"RBL Bank Limited Q2 H1 FY '18 Earnings Conference Call"

October 25, 2017

MANAGEMENT TEAM

VISHWAVIR AHUJA	**: MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER**
RAJEEV AHUJA	**: EXECUTIVE DIRECTOR & HEAD – STRATEGY**
NARESH KARIA	**: CHIEF FINANCIAL OFFICER**
R. GURUMURTHY	**: HEAD – GOVERNANCE, RISK & CONTROL**
ANDREW GRACIAS	**: HEAD – FINANCIAL MARKETS**
BRIJESH MEHRA	**: HEAD – CORPORATE, INSTITUTIONAL & TRANSACTION BANKING**
HARJEET TOOR	**: HEAD – MICROBANKING, CREDIT CARDS, RETAIL & MSME**
SURINDER CHAWLA	**: HEAD – GEOGRAPHY, BRANCH & BUSINESS BANKING**
VINCENT VALLADARES	**: HEAD - COMMERCIAL BANKING**
MANOJ RAWAT	**: HEAD - AGRI**

Moderator: Good Day Ladies and Gentlemen and Welcome to the Earnings Conference Call of RBL Bank Limited to discuss the financial performance for Q2 H1 FY '18. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the management discussion concludes. Should you need assistance during the conference call, please signal the 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. Vishwavir Ahuja, Managing Director and CEO of RBL Bank Limited. Thank you and over to you, Mr. Ahuja.

Vishwavir Ahuja: Thank you. Good Afternoon, Ladies and Gentlemen, thank you for joining us on this earnings call second quarter of FY '18. I hope you have had a chance to go through our press release quarter's results and the investor presentation which has been uploaded on our website short while ago. Let me take you through the performance highlights for the second quarter of FY '18 and the related aspects. We will then open it up for questions as usual and we will look to cover as many as possible. I also have my colleagues from our management team with me who will also address your queries as they come up.

Briefly, a perspective on the economy and the banking front, in terms of the overall macroeconomic environment, the last quarter has been a quarter of consolidating the impact of one-off events. Disruptions arising from demonetization and GST have dragged down India's GDP growth to 5.7% for the first quarter of 2017-18 delaying the Capex and credit demand by corporate to some extent. We expect that the economic growth will pick up in the second half of the current fiscal as the temporary disruptions due to demonetization in GST recede and the festive busy season has started. Stronger global backdrop and high reform momentum of the current government should also help in faster economic recovery. Some early indication such as the IIP, the PMI, the export growth, the tax collections etc. are all pointing towards a turnaround. Economic recovery will further aid pickup in credit demand as demand levels recover and ongoing corporate deleveraging improves credit quality. The developments on the NPA resolution front are promising and in fact I was only going to say that we have still to see some major breakthroughs, but after yesterday night's announcement on the recap bonds, I think there has been a major, major if I may say, move in this direction and this should lead to unlocking the potential in a very, very big way. So, this space will definitely evolve over the next few months.

Let me now turn to our own business performance in the Q2 FY '18 period. Overall, we are very pleased with our performance this quarter as our top line, profit, return ratios continue to show improvement and asset quality has remained stable. Our overall loan growth was 35% year-on-year with wholesale and non-wholesale businesses growing 31% and 41%, respectively. Our deposit-base continues to see strong growth also at 31% year-on-year led by CASA growth of 56%. CASA percentage is up from 22.09% in the previous quarter to 23.67% this quarter. ROA was stable at around 1.19 and up 33 basis points from the last year's second quarter period. For Q2 FY '18, our net profit grew 68% to 151 crores over the same period last year. Our credit cost for the quarter was lower at 23 basis points as compared to 31 basis points in Q1.

NIM was up from 3.54% last quarter to 3.74% this quarter and our cost-to-income ratio has increased marginally to 54.2% in this quarter. You will remember that we have been explaining again and again that larger than normal drop in cost-to-income ratio in the last couple of quarters was due to the lagged business expansion and also some denominator impact mainly due to the fixed income securities trading revenue that we got in the last couple of quarters. With that overview, I will briefly discuss our financial and business performance in the different segments.

First, I will take advances and asset quality. Both our wholesale and non-wholesale segments continue to see strong traction. The split of wholesale and non-wholesale advances is nearly 60:40. In our wholesale book comprising Corporate and Institutional Banking, C&IB, as we call it and Commercial Banking, CB as we call it which includes a midmarket and SME portfolio, we saw growth of 31% year-on-year. Within this wholesale banking segment, C&IB grew 31% and CB grew 32%. Our NPA C&IB segment was flat quarter on quarter and in CB, there was further reduction in NPAs as well as credit cost. Growth in CB business is now picking up well. The wholesale book yield for the half-year was at 9.1% as compared to 10.1% for the same period last year, which is the first half of FY '17. We continue to see pressure on yields been driven by market competition mainly.

In the non-wholesale book comprising branch and business banking which if I may explain comprises of secured and unsecured business loans, personal loans, and credit card business that is what we call branch and business banking, development banking and financial inclusion i.e. -DB & FI and Agri, the overall yield for this entire non-wholesale bank portfolio was 12.9% for the first half as compared to 13.3% for the first half last year. Our BBB segment grew 59% year-on-year in terms of advances mix. The secured loans were 61%, unsecured loans which was the balance comprised of business, personal loans, and credit cards. The credit card book at present is around 19% of BBB. We continue to see strong growth in our card portfolio especially in a co-branded card with Bajaj Finance. Our overall card portfolio has now grown to 450,000 cards. Overall yields in the BBB segment have increased from 13.8% in Q1 '18 to 13.96% for the half year.

The NPAs in BBB segment were up marginally as a result of the changing mix and the portfolio maturities. This is very much in line with our business model. Our DB & FI business which comprises micro-banking, MSME, and inclusive finance institutions saw an overall growth of 27% YOY. Micro-banking comprises 55% of the DB and FI book, IFI is 35%, and MSME is the balance 10%. In our micro-banking business, we continue to see robust growth in majority of our geographies. We have added four new states, West Bengal, Assam, Punjab, and Haryana in the last quarter in line with our strategy of diversifying this business across geographies. We now operate in 18 states.

To update on the asset quality position in micro-banking business, the portfolio performance is in line with our expectation which we had shared in detail in the last quarter's earning call. Our 90 day plus DPD portfolio is at 4.68% as against 4.4% in June 2017. We continue with our forecast for this fiscal year of 90 day plus DPD around 5.5% and the credit cost of 2% to 2.5% in this portfolio. This is what we had indicated even in our last earnings call. The new portfolio added post December 2017 continues to perform at pre-demonetization levels. We have disbursed around Rs.1,750 crores of loans in this calendar year and the 30 day plus DPD delinquency is less than 0.35%. This reinforces our belief in this business and our strategy to operate in this segment.

Lastly, in our Agri portfolio which is about 6% of the total loan book, we have seen a growth of 23% YOY.While our Agri portfolio has had historically very low level of gross NPAs, this sector is witnessing some stress on asset quality due to various factors in the last couple of quarters. Even in the last quarter's call, we had commented that there is a certain moral hazard that has crept into this business. Farm loan waivers in certain states have impacted repayments even in those loans which are not eligible for such waivers. As a result, our GNPA in this segment has increased from 0.86% in March 2017 to 1.03% in June 2017 which we reported last time to 1.28% in September 2017.

To summarize, our bank level gross NPA percentage has decreased from 1.46% in Q1 to 1.44% in Q2 FY '18, and the net NPA has decreased from 0.81% to 0.78%. Our provision coverage ratio remains consistent at around 58%.

We also took an additional standard asset provision on Iron and Steel, power generation, Telecom, and construction / EPC sectors as per the RBI circular on this subject which has added approximately 1.5 basis points to the overall credit cost. This is a very small amount as we do not have large exposures in any of these sectors.

Our restructured assets are 0.41% as compared to 0.25% in Q1 FY '18. We had one instance of SDR in this quarter. There is no change in the security receipts position which is at 0.02% and there is no ARC sale or 5:25 refinancing or S4A in this quarter either. We also do not expect any P&L implications owing to 'new accounts' identified by RBI for insolvency proceedings for the banking industry.

Deposit and cost of funds: Our deposit base continues to see healthy growth at 31% YOY. The CASA deposits grew 56% during the same period. CASA ratio increased from 19.9% Q2 '17 to 23.67% in this quarter. Within CASA, the savings account deposit continues to drive the growth showing an increase of 94% year-on-year. We are beginning to see acceptance of our digital led cash management products in our wholesale clients and incrementally wholesale bank generated CA balances have seen fairly satisfactory growth. However, these are early days in this product category and the base is small, but we will continue to focus on growing this in the coming days. Our overall cost of funds has reduced from 7.1% in Q2 FY '17 to 6.4% in Q2 FY '18 due to general reduction in market rates, progressive reduction in deposit rates as well as improvement in CASA. Our cost of deposits has reduced from 7.2% previous year this quarter to 6.6% in Q2 FY '18. Recently, ICRA has upgraded our credit rating of our long-term Basel-III compliant Tier-2 bonds and fixed deposits by one notch to AA- and AA, respectively. This should help us further improve our cost of funds in the wholesale institutional space.

Talking about revenue, Net Interest Income and NIMs. Revenue growth has seen strong momentum and has grown 40% year-on-year for the quarter. Our Net Interest Income grew 39% on a YOY basis and our NIM has improved by 33 basis points on a YOY basis to 3.74% in Q2 FY '18. Last quarter, our NIM was 3.54%, so it has improved by 20 basis points quarter on quarter. Our non-interest income, which we call, other income, grew 43% year-on-year. Our core fee income growth was 38% year-on-year over Q2 ’17. Strong traction continues in our non-interest income especially in distribution, cards, client and fixed income, and general banking fees. Our trading revenue for the quarter was 16% of the total non-interest income which is a bit higher than usual, but lower than the previous quarter. We had very high proportions in Q1 because of favorable interest rates which has somewhat continued in Q2 as well.

Operating expenses: Our cost-to-income ratio was 54.2% for Q2 FY ’18. As mentioned more than once previously, our Q1 operating expense ratio was lower mainly because of some lag in business expansion expenditures particularly branches and infrastructure and higher revenue in securities trading income. Our accelerated growth in retail assets and credit cards and recent investments in infrastructure, branches, and people and technology have contributed to the increase in the cost-to-income ratio in Q2. Having said that, we should still be within our guided range for 2020 on our operating expense ratio as per our vision 2020 goals, which is to have an operating expense ratio of 51%-52% by then. We have added two branches, 51 business correspondence branches, and approximately 12,300 customer service points in this quarter. We now have a total of 246 branches, 677 business correspondence branches, and over 80,000 customer service points respectively.

Finally, on capital adequacy ratio, we successfully completed our preferential issue of equity shares of Rs.1,680 crores in August 2017 post necessary shareholder approvals. As a result, our capital adequacy ratio has improved to 15.95% and the Tier-1 capital adequacy ratio is at 13.87% as on September 30th without taking the interim profits as against 13.06% and 10.82%, respectively, in June 2017. With that, we will now open up the call for question and answers.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Devansh Lakhani from NVS Brokerage. Please go ahead.

Devansh Lakhani: Sir, I just had two questions, one of them being obvious one is the impact of re-capitalization on the PSU banks, so I wanted to know what will be the impact on us and the private lenders in general, one is that, and the second one is that the advances that we have, the majority of the advances are with a tenure of less than one year, so do we see some headwinds of sorts or something that now PSBs will be more powerful to lend probably might offer lower rates or something, so do we see anything over there?

Vishwavir Ahuja: Yes, obviously your question is of great overall relevance, and certainly, I mean it is the biggest news that we have at the moment on the table. Having said that, I think the move is most welcome, it is quite path breaking, it is extremely significant in the context of completing in a sense the reform agenda around the travails of the banking system particularly in the public sector banks and I think this is something that was much needed. This dose of re-capitalization of this quantum and scale was what was required, and I think the government has taken the decision to do it, so it is great for the system and it is great for the revival of health of the banking system as a whole.

Devansh Lakhani: Any impact either positive or negative that we see on the private sector as such, if not on us, I know it is very early, but anything that any briefing or something that you?

Vishwavir Ahuja: All I can say that if you take as far as our bank is concerned and I cannot comment for the others, as far as RBL Bank is concerned, we have operated, particularly in our new avatar over the last seven years, in a relatively sluggish economy in a highly competitive environment, and I think the entire progress in this institution has been built in that environment. So I think public sector banks were quite active in the past, if they get more active again that is fair enough. We really compete on speed of execution, on quality of service, and on several other attributes, which are associated with good management of an institution, so I think that should not change going forward as far as I am concerned.

Devansh Lakhani: Second question was regarding the majority of the advances that we have around 65% is for a tenure which is less than one year, so do we see after these PSU banks getting this additional capital in huge amounts, do we see that they might offer lower rates or competitive rates or something and those advances might, since it is a shorter term which is one year, they might shift to the PSU banks some market share being lost?

Vishwavir Ahuja: No, I think that is a very tall statement to make. I think my previous answer actually answers this question of yours. As far as we are concerned, I think we have addressed the issues around price competition quite effectively, that is reflected in our results from time to time. As you can see in almost every aspect, we have generated growth and improving margins over time and it has not happened in the last six months only, it has been happening for the last seven years. What I am trying to say is that I do not think in any way it should affect our competitive position in this environment. The other comment is these PSU banks are large banks, at the end of the day the ticket sizes associated with some of the exposure is also very large. I mean at the end of the day we are a very different bank both in terms of size and scale, also bulk of our business in the corporate and commercial banking space is like you said yourself is on the short end. We are working capital cash flow based lenders and I think the prudency of that business model itself has enabled us to achieve what we have achieved so far and none of that is going to change going forward.

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

Abhishek Sahoo: My question is around the customer acquisition rate for the bank has been pretty strong in the last couple of quarters and I see it accelerating, just some granularity on where this is coming from, is it largely on the back of the Bajaj partnership or are these savings accounts customers who are getting added currently?

Vishwavir Ahuja: The answer that question is, all of the above. We are seeing, I would say growing momentum on customer acquisition pretty much in every line of business. As far as the Bajaj co-branded cards business is concerned, we have about 1,30,000 cards in that space. In terms of our overall business, our customer base has grown from 3.1 million customers to 3.5 million customers in this quarter, so that is a fairly significant addition that has happened across all segments of business whether it is retail, whether it is cards, whether it is micro-banking, including in the micro-SME, SME space.

Abhishek Sahoo: Secondly, if I see your risk weight intensity, it has been increasing over the last few quarters, is that largely because the investment book has been growing slower than the overall advances book because if I see your advances, rating there has not changed much?

Vishwavir Ahuja: Yes, good question and the answer is yes and it has been consciously done, and it also reflects therefore positively in terms of our growth of our non-fund base businesses.

Abhishek Sahoo: Where do you think this will stabilize, is 82% to 83% number that you would be comfortable with or where does it go from here?

Vishwavir Ahuja: Again you are right in terms of your comment in and around where we are is where we expect to stay.

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.

Rahul Maheshwari: My one question, your RWA has increased by 35% on YOY basis and quarter on quarter is 10%, so can you give what segment or what kind of credit risk in which whether it is a business banking or which of the segments has led to such a higher risk, it is the investment book which where you had taken the higher risk weightage?

Naresh Karia: As answered in the previous question, I am just going to elaborate a little more. Basically, the earlier periods we had larger proportions of G-Sec book which has been coming down consistently as has been stated by us as a strategy, which is one factor and the other factor is over a period of time, our non-fund based book whether it is the LC/ guarantee book or the derivatives book, those have shown significant growth, which is the other key factor. Of course, there are other smaller factors, but these are the key factors.

Rahul Maheshwari: What kind of, can you drive the, in your non-wholesale book, the 59% growth which we have done in the business branching, what are the segment or is it the market share gain or just the book size is small because of that the gain is happening and any type of asset quality stress you are finding in that segment?

Naresh Karia: There is of course a small base that we started off with in the past. Having said that, this business is something where we have been growing in newer territories. We have added several new business centers in the last one year or so, which is actually contributing to this and the products that you see here are really the secured business loans, the personal loans, the credit cards, these are really the growth factors.

Rahul Maheshwari: Can you give a breakup how much is your LAP, your personal loan, credit card you have told 19%, and the other business loans, can you say the breakup in this business branching, what is the breakup of these four segments?

Naresh Karia: That is about 50% of the book, cards as we mentioned earlier in the speech 19% of the BBB book, the unsecured business and personal loans are about 20%, and the rest smaller components are 10%.

Rahul Maheshwari: In this asset quality, we have found a bit into unsecured your needle moving in the GNPA, so is it comfortable right now, are you expecting this to be in upward direction kind of thing, specifically in BIL business and unsecured lending kind of thing?

Harjeet Toor: You have to keep in mind that when you look at GNPA, every product has its own kind of stable market GNPAs. As of now, we are way below the market averages and as the portfolio matures, you will see some places where we will keep inching towards the market averages, so that is what you see there, so BIL portfolio as it matures, you will see your GNPA move towards that. The market typically runs at about 3.5% to 4% on the BIL book. We are still in the region of about 2.4, and therefore, are quite comfortable with where we are.

Rahul Maheshwari: Last question just on Agri you told that the impact you are seeing because of the in your earlier remarks, is it stable or going forward you can expect more kind of pressure in the asset kind of thing?

Vishwavir Ahuja: First of all, the book size is very small, it is only 6% of our total book and on 6% of the book we are at somewhere around 1.2% to 1.3%. Even if it could worsen a little bit from here, it could, I am not saying it will not or it will, but it could even if that happens I think the aggregate impact is quite minimal.

Rahul Maheshwari: You have more than provided for that in case kind of thing?

Vishwavir Ahuja: Yes, we have the capacity to do that. Like I said I am not saying it has happened or it will happen. If it happens, yes, it is a small number.

Rahul Maheshwari: What is floating provision, outstanding in the book?

Vishwavir Ahuja: We do not have floating provision.

Moderator: Thank you. The next question is from the line of Alok Ramachandran from Future Generali India Life Insurance. Please go ahead.

Alok Ramachandran: Sir, this is on account of slippages of 92 crores during the quarter, could you just help me in the color of slippages on account and also the Power sector exposure is around 3000 crores, the nature of this exposure if you can give some color that would be interesting because we are seeing some slippages on the Power sector especially in the other private sector peers, so just wanted to know on that as well?

Vishwavir Ahuja: Let me start with that. We had commented last quarter that in the micro-banking book we had taken some provisions last time and we had said that they will continue in this quarter and so approximately half, according to our expectation and plans, in fact slightly lower than our expectation. Half of this Rs.91 crores is in that space and the rest of the amounts are very small. Just now we made a comment on the breakup of the retail assets, so essentially most of the balance is in that portfolio between LAP, BIL, cards etc.

Alok Ramachandran: So that is very much segregated?

Vishwavir Ahuja: Yes, that is all segregated and as far as the corporate side is concerned, it is very, very minimal, in fact there if you have seen the NPAs have come down.

Alok Ramachandran: Regarding the second question Sir, Power sector exposure?

Vishwavir Ahuja: We have addressed this question even in the past that we have no slippage at all in the Power sector and these are working capital loans given to very highly rated investment-grade companies.

Alok Ramachandran: Are they generating companies or are they any transmission companies if you can just give an understanding on that?

Vishwavir Ahuja: It is a mix of them, it includes some renewables also, but again the better companies in the country, so I do not want to take specific names, but rest assured it is a high-quality portfolio.

Alok Ramachandran: What would be their grade be in terms of your internal ratings, if you could?

Vishwavir Ahuja: They are all higher investment grade and above.

Alok Ramachandran: That would be?

Vishwavir Ahuja: BBB plus and better.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Respected Mr. Ahuja, it is indeed great congratulation in this competitive market you are giving so fantastic results, Sir, can you give some branch expansion target up to 2020 vision?

Vishwavir Ahuja: If you have access to our presentation that gives the distribution network that we have and if you appreciate our business model which has own branches then we have BC / Business Correspondence branches, which I talked about in my presentation and then we have a further layer below that of customer service points, which are small outlets, and within BC branches, there is a concept called banking outlets which are kind of branches as per RBI new definition, so it is not just a question of putting up physical branch networks which belong to us. We work with dedicated partners and we create these banking outlets which are basically branches under the RBI definition, so if you look at that architecture and it has been growing dramatically over the years. In isolation, as we have said earlier, physical bank branches belonging to us directly, we do not add too many, we do 30-40 in a year and that has been our run rate so far, and we do not intend to change that run rate but in terms of our remaining part of our distribution architecture that we sort of tend to go much faster because that is the critical aspect of our business model where we want to achieve more throughput, more customer acquisition without trying to load all the burden on our own self. We have been growing at a fairly rapid rate and we have been growing at anything between 35% to 40% every year, and hopefully, we can maintain near that rate of growth going forward.

Moderator: Thank you. We will move to the next question which is from the line of Ravi Singh from Ambit Capital. Please go ahead.

Ravi Singh: Sir, you mentioned you have no exposure to any of the close to IBC cases, do you have any comment regarding the RBI's exercise of check in divergence at the end of FY '17, what is the status of that exercise and any observations there?

Vishwavir Ahuja: As far as our bank is concerned that process is still not over, I mean in the sense that we have yet to reach that point where there is an assessment that has been completed and shared with us, so frankly at this stage there is nothing to say on that subject.

Ravi Singh: Sir, you commented that commercial banking loan growth is picking up, what is driving that confidence and also want to clarify this rating mix which you provide, does that cover commercial banking also or is it only for the C&IB book?

Vishwavir Ahuja: No, it covers both, let me answer that one first and also if I may point you to another slide in our presentation which is on page 18 and if you go at the left side of that which shows breakup of rated exposures, actually it gives you the entire breakup and it shows that 28.9% of our total book is rated at A and above, and 92.5% is rated investment-grade and above, which is what BBB minus and above, so that is the quality of the rated asset book overall. Obviously, a lot of that is the wholesale book which includes C&IB and commercial, so that is the one part of the answer. The commercial banking business itself was always a business that we had a strong interest in, this is a mid-corp and the smaller medium enterprises and we always felt that this is a business that we should pursue and grow in. In the past, in the first two or three years as we were building this business, there were certain challenges and learning experiences around some of the customers' selection and some quality of team issues which we have been resolving. If you have tracked our numbers in this space, the relative NPA position in this space was significantly higher two years ago, one year ago, etc. That has been brought down significantly and it has come down to very normal levels now and this has given us much more confidence. The team is also outstanding, we have great leadership, great people, and great processes and risk management systems in place in this space, so having now got a good grip of this business for the last few months, we have been growing this. It has reached a fairly good proportion in terms of its size and I think it is about Rs.6,100 crores now and it has grown 32% in the last one year.

Ravi Singh: One last quick question, the share of Eastern geography has risen from 6% to 17% in the last two years, any particular cluster or industry which is driving that increase?

Vishwavir Ahuja: I think approach is more client driven and East is a geography which we entered kind of last in our entire expansion strategy. Again, if you trace the history of the bank, we were a very Southern Maharashtra-based bank and then we became a Maharashtra and a South-based bank, then we became Maharashtra, North, West and South bank, and East actually happened last in our journey, so that is the effort over the last 12 to 18 months .Now that we have penetrated that geography I think that is picking up.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Sir, my question on the recent announcement by the government on re-capitalization of PSU banks, so how do you see the impact on the liquidity and the yield side of the market?

Rajeev Ahuja: I will try to address it though it is too soon, I think we need to know what the structure of the recap bonds is; a) this will be cash neutral for the market; b) the underlying credit growth of the system is still very, very modest. There is a tremendous amount of liquidity in the system and the RBI has also mopped up, so there will obviously be some reaction, some of it you saw today, but we will just have to see how this plays out. I do not think it will be disruptive in any manner to the general level of price discovery or liquidity in the market. There are movements here and there. Our own belief is that if it is going to be a non-SLR bond, I think there will be a market which will be there, credit growth is still modest, liquidity is still high, so we just have to see how those things play out, but it is not going to be disruptive in any manner just by the sheer size of it.

Moderator: Thank you. The next question is from the line of Pallavi Deshpande from SmartKarma. Please go ahead.

Pallavi Deshpande: First is regarding the BC businesses, this correspondent business, so what would be your share of that business with Bharat Financial and Utkarsh, what percentage of your BC with them?

Harjeet Toor: Bharat Financial is not a BC of ours and neither is Utkarsh. The BCs which are mentioned here our other corporate BCs which we run.

Pallavi Deshpande: In terms of the BC side only, what would be the technology spend in terms of your OPEX cost, how much percentage would you attribute to around to the BC side in terms of tabs or smart phones or whatever?

Harjeet Toor: The technology is completely provided by us, but the BCs do get a service fee for managing the portfolio, so it includes the acquisition, the servicing as well as the convenient fee.

Pallavi Deshpande: That fee is included as a part of your OPEX?

Harjeet Toor: No, that fee is netted from our interest income.

Vishwavir Ahuja: Just to clarify that point, like I was trying to explain earlier, the way we run that business these are captive or dedicated BCs to the bank. We manage the governance, the risk management, the technology and of course the assets, the loans are booked on our balance sheet. We try to manage it very tightly. There is a large team in the bank that manages this and like my colleague explained, it is basically the origination and collection and servicing fee that we basically pass on.

Pallavi Deshpande: Would it be possible to share the number of employees on this team?

Harjeet Toor: I can share with you the number of employees in the bank which manage this team; we have about 300 odd people which manage the BC outlets.

Pallavi Deshpande: How many people would be there at each BC outlet?

Harjeet Toor: On an average if you see there are about five to seven people per BC branch, so that can kind of you can get an idea about the total number of employees.

Pallavi Deshpande: Sir, in terms of the Axis Bank disclosed about exposure to nine accounts as problematic and would there be any exposure by RBL to any one of those accounts?

Vishwavir Ahuja: We do not know those accounts and how can I answer that question.

Pallavi Deshpande: Just lastly on the, if you could just share on the Eastern side what would be the strategy in terms of the microfinance book, would you be competing with Bandhan Bank directly there and any thoughts on the East?

Harjeet Toor: When we say east, we are in geographies right from West Bengal which we have started to Jharkhand, Chhattisgarh, Bihar, Assam, so these are the areas which we operate in. In almost all our geographies, we compete with all the major players in the microfinance industry, so for us it is a question of picking out the markets where we feel there is space and opportunity and therefore opening our branches there.

Pallavi Deshpande: In terms of the risk management for that side would you be of the two borrower role, what is the internal role that you follow not more than now?

Harjeet Toor: Normally, we follow a two borrower and a Rs.60,000 rule which is the guideline which is there. We have our own credit rules which come into being, which define the quantum exposure we will give to the customer.

Pallavi Deshpande: Lastly, on this side we have seen I think, Ujjivan come out with in certain branches increasing their limit from 60,000 to 1 lakh. I just want to ask, for the market as a whole is the risk increasing because you have certain centers which have closed down and so you want to grow on the other centers and there is a push towards more of a quantitative growth, is that happening in the market, do you see that happening?

Harjeet Toor: I do not know about the market but for us the strategy is very clear, our growth which you are seeing is coming more from the expansion which we are doing, so as you see we opened around close to 50 branches in the last quarter itself, so as we expand our geography that is where our growth in microfinance is going to come, not necessarily from the ticket size increase.

Pallavi Deshpande: For this BC branches you added like 50 first quarter, 50 now, it will continue at this pace?

Harjeet Toor: Yes, at least as we keep expanding into this, if you see the four new states which we have kind of just got into those states will see therefore their own share of branches to increase the density, and therefore, that pace will continue for some time.

Pallavi Deshpande: You mentioned on the MFI you do not work with Utkarsh or whatever, but you have a stake in them, so I am just trying to understand why we do not work with them or what is the?

Rajeev Ahuja: Utkarsh is a partnership where we are developing some thoughts and ideas on how to kind of work together. They obviously have their own agenda, but there are a lot of complementarities along with them which we can offer them as being a larger bank and an universal bank and they can offer from a distribution perspective, so those are things which we are obviously in the works, obviously the last nine months has been totally preoccupied with the demonetization phase as you imagine many of these things were put on hold, but I think over the next six to nine months, we will develop some joint services and products which will help Utkarsh and us.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: I just wanted to get a clarification about the Other OPEX that has gone up, so is it all related to increasing touch points or is there anything other included in the OPEX?

Naresh Karia: Our operating expense is in the 'other expenses' category largely includes the DSA commissions and the infrastructure-related cost apart from what is covered in the premises, so all the technology and travel and all of that is included in that. Basically, if I have to give you a flavor, as we are increasing the proportion of retail businesses and you can see the growth on the retail side, that is reflecting in the cost on the 'other expenses' line.

Rahul Ranade: This kind of a run rate, we should be assuming it to continue around 15% YOY at least for the next few quarters?

Naresh Karia: In terms of growth you mean?

Rahul Ranade: Sorry, growth in the other OPEX?

Naresh Karia: The way we would say is that we have not given quarter on quarter trend lines, but we have indicated that long term we will be in the 51% to 52% range which is the 2020 goal. Quarterly aberrations or variations do happen and we have explained the rationale for that quite a number of times including in this call.

Moderator: Thank you. The next question is from the line of Anirban Sarkar from Motilal Oswal Securities Ltd. Please go ahead.

Anirban Sarkar: Sir, one question earlier in the call you have given the breakup of the slippages that you had this quarter, I missed that part, could you please go through that once more?

Vishwavir Ahuja: I had said that half of the Rs.90 odd crores was in the micro-banking area , rather a little better than what we had expected last quarter for this quarter. We had sort of given an indication for the entire year, how much kind of credit cost etc. we expect in this space and some of that commentary I covered today also, so that is the continuing provisioning coming from that space and the remaining half is in the various components of the retail assets and I had made a comment that on the wholesale portfolio it was very, very marginal.

Moderator: Thank you. The next question is from the line of Bobby Jayram from Falcon Investments. Please go ahead.

Bobby Jayram: Regarding your micro-banking strategy, you lend directly to the customers themselves and also to the micro-banking institution, is that correct?

Harjeet Toor: That is correct though as we are moving forward, you will notice that the lending directly to microfinance institutions is kind of coming down and the increase is in our portfolio where we are lending directly to customers.

Vishwavir Ahuja: If I may point you to page 16 of our deck, it gives you very clear indication that the IFI which is lending to other microfinance institutions that post flat, this shows 1% growth whereas the micro-banking which is reaching out directly and through BCs is the 40% growth and then there is the MSME part which is the 113% growth, so those are the two segments where we reach out to customers directly through our networks and then lending through MFI which is IFI exposure is pretty much flat.

Bobby Jayram: Okay, that is good to know because my follow up question actually was when you lend to these institutions, how do you get an insight into the book, is it not a….

Rajeev Ahuja: Actually, Bobby, the way we built this business six years ago was to start lending to these MFIs to understand how the business operated. So that is how we learnt it and as we built our own business and many of our customers actually we are great partners with them. Obviously they have cheaper funding sources, many of them have become banks, so you will see this portfolio of IFI pretty much remaining static to even coming down. Our direct business both in the micro-banking and actually there are more flavors around micro-banking which we shared on our last call which we are doing testing on and the MSME piece which is about two-and-a-half to three years old is actually getting a lot of traction. This is not micro-banking, this is actually lending to businesses in semi-urban markets, very different architecture that is getting a lot of traction, so that is our natural growth spot, obviously we learned from the IFI piece for many years.

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

Jai Mundhra: Sir, just wanted to know your thoughts on savings rate rationalization if I were to say that and what would be our blended cost of SA deposit as of now?

Vishwavir Ahuja: The blended cost of SA deposit is pretty much the same as our cost of deposits, it is around 6.6% in that range and as you would have noticed perhaps that we have been bringing it down. We have achieved a very good traction on the SA growth in the last 2.5 years very, very good growth it has grown several times and we now are able to bring it down and this along with the reduction in our fixed deposit rates is how the entire cost of funds has been coming down for the bank, that is point number one. Point number two is that because we have seen such strong SA growth, we have not grown our FDs to the same extent, we did not need that much deposits so we have actually been pretty healthy in terms of our mop up and we feel therefore that there is scope to bring it down more, so I think I have answered your question.

Moderator: Thank you. The next question is from the line of Onkar Ghugardare, he is an Individual Investor. Please go ahead.

Onkar Ghugardare: If you see the gross and net NPAs they have increased year-on-year by about 25 to 35 basis points, so what is the comfortable level as far as NPAs are concerned?

Vishwavir Ahuja: There is a little historical context. We commented with great detail on this last quarter how the micro-banking sort of space which has been affected post-demonetization and it has affected the industry as a whole etc., had actually caused the significant jump in the NPA numbers and just that isolated increase was in the 25 to 30 basis points range as far as the NPA number is concerned, so that is my first comment that there is a certain history to it and that obviously has maintained since then. On the corporate side as I said, the NPAs have declined and to answer your question on what is the comfortable level, I mean any level is not comfortable; it should be better and better and better. There is a certain inherent risk in every business, it is obviously higher when you do unsecured personal lending in such products and it should be much lower in secured businesses particularly in the wholesale commercial banking space, so there it should be much lower, so it is something that you deal with based on the fundamental risk embedded in each business. On a blended basis, I think we are doing okay relative to where the industry and the rest of the banks are, but we have always tried to do better.

Onkar Ghugardare: As far as ROE is concerned for the first half you have registered 11.45, so in your statement of 2020, you have not mentioned ROE, you have mentioned ROA, so what would be the reasonable projection for ROE ?

Vishwavir Ahuja: Firstly, if we mention ROA applying a certain leverage factor you can pretty much sort of derive the ROE, so I think we have clearly indicated that our 2020 perspective on ROA is to take it close to 1.5% and obviously we have certain leverage factor you know applying nine or 10 times that you hit the ROE number, so that is where we are and I think we have tracked according to that.

Onkar Ghugardare: In terms of when I last heard the Bajaj Finance latest call, they mentioned that the customers are around 1.3 lakhs?

Vishwavir Ahuja: That is right, 1.3 lakh card acquisitions we have done through the partnership.

Onkar Ghugardare: Yes, and they said that they would like to take it to a million customers by next three to four years, so is it achievable, what do you think?

Vishwavir Ahuja: I think the run rate suggests that we are doing well, so in a period of about six months, we have done 1,37,000 to give you an exact number and that is the initial months and this pace can pick up actually going forward. The bankable business base of customers out there is pretty large, so therefore this is well within the realm of achievability.

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