



“RBL Bank Limited Q1 FY 2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY 2022 Earnings Conference Call of RBL Bank Limited. As a remainder, 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 now hand the conference over to Mr. Vishwvir Ahuja – Managing Director and CEO of RBL Bank. Thank you and over to you, sir.

Vishwvir Ahuja: Thank you, Margret. Good evening, ladies, and gentlemen. And thank you for joining us for a discussion on RBL Bank’s Financial Results for the first quarter of FY 2022. I hope you and your families have been safe and well over the last few months. As always, I am joined on this call by other members of our management team, who along with me will address any questions that you all may have.

Firstly, I want to extend my appreciation for our employees who continue to serve our customers all through this pandemic and have kept our operations running smoothly. I am happy to report that we have been able to get approximately 70% of our employees, including those in our subsidiary RBL Finserve vaccinated, and hope to get everyone fully vaccinated over the next few months. As the pace of vaccination continues, we hope that life and economic activity will normalize to pre-COVID levels.

The theme for our commentary today is, **Reset for Transformation 2.0 of RBL Bank**. Before we discuss what I mean by that, and before I come to the financial numbers for Q1 FY 2022, I want to briefly touch upon the impact of the second wave, which has been rather severe and different for a few reasons.

While dealing with the first wave, which caused elevated levels of stress, especially in our retail portfolios, we had executed a number of steps to make the Bank resilient and stronger. With your permission, I am going to repeat some of them. Granularizing both sides of the balance sheet tightening risk business; making prudent additional provisioning, leading to improvement in PCR by 800 basis points in FY 2021, although, still short of market benchmarks; reducing corporate exposures, significantly improving asset quality rating profile of the business in order to reposition it for growth; rapid ramp up of our retail deposit CASA base, significant capital raise that took place in that year, driving other income, particularly core fees, ensuring consistent increase in pre-provision operating profit; and therefore, maintaining the earnings momentum despite the impact to COVID. And then significant reduction in the cost of funds to enhance competitiveness in our lending to facilitate build out of the new secured loan products.

These measures do stand us in good stead entering FY 2022. However, just as the environment was returning to near normalcy in March, we faced the impact of the second wave which was far more severe than the first, especially impacting our small retail borrowers, including salaried customers, small businesses, and our rural customers where the impact was the highest. All of

which were just coming out of the effects of the first wave with some difficulties. For our banks, these businesses have been our core focus areas. So, despite the planned counter cyclicity in the big business mix that we have, the impact that we faced was higher across the board than some of the other industry players.

Furthermore, the resultant impact compared to the first wave was a bit higher because last year we had moratorium, as a result of which accounts did not age, this time there was no such benefit.

Impact of the second wave in rural pockets was the worst; collection efficiencies, for instance, in our micro banking business, were impacted significantly this time, falling to 79% for May and 82% for June versus 89% through the moratorium last year, before recovery to around 88% in July 2021.

Our own impact in terms of staff infections due to COVID, which was low in the first wave and it has been much higher this time than last year levels.

So, as a result of all this, slippages have seen a significant increase in this quarter from what we had anticipated. In terms of the breakup of slippages, as you would have realized by now, bulk of them, 97% came from retail.

We feel that as economic activity and growth revival is now visible (July onwards) + with the vaccination drive picking up and with overall improvement and better preparedness on the health infrastructure, it augurs better for normalcy to return gradually, also evident from the high frequency data. Given this background, we have decided that this may be the best time to take a firm view and clear the deck for the future. As such, we are moving forward and have taken substantial additional provisions this time.

As mentioned earlier, we had improved effective PCR by 800 basis points to 52.28% in FY 2021 and we had committed to improving it further to 60% plus, through this year FY 2022. We have now decided to do all of that in one go in this quarter itself. Our effective PCR is now approximately 61%. Furthermore, we have created additional COVID provisions of 4% on our micro-banking in particular.

This was a one-time decision not only to shore up provisioning and mitigate stakeholder concerns, over our PCR levels, but also adequately prepare the institution to come back to normalized levels of business, provisioning, growth and profitability. Given our business traction and competitive strength in certain businesses, starting next quarter, we expect to return to profitability and over the next nine months, make up for the loss of the quarter, and shall target an ROA of 1% or so for exit Q4 of this year, thus setting us up well for the next fiscal year. That is why we are calling it Reset for Transformation 2.0 and I shall now shortly outline the tenets of this Transformation 2.0 which will drive the institution.

With this background, now let me talk about our results for the quarter first. In terms of asset quality and related provisioning, our GNPA and net NPA as of June 30th were 4.99% and 2.01%. Our provisioning stance has ensured that our net NPA is down sequentially. Our total gross slippages were Rs. 1,342 crores in this quarter and net slippages were Rs. 1,069 crores. Our recoveries and upgrades this quarter were Rs. 273 crores, about 21% of gross slippages. Of our gross slippages, Rs. 501 crores was in credit cards, Rs. 445 crores in micro banking, and Rs. 359 crores in the rest of our retail portfolio, and only Rs. 37 crores from the wholesale book. It is our expectation that we should be able to continue to pull back some of these slippages in the coming months, so that the current elevation in slippage is likely to be transitory.

Since markets have started opening up from July, as lockdown restrictions have eased, things have started improving on the ground. We are seeing collection efficiencies return to pre-COVID levels in July, barring micro-finance where it is still approximately 88% and expected to improve further in the next couple of months. So, the on-the-ground situation is looking markedly better than a few weeks ago. We took provisions of Rs. 1,449 crores in this quarter. As I mentioned earlier, we have increased our provisioning coverage sharply and also taken proactive COVID provisions, primarily on the MFI book.

Our provisions breakup is as follows. Specific NPA provisions of Rs. 808 crores, additional specific provisions of Rs. 365 crores in our unsecured retail and microfinance business to improved PCR, and additional COVID provision of Rs. 239 crores. So, the additional provisions are 365 plus 239, Rs. 604 crores, partly towards the PCR and the rest for as a COVID buffer. PCR is now 60.94% as against 52.28% in Q4 2021. Given our accelerated provision policies in retail, especially on the unsecured portfolios, this will naturally improve PCR by another 500 basis points or so by the end of the year. We believe this should be adequate. As in the past, we have also given the gross and net NPAs by each of our business segments in our presentation.

Now, going into wholesale advances:

The composition of the wholesale book continues to be strong, with negligible exposure to the vulnerable stress sectors, and it is primed for a good revival. If you look at the rating profile, the loan book rated A- and better at 77.6%, similar to last quarter, and has improved from 67.5% in June 2019. Incremental lending over the last 18 months or so has been largely to A-minus or better and is reflected therefore in the overall rating mix.

On credit cards, our PCR is now 75.4% in line with our policy of providing fully and writing off in 180 days. In micro banking, as mentioned earlier, we have taken accelerated provisioning to increase PCR to 83% on the entire impaired book, plus the COVID provisions. Lastly, on business loans our PCR is approximately 45%. In the small unsecured business loans, we have again, like in the MFI book, taken a provision of 75% on the impaired book as against the normal internal policy of 25% in each quarter.

Quick comment on restructuring and the ECLGS scheme. Our total restructuring as at the end of the quarter was Rs. 1,152 crores as against Rs. 933 crores as of Q4 2021. The current restructuring portfolio constitutes 1.98% of our advances. Of this, wholesale was Rs. 435 crores and retail was Rs. 715 crores, both slightly above last quarter's numbers. We have taken requisite provisioning on the same.

On the ECLGS, our total disbursements as of date have been Rs. 1,478 crores as against Rs. 1,212 crores as of Q4 2021. Of this, Rs. 876 crores was in wholesale and Rs. 564 crores was in retail.

Now let's talk about our operating performance.

In the light of challenging environment and our cautious stand, overall advances were flat year-on-year and were down 4% sequentially. Retail advances grew 7% year-on-year and declined 7% sequentially, whereas wholesale advances grew marginally this quarter. Our retail wholesale mix was 57:43.

Our performance continues to be steady as reflected through improving NIMs and growth in granular fees and the pre-provision operating profits.

Our total revenue growth was 21% year-on-year to Rs. 1,664 crores. NII, net interest income grew 7% sequentially to Rs. 970 crores, other income was up 108% year-on-year to Rs. 695 crores.

Fee income from our retail business grew 137% year-on-year to Rs. 422 crores. Retail fee income to core fees was 75% this quarter. We expect this to trend even higher in the coming quarters.

NIMs for the quarter were 4.36%, 19 basis points higher Q-on-Quarter, despite impact of lower disbursements in our retail business, interest reversals and market pricing pressures in the wholesale segment. The improvement have therefore largely been due to the continuous reduction in cost of deposits.

Our pre-provision operating profit was Rs. 807 crores for this quarter, a growth of 17% year-on-year. However, as a result of the addition provisions to improve our PCR and COVID provisions taken, totaling to Rs. 604 crores, we reported a loss of Rs. 459 crores for the quarter.

On the retail deposit franchise, which continues to be very encouraging, our deposit momentum remained very strong. As stated previously, our key objective has been to grow regular retail deposits. Once again, I am happy to report that total deposits grew 21% year-on-year and 2% sequentially, driven by CASA and retail deposit growth.

CASA ratio increased 1.9% sequentially and 3.6% year-on-year to 33.7% at the end of the quarter, driven by, as I said, CASA deposit growth which was 35% year-on-year and 8% sequentially. The share of retail and small business deposits as a proportion of overall deposits also increased 240 basis points, 2.4% sequentially, to 39.6%, up from 37.2% in Q4 2021. And this growth was 7.2% year-on-year.

Our liquidity levels continue to remain high with average LCR at 134% for the quarter. Our cost of deposits was at 5.2% for Q1, a decrease of 107 basis points year-on-year and 25 basis points sequentially. We expect to further cut these rates over the remainder of the year, while sustaining retail acquisition momentum.

Our capital adequacy ratio as of June 30, 2021, was 17.2% with a CET 1 of 16.1%. In terms of our branch and distribution network, we closed the quarter with 435 Bank branches, up 6 branches in the quarter. And 1,422 BC branches, up 57 branches during the quarter.

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

Harjeet Toor:

Thank you sir, and a very good evening to all. I will outline for you our Q1 FY 2022 experience and how are we seeing things as we move forward from here, let me start by growth. Growth dropped sharply from third week of April, part self-imposed given the environment, and partly due to lock downs and infections. Therefore, how are we seeing things today? Most urban markets are now open, and one is seeing resumption of business activity. Bounce rates are back to normal at February, March 2021 levels.

Resolution rates in the first delinquency bucket, which is 1 to 29 days past due is back to normal now. Other buckets from 30 DPD to 89 DPD are almost normal, but sharp falls in resolution rates in May and June in these buckets on account of physical collections is not happening, led to much higher bucket sizes. In July, we have seen the first bucket size, which is the 1-29 DPD, reduce to below Q4 FY 2021 levels for business loans and cards. The second and third buckets are still higher and will come down in the next two months. Rural, semi-urban markets are still lagging behind by one and a half to two months because of restrictions in some of the states like Kerala, West Bengal, and parts of Maharashtra. Also, this time, these markets for more hit by infection. Our collection efficiency in July in micro finance was much better than previous months, but still low at around 88%. We expect this to improve in the next couple of months.

Let us talk about the impact on our portfolio for balance of the year:

Gross slippages in quarter two of this year are expected to be similar to quarter one on account of higher balances in delinquency buckets. Pain is expected to be more in micro banking. We expect slippages to start reducing and returning to normal from Q3 onwards. In micro banking, the customers moving into NPA were paying till April 2021, hence recovery chances are much

higher. We have already seen that approximately 27% of our customers who slipped in June have paid in July. However, recoveries will happen towards the end of the loan tenure as these customers do not catch up on their missed EMIs, hence don't get upgraded or normalized.

On COVID restructuring, under the Resolution Framework 2.0, we centered this more around the secured loan business and we did about Rs. 179 crores of restructuring. And a small amount in the microfinance business of about Rs. 81 crores, and almost nothing in cards. Total COVID restructuring between 1.0 and 2.0 today stands at about Rs. 718 crores, which is 2.2% of the book.

A little bit about the future business growth strategy as we see today. In credit cards, our new card issuance is ready to be back to March 2021 levels. We issued around 82,000 cards in July, till the RBI embargo on new card issuance and MasterCard network came into effect from 22nd of July. We expect resumption in issuance when this is lifted, or in September 2021 when the issuance on Visa network will go live for us. We were in conversation with Visa for many months now, and it so happens that we had closed commercial terms and started work on IT integrations just before the embargo. Since the technology integrations have started earlier, we are confident of going live in September. We had initially expected a shortfall of 150,000 to 200,000 new cards this year versus a plan of around 1.4 million cards on account of this disruption. However, we are confident of covering much of this gap over the balance of the year, with earlier than expected launch of cards on the Visa network. Card spends had taken a hit during Q1 FY 2022, but we have seen a very, very sharp pullback in July 2021. We crossed Rs. 3,400 crores of spends, which have been the highest ever since the launch of the business.

Now on micro banking, rural and semi-urban markets, as mentioned earlier, are about one and a half to two months behind urban markets in opening up. So, you should see microfinance business scale up with a lag of two to three months. Our focus will be to start doing business in districts where collection efficiencies are comfortable. We also see opportunity in the MFI discussions paper floated by RBI. These would be in the areas of, one, the overall reduction in loan amounts in the industry itself, hence lowering of risk. Second, moving to individual lending in a much more planned manner. And third is, additional products cross-sell to members of the households, mainly secured as the household concept becomes more prevalent.

The other interesting business which we have been scaling up or which we launched about a year back was home loans. Our focus has been on building this new asset class and investments in technology, branches and people are on track. With the opening of markets and SRO offices, we intend to ramp up our disbursal run rate now. We are setting up a dedicated channel for cross selling home loans into our own base of customers. We have mapped the existing client base through the bureau and found a very large number of customers that are running home loans with other financials. There is a tremendous opportunity to target these customers through balance transfer. This will not only bring down the cost of acquisition but will also help us deepen our relationship with these customers beyond the product holding that they already have.

Let me talk about a new business which we have just launched, which is tractor finance. Last month, we launched a pilot for tractor finance, leveraging our large presence in rural and semi-urban markets and agri businesses. The customer proposition is completely digital, with the customer getting instant approvals at the dealer outlet, and disbursal happening within a day. In this pilot, we have successfully disbursed close to 600 tractors. We are now in the process of enhancing the technology and also expanding to 250 districts over the next three months. Here again, we should start seeing a disbursals run rate of more than 1,000 tractor loans per month by end of quarter three this year.

As mentioned in our last few calls, we have completely moved to a much more resilient and safer segment in terms of new business acquisition. In our assessment, the MSME segment has been subject to various challenges, right from demonetization to the introduction of GST and now the pandemic. Hence, a large part of this segment is very vulnerable and will take a long time to come out of this. Therefore, our focus is on businesses which can continue to grow even during these tough times, have their leverage under control and are demonstrating strong and resilient cash flows. The underwriting criteria has been significantly strengthened. From a portfolio balance perspective, we have exited the unsecured business loan segment. A small part of this, however, will be done as part of our current account acquisition strategy.

Let me talk about our subsidiary, RBL Finserve Limited, RFL as we call it. We intend to leverage RFL in the rural and semi-urban markets, building a comprehensive model for Bharat. RFL is today significantly scaled, with AUM of about Rs. 5,000 crores is present in 21 states and union territories, through 759 branches across 295 districts, and covers over 20,000 villages. It has a staff strength of about 9,000 people and a well experienced management team and a strong board. The plan is to start positioning RFL as the Bank's arm in these markets, and its branches as banking outlets offering majority of banking products. We would further enhance the branch unit structure in RFL to include risk assessment and collections which will be done by the Bank. We would be deploying comprehensive analytical scorecards and models to aid the front line for customer selection and decision making. We would share more on this strategy in the coming months. While we will remain completely focused on collections over the next quarter, you will see that there is enough work happening to move into new growth areas, and we should start seeing results from quarter three onwards.

I would now like to hand over back to Mr. Vishwvir Ahuja for his concluding remarks.

Vishwvir Ahuja:

Thank you Harjeet, for going into some depth regarding our retail businesses. I will now take up the next few minutes sharing with you all our medium-term strategy. In my address of May 4, 2021, at the time of the last quarterly call, I had mentioned about the reset we were planning to do in our business approach, capital allocation and capabilities. I would like now to give some more color regarding the same, and also enunciate a medium-term growth approach for the Bank.

The principles of RBL's Transformation 2.0 are built around the following tenets. Emphasizing certain right-to-win franchises, a phrase we have used earlier, where we have a reasonable starting position in terms of scale, market share and capabilities, incorporating business learnings across market ups and downs, and an ability to deliver above cost of capital return or market cycles. The franchises that meet these tests today are

Credit cards to start with: In cards, notwithstanding the temporary hiatus, because of the MasterCard situation, our plan still is to issue between 1.2 to 1.4 million cards in the current fiscal year. We today account for approximately 10% of new card issuance in the country, and with a 5% total market share, approximately. We expect to retain this in this range over the next two to three years. While we have seen higher than normal credit costs in FY 2021, and perhaps in the first half of this year, this business will continue to generate profitable returns and return to pre-COVID levels in the second half of this year. Our approach over the next two to three years would be to continue to focus on partnerships with other relevant and well-known brand platforms like Zomato, Bank Bazaar, etc, to be added to expand reach access to customers.

We are undertaking a significant ramp up of our investment in technology, app design, risk, infosec and service architecture in credit cards for the next 18 months. That will make us even more competitive not just against the larger players, but also vis-à-vis the fintechs that are redefining customer experience significantly. You also have to be mindful that cards proposition is being expanded to other segments in India through the "buy now pay later" offering, and it is an opportunity for us to leverage our technology and risk management to start seeing the credit card business as a broader consumer offering. Till recently, our card franchise was standalone, but we have now started integrating this with other parts of our banking franchise in terms of cross sell of savings accounts, insurance, and other retail loans and products. This has required significant technology intervention, which we have largely accomplished. We have around 2.5 million, about 83% of our card customers who use our My Card App. And this is an effective way to expand our services to them efficiently. Conversely, we hope to meaningfully extend our currently very low card penetration to our 1 million branch banking deposit customer, which also we expect to double in 18 months through our traditional, and more importantly, through our Project Abacus, more on that I will just elucidate in a little while, this is our digital platform.

Now on to microbanking, what we are now calling in terms of Transformation 2.0 transforming to Bharat Banking. Harjeet has called it Bharat Banking segment and I do believe significant opportunity exists to build upon a traditionally underserved segment, that is digitizing fast. In the very near term, the present situation, while the present situation on the ground warrants some caution, this is another business where we can expand horizontally into other areas of secure loans, such as two-wheeler, home extension, loans against gold, etc. The draft RBI guidelines on micro banking, we believe, are long term positive and will favor better capitalized and scaled up institutions to expand the business using the microfinance JLG as an entry point into the rural household. RBL Finserve, our 100% subsidiary, is now a significant player in that segment, and our endeavor will be to continue expanding our distribution we have across the country, and plan

at least reach 70% to 75% of the districts in Tier-4 and 5 geographies for the next three to five years.

The other two business segments that we can't claim to yet have built a large franchise in but are very important are the secured retail business franchise, secured retail asset franchise and our branch banking business. So, talking about the first one briefly, the secured retail assets, the first aspect being home loans. In our housing business, we have 72 branches currently, and are on track to add another 50 branches in this fiscal, and 120 branches in the next two years. This business, in the smaller markets, will be done via the RBL Finserve branches directly. We plan to build this book with a view to scaling this to approximately Rs. 10,000 crores in the next three to four years. Secure retail asset business loans, Harjeet mentioned about a change in our approach and now only focusing on secured business loans. We do this in two ways, in smaller markets it is done directly through our RFL branches now. And we currently have over 150 branches with Rs. 1,000 crores plus AUM that has performed much better even during the pandemic. So, now we have this experience. We will continue to scale this up via RFL and the opportunity is indeed very significant. The second channel for our secured business loans has so far largely been DSAs in the metro/urban markets. This is a low ROI business, of course, so we are progressively shifting to internal cross sell and direct sales teams to minimize the costs and engage more with our business customers. We have already activated our branches for cross sell over the last 12 months and as we expand our branch network, this shift in proportions will become more visible to all.

Now let's talk about branch banking, i.e., deposits plus-plus. Actually, I should have put this right on top of our Rest 2.0 only because it is absolutely critical. It has delivered significantly during a very tough FY 2021. And with our digital capabilities, we believe we can move the needle here significantly, notwithstanding our small size of network. Let me first state the expectations from the business for the next few years. Our retail and small business deposits today are approximately 40%. I mentioned earlier, 39.6%, which we want to pick to 50% plus, within the next 18 months or so. The current cost of deposits has come down very nicely to 5.2% for Q1 2022. We should see it at 5% exit before the end of this year. Thereafter, we will keep narrowing the difference between us and the larger banks. We will continue to add 80 to 100 branches each year, primarily in metro/urban locations to add to our branding, customer acquisition and servicing. The branch banking business already does a significant cross sell of 2.8 paid financial products for customer relationship. This scale and product penetration is expected to increase significantly. In fact, in our deck, we have put a slide on this. The big delta of cross sell that perhaps has been under exploited so far is that of retail assets and cards. This is now a major KRA for the team and we would hope to be able to share more metrics around this over the next few quarters.

And now to Project Abacus, something I alluded to, in my commentary last quarter and a little earlier today. This is a platform that we have been creating in a silent mode for the last few years. Our objective in doing so was to figure out how we could increase our customer base in Tier-1

India, chiefly our cards and large banking segments, without having to disproportionately invest in high upfront fixed costs of branches, people, etc. Our view was that as India takes to digital financial services, will there be a way for us to create a bigger customer base on our moderate branch and people presence. We have been funding this on a shoestring internally thus far, but now are quite confident and prepared to up the investment and exposure significantly. This platform, and you will see some details of it from slides 53 to 55 in our representation, have all already does as much business as our regular 400 plus branches by way of new accounts, at a fraction of the overall cost. And the traction we have seen on this during COVID, if sustained, can dramatically change the way we do business with consumers. And the scale and that we can create can be a positive surprise.

All the design tech and workflows for Abacus have been done in house. We did not know it them, but this is what the startup world now calls a neo-Bank. Our belief is that incumbents need to leverage their branch and banking understanding to do a complete makeover internally, to stay relevant to their customers. In other words, build all that a new Bank has plus the deposit licenses that a Bank brings. The change will encompass a complete cloud-first technology transformation, customer backwards design, people with different skill sets and an execution approach that is more akin to a single threaded team than a typical Bank is used to. We have successfully executed against all the requirements of tech skills agility thus far in this three-year period. But as we said, on a very low scale. It doesn't imply that branches and people are not needed, but as said, these are tightly integrated into our overall proposition for our customers. As Abacus becomes the main framework of our consumer Bank, we will add our credit card customer base to this, as well which right now is a standalone of 3 million customers.

If I have to make a forecast, I can say that in the next three to four years we shall be able to have a total consumer base of 12 million to 14 million customers that would do a variety of products and services, thus selling deposits cards, loans, payments, demat, insurance investments, etc. Just to reemphasize the scale of this, currently we have, like I said, 3 million in the card customer base, 1 million in the branch banking, 4 million total. What we are saying is that in the next three to four years, we could scale up our total customer base to 12 million to 14 million, and doing a variety of products, as I just said. These customers will decide the way they engage with us, branches, app, smart contact centre, etc. And because the demographics with the Bank, we should be able to provide them a seamless service, avoid duplication of paperwork, and focus on how they deal with us through the transaction rather than just rely on a typical push.

It also changes the way we should account for our business economics, away from product P&L to concept of customer lifetime value. All this may sound a big leap for banks, but for banks of our size and vintage, there is no choice and perhaps no bigger opportunity than doing this. The financial services world of tomorrow will have many non-traditional competitors who will anyways force us to change. So, net, net, we are standing on two boats right now, the COVID 2.0 clean up where the elevated provisioning has now been largely taken. The second boat is to complete the reset around the principles that I have shared earlier. Notwithstanding the COVID

2.0 costs, we do see a normalized business momentum to get us to a 1% ROA in exit Q4 FY 2022 and higher levels thereafter on a sustained basis irrespective.

So, to summaries, Q1 FY 2022 was significantly impacted due to the second wave, hitting lives and health more. We have therefore taken proactive provisions to increase our PCR to approximately 61% and also taken additional COVID provisions. This was a one-time decision to shore up our provisioning and mitigate stakeholder concerns over our PCR levels. We should further increase our PCR to above 65%, as I mentioned earlier, based on our existing provisioning policies. We expect markets to normalize by Q3. Our focus will be to scale up in the businesses where we have built some expertise, namely card and micro banking, drive growth in housing, maintain retail deposit momentum, while continuing to cut rates in the near term. And we are investing significant time and resources and revamping the Bank inside-out via Project Abacus. So, I think we are set for the Transformation 2.0 journey and we will continue to share more details with you all and benchmark for you to track us in the coming quarters. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: Sir, two, three questions, the first is on the home loan strategy. Now basically, you said that it will be a cross sell to existing customers and there would be balance transfers. So, if you can share some details around this, so what kind of customers leads has employed or even from which kind of financials, so getting banks who have very low yield? So, at what yields are you looking to transfer these balances from? So, just some color around what exactly we do in terms of cross sell?

Harjeet Toor: So, first of all, let me just add that that is not the only strategy for home loans, because we are opening up branches and therefore also doing direct acquisition through our people. But yes, a substantial part of the home loans should come from our existing customers as well. And if you look at it, Mr. Ahuja did mention that there are about 4 million customers, 1 million in branch banking and about 3 million in cards. And even if you look at the breakup, cards itself is about 70% salaried. So, the skew will always be more towards salaried, then self-employed. And since these are all within the age groups of, let's say, 30 to 40, 45 years, and spread across various cities, you will see ticket sizes ranging between Rs. 20 lakhs to about Rs. 50 lakhs odd, that is going to be the space in which we will operate. And hence the yields will not be the typical metro yields which we see in the headlines of about 6.7% or 6.8% but would be more in the region ranging between 7.5% to 8.5%, 9%. So, that's the space we will work with. And when we set out to map our existing customer base of these 4 million customers, we did find a very large proportion of them having these loans with competition, and it would be a mix, banks as well as HFCs.

Abhishek Murarka: The next question was, when you say competition, what kind of, are these large mid-sized HFCs or let's say large NBFCs with the home loan portfolio? What kind of competition are you really looking at?

Harjeet Toor: So, that's why I gave you a ticket size range. So, if you look at the ticket size range I was talking about, this will be medium to large and HFCs and banks in, let's say, the Tier-2, Tier-3 markets. And bulk of this is also, if you recall, I did mention that we will be leveraging our RFL branch network as well, which is there already in the Tier-2, Tier-3 markets. So, therefore, there the competition is more either PSU banks or with HFCs.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Aditya Birla Sun Life Insurance. Please go ahead.

Pranav Gupta: I have two questions; one was a continuation of the previous one. So, when we talk about the housing piece that we are looking to build out, is it in conjunction with the affordable housing book that we are already building? Or is it going to be a separate business?

Harjeet Toor: This is going to be affordable housing. So, when we say affordable housing, we must keep into account that when you move into smaller markets, your ticket size automatically falls to somewhere between Rs. 15 lakhs to Rs. 30 odd lakhs, and therefore it fits the affordable housing criteria. It is not in the lower end in terms of income strata, but these markets typically have housing costs in that range, and that is why. But yes, it is going to be more and more of affordable housing, with a little bit of prime housing thrown in.

Pranav Gupta: Okay. So, then in this business we are largely going to be competing with the likes of either PSU banks, as you mentioned, or the affordable housing businesses of the other private banks, someone like Axis, Asha or HDFC, affordable housing, that sort of segment rather than the pure play Rs. 8 lakhs to Rs. 12 lakhs, Rs. 15 lakhs affordable housing NBFCs that we have these days?

Harjeet Toor: No, you will therefore compete with the likes of Aawas, Aadhar, Gruh as well. But yes, we have taken a conscious choice of not to target the segment below Rs. 10 lakhs.

Pranav Gupta: Okay. And is it fair to assume that the customer mix is fairly going to be more skewed towards salaried versus self-employed going forward?

Harjeet Toor: That is correct.

Pranav Gupta: Okay. Second question is on the corporate book. So, we have seen that book obviously de-grow and getting rebalanced more towards the higher rated corporates. But if I look at our presentation, I see that corporate yields have come down to as low as 6.7%. Now, at your cost of funds which is from 120 basis points higher than the larger banks, how do we see this business going forward?

Because, at a spread of 1%, 1.2% this business seems to be really tough, so how should we look at this? And what is the strategy going forward over here?

Jaideep Iyer:

So, I think the current yields are also a little bit colored by some excess liquidity that is being deployed at the short term on wholesale banking. I think as we see demand coming back, right now we are also in a very subdued demand environment. Our focus will be to really grow in the commercial banking and the lower end of corporate banking space, including leveraging our GIFT City business. The current yields that are also, by the way, influenced by almost 8% to 10% of foreign currency book. So, if I take rupee yields, you could add approximately 60, 70 basis points to that just from a like-to-like by comparison perspective. So, the idea would be to not really look at AAA names, but really go down to the A-plus, A-minus names in the Rs. 30 crores to Rs. 100 crores ticket categories. And this will take time, it's not going to be a dramatic growth situation that we are sensing right now, it will take time. And please also understand that we will continue to reduce our cost of deposit, cost of funds. So, we should easily target sub-five cost of deposits in the next six months or so, through a combination of cutting rates and improving CASA. So, I guess, it's a combination of all of this, that will happen. Having said that, I don't think we will be as profitable as a 4% cost of funds Bank, that's the reality we will deal with.

Pranav Gupta:

So, is it then fair to assume that over the medium term the mix will continue to shift towards retail, given that corporate is going to be late, or is going to grow more in the medium term rather than the near term?

Jaideep Iyer:

No, actually, it's the other way around. Near term, just because retail will probably be subdued for another maybe three months or so, so the growth driver for retail will be all key market coming back for our core products, as well as some of the pilots and the initiatives that have been going on for the last year or so. I was saying that retail growth will also be driven by the newer products, so yes, you are right that in the, let's say, two, three-year timeframe, I guess, clearly retail growth should be higher than corporate.

Pranav Gupta:

Okay. And could you give us the cumulative write-off on the credit card business throughout the pandemic, probably over the last 9 or 12 months?

Jaideep Iyer:

It should be in the range of, let's say, if I take the last three quarters, because there would not have been much before that, should be in the Rs. 1,100 crores to Rs. 1,200 crores range.

Pranav Gupta:

Okay. And just one last clarification, sort of an obvious one, but still clarifying it. This GNPA and NNPA slide segment wise that you have given is a breakdown of 4.9% number, right, rather than obviously the individual businesses?

Jaideep Iyer:

Correct.

Pranav Gupta: Okay. So, in that case, just one last follow-up, one this 90-basis point number on the credit card business, so was implying an overall stress level of 14% to 15% on the book, is that fair to assume, if I include the write-offs and restructuring and all of that?

Jaideep Iyer: See, if you look at credit cost for credit cards, I think we had about 10.5%, give or take, last year. And in the first quarter annualized, we would be similar range, I guess, give, or take, in terms of annualized spread costs. What was pre-COVID running in the 5% to 5.25% range is generally been running at about 10%, 10.25% in COVID 1.0. And unfortunately, in COVID 2.0, in Q1 also it's been elevated because of COVID 2.0. So, yes, that's the range that has been running, we should expect this to come back to the 5%, 5.5% level as we exit the year or second half of the year.

Pranav Gupta: But I mean, if I just look at your customer mix, you the details that you have provided for the credit card business, a large chunk being from salaried, almost 70% plus. And even if I look at the mix within the Tier-1, Tier-2, Tier-3 cities, almost 70% being in Tier-1, I mean, this credit cost seems slightly higher. How should we look at this? I mean, you mentioned that you have tightened the standards of underwriting going forward, but it's just slightly surprising looking at the details that you provided in the customer profile, with at least this sort of credit cost.

Harjeet Toor: I think you need to look at two, three things when you look at the credit cost for the cards business. If you look at the second pandemic, the entry rates into delinquency did not go up, they went up by just 1% or 2% over what was there, let's say, in January, March of this year. But what had happened was that your field collections actually, their efficiency went down dramatically in the month of April, May, June. And that is what has caused the buckets to bloat and slip. So, your credit cost is going to be a function of what is your entry into delinquency, which by the way in the first wave was fairly elevated. But in the second wave, it was not elevated at all. And if you want to get a little flavor on this, if you look at this Slide 47, where I have given you collection efficiency by buckets, you will notice that the first bucket, which is the 1 to 10 DPD, which is largely through tele-calling, we did see a dip, but we quickly recovered there, because the tele-calling was still possible. But all the balance buckets are where the physical collection happens. And once that gets impacted, there will be a large flow through which will happen. So, there is, I mean, this is something one will have to live with, as this flow through will happen it will move into NPA, and then charged off and recovery will happen from it. So, you will see a very large recovery coming in some part of this year, but the large part next year as well. Because these are customers which are perfectly fine, they were not stressed. But every time you have a delinquent customer, you need to go and collect. And if that collection machinery gets impaired, the flow through is that much higher.

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

Nitin Agarwal: Sir, few questions. Firstly, we have now significantly upfronted the provisioning this quarter and covered a long distance on PCR. And yet we are guiding for nearly 1% exit ROA for the year. So, while 1%, of course, looks good from where we are right now, but just wanted to understand what sort of credit costs are we looking at for the year? And is this sort of a conservative number that you are putting out?

Jaideep Iyer: Nitin, I guess it's a function of many things. I think you could argue we are conservative; I think it's also that, what has happened from a provisioning standpoint is that we have taken the extra PCR and the COVID provisioning to largely say that we should come back to some sort of a run rate provisioning by second half, and the run rate itself will be higher because of the mix of businesses we are in. And one of the things is that we need to have a substantially higher growth come back, so I think the balance sheet has been roughly similar sized for the last COVID impacted period. And therefore, the jaw of operating income being higher than cost etc, etc, will happen when the growth begins to materialize in the balance sheet, which we think should happen by early next year and not so much by the end of this year.

Nitin Agarwal: Okay. And the other questions that I have was on the card business. Now, after the spends revival in July, how much further room do you think there is like overall in spends normalization? And specifically, customers also, while the share of transactors is going up, but that still remains comparatively lower versus others. So, how is this mix likely to evolve?

Harjeet Toor: So, I think spend metrics July are at all levels, while in the presentation we have given you till June, but at July levels we are perhaps seeing the highest spend matrices across. And therefore, I don't expect spend on existing customers to go further beyond this, but you will see more of new customer additions and therefore spends coming from there which will go up, which is there. And your second question, sorry, I missed that.

Nitin Agarwal: On the mix of customers, how is that likely to change?

Harjeet Toor: Yes transactors. So, if you see transactors, actually volumes are fairly okay. When you look at a percentage, you are seeing it as lower only because the term balances are higher. Please note that almost about 75% to 78% of the term balances are also transactors. Just that they have converted their transactions into loans, so the transactors are higher. In fact, across all industry level, I think most of us will start seeing revolvers come back. Because what has happened in this period is that most of the revolver have flown into delinquencies or NPAs, and therefore, the revolve balances have actually started coming down. And that I think, will start coming up and bring up the income dynamics for the business. But I think from a pure transactor or customer spends point of view, the business is pretty well placed. It's now the new customer acquisition will further take up the spends.

Nitin Agarwal: Okay. Like as you are saying, now the new customer acquisition will drive the overall spending in the card because the normalization is like almost sort of done. But the mix of Tier-3 cities is

going up in the total acquisition chart if you look at the mix. So, how is this going to affect the per card spend? And how has been the delinquency trend in the Tire 3 cities?

Vishwvir Ahuja: Yes, so a couple of things on Tier-3 cities. I think we have seen that if the customer starts spending, engaged customers who spend or active customers, the spend levels are fairly similar to your larger markets. The only thing one has to work on it in that is the active rates, the active rates in Tier-3 cities are lower. And therefore, that is what one has to work on to see how do you get those customers engaged at the same level as what the large market customers are. And that predominantly also happens because large market customers are used to using their cards, because they are multi carded, and hence the same effort has to be made on the smaller market customers. From a delinquency perspective, Tier-3 markets are better than the larger markets, purely because the leverage is much lower.

Nitin Agarwal: Okay. And lastly, if you can share the data points on interest reversals during the quarter and what was the impact on margins due to that?

Jaideep Iyer: We would have had proximately about Rs. 80 crores to Rs. 100 crores of interest reversals in Q1.

Nitin Agarwal: Okay. So, basically like 40, 50 basis points of margins?

Jaideep Iyer: Yes, that's right. But if you compared to pre-COVID also, there will always be some interest reversals, so the delta would be lower. But yes, otherwise, what you are saying is right.

Moderator: Thank you. The next question is from the line of Sameer Bhise from Axis Capital.

Sameer Bhise: First question is on operating cost. There is a slide which indicates that there is a spike due to infrastructure cost. Also, secondly, wanted to get a sense on how OPEX would move and what are your thoughts given the branch expansion that's planned?

Jaideep Iyer: Yes. So, I think, broadly, we have been adding branches quite aggressively, as soon as we came out of the COVID period, we have been adding branches. I think the idea is to continue to do that, maybe even accelerate. Because I think one of the key focus areas, as Mr. Ahuja also mentioned in his speech is to granularize deposits, which is one of the core focus areas. We are also adding to technology investments, as again alluded to in the speech in terms of what we have been doing, we have even partnered Accenture in the recent past to revamp the way we do technology investments. So, those were some of the reasons. And also, ultimately when retail growth comes back, which is cards coming back etc., these are generally upfronted cost, origination costs. So, with business volumes going up, going forward we will expect costs to go up during the course of the year. So, we will have somewhere in the 30% range increase in cost year-on-year, I would say, if I have to give an estimate.

- Sameer Bhise:** Okay. So, that kind of growth run rate will sustain you are saying?
- Jaideep Iyer** Yes.
- Moderator:** Thank you. The next question is from the line of Manish Shukla from Citigroup. Please go ahead.
- Manish Shukla:** Harjeet, first question on cards. When you mention physical collection on cards, I am just curious, 70% of the card base is salaried, so why does it need to be a physical collection effort?
- Harjeet Toor:** I would have loved it if everything would have come on the phone, but unfortunately it doesn't. We have noticed that once a customer slips beyond 10 DPD, you would need to knock on the door to be able to get this, because it's not just cards which the customer is under stress for. And you would want to be the first person there to recover your dues before the other loans. And that's the normal philosophy one would follow on any unsecured loan for that matter. And that is the reason why physical collection becomes important. Because after some time, it's very easy for a customer to just stop taking calls, and hence you need that knock on the door.
- Manish Shukla:** And this is not just a post-COVID behavior, this is BAU?
- Harjeet Toor:** Yes, the collection strategy, physical, is a very, very BAU number. In fact, for most of the unsecured products, it is quite a lot of physical which augments it. You use tele-calling initially because that's where bulk of your early, let's say, lazy payers are removed from the delinquency.
- Manish Shukla:** Okay. And when you said Tier-1, Tier-2, Tier-3, are these RBI definitions by population or you define this separately?
- Harjeet Toor:** So, the Tier-1 is typically the top 10 cities and then Tier-2 is the next 25, 30; and then Tier-3 is the balance.
- Manish Shukla:** Okay, fine. That is clear. The other question, maybe Jaideep, you can answer, Q-on-Q the yield on loans are up almost 40 basis points, what explains that? Because slippages are similar, retail has declined more than wholesale, so I am just curious, why should yields go up so much?
- Jaideep Iyer:** Yes, one is, I think, the interest reversal would be less this quarter than last quarter. The second would be that if you look at, we would have shed some corporate lower yielding loans, which we were carrying in March because of excess liquidity. And if you look at our LCR, technically we are down from, let's say, 150. So, the excess liquidity has marginally come down, that would have been the other reason.
- Manish Shukla:** Ye, so that was my second question that 20 percentage point fall on LCR Q-on-Q, I mean, where has that got deployed or how should one look at it? Because the balance sheet growth in aggregate doesn't show up in the aggregate numbers, I am wondering.

- Jaideep Iyer:** Yes, I think there are some more nuances, Manish, and we can probably have a more detailed call offline. But see, for example, we will have lower non-premium deposits. If you have non-premium deposits, you will typically have zero outflow. So, those are also generally bulky in nature, so we have kind of gone down on our top 20, top 100 quite materially, because the growth is coming from retail. So, and there is some reduction in excess liquidity consciously.
- Manish Shukla:** Okay, right. Really the last question is, you talked about exit ROA at ballpark about 1%, any thoughts around exit NIMs?
- Vishwvir Ahuja:** I think similar to what it is.
- Jaideep Iyer:** It should get slightly better.
- Vishwvir Ahuja:** There is scope for the upside, but next quarter will remain muted in NIMs, but after that we are hoping that we can improve them.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.
- Kunal Shah:** So, firstly, in terms of broadly under this Transformation 2.0, and finally when we look at the various initiatives that we have been taking all across, so finally, how should we look at the mix over next two to three years? Does it change in any way given the circumstances or what has been the learning? Or broadly, you alluded that it will be largely business loans, card, but how would be the proportion panning out over a period of time?
- Rajeev Ahuja:** Kunal, I think we should look at a 35% wholesale and about 65% retail. And the secured business should keep improving as should cards. Microfinance, as we said, we will watch for a couple of quarters before we bring the growth back. But even in microfinance segments or the households, in addition to microfinance, there will be other horizontal services and products which we will endeavor to put. So, take it as like 35:65 in a three-year time period.
- Kunal Shah:** Yes, structurally margins should also be down, maybe this year we are still guiding for an improvement out there, but structurally should we expect it to be down given the proportion of the secured and all is going to go up, so yields would definitely have picked out, would that be the fair assumption?
- Rajeev Ahuja:** No, Kunal, actually you have to see that we are carrying a wholesale book which has about, I would say, 20%, 25% of the book is actually very, very low yielding, so we will be able to redeploy that. Once demand comes back and we are being prepared to ramp up on our growth, I don't think we are looking at the average spread on a business being materially different. There will be some cost of funds advantage, there will be some of our business loans, as well as our MSME loans which will improve, so will the card growth happen. So, I don't think this is being

guided to that. I mean, if you remember, we were 50% or plus thereabouts in wholesale, about five, six quarters ago, it's 43 arithmetically right now, because retail hasn't grown has degrown. But over the next three years, retail should be about 65%. So, all of those yields are far, far better than the wholesale yields, which we have currently. We obviously expect the wholesale business, especially in commercial banking to come back. We don't know, but my guess is in the next six, nine months, we should see somewhat of a better than what we have seen. But still the average yields in retail will be higher than the wholesale book.

Kunal Shah: Okay. Sure. And in terms of write-offs, so if you look at on the credit card side, so almost like whatever was outstanding GNPL mostly everything has been written-off and maybe the overall slippage is which you have highlighted for this quarter, that is what is now outstanding. So, maybe how would have been on the existing GNPL book in credit card of Rs. 500 odd crores, should we say that it is just like accrued in this particular quarter and can be recovered? Or there is some stickiness out there of the earlier quarters as well?

Harjeet Toor: So, there will be a little bit of stickiness, but yes, broadly when account crosses 90, it kind of flows into 180. And then the recovery starts happening post that. Roughly, over a year and a half one recovers about 30% to 35% of that.

Kunal Shah: No, so the way last time the credit card, I think GNPL was around about Rs. 680 crores odd, and I think that entire maybe that portion similar kind of write-off has been there in this quarter as well, because I see credit card GNPLs coming down to Rs. 500 crores. And this is what you have highlighted as a slippage number, maybe out of.

Jaideep Iyer: Kunal, I think we said this in the past, credit cards automatically get written-off at 180 days. In fact, therefore, the GNPA on credit cards is never a reflection of the business, it's the credit cost, which the P&L takes. So, the GNPA will always be low because it will not carry burden beyond 180 days.

Kunal Shah: No, I am saying it was largely 90 odd days as well, so that's why maybe 100% of GNPL has been written-off.

Harjeet Toor: Basically, recovery is only about 10%, which comes in post 90, between 90 and 180.

Kunal Shah: Okay, so hardly 10% kind of recovery?

Harjeet Toor: Yes because the main recovery comes after that is when you get your recoveries going.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

- Mahrukh Adajania:** My question was, do you find any material difference in delinquencies from the book originated by BFL and originated by you?
- Harjeet Toor:** You are saying between the book originated by Bajaj Finance and the rest of the book?
- Mahrukh Adajania:** Yes.
- Harjeet Toor:** Not much, it's about 20 to 30 basis points, that's it.
- Mahrukh Adajania:** Okay. So, theirs is better or worse?
- Harjeet Toor:** Theirs is better because it's a tested customer.
- Moderator:** Thank you. The next question is from the line of Rohan Mandora from Equirus. Please go ahead.
- Rohan Mandora:** Sir, on the cards portfolio where you are showing the 1 to 10 DPD and resolution that's there. Now if you look into the resolution rates in that segment, it's almost 97% and 100%, 100% for the three months, and still the flow through is pretty high. So, would it be fair to assume that these are just month end number and during the month if there are some slippages, those would have flown through into the higher buckets?
- Harjeet Toor:** Card runs by what we call as cycles, so it's not month end numbers. You have to keep in mind that the 1 to 10 DPD resolutions when you say 100% is not 100% resolution, it is 100% as in index to pre-COVID. Typically, these numbers run in the region of about 96.5% to about 97%, 97.5%. The real slippage which you are seeing is because when you see the next buckets where the resolution fell, which is what I was referring to earlier where the field collections fell, those numbers if you see, dramatically reduced.
- Rohan Mandora:** Sure. And just second on the current account circular, is the impact of that completely over on our books or is there some further output that can happen on the current account? We may not be having a 10% market share in some of those accounts that we may have to run into current relationships.
- Surinder Chawla:** Yes, on the current account circular impact, there is obviously a little bit of gain and a little bit of loss, which is expected. We are working on both sides of it right now. Most of the impact has been assessed. It may not materially impact us over this period, there is some more impact left which is going to happen in the month of August, but it will not be material to make an impact on the overall business.
- Rohan Mandora:** And lastly are in terms of the exit quarter ROAs of 1%, is it contingent on business-as-usual credit costs that we are factoring in for 4Q or will it still have a slightly elevated credit cost in 4Q?

- Jaideep Iyer:** By Q4 we should come back to reasonably close to BAU credit cost.
- Moderator:** Thank you. The next question is from the line of Shashin Upadhyay from Klay Securities. Please go ahead.
- Shashin Upadhyay:** Just wanted to know two things; A, you just highlighted that 25% of the customers are effectively you low yielding. Could I actually know the book duration or tenure? And second is, in retail, what will be the product per client which is there right now? And if you could give me a similar number last year, same time? Thank you.
- Vishwvir Ahuja:** Duration of the wholesale book portfolio is quite short.
- Shashin Upadhyay:** So, that will be less than three months?
- Jaideep Iyer:** Yes, in the three months, six months range. On the product holding, Shashin, can you repeat the question?
- Shashin Upadhyay:** So, I am looking at product per client in the retail segment, if you could kind of share that data, as in what will be the current product liability asset, both per client?
- Surinder Chawla:** We have product holding in the retail world at 2.8 right now. And it is improving in the range of about 15 to 20 basis points on an increased base of customers every year.
- Moderator:** Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.
- Jai Mundhra:** I have few questions. First on your slippages, so you have mentioned that even the 2Q may similar kind of slippages, so just wanted to check, is there any element of regulatory prescription as to why the slippages are slightly higher at maybe 10% annualized? I mean, like there was an RBI circular on daily tagging of NPA or anything else which may have led to higher slippages apart from the COVID, of course?
- Jaideep Iyer:** No, Jai, there is nothing with respect to RBI guidelines. We moved to daily NPA almost a year plus back, so this is purely on account of COVID. I think just to kind of give you some context, COVID 1.0 people were just coming out, it was not as if everything was perfectly fine, it was just coming back to some sense of normality when COVID 2.0 happened with all its complexity. And the business mix that we have got a little more impacted because of the business mix, so there's nothing regulatory in this at all.
- Jai Mundhra:** I mean, nothing specific with RBL Bank, for example?
- Jaideep Iyer:** No, absolutely not.

Jai Mundhra: Sure. And second thing on credit cards ban, right, so well in time you already have entered into partnership with another network operator. And I think, MD sir also mentioned that maybe there would be around two months delay from now within which you will start churning out new cards. But in a card business, do you suspect that there could be a lead/lag, I mean, there could be lag also, A, for the next two months you are not issuing any card, and there may be some lag impact of cards issued before they start earning revenue meaningfully? And hence, your top line also in maybe not only in 2Q but 3Q also maybe may get impacted with a lag.

Harjeet Toor: Yes, you are right, card revenues do come with a lag because customer activation happens over 90 days. And therefore, there is a lag which will come in terms of the spends which one is expected to have from these customers, which would have been acquired in the month of August. But I think, luckily, we have been able to shrink that timeline. And that is why we said that we should be able to launch the new partnership in September. Now, if you look at even July, despite the ban, we were still able to issue about 82,000 cards. The reality is, whenever we launch Visa, we will launch and start sourcing a little earlier. So, the objective is to try and minimize this. So, by the time we end this year, we won't have too much of a gap which will therefore impact the overall performance of the business. In any case in the short term, a new card is always a drag on the P&L. So, if you're coming from a P&L perspective, then it's not that much of an issue.

Jai Mundhra: Understood. And based on restructuring, so you had given some Rs. 715 crores retail restructuring, if you can further divide that into MFI, credit card and others?

Harjeet Toor: Yes. So, in this Rs. 718 crores, about Rs. 458 crores was Restructuring 1, and about Rs. 260 crores is Restructuring 2. And within this microfinance is about Rs. 111 crores, cards is about Rs. 179 crores, all card restructuring is Restructuring 1, there is no card restructuring in R 2.0. And the balance is all retail, which is business loans etc.

Jai Mundhra: So, this is the outstanding number, Rs. 111 crores?

Harjeet Toor: That is right.

Jai Mundhra: And just one more thing. Now, assuming a similar slippages in 2Q, and you maintain PCR or probably take it ahead. So, even then the provision requirement you may have to dip into the contingent provision that you have already made in this quarter, right, or until unless you have something else in mind? So, is that understanding correct that if the slippages are similar and you increase the PCR from here on also, you may have to dip into the contingent provision that we have created in this quarter?

Jaideep Iyer: Yes, Jai, that's a call we will have to take at the end of the quarter. But the belief is that if COVID 2.0 is settling down well, as we are already seeing in July, then we will obviously reevaluate the need of how much to carry forward and whether we should claw back something, yes.

- Jai Mundhra:** Right. Sorry, I missed that slippages breakup in the MFI and credit card. Thank you. If you could repeat that slippages breakup.
- Jaideep Iyer:** Approximately Rs. 450 crores on MFI and about Rs. 500 crores in cards.
- Moderator:** Thank you. Next question is from the line of Zhixuan from Point 72. Please go ahead.
- Zhixuan:** So, first on growth, just to clarify, so just say for us to think about this year FY 2022 as more of a transient year on growth because of the COVID, so maybe we are likely to see like flattish growth similar to last year, and then FY 2023 we will start our kind of growth....
- Rajeev Ahuja:** Yes, I think you are right. FY 2022 will be a year of consolidation; we could see growth in the second half. Like we said, our other businesses could grow, wholesale banking could grow, retail assets could come back, housing will certainly grow. Microfinance will be a little circumspect until we see a clear line of recovery in the rural market, which are lagging urban markets. So, Yes, I think we could grow overall as a small percentage, but I don't think I can call that something which is dramatically changed. We would rather use this period to get some of the other stuff we are doing much stronger. And FY 2023 could be a more normalized year of growth. Obviously, on the back of a lot more clarity on where things are, and what we would be doing in terms of a risk exposure and management.
- Zhixuan:** And the second is on the credit cost. So, your guidance was second half likely more 4Q likely to be a BAU kind of credit cost, should we assume like somewhere around 200, 250 bps of credit cost annualized credit cost?
- Jaideep Iyer:** Yes, that is right.
- Zhixuan:** So, BAU credit cost annualized is what?
- Jaideep Iyer:** Yes, I mean, it will also make a difference basis the product mix. But broadly, if I want to kind of give some split here, we should expect cards to normalize to somewhere in the 5.5 range plus/minus, which was what we were doing pre-COVID, microfinance could run at about 2%, 2.5%, secured retail will run at about 1%, 1.25%. So, I think it will depend on the mix. But yes, broadly, we should be in that range. But we will want to see when they get there before giving a stronger guidance.
- Zhixuan:** Understand. So, on restructuring, are we seeing more inflows in the current quarter? And is there any color on where the total restructuring is going to end up?
- Harjeet Toor:** If you look at least on the retail side, when I gave you the numbers, you will notice that the numbers in the second restructuring is fairly much lower than what we saw in the first restructuring phase. We are seeing a little bit of restructuring happen in the business loans in the

MSME segment, and a very small amount happening in the microfinance segment. Cards, there is nothing which is happening.

Jaideep Iyer: And wholesale, of course, there is no more restructuring.

Zhixuan: Got it, understand. And on PCR, we are at I think 60% if I am not wrong, 61% this quarter. And I think previously we talked about 65% kind of target. So, given that it's kind of COVID year, so how should we think about the timeline to achieve that target?

Vishwvir Ahuja: We mentioned in my commentary, that during the year, before we end the year we will be about 65%. We said through the year, through our provisioning policies as they exist, we should easily add 400 to 500 basis points more during this year. And so hopefully that should happen by itself. I mean, we also have that COVID buffer on top of that.

Zhixuan: Right. So, if I put all this together, is it safe for us to think about credit cost this year to be higher than last year, because we are bringing our PCR up?

Vishwvir Ahuja: Yes, I mean, effectively year-on-year PCR would have gone up 13%, 14% in FY 2022 over 2021, so that does require provisioning and therefore it goes into credit cost.

Moderator: Thank you. The next question is from the line of Rashi Talwar from Ashmore India. Please go ahead.

Rashi Talwar: Just a quick question from me, the cost-to-income ratios saw a reasonable tick up this quarter, I was just wondering why and what should we, I mean, is there any one-time stuff in it which normalize going forward or should we budget in a higher number going forward?

Vishwvir Ahuja: I think Jaideep can provide you more granularity, but all I will say is that last year's number was very suppressed because there was no growth-related cost, which largely come from credit card and other businesses. So, as you know, that is a very upfronted cost model, and last year since there were no card issues literally happening, those costs were not there. Also, our costs, our investments in branches technology continues, and we are talking about some more ramp-up in those investments. So, some variable costs associated with cards are going to come back this year. And we need to put in the normal, if I may say, investment related costs that are also there. So, yes, if I may say you should budget 2%, 3% higher costs, in terms of the cost income ratio this year. Jaideep, if you want to clarify what I said or are you okay with that?

Jaideep Iyer: That's fine. And I think Rashi, just a point to add that as we are in the current environment, we are also not substantially growing the balance sheet, it will be a single digit kind of growth situation. So, somewhere, I think, on the same cost base, we could be much bigger, and which will begin to reflect itself starting next year. So, to that extent, that's also the other reason, because we could support a much higher balance sheet at the same cost. So, that will happen

over a period of time, and that is how the cost to income should also trend down after the subdued growth situation starts transforming itself.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP. Please go ahead.

Dhaval Gada: Two questions, first is related to the credit cards credit cost guidance. I think Jaideep highlighted that it should normalize by fourth quarter, I thought earlier our expectation was that we will have a write-off in the first quarter and thereafter we will start normalization in to 5.5%. So, is it higher than expected stress from Wave 2 and that's the reason it's getting pushed out? So, that's question number one. And the second question is related to upgrades during the quarter, does that include any restructuring implementation related upgrades? So, yes, those are two questions. Thanks.

Harjeet Toor: Yes, so on the card side, earlier last year we had said that credit cost will slip into the first quarter. The second wave has made it slip, added another quarter to it, which is not the fourth quarter but credit card with normalize in the third quarter itself for cards.

Dhaval Gada: And the second one was upgrades during the quarter, does that include any restructuring implementation related upgrades? Accounts which would have slipped into upgrades

Jaideep Iyer: Not material.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Systematix. Please go ahead.

Rakesh Kumar: So, the first question is with respect to collections efficiency in microcredit. So, it is low still, and how do we see it going ahead?

Harjeet Toor: So, if you look at it, we have seen a little bit improvement in July, it was hovering around 81%, 82% odd the previous month, it has jumped to about 88%. And that is because somewhere in July you did see some of the southern markets open up. We still have some markets around West Bengal and Kerala still under some restrictive opening timings, it will climb up but as I said I think it's about two months behind urban markets. So, you will see these inch over the next one or two months till it reaches comfortable levels of about 95% plus.

Rakesh Kumar: Got it. Second question is with respect to that majority of high yielding credit book, either has slipped or has got restructured, but I am very surprised that your credit yield has actually moved up. And LCR thing is very disruptive because it depends that how the high-quality liquid asset competition is. So, if you provide, what is the excess SLR and excess cash you are holding on a quarterly basis, that will help, because it does not explain your complete impact on margin. And I think that margin is kind of at the top level, is it going to fall from here and how much? So, if you can help me on this second question, thanks.

Jaideep Iyer: So, I think, margins will have multiple factors, the proportion of different businesses, we have yields as high as 20% on a blended average basis with cards, vis-à-vis as low as the lowest corporate book advances could be as low as 4%, 4.5%. So, I think it's a wide variety and it will depend on how the mix shapes up, plus it gets influenced by reversals of income basis slippages in each of these categories. Having said that, I think from an expectation standpoint, I think as we go towards the end of the year, our slippages normalize, especially in the higher yielding books of microfinance and cards, clearly that will be tailwind for margins, along with of course reduction in cost of deposits. In the very near term, we could be flattish to marginally down, maybe 10 basis points down. It's very difficult to predict given too many factors here. But in the near term, I would say, it is probably a little down rather than up. But exit should be trending up, that's how I would look at it.

Rakesh Kumar: Last question, sir, on this credit card cumulative gross NPA, including written off flowouts, and then the provision coverage for credit card segment.

Jaideep Iyer: Cumulative written-off from when?

Rakesh Kumar: From the last one year.

Harjeet Toor: Yes, so last year we wrote-off about 10% to 10.5% and you have what 4% as the GNPA.

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

Anand Dama: Sir, basically about your restructuring. So, we are seeing many banks, NBFCs actually have done heavy restructuring, instead of recognizing them as NPAs. What basically made us not restructure much and take the pain upfront? Is it basically the underlying customer itself was weak and where we took all that he's slipping into 90 DPD bucket and basically you will not be able to recover those dues and that's the reason you chose not to restructure but to take the pain upfront, primarily for card, portfolio micro finance and the business loan portfolio? So, what was the thought process over there?

Harjeet Toor: So, I think fundamentally when we did restructuring for cards under the first restructuring policy, most of it was done in the month of September, October and partly November. We did see that it doesn't really help too many customers in terms of them being able to come back into the normal way of functioning on the card. And hence, this time, we took a conscious call of not pursuing restructuring to that effect. And that is why we have almost done nothing; it is only 13 lakhs of restructuring balances which have been done in the last quarter. Microfinance, same. Unsecured loans, for that customer segment, to understand what a restructuring means, doesn't work. The customer only understands that she has to pay her EMIs which are equal to the tenor of the loan and she continued to pay that, it is not she will be in a position to pay them upfront or anything. So, rather than restructure, you let it go, and the customer keeps paying, and

therefore the loan get recovered over a period of time. So, that's been the philosophy on the unsecured side. Wherever we have tried to do restructuring is more on the MSME side, because there we genuinely believe that the businesses who got disrupted because of lockdowns and restrictions, and these were perfectly fine running businesses. And if you give them time, they will be able to come up. So, these are largely secured businesses. And hence, even from a hierarchy of payment, we expect customers to really pay more on these businesses, and hence the restructuring has been focused more on the MSME side. So, that's been the going in the assumption, and that's why you are right, for most of the unsecured segment you will find our restructuring numbers much lower than the rest of the industry.

Anand Dama: And that's also a reason basically that in the second quarter you are expecting the slippages to remain elevated that whatever flow that you have into 1 to 90 DPD pool is basically you would try and upfront it rather than differ it?

Vishwvir Ahuja: Absolutely right. That is the philosophy.

Anand Dama: Yes, that is good. Secondly, basically, you are also trying to ramp up the provision cover as such. Sir, any color that you have given in terms of SMA-1 and SMA-2 pool, I know that basically you have given the Bucket 2 as well, but if you can just tell us basically what would be the SMA-1 and SMA-2 pool on the portfolio's altogether?

Jaidep Iyer: I don't think we are carrying that for all portfolios. But these remain elevated, as we mentioned, in microfinance and cards. So, maybe I will give you the data point offline, I am not getting the SMA-data right now in terms of rupees crores.

Anand Dama: And is it basically into higher buckets like SMA-2, so that whatever slippages have to happen would largely happen in the second quarter, and then we will have normalized slippages, is that assumption correct?

Harjeet Toor: It will be a mix of SMA-1 and SMA-2 because both of those will slip into this quarter, which is quarter two. You have started seeing SMA-0 starting to come down, because that's where when I said the first bucket resolutions have improved and the entry rates are lower. So, the first bucket has started coming down, the second and third buckets are elevated, which will therefore slip in quarter two, and then it will get washed off.

Anand Dama: That's great. Secondly, about your tenure. We have seen one of the other Bank MD who has now what three years three who basically had applied for a renewal of his term. Is there a probability that basically you can also or the Board can reapply for your term extension beyond one year?

Vishwvir Ahuja: I mean, the answer is surely, why not. But at the same time, I think the only way we can answer this question is that there is a very strong management pipeline in the Bank. And we are all here to ensure leadership continuity. And the focus on our plans remains unhindered. And we are all

working towards doing that in a very committed manner, we are all excited and enthusiastic about coming out of this and building a better future, which is something that I tried to outline in considerable detail today in my commentary. So, I think more than that, one cannot say.

Anand Dama: But your continuity will be very much required to see through the strategy implementation that you have talked about in the current call.

Vishwavir Ahuja: Well, I think that will continue unhindered. I think like I said, there is a huge management pipeline and this is very futuristic. Just looking one further year into the future. And I think everybody wants banks to be secure, well led, and with competent capable leadership. And I think RBL Bank is a fine example of collective leadership, deep management, and we have done a Transformation 1, which ran extremely well for 10 years; and now there's a hiccup this year, which is fine. In any Bank's 10, 11-year history one hiccup does happen. But the way we have strategic clarity and the way we have outlined the future; we are all set to build the Bank of the future. And there is so much work that's gone into it in the last two, three years that I can only emphasize that there is a lot of enthusiasm and excitement towards that, which is exactly why we call it Reset for Transformation 2.0, because this is the time to just clean the deck and just focus forward with a mindset of growth and profitability and sort of bringing back the return expectations that stakeholders would have.

Moderator: Thank you. We will take one last question, which is from the line of Ashwini Agarwal from Ashmore Investments. Please go ahead.

Ashwini Agarwal: Sir, I am going to circle back the questions that have pretty much dominated the whole evening. And Mr. Ahuja, you said you wanted to clear the deck and get the expectations in line with what they would be as a going concern. So, my question is, why not take the entire credit cost that you expect in Q2 from SMA-2 and SMA-3 in this quarter itself and have the September quarter credit cost come closer to normal? I mean, the banks moved into losses, there is a very large credit cost that you upfront have taken on the provision coverage to 60%, while 65% straight up and be done with it, why are you spreading it out over two or three quarters?

Vishwavir Ahuja: No, no, for 65% we don't have to do anything more. Our current conservative provision policies, the policies itself provide for 100% or 75% in most cases. Therefore, without having to do, like this time we had to take a conscious decision to take the additional provision. If I just went on forward based on the portfolio as we see, 6%, 5% additional PCR would now naturally develop based on the existing provisioning policies. So, as it is we are 61 and we have taken 4 additional from micro banking, we have taken. And the policies will ensure that this progression of PCR is natural, it is not going to require another extraordinary, if I may say, action on our part. So, it is exactly that we have said. We have said that 65% should be happening naturally. Now, the way we have put out the business plan for ourselves and the numbers are reflecting that. So, we are saying that we will be able to absorb that revised profitability in the second quarter, improved profitability in the third quarter and hit a certain benchmark that we have targeted in the fourth

quarter, which I have indicated. So, it's a journey. Rest of it is a Board and Management decision at some point. My micro banking book today is provided 83%, and I have another buffer. So, for all the other businesses, I think we have elicited our approach in a very elaborate manner today. So, it's a question of where you want to take it. 83% plus 4% is already a hell of a lot.

Ashwini Agarwal:

I agree with you. My whole point is that when you are taking Rs. 1,426 crores, why not take that number to Rs. 1,800 crores and be done with it, so that next quarter onwards you revert back to the Rs. 700 crores, Rs. 800 crores provision number and your ROAs start flowing through, what's the point of spreading it over the September and having it for another quarter?

Vishwvir Ahuja:

It is not a spreading, it's also question of, I can't take more than 100% in certain cases. See, my point is that this is what we have declared today, at the end of the day. And we did believe that the feeling was of 65% PCR is well benchmarked to the better industry standards. We were short of that; we have brought it to that. And that is exactly what I wanted to say. We have done 61%, we have taken additional buffer of 4%, and in the rest of the year another 5% will happen on its own. So, the PCR coverage could actually turn out by the end of the year close to 68%, 70% by itself, more than that I cannot say.

Ashwini Agarwal:

Okay. The second question is on operating costs, I mean, you spoke about hiring a consultant, you spoke about new branches. Yes, we spoke about operating expenses, Rashi also asked this question. I mean, the delta in operating expenses, especially the other operating expenses is about Rs. 107 crores between the March quarter and the June quarter, and if I compare it year-on-year it's up by Rs. 150 crores. I mean, it's a very large number in the context of asset book that's not growing, even if I had you add the number of branches, you kind of put out an effort to grow your credit card book, I mean, this number is very large and it's a significant cost-to-income percentage spend movement. I mean if I just took Rs. 100 crores delta between March quarter and June quarter and look at a total income of roughly about Rs. 1,600 crores, I mean, you are talking about 5 percentage points movement in that single line item. Is there any one-off embedded there? I mean, I am not able to understand, what kind of consultant costs Rs. 100 crores, how many branches can you put up in Rs. 100 crores, I don't quite understand that.

Jaideep Iyer:

It will have many elements, but I think the bigger challenge for us in terms of cost to income ratios, as I mentioned, is more due the fact that with a similar cost base we should be having a larger business, interest bearing asset, yield, etc. And I think that will take us some more time given the environment we are in, and which is why the cost-to-income will remain slightly elevated for this period. The other thing is that when we open branches, I think the full impact comes with a lag. So, we will have a combination of that, we are also adding to technology cost, we will have certain assumptions that we revalidate at the beginning of the year in terms of actuarial cost, etc, which Q4 may not be the best benchmark for it. So, there will be some nuances. I would expect, if I have to give some guidance, Q2 cost should be give or take similar before it starts going up again with growing business. But as I said, cost to income, we will expect a percent or two higher before it starts reverting back to a trajectory which is lower.

Ashwini Agarwal: So, that's my whole point that if you look at the full year number last year, your other operating expenses, this is Slide 66 if I can read, yes, was Rs. 1,500 crores, just short of Rs. 1,500 crores. You are saying that first, second quarter would be Rs. 1,000 crores and third, fourth quarter would be slightly more, so let's take it, whatever Rs. 600 crores average for Q3 and Q4. So, are saying that the Rs. 1,500 crores line goes to Rs. 2,200 crores per fiscal 2022, I mean, that is a very big jump. Could you help us understand what's driving this delta of Rs. 600 crores, Rs. Crores 700 crores on an annualized basis?

Jaideep Iyer: So, if you look at last year, honestly, the first four or five months or four months or so, we really had no new business across all the retail businesses. So, I think fiscal 2021 is a very harsh comparison in that sense, because we had the benefit of the past book in terms of income, but we did not have any new origination in retail. See, the retail origination on asset side is largely upfronted in terms of cost. And we had almost three months of negligible or two and a half months of negligible and very slow business in the next couple of months. So, it is easier to therefore look at our run rate, at an overall level we are at about Rs. 850 crores give or take run rate, which will probably be there for one or two quarters before it inches up.

Vishwvir Ahuja: I think this discussion, let me assure you there is no, I mean if you are asking if there is anything mysterious or one-off, answer is no. It's just the way Jaideep is explaining it. And further detailing we can do offline, I mean, we will also look at it.

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