



“RBL Bank Limited’s Q3 & 9M FY20 Earnings Conference Call”

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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 Q3 and nine months FY '20. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishwvir Ahuja, Managing Director and CEO of RBL Bank. Thank you and over to you, Mr. Ahuja.

Vishwvir Ahuja: Thank you and Good Evening Ladies and Gentlemen. Thank you for being on this earnings call for Q3 FY '20. I want to start by observing that the bank continues to show healthy growth across all aspects of the franchise which includes our advances position, our deposits position, our income, our operating profits and so on and so forth signifying the strength of our model and strategy. For the quarter itself, the advances grew 20% year-on-year. Our wholesale business growth was muted at 3% as might be expected, but the non-wholesale businesses continued to grow strongly at 42% year-on-year. Deposits grew at a healthy 21% year-on-year. CASA grew 31% during the same period. Our cost of deposits fell 19 basis points to a level of 6.71% for this quarter. CASA percentage is up slightly to 26.8% in Q3 as against 26.5% last quarter and 24.6% same time last year. We had significant surplus liquidity throughout the quarter further enhanced by the capital raise of 2700 odd crores in December 2019. Our daily average LCR was 164% for the quarter. Our branch expansion continues the pace with 25 branches added in this quarter largely in metro and urban centers. We remain on track to end the fiscal year with around 400 branches as we previously indicated.

In our financial inclusion business, we added 89 BC branches in this quarters with 77 of these in RBL Finserv itself. In total, we now have 1245 BC branches. Revenue growth momentum remained strong and has grown 37% year-on-year in Q3 FY '20. NIMs increased to 4.57% an all time high from 4.35% last quarter and 4.12% year-on-year. Our NII growth, net interest income growth, was 41% year-on-year and continues to be significantly higher than our loan growth and as a result our overall yield on advances improved 15 basis points QOQ to 12.26% largely because of the change that had happened in the business mix. Non-interest income grew 30% year-on-year and our core fee income grew 37% year-on-year in Q3 FY '20. Our non-interest income was 35% of our total income for the quarter. Our cost-to-income ratio was 48.1% for the quarter. It was lower this quarter due to benefits accruing on certain cost saving initiatives; however, we expect cost-to-income ratio to be slightly higher than 50% in the near term as we have previously indicated again perhaps a little better than we had previously anticipated.

Our operating profit grew 47% year-on-year and 15% quarter-on-quarter. In Q3, our operating profit was 732 crores. This actually reflects that the fundamental operating strength of the bank and its franchise strength that before we sort of take into account the necessary provisioning that we have had to do on a small handful of names which we talked about frequently, the

fundamental operating performance of the bank of all aspects continues to be very strong and in fact has shown a significant 47% growth this year over last year. Our PAT for the quarter was 70 crores impacted obviously by the credit provision that we had taken and obviously we will be discussing more of that. Lastly, the rating for our Tier-2 bond was reaffirmed at AA minus by ICRA ratings.

Now, getting into first the wholesale business and the specific asset quality issues which we have highlighted previously and we will talk about now also. The growth in the wholesale business is 3% year-on-year, and a marginal decline in fact on a QOQ basis. This is because of the prevailing environment and rebalancing of the portfolio in line with the strategy to further granularize the portfolio. The external environment continues to be challenging given the stress levels in the economy and we are keeping a close watch on the health of our portfolio. In this quarter specific to the stressed asset pool of 1800 crores, which were previously outlined in our last call and to which there is no material change, we have recognized an additional NPA of approximately 710 crores and we have made provisions of approximately 340 crores, this now implies that over 80% of the previously identified stressed exposure on certain corporate accounts has been marked as NPA and we now have made a total provision of approximately 700 crores on that portfolio. We expect a tail of NPA to flow through in Q4 when we will make the related provision as planned. Previously, primary as a result of all these our gross NPA percentage for the quarter was 3.33% as against 2.6% at the end of last quarter. Net NPA was at 2.07% as against 1.56% in Q2 FY '20. Our PCR remained stable at 58.1% relative to the previous quarter, so that is on the asset quality front on our wholesale business.

Now, moving onto the non-wholesale book, which continued its growth momentum. This business as I said earlier grew 42% year-on-year, 8% QOQ. Within these, the retail asset segment grew 49%, 9% quarter-on-quarter and the DBFI, the Development Banking and Financial Inclusion, segment grew 25% year-on-year which is 8% quarter-on-quarter. Yields continued their uptrend and increased by 18 basis points quarter-on-quarter, 151 basis points year-on-year to 15.7% in the non-wholesale business driven by the product mix changes. Last time we had talked about the retail asset business environment in terms of the slowing economy and the possible threat of job losses etc. I also mentioned that in all our portfolio reviews and below reports, one did not see any material stress buildup. The position is now the same. Actually, the festival season saw demand come back strongly and we saw our card business spends grow more than 29% in the festive month over the previous month which is October over September, however, we continue to remain cautious and our tightening of underwriting standards continues to be in force. The credit card business crossed an important milestone of 2.5 million cards making us the sixth largest franchise in the country. Our new card acquisition was robust and we issued 3.29 lakh cards this quarter. The aggregate retail card spends saw a growth of 18% quarter-on-quarter and continues its growth momentum. We are happy that despite growing at this fast pace, our retail spend/ card and other key metrics continue to hold and are in line with market leaders.

During the festival quarter, we saw our retail spends/ card move up to Rs. 11,265 versus Rs. 10,522, an increase of 7% in one quarter itself. A lot of these spends got converted into EMIs taking the term contribution to the card portfolio to 44%. We booked around 9.26 lakh consumer loans versus 8.5 lakhs the previous quarter, 9.26 lakh consumer loans is approximately 10,000 loans a day. In our LAP business while we continue to show growth, the challenges in the NBFC segment has allowed us to up our quality of sourcing. In fact reduced competition has allowed us to move to better risk segments at decent yields.

In micro-banking, the quarter saw some disturbances in the Eastern part of the country. Assam was the first market to get affected where we saw some trouble brewing in five to six districts on a call given by some local organizations. As the industry was trying to solve this, the state also saw unprecedented disruption to normal livelihoods and business operations with widespread protest across the state. We did see some slowdown in protest towards the last 10 days of December enabling our branches to be able to open and contact customers. This did push our collection efficiencies down to 85%. We expect this to improve this month given the early trends, however, we would continue to watch this space closely and make all efforts to be close to our customers. As of now, there are no new disbursals happening since mid-November in Assam.

Our exposure to the State is around 3.97% of the micro-banking book, which is actually down 15 basis points from the September levels while the overall FY book is approximately 9.2% of the total bank book, so it is 3.97% of 9.2% of the total book, and therefore, is unlikely to cause any problems which the business cannot absorb. Our ticket size of new loans is at Rs. 29,000, which is much below the industry average of Rs. 44,000 and the peer average of Rs. 57,000. We are also being cautious in our lending in all districts in adjoining states, which are close to the border and may have had an impact of migrants.

The last calendar year has seen a series of disruption in various states changing from flood, cyclone, drought, political agitation etc. Our geographical diversification model and deep understanding of the market has helped us tackle these with minimum impact to the business which remains very profitable. In this quarter, the micro banking business grew by 31% year-on-year, 7% quarter-on-quarter, and the MSME business showed a 40% growth year-on-year, 6% quarter-on-quarter. We added a total of 89 BC branches this quarter taking our total BC branches count to 1245 across 24 states. We continue to open BC branches as we scale these businesses.

Lastly on capital, we completed our fundraise of Rs. 2701 crores in December, which will provide us with adequate capital for a growth plan for approximately the next three years. We ended the quarter with a capital adequacy ratio of 16.08% with Tier-1 capital adequacy ratio of 15.02%.

Before I finally conclude, I want to leave you with a few thoughts in summary. Amidst concerns of an uncertain business environment because of slow growth and other reasons, we are working to steer the bank out of its recent challenges and as we have indicated before they should be sort of done and dusted by the end of the next quarter. We are digesting this situation and should be like I said put it behind us very soon. We continue to be in low-risk appetite mode in the wholesale business as we in parallel also deal with our current stress book on an active basis. We will focus our growth on wholesale as and when we see the definite turnaround in the economy.

We had picked certain business segments where we said we will become significant and that is succeeding to a very large extent and we already know we talked about on the non-wholesale side business segments where we are achieving significant size, scale, significance and have started generating market acceptable returns from these businesses. Our branch footprint is under invested and we will continue to invest in our deposit franchise. Technology continues to also play a vital role, however, it is not just tech that drives liability generation, it is touch and tech and we will continue to invest in both.

Lastly as I said earlier, we successfully completed our capital raise and this addresses our capital needs for approximately the next three years, so I thank you and with that I will now open it up for question and answers.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Dhaval Gala from Birla Sun Life Mutual Fund. Please go ahead.

Dhaval Gala: Sir, two quick questions, first outstanding number on watch list and if you could also talk about the movement in the watch list for the current quarter, in one of the slide which was there in the last quarter in our investor deck? Second question was if you look at the movement of rating profile for our wholesale lending book, despite two quarters of very high slippages, the rating profile still seems, is there material downgrades or why there is a 6% type of a BB and below book still looking at the same number means in the last two to three quarters despite such high slippages, so that was two questions around asset quality?

Jaideep Iyer: Dhaval on the second one clearly we have seen external ratings downgrade, some of that in our internal ratings had already been downgraded and we know the situation in those companies. We do not see anything materially different in terms of let us say those entities slipping into NPA or any other challenges right now. Some of this also happened to be technical where there could be a one day default and there is opportunity for these companies to claw back because of strong operating cash flows, so I think also the environment is fairly challenging and I am strongly suspecting that the universal data will also show that there are more downgrades and upgrades if you look at the last six to nine months outcome from rating agencies, so yes, I think that number has increased in the sense that the slippages have come

out from those numbers but we do not expect anything material going forward other than what we have generally guided around the overall stressed asset number. In terms of movement broadly I think we still continue to see stress coming from the four groups that we had in the past in the last quarter and there is nothing unusual which we had not envisaged last quarter.

Dhaval Gala: Could you tell, I mean explain with the numbers Jaideep just to understand the quantum was 1800 crores last quarter, how much has come from the slippages and how much is the new addition to the watch list in the current quarter?

Jaideep Iyer: We have approximately 700 crores which has slipped further taking the total approximately to 1500 crores.

Vishwavir Ahuja: To clarify, when we indicated that number we took 800 of that into NPA last quarter and we had suggested that approximately the same amount may happen in the next quarter and which is how it has panned out, so 700 of that is slipped through and so that is 1500 out of the 1800. The outlook on the 1800 remained stable, it is not moving materially and that is how we look at it and I think that is the way we want to answer it.

Dhaval Gala: The understanding is that the 1800 crore number which was from the four groups remains steady and there are no addition to that number as such, not many more groups or any new... ?

Vishwavir Ahuja: If you go back to the last quarter discussions and various commentaries and discussions, we had said that there was a 5% to 10% buffer in it which could take into account any further if I may say deterioration somewhere or the other. My view is we should still keep it at four to five names where that could come from, it is too early to say anything right now and maybe it will not, maybe it will, we do not know it is a very dynamic environment, but what I am trying to say is that we are still sort of remaining broadly within that outlook of number that we have put out earlier and we have no reason to suspect that we want to change it.

Jaideep Iyer: Just to clarify Dhaval materially the entire 700 materially barring some small number here and there is coming from those identified.

Dhaval Gala: Just to complete this conversation of asset quality, the last part if you could guide us that how do you look at scenario for slippages next year or next few quarters because you have recognized bulk of the problem until any new issues come, so do we move back to our earlier slippage ratios which used to come when before say till March 2019 means we never had any big hiccups when it came to wholesale banking then and now that you have seen the book really well, try to curtail the growth etc., could you guide us in terms how your slippage ratios could be in next fiscal?

Jaideep Iyer: Dhaval, one change you must appreciate is that we have because of this general lack of risk appetite and opportunity in wholesale, I think our mix is moving quite rapidly toward some of

our retail businesses, which by design as per the program will have high credit cost. Just mathematically, for example, if I simplify the credit card business let us say it is 20% and 4.5% or 5% that itself will be 1% credit cost or 0.9% credit cost for next year, so to that extent I think one should calibrate the credit cost because of the change in mix. On the wholesale while I will, we should expect things normalizing in economy to go back to a relatively normalized run rate, but at this stage I do not think we have enough data points to say that the economy is back to a normalized run rate that soon.

Vishwvir Ahuja:

I really appreciate your comment Jaideep, well put. You see even in this last two to three months intervening period since our last conversation, there has been at least on the corporate side further stress buildup. I do not think the environment has improved if anything and we have seen two to three names pop up in the environment and without going into that fortunately we were not in them, so from our point of view, we are all still looking that we are safe and secure from those standpoint where we were two, three, four months ago and I think we have in many ways looked at our portfolio very carefully, I mean last quarter and I am maybe overextending my answer, last quarter there were lot of concerns around couple of NBFC names which was sitting with many banks including some parts with us and honestly we have moved that needle significantly in a positive direction. The exposures have been cut down 60% to 70%, they are down to a very miniscule number and they have been in terms of their security structures and whatever you want to call it, we have made them more or less risk-free, so the fact is in that sense we have strengthened our asset position on the wholesale side. In few other names, which are good names still very highly rated but we felt that our exposure were somewhat disproportionately high because that is one of the learning experiences for the four to five names that we had taken pain on. There again we have brought them down, we have a very new target operating model in place with tighter filters and more conservative level of risk appetite even for highly rated names, so all those changes have been made in this quarter and all one can say is that it should position us strongly for the future to revert to high-quality BAU business in the future with decent growth. Right now, for the next two, three, four months, we are still in the mind frame of being somewhat risk averse and just making sure that was what we have on our books is safeguarded and protected and safe and is of good asset quality, so I think that is what we are ensuring and from that standpoint I would say we are still doing okay and hope to remain okay.

Dhaval Gala:

Just the last question, on the business model little longer term now that the mix of loan book is becoming 50:50 and the wholesale book is now at 52% and the way you articulated about the debulking of the loan book as well as reducing ticket sizes with each of your clientele, how one should envisage the next one to three years time horizon the book mix because that would derive higher margins if you keep tilting more towards retail especially on the key segments which we have grown aggressively or more importantly credit cards and MFI business etc. so if at all next three years how do you look at your mix between the wholesale and the retail?

Vishwvir Ahuja: I mean just looking ahead some of it is circumstantially happening and some of it is obviously by design, so the fact that we are now more than 50% retail or non-wholesale this quarter itself has circumstantially happened and like you very rightly said, the portfolio is doing well, there is extremely well, very well managed with huge growth potential out there. Also, the good thing is that these are businesses which are now reaching significant size, scale, and market significance and now reaching a point of escape velocity to give us perfectly market benchmark profitability in returns, so there is no reason to in anyway soften that momentum and trajectory. Now, if that is the case then the whole question is that to what extent do we want to take this, so I think our first line of thinking is that within the next 12 to 18 months or so we will get closer to a 55:45 situation then that is something that we will first see how we get to that point and then probably take a pause and reflect what the other opportunities in the environment are and this is a continuous process, it is a dynamic process. Within that portfolio also, we have to make sure that we remain sensible and prudential, so that is the whole game going forward, but yes I do see that the non-wholesale sort of picking up 1% a quarter for the next three to four quarters.

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

Nitin Agarwal: The first question is on the fee income, now fee income continues to surprise positively led by sustained momentum in card business, so if you can throw some light on the composition of card fees in terms of spend based, subscription-based etc. and simply the deposit growth this quarter has been flat, so are we not looking to strengthen our liability franchise and improve our security deposit ratio at a time when we are going slow on the wholesale business, so why this deposit growth is flat, and third is on the OPEX line, while we have said that this quarter OPEX was more benign than what we envisaged, but the OPEX number as such has been like the same for last three quarters, so why is this so because we have been adding branches every quarter and our retail business has been growing well?

Harjeet Toor: The cards fee breakup is still in the same roughly if you see your joining processing fee is one-third which is the fee which customers pay when they get the card annual fee and there is this loan fee which we get and which is combined with that and then you have the spend-based fee which is about 37% and the balance is the other fee, a large portion of that is the penal fee as well as the insurance income etc. which we get, so broadly in this is what it is divided and that if you look at it they are all a function of the number of cards you have and therefore as the new card growth keeps happening, the fee proportionately will keep going up.

Jaideep Iyer: On the deposit Nitin, we are in a peculiar situation where I think the retail growth continues. We are quite happy to take those retail deposits, we have been adding branches and people. I think what has happened to us in the last few months is that because the loan growth is relatively slower and we have had some very nice opportunities on refinance which are quite cheap given our asset portfolio, we have had some borrowings which has come in and of

course we have seen capital come in so what has really been de-focused upon is the bulk deposit which always used to be the marginal 30%-40% in our case, which clearly we are not really needing to take and because we are sitting on 5000 to 6000 crores of excess liquidity and now with capital slightly higher, so that is really the reason why you will optically see CD ratio being a little higher or incremental CD ratio being higher. Within deposits, the growth in retail and CASA is quite satisfactory.

Nitin Agarwal: Lastly on OPEX?

Jaideep Iyer: On OPEX, we have had some over provisioning which we had done in the first couple of quarters on employee expenses like gratuity, some of these are more provisions which we had overestimated. I think we corrected a little bit of that and we had some cost saves as well which we were accrued over a period of time which got recognized in this quarter, so maybe that number should be in the 20 to 30 crore range, so you can adjust for that but we will have OPEX growth again coming back, and therefore, Vish mentioned that we should probably be back in the 50 to 51 range on the CI ratio.

Moderator: Thank you. The next question is from the line of Henrik Milton from Coeli. Please go ahead.

Henrik Milton: I was just wondering here when we listen to your quarterly report in the summer of 2019 started to take roughly two to three quarters before you get out of the wood regarding the NPL, is that the picture you still confirm that you are having a good progress regarding NPL?

Vishwavir Ahuja: Yes, that is what we said and that is what we are saying even now that in the two to three quarter perspective it has been two quarters and the third quarter would be the coming quarter and as we have said again and again that we expect to at least put behind the need to recognize and provide for the stressed portfolio by then and get back to a normalized situation starting next fiscal year, so yes we are staying with that.

Henrik Milton: Can you also just confirm that slow in loan growth is that more resilient taking new loans in the wholesale business?

Jaideep Iyer: I think we should first of all see it in the context of the opportunity itself being fairly a slowdown in wholesale banking credit growth across the industry. We also are while we had gross loan book of reasonably good quality, we are also debulking some of our existing book because one of the learning as mentioned in the past and today was that we need to be a little more granular on the wholesale book, so over the net origination that we see of course is colored by the fact that there is a shedding of existing loan book as well from a rebalancing perspective.

Henrik Milton: My final question, now that the loan growth is little bit slowing down here, where are you actually going to make the money going forward, what are the profit drivers?

- Jaideep Iyer:** I think from an income standpoint the benefit continues to be from falling cost of funds and relatively less fall in overall yield on assets and yield on advances, so we should continue to see margin expansion. On the fee income side, we will see some pressure on wholesale fees because the growth is definitely coming down as in the past, but we expect some of that at least to be compensated by the retail both liabilities and assets from a distribution standpoint as well as from the asset businesses on retail to kind of continue to show strong growth. Our expectations would be that non-interest income growth should be not very different from what we have seen in the recent past unless there are some serious slowdown that we see in other parts of the business, we are right now not envisaging, so I guess top line should do well and we will continue to be prudent on cost while continuing to invest in branches. By the end of this year we should be 400 branches and on that base, we probably will moderate the percentage growth of branches, so we will probably add about 100 branches next year which on a base of 400 is more like 25%, so I think we will start seeing some level of operational leverage on the distribution side of the business as well, so those would be the levers for us to kind of maintain/improve our profitability once we cross the provisioning hump.
- Moderator:** Thank you. The next question is from the line of Saurabh Das from Franklin Templeton Capital. Please go ahead.
- Saurabh Das:** I would again dwell upon a little bit on the asset quality side, on Slide 22 you have the detailed breakup of the rating profile and there was a question asked around the 6% BB and below, if you can give me the total number to which I should multiply that 6% number, what would be that absolute Rupees number?
- Jaideep Iyer:** That should be approximately somewhere around 3700 crore number, 3700 divided by 6%. It is approximately 60,000 because it includes fund and non-fund based rated profile.
- Saurabh Das:** Along with the corporate investment book or the total investment book?
- Jaideep Iyer:** It is a corporate investment book, we do not take GSEC and other investment book here. It predominantly will be loan book plus non-fund based plus corporate investment book.
- Saurabh Das:** If I just look at the movement of this, how much of that pending 1000 crores which you had a standard but a part of your 1800 watch list of the last quarter would be overlapping with this 3700 crores last quarter?
- Jaideep Iyer:** Almost 100%.
- Saurabh Das:** Which means that there is a net increase of somewhere around 700 crores to this number?
- Vishwavir Ahuja:** Absolutely right.

Saurabh Das: If you can just talk about a little bit around the movement in absolute numbers that would give us a sense of how much has been downgraded into this book?

Jaideep Iyer: Saurabh what you just now said is correct, approximately 700 crores went out in Q3 versus Q2 and the numbers are roughly the same therefore approximately 700 crores got added because of external downgrade, which is little over... I am talking about the net number there will be some upgrade and therefore the downgrade could be little higher, but substantially yes, it may not be precise 10-20 basis points upgrade if at all and I think some of this is at least the two, three names that I remember are a little technical in nature and do not necessarily indicate an immediate possibility of a slippage in the near future, so which is why our let us say thought process around the overall stress book not materially changing.

Saurabh Das: Roughly let us say 1% to 1.5% on a quarterly basis or around 5.5%-6% of the corporate book is right now the run rate of addition to this BB and below, so that kind of brings into this question that for the next fiscal year assuming a large part of Q4 slippages would come out of the pending whatever 300-400 crores of the stress book, it does give us a sense that it could be an elevated level of corporate slippages, is that right now a safer conclusion to make or you have different views?

Jaideep Iyer: Saurabh I think one of the things that we did mention is it is a dynamic environment. This particular last two quarter slippages have substantially influenced by some of the stress portfolio that we had already spoken about starting June-July and basically then some of that is translated. I think it will be an extreme extrapolation that you are talking about, unlikely to be in that quantum. Having said that, economy is where it is but I will be very surprised if we start seeing this as a trend for the next four quarters, I do not think that is the intention at all.

Saurabh Das: In terms of SMA2, how large will that book be and is there a substantial overlap if you are BB and below or those have slightly different context?

Jaideep Iyer: SMA2 will have a very high to full overlap with BB and below. I think our SMA2 should be in the range of about 200 crores net of the stress book that we are talking about, so that should be about 39 basis points.

Vishwvir Ahuja: SMA2 is 39 basis points.

Saurabh Das: That has been in that vicinity for the last two quarters or?

Jaideep Iyer: Marginally increase, last time I think net of our stress book it was about 17-18 basis point, so yes.

Saurabh Das: Just in terms of the retail asset quality you did mention that it has been tracking well but we do hear from other players that on the unsecured portfolio there are some pockets of stress which

are coming through, so if you can give us some sense of write off rates on the credit card portfolio trends and what do you think would be a fair expectation for next year? We do hear about large white collared job companies which are under stress, so there could be layoffs, a lot of companies in their calls also indicated employee rationalization etc. so do you see any challenges coming out of that and in terms of salaried and non-salaried complexion on the credit card book if you can give some sense on incremental flow?

Harjeet Toor:

On the card side, if you look at the market on latest read which has come, the (+90) has gone up by only about 10 basis points, so there is not a significant increase which one is seeing there. I think for us specifically you can expect the credit cost to be somewhere in the 4.6 to 4.7 in that range next year and the GNPA's in the region of about 1.6 to 1.7. If there is a massive job loss situation, then yes portfolios which are salaried will get affected. I think so far we have been a little, we have not been impacted for the simple reason that our salaried book is extremely granular, so when you go open market I am not bunched towards a particular company because I do not have very high quantum of salary accounts in that company, and therefore, a high quantum of cards in a particular company, so when there are job losses which are company specific we kind of get insulated, but if it becomes a bigger trend then it gets kind of impacted. Our mix between salaried and self-employed, so roughly about 35% of the book is self-employed and the balance is salaried.

Saurabh Das:

And the flow will be similar?

Harjeet Toor:

Yes, there is obviously a large potential on self-employed, it is not as if the self-employed segment is also doing great in this economy, because the MSME sector is also stressed so as of now we still find the salaried segment much superior in performance than the self-employed, so we are little guarded there.

Saurabh Das:

What is your write-off policy, if you can remind me?

Harjeet Toor:

We write off at 180.

Saurabh Das:

And you do not see any reason right now to change that given the recovery trends in the harder buckets?

Harjeet Toor:

We basically like to write off early because you do not want to carry a book hoping that the recovery trends will improve. Our recovery trends are stable. Currently, since our written off book is not very large as a proportion, therefore, recovery rates are little higher, but as that recovery pull becomes longer and more vintage'd, the recovery rates start coming down and therefore, we will continue with the aggressive write-off policy.

- Saurabh Das:** Just in terms of behavior patterns between the Bajaj Finance tie-up customer sourced versus the non-Bajaj sourcing is that broadly there is a difference I understand but is that differential remaining constant or you are seeing any difference in the delinquency patterns in those?
- Harjeet Toor:** We expect the Bajaj Finance book to always have a lower delinquency and credit cost by the simple reason that it is a tested book.
- Saurabh Das:** I am talking about the differential between the two?
- Harjeet Toor:** As the Bajaj portfolio also starts getting vintaged this narrows down, but you can safely assume of a 40 to 50 basis points difference to remain.
- Moderator:** Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.
- Rohan Mandora:** Just wanted to, I missed the initial comments wherein you talked about the provision on the 700 crores of slippage that happened on the stressed pool, could you repeat that?
- Jaideep Iyer:** Approximately 340 crores.
- Rohan Mandora:** Sir, in terms of on the credit card business, the Slide #42 we are showing the portfolio breakup for term and non-term, interest earning and non-interest earning, is it possible to share this number in terms of the number of accounts, on the balance risk but in case if you can share number of accounts?
- Harjeet Toor:** I would not have the number of accounts.
- Harjeet Toor:** You also understand, the same customer will have a term and will also have a non-term balance, so therefore it is easier to put it as a balance, then put it as a customer.
- Rohan Mandora:** But just trying to understand what percentage of the customers would carry a interest earning balance out of the total pool?
- Harjeet Toor:** I think what I can safely tell you is that if you want to look at what customers revolve that number is about 27% and term loans typically about 75 odd percent would be to customers who do not revert.
- Rohan Mandora:** What is the share of inactive customers, who are six months inactive?
- Harjeet Toor:** Our inactive six months would be in the region of about 15 odd percent.
- Moderator:** Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

- Manish Ostwal:** Only one question on the corporate book side compared to the last quarter to this quarter, we have recognized 700 crores of additional NPA from the watch list, so based on the current macro assessment and some downgrades happening in the BB book, what are the upside to the 1800 earlier watch list book, so 1800 can increase materially or it remains where it is?
- Vishwvir Ahuja:** I think we had commented in our previous commentary today that we do not expect any negative material movement in short run to this number, but at the same time admitting that I do not see upside this considering 1500 of the 1800 is already taken so there is not much room to have expect that on the provisioning side, we have aggressively provided and as you can see it is much above the regular provision and so as the recovery and resolution efforts are ongoing let us hope that there we will do a better job and effect from savings and which will sort of add back to P&L as and when that happens, so I think the upside potential if anything is on that side rather than on the gross number itself.
- Moderator:** Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.
- Aditya Jain:** On slippages of 1050 crores, you mentioned about 710 crores from the stressed asset pool, so that leaves the remaining 340 or so crores, this is a bit higher than the 250 crores sort of that you talked about in the normal slippage, so how do you look at the 350 is this the normal number going forward or are there any aspects in this which will not recur?
- Vishwvir Ahuja:** Much of the increase has come from cards only.
- Harjeet Toor:** This time we did see about if you look at versus last quarter and I will talk the whole retail asset segment as such. You did see a 50 odd crore increase in slippage, bulk of this was because we changed our NPA methodology, went a little more conservative so we used to follow a month end NPA policy, in fact last time in the call somebody had asked had you moved and we said yes, we have part moved and part moving so all the big product cards and LAP etc. moved into the daily NPA, so there is a little bump up which happens which is a one-time and this will therefore normalize over the next one or two quarters.
- Aditya Jain:** Okay, so as of now all of the products have moved to the daily NPA tagging and the effect of that is done?
- Vishwvir Ahuja:** That is right, all have moved.
- Harjeet Toor:** So as of October 1st everything is moved.
- Aditya Jain:** On credit cards, the credit cost in the last quarter was about 4.5% I believe was mentioned on the call where would that be now?

- Harjeet Toor:** This quarter because of the daily NPA, we went up to about five. This would as I said stabilize again at about 4.6-4.65 going forward.
- Aditya Jain:** In terms of the card portfolio maturity and of the average vintage, so how do you see that affecting the credit cost going forward, so given the aggressive growth we would have seen a higher I assume the portfolio vintage of the share of customers who are within 1 to 1.5 years sort of bucket would becoming higher, does that play to the credit cost outlook for the card's business or....
- Harjeet Toor:** Till the time we are growing at this rate, you are right, our portfolio is skewed towards the one to two year vintage bracket which is where the credit cost peak, so that is the reason why we are running at almost peak credit cost in about one or two years from now and the proportion of the portfolio which is greater than two years starts growing that is when the credit cost starts coming down because that portfolio has already seen its losses and there the credit costs are fairly low.
- Moderator:** Thank you. The next question is from the line of Deepak Gupta from Reliance Nippon Life Insurance. Please go ahead.
- Deepak Gupta:** I just wanted clarification on a data point on Slide Number 18 where you have mentioned net stressed assets which have increased from 1.6% around September 30, 2019, to 2.14%, so if you could just take us through what is this increase on account of?
- Jaideep Iyer:** No, this is the net NPA number which is already at 2.07.
- Deepak Gupta:** Is it not this part of that 1800 crores, out of that 1800 crores, 800 crores was made ...?
- Jaideep Iyer:** No Deepak, sorry to clarify, this net stressed assets is actually what is there in the balance sheet as of December 31st, which is nothing but net NPA plus a very, very small old restructured book that we are carrying.
- Moderator:** Thank you. The next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.
- Parag Jariwala:** Sir, my question is on the asset quality, if you look at your slide on the ratings, you know December 2018 BB and below was also slightly higher than 6%, so how do you read this I mean also it is 6%, earlier when the environment was not as bad as what is it right now we were at 6%, so are this 6% is something which we should be worried about or even it would be like normal course of business obviously we are not here to lend everything to AAA, so how do you read this?

Jaideep Iyer: Perhaps December '18 did carry the situation around the fact that the slippages which happened later probably I do not have a data point of that whole to be honest because we were more focused on looking at the sequential numbers, but maybe there was a large part of the 800 crore book also sitting there, which one would have come down and I think from I do not see, to be honest, any other answer here, as I told you in the earlier question whether we will continue to add 500, 600, 700 crores to the BB book highly unlikely, but yes given that the economy and where the near-term outlook is should it increase in terms of absolute, answer is yes, hopefully as a percentage I think it should come down because as and when these things materialize into NPA I think the incremental slippage should come down.

Parag Jariwala: The 1800 number, by the next quarter I think almost everything will go under, but in your experience of this BB and below, what is the percentage again very difficult to get or little difficult to calculate, but in your assessment what should be the ratio of slippages out of this?

Vishwavir Ahuja: The matter is that out of what we have had to classify as stressed this year, one year ago little more was AA minus credit more than 70% of this portfolio, so it has not slipped from BB, it has slipped from AA, and unfortunately, there is not much to say about that, so it did not come from that book. In many ways the slippage is coming from the BB book and have not been that stark and in fact either has just remained there or small percentage may have slipped, so right now I think maybe we can do some more work to arrive at a correlation factor if any, but if you look at the stress book that came post July 2019 almost all of it came from a better category.

Moderator: Thank you. The next question is from the line of Hiten Jain from Invesco AMC. Please go ahead.

Hiten Jain: I have one question, if you can throw some light on this downgrade of 700 crores to BB and below, I am assuming this would be mostly from the wholesale book, any color on this whether it is lumpy, granular or which industry has this come from any specific trend that you are seeing that would be useful?

Jaideep Iyer: I do not think we have seen any industry correlation here and I do not think there are too many industries which are doing well in the economy any case, there is a widespread of industries which are doing poorly, so I guess it is pretty diversified in that sense. Not to my knowledge that we have seen anything bulky here.

Moderator: Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: Just wanted to check how much is our interest reversals for the quarter?

Jaideep Iyer: It should be about 20 crores.

- Darpin Shah:** How much this will be in the previous quarter because we have seen similar slippages for the last two quarters, almost similar?
- Jaideep Iyer:** About 25 to 30 crores.
- Darpin Shah:** Last thing what explains the dip in employee expenses, sorry if I missed that?
- Jaideep Iyer:** I had mentioned that we had, there are certain provisioning items in employee cost like gratuity and bonus provisioning etc. which we had taken estimating a higher number, some of that was calibrated to what it is today, so some claw back in this quarter on that. We will go back to some increase, which will be more reflective of people.
- Moderator:** Thank you. The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.
- MB Mahesh:** Just one question, have we made any progress on this 1500-1800 crores of slippages which is likely to happen, what has been the progress on expected recovery on that front?
- R. Gurumurthy:** Frankly, it has been a little slower than what we thought when we started, bunch of things and different for us. The other challenge of course in a couple of cases is I do not think all the lenders are in the same platform yet, so this is still work in progress, different stages for different cases.
- Vishwavir Ahuja:** Last quarter in my commentary itself I mentioned that the experience has been not good to be very frank and for one reason or the other either the deterioration is being rapid or the banking groups involved in each case, I mean these are one of large exposure, there are several banks involved and just the process of coordination between banks and alignment has been very poor and even in some cases frankly it is frustrating because there is significant asset value sitting there and recovery potential, but we are not able to come together and the relative to our size even though some of our exposure was high, but in the context of the consortium or the banking rule it is still relatively low, which means we do not have leverage, the bigger bank or banks are some of the others, fact is that when they are taking certain positions, our leveraged position is not that great so we have to agree on some of these cases, which is why although I would say fundamentally barring one name in all the other three to four names the fundamental recovery potential is quite much there.
- MB Mahesh:** Would you say that you are in a position to at least crystallize what would be the potential loss in these exposures because we have 700 crores of provision today, how do you look at that number?
- Jaideep Iyer:** Mahesh basis current estimates it will not be very different from where we have provided on a pool base, somewhere in the 45%-50% range.

- MB Mahesh:** Technically you can say that you can go slow on provisions because you have made significant provisions today?
- Jaideep Iyer:** On these names, probably yes.
- MB Mahesh:** One clarification, when you say groups you include everything in that group is it, you have one common promoter and you include all possible companies of that particular group?
- R. Gurumurthy:** Unless there is good reason to exclude anything, yes, that is the way.
- MB Mahesh:** I will just give an example if I say there is a company which is in entertainment and they have got in infra, would you include everything in that particular group or do you say that I have only included...?
- Vishwavir Ahuja:** No, we have included infra.
- MB Mahesh:** Last question is there has been a decline in the corporate banking exposure sequentially, anything to read into it?
- Vishwavir Ahuja:** No, just that the earlier broader commentary that one is a question of assessment of risk and the other is a question of pruning down the exposures even when there was good large exposures, it is something that we have been doing, so if you take even the, I mean this is the question asked even in this forum that what is your largest exposure and what is the amount of that quantum and the fact is even that largest exposure we have pruned back though it is a AAA company, because we have just decided on a completely different target operating model with very, very tight caps compared to what we used to have earlier, so we are pruning back even from the best.
- Moderator:** Thank you. The next question is from the line of Yash Agarwal from JM Financial. Please go ahead.
- Yash Agarwal:** I just have a small question this write off number for 440 crores, what all does it comprise of?
- Jaideep Iyer:** It will be routine retail write-offs which happen including cards and then there will be certain corporate which we would have taken a technical write-off though while we will try and continue recovery efforts, but we have technically written off a few corporate assets.
- Yash Agarwal:** It has been trending higher every quarter by about 30%-35%?
- Jaideep Iyer:** If you take heavy provisioning it allows us to do that because the P&L has already taken the hit.

- Moderator:** Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.
- Jai Mundhra:** Sir, just a clarification first on the asset quality, so we had this 1800 crores stress pool of which 8 billion slipped last quarter and around 7 billion slipped in this quarter, so that pool is now only 300 to 400 crores, right?
- Vishwvir Ahuja:** Yes.
- Jai Mundhra:** We have not added in this pool, we have added in our external rating benchmark, but the watch list nomenclature has sort of gone or the watch list still remains 1800 crores, so the balance is about 300 crores?
- Jaideep Iyer:** The balance of 300 what you said is right.
- Vishwvir Ahuja:** They were calling it watch list, we were always calling it identified stressed asset pool, because these came from large exposures on the corporate side, but we have small stuff on BAU base sitting in SME, mid-corporate, Agri, and retail all of that, so that number is not in this 1800, that is the BAU number which somebody mentioned earlier has been averaging around 250-300 for us and in this quarter it was 350 because of the bump on the retail side because of the daily NPA marking, so that is how you should look at it.
- Jai Mundhra:** Sir, in that conjunction that when you say SMA2 is 39 BPS outside of this stress book then there is a bit of a disjoint here, because you have already recognized that stressed pool as NPA, so why do you exclude when you qualify your SMA2?
- Jaideep Iyer:** There will always be situations where there will be first of all this could be a part of our BAU situations where we will have slippages in mid-market smaller companies as just mentioned and there will be situations where SMA2 continues for a long period of time and some of them come back to SMA1 status as well or even lower, that is the part of I mean if it is as simple that my SMA2 book is watch list and that is one way to look at it, that is not the way we have looked.
- Vishwvir Ahuja:** Yes, so that is 230 crores.
- Jai Mundhra:** If I remember correctly you said this 230 is in the portion which is not overlapping with the stress book, right?
- Vishwvir Ahuja:** I am saying outside of the 1800, the number is another 300-350 crores, overall across the rest of the entire portfolio of the bank, wholesale and non-wholesale and of which 39 basis points is SMA2 which is 230 crores.

Jai Mundhra: Yes Sir, again so the question is if out 1800, 1500 crores has already gone to slippages for NPA, then you can even say that SMA2 including all is 230 plus let us say 300, is that the correct understanding?

Vishwvir Ahuja: Yes, that is another approximately 30 basis points, it is fine.

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