"RBL Bank Limited
Q2 FY '25 Earnings Conference Call"
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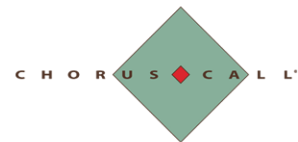

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Moderator: Ladies and gentlemen, good day, and welcome to RBL Bank Limited Q2 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing 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: Thank you very much, ma'am. Good evening, ladies and gentlemen, and thank you for joining us for a discussion on our Bank's financial results for the second quarter and half year of the financial year 2025. We have uploaded the results along with the presentation on our website, and I hope you have had the chance to go through it in detail ahead of this call.

I am, as always, joined on this call by Rajeev Ahuja and other members of our management team to address any questions that you have. I will spend the next few minutes talking to our progress on the broad-based parameters, after which Mr. Jaideep will take you through the financial numbers in detail.

First, on macros. We are seeing secular growth in India's macroeconomic landscape, highlighted by the recent GDP projection as in the range of 7.1 to 7.2 percentage in 2024-25. We believe growth continues to be supported by a strong private consumption and rising investment levels and with the recent changes in monetary stance, we expect liquidity conditions to improve, facilitating credit growth across sectors.

In FY 2023, we have laid out our vision for 2024-26, covering our target growth of 18% to 20% in advances and deposits, 50%-plus share of granular deposit, retail mix of 60% to 65%. PPOP growth higher than advances growth and in the range of 1.3% ROA by FY '26. We continue to be confident of achieving this. We have articulated this before, and we continue to strongly propagate our overall thought process of looking at our growth in terms of individual business segments plus the synergetic One RBL Alpha that we are in the process of executing.

On individual businesses, I have been talking about retailization of our assets and liabilities, and the story is borne out of the numbers itself over the last 2 years. We have seen secured retail assets grow from approximately INR10,000 crores in September'22 to INR23,000 crores now in September '24.

Similarly, retail secured disbursements during this period has grown from approximately INR600 crores per quarter in September 2022 to approximately INR2,300 crores per quarter in September 2024. Our liabilities growth has been robust with the granular deposits growing 22% Y-o-Y, while total deposits have also grown 20% in the last year. Importantly, our average current account balances have also grown well at 22% Y-o-Y, led by both branch banking and our corporate relationships.

On wholesale banking, we have reimagined our approach and now seeing results. Our wholesale lending business now runs largely self-funded, focuses on well-rated clients and the commercial

segment specifically is targeted towards midsized corporates with whom we can have a holistic relationships. Overall, we have also materially debulked and derisked this business.

On cards, as we have said in the recent past, we are consolidating our position and looking to leverage the customer base for multiple products, while focusing on improving the profitability of the business further. On microfinance, the momentum of growth is on a near-term back burner as we face on-ground issues with the borrower leverage, borrower multiple lenders, etcetera. But this appears to be settling for now.

While the favorable liquidity and growth conditions have been beneficial to us, we have also seen near-term episodic impact related to the credit quality on a section of borrowing universe as unsecured credit. For us mainly in credit card and micro finance. I will briefly touch upon the why of this aspect, while what will be covered when we'll go through the financial numbers.

In case of both credit card and microfinance business, it is notable that when compared with the comparable peers, we still continue to maintain higher collection efficiencies across buckets. While credit card slippages have largely been on account of the impact of changeover of collection services from our large co-brand partner. The benefit of this transition, both in terms of our control and the ability to manage this going forward far exceed this impact.

Our analysis has clearly shown that this near-term challenge on credit card slippage is a function of time and scale of this transition program and has negligible casual relation with the portfolio quality, our customer profile that we have. On cards, we have also shared some data on the trends on collections in our presentation. And as we exited Q2, we have seen the collection efficiency in the current and the early buckets materially improving nearly back to the levels pre transition. And this gives us the confidence that this pressure is largely behind us as we enter Q3.

On micro finance, while the impact of this over leveraging has resulted in near-term impact on asset quality, the fundamentals of the business model remain robust. We continue to have one of the lowest ticket sizes in this market. Our portfolio mix philosophy is focused on improving renewals on the existing borrowers, while limiting exposure to only one loan per borrower. We have also invested in remodeling our collection platform with digital tools, advanced analytics and separation of the recovery teams to improve collections and many such efforts will hold us in good stead as we navigate the current condition. While we are seeing improvements in efficiencies as we exited September and with the industry now adapting conservative lending practices, our estimate would be to see this near-term impact bottoming out through Q3, as efficiencies trend upward and returned to normalcy in Q4.

In summary, our bank has been seeing consistent growth in secured retail and the granular liabilities, well above the overall growth of the bank. In the near term, there are challenges in credit cards and microfinance. The credit card is returning to normalcy and microfinance is trending to improve performance.

We also shared the progress of our journey in achieving our planned targets. As you can see from our investor presentation on Slide 22, the newer businesses are getting close to breakeven. And as we come out of the near-term stress, we should be able to get back to our profitability

journey. Our branch banking business continues to drive granular deposit growth with improving accretion in what has been a challenging deposit environment. We have been able to grow without really compromising on deposit rates, while the general trend in the industry has been higher deposit rates. At the same time, our wholesale business continues to be steady profit generator with multiple legs into liabilities, trade, cash, foreign exchange, etcetera, reducing the dependency on asset-led revenues.

We are quite pleased with our growth in the newer secured products, and are now also walking down the path of affordable home loans and small and micro business loans which has better risk/reward dynamics. The proportion of the affordable housing and the small ticket secured business loans has reached 15% of our disbursement in housing and business loan and this is expected to materially increase over the coming quarters.

The branches and self-sourcing are increasing in proportion in secured retail, especially in housing and business loan and this trend will improve the pace of profitability. As we committed a couple of years ago, we stabilized the bank and set it on the right course of growth with the new products moving towards a more diversified revenue generation path.

Cards and microfinance are clearly a profitable business with the resilience to withstand the near-term challenges and will revert to a better earning profile. Wholesale banking continues to steadily improve its contribution to the bottom line and the newer businesses are improving their operating leverage.

I will now hand over to Mr. Jaideep to take you through the financial results.

Jaideep Iyer: Thank you, Mr. Kumar, and good afternoon, everyone. I will briefly take you all through the financial numbers. Advances for us grew 15% year-on-year and 1% sequentially. Within that, the retail book grew about 24% year-on-year and 2% sequentially. The slightly muted sequential growth in retail was due to consciously reducing the growth in microfinance given the current industry conditions and the focus on collections. And as soon as we see collections come to a pre-stress levels, we should be able to then push the pedal on growth, which we expect should take anywhere between 3 to 6 months.

Our non-microfinance retail disbursals this quarter was INR3,200 crores, which has grown 18% sequentially. So the focus continues really to kind of give the thrust on secured loans, which has grown -- housing loans have grown at about 56% year-on-year and rural vehicle loans, which we introduced about 2 years back, has been growing at about 58% year-on-year.

Within wholesale, given the fact that we should be focused on the right risk reward, commercial banking has been a focus of growth, and that has seen a growth of 17% year-on-year, even though the overall wholesale book was flattish sequentially. And I think that's conscious that we are focused on segments where we think we can get meaningful business opportunities with our clients.

In credit cards, one of the paths that we started working about 1.5 years back was to reduce the dependence on a single large co-brand partner. And also not only get to new co-brand partners,

but also have an organic path for acquisition of customers, both through branches and through direct distribution.

Happy to say that we have now inverted the proportion that of 65% to 70% through BFL and 30%, 35% through all other segments of origination. And now we have reversed that to almost 64% through direct sales and other co-brand partners, whereas BFL co-brand has now come down in terms of origination to about 36%.

As you all know, we have recently also launched co-brand cards with Indian Oil Corporation, IRCTC and TVS Finance. But the bigger focus is also on self-distribution network. We now almost have 3,000 people on the street along with branches to be able to sell directly the RBL cards.

On deposits, we've been saying this for a while. Focus is on granular deposit growth. And we transparently disclosed the deposit contribution that is there from less than INR3 crores, which is the definition of retail deposits for us. And that's now about 48.5% as a contribution to total deposits. And this has grown 22% year-on-year and 4% sequentially. Typically, the effort will be that this grows at a pace, which is higher than the overall deposit growth.

CASA has grown at about 13% year-on-year and 10% sequentially, led by corporate flows. I think we are holding relatively steady if you look at the daily average CASA. There is competition for deposits, as we all know. But we continue to see reasonably good traction on deposits. And I think we are quite comfortable in saying that granular deposit growth and overall deposit growth is not really a constraint for us to get to our targeted growth on advances.

Branch banking-led deposits, which is eventually deposits sourced by branches, which will include some bulk deposits, that grew about 29% year-on-year and 7% sequentially and accounts for about 62% of our total deposits. LCR continues to be healthy at about 129% for the year -- for the quarter. We've been in this range of 125% to 135% over the last 6 to 9 months.

Our NII was up 9% year-on-year, but down 5% sequentially at INR1,615 crores. NII growth was impacted on two accounts. One, we had lower disbursements in microfinance this quarter, and therefore, the average book in microfinance was lower. And I think the bigger contribution was also from the fact that we had a higher than trend slippages in both cards and microfinance, which did cause interest reversals.

Also from a sequential comparison, you will recall that we had an additional INR69 crores bump up in NII in Q1 on account of tax refund. If I exclude that, we still have almost 35 to 40 basis points fall in sequential margins and largely because of the reasons I just alluded to.

Cost of funds have largely stabilized with cost of deposits at about 6.53% and cost of funds at about 6.57%. Hopefully, therefore, we seem to be past the hump in terms of largely increasing trend in cost of deposits that we have seen. Give or take, we should be in this range a few basis points here and there before, hopefully, we start coming down, which, of course, will be a function of the interest rate environment in the economy.

Our other income has shown quite a lot of resilience. We are at INR927 crores this quarter, 32% higher year-on-year and 15% sequentially. Of this, core fee income grew 21% year-on-year and 7% sequentially to INR822 crores. These are, of course, also benefited by favorable G-Sec movements and some equity market-related gains in the non-core fee income growth.

Our total income as a result was up 17% year-on-year at INR2,542 crores. In spite of pressure on margins, which we just discussed, we've been able to offset some of that through better fee income performance.

Our opex growth continues to be lower than advances and income, as we've said in the past and grew at 13% year-on-year, marginally lower sequentially actually to INR1,632 crores. And as a result of which, our cost-to-income was slightly better at 64.2% this quarter as against 65.7% last quarter. Our pre-operating profit was at INR910 crores, which is up 24% year-on-year.

Let me now come to asset quality. In terms of GNPA, we are at 2.88% and NNPA at 0.79%, both marginally up sequentially. PCR continues to be healthy at 73%. Our total net slippages was INR817 crores and almost entirely was contributed by cards and microfinance. The cards was about INR606 crores and microfinance at about INR231 crores. So effectively, between wholesale and retail was effectively nil. In fact, wholesale had a recovery on a net basis and therefore, a negative slippage.

Our restructured advances also have come down to 0.38% against 0.44% in Q1, as we continue to see paydowns by customers. This is, of course, restructuring that happened during the COVID period. On provisioning, at an operating level, while we have seen steady performance, we have seen higher-than-normal provisioning primarily because of slippages in cards and microfinance.

We've taken a total net provision on advances of INR662 crores this quarter. As a result of which the credit costs came at about 80 basis points as compared to 59 basis points last quarter. Our net profit for the quarter, therefore, is INR223 crores, which is down 24% year-on-year.

Let me briefly also provide some details on asset quality trends in cards and microfinance, the two businesses which have seen some headwinds in this quarter. As I said, the entire provisioning of this quarter is due to increased slippages in cards and microfinance. All other businesses have negligible to nil slippage and credit costs cumulatively.

Starting with cards, there has been an increased impact on slippages in cards which Mr. Kumar alluded to, due to specifically in the BFL co-brand portfolio as a result of the collection transition that we consummated in July of this year. We've actually shared some more color on the asset quality trends in the card's portfolio over the last six years, and this includes the split between the BFL portfolio -- BFL co-brand portfolio and the RBL non-BFL portfolio.

If you look at Slide 35, when you get a chance, it shows that the elevation of slippages and resulting trade costs have been on account of the collection transition. The RBL portfolio ex-BFL has held up very well and have seen marginally lower slippages in this period. However, in the BFL co-brand portfolio, we saw early trends last year, which stabilized and then got impacted by the transition on collections in this quarter.

The good thing is that the flows in the first bucket, which is a leading indicator of slippages have now come back to historical levels on cards, which we believe will continue and result in lower slippages from here on. We clearly expect slippage in cards to go down materially in Q3 and come back to close to normalcy by the time we come to Q4. Given this, we don't see this as a portfolio of concern. It is more peculiar to us and the circumstances here.

On microfinance, our collection against current month demand is basically current month demand is a denominator and current month collections being the numerator is at 97.5% for the September end. While we are hopeful -- while we were hopeful that we should touch 98% because we had seen this dip to 97% in August, we were hopeful of this touching 98% in September, but that hasn't happened. Some of the states saw a dip in collection owing to floods, specifically Bihar, which is, as you know, would be around 30% of our portfolio.

We have given a trend on the collection efficiencies in microfinance as well in our investor deck on Slide 48. While we are better in September over August, we are still well below May, June levels on the current collections. States such as Rajasthan, Punjab and Jharkhand, which were problematic earlier have now turned around and have shown material upswing in collection performance.

Bihar, which is our largest state, was also on course actually for bettering August until last week of September when the impact of floods restricted the movements in large parts of the state. We hope that this is kind of quickly changing in this month. And we go back in Bihar, which will make a big difference to the portfolio, if we go back to the 98% levels by sometime in October, November.

We continue to emphasize great focus on collections, especially in early buckets, and we've actually made some changes in the added manpower, have dedicated teams now looking at 30-plus and 60-plus given the current situation.

The correlation we have seen with slippages is that customers with high leverage and borrowing from a large number of lenders have seen higher digitalization, though there is some deterioration even in the lower leverage customers and customers with lesser number of lenders. So while there is a higher impact, but there is impact even on the so-called normal customers in that sense.

Unfortunately, for us, we've been very, very guarded in the way we do business. We don't have more than one loan per borrower outstanding at any point in time. We don't do multiple loans to borrowers. And therefore, while at the time of sourcing, we have the benefit of being able to select the kind of customers we want to onboard. But subsequent leverage to those customers is not something that is completely in our control. And therefore, in that sense, I think the new AMFI guardrails, which are coming in place and most lenders seem to be adopting it quite quickly should therefore improve this situation materially as we go forward.

I will just want to remind investors that we continue to hold contingent provision on cards and microfinance at 1% of the book. As at September, this is INR283 crores. We haven't utilized any of this. These were created for the purpose of mitigating adverse outcomes during portfolio

downturn, and we will, at some stage, look to use the contingent buffer for provisioning as we see the situation on the ground improving.

Lastly, just a quick word on capital. Our capital, including profits, was at 15.92% and our core equity Tier 1 was at 14.19%, and this was actually an improvement of almost 35 basis points sequentially, which is normally we would guide 15 to 20 basis points reduction consumed by growth. I think there has been a combination of the quality of growth coming through more lower risk-weighted assets kind of businesses, resulting in a very low increase in consumption due to growth.

And we've had some reduction in market risk and some reduction due to optimization that we've done on capital. So we are quite happy to say that we are at about almost 14.2% on core equity Tier 1. But we will -- again, from a guidance standpoint, we will still say that we should burn about 15 to 20 basis points capital every quarter on a steady state.

So that's it from my side. With this, we will open the session for question-and-answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Rikin Shah from IIFL.

Rikin Shah: I have a few questions. So the first one is on card. The credit card acquisition run rate has slowed down by 40% Y-o-Y to almost INR3.7 lakhs now. Despite new additions to the co-branded partnerships, would you believe that this is a new acquisition run rate? Or can this further accelerate? That's the first one.

Second one is on MFI. The top three state exposures for us is materially higher than the peers and the industry. Bihar is one of that. What are the other two states, which constitute among the top three? And is there any diversification plan there?

The third question is, if you could give out some data around the percentage of customers who have more than three to four lenders that would be helpful. And just a couple of data keeping questions, but if you could respond to this question, and then I'll just quickly ask some data related question?

Jaideep Iyer: Yes. Rikin, on credit card acquisition, yes, we've kind of consciously looking at mining the portfolio much more than looking at just growth. I think at a base of 5.5 million customers, we are now wanting to extract operating leverage and we also had to derisk growth from our largest co-brand partner.

The new co-brand acquisitions that you mentioned is relatively recent, and it will take some time for it to scale up. But broadly, I think we should be in the INR10 to INR15 lakhs, per annum or INR12 lakh to INR15 lakh per annum new card acquisition, and not the INR20-plus lakh that we used to probably do in the past, given the fact that we were chasing scale.

I think we've reached a stage where we want to optimize the portfolio and take the benefit of mining this 5.5 million customers for multiple products of the bank. So the focus is really through a combination of right acquisition and better mining of the existing base. On

microfinance, besides Bihar, the next 2 states would be UP and Rajasthan, and both of them have shown improving collection efficiency in September over June, September over August?

R. Subramaniakumar: Yes. With regard to your question on diversification, we have a very clear-cut plan, which we shared with all of you a year before. And we also know that we have entered into some of the states where the microfinance per se is growing, like the states like Tamilnadu and Karnataka and South, plus Orissa and others, where we have already started moving up, and it will take time for you to establish the branches and the manpower and the next -- it's a part of it.

Yes, the other percentage of your customer is a multiple...

Jaideep Iyer: Yes. On customers, if you look at like either average beyond INR200,000 or if you look at more than 4 lenders, including RBL, we are broadly in that 9% to 10% range of our customers.

Rikin Shah: Got it. Thanks for responding. And just a few data keeping questions. On Slide number 47, you mentioned SMA 1 and 2 for your MFI portfolio. And even on Slide 48 in the bottom chart, there is a SMA-1, 2. So what's the difference in the numbers between those 2 slides? That's number one. Second, if you could repeat the gross slippage and net slippage for the individual segments, which was laid out in the opening remark, that would be helpful.

And lastly, if you could just quantify the stock of total non-NPA related provisions 283 is contingent provision. But in addition to that, any other restructured or standard provisions that we could carry. So stock of that. That's all from my side.

Jaideep Iyer: Yes. So on the first one, Slide 47, because it's an industry comparison, it is as at June, which is unfortunately written in very small font on the bottom right. And the next one is only pertaining to RBL and therefore, we have the luxury of being able to give you till September, industry data will come with a lag.

The question on -- sorry, was that clear enough?

Rikin Shah: Yes.

Jaideep Iyer: Yes. If I remember the numbers on net slippages, broadly, we are at about INR600 crores on cards and INR220 crores on MFI and that is pretty much the entire provisioning on...

R. Subramaniakumar: 2.68.

Jaideep Iyer: Yes. On the gross levels, it would be about INR630 crores in cards and about INR240 in MFI.

R. Subramaniakumar: On NPA...

Jaideep Iyer: Yes. Standard asset provisioning, which is regulatory required, which is 40 basis points and very small, restructured provisions should be about INR500 crores.

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

Jai Mundhra: Yes, sir. Sir, I wanted to check on opex growth. So some of the questions have already been said. opex growth, sir, this quarter staff cost has gone up, but the other total opex is contained because other opex has not moved much. And this could be because the business in some of the business uptake was relatively slow. But if you can provide some clarity on the growth in the staff question and how should one look at?

Jaideep Iyer: Yes. So in Q1, we had some reversals, we had excess provisioning on bonus payouts, etcetera, which got reversed in Q1 because that is a time when actual payouts get decided. So we were carrying excess provisioning. And therefore, that was suppressed by about INR25 crores to INR30 crores.

And for us, we gave employee hikes effective July 1. So naturally, that kick out comes in the first quarter -- I mean, in the July quarter, which is the reason why July quarter higher, plus we typically do actuarial provisions on our pension and gratuity liability, so there was some impact that came in Q2.

Going forward, this kind of delta will not be there. I think the delta will be much less, largely reflective of the expansion in the employee base that will happen through branch banking and retail.

R. Subramaniakumar: One of the -- another reason is that when we did the transition, all the employees were absorbed over a period of time in Q1, now in Q2, the entire cost has been absorbed. There is also additional cost, going forward, that will be the normal payout.

Jaideep Iyer: Yes. So I think just to clarify, when the collection was done by a third party, it was coming at outsourced costs as operating costs. When we took it over, it will be a mix of operating cost and our own employees because management of those agencies is done by in- house employees. So we added about 800, 900 employees in the collections across various levels in the card collection division.

R. Subramaniakumar: Overall, the opex growth has been much lesser than advances growth in the profit growth, which we said that we'll be able to achieve that, and we are able to reach that stage now.

Jai Mundhra: And sir, secondly, the gross slippages in card at INR630, would this be, let us say, more or less similar as to what the credit cost that we have shown in BFL and others? I mean, one can more or less have the same proportion as what was in the chart in terms of credit costs?

Jaideep Iyer: Yes, because in terms of credit costs and cards, because we provide 70% on NPA and 30% in 120 days, roughly within the same quarter or within the 1 to 2 -- next quarter, it will reflect roughly in the same proportion, yes.

Jai Mundhra: Right. And so, sir, once this transition is finally over, right? I mean as of October...

Jaideep Iyer: Correct.

Jai Mundhra: This is over.

Jaideep Iyer: Yes.

Jai Mundhra: We should see the same, let us say, 1.5% to 1.7% or 1.8% that was there in the previous quarters. I mean as per the chart, we should be hitting that in third quarter itself, right? Is that a fair assessment?

Jaideep Iyer: So the way it works is that the first bucket, if you look at our own exit and we have, I think, given that in the chart in our investor deck on Slide 35. -- sorry, Slide 45 -- 35. The first bucket is clearly come back to what it was or slightly better than what it was prior to transition.

But bucket-to-bucket we will take some more time. So I think the way I would put it is that we will see a material reduction in slippages in Q3 over Q2. But for it to come back to levels that we saw in Q1 or Q4 of last year, probably will take 1 more quarter.

Jai Mundhra: And lastly, on capital sir. So while we have done a capital optimization and hence, the capital consumption is slightly slower. But any thoughts on because there were some -- I mean have you received any intimation, or you think there could be a possibility of higher risk rates assigned to the MFI portfolio?

Jaideep Iyer: So there has not been anything right now for us or specifically on that. But having said that, given that we've also heard communications having gone to banks, if it is told to us, we will have to do that. So I won't be surprised if that happens. But right now, nothing on that front. If that happens, it will mean approximately 40 basis points on capital as an impact.

Jai Mundhra: Right. Understood, sir. All the best.

Moderator: The next question is from the line of Shubhranshu Mishra from Phillip Capital.

Shubhranshu Mishra: Two questions. The first one is on the credit card. I see a higher for uptick Bajaj Finance card. So just wanted to understand the reason why would that...

Moderator: Sorry to interrupt you Mr. Mishra, your voice is not that audible.

Shubhranshu Mishra: Can you hear me now?

Moderator: Better. Please go ahead.

Shubhranshu Mishra: Right. So 2 questions. The first 1 is on the credit cards. When I look at the Bajaj Finance portfolio, it shows a higher uptake. Just wanted to understand the reason of it because it is from deeper geographies or because of overleverage of customers. That's the first question.

Second is, when we look at the micro finance portfolio, we mentioned, I think Rajasthan and certain other states where things are improving. So just wanted to check what is the current collection efficiencies in those particular states and has it improved?

Jaideep Iyer: So on the first one, see, BFL co-brand portfolio is spread out a little wider. And -- this will be -- the slight increase that we have seen on that portfolio is a combination of multiple things, including leverage and so on and so forth. I don't think there is any single specific trend that we can say.

Having said that, we have -- over the last almost 9, 12 months being trimming on the so-called experimentation that we keep doing in terms of looking at newer experiments on doing business with lower-rated or newer geographies. I think those we have trimmed quite materially.

And therefore, impact of that will also start getting visible over the next few quarters. And we would expect, therefore, that once the transition impact is over, we should get back to levels that was prevalent like for non-BFL cards as well in the range of, let's say, 5% to 5.5% credit cost kind of an outcome is what we are really targeting over the next couple of quarters, maybe 2 to 3 quarters.

R. Subramaniakumar: On MFI, if we look at it, all the states which are contributing somewhere 39% of my total stock, which comes around 5 to 6 states, there is an improvement of somewhere around 1% more over that of what we saw at the lowest.

The another state where we are seeing the green shoot is Bihar, which is having around 30% of our book outstanding there. If it moves up to 1% again, that is where we are expecting it to reach by end of this quarter. That will be in a position to tilt the balance towards favorable balance. So that's why we said that the exit of this quarter, we'll see some positioning back to 99% is what we're looking at, the data makes us to believe that we'll be able to move to that.

And major needle is going to come from these states, which have already moved up by 1%, but they'll move up further and another Bihar. All these 3 things put together; we'll be in a position to get back to that near normal position for the first bucket.

Shubhranshu Mishra: Understood. Sir, if I can just squeeze in one last question, sir, on the microfinance portfolio. Apart from over leverage, what are the other reasons? Because we've been hearing of a large amount of attrition of the collection feet-on-street who do not want to go to the collection center, the lower attendance at collection centers, there's possibly some amount of fraud in the KYC or in the voter identity cards. So I just want to understand various other reasons apart from over leverage, which is the larger narrative in microfinance?

R. Subramaniakumar: I'll ask Kingshuk will go to that.

Kingshuk Guha: Yes. Kingshuk here. So other than overleverage and overleverage also, I don't think is the only reason because of which we see a little stress in collections today. The other point that you mentioned, yes, correctly, we did see a blip in our attrition rates for two months, especially in the month of July, we did see a blip but we quickly took corrective action. We aligned the incentive structures accordingly so that people did make a little bit of extra money.

We gave a little bit of a hardship allowance as well. So, we've been able to bring it back to our BAU normal rates, which we were there in Q4 of last year. So, blip was there for two months, which has been managed. For the last two months, we have seen a decline in attrition rates. Other than that, you mentioned center meeting, etcetera, and the culture of center meeting getting diluted, etcetera. I don't think there has been a big gap in that, if you really ask me, the culture of center meeting has been slightly on the downward trend for the last couple of years now, especially post-COVID. Nothing really has really spiked from that particular sense.

I think largely, if we can maintain our people and the number of people in the ground, I think that is what is more important. And I think we've at least done that in the last two months. And hopefully, going forward, we should be able to maintain that and see positivity in collections as well.

Jaideep Iyer: Specifically on the identity question. In our case, while we've also heard of that, but in our case, 100% of our disbursement is biometric. So we do not have any other means of identity other than Aadhaar enabled biometric.

Kingshuk Guha: Okay. There I just wanted to add to what Jaideep said. We not only take 100% biometric, we have a second KYC as well, which is mandatory. And the primary being Aadhaar biometric and the secondary largely would depend on what is available with the customer. So we ensure that there is two KYC documents from customers. So at least our portfolio doesn't really have this problem of customer having multiple identity and multiple loans, we have not seen that in our portfolio.

R. Subramaniakumar: In addition to what you said, just to add a couple of points on center meeting. As a bank, we are not compromising a nonconducting center meeting. If you look at it by first 20 days, center meeting conduction is almost 100% as far as we are concerned. Maybe during this period of stress, the attendance might have dropped down. But now what we see in the last fortnight or something like that, the data indicates that the attendance is not dropping down anymore. The people are seen on the ground.

Shubhranshu Mishra: Understood. Sir, a fair assumption that the opex will remain heightened because of the collection efforts?

Jaideep Iyer: On opex, you're saying. I think on our subsidiary being RBL FinServe which accounts for 90% of our portfolio, I think from a focus standpoint, yes, I would say collections will be a bigger focus. And if that means some more people on the ground and other initiatives, we will do that, yes.

R. Subramaniakumar: For the bank level, it will not materially move. But at a segment level, there will be some extra bucks we'll be spending on the floor in order to get the money back, and which is worthwhile in my view that worth investing. If it has an expense, I will consider it an investment.

Shubhranshu Mishra: Understood Sir, best of luck.

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

Sandeep Joshi: My question is on the credit card book. So, on Slide 39, we have given a breakup of CIBIL score for cards in force. The portfolio with less than CIBIL score of 680 is about 11%, and that seems to be causing the maximum pain. Is my understanding correct till here?

Jaideep Iyer: So this is not at the time of origination. This is at the time of the snapshot that is given. And typically, we will obviously see ultimate slippages proportionately higher from lower CIBIL portfolio, yes.

Sandeep Joshi: Okay. Understood. So the value outstanding for this portfolio will be similar, largely around 10%, 11%.

Jaideep Iyer: No. Typically, the outstanding would be lower here. So I would say, marginally lower, but yes, maybe a couple of percentages lower.

Sandeep Joshi: Okay. And any corrective actions you want to take over here, you want to take down this proportion of this lower CIBIL score customers, or we are okay with this?

Jaideep Iyer: No. So if you look at our origination mix, it's very large, almost I think 97%, 98% would be in 730 plus.

Sandeep Joshi: Okay. Understood. So again, on the credit card. So since you are mentioning that the majority of stress in credit cards is largely due to transition. So what proportion of these customers would be honoring their loans with other lenders?

Jaideep Iyer: So that's something that we typically keep tracking as a part of collection strategy as well. And we've generally seen both sides to customer, in general, I'm saying, not specifically for transition where customers default with others, but pay with us or default with us and pay with others. I honestly don't have a specific number on the transition portfolio or if they are current with others, but if that is the case, obviously, our ability to collect post default only gets better.

R. Subramaniakumar: Just, Sandeep, for your information, one of the decisions what we have taken is, this transition it is not something which is because of the customer becoming stressful. It is because of, we have not reached them during the transition period or the efforts which we have put in has been slightly lesser because of the transition handshake, and in this quarter and next quarter, the focus is going to be on them. So you'll be able to see better recovery in those accounts, wherever it is. If it is a delinquent portfolio, it will bounce back to normal and if it is an NPA portfolio, then it will be higher. So this is a focus area we are working because we have not identified this as a stress due to the customers.

Sandeep Joshi: Okay. Understood. Sir, so is it possible to say with a reasonable confidence that at least, let's say, 60% to 70% of these customers would be honoring their loans with other lenders or it's difficult to comment on this?

R. Subramaniakumar: It is difficult to comment because of the absence of data, we haven't done that particular slice. Anyway, we'll look at it as a point.

Jaideep Iyer: Maybe we can take this offline and we can try and give the data, yes.

Sandeep Joshi: Okay. My second question is on the microfinance book. I'm not sure if we have shared the data with respect to unique RBL customers and maybe RBL plus 1 lender plus 2 and maybe plus 3.

Jaideep Iyer: No, no, we haven't shared that data. Approximately 40%, 45% of our customers are only RBL. And if you look at RBL plus 4 or RBL greater than that or 2 lakh leverage, broadly 8% to 10% would be in that bucket.

R. Subramaniakumar: Here also, the point is it's gone up for the simple reason that at the time of sourcing, because our BRE Engine doesn't permit that to be an uptake. It will not be sanctioning it. It will not go through. But subsequent to the borrowing from us, these borrowers, we have literally no control for them to borrow from elsewhere. This number has gone up only because of that.

Sandeep Joshi: Understood. And maybe my last question is on the ROA. I heard that you are kind of maintaining your guidance for the next year ROA about, let's say, 1.3% for the financial year '26. But for financial year '25, can we guide for any number?

Jaideep Iyer: For fiscal '26, we continue to stick to that 1.3% to 1.4% exit ROA guidance. You're asking for guidance for this current year is what you're asking?

Sandeep Joshi: Yes, for current financial year.

Jaideep Iyer: No, I guess we are in a slightly uncertain environment. And therefore, I would say that it is harder to predict. Suffice to say, obviously, we will be well below what we were wanting to be in the 1.1 zone. We are not going to be close to that at all.

R. Subramaniakumar: Sandeep, keeping all the current stress point, what we have been explaining very clearly. One is due to the transition another one because that's only two parts. All other businesses are positive. I would like you to focus on our projection of 2026 and then stick there, and that's what we are working on today because instead of giving a cluster, the transitional issues have fixed up and we move on to the number what we said for 2026.

Jaideep Iyer: In fact, we've tried to, in a way we can communicate. We have given that information in Slide 22 as to how our various businesses stack up. And clearly, I mean, while wholesale has improved over the last 3 years, quite materially. Similarly, our new businesses in secured retail where we are investing has improved from a higher loss to a lower loss.

We've obviously seen a material reduction in returns in our unsecured businesses in H1 as compared to the previous two years. And I think the moment that reverses, which should likely happen in Q4, Q1 onwards, we should be coming back to trend profitability.

Moderator: The next question is from the line of Gao Zhixuan from Schonfeld.

Gao Zhixuan: Hi, thank you for the opportunity. Just some data keeping question. So, for the INR618 crores of provision charges in the P&L, do you mind breaking out into what's the provision in NPA? What's the standard asset provision? And are there any changes in any other form of provisions being on investment, etcetera?

Jaideep Iyer: So, you're looking at a split between advances provisioning and any other provisioning, right? We have on standard advances, we would have taken a provision of about INR10 crores. And pretty much the rest of the provisioning is on NPA.

Gao Zhixuan: Sorry, I'm just looking at Slide 59. There is a negative INR44 crores on the other provisioning. So just wondering what's that, please?

Jaideep Iyer: Yes. So we have we have sold a portfolio of security receipts that we had, and that released certain provisioning for us. We were carrying provisioning more than the fair value of those SRs, and we sold that. And there was a reduction in provisioning of approximately INR40 crores because of that, INR400 million.

Gao Zhixuan: Got it. Understand. And can I have your MFI provisioning policy, please, i.e., a 90-day, how much percentage is provided? And by how many days is 100% provided, please?

Jaideep Iyer: Yes. So, we provide 25% every quarter. The quarter in which it becomes NPA is 25%. And subsequently, every quarter, we add 25%. So, in four quarters, we provide 100%.

Gao Zhixuan: Got it. And lastly, just on capital. How should we think about our capital positioning? So, in the unfortunate case that RBI asked us to increase risk weights on the MFI plus the usual capital consumption on a quarterly basis? How should we think about capital raises and our loan growth from here?

Kingshuk Guha: So, as I said, the one-time impact on MFI would be about 40 basis points. And I don't think it materially changes the consumption because incremental growth in MFI is not really material. And therefore, we would typically look to burn around 20 basis points, give or take, per quarter. We would -- irrespective of whether MFI risk-weight increases for us or not and which we don't know right now. We would look to at least look at the next 12 months to 15 months before we raise capital, we should be -- our bottom threshold on core equity Tier 1 should be in the -- maybe 12.5% to 13% range.

Gao Zhixuan: All right. Thank you so much.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Yes. First of all thank you very much for this opportunity. Sir, just I wanted to understand now you are sounding positive that things should improve both on the credit card side as well as on the MFI side which led to increased provisioning and credit cost in this quarter. So if I have to see at the company level, how do we see credit cost in coming quarters and overall for this entire year, what sort of -- I mean, guidance range we can look at in terms of company level credit cost?

Jaideep Iyer: So, for the year we should be anywhere between 2.5% to 3% range or 2.6% to 3% range, depending on how soon things come back to normalcy.

Deepak Poddar: But is it safe to say that this quarter -- second quarter, the kind of provisioning we have seen is that the peak or we can see a higher peak, I mean, going forward?

Jaideep Iyer: So the way I would look at it is that we've passed the peak on slippages on cards. We may not have passed the peak on slippages in microfinance. And microfinance because of the provisioning policy will mean that we will keep providing 25% for the same quarter and the previous quarter catch-up and so on and so forth.

So I would say, yes, I could probably say provisioning has peaked, but in terms of credit cost. But I don't think we can say that credit costs will sharply fall off from here quickly. So we will probably take some time before it comes off.

Deepak Poddar: Either we can expect a flattish kind of a credit cost going forward of provisioning or maybe a slightly downward trend? I mean that would be a fair thing to assume?

Jaideep Iyer: Yes. And then in Q4 we should start seeing it come down. Yes.

Deepak Poddar: Fair enough. I got it. I think that would be it from my side. All the very best. Thank you.

Jaideep Iyer: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Shah from Citi. Please go ahead.

Kunal Shah: Yes. So the first question was last time I think you indicated that this spillover impact due to collection transition could be like -- it was like last quarter, it was INR60-odd crores and you said like there would be some spillover which would come through in next quarter as well. But eventually when we look at the number on the credit card, it seems to be significantly higher?

So was there any other element apart from this collection transitioning or maybe the collection transitioning has given much higher pain than what we anticipated during the last earnings call?

Jaideep Iyer: Yes, I think we said that there was a cost increase which was there in collections because there was a handover where we will have some inefficiency. I don't think -- okay it is fair to say that in our own analysis we were not budgeting for this much of a transition cost due to provisioning, but I don't think there was a guidance of INR60 crores, Kunal. Sorry if that was a confusion in your mind, but having said that, yes, the amount of slippages that we have seen due to transition is more than what we anticipated internally.

Kunal Shah: Yes. And largely, when we look at on a sequential basis compared to like say INR400-odd crores the last quarter, gross slippage in credit card and INR630-odd crores this quarter. Is it largely that entire incremental delta is due to collection or maybe there is an element of industry-wide pain and some stress which we had seen in your portfolio, increased stress in Q2, in particular?

Jaideep Iyer: So Kunal, the way -- so one can never be perfect on this answer, but the data point that we are relying on is that if you look at the non-transition portfolio, that is not really got impacted at all. In fact, the slippages are...

R. Subramaniakumar: Look at Slide 35.

Jaideep Iyer: Slippages are slightly lower. So if it was an industry-wide phenomena, we would have seen some deterioration there. So therefore, we are kind of concluding that this is largely transitioned, that's the data point that we have to share, yes.

Kunal Shah: Okay. And transitioning is now entirely complete. So that's the delta which was there in this quarter that should not at all repeat in Q3?

Jaideep Iyer: Yes. So just to clarify again, transition got completed on July 31. What we are also giving on -- in the credit card section on slide is that if we look at early delinquency trends Slide 35, we are already seeing the turn in early delinquency back to levels which are there well before transition. And that slide -- that early delinquency is a leading indicator of what will happen over the next 3 months to 6 months

So we are very, very confidently saying that we will have a material reduction in slippages and cards. It may not come back to the level where we want it to be because whatever happened in August will also flow, while September is looking very good. Whatever happened in July will also flow because there will be -- that 90 days. But I think there will be a material reduction and -- as we go into Q4, we should be trending towards fair amount of normalcy ceteris paribus.

Kunal Shah: Got it.

Management: In fact whole of the positives sorry.

R. Subramaniakumar: Just to carry forward is what Jaideep said. One of the positive things what we can observe in Slide 5 is that is the yearly trending of this collection has increased and what it was -- it used to be before this transition itself. That itself is one of the leading indicator makes us to believe that our collection efficiency is improving.

Kunal Shah: Sure. And lastly in terms of the SMA trend which we look at, so say SMA 0 being almost more than 3%-odd. SMA 1, 2.45 and as you indicated that maybe Bihar largely got impacted which is your largest state. And it got impacted, particularly maybe in the last week of September.

So, should we see maybe a relatively higher stress maybe compared to what we saw in Q2. You indicated that at least on credit card you are comfortable, but on MFI can it deteriorate further because the number seems to be much higher on the SMA trends and there might be a flow-through plus 25% every quarter provisioning would also continue.

Jaideep Iyer: So in terms of slippages, Kunal, yes I would expect it to be higher than current quarter. And then we will expect that to start trending down from Q4 onwards. And credit costs as you said is a catch-up of 25% for that quarter and the previous quarter was 25%. So yes, within microfinance, we will expect credit cost to go up. Within cards, it will come down because cards 70% gets provided the same quarter. So when slippages come down, we should start seeing credit costs coming down in cards.

Kunal Shah: Okay. And lastly in terms of the clarification earlier, maybe have you indicated that by FY '26, we could even be like 1.4%, 1.5% and now we are getting that down to almost like 1.3%-odd, though this seems to be more like a transitioning cost? And otherwise, structurally there doesn't seem to be much impact or we are actually lowering the guidance for FY '26 ROA to 1.3%?

Jaideep Iyer: Yes. So I would say we were at 1.4% exit. We are now saying that it will be in that 1.3% to 1.4% zone. Some of that is coming from the current mindset of what we are going. Otherwise, as we have kind of put it in Slide 21 our non-cards, non-MFI business which is wholesale and secured retail has seen improvement in PBT ROAs as slightly better than planned. And we expect that

to kind of continue. So this is a little bit of a combination of current circumstances more than anything else.

Kunal Shah: Yes. But here we are not changing that in the guidance like it's still shows like 1.4%, 1.5%, but we are indicating it could be 1.3% FY24?

R. Subramaniakumar: 1.3%, 1.4%.

Jaideep Iyer: Correct. Yes.

Kunal Shah: Okay. Got it. Thank you.

Moderator: Thank you. Next question is from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Thanks for the opportunity. My other questions are answered. Just one question from my side. Sir, in wholesale yields there has been a sequential drop by around 2 bps and year-on-year as well it has remained flattish in spite of we concentrating on mid corporates and SMEs. So where can we -- when can we see some uptick on the wholesale side in terms of yields?

Jaideep Iyer: So this is -- there will be some noise around foreign currency assets as well. Broadly, we are looking at wholesale yields stabilizing and now even though we will see a relatively better interest rate environment, we would expect this to kind of hold steady or marginally improve as we increase as we go forward.

But again the other important point in wholesale that we want to bring out is that a lot of income is actually fee income and liability-based income. It's a very powerful source for current accounts and flow businesses. So, asset-related income and therefore contribution to ROA, PBT ROA for that segment is actually barely about 30% or so.

R. Subramaniakumar: Check Slide 22. The 1% or 2% blip you see it will be intermediary one and I would like you to wait for that year end to come where we'll be able to catch up in two quarters.

Shailesh Kanani: Yes. So the reason I was asking is because our commentary in the past has been that there will be some improvement as we're concentrating at lower ticket sizes. So, I was just wondering when we can expect that?

R. Subramaniakumar: Here I just wanted to look at the profitability statement that is there in slide no 22.

Jaideep Iyer: No, Shailesh, honestly it's difficult to predict quarter-on-quarter. Attempt is that on a secular basis, we should try and take it up. As long as the interest rate environment does not dramatically change. I mean 9 months down the line, 12 months down the line, these rates will be down because that is what the ambient interest rates would be. But otherwise, structurally, we are still wanting to move towards the better yielding businesses.

Shailesh Kanani: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Ashish Khurana from Ankura Capital Advisors. Please go ahead.

Ashish Khurana: Good afternoon sir. Thank you for the opportunity and answering all the questions patiently. Most of my questions have been answered, I have just two questions. So, sir, if you look at the other loans category which I think may be comprised of gold loans, etc, so it saw good growth in the last quarter. So that is Q1 '25 versus Q4 '24. But this quarter, it has been mostly flat or slightly negative. So is it something related to compliance that we are tempering that down or...

Jaideep Iyer: No, that was a little bit of a short-term transactions that was done and that will slowly unwind itself. So I don't think we will see growth in that segment.

R. Subramaniakumar: Whatever you are going to degrow there, that will get into the growth of the respective segments that is what the flow is. Instead of going for the short-term related exposures, we'll be going for the long-term exposure which is going to better yield.

Ashish Khurana: Okay. So that was a one-off and we won't be seeing any major growth there, right?

Jaideep Iyer: Correct.

Ashish Khurana: Okay. Sir, next question on the operating expenses. So while I think you have indicated – it has come down by 150 basis points. But if you look at the breakup, so the business acquisition cost is the one which has seen about INR100 crores decline. So what is this comprised of? And is it that you were chasing -- you are not aggressively chasing growth and that is why it has declined? Or is it the steady state, the current quarter and it will keep declining from here onwards?

Jaideep Iyer: No. So this is a combination of largely business acquisition costs across cards, MFI, retail, etcetera. And I think we will -- I don't think there is de-growth anymore. This will again start growing as we progress for the year. There has been a fair amount of cut in the co-brand partner payout that we do given the environment that we've seen in terms of profitability. So that's part of the reason for this. And I don't think that is structural. We will start seeing some increase in these costs again as we go forward.

Ashish Khurana: So this current cost to income is again an aberration. And going forward in this financial year, it might increase slightly, right?

R. Subramaniakumar: We'll hold it at the same level because it is a combination of your income as well as that other cost. It is not the only cost factor. The income is -- which we have already explained to you that it is not going to hold, it will keep going. And you saw this, the income slightly dipped because of that reduced disbursement in microfinance, is going to come back.

We already started increasing the microfinance disbursement. The disbursement to peak the level what we have been doing approximately INR1,000 crores per month. It will take some time. But now it's bottomed out in the last month and the previous month, that is improving from there on. So there will be -- the counter contribution to the increase.

What I would like you to take note is that the growth of the opex, which was in the range of around 30% earlier, now it has dropped down 13% now. It will be in the range of 13% to 15%. So to that extent, because in operating investment related things will take place or we were staffing and an expansion. So it will be 13% to 15% growth will be there in opex and which would be compensated or the increase in the income. So it -- the cost income will come down or it will be holding it.

Jaideep Iyer: Yes. So I mean, I would just say that don't hold us to this every quarter. Directionally, we should be moving better.

Ashish Khurana: That makes sense, sir. So I think operating leverage playing out is visible if you look in financial year '23-'24. I was just asking about the specific quarter because the dip was slightly higher. Sir, one last data keeping question. Now or maybe offline, can you share the exit collection efficiencies for the month of September, June and March for MFI, I think September has already been shared 97.5% for...

Management: In the presentation. On Slide 45, I think month-on-month collection efficiency starting Jan...

R. Subramaniakumar Slide 48.

Jaideep Iyer: The increase in September at 97.5%. So it's got that trend, both of SMA as well as collection efficiency.

Management: So all the way from Jan '24 on a monthly basis, still September '24. Slide 48. You can take a look at it later.

Moderator: The next question is from the line of Manish Shukla from Axis Capital.

Manish Shukla: The contingency provisions that you're carrying, when and under what scenario are you likely to utilize them?

Jaideep Iyer: As and when we utilize, we will naturally disclose it to you. But conceptually, Manish, I think the thinking would be that once we see the pain is done and dusted with and we are seeing -- we are confident of -- on that portfolio. things coming back to normal. That is when we will want to possibly use it. This will, of course, be subject to Board approvals and so on and so forth. So I can't really predict this. But conceptually, that's how we would look at it.

Manish Shukla: So the 2.6% to 3% number for full year credit cost that you suggested, that doesn't assume any utilization from this.

Jaideep Iyer: No. No.

Manish Shukla: For the second half of this year, how should one think about loan growth and margins, net interest margins and loan growth?

R. Subramaniakumar: So the loan growth is concerned, the primary focus of increase, our accelerated growth is going to take place in our retail secured and which is revenue accretive growth plus, it is going to be margin accretive growth. We have done around 24% what we have done. If you take only the

housing loan, it is in the range of 50%-plus and this will definitely go back to the high 30s, or the high 20s in the range of low 30.

In respect of our wholesale, we have already given our thing. And the only thing where we wanted to move up is our microfinance. Microfinance will catch up this quarter. And by next quarter, it will be able to the level what it normally does it. So, safely, you can say that the exit will be the percentage of what we have assumed around 18%, 20%.

Jaideep Iyer: Yes. Manish, on margins, I think if we -- I were to answer this in a stable environment, largely dependent on interest rate nuances, I think my answer would have been a little more, let's say, clear. I think we are also in this environment of high slippage environment in one of the two businesses, Q2 credit card this time, maybe in the next time microfinance and therefore, it's a little harder to say. But I would say maybe a marginal downside, if at all, otherwise flattish for Q3 before we start seeing improvements.

Manish Shukla: And given the volatility that we've seen in slippages and credit costs, in MFI, any rethink in terms of the extent to which you want to stay -- keep MFI as part of your overall book? I mean not just now over the last five, seven years, what your experience has been?

Jaideep Iyer: Yes, Manish -- sorry…

R. Subramaniakumar: Yes. Manish. You know that this is a cyclical business. You will definitely see a downturn as far as this. If you are able to predict precisely and you are ready with the contingent buffer it is absolutely a great business to do with. And I don't think that there's a business which is doing. But however, looking at the balance sheet, we have already made it very clear that we'll be in the range of 8% to 9% of the balance sheet is what this book is going to hold, and we'll continue to be maintaining in that particular position.

And all these temporary blips and I think, we have the ability to face and do it. And per se is a very good profitable one. Even this kind of temporary blips is not going to alter its ability to remain profitable.

Jaideep Iyer: Manish, and I think from a priority sector lending sub-segment agri and weaker sections and small and marginal farmer kind of difficult sub targets, I think this is a very useful product. And therefore, that 8% to 9% range is where we will at least for the, let's say, the next 12 to 18 months is what the thought process is.

R. Subramaniakumar: Missing a PSL is more costly than maintaining MFI. So it's better to maintain MFI.

Manish Shukla: And the last question, Slide 35, where you have given collection for early bucket and credit cost. The early bucket collection is not really a good predictor of credit cost....

Jaideep Iyer: No, no. It is very distinctly a very important input. Typically, in the delta in the resolutions after that impact less because this collection efficiency or whatever this resolution is on the entire INR20,000, INR22,000 crores book, right? Assuming a 10, 20 basis point change that has a material impact.

After this, the impact is less. Even a 10%, 15% reduction in resolution is less impactful because it's on a much, much -- it's like on a few INR100 crores or INR800 crores or so. So early delinquency is very, very critical. So if you look at Q1, the efficiency dipped to 95.6% as compared to 96.2%. That has effectively resulted in the kind of flow that we saw.

Moderator: The next question is from the line of Raj Jha from Nuvama Wealth Research.

Raj Jha: So first question is any guidance on the collection, or you can share any data on the performance of Bajaj and non-Bajaj credit cards?

Jaideep Iyer: So we have given these details on Page 35, where we have split the portfolio into the BFL co-brand and the non-BFL co-brand portfolio.

R. Subramaniakumar: Two linear graphs, let's say, graphs clearly shows you that how it is performing.

Raj Jha: And any credit cost guidance on the credit card business, sir?

Jaideep Iyer: So currently, we are running high. And I think we are -- our model credit cost we should run is in the 5% to -- broadly 5% to 6% range, 5% to 5.5% is where we will target. Currently, we are running above that. I think we will take at least two quarters to come back to this level.

Raj Jha: Sir, any P&L impact on sell-down of INR250 crores of PL this quarter?

Jaideep Iyer: We sold cards portfolio actually of INR400-odd crores, I think we realized about INR15 crores, INR16 crores. This was obviously a fully provided and fully return of pool. So...

Raj Jha: Sir lastly on the -- any dividend payout from the subsidiary company to the parent that I think we have last quarter?

Jaideep Iyer: No, nothing.

R. Subramaniakumar: Nothing. Nothing.

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

Anand Dama: Basically my question is on the staff cost. So this quarter, you said that there were higher payouts. There were I think increased collection cost also, because I think you have hired lot of employees. So how do you break that into kind of – how much you have hired and how much basically the cost will come down in the 3rd quarter...

Jaideep Iyer: No, no. So Anand employee costs have not come down. So the bigger reason is that if you're looking at a delta Q2 over Q1, Q1 had the benefit of almost INR30 crores, INR35 crores of release due to various factors. And then we've seen two reasons why costs have got -- three reasons why costs have gone up in Q2 in addition to the reduction in Q1. So if you remove the INR30 crores, INR35 crores delta impact, then the rest of the increase is about, I think, INR30 crores or so.

And that is a combination of increase in collections team, which was a significant increase of about 800, 900 people, which came in and which would have reduced cost from vendor standpoint because otherwise, this was going as a vendor payout. Then we had -- obviously, we have increase in salary hikes for us, coming to effect from July 1 for the entire bank. So that was the second reason for the bump, which will, of course, not repeat until next July.

And the third reason was we had a slightly -- some impact on gratuity and pension liabilities, which in the range of INR7 crores, INR8 crores, which was through actuarial liability -- actuarial valuations that we do every six months. Now the growth from here on will be more related to normal expansion of people, which is not going to be anything material.

I mean this will go up on a normal 3% to 4% a year type -- 3% to 4% sequentially type assuming a 10%, 15% increase annually.

Anand Dama: And secondly, on the credit card, you said that the slippage obviously will gradually normalize in the credit card too. But what about the collection of the loans, which have actually become delinquent in the second quarter because of the transition?

Jaideep Iyer: Yes. So I think we will expect to have better recoveries and resolutions from this portfolio over the next 6 months. But ultimately, once a card slips, typically recoveries are in that 15%, 20% or 10%, 15%, and maybe it goes up a little bit because this portfolio was not necessarily only because of a customer issue. It is also because of transition issue. So we will expect a slightly better performance on post 90, post 120 recovery, which will help cushion the credit cost.

Anand Dama: But the accounts, which actually turned delinquent in second quarter, do you expect that to recover by at least fourth quarter? I mean if it is primarily only because of transition.

Jaideep Iyer: No. I don't think we can say that. I think once something slips, if we were recovering x, we will probably recover 2x, but it's not going to be anywhere close to 100%.

Moderator: The next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje: Just a couple of questions. Firstly, on the MFI book. How is the trend now in flows from the current bucket to the SMA bucket? Has that shown any improvement recently?

R. Subramaniakumar: See the MFI in the month of September, we are early up to -- except in the last 3 days, we saw that it is going better collection. And the last 3 or 4 days, there was exception in terms of holidays and weekends. That is just we just believe our belief that it is going to reach out. But the early first 15 days of this month makes us to believe that it is just going up in the overall portfolio.

In respect of the 39%, which I said around 8 states, we have seen 1% improvement in last one month over what it was when it just stepped down to 97% as an average. In these states, it went up 98%. So the Bihar is a state where we anticipate that it is going to increase another 1% during this particular month, which was disrupted, which might have improved or played back in last month because of floods in that particular around 12 districts where we are operating got impacted.

This is likely to come back. Maybe it's too early to predict everything. By the end of the month, we will be able to say that whether the Bihar is also able to add up to the additional 1%. Our -- the team on the field is confident of the fact that we may reach near 99% by end of December in respect of overall collection, whenever -- the normal collection is in the range of 99.2%, which we picked it. So this is what it is.

Ashlesh Sonje: So if I understand correctly? You expect the month of October to be better than September on collection efficiency, which means that your expectation that 3Q slippages being worse than 2Q is purely because the -- because of flow from the…

R. Subramaniakumar: Correct. It's a fair assumption.

Ashlesh Sonje: While the flow from current bucket decline? Is that correct?

Jaideep Iyer: Correct.

Ashlesh Sonje: Okay. Perfect. And just a couple of policy related. For your MFI customers who has fallen into NPA, do you have any cooling period or a waiting period for him before he becomes eligible for a loan renewal?

Jaideep Iyer: So we do not give any loan to a customer who has turned even 10-day delinquent in one DPD and ever DPD whatever yes. So forget NPA, I don't think we give that at all. And even off of performance, it is more than 10 delinquency or something, then we don't give -- we don't disburse the loan. So the question of giving loan to an NPA customer even after 5 years doesn't arise. So -- and we also give only one loan per customer. So we don't have multiple loans running to any customer.

R. Subramaniakumar: Just over and above, you also have the household assessment also. If anybody in a household is also delinquent, you will not be getting it. It is one step ahead I mean guardrails are pretty.

Management: Just to add, even in a second cycle customer, a customer who possibly paid us all the EMIs. And in the family, if there is a derog, which is visible from the bureau, we would not lend to the same customer in the second cycle as well.

Ashlesh Sonje: So I understand that you do not lend to any customer who has fallen into NPA, but just in case that customer comes back and repays his dues to become current again, would then he became eligible for renewal?

R. Subramaniakumar: We have a normalization period of 6 to 12 months, wherein suppose he has become complete -- 12 months, then he will be eligible for getting it again. If he has repaid the entire amount, it is not the question of write-off and things like that.

Ashlesh Sonje: And just one last question, in the credit card portfolio, you have mentioned this early bucket collection. Can you define that term for -- what is the numerator and denominator?

Jaideep Iyer: So numerator would be people who have paid the statement, which was due, and denominator will be all due for all statements for all customers demand effectively. Current month demand,

sorry -- current month demand and current month payment. Numerator is current month received; denominator is current month demand.

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

Nitin Aggarwal: A few questions I have. First, sir, on the deposit growth, we have had a very strong quarter on deposits, even the SA growth is very strong. So what has really driven this? And how sustainable this growth is?

R. Subramaniakumar: As far as deposit growth is concerned, the minimum given is between '18% to 20%, we will be able to sustain. The where we also explained that the current account is the flow of -- I mean, corporates during that quarter end, where it just reaches around INR12,000 crores, INR13,000 crores, which averages top somewhere INR10,000 crores. But the SA growth, yes, we are able to add on to the SA growth, and we will be able to maintain that growth.

I'll ask Deepak to give more data, if he has anything else.

Deepak Kumar: See, apart from what MD sir has said, we have taken some corrective steps also like we are now focusing on branch profitability, which is, again, a proxy for deposit growth. We have also categorized the branches into different categories and RMs are focusing on sort of enhancing the category of their branches. All these are aiding. I am telling apart from the quantum, even the quality is improving. And as communicated by MD sir, we will continue to maintain this 18% to 20% growth year-on-year.

Nitin Aggarwal: Okay. And second question I have is on the LCR. Now this quarter, we had such strong deposit growth quality, as you were saying, is also getting better but LCR has dropped sequentially. So what has changed? Any change in the runoff factor that we have incorporated this quarter?

Jaideep Iyer: No. I think LCR is a daily average position, and it is a function of daily average inflows and outflows. There has been no change in either assumptions or formula. If at all, I think the -- if you look at outflow, and I think there will be disclosure of LCR on the website already. The outflow as a percentage of total deposits are also holding steady to marginally coming down because as you do more retail deposits, you will have a lesser runoff factor.

LCR is a daily average for the month -- for the quarter, actually, on a daily average basis, whereas what you're seeing on deposit is effectively, while there is definite improvement in deposits, but that is a particular day-over-day comparison.

Nitin Aggarwal: And on the employee side, if I see like this quarter, we have added like more than 1,400-odd employees. This is like 10% of outstanding employees. And last quarter it was fully strong in terms of employee base. So what is the strategy, which business functions are you really hiring for? Because one of the employees in terms of business-like MFI in going slow in disbursements from the first half. So what is the strategy there?

Jaideep Iyer: Yes, Nitin, I think this particular quarter was clearly driven by the fact that we in-housed the collections from the co-brand partner group entity. Basically, collections in cards is a combination of employees and agencies. To manage those agencies, we need employees. So

naturally, we almost hired 900 employees in the collection vertical, which otherwise was housed with the vendor or the partner or whatever. Right? So that itself is a largest contribution for the sequential growth in employees for Q2. Other than that, our growth in employees is largely going to be driven by branches as we expand branches. We expand retail sales. That would be the primary driver for employee growth.

Nitin Aggarwal: And just lastly, a data keeping question. Interest reversal number this quarter, if you can share that?

Jaideep Iyer: Interest reversal number for this quarter would be in the INR120 crores range.

Nitin Aggarwal: Okay. And next quarter, when you say credit cost will be ballpark similar. So this number will remain broadly...

Jaideep Iyer: Credit cost for next quarter, yes, should be similar or slightly lower, yes.

R. Subramaniakumar: The card is definitely lower.

Jaideep Iyer: Yes, card would definitely be lower.

R. Subramaniakumar: Definitely lower, as far as the MFI is concerned, looking at the end of this month will be a clear indication. But going forward, we are of the opinion that it will be slightly -- it cannot be the same level what it is. It will be more than what it is today. But it will not peak. That's what we feel. Anyway, we have to wait for this month end data to showcase that.

Nitin Aggarwal: Thank you so much.

Moderator: Thank you. The next question is from the line of Anurag Mantry from Oxbow Capital. Please go ahead.

Anurag Mantry: Just one clarification regarding the use of contingent provisions potentially. How does that impact maybe your transition that you are looking to do for ECL eventually? If you use the provisions won't that impact the transition there?

Jaideep Iyer: No. So I think the contingent provision was if we did not have the current, let's say, heightened slippage challenge that we are currently seeing, then the contingent provisioning would have satisfied potentially the transition to ECL if that was applicable from April 1 next year. If we theoretically use contingent provisioning during the current fiscal and if we have to transition to April 1, if that guideline comes effective, then we will have to take the entire thing through networth, which anyway would have been the case.

Anurag Mantry: And just one clarification on your loan growth guidance for this year, I might have missed that?

Jaideep Iyer: Sorry, can you repeat the question?

Anurag Mantry: Your loan growth guidance for this year. I think I missed that?

R. Subramaniakumar: Yes. See, maybe it is a temporary intervening period, but we will be in a position to go back to the guidance what we have given so far.

Jaideep Iyer: 18% to 20% is what we have guided.

Anurag Mantry: But given currently your team of cards and MFI are having these headwinds, do you still see 18% to 20% possible for this year? Or that's more like FY '26.

R. Subramaniakumar: As I told you that microfinance is just moving up as far as disbursement is concerned, they'll be able to reach out to the position maybe by end of this quarter so that they will be able to contribute for the exit.

Anurag Mantry: Thank you.

Moderator: Thank you. The next question is from the line of Rikin Shah from IIFL. Please go ahead.

Rikin Shah: My questions got answered. Thank you.

Moderator: Thank you. 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.