"RBL Bank Limited's Q2 & H1 FY20 Earnings Conference Call"

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MANAGEMENT TEAM

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Moderator: Ladies and gentlemen, good day and welcome to the earnings call of RBL Bank to discuss the Financial Performance of Q2 and Half-Year FY20. As a reminder, all the participants' 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishwavir Ahuja – Managing Director & CEO of RBL Bank. Thank you and over to you Mr. Ahuja.

Vishwavir Ahuja: Good evening ladies and gentlemen. Thank you again for joining us on this Earnings Call for Q2 and Half-Year FY20. I can imagine that there is a lot of anticipation about our results this time, and I hope we can bring clarity in terms of our current short-term challenges, but more importantly, our franchise strengths, our continued very strong operating fundamentals and our future journey which we believe is as robust and exciting as before. Please bear with me, this is a slightly longer speech this time as we would like to go over many aspects of our business. To start off, I just want to say one thing. Our core franchise strength remains intact. As you can see, our operating profit and growth trajectory remains in line with the past several quarters. In fact, operating profit even this quarter is 42% year-on-year.

We continue to invest in our retail business, deposit franchise, and we see strong traction in these businesses. Our credit challenges on which we will talk in detail a little later will be fully absorbed in this fiscal itself and most of it in this and the next quarter itself.

Briefly, on the performance highlights for this quarter:

For the quarter, advances growth was strong at 27% year-on-year. Our wholesale business growth was 12% for obvious reasons a little slower but the non-wholesale business continues to grow strongly at 49% year-on-year. Deposit growth continues to remain healthy at 31% year-on-year. CASA deposits grew 42% during the same period. CASA percentage in fact upped to an all-time high of 26.5% in Q2 FY20 as against 25.8% last quarter and 24.5% same time last year. So, it has been an over 2% growth in the last 12 months; in fact, 2% improvement. In fact, our daily average LCR was 156% for the quarter. These 2 data points demonstrate our growing deposit franchise. We continue to expand our business franchise. In this quarter, we added 14 branches, largely in metro and urban centers, and we are on track to get to 380 to 400 branch number by the end of this fiscal. In our financial inclusion business, we added 143 BC branches in this quarter, with 75 of these in RBL FinServe. In total, we now have 1156 BC branches. Revenue growth momentum remains strong and has grown 41% year-on-year in Q2 FY20. NIMs increased to 4.35%, another all-time high from 4.08% YOY and 4.31% in the last quarter.

Our net interest income growth at 47% year-on-year in this quarter continues to be much higher than our loan growth and our overall yield on advances improved 15 basis points Q-on-

Q to 12.11% largely because of the business mix. Non-interest income grew 33% year-on-year and our core fee income grew 19% year-on-year in Q2 FY20. Our non-interest income was 34% of our total income for the quarter.

Our cost-to-income ratio was steady at 51.5% and our operating profit – this is very important – grew 42% year-on-year and 3% quarter on quarter in Q2 FY20 to a number of 636 crores. So, up to operating profit, pre-provision pre-taxes, there has been a 42% growth. Our PAT for the quarter was 54 crores, our PBT was 100 crores after provisions and we will go into the reasons shortly.

Our rating for Tier-2 bonds was reaffirmed at AA- by CARE Ratings. As you can see, we have shown healthy growth across advances, deposits, income, and operating profits. It is the few credit challenges around a clutch of corporate accounts which we need to address, absorb, and move forward and shall be the only cause for muted profits this quarter and essentially the next.

Certainly, the economy has not been doing well and the corporate credit environment has worsened over the last few months with the slowdown getting exacerbated. There are enough data points on the economy and all of you are aware of what is happening in the environment. So, I don't think we need to dwell too much on that. It has been a challenging period for us also and we will try and take you through it candidly and to the best of our ability.

With that background, now, onto the specific asset quality issues we are facing in our wholesale business and its implications. Since our last call, there has been a lot of speculation and a lot of rumors that have been floating around the size and severity of challenges on the asset quality front in the corporate portfolio. As I said earlier, the stress level in the economy have increased. The deterioration in credit environment has had some impact on us, more than we initially anticipated. Resolutions also have been slower given the system, the endemic stress being higher, market volatility being there to a large extent, and poor coordination between lenders has not allowed transactions to progress as well as they should, and this is resulting in resolutions not happening or getting inordinately delayed.

Also, since we last spoke, we have had time to review our own exposure in far greater detail. While we had previously looked at a reasonable case outlook, now, given the pessimistic external environment, we have decided to be much more conservative in terms of problem recognition and provisioning that we may need to take, more like closer to a worst case scenario. It doesn't mean that resolutions won't happen, but we have taken a call to conservatively provide for in this year itself as I said earlier and see how we can progress thereafter on the resolution front.

In this quarter, we have recognized an additional NPA of 800 crores and on this, we have taken an additional provision of approximately 350 crores. This is significantly higher than the regulatory required provisions. This should reflect about half of both the NPA as well as provisions that we may need to take in the light of our stressed portfolio. Significant portion of the remaining would come in the next quarter with a small tail in the 4th quarter. As a result of this, our gross NPA percentage for the quarter is now at 2.6% as against 1.38% at the end of last quarter and our net NPA position is at 1.56% in Q2 FY20 as against 0.65% in Q1 FY20. Our PCR as of September 30th was 58.45%. I want to reiterate as I did earlier that the stress we are seeing is specific to certain corporates only and we don't see any concern in respect of our exposures to the perceived stressed sectors like real estate, construction, infra, renewable energy, etc. We have given color on this in our presentation deck but at the same time, I will touch upon them now also. In fact, in all these sectors, there are no instances of any SMA-1 or 2.

Specifically, on our real estate book of approximately 2500 crores fully secured, we have an average ticket per client of approximately 57 crores. There is no SMA-1 or SMA-2 on this book. The largest ticket size on this is one entity of approximately 500 crores which is fully backed by a standby letter of credit from AA rated Middle East Bank. If you back this off, the exposure and per ticket exposure even much much smaller.

On our construction book of approximately 4000 crores, the average ticket size per client is approximately 44 crores and the book is largely non-funded in nature. Again, no SMA-1 or SMA-2 in this book. And almost 80% of this book is with a maturity of less than 1 year.

Our total NBFC book is approximately 4100 crores excluding the exposure to our strategic partner which is also our largest relationship. Of this 4100, HFC is approximately 900 and the balance is other NBFCs. These exposures are fully secured. On the HFCs, our total book is approximately 900 as I mentioned with an average of approximately 115 crores with book having maturity of about 1 year once again. No SMA-1 or SMA-2 on this book. On the remaining NBFC book of 3000 odd crores, the average ticket size is approximately 82 crores. The maturity is between 2 to 3 years. Again, no stress in this book, no SMA-1 and no SMA-2.

Lastly, on the power sector book of approximately 2400 crores, average ticket size of 52 crores with more than two-thirds of the book maturing in less than a year. Again, no SMA-1 and no SMA-2. There is no project finance exposure in our entire book.

Overall, if I talk about SMA-1 and SMA-2 positions, it is 0.45% SMA-1 and 0.39% SMA-2. And if you back off the so-called stressed account portfolio which is 0.3% of SMA-1 and 0.22% SMA-2 the remaining is the balance obviously. That's on the asset quality and our wholesale business.

Before I move on, I just want to make a point here that some of the exposures that have been attributed to us based on filings the analysts and investors have pulled out from dated MCA charge filings and other documents, our peer banks have also spoken about this issue and if you were to speak to the data providers themselves, they will I am sure also clarify that there are limitations around this data like companies not updating their MCA records, these are sanctioned letters and not outstandings , these clients may not be existing in the book, etc. Rest assured, as we have done in the past, if you see any challenges around this, we will come out and let our stakeholders know in an absolutely timely manner.

Now, moving onto the non-wholesale book which continued to perform very well. The non-wholesale business continues its momentum growing 49% year-on-year. Within this, the retail asset segment grew 62% and the development banking & financial inclusion (DB & FI) segment by 24%. Yields continued their uptrend by 34 basis points Q-on-Q to 15.52% in the non-wholesale business. This continues to be driven by product mix while the yields in each product segment have been steady.

This time, I want to touch upon the retail asset business environment a little bit in view of the slowing economy and a threat of job losses. We have been doing rigorous portfolio reviews as well as bureau discussions to see if there is any imminent stress building up in the environment. The good news is that we are not seeing any significant trend on the bureau of worsening in segments we operate in. At the same time, our portfolios also continued to be stable in terms of both delinquency trends as well as early warning signals at 6 and 9 months on book (MOBs). We do track acquisitions with a select peer set of banks for any early delinquency trends and so far, even that is stable both for us and actually for the peer set.

We have put out some of these details in our investor deck this time. However, at the same time, a slowing economy, extended working capital cycles, and potential job losses demand more caution as we build portfolios. Suitably, we have tightened all underwriting filters and score boards and removed any potential, vulnerable, or high-risk segments. On an average, anywhere between 15% to 20% of the new acquisitions have been cut. The sales team are aligning themselves to this and finding ways to grow only in the desired segments.

One of our leading businesses, the credit cards business now stands at 2.3 million cards as of end September 2019. It was 2 million in June, up from 1.2 million a year ago. This quarter, we acquired 3.8 lakh customers this quarter versus 3.9 lakhs in the previous quarter. The new card acquisition growth has come down marginally as we have tightened our credit acceptance filters in view of the environment mentioned earlier by me. The aggregate retail card spends saw a growth of 19% quarter on quarter and were 2.2 times as compared to the same quarter last year. In order to further reduce risk within the cards portfolio, we have taken steps around limit reduction and balance conversion for customers showing somewhat high risk. These steps shall enable us to be ready to face any kind of eventuality of our credit stress in the environment should it happen in the future. However, I would like to reiterate that we are seeing no indications in our portfolio or environment deterioration as of now and these steps are purely proactive in nature.

In our loan against property (LAP) segment, you would recall that we run a very tight ship in terms of customer segments and collateral. Here also, we have further tightened our underwriting standards and LTVs keeping in mind the stretched working capital situations for MSMEs. We have also put a few industry/customer segments under caution, i.e., FMCG traders, jewelry, etc. The portfolio quality continues to be stable in terms of delinquencies. The EMI bounces are also stable with no deterioration. However, we have noticed that once a customer crosses 30 days DPD, the effort and time required to bring them back to current state are more. Therefore, we are consciously targeting collection efforts in the first bucket.

Coming to the micro-banking segment, the overall market remains steady. The collection experience in the districts impacted by floods and typhoons has been better than expectations. With collections climbing steadily and past experience has shown that these become normal in 4 to 6 months. Our focus is largely on further granularizing our geographical spread. Our concentration in the top 3 and 5 states is far lower than our other larger peers. We have kept a close watch on the ticket sizes which are also lower than our peers. In this quarter, micro-banking business grew 31% year-on-year and MSE business showed a 52% growth Y-on-Y. We added a total of 143 BCs – 115 in micro-banking and 28 in MSME – in the quarter, taking, as I said earlier, our total BC branch strength to 1156 across 24 states. We are now further accelerating our BC branch opening and intend to open another 150 branches in the remainder of the year. A large number of these will be in existing districts where we have presence. The intention is to cover more villages where the microfinance penetration is low.

Lastly, on profitability and capital, in terms of profitability for the year, we expect that from Q4, we should be more or less back to our normal trajectory. If you see our results, we are growing well at an operating profit level and across the franchise. That has not changed. Therefore, for the full year, we expect a profitability to be lower than the last year but approximately in the range of 75% to 80% of last year's profits.

Meanwhile on capital, we ended the quarter with a capital adequacy ratio of 12.28% with Tier-1 capital adequacy ratio of 11.26%. There has been a lot of speculation if and when we will raise capital. We are planning to complete our capital raising within this fiscal year and now shall now work towards that. There is significant positive interest among our existing and new investors.

In summary, I want to reiterate a few points as follows.

1. Our credit challenges will be fully absorbed in this fiscal.
2. Our operating profit and growth trajectory remains intact.
3. We continue to invest in our retail businesses, deposit franchise, etc., and we see strong traction in these businesses.
4. On capital, we will raise capital before the end of the year. With that, we will now open up the call for questions.

Moderator: Ladies and gentlemen, we will now begin with the question & answer session. The first question is from the line of Aakash Dattani from HDFC Securities. Please go ahead.

Aakash Dattani: My first question is on the mention of the approximately 1800 crores of stress on slide #25. If memory serves me right, this number was about 1000 crores in the previous quarter. If you could possibly articulate further, what has led to these 800 crores bump up and how much of that includes the buffer mentioned on that slide?

Vishwavir Ahuja: Let me put it this way. First, I think if you were carefully listening to my commentary, I did indicate that we have treated the sort of deterioration in the environment into consideration and also the fact that some of the sort of likely scenarios are looking a little more difficult than they were before and we have all known the reasons behind that. While the number of accounts is more or less the same and barring an addition of maybe 1 or 2, mainly one of the some of the things which happened later which you are all aware of, likely the rest of it is in the buffer zone. We want to put it that way. And I would say that is maybe 10% or 15% of that is in the buffer zone.

Aakash Dattani: 10% or 15% of the 1800?

Vishwavir Ahuja: Of the total.

Vishwavir Ahuja: Of the total. We have mentioned that this covers the coffee-based group, diversified media group, east and west based groups, we will probably group all that. That way, the commentary is not much different except that given the environment, we want to be a bit conservative in our assessment and also with an intention to aggressively attack this and sort of take care of it as much as we can within the last quarter which has just passed and the current quarter which is running.

Aakash Dattani: Okay. My second question is on the NIMs are up quarter on quarter and I would assume that with the significant slippages, what would be the interest reversals this quarter?

Jaideep Iyer: Interest reversals should be in the 20 crore plus/minus range.

Aakash Dattani: If you could specify the GNPAs on the card portfolio and the write-offs in that portfolio during the quarter?

Harjeet Toor: GNPA in the cards book is around the same number of 1.33 odd percent.

Jaideep Iyer & Harjeet Toor: Write-offs usually happen within 180 days. Credit costs we would be running similar to 4.4 to 4.45 of previous quarter.

Moderator: We will move on to the next question that is from the line of Krishnan ASV from SBICAP Securities. Please go ahead.

Krishnan ASV: I have 2 questions. 1) Is the current MD or the senior management team currently under investigation by the RBI for NPA evergreening? 2) I would just like to understand despite you being in silent period, you tend to meet a lot of investors. Is there an element of this surprise or nasty shock that has been indicated to investors because of which the stock has been sliding?

Vishwavir Ahuja: I am a bit perplexed by your questions first of all. I don't understand what the genesis of the basis for asking the 1st question first of all and I will let it ride, yes? You obviously know something or don't know something. The 2nd part also is an innuendo; I am sorry to put it that way. And then frankly, as I said in one of my media interviews also that we are neither concerned nor habituated to actually watch the developments in the stock market and as far as we are concerned, we have built an impeccable institution which stands on very strong pillars, very strong ethical standards, very professionally managed, and extremely well run and is continuing to function and grow in an extremely healthy manner.

Krishnan ASV: That's a fair point, Vishwavir. I think what I am trying to understand is there is a fair amount of noise.

Vishwavir Ahuja: And RBI inspection was concluded last month and finalized in a satisfactory manner.

Krishnan ASV: My only point was this was a good opportunity to at least reassure all of us in case this noise is indeed noise.

Vishwavir Ahuja: Like we said, there is noise is indeed noise.

Krishnan ASV: The question was very well warranted and your replies are extremely was well-appreciated.

Moderator: The next question is from the line of Nitin Agarwal from Motilal Oswal Securities. Please go ahead.

Nitin Agarwal: I have a few questions mainly around asset quality. Firstly, this quarter, we have changed the rating disclosure to external based ratings. How well do you think this represents the asset quality picture for the bank versus the internal rating based disclosure that you were sharing earlier? Also, if you can give some color on the movement in rating profile because this quarter, we have seen intense downgrades in the system. How has that impacted our rating?

Vishwavir Ahuja: Before Jaideep answers your question, I just want to say that this was a huge request and a demand from I guess all of you to because internal ratings are internal ratings. To put the portfolio against the externally rated benchmark. So, this is in response to a disclosure request that we have put it out this way. Also, the comparison of internal versus external is also in one of the slides. So, the comparable picture is given for you to see.

Jaideep Iyer: Slide #51 is the one which gives you a comparative with last quarter.

Vishwavir Ahuja: And in future, we will report in the context of external ratings. But this time, we have given you the comparable chart.

Nitin Agarwal: The movement of ratings in terms of downgrades and slippages, how has that led to the….

Jaideep Iyer: We have had slippages. Some of that actually have become NPA in the current quarter. So, externally downgraded ratings some of that have slipped into NPA this quarter. If you look at the chart on page 23, we do have a slight bump up sequentially on our below investment grade ratings largely compensated by the fact that there is a decrease in the BBB ratings as well. So, we continue to face downgrades in the book like in the external environment but some of that have been cushioned by the fact that we have taken a substantial part of that as NPA this quarter.

Nitin Agarwal: Secondly, on the slippages, of the total 13.8 billion slippages that you have reported, 8 billion comes from the stressed pool. If you can give some color on the remaining balance as this also is a large number considering our run rate.

Jaideep Iyer: Approximately 250 to 275 crores chunk of that was technical slippage which got upgraded because we recovered the entire outstanding due. There was a technicality which resulted in that. If you remove that, then we are in the 250-crore plus/minus range on the routine slippages. Given the increasing retail portfolio, that will also happen. So, we should be in that 200 to 250 from a BAU perspective.

Nitin Agarwal: Of the total 18 billion stressed pool, in all, how many accounts are there? You have mentioned that these 4 groups are the dominant parts here but in all, how many accounts are there and if you can give some proportion in terms of the size of these 4 groups in respect to the total 1800 and besides that, whatever the number of accounts if you can mention that because there has been a substantial increase from 1000 to now 1800 this quarter.

Vishwavir Ahuja: I think we have answered that question many times over that specifically we have not put a number against each. We don't give out by name. It is a matter of principle we have not been doing it. I don't think it is fair also and also it is not even a good practice because in some cases these are performing accounts where there may be some stress but there are collection efforts going on and I think it is tactically also not the right thing to do. First, I want to make that statement very clear. Having said that, given the fact that this has been an expectation and we need to get a proper disclosure of this, we have given you as a pretty close sort of to the exact position by putting it in the manner we have and in terms of the total exposure associated with this. And I have also indicated in a previous answer that there is an element of buffer that we have included, and I gave you the quantum of that. We have also said in our commentary that these are clutch of accounts or handful of accounts. I will leave it at that.

Moderator: The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: I have 2-3 questions. One is, if I just observe the OPEX growth which is around 40% to 41%, it is much higher than loan growth. I just wanted to understand which parts of the business are you spending these additional expenses on? If you could just sort of elaborate on that. My second question would be on one of the housing finances groups which recently came up and I think you came on television and clarified some of it. I just want to know if that exposure is part of this 1800 and if you can quantify how much exposure you have to that group? The 3rd question is just a clarification. Basically, the movement of this 1800 crores of watchlist that you have, this would consist of 800 crores that have slipped into NPA and a standard part which is 1000 crores which is a standard which is not part of the NPA. Is that correct?

Jaideep Iyer: Abhishek, the last point is correct, absolutely. That is pretty clear in the slide. I will take the OPEX question. On the OPEX, I think there are 2 things which are driving OPEX. One is, we continue to invest in our retail franchise in terms of branches. We are not going slow on that. We expect to be around 380 to 400 branches by the year end which would approximately mean almost 140 branches expanded in the last, let us say, 12 months and the next 6 months which is a fairly substantial expansion. That is one driver for cost. Along with that, obviously, we add people in branches. The second driver of cost is the fact that we have a credit card franchise which is growing whereas we have discussed in the past, the costs are upfronted. If you notice in the current slide as well, on a YOY basis, we have doubled the card book, and we continue to have acquisition run rate of more than 100,000 cards a month. As long as those acquisitions vis-a-vis the base continue, we will have a cost increase which is driven. Having said that, despite that cost increases, obviously we are improving on our return matrices in that business progressively.

Abhishek Murarka: There was one more question on this housing finance company…. whether it is part of the 1800?

Vishwavir Ahuja: Between then and now, there have been both reduction in the exposure and strengthening of the structure around that exposure in a manner that we are completely fortified and therefore there is no need to consider that anywhere near being stressed.

Abhishek Murarka: If you can share any quantification?

Vishwavir Ahuja: No quantification. As I said, the number then also was a very miniscule number which had been suggested and even since then, it has significantly come down to an even more miniscule number and that itself exposure is well fortified.

Abhishek Murarka: So, it is not part of this 800 either. This additional….

Vishwavir Ahuja: No, there is no question of it. It is not an issue in our minds.

Moderator: We will move on to the next question that is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, in the previous con-call, you had alluded that the recoveries from some of these stressed cases would be contingent upon the corporate actions to deleverage or some stake sale. So, wanted to understand, as you had indicated in your opening remarks that the recoveries are getting delayed, how confident are we with the 40% to 45% kind of PCR that we may not need to provide further on these accounts?

Vishwavir Ahuja: The fact is that, technically speaking, what NPAs we have taken are not even technical. I want to say that basically the level of NPA recognition and the provisions taken are far beyond the regulatory requirements. In fact, we have recognized a significant portion in the NPA number even when it was actually not needed or required to be done based on whatever NPA norms are. We have done it because of reasons of basically what we may call prudence, our assessment of the stressed situation and the pain that may follow and our intention to basically decide now and in this coming 2-3 months period, whatever we need to do to clean everything and be back on track by the 4th quarter of this year. That has been the driving intent in terms of what we are doing. In the next 2-3 months, whatever we need to do, we will do, but we have already taken more than sufficient amount of provision from that point of view. And while some movements in the positive direction are happening, but we want to make sure that they are well contained and well recognized.

Jaideep Iyer: The other thing is I think the consequence of the delayed resolution actually results in potentially a high number technically slipping in more than the LGD impact. I think that is the reason why we also wanted to expand the number conservatively on the stress book.

Rohan Mandora: How is our exposure placed in the waterfall as a recovery cash flow that may happen from these accounts?

Vishwavir Ahuja: Let me answer that frankly. Barring in one case which was an obvious NPA case in our case, in all the others, we are extremely well placed. There was frankly one bad case and that was in a sense a straight NPA and it has been so recognized and almost 100% provision has been taken. That having been said, in the rest, we are in an extremely good position. We are definitely pari passu or we have superior or favorable security coverage or whatever it is without going into details. That's the answer.

Moderator: The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir, your retail NPAs have almost doubled on a YOY basis. Any color on this?

Harjeet Toor: Pankaj, the retail NPAs are actually a function of the changing mix, and as our unsecured pools grow, you will see a slight increase there plus the LAP book is also now fully matured. At one stage, I think last year, we used to run at about 60-70 basis points. That is also now a little higher in the 1.1% to 1.25% kind of range and that is what is kind of resulting in this increase. But this is in line with the expectation and the mix keeps changing, this NPA number will be more a reflection of that.

Pankaj Agarwal: So, it is broadly to do with your mix change in the retail portfolio?

Harjeet Toor: Yes.

Pankaj Agarwal: If I look at your QOQ deposit growth, that is roughly 3.3%. If you look at last 3-4 years, in 2nd quarter, you normally see 5% to 6% deposit growth. Have you lately seen some pressure on deposits, especially in the light of PMC Bank fiasco?

Jaideep Iyer: Pankaj, I let Surinder answer that. But before that, we had an almost $150-million borrowing from IFC for long-term during the quarter and we had some very good refinance borrowings which we had, and opportunity to take at much lower yields and therefore the need for the marginal bulk deposit went down. If you see, our CASA has grown sequentially pretty healthily as well as YOY. So, clearly no such issue at all.

Surinder Chawla: I can add to that saying that because there are new branches coming in as well, the granularity of our CASA growth is also improving. So is this case with our time deposit. It is just that we wanted to ensure that we don't pick up high-cost deposits and therefore the bulk deposits have consciously been not attracted for by at a very high rate.

Jaideep Iyer: Just to add, we are sitting on almost 4000 crores of excess G-Sec T-bills simply because deployment is slower than the kind of deposits and borrowing opportunities and therefore as you remember, Vishwavir made in his comments in the speech, we are running at about 156% LCR. So, it is a function of that rather than anything else.

Moderator: We will move on to the next question that is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Three questions from my side. The first one is on the slippages side. If I look at 1377 crores of slippages, you said 800 crores has come from a stressed group. 250 crores pertains to another corporate which has upgraded in the current quarter or how should we read into the number? And any color on what is the nature of the slippage?

Jaideep Iyer: Technically, it crossed the DPD within the quarter and then they could mobilize funds enough to clean up the entire overdue basis which it gets upgraded.

MB Mahesh: In a sense that is there a potential of this? Because it seems to be a slightly a large number if it is pertaining to one single corporate. So, just wanted to check as to will this be a potential stress at a later point in time?

Jaideep Iyer: Not really Mahesh. That is not an issue in this case.

MB Mahesh: Just confirming this. For 800 crores here, 250 crores has come here. So, it is roughly about 1050 and you are looking at a balance which is still about 350 crores, slightly on the higher side even if you look at the trend levels.

Jaideep Iyer: We had some slippages in agri, Mahesh, about 70 crores of slippages in agri which was a little bunched up, should come back to normalized levels. If I exclude that, then we should be in the 225- to 250-crore range.

MB Mahesh: Second question is on the cards NPLs. You have given a fairly detailed discussion on that topic. You kind of made a comparison with the credit information bureau's report. The data that we seem to be getting from the bureau suggests a different set of numbers, especially on the 90+ DPD on the cards business. Just trying to understand where is the difference that you are seeing and what we see from the credit information bureau?

Harjeet Toor: If you look at the industry, 90+, in fact the last one was 1.77. We have mentioned 1.8 here.

MB Mahesh: Okay. When you are saying that the industry is at 1.8 and you are at 4.8….

Harjeet Toor: The purple bar which you are seeing is a 30+ weight and the green bar is a 90+ weight. We have given 2 sets. We have given RBL at 1.3, 90+ and industry at 1.8.

M B Mahesh: Final question, on the original norms. There has been some discussion in today's news article in ET which suggested that origination through DSA's FinTech platforms have been significantly curtailed in terms of the powers at which they have been exercising earlier. a) We wanted to understand how much does this impact your business? b) How are you kind of tackling this issue? c) In this quarter if you can tell us how much you have securitized from that side of the business, it would be helpful.

Harjeet Toor: First, let me just tackle this in terms of the origination piece. I think this advisory was there a couple of months back which is basically saying that your partners, whether they are agents or BCs, cannot do a KYC original seen and verified on their own and therefore a bank officer should be doing that. In line with that, we had already started moving onto doing Aadhar-based biometric for all our customers so that we are able to do this. In fact, in about another few days, we will be launching this. All our partners will carry Aadhar devices and therefore we will do this. So, it is more a change in terms of sourcing process point of view and in a way it is good because what it does is that any instance of fraud, etc., kind of gets removed because now you are meeting the customer and taking a biometric impression from them.

MB Mahesh: Per se, this does not impact too much but would you say that it has increased the OPEX of the business or nothing has changed the dynamics of the business?

Harjeet Toor: It is a one-time piece because between us and our partners, we will have to invest in those biometric dongles which is there. That is the piece. Also, what it does is that it kind of makes digital acquisition a little painful because you will still need to go and meet the customer unless you can get external Aadhar done which is a very few set of customers. That's the impact which it has. Nothing significantly to impact our volumes, but yes, the process will change big time for everything which we do.

MB Mahesh: What was the origination from these channel partners?

Harjeet Toor: I would say it differs for different products. For example, in financial inclusion, everything is BC and in this, we even count our subsidiary as a BC. So, technically, even my subsidiary should be doing a biometric and are not authorized to do that. So, our MSME business is entirely through our subsidiary but again it is a BC. So, almost everything falls into it apart from 10% to 15% which we generate from our branches.

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

Jai Mundhra: Sir, just wanted to understand a few things. If you can clarify or quantify the sectoral slippages in this quarter, mainly from this 8 billion which has slipped.

Vishwavir Ahuja: I think we gave you a very detailed sector-wise explanation with data points there, and we also said in our commentary that we have no sectoral concerns across any troubled sector or sensitive sector. And I think for 5 or 6 sectors, I gave a very detailed breakdown in commentary.

Jai Mundhra: I wanted to understand out of this 1800 crores, 800 crores have already slipped and 1000 Is remaining

Vishwavir Ahuja: That's within the names mentioned, across the 4 groups.

Jai Mundhra: I wanted to know which of these sectors have actually slipped and which are still kind of a watchlist?

Vishwavir Ahuja: That's getting into that same specific point. It is from those four. I have mentioned that to you.

Jai Mundhra: Sir, in our retail loans, are we following the daily stamping basis? Because some of the banks have now moved to daily stamping basis on retail NPA classification.

Harjeet Toor: Yes, we have also moved towards daily stamping now.

Jai Mundhra: On our entire retail portfolio, right?

Harjeet Toor: Yes.

Jai Mundhra: Third is just a clarification, sir, if you want to provide that regarding that large housing company which MD sir also mentioned on TV as we have a very small exposure, if that is included in these names or it is not very relevant in overall scheme of things?

Vishwavir Ahuja: I mentioned a little earlier that firstly, even from that level of exposure, it has reduced further. Also, I think in terms of the security structure that we had, that has been further strengthened in a manner that we feel fully fortified and to not have any concern on that exposure and it is not included in this number.

Moderator: The next question is from the line of Sujan Sinha from Future Generali Insurance. Please go ahead.

Sujan Sinha: I will have to go back to that slippage number once more for clarification. This 250 odd crores technical slippage that you are talking about, is this a single account?

Jaideep Iyer: A substantial part of that is single account.

Sujan Sinha: Has that account totally repaid or just overdue amount has been repaid?

Jaideep Iyer: If the overdue amount was repaid, it couldn't have been upgraded.

Sujan Sinha: So, the entire amount has been repaid?

Jaideep Iyer: Entire overdue has been repaid.

Sujan Sinha: Is it still a 30 DPD or 60 DPD account?

Jaideep Iyer: It is below 30.

Sujan Sinha: But it is still overdue?

Jaideep Iyer: I don't even know whether the September 30th interest has been serviced. So, it is either zero or less than 30.

Moderator: The next question is from the line of Ravikant Bhat from IndiaNivesh Limited. Please go ahead.

Ravikant Bhatt: Just one question. If I recall from the previous con-call, I think you had said that the LGD on the identified stressed accounts should not be more than 25% to 30%. Therefore, that would be the provision level on these accounts that would be targeting. Does that stay unchanged even after having expanded the stressed assets to 18 billion?

Vishwavir Ahuja: I think it is a fair question but in some senses I did suggest in my commentary that our assessment is moving to a more conservative level and we are taking into consideration a scenario where some of these resolutions can be a little more protracted and in the meantime, it may be more prudent to take higher level of provisions.

Ravikant Bhatt: Sir, when you say that you would move to a normalized level of earnings beginning 4Q, what kind of provisioning would you have in mind?

Vishwavir Ahuja: I am saying that whatever is required in terms of this scenario between now and then, we would intend to take it rather than postpone that. I want the identified group of names and the entire sort of stressed account portfolio needs to be completely addressed and the required impacts to be absorbed and taken is what I am saying, and that is the intention.

In other words, in the current quarter – some efforts were made in the previous quarter which we have reported now – many efforts are going on and to some extent, we are successful and to some extent, we are not successful. I am saying that we will take pretty much bulk of that in this quarter itself so that only a tail is left for the next quarter which should not therefore impact the normalized level of profitability for the 4th quarter in any significant manner.

In other words, what I am saying is your 3rd quarter may not be worse but may not be significantly better than what it is now. But then, after that, very confidently we are able to say that we intend to revert to normalized level of performance in all respects in terms of growth and profitability.

Moderator: The next question is from the line of Deepan Mehta from Elixir Equities Private Limited. Please go ahead.

Deepan Mehta: I just wanted to ask if you had done an internal investigation of the insider trading which was done on 30th July post the suicide by Mr. V G Siddhartha?

Vishwavir Ahuja: First of all, that news item itself was unfounded, misplaced, and malicious and we issued a statement to the authorities and to the exchanges to that effect. After that, there has been no investigation. And because I think the genesis of the news itself was such that there was no need for an investigation in the very first place.

Deepan Mehta: So, the company did not do any internal investigation?

Vishwavir Ahuja: Of course, we did.

Deepan Mehta: What was the outcome of that internal investigation? Because it is just too coincidental that the news is out and 27 senior employees of RBL Bank sold shares of RBL Bank the next day and when you say that you are running on a highly ethical standard, sir. Thus, is the question.

Vishwavir Ahuja: I think the investigation itself was not something that had to be go in too much depth. They were very simple cases that these are normal activities within trading windows, and in most cases these were pledge invocations, etc. You must understand that unlike some other players, in our case, a significant portion of the entire employee base of the bank are ESOP holders. Many of them have in essence borrowings against this and in many cases, these things happen naturally which was the case in pretty much most of the cases. So, there is nothing any of them could do under the circumstances either and in the remaining very few cases, they had taken proper approvals within trading window and acted in the normal way. There was no untoward activity from that point of view.

Deepan Mehta: As I understand, you are saying most of it was invocation of the pledge and a small amount was permissions taken and it was….

Vishwavir Ahuja: I would not like to go further into this issue please because this is an issue that nobody…. I mean I have told you there is no enquiry, there is no investigation, internal/external not required. It was a misplaced news item. I don't understand why you want to go into it again and again.

Deepan Mehta: The reason we are getting into it, sir, is that it is just too coincidental. The events are too closely linked and the list of people who have sold the shares, it is all in public domain now, they are all various heads of your various departments. That is why the question comes and the spot has did significantly from that point. And it does raise an issue as far as the – I don't have the right words to put it but it is just too coincidental. That's the reason we are raising this issue and if you say that most of it is because of pledge invocation, then it to an extent allays those concerns.

Jaideep Iyer: Deepan, I think you get to see 1 day trading. We get to see the behaviors of people, July for example is the month when people get their ESOPs vested because for us, the performance appraisal cycle is July to June. So, July is the month when people actually get their options vested. When people get their options vested, many of them exercise and sell. You are looking at a picture of 1 day, we have the benefit of looking at the picture of many many employees across many many months and years before that. If you look at that, there is no unusual track. You are picking up on that day because you are only having that data point. That's the point I am trying to say.

Deepan Mehta: One more question I have, sir, is that you are looking at capital raising. Are you comfortable raising money at such low stock prices and diluting the equity significantly? Would it not be more prudent to just slow down the growth and have the whole process cleaned up and see an appreciation in the stock price and then look at some sort of equity valuation?

Vishwavir Ahuja: All I will say in all frankness is that there are equally important and weighty views on both sides and in the past, we have taken a slightly different approach to capital raising. Our own management and board's prudential thinking on the matter is that every time, and we have said this at least 4 or 5 times in the last 4-5 years that every time we approach or are about to go under 11% of Tier-1 capital, we tend to irrespective of issues that you have just brought out of dilution, this, that, or otherwise, we have prudentially gone and raised money. In other words, we just wanted to remain as well capitalized and prudential as possible with enough capital buffer. That is the philosophy.

Jaideep Iyer: Just one small point. In addition, if you notice, we burnt very less capital. So, I guess, obviously from an ability to sustain, we also obviously are working on that. So, we are very similar to last quarter's levels.

Vishwavir Ahuja: All Jaideep is saying is that we have room not to do it for a fair amount of time which is an argument you have also taken that is viable. But at the end of the day, I guess this is our view.

Moderator: The next question is from the line of Arsh Desai from Vallum Capital. Please go ahead.

Arsh Desai: My question is with regards to your wholesale advances. Of course, you have taken a more cautious approach and slowed down your lending there, but I just wanted to know your long-term vision for the books. Is it like 2-quarter or 3-quarter thing where you are kind of slowing down until all this plays out and then you start growing your wholesale book again or what is your stance on your wholesale book growth?

Vishwavir Ahuja: I think we have a solid business franchise in this space. And the wholesale book is not just the large corporates. It is also the next layer of mid corporates and smaller corporates in the country. If we track the performance of this book over the last 5-6 years, except for this year, I was looking at the data points for our gross NPA position in this business, particularly in the CIB space for the last 5 years since FY15-16 onwards, and other than the fact that we managed to create a space in this pace across the various product and service categories and I think we are now well recognized, appreciated, strong relationships, all of that is in place. So, in a sense, we are well penetrated in this space, and our gross NPA from an asset quality point of view has not exceeded even 50 basis points in the past. So, I think what has happened this year around, like I said, a very few set of names is driven off whatever market environment we have right now or economic environment we have right now largely. These are not that decisions we have made barring maybe in one case. Because if you see, in the last 4-5 years, we have avoided all the difficult and sensitive sectors, we have avoided all the so-called troubled names and names where there were questions, none of them, whether they were NCLT cases or other groups or other companies. We have a pretty clean track record and a very good track record in selection and in managing this portfolio and it has also grown to a good level of scale and size. So, certainly we will be in this business. Now, the philosophy going forward based on some learnings is that we need a much more granular base of customers. Some of the exposure levels where in hindsight are higher than they need to have been to specific names or groups, and that's a bit of a learning which we have taken in our stride. So, model changes and changes in our risk underwriting standards and risk culture, we will be more along those lines.

Arsh Desai: I have one more question with regards to our credit card portfolio. Of course, in the credit card business, the operating costs are very high upfront, and the fruits are seen later. So, just trying to understand for how much longer would be this drag on OPEX in the credit card business and when would we actually start seeing the fruits of this business?

Harjeet Toor: The cards business is fairly profitable. In fact, in a couple of last quarters' interactions as well, we have kind of said that it already delivers ROAs much in excess of the bank ROAs. We expect it to reach average industry level good player ROAs when we reach about 3 to 3.5 million. But today also, we are much in excess of the bank ROA. So, it has high OPEX. It doesn't mean it is a drag on profitability.

Arsh Desai: What sort of ROAs this book generates?

Harjeet Toor: While we don't specify this, I think the industry level average ROAs if you look at it should be in the 3.5% kind of range.

Moderator: We will move on to the next question that is from the line of Aditya Jain from Citibank. Please go ahead.

Aditya Jain: Just to confirm my understanding that the increase from 1000 crores to 1800 crores, the underlying accounts are broadly the same but earlier we were including a part of the exposure to those accounts versus now we are including the entirety of the exposure to those accounts. Is that right?

Vishwavir Ahuja: No, that is not right. Like I said, there are certainly one or two names that have been added based on news that has come since and we have talked about that, and we have also added a bit of a buffer as I said which can happen given the deterioration in the credit environment which is something I talked at length about to say that we are taking a conservative view of the credit environment. Even in these few names which have been already identified, a couple of them are AA+ rated companies just last year and they have come at the tail end of the if I may say the NPA cycle of the industry which has been playing out over the last 4-5 years. So, my pointer is that I don't think anybody can sit here and say that…. Therefore, it is important to take a conservative view and build some cushion in your thinking. Yes, last time when we sat, we said "okay, let's take the most reasonable case" and on the expectation that things will either remain stable or turn or whatever it is. That is on the gross NPA number or the gross stressed assets in our exposures. The other aspect of it is the level of provisions. When this happens, when this kind of an environment prevails, then obviously, like I said, the resolutions themselves are more painful and protracted and the longer it takes, the less you get back. So, you need higher provisions. As simple as that. And I am saying both. And I am saying we have taken very very aggressive and conservative – if I may say – initiatives in both directions.

I also said that the number that we have provided in this quarter is far higher than the number that we would have been required to provide.

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