiscal.

On profitability in Q2 saw a sustenance of improving the financial performance resulting in our profit after tax at a consolidated level including our subsidiary increasing 77% YoY and 4% sequentially to Rs.331 crores. The Bank on a standalone basis, saw a PAT increasing 46% YoY and 2% sequentially to Rs.294 crores from Rs.288 crores last quarter. ROAs were 1% this quarter, up 23 bps from the same quarter last year. We continue to work towards improving this performance in the coming quarters. Our NII was up 22% YoY and 5% sequentially at Rs.1,302 crores before the reclass and 26% up YoY and 4% sequentially at Rs.1,475 crores post the reclass.

Other income was Rs.704 crores this quarter, higher by 21% YoY and 3% sequentially. Core fee income grew 25% YoY to Rs.678 crores. Our total income was up 22% YoY and 4% sequentially at Rs.2,006 crores before reclass and up 24% YoY and 3% sequentially at Rs.2,179 crores post the reclass.

Our NIM this quarter was up 35 bps YoY and 5 bps sequentially at 4.89% before the reclass and 53 bps YoY and two bps sequentially at 5.54% post the reclass.

Our OPEX was up 12% YoY and down 1% sequentially at Rs.1,276 crores before the reclass and up 16% and down 1% sequentially at Rs.1,448 crores post the reclass.

Our cost-to-income ratio was 63.6% this quarter against 66.5% in Q1FY24 before the reclass and the same stood at 66.5% as against 69.3% in Q1FY24 post the reclass. So effectively we have seen a decrease of 300 bps in cost to income ratio sequentially. While we have been able to maintain our cost base through almost the same level as the previous quarter, we expect to see some lead lag in terms of cost and corresponding income increases given the expected higher business volumes in the second half of current financial year.

We saw a healthy increase in the PPOP this quarter at Rs.731 crores, up 43% YoY and 13% sequentially. No impact because of reclass. Consequently, profit after tax was Rs.294 crores for the quarter, which is 46% higher YoY and 2% higher sequentially.

Lastly, on capital, our total capital was 17.07% and our CET-I ratio was 15.15% as at September end as against 16.68% and 15.05% as of the last quarter end.

In summary:

We continue to see steady and improving profitability and remain on track for ROA guidance for this year. We are confident that our profitability guidance will be achieved for the full year. We should see a steady growth in advances in the range of 20% with the retail leading the way, at the same time, the granular deposit growth will be significantly higher than the 18% to 20% deposit as we aim to get closer to 50% share of small ticket deposits in the coming quarters. Our execution focus remains on scaling up the new retail asset products and we are very excited with the opportunity that we see. Rural vehicle finance is a great example of us having achieved 4% to 5% market share in the geographies where we operate in less than two years' time and the microfinance clocking 2% market share. As mentioned in earlier calls, we see a huge opportunity through cross-sell given our large customer base across liabilities, cards and MFI. Several new products like home loans, auto loans, two-wheeler loans, business loans, MSME and gold loans are a natural fit for our large customer base.

Lastly, we continue to see stability in the management team. With the progress we have made in the last year or so, the morale and the excitement that I can see in the 20,000-plus team gives me immense satisfaction and confidence on the way forward.

With this, we will open the session for question-and-answer.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: I was just saying that despite creating this 1% contingency buffer, we are still continuing with the credit cost guidance. So, would we have missed if this buffer was not created?

R Subramaniakumar: Can you repeat that? 1% of contingent provision. What was the next part of the question?

Kunal Shah: No, I'm just saying that, if we have not created this contingency buffer that we have missed out this credit cost guidance.

R Subramaniakumar: Credit card guidance remains at 1.5 to 2 what we said earlier, it remains whether with or without whatever it is, it is going to be the same.

Jaideep Iyer: No, no, no, no, the 1.5 to 2% credit cost guidance that we have given excludes the contingent buffer that we have done this time.

Kunal Shah: The only thing was given that we have already created the buffer now on credit card on MFI, the comfort on managing the credit cost should have been relatively better and at least we would have seen some downward revision in the guidance as well. And suppose if this was not created, then ideally would the credit cost have been higher over next two years?

R Subramaniakumar: This contingency was created on a standard asset and we are maintaining the credit costs at the same level, if you see that it was 39 last quarter and it is 47 bps is what we have seen in this quarter and we will be able to maintain the same level of collection efficiency and underwriting efficiency and we will not slip much beyond than what we have been projecting it.

Jaideep Iyer: Just to clarify, this 1% contingency buffer is not expected to be utilized for our normal credit cost.

Kunal Shah: I just wanted to get that. So, this is not going to be utilized at all and we will keep on building up this buffer?

R Subramaniakumar: Yes.

Kunal Shah: Secondly, in terms of this entire reclassification, so if we look at the quantum and just see as a proportion of disbursements, this seems to be quite on the higher side when we look at the classification. So not able to gauge in terms of how we should overall look at the BC cost vis-à-vis either the loan book or the overall disbursement, because if we assume like say 4,300-odd crores of disbursements and the BC cost which is getting adjusted for last several quarters, the quantum is quite high? The second question is how much of this goes to the subsidiary and how much this is outside of the subsidiary?

Jaideep Iyer: So Kunal, first of all, this is not to be compared with the entire Rs.4,000 crores of retail disbursements that we have done. This is substantially related to the microfinance business and 90% or so of our business in microfinance is originated through the subsidiary.

Kunal Shah: So, the way to look at is if it's like, say, Rs.2,000 crores of MFI disbursements and 90% of that, maybe on Rs.1,800-odd crores and if we look at the -?

Jaideep Iyer: It is actually not dependent on disbursement, it depends on the AUM, because the subsidiary also manages services, collects, so it's not an origination fee, it is a payout based on the underlying AUM.

Kunal Shah: So, broadly, maybe doesn't it seem to be relatively on the higher side if we compare maybe even on an AUM basis that still seems to be quite high like say if I assume like overall AUM to be Rs.6,800-odd crores, this is almost on a quarterly run rate 2.2%-odd of the AUM?

Jaideep Iyer: Correct, it will be in the 7.5 to 8%. Range, you're absolutely right.

Kunal Shah: So, it will be somewhere around 8% annualized kind of a number.

Jaideep Iyer: Correct. That is roughly the standard industry payout for microfinance BCs across most of the banks.

Jaideep Iyer: Give or take half a percent here and there.

Kunal Shah: This goes to the subsidiary entirely because there doesn't seem to be much change in the reclassification when we look at the consolidated earnings, that's hardly like Rs.20-odd crores in consolidated differential in terms of interest income, but major is coming through the subsidiaries only?

Jaideep Iyer: Correct. Absolutely.

Kunal Shah: So, it's only pertaining to MFI, no other product segment beyond that?

Jaideep Iyer: Correct.

Moderator: The next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: I have two questions. So firstly, on the OPEX, if we look at the operating costs, they have been declining in the last two quarters and the growth is at about 12% year-on-year. So, could we expect that OPEX will grow at a run rate lower than the rest of the business growth?

Jaideep Iyer: I think we would be comfortable in saying that on a medium-term basis, not on a every single quarter basis.

Mona Khetan: So, any guidance on the cost-to-income ratio or the cost-to-asset ratio?

R Subramaniakumar: See, we said at the beginning of the year that cost-income ratio we will be making an attempt to reduce it by 2% to 3%, right over what it was earlier. Now, we have already reduced 300 bps. Going forward, we may reduce by another 1% or 1.5% than what it is now.

Jaideep Iyer: Generally, you should. see a lower cost-to-income trend.

Mona Khetan: Secondly, on the cost of funds, so when do you expect it to peak, just some color on the peak cost of deposits what we see here?

Jaideep Iyer: So, Ceteris Paribus, we are pretty much close to having done the repricing, maybe another few basis points left, but given the asset mix change and the way the repricing is happening on the asset side, we would expect margins to marginally inch up from here for this. We already have added around 5 to 6 basis points this quarter. We had also guided that margins bottomed out last quarter and I think we should continue to improve from here on further.

Moderator: The next question is from the line of Sandeep Joshi from Unifi Capital. Please go ahead.

Sandeep Joshi: So, my question is just a continuation to Kunal's question on the BC cost we pay to subsidiaries. I see is that RFL business is already earning PAT of about Rs.30, 35 crores on a quarterly basis and I assume this trajectory is going to continue. So, since the subsidiary doesn't require capital, are they planning to revisit the BC charges which are being paid to the subsidiary?

Jaideep Iyer: We'll take a call on that in general. I don't think there is any specific plan right now, but yes, because it's 100% subsidiary, it's not a big deal either way.

Sandeep Joshi: And how do we claw back the profits over here?

Jaideep Iyer: So RFL had gone through a little bit of pain two years back because of COVID. So, ultimately, when the profits are good, the only way to claw back would be through dividends.

Sandeep Joshi: Just a hypothetical question over here. So, we are giving some guidance on ROA improvement. So, while giving this guidance, are we budgeting any change in the BC charges we pay to the subsidiary?

Jaideep Iyer: I don't think that's going to be material in either way.

Moderator: The next question is from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Just a couple of questions. In our guidance, we have talked about retail mix to be in the range of 60% to 65%, right, and already we have seen a good improvement in the first half where the retail mix has gone up to around nearly 58%. So, are we revisiting that guidance, how do we see that?

R Subramaniakumar: See, we are on track as far as the guidance is concerned today, around 60% to 65% and we feel at this moment of time we will continue to maintain our 60 to 65% guidance and we are confident of achieving it. Maybe we will revisit after a few quarters.

Jaideep Iyer: Just to add, I think within wholesale you will see that commercial banking has grown quite materially. So, that's a pivot in that business that's happening where we want to grow more commercial, more mid-market given the pricing structure and the opportunity that a Bank like us has. And as that pivot matures, we would again possibly see that the wholesale growth overall that you're seeing today can come back. So, we can't be very precise about this.

Shailesh Kanani: I was just wondering that it was an upward bias to that number given that we have 2.5 years to reach to FY23, that is the reason I wanted to understand. Second, on this reclassification of BC charges, I think most of the points are cleared. I just wanted to understand, if I see the numbers, it's not a very material impact in NIM. Is that understanding right?

Jaideep Iyer: So, the subsidiary made approximately Rs.30 crores of PAT this quarter. So, you can judge materiality on that basis.

Moderator: The next question is from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh: Two questions. One is, what do you think will be your normalized LCR in the state of operation? The second is essentially on this credit card slide that you've disclosed there to say that, at least in the industry, there is some level of increase in early delinquency.

Jaideep Iyer: The first one is normalized LCR should be in the 120 to 125 range. Sometimes we do go up depending on liquidity and flows, but that should be the normalized range. Bikram, do you want to take the question on industry delinquency?

Bikram: We have a slide in an investor presentation which though comparison is about a quarter back the industry comparison vis-à-vis us comes with a little bit of a lag. But there is nothing which is out of pattern or alarming or a reason to point out as of now.

Saurabh: I was just looking at the 30-day-plus which you have disclosed and that's just seems to be showing an increase, but you think that is seasonal or -

Bikram: Because this is data as of June, you can't conclude on one or two months of trends.

Saurabh: Sir, on this deposit fees again, how much of the total deposit will be branch banking in?

Jaideep Iyer: I think the better metric honestly is that we disclosed that below Rs.2 crores deposits is now running at about 43, 44% for us which is the granular deposit. Branch contribution actually will be higher because branches also do in the Rs.2 crores to Rs.10 crores range, so that should be closer to 50%, 55%.

Saurabh: So, the total will be 85% to 90% branch contribution?

Jaideep Iyer: No, no, no. I'm saying including this, total will be about 55%, 60%.

Moderator: The next question is from the line of Abhishek M from HSBC. Please go ahead.

Abhishek M: So, my first question is on Slide #35 on the credit cards again. In which cohorts is the industry relatively worse off compared to you, where is the stress higher in the industry and you've been doing a better job of maybe customer selection and servicing, if you can shed some light on that?

Bikram: Cohort wise comparison is not here in the slide, or we have compared, but this is aggregated selection of the cohorts in which we are range bound and doing slightly better than the industry. I think the answer is the comparison at a cohort level we haven't done with the industry. So, we will not be able to exactly say that which cohort for industry is worse off.

Jaideep Iyer: But Abhishek, in general, we have seen the extremely lower end of limits/ticket prices being slightly higher stress than general.

Bikram: The general guidance on what we have gathered from the industry is that low limit PLs and low limit cards have been causing stress. We largely do not operate in that space. What I understood out of cohort was the origination vintage and not the credit limit vintage.

Abhishek M: I understand that. Maybe you've definitely been doing a better job of customer selection. Are you seeing more stress in the industry in, let's say, self-employed or in certain like tier-3 cities, tier-2 cities, what segment of the industry are you seeing more stress in and over the last, let's say, six months, is it a more generalized stress across the book for the industry or there are any specific cuts where you see this stress going up?

Bikram: As Jaideep has pointed out, large stress which has been seen in last is on the lower ticket are largely neither in the town tier category or customer profession category, they were largely into those fringe low limit loans and low limit cards which have been given. So, the players who have expanded in the fringe credit segments have seen stress. Otherwise, the core prime market is holding on credit performance.

Abhishek M: I just thought that would not have led to the whole industry going up that much if it's all in the fringe, but anyway, it's okay, I'll take it offline. Just one very quick question on MFI as well. There your disbursements in the last three quarters have been coming off where industry delinquency trends are all better, QoQ if I look at your last three updates presentation. So why are we slowing down there?

R Subramaniakumar: See, as far as MFI is concerned, it is not slowing down. If you have seen that we are in the range of around Rs.2,000 crores per quarter and the only quarter where there is a difference is that in respect of the Q4, normally the Q4 is a little higher one. This Rs.2,100, 2,000 crores are a conscious because the number of branches where we just keep moving up and down. So, the trend is not going down. It will be caught up with what we have been doing it. This is the general one, 200, 300. Only differentiation was Q4. Don't take Q4 as a benchmark, take other 2,000 as average numbers in which we will operate.

Moderator: The next question is from the line of Anand Dama from Emkay Global.

Anand Dama: First, you have talked about the ROA guidance of 1.4%, 1.5% by FY26. Can you just walk us through how you basically plan to achieve that kind of a ROA from about 1% that you're clocking right now?

R Subramaniakumar: Anand, I would request you to get into that presentation, our second line team made on retail deep dive. There is a slide on segment wise we have said that how we would reach that 1.3 and 1.4 by '26. That's a very longer one. I request you to get into that.

Jaideep Iyer: While it's a long answer, but in summary, what we are saying is that we are investing today in liability franchise and our new product franchise and retail assets which are today consuming capital. As they get to scale, they will start reducing losses and that is how the delta will happen.

Anand Dama: So basically you also expect the margins to expand from current levels or you believe that the margins are -?

Jaideep Iyer: Yes, on a DuPont basis, we will see expansion in margin, steady fee to assets, marginal reduction in cost to assets and marginal increase in provisioning to assets. So, the delta will come primarily from margins and a little bit on cost.

Anand Dama: For margins, you believe it's going to be mainly by managing the cost of funds, right, because I think in terms of yields, you're already high in terms of the unsecured loans.

Jaideep Iyer: No, I guess, we are also getting into products which are giving us yields in the 10 to 14 range. So those will be additive to margins even though they are secured loans. So, it will be a combination of mix of advances and some cost of fund reduction.

Anand Dama: I believe the RBS audit would have started for this year and believe some preliminary report would have come from two accounts. Is there any observation from RBI in terms of the recognition of provisioning policy for the Bank? And secondly, we also have this RBI nominee on the board. He is retiring on December 16th. So, any communication on that front, anything that basically you can talk about?

R Subramaniakumar: The nominee director has been appointed with a fixed term. We know the term where it stops. As regarding this audit, it is a continuous process. There will be an audit every year and the people will be working on that. There's nothing special about it and this is something which is a continuous process.

Jaideep Iyer: Having said that, Kunal, given the way we manage, I don't think we are expecting not only this inspection, the inspection before that and the next inspection that we will have a provisioning divergence.

Anand Dama: Because I was wondering that this provisioning that we have started making the contingent buffer is a very good step, but the timing is primarily because of the noise that we are hearing on the unsecured loans front or what was the reason basically?

Jaideep Iyer: The timing is because of the one time tax bonanza that we got.

Jaideep Iyer: We've always wanted to do this. It's always difficult to start, because we can manage the flow, but it is difficult to create the provision on the large stock, right? So, when we got an opportunity, we have taken it. It's got nothing to do with any kind of stress in the book.

Anand Dama: Any target like this 1% should go to 4% to 5% because there are like lot of microfinances that you talked about making 5%-odd provision in the MFI book, so anything on that front into the target that where you want to take it?

R Subramaniakumar: First, you appreciate the point that this we wanted to start it from Q4 over a period of one or two years, which has just upfronted it because of this amount. Whenever there is such a windfall comes, we will tell you about whether it can go up to 1%, 2%. Today, we have finalized at 1%, incremental growth of 1% will continue quarter-on-quarter.

Moderator: We'll take the next question from the line of Jay Mundra from ICICI Securities. Please go ahead.

Jay Mundra: On your margins, right, this quarter if we see there is a very favorable loan mix, within wholesale, we have grown commercial and there is almost negligible growth in the large corporate, within retail we have growth . the high yielding book, credit card, MFI and still the margin expansion on whichever basis is only three to five basis points. So how do you see that progression even if such favorable loan mix may not reoccur?

R Subramaniakumar: If you look at our plan of action for growth, we always said that we will be growing the commercial in the range from 15% to 17% on an ongoing basis. So that is going to continue. The second, we also said that we will be in the mid-range product of the retail which is giving an average yield as we have been telling it earlier, around 14% will continue to grow. If you look at the growth for this quarter, our credit card grew by 27% and our MFI grew by 78%. It may not grow at the same rate in future because the base is increasing from 4,000 to AUM of 8,000. So, it will grow around 25% on average. And in between the other multiple products which we launch which will give me an average mid yield of. around 14%. We will grow by 30% to 35%. We have already said that. The new products will grow at least by 30% contribution by end of the FY26. So, we are confident that the current margin can be maintained with this particular one. And it will always inch forward because as far as the cost is concerned most of them as interest repricing has taken place and there may be a very small addition to that in next two quarters. So, we are confident that not only maintaining it, but move up by couple of bps.

Jaideep Iyer: Jay, just to add, I think the increase in margin is coming on the back of 14 basis points increase in cost of deposits and 18 bps increase in cost of funds, which is a function of where the interest rates are and how the repricing happens in deposits.

Jay Mundra: So, in the same way, sir, the deposit growth is slightly much lower than the 20% that we envisage. So, as you ramp up the deposit growth which will be necessitated as you continue to grow your asset mix, do you see a pressure on the cost of deposit also because for mobilizing these deposits you may not be able to lower the card rates, etc., so do you see that for us which is a growing Bank, do you see more pressure on cost of deposit even if the systemic deposit may start to cool off?

Jaideep Iyer: We have actually already said that a large part of the repricing is done, and I think there's only a tail left in terms of what you're seeing. Also, given our distribution franchise across wholesale and branches and the kind of growth we're seeing in retail deposits, I think for us to get 18% to 20% deposit growth. It doesn't look likely that we need to be doing something different from what our peers are doing. So yes, I think I would say that because we have calibrated our advances growth in that 20% to 22% range, it is well within our distribution franchise on the liabilities between branch and wholesale to be able to get to that run rate quite comfortably.

Jay Mundra: Lastly, on the OPEX, right, in March when we had unveiled FY26 vision, I thought that the OPEX cost would be slightly front loaded in the initial quarters as you would start investing in the processes, products, etc., But so far in the last two quarters, the OPEX growth has been actually much muted. Any thoughts around there, on the OPEX, why is it on the lower side, you had mentioned that it ideally it can go up, but any thoughts there?

R Subramaniakumar: See, whatever that particular scale you are seeing in the retail, all the investments have taken place much before what we are talking. This is front ended in the last two quarters of the last year that is H2 of last year and H1 of the last year predominantly we saw all our investments in technology and branches and other things. Going forward, that's why I said we are going to invest in more branches, maybe around another 50 branches will be opened and the line which we are expanding from the current states wherever we have, and we are expanding the geography for loan there will be a further investment. That's why we said that there will be a little extra investment in H2 suppose we expand. See, we have invested in a certain capacity. Once the capacity is utilized, we will start investing in expanding the capacity parallelly. Now that today you are not seeing much because of that investment is being leveraged now. So once that leverage reaches a certain threshold, then fresh investment will happen. And now also the investment is currently happening in respect of expanding our branches as well as the manpower and the resources. So, it will be gradually increasing.

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