



## “RBL Bank Limited's Q3 FY'22 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to RBL Bank Limited Q3 FY'22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rajeev Ahuja -- Interim Managing Director and CEO of RBL Bank. Thank you and over to you Mr. Ahuja.

**Rajeev Ahuja:** Thank you, ma'am. Good evening, ladies and gentlemen and thank you for joining us for a discussion on RBL Bank's financial results for the third quarter of financial year '22.

First of all, I hope you and your families have been safe and in good health.

As always, I'm joined on this call by other members of a management team who along with me will address any questions that you might have.

On the business front, Q3 as expected has been better given the improving activity indicators and environment post the severe second wave we saw in Q1 and its spillover impact in Q2 FY'22. Briefly,

advances momentum is now firmly on a positive trajectory. We have seen sequential growth and expect this to continue in the coming quarters as well.

Asset quality position continues to improve, slippages and recoveries have continued to trend lower quarter-on-quarter. And we expect this trend to be lower in Q4 as well.

Profitability has therefore seen a sharp increase and we expect to improve this further in the coming quarters. While there were some challenges on the deposit front in the last week of December, we have seen stability return very quickly and are now in fact tracking deposit position at higher than December levels.

We continue to remain well capitalized with sufficient liquidity buffers. And today we opened our 500th bank branch. Our long-term focus on expansion of our distribution franchise via branches and BC points and technology-driven services will continue to be the focal driver of our investments in the coming years.

Now, briefly talking about our results for the quarter.

First, asset quality and related provisioning. Our GNPA and NNPA as of the quarter-end were 4.84% and 1.85% respectively, trending lower quarter-on-quarter from 5.40% and 2.14% respectively. In our previous calls, we have spoken of slippages peaking in Q2 with progress towards normalization beginning from Q3.

I'm happy to report that gross slippages this quarter were much lower at Rs.766 crores as against Rs.1,217 crores in the second quarter of financial year '22. Adjusted for recoveries and upgrades, net slippages this quarter were Rs.313 crores as against Rs.747 crores last quarter. Of the slippages in this quarter, Rs.252 crores was in microfinance, Rs.248 crores was in credit cards and 148 crores in rest of retail. Slippages in wholesale were Rs.117 crores; however, of this an account of Rs.85 crores slipped and upgraded within the quarter for technical reasons.

To give some more color, the trend in cards has now normalized to pre-pandemic levels. In microfinance, while slippages were lower this quarter than the previous quarters, it is still higher than normal trends. We are however seeing incremental flows slow and expect slippages to be lower in Q4.

Lastly, I want to specifically address concerns that still remain about our wholesale book. Over the last two years, we have continuously improved the quality of the book, granularity, etc., by focusing on derisking and debulking and by adding new names which have a much better credit profile. The book has held up well through the pandemic and we have seen negligible slippages over the last many quarters.

**Provisions:**

We took total provisions on advances which is NPA restructured and standard asset of Rs.480 crores in this quarter as against Rs.694 crores last quarter. Adjusted for recoveries from written-off accounts, net provision on advances was Rs.403 crores in this quarter largely in cards and microfinance; (Rs.244 crores in cards and Rs.82 crores in microfinance). In addition, we continue to hold the COVID provision of Rs.134 crores same as last quarter for the microfinance book. Our gross restructured book is also reduced quarter-on-quarter to Rs.1,998 crores from Rs.2,120 crores on account of customer repayments. PCR is now 62.9% as against 61.7% last quarter-end.

A few points about the operating performance. Overall advances grew 3% year-on-year and 4% sequentially. Retail advances declined 6% year-on-year and were flat sequentially whereas wholesale advances grew 16% year-on-year and 8% sequentially. We'll talk a little bit more about the retail advances when Harjeet picks up the threads.

In terms of outlook in wholesale banking, activity levels have been improving over the last few months and we are increasingly seeing traction in credit growth and related areas of trade, FOREX, cash management, etc., In fact, this quarter we onboarded 86 new clients in this segment.

In retail, movement in new card issuances has been strong this quarter and we expect this to continue in the coming quarters too. We added approximately six lakh cards in the quarter. This

is between 80% and 100% higher than our normalized acquisition rate. Obviously, Q2 was very subdued because of the ban on Mastercard.

In microfinance, as the stress abates, we have started increasing our disbursal moment , specifically in geographies where we see collection efficiencies being close to pre-COVID levels.

As a result, retail-wholesale advance mix stood at approximately 53-47.

Our year-on-year total revenue was up 10% at Rs.1,630 crores. Year-on-year NII grew 11% and 10% sequentially to Rs.1,010 crores with more normalized interest reversals in this quarter. NIMs for the quarter were 4.34%, 28 basis points higher sequentially and 15 basis points higher than Q3 of last financial year. We expect this to sustain and then improve over the next few quarters. It is also important to know that we have also prudently not been recognizing interest income on the restructured book. So, while that is a drag of approximately 10 basis points, growth in earning assets has more than offset that.

Year-on-year other income was up 8% at Rs.620 crores and core fee income grew 24% year-on-year and 17% sequentially to Rs.594 crores. Year on year and sequentially fee income from our retail businesses grew 19% to Rs.509 crores. Retail fee income to core fees was 86% this quarter.

Our OPEX increased to Rs.1,000 crores this quarter, an increase of Rs.183 crores from the previous quarter. The increase in OPEX was driven by the credit cards business on account of new card issuances this quarter (as I mentioned we have pretty much close to double our normal issuances) and the spend/ reward related expenses. This quarter was one of the best spend quarters we've had in the history of our cards business. Also, the first two quarters were unnaturally lower because activity levels in cards were very subdued. So, the increase because of cards was almost three-fourth of the total cost increase. In addition, we had normal cost increases on account of branches, people, and technology, added over the last several months. I'll have more to talk about this towards the closing of the speech.

As a result, our PPOP this quarter was at Rs.631 crores. Due to lower provisions, our profit after tax was Rs.156 crores for the quarter versus Rs.31 crores for Q2 FY'22.

Now on to our deposits, summarizing the quarter year-on-year trends were healthy with total deposits growing 10%, CASA deposits growing 21% and retail and small business deposits growing 14%. CASA ratio was 34.4%, retail and small business deposit ratio was 37.9% as at December 31, 2021.

The focus and importance of retail deposits is now perhaps greater and we will continue to keep investing and increasing our digital and physical footprint in brand. If you recall, in the second half of 2021 and the first six months of this financial year, our retail deposits has grown

dramatically almost of every 100 rupees of deposits we added 80 rupees came from retail LCR. We hope we'll get back to the trajectory in the months to come.

As I mentioned, we have today reached 500 bank branches, an increase of 96 branches from the December of 2020. We plan to add another 80 to 100 branches over the next year, primarily deepening our presence in key existing urban and metro markets. We also had 1,424 BC branches at the end of the quarter.

Our liquidity levels continue to remain high with average LCR at 146% for the quarter. Our cost of deposits decreased to 4.76% in Q3, lower by 95 basis points year-on-year and 25 basis points sequentially. We expect deposit costs in Q4 may see a small uptick given that rates now begin to move up, but it should be within the same ballpark.

Lastly, our CAPAD ratio as at 31st December was 16.6% with a CET-1 of 15.8%, an increase of 30 basis points sequentially.

With that, I will now hand over to Harjeet to talk you through some details on the retail businesses for this quarter.

**Harjeet Toor:**

Thank you, Rajeev, and a very good evening to all. I will outline for you our Q3 FY'22 experience and how we are seeing things in retail as we move forward from here.

Let me talk about advances and disbursements. As mentioned, advances in retail declined 6% year-on-year and was flat sequentially. However, we saw year-on-year growth in advances in cards of about 8%, home loans about 172% and tractor loans about 250% though of a small base. On the other hand, we saw a decline in micro banking advances by 28% due to our cautionary stand on the market and business loans also declined by around 20% where the unsecured books were being run off and only secured loans are being done.

Disbursements which started again from September onwards across all business segments picked up momentum in the third quarter and should see further pick up this quarter.

How are we seeing things today?

Markets, both urban and rural are not seeing any material restrictions on account of lockdowns. The third wave doesn't seem to have made much of an impact as of date. Resolution rates continue to be better than pre-COVID levels across all buckets and in all business segments.

Collection efficiency has seen a sharp improvement in microfinance. Overall collection efficiencies in the non-NPA book have improved from 83% in June to 94% in September to around 97% in December. Even in January, we are seeing slightly better collection efficiency than December despite the third wave. The book originated in FY'21 and therefore not subjected

to any moratorium is running at collection efficiencies of around 99% and gives us the confidence that the delinquencies are now restricted largely to the pre-COVID book. The new book accounts for 64% of our total micro banking advances. And this proportion is increasing every month. If I look at the non-NPA book then the new book proportion is around 75%.

Slippages, as mentioned earlier, in overall, retail slippages in Q3 saw a sharp reduction of around 45% over previous quarter and were at Rs.648 crores versus Rs.1,170 crores in Q2 FY'22. This is the second consecutive quarter of reductions. Further recoveries and upgrades were much higher resulting in reduction of around 47% in net slippage post write-offs. Net slippages were at Rs.388 crores in Q3 versus Rs.733 crores in Q2. As mentioned earlier, the card slippages are moving to normalized levels and were Rs.248 crores in Q3 versus Rs.520 crores in Q2. We expect Q4 to be slightly lower than this. We saw a similar trend in other retail loans where slippages were Rs.140 crores in Q3 versus Rs.245 crores in Q2. In micro banking as indicated we are seeing lower gross slippages sequentially in Q3 at Rs.252 crores versus Q2 which was at Rs.375 crores, though still higher than normal. We expect Q4 slippages to be much lower than Q3. And as I said earlier, collection efficiencies have shown significant improvement and we are seeing these customers stabilize in their existing delinquency buckets.

As indicated previously, recoveries happen towards the end of the loan tenure as these customers do not catch up usually on their missed EMIs and hence don't generally get upgraded or normalized. Restructuring book in retail reduced from Rs.1,721 crores in Q2 to Rs.1,607 crores in Q3, primarily due to repayments.

Let me talk about the business momentum . In credit cards, Q3 saw a significant increase in card issuance over pre-COVID levels. We issued almost around 6 lakh cards, our highest ever in a quarter. Retail spends in credit cards also continue to show robust growth and Q3 has seen a growth of 32% year-on-year and 17 % quarter-on-quarter. Q3 total spends were around Rs.12,115 crores, again the highest ever. However, we had seen a marginal slowdown in spends of around 2% to 3% in January on account of the current COVID wave. The last few days have seen the revival happen again.

Now, let me talk about our micro banking segment. We've started scaling up on disbursals in micro banking since the beginning of October given collection efficiencies on the new book today is around 99%. However, disbursals are still measured and based on our micro assessment of districts and branches and collection thresholds. Once we see off the elections late Feb-early-March we should significantly ramp up our disbursals in this business. We've also deployed an application scorecard in the microfinance business which is able to differentiate between resilient and vulnerable segments. While it does bring down our approval rates incrementally by about 8% to 10%, we're hopeful that the (PD) probability of default on this portfolio will be much lower in times of stress.

Business traction in secured loans has also started to pick up and should see a bump up in disbursements in Q4 FY'22. As mentioned earlier, we have moved to a much safer segment here as well. So, while yields may be lower, this portfolio will be much more resilient in stress times than before.

Our new businesses of home loans and tractor loans continue to grow along with the investment in infrastructure and distribution. While these portfolios will start becoming meaningful in FY'24, it is an important focus area for the bank towards building a secured book.

I would now like to hand over back to Rajeev for his concluding remarks.

**Rajeev Ahuja:**

Thank you, Harjeet. So, to summarize we remain on track to the goals that we've spoken of in the past.

On slippages and NPA, in Q3 FY'22 slippages while not fully normalized were much lower QoQ and we expect slippages to trend lower in the coming quarters. GNPA's are trending down and this will continue. With PCR increasing, our net NPA should also trend lower from the current levels. Our PCR is 63% and will want to go above 65% in Q4.

Growth: Growth traction has been good and we expect this to continue. Focus will be primarily on growing the retail book as you've heard from Harjeet, some of it has started and some of it is now happening.

Deposits have now stabilized and we expect to continue to grow especially the granular retail from hereon. Cost of deposits has been lower this quarter but we think given the turn in the interest rate cycle, rates have obviously bottomed out.

Operating performance: NIMs have seen improvement this quarter and we expect this to be stable for a couple of quarters before trending up.

I did want to share a few closing comments on our general business approach, investments, expenses, and capital allocation. Some of these we mentioned in our commentary of May 5, 2021, but for a variety of reasons, COVID and others, some of these we were not able to elaborate. Point one, we will continue strengthening our balance sheet structure in terms of building greater deposit granularity, a little more diversified and secure retail asset mix, eventually a more predictable cost of credit and improving provision coverage. Therefore, do expect our investments in branches which are going to drive deposits of roughly 80 to 100 every year. Growth of retail assets and related risk management, people, and technology costs to be front-loaded over the next few quarters.

You all have seen the bump up in our OPEX for this quarter which is largely cards and then retail and branches related. The free cash flow generation from a particular quarter's investment

in our experience especially in cards commences two, maximum three quarters later. We should expect this lead and lag to persist for some time.

Our tech and partnership driven businesses are expected to be an important part of our business going forward. And our internal “Project Abacus” which is our neo-bank will be a cornerstone of this approach.

Finally, we must also recognize that COVID has accelerated the behavioral changes across many segments of financial services. We as a mid-size bank must do a few things differently. As we speak, we are undertaking a deeper dive into a long-term capital allocation, sources of sustained economic return, manner of doing our businesses and reassessing the capabilities that might need further investments. We'll hopefully share more detailed inputs with you sometime in June post the full financial results.

With this, we will now take questions. Thank you.

**Moderator:** Ladies and gentlemen we will now begin the question-answer session. The first question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

**Kunal Shah:** Firstly, post this event if you can just highlight in terms of how has been the behavior of the deposits post December and when say the additional director has come on board, any product side change in strategy that is being evaluated in terms of the overall exposure towards MFI, credit card and that as a proportion of the overall balance sheet, is there anywhere in the discussion?

**Rajeev Ahuja:** So, Kunal, two questions, on deposits, as I mentioned that we did see an outflow the very next day, perhaps in two, three days we recovered that. And as I mentioned that today our deposits stand higher than they were from the December levels even before the event. And I think that is now pretty much firmly in our control and will continue. Also as I mentioned in my speech that you've seen the LCR journey retail growth which has continued between I would say June or September '20 and September '21, that'll come back on track in the next few weeks and months. On the second point on whether this event has any implication or any conversation on our business model, I think pretty much what I've described to you in my speech as well as Harjeet, these were things we had outlined in May, August, and October. I don't think we are saying anything different. Obviously, given COVID-2 and the challenges around some of the businesses especially in microfinance and small business we've kept a fairly conservative profile till recently and I think we will in a calibrated manner bring it back to its normalized growth rate, we are in no major hurry to do it. So, we are very careful. Cards obviously has come back far stronger and wholesale banking as you know has had a much, much stronger in last three, four months. So, I don't think anything major which is different from what we've shared in the last three commentaries of May, August, and October.



**Kunal Shah:** Secondly, now OPEX is almost similar to our NII. So, what is the trajectory which we can expect? No doubt you highlighted three-fourth of that is more towards the card, be it in terms of either the acquisition or the spend but now maybe when we overall look at it, it seems to be higher and as you said there will be further investments which will be required. So, how should we look at the overall cost-to-income, cost-to-assets going forward?

**Rajeev Ahuja:** Kunal, I'll let Jaideep respond a little bit but see cost-to-assets for us is a little different given that we have a fairly decent size card portfolio and card cost to assets are very different dynamics than in general. I'd say that where we are today it will be plus, minus this for the next three to four quarters. I did say that there is a lag lead of two to three quarters. A large part of the OPEX increase is actually on cards and that's something we can control if we want to, but clearly we want to build a base. And given the improvement in the environment, we want to be able to leverage that. I think the reference to the sudden jump between Q2 and Q3 is obviously part of it is because we didn't have a lot of activity in Q2, there was also a catch up on many areas, but clearly outside of cards the major items of spending will be branches, people, technology refreshes are very critical including digital, infosec, risk and compliance, all these costs as you know our investments we'll have to do which has been happening across the industry. So, my sense is for the next two, three quarters we will be in the same cost-income ballpark. Jaideep, is that fair?

**Jaideep Iyer:** Yes. Kunal, I think on cost-to-income, we also have a challenge of interest-bearing asset growth which has been muted for various reasons. So, once we start seeing retail asset growth across all the segments, we will get that fillip on income which can have some salutary effect on cost-to-income but costs on absolute should be growing at a reasonable pace, a good part of that will be for cards.

**Kunal Shah:** Does it in any way maybe leads to change in terms of the guidance which we had given for 1% ROA because maybe this quarter was also quite normalized, we had seen it getting towards 60-odd basis points but because of cost I think it's getting a bit lower, so any revision on that because of the higher cost structure?

**Rajeev Ahuja:** Kunal, we are in the ballpark, I mean, it's too early for me to give you a definitive answer. I will also say that for the next couple of quarters the heavy lifting will be by provisions to compensate for the significant investments we're doing in all our businesses. I think as Jaideep was saying our earnings assets have started moving up. And that has to see a material growth for us to be able to the NII particularly and obviously related retail fee income will grow commensurately. So, I think we are very clear that given the change in the environment, given I would say neutral to benign risk environment which is emerging at least in few segments we don't want to I would say micro manage these investments we need to do which will hopefully help us from an overall base as well as scale and market competitiveness. So, I think we will continue doing this. So, do expect a 60% plus/minus cost income and the drivers I have given you clearly, higher costs, lower provisions and then eventually incomes catch up with a little lag.

- Moderator:** The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.
- Rohan Mandora:** Just want to check in case post the event in December is there any resignations at a middle management level or any reallocation of position?
- Rajeev Ahuja:** Rohan, nothing so far. We have a bench which goes very deep and that bench has been around with us for years. So, I don't think there's anything which we will see as any gaps emerging. Obviously, there are at least one or two areas which are industry-wide issues on technology, risk, and compliance. I don't think we are unique there, but nothing which is specific to this event is impacting us and unlikely to impact us going forward too.
- Rohan Mandora:** Next is on the credit card business. If you can share whatever the origination mix of new cards in 3Q in terms of Bajaj versus other channels?
- Harjeet Toor:** So, in our last quarter, new cards would be trending more towards 70%, 75% Bajaj. And this was a little higher than what we used to do earlier and that is primarily because there was one channel which we shut which is the DSA channel and that is now getting made up by some of our other co-brands which have now started kicking up and therefore those volumes are now going up. So, you should see us get back to about 60%, 65% Bajaj and the rest others maybe in another quarter or so.
- Rohan Mandora:** What was the mix of premium cards and what was the blended interchange for the quarter?
- Harjeet Toor:** We don't have a concept called a premium card because today all cards issued are either platinum or world. Technically they're all on premium platform but if I was to talk about the blended interchange which we get round about 1.2% to 1.25%.
- Rohan Mandora:** Despite them being relatively premium cards we are getting a lower interchange than some of our competitors?
- Harjeet Toor:** So, you have to keep in mind that I don't think our interchange are lower than competition. Please keep in mind what has happened is that there are some categories of spends which have increased substantially especially in the online space, around utilities, around rent payment, etc., which is where your interchange are lower and that is why not only for us but for the industry the overall interchange has come down.
- Rohan Mandora:** Lastly, what will be the total technology link to OPEX as a percentage of total OPEX, ballpark, what is the trend in general?
- Rajeev Ahuja:** Rohan, this will be 10% to 12%. I am talking all people, depreciation, AMCs, all put together.
- Moderator:** The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

- Amit Premchandani:** What exactly has changed in last one quarter that the guidance on cost has changed sharply?
- Rajeev Ahuja:** Amit, we actually did not give any guidance on costs when we spoke in October. All I was saying was that our Q2 was depressed because for almost I would say barring 15 days of that month, we were not issuing cards and cards is a large part of our OPEX plus there has been obviously catch up on branch expenditure, some of the branches have come into from capital WIP to expenses, technology, we have been hiring people. So, a big jump as I mentioned in my commentary that three-fourths of the increase are because of card issuance, our card issuance is between 80% to 100% over our normal issuance, and rewards and spend related things which also come into because the activity levels in this quarter have been the highest for us including the industry. So, those have been the real drivers of OPEX increase.
- Amit Premchandani:** Yes, that point I am taking that this quarter was kind of one-off, but you are suggesting that going forward also 60% for the next two, three quarters?
- Rajeev Ahuja:** Yes, so we are saying that the card issuance will continue which like I said is something which we will not slow down and there will be more branch expansion, there'll be more technology, risk compliance, people. A large part is cards which is I was saying very clearly that the free cash flow from that investment is a two to three quarter lag, but the others will also happen. So, we will be in the 60% ballpark for a few quarters before we start seeing the operating cash flows come back in terms of the investments we are doing.
- Amit Premchandani:** Is there any change in terms of partnership with Bajaj which has led to this higher growth in cards especially....?
- Rajeev Ahuja:** No, I think it's a more environment and also actually we didn't do much in the Q2. I think this is not something specific to Bajaj but I think in general you've seen the industry also ramp up quite significantly and so have we. Obviously, we have been kind of preparing our technology and issuance and all related infrastructure. My sense is Q4 should also be, Harjeet, in the same ballpark.
- Harjeet Toor:** It'll again be about five and a half lakh cards plus/minus.
- Amit Premchandani:** Even in the December call, the 1% guidance kind of trajectory for Q4 was maintained. Are we still kind of committing to that or are we changing that? And what is the likely ROA target for say FY'23?
- Rajeev Ahuja:** We are in the same ballpark like I was mentioning to Kunal that a lot of the heavy lifting on PAT will be by provisions, some by core fee but NII will be trailing because the earning asset book will keep rising and therefore that's more the next year's phenomenon and OPEX will be around these levels plus/minus. I think FY'23 a little early for us, like I said, I have given a few thoughts and shared with you. Hopefully after our full year results we'll come back and do a deeper dive

with you all on a medium-term plan on business segments, capital allocation, economic return, how will we do business. I think we owe it to you all to tell you what we'll do and what we'll do differently and what we'll sustain. So, maybe if we can just kind of wait for that, I think it's important that we use this opportunity to do I would say a reset but a lot of clarifications and link the investments to the economic return and franchise creation, more predictably for you.

**Amit Premchandani:** On capital, in the last call in December you guided that for the next few quarters at least you don't need capital while there was a new story I don't know how, who it was about, talk with some private equity guys. I just want to understand are you looking at some preference issue or anything like that?

**Rajeev Ahuja:** Nothing whatsoever. We are fairly okay on capital. I think we'll wait for a few quarters. Let's also get our medium-term plan in front of you guys and explain to you the logic of that and then it'll still take us a few more quarters after that to think of raising any equity. Let's see. I think we will take it as it comes but nothing so far. The story carried our denial but obviously it was kind of in the inner pages somewhere.

**Amit Premchandani:** What is happening on the M.D. appointment front, what are the timelines if you can just talk about?

**Rajeev Ahuja:** I can only say that the board is targeting to do this in an expeditious manner and that's all I can say and that's all I know. Beyond that I will not be able to comment but I know it's on a reasonably expeditious track.

**Moderator:** The next question is from the line of Rishikesh Oza from RoboCapital. Please go ahead.

**Rishikesh Oza:** Sir, what would be our loan book growth for next two years and what would be our secured and unsecured mix going ahead then?

**Rajeev Ahuja:** I think it's a little early for me to make a comment. All I will tell you and we've given you some segment wise status. So, wholesale has grown nicely this quarter and we see a lot of opportunity. Card has grown well. Microfinance obviously we have been conservative and now we are looking to grow and even there we will be very conservative till this period of Feb, March, elections are over. Small business segments we are coming back plus we have two new segments in tractors and home finance which albeit on a small base but they will continue growing at a faster clip. Now where does this all add up? Over a three-year period I'm sure we'll grow at industry plus levels but I don't think we can sit here today and give you a very specific percentage or range guidance. I think what I'll only say is that all our vectors in general are in a good shape to grow, some are growing, some are about to grow. And if we find that the environment is conducive, risk-taking is being rewarded, we will grow, and then we'll come back to you, hopefully, when we declare our full year results with a lot more clarity just post that on what is

the long-term plan on balance sheet business areas which we will develop, areas which we will stay static in.

**Rishikesh Oza:** My second question is since you have said that you'll be focusing on fewer provisions, so our provisions half of that what we will do in FY'22 that still stands, right?

**Rajeev Ahuja:** All I said was that our provisioning costs are trending down as we had indicated in October. You've seen that for the December quarter. We likely to see that for the Jan quarter. We had guided actually 50% to 60% slippages in H2 cost of credit versus H1. I think we are in the same ballpark. Today if you ask me, wave three is happening, happened and we've not seen any change in our collection and recovery trajectory. I think on a normalized basis we should continue seeing provisions normalized. I'd say that this Q4 will normalize further and then we'll see how things go based on a business model on a normal basis what's the predictable cost of credit range and we will share that with you when we meet next.

**Moderator:** The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

**Anand Dama:** Can you give some details on the retail deposit numbers, and most importantly, savings deposit number because we would have raised bulk deposits during the month, and that would have led to higher deposit numbers?

**Rajeev Ahuja:** I think aggregate deposits are higher than December 24<sup>th</sup>. Obviously, we suffered in the last week of December, and you saw retail LCR go down, you saw CASA go down. And obviously, some of the impact was on savings that has come back. And I think in general, the recovery rate in retail has started improving fairly sharply. A lot of our retail is not the over-the-counter retail, it's really the technology or channel-based retail. They come back, and they still leave a lot of money, but it's not as much as they used to. But that has started coming back about 10-days back and I think that on a daily basis, we are recovering that. I don't think I can sit here and say that's all done and dusted. And I think it'll take us four to six weeks to get that back on trajectory. This is pretty much what happened between March '20 and June '20 when we had that event for the market. I think we started seeing fairly good recovery in retail towards third week of May onwards and by September I think our overall retail LCR started moving up very smartly. I think the same trajectory will happen, perhaps a little faster now. But we'll have to just wait till March when we give you more color on the mix of deposits and where we are on retail LCR.

**Anand Dama:** So, as we speak, we are down in retail deposits versus the December number, is it correct?

**Rajeev Ahuja:** No, we are higher than December number. For last week of December if you notice, when we gave you the retail LCR, it had dropped quite a lot, almost about 2%, 3%, so we are higher. But can I say that all is under control and we are back? No. But on a day-to-day basis, the recovery is very smart. And that's the behavior of the retail folks. Like I said, our retail is mainly channel and technology determined retail, not the over-the-counter small retail. So, I think that is already

coming back. I think by the end of this quarter, we should be what we were and much more hopefully.

**Anand Dama:** And your December deposit number also that you have given there, there also, we had already seen a rundown happening just before the event had unfolded. So, was it more systemic, was it more related to us?

**Rajeev Ahuja:** No, no, I think versus September, what happens towards the quarter end, you have typically ramp up on deposits by corporates, a lot of the NBFCs come, there is a lot of current account buildup which happens. So, typically, when we've seen our deposit numbers, they stay within, I would say, 2% to 3% of the previous quarter-end, and then trend up. And that's what you've seen. I can say that for the last several quarters our retail LCR was growing, we said that of every Rs.100 we were raising Rs.80 was a retail LCR. So, that was a normalized thing. I don't think there was anything unique for us in that quarter because it's been a normal phenomenon.

**Jaideep Iyer:** One more clarity. We run down our CDs. So, the CD issuance happened towards the end of the quarter. So, that would have been a normal situation.

**Anand Dama:** Can you provide some outlook on the microfinance business in terms of asset quality by when it should normalize? And would you like to accelerate PCR, somewhere hovering about 60% to 63%, it is better that with these kinds of events happening, we should be somewhere close to about 70%-odd to comfort the investors? And also, that we build good provision buffers in case we have some shockers, post the management change, I think we can absorb that.

**Rajeev Ahuja:** Let me answer the last question, Anand. Clearly, we made a call starting June to raise a PCR and I think we will continue doing it. I did also make a comment specifically towards the end of my conversation that we will continue building on PCR. I think just perhaps when we speak again, in May, June, we will give you a lot more guidance on that and lot more comfort as to where we want to ultimately be. And that will be embedded as a cost of doing business for us. So, I'm very, very clear that some businesses and again, not related to the recent event, some businesses by nature, have to be conservatively kind of provisioned. And we had a fairly conservative provisioning policy on cards and microfinance. Obviously, COVID-2 was a very, very significant event for microfinance. And while we are seeing things get better, we are still cautious in terms of growth. Harjeet, did you want to talk about microfinance business from a medium-term perspective?

**Harjeet Toor:** So, I think your question was around how do we see the portfolio quality going forward. Slippages, as I said, while Q3 was much below the Q2 numbers, they're still high. We expect reasonable reduction in Q4 as well. But I think in microfinance, what we are seeing is that the customer was stabilizing in their delinquency buckets where they are and they don't typically move, so they don't move backwards. So, to some extent, we will run with elevated delinquency buckets till these loans run off. And that is why you will see somewhere where normalization, I

will not be able to come back and say that most of the customers have normalized because in a card like a business you will see most of the customers will either normalize and the balance would slip into NPA. Whereas in microfinance, they just hold where they are and keep paying their installments. So, that is where we are. Therefore, as of now we are doing much better than our forecast in terms of how many customers would slip into NPAs, etc., but I think it is still a two, three quarter piece by which time the old book would have run off completely. And that's when you will see the new book coming down with much better either delinquency buckets as well as the NPA numbers.

**Moderator:** The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

**MB Mahesh:** Just a few questions; first, on the asset quality line. In continuation to Anand's question, last two quarters your microfinance slippages is down from 450 to about 250 and again, about 250 this quarter. And you're saying this number will come down. You've also kind of indicated that the credit card book which has also fallen by half as compared to the previous quarter will come down. You don't seem to have any issues on the corporate side. What is the incremental challenge that you're seeing today in your portfolio for the next quarter or probably a couple of quarters from now?

**Harjeet Toor:** Mahesh, the microfinance, you're right, it came down to 250 from 375 in Q2 FY'22, it is still high, and even when we come down next quarter, it is still high from a stable microfinance expected slippages, whereas card we are in the region of about 230 to 240, which is what our normal slippages are, here they are still elevated. So, that is one particular piece which we need to tackle as we go along. And then apart from this, I don't see any major slippages coming from any other business segment. I mean, more or less they are there.

**MB Mahesh:** Only one place where we still have a fair amount of concern is that business banking book, where you have approximately 1,200 crores, which is currently restructured. Anything coming from there?

**Harjeet Toor:** As of now, no, but the only comfort which we are getting there is that it is a fairly well secured book. So, we did restructuring, predominantly only in LAP. And that is the only comfort which is coming in, but we'll have to see as it goes. We are seeing is that the business activity levels have started back again and hence the comfort is there that these customers will pay. But we'll have to see that as we go along. So, yes, from your point of view, you're right, that is something which we are not seeing in today's slippages, but we will watch that closely.

**Jaideep Iyer:** I think on restructured and retail also we're seeing the repayments happening, so wherever repayments have happened or people are even bunching up and giving multiple EMIs together. So, we've seen a reduction in restructured book. So, one is quite hopeful.

**MB Mahesh:** And this wholesale restructured book is also financed, is that...?

**Jaideep Iyer:** There are only three, four names there and two big names in the retail group, which is in the news. One of them which is more in the news, we've already taken some proactive provisioning.

**MB Mahesh:** Second, is on the NPL line again, what is it that you're writing off so aggressively, consistently you're doing about 1% write-off in the last few quarters, are these from cards?

**Jaideep Iyer:** Card policy itself is to write off after 180-days. So, naturally higher slippages will result in 180-days later those things getting written off. Recovery efforts of course continue, but it gets written off. So, that would be one large part and then as and when the unsecured retail and microfinance finishes 100% provisioning or ages by a year that gets written off as well.

**MB Mahesh:** Second question is on cards. We are already in a period where the cost is going quite sharply. What is the rationale to now ramp up our card business? We were doing about three to four lakhs card per quarter. We've ramped it up to six today. And you kind of indicating that you want to continue at this rate. At this point of time, we're not too sure as to what drives this because from our side we are trying to see if we can get the RoAs up, we can get the stability of the balance sheet here. Why do we need to ramp up the card origination at this point of time?

**Harjeet Toor:** In cards typically we are seeing a market environment which is extremely conducive today to ramp up cards. Two, three things that are happening in the market. One, there is a general propensity for customers to start taking cards and that too in the smaller markets, which is where our growth is coming from. Second is our co-brand with Zomato started picking up now. That's where the second growth lever is coming. Third is that we are seeing customers which are not leveraged too much, as a result of which you are seeing spends grow but you aren't seeing revolve behaviors, etc., grow either. So, it's all indicating to a very benign credit risk environment, which makes a lot of sense for us to therefore ramp up the cards business and hopefully in the next financial year itself, reap the rewards in terms of a fairly good RoA, which this business will be able to generate. It's just that in the short term for about a couple of quarters, you will see a little lopsided cost increase, but you will very soon start seeing the revenues kick in as well. So, that's where it is coming. You will see a much higher RoA coming from the cards business next year and that is the reason why this is being done.

**Rajeev Ahuja:** I think we also said that in the unsecured businesses, I have exited the other unsecured businesses, microfinance will be around 8%-odd of our portfolio and cards is where we are focused on because we get the scale. It's technology driven and it's also the payback period is far better. So, we have consciously only focused on this and microfinance as Harjeet said, we are being a little cautious. So, the other unsecured businesses are trending down. They're getting paid off, they're getting provided. So, that's the conscious call we've taken.

**MB Mahesh:** I think if you see the line of questioning from most of us today has been that we've been caught by surprise on the OPEX line. And the challenge with your card business is that you get into the card issue today, it's going to be loss-making at least for the next three or four quarters. The



question which most of us are asking is, why do you need to take this decision of ramping up today? Why can't it wait for a year? We are just kind of going in that direction with this question, that's the only point which we are trying to raise.

**Rajeev Ahuja:**

You are right. We have also given you a lot more flavor on the risk wheel we are running on the cards in the presentation. So, it's a fair comment that we could have actually taken a lot out of the expenses line and kept the card issuance between three and four. I think for the next couple of quarters, we consciously said it's make sense to increase our base so that overall RoA trajectory when the market is recovering, this becomes and then we have to balance that out with what other unsecured businesses we wish to pursue or not. So, I think that's just the balancing right. And to be honest, because September quarter was very low and so was in some manner June. You have seen a ramp up now and you will see a ramp up for at least two more quarters before it normalizes. I think we have the luxury of not doing it. Let me be honest, we have the luxury or the choice of not growing so fast. I think what we've said is that given I would say risk structure we are working with on the card category of customers as well as the co-brands we have, it made sense to ramp up for the next two, three quarters and then kind of see how it turns out. So, this is something which is easily controllable by us. But obviously, we could not give you this guidance in September or October because we've just barely started issuance that time. And we've seen obviously a lot of ramp up which is why we want to call it out and say that this is something we'll probably do for at least a couple of quarters before we decide what should be the trajectory thereon.

**MB Mahesh:**

Just one clarification, Rajeev. Has RBI reached out to you on the MDR impact?

**Rajeev Ahuja:**

Nothing on that.

**MB Mahesh:**

And you have any opinion about it as to what are your backup plan in case there is a reduction?

**Rajeev Ahuja:**

Typically, people will look usually in terms of reducing reward cost or tweaking with the interest rate or the interest free period. Those are the three levers which typically a card issuer will have in their hands if it needs to cover up something if it comes up, but otherwise as of now nothing.

**Moderator:**

The next question is from the line of Nilanjan Karfa from Nomura. Please go ahead.

**Nilanjan Karfa:**

A question directly on the cost again. If you look at broadly what you are guiding, it looks like, for next three, four quarters we will spend anywhere close to 450, 500 crores additional given how the run rate is, like a huge amount of cost. If you can sort of split for us, this looks to be more towards the retail, but still I want to hear it from you, let's say the mix between retail and wholesale, how this cost will go? Separately for each of these, do you want to classify what goes into the product versus the centralized cost? So, is it like you are trying to ramp up the front-end part, or let's say the backend compliance databases, so anything on that line will be useful?

**Rajeev Ahuja:** So, Nilanjan, I think we did talk about the Q3 over Q2, and we gave actually some specific percentages, almost three-fourths of the increase. Please understand Q2 was very subdued because the activity levels have dropped dramatically. But even otherwise, there is a ramp up, and three-fourths of that ramp up relates to fresh card issuance, rewards, spends, etc., The balance is branches technology, and that will be more continued BAU. And some of that, I don't think it's centralized costs, but its costs for building the franchise and in some manner, we are indicating that we'll do a little bit extra over the next three, four quarters and then we will see the payoffs. I think I cannot today give you a thing of what's the kind of the centralized costs versus the front-end costs. Outside of cards is easy. The others are in the nature of fixed costs which some of them actually don't have a payback because they are your support and infrastructure and technology and the others are more, I would say franchise creation, branches, deposits, getting more customers in cross-sell. And there's usually a payback period. I think, in our historical thing, if we take a cohort of metro, urban branches, I think between 28 to 32 months is what our payback is. And we try to densify our existing places. And that's part of the growth of our franchise because we have to continue building, customer acquisition, cross-sell, deposits, and third-party services through that means along with digital. I don't think just digital will help.

**Nilanjan Karfa:** I am hoping none of these is coming as a directive from an RBI. I mean, obviously...

**Rajeev Ahuja:** Not whatsoever. I can assure you, there has been no directive. Please go back to a commentary of May, August, and October, we've given you great clarity on where are we spending money. Obviously, this quarter was a card bump up, which we called out. But we did tell you where we are spending money from a franchise creation, retail assets, tractors, homes, branches, technology, I think all of those line items or business items are pretty much what we are doing. We also want more granularity of deposits. If we have to grow our balance sheet by X-percent every year, we need to continue building our granular deposits and customer base for cross-sell. So, that goes without saying.

**Moderator:** The next question is from the line of Krishnan ASV from HDFC Securities. Please go ahead.

**Krishnan ASV:** My question was to do a little bit on what has been your conversation with regulators since December? Are there any desired outcomes that the regulator has indicated? Are there certain milestones that you need to get to? Could you just give us some color qualitatively on what positions are about?

**Rajeev Ahuja:** Nothing other than what we have been sharing with you on our own. So, I don't think as I mentioned there's nothing which has been a directive on investing where business model, putting more branches, etc., I don't think there's been any conversation. And I can tell you this because I'm sitting on these meetings whatsoever. And I think the whole focus is exactly what I was telling Nilanjan. Pretty much we are tracking to what we told you three quarters ago when we published our March end results, what will we focus on and then continue talking to you about

that? I don't think there's any change in that trajectory as far as we are concerned and as far as our board conversations are concerned.

**Krishnan ASV:**

Just the other bit and this probably carries on from the last couple of queries that your word as well. This is more to do with the fact that you are anticipating certain outcomes from the kind of spends that you're making on cards today, right. What will trigger you to either less aggressive, I mean, you must have certain kind of desired outcome there as well, right, What will it take for you to slow down?

**Rajeev Ahuja:**

So, let me let me say I think outside of the risk categorization risk metrics which we have tightened significantly over the last three, four quarters and that's something again we've shared in some level of detail in our PPTs. I think we will watch the usage patterns and the spend patterns and the ratio of transactors to EMI to revolve. That has been fairly steady over the last six, eight quarters. In fact, we do almost a cohort-based unit economics of our card issuance for each co-brand on a monthly basis and we track what's the incremental and how long does it take to start getting a free cash flow and what's the payback period. Actually, Krishnan, if you ignore the base of cards because that sometimes on an aggregate if you look at annually it does distort the ratios but if I were to even look at normalizing for COVID, obviously COVID did take a big bite in terms of drop in spends, drop in interest earnings as well as obviously provisioning. We have a fairly good handle on what is the metrics we should watch before we start dialing it down outside of risk which is really our primary thing. I don't have the data to do a comparison with the only card issuer which does disclose its cost-income and others. I don't think we can do a benchmark right now. But those are the things we do.

**Krishnan ASV:**

I just wanted to add a flavor there given what you have shared in your disclosures, especially slide #44 it does seem that there is one category that dominates most of your retail spends today, it's nearly 80% and it's been that way sticky for a while now and we are in that kind of environment. I just wanted to understand given you are spending ahead of time, is there a certain mix that you're looking to get to in terms of spend mix, and if that doesn't come are you going to dial down?

**Harjeet Toor:**

Please understand when we are talking about spends, typically our spends would be more daily in nature, the regular small ticket usage when I say small ticket, for cards small ticket is about Rs.3,000, 5,000 type. That is the card base and that is the only reason why our spends have been sticky and our spend per card has been running at those metrics. We've not seen any deterioration in those spends. In fact the last three quarters we've only seen spends grow. So, I don't think there is any red flag which we are seeing from the type of customers in terms of their spending patterns and where they are spending or the revenue which they are giving. I think this very reason is we've always had this that we had to get into the smaller markets especially with two large co-brand partners which have reach in these smaller markets because that is where we get customers where the leverage is low, the competition is low and therefore our ability to be able to get them onboard is much better. COVID did provide a dent in that, post which Mastercard

ban slowed us down. And that is what we are now opening up. The risk metrics in all these are much stringent than what we used to have pre-COVID. And you will see that in our 6 MOB numbers as we move along quarter-on-quarter. You will see that they will be far lower than before and that is the benign environment which I was talking about with Mahesh when I said that we are today seeing it that the riskiness in this portfolio as well as the new customers we're getting is far lower.

**Krishnan ASV:** Is it safe to assume that this has nothing to do with any of the co-branded partners having their own demands in terms of how much you need to accelerate?

**Harjeet Toor:** No, not really. In fact if you are referring towards our largest co-brand partner they have another bank. So, it's not that we have to do something because they want to do. It can be done with the second partner as well. It's just that genuinely we believe that there is a market out there which we need to do. I would want you to maybe track our card issuances during the COVID period and you will find that we had cut down on our card issuances when compared to the larger issuers significantly during that period. So, we had cut down that back and now when we see that the environment is right we are ramping it up again.

**Moderator:** The next question is from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

**Roshan Chutkey:** Firstly, around the Christmas weekend, you have indicated that the unsecured portion will come off going forward in terms of guidance, right, and now we have the new guidance in terms of credit card book going to be ramped up significantly. Where is the disconnect in a month's time and we are talking about third quarter here and we did that call at the fag end of December?

**Rajeev Ahuja:** Actually, there is no disconnect. If you go back to our October commentary is exactly what I reiterated that our chosen unsecured segments is largely cards, microfinance we have come off, in fact our peak of microfinance was 12% of our total portfolio maybe several quarters back, today it's about 8%-ish. We have run down our unsecured MSME and unsecured bill businesses almost paying down now or written off. So, we did say this in October which is what I reiterated perhaps in a summary fashion in December and this is what we are reiterating again today that cards is our preferred way of engaging on the unsecured business and secondarily microfinance. And even microfinance we have been cautious, we'll remain cautious at least for a while and I don't think we'll ramp up to what we used to do six, seven quarters ago and that's what we'll do. I don't think there's any change. If I remember we had said we said we will cap our cards at 25% and microfinance at 10%. I think we are well within that and I think we will probably remain well within that.

**Roshan Chutkey:** The other question I have is regarding the slide number 40. Just curious why is the market share on that slide number 40 as of November end?

- Rajeev Ahuja:** Because I think the industry data we don't get as of December.
- Harjeet Toor:** This is RBI data. So, it comes with a lag.
- Roshan Chutkey:** On retail deposits, just want to get this clarified, retail deposits was about Rs.27,000 crores as of December from Rs.31,000 crores going down. Now how has that moved up, it was not clear to me?
- Rajeev Ahuja:** It's higher than Rs.27,000 crores. I was telling Anand that or somebody before that or Nilanjan that the recovery in retail has already started and I think on a net basis we turned positive 7-10 days back and I was also making a reference to the 2020 period that by the middle of the quarter or towards the last month of the quarter we had started recovering a position. So, I'm hopeful that that by the end of March we would have recovered and more on our retail deposit.
- Roshan Chutkey:** You have an annualized runoff of about 32% approximately on number of cards in force within a quarter's period, 3.1 million going to 3.4 million when I take into consideration the 0.6 million cards that you have issued. Isn't that number very-very high?
- Harjeet Toor:** A couple of things happen. So, one is that as the cards portfolio starts getting aged you have some customers which stop spending. So, any customers which remains inactive for a year we close the account and therefore that goes off from our CIF number, so that's one, that's the large runoff which happens. And the second runoff which happens is especially severe in this last one year has been the write-off and the flow through. So, these are the two areas in which typically card iteration happens. But we have a policy of removing cards from CIF if they remain inactive, we don't carry them year-over-year.
- Roshan Chutkey:** What proportion of this 0.3 million run off that you have seen, how much of it is because of inactivity?
- Harjeet Toor:** I wouldn't have that number right now with me. Can we connect separately and maybe I'll cull that number out and give it to you?
- Roshan Chutkey:** Yes sure, thank you.
- Moderator:** The next question we take that as the last question for today from the line of Nitin Agarwal from Motilal Oswal Securities. Please go ahead.
- Nitin Agarwal:** My question is again on the card business like our sourcing from tier-two and tier-three three cities has been increasing and it stood at almost 37%. And the proportion of our card customers has also declined. So, any change in strategy that we have implemented to drive this growth?
- Harjeet Toor:** As we move to the tier-two, tier-three naturally your carded segment will start coming off a little. There are obviously mitigating factors which we put in place in terms of our thresholds of

acceptable early delinquencies in terms of 3 MOB and 6 MOB which are there and the underwriting practices in these tier-2, tier-3 are slightly different than what we typically do in larger markets. So, that's broadly what it is, but yes, as we move into the smaller segments you will find customers which are first time getting carded which are coming in. But they are not new to credit I mean that's important to note.

**Nitin Agarwal:**

And secondly, can we say that the revolve methods bottomed out with December being higher than November and how do you see this trending? And also when you talk about higher ROA in this quarter with a lag of few quarters, do you see yourself reaching back to the earlier revolver mix that existed pre-COVID levels?

**Harjeet Toor:**

Two things. One I think the revolve rate will somewhere settle, today at about 21%-odd, I think it will be in the 21% to 23% range for the next year, that's where it will settle. We are seeing categories of spends from customers which are not revolving. So, to that extent, that is a phenomena which we are seeing. At the same time i think the ROAs which you are talking about, I think next year should be slightly better than the pre-COVID run rate in terms of ROAs.

**Rajeev Ahuja:**

As we discussed we are ramping up but second half I think you should see the turn in the mark.

**Nitin Agarwal:**

Just one observation like ratio of RWA-to-total assets has increased almost 180 basis points this quarter even like the mix of secured loans with wholesale book has grown faster. So, how comfortable we are with this and any threshold that you would like to keep?

**Jaideep Iyer:**

That is again a function of possibly not carrying as much excess investments in GSec, etc., If we look at let's say RWA to loans, I don't think that would have materially changed.

**Moderator:**

We now conclude the Q&A session. If you have any further queries, you may please contact RBL Bank Limited via e-mail at [ir@rblbank.com](mailto:ir@rblbank.com). On behalf of RBL Bank Limited, we thank you for joining us this evening. You may please disconnect your lines now.