"RBL Bank Limited
Q3 FY '23 Earnings Conference Call"
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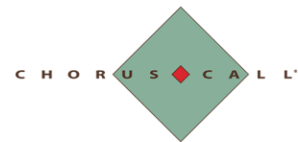

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MR. PARAG KALE – HEAD, SECURED RETAIL BUSINESS
MR. BIKRAM YADAV – HEAD, CREDIT CARDS
MR. KINGSHUK GUHA – HEAD SALES, RETAIL LOANS

Moderator: Ladies and gentlemen, good day, and welcome to RBL Bank Limited Q3 FY'23 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity, for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero, on your touch-tone phone. Please note, that this conference is being recorded. And I now hand the conference over to Mr. R. Subramaniakumar, Managing Director and CEO of RBL Bank Limited. Thank you, and over to you, sir.

R. Subramaniakumar: Thank you very much. Good evening, ladies and gentlemen, and thank you for joining us for the discussion on RBL Bank's financial results for our third quarter FY'23. I'm joined on this call by Rajeev Ahuja and other members of our management team, who along with we will address any questions that you have.to.

It has been six months since I assumed office, and this is the second full quarter of results. We have taken a number of new initiatives towards launching new product segments, driving internal sourcing and cross-sell, cost consolidation and rationalization, consolidation of partners, functions, etc, and we are starting to see these benefits come through. Traction on our new launches and the nascent segment is healthy.

As you can see, we are now seeing steady growth in our businesses, and this will become more broad-based as the newer segment scale up. Our retail deposit base is also seeing steady improvement. We are seeing a 1% plus increase every quarter to its share in the overall deposit mix.

In terms of operating performance, this quarter has been a continuation of the steadily improving operating performance. NII and NIMs have seen an improvement this quarter. Despite an increase in the cost of funds, driven by growth in advances, pass-through interest rate due to repo rate hike and mix. Our operating expenses growth is also stabilizing, resulting in an improving PPOP.

Now briefly on our results for the quarter. Our advances grew 15% Y-o-Y and 6% sequentially. You can observe that. We are back into the growth path and it is further seen with retail advances grew 13% Y-o-Y and 7% sequentially. Wholesale advances grew 16% Y-o-Y and 5% sequentially. Within retail. The cards grew by 17% Y-o-Y, 6% sequentially. The micro finance grew 4% Y-o-Y and 10% sequentially. Home loans grew to INR 4,142 crores and tractor loans on a lower base by over 300% Y-o-Y to INR 777 crores.

Our disbursal in retail ex-cards were approximately INR 2,800 crores this quarter even though that we lost a few weeks of disbursal in microfinance, as we made the transition to a new and more robust system. We are, however, already back to the disbursal run rate of INR 800-plus crores monthly microfinance. And therefore, the disbursal in Q4 should be markedly higher and to continue to grow in the coming quarters.

We have also largely consolidated our macro finance business under RBL FinServe, which is our subsidiary, which accounts today, 87% of our total microfinance book, our scale up in the existing business of housing and tractor loans in building momentum as well. We are now tracking monthly disbursals of around INR 200 crores-plus in housing, INR 100 crores-plus in Rural Vehicles. We are also now seeing a run rate of INR 200 crores per month in the business loans, and this trend should also improve.

I'm happy to report that our new forays into two-wheelers, used cars and gold loans were launched in the December quarter, and we will look to progressively scale these businesses in the coming quarters. Our small business loans will also be relaunched this quarter.

Lastly on cards, we issued 5.8 lakh cards this quarter. Our spends are also growing well with an increase of 31% Y-o-Y and 12% sequentially. We have also launched new card partnerships with the introduction of LazyPay credit card in partnership with PayU. We also launched two new card variants with our existing partners, BookMyShow and Paisabazaar.

In summary, therefore, advances momentum is healthy and on an upward trend. We are seeing good traction across all of our retail businesses, and we expect this momentum to continue. The retail and wholesale advances mix stood at 52% and 48%, respectively.

Coming to deposits and liquidity. Summarizing the quarter, total deposits grew 11% Y-o-Y, 3% sequentially. The CASA deposits grew 18% Y-o-Y and 4% sequentially. The retail and small business deposit growing 25% Y-o-Y and 6% sequentially, it can be observed that we are absorbing the liquidity.

Our focus remains on growing granular small ticket deposits, with their share increasing approximately 1% every quarter. At the same time, we continue to calibrate our overall deposit growth, given the headroom in our credit deposit ratio and our surplus liquidity. This is in line with our objective to steadily granularise our deposit base. We are nearing a critical scale in our distribution with good clients to keep deposit centers.

CASA ratio was 36.6%. And retail and small business deposit ratio, as defined under LCR, was 42.5% as of December 31st, 2022, as against 41.3% last quarter end. Our liquidity levels continue to remain high with an average LCR at 144% for the quarter. This will progressively come down leading to efficiency in balance sheet and should be a tailwind to margins. Our cost of deposits was 5.47% for the quarter.

Briefly on our operating performance. Y-o-Y, NII grew 14% and 8% sequentially to INR 1,148 crores. Our NIM this quarter was 4.74%, 40 bps higher Y-o-Y and 20 bps higher sequentially. It can be noticed that the operating income is greater than the operating expenses. Other income was INR 618 crores for this quarter, higher 6% Y-o-Y and sequentially as well. Core fee income grew 6% Y-o-Y and 9% sequentially to INR 590 crores. Total revenue at INR 1,767 crores for the quarter, 11% Y-o-Y and 7% sequentially, as we are starting to see the impact of the growth translate into improved income levels.

Our opex this quarter was INR 1,199 crores sequentially higher by 6%. PPOP this quarter was at INR 567 crores, up by 11% sequentially. Consequently, the profit after tax was INR 209 crores for the quarter, 34% higher Y-o-Y and 4% higher sequentially. In summary, our performance has been consistent during this quarter. We are seeing steady income growth and with operating expenses growth stabilizing, we expect to see PPOP start to grow steadily as we continue as we continue to scale up the balance sheet.

Lastly, on asset quality, our GNPA and NNPA are lower Q-o-Q at 3.61% and 1.18% respectively. The provision coverage ratio is around 68% similar to last quarter, the trending positively in this territory. We had a total slippage of INR 608 crores this this quarter, lower than INR 812 crores last quarter. Even adjusted for restructured corporate accounts which was marked NPA last quarter, our slippages have been lower. Our total overall recoveries and upgrades was INR 226 crores. Our net slippage were, therefore INR 383 crores as against INR 498 crores last quarter.

This also includes INR 45 crores slippages and upgrades resulting from the impact of out of order circular of the regulator. Of the slippages INR.152 crores pertained to slippages for microfinance, substantially from restructured book. The slippages from this book are largely done. We had recoveries and upgrades of INR 50 crores so that the net slippages was INR 102 crores in the micro finance book.

In the microfinance our book originated from April 2021 onwards, now accounts for 90% of microfinance advances, which has just NPA of 0.8%. The book continues to mirror the asset quality performance in the pre-COVID level. In credit cards, our slippages were INR 241 crores this quarter in the same range as the previous quarter. Our recoveries and upgrades continued to be strong in this segment. The net slippages was INR 199 crores.

The cards continue to track at 4% to 4.5% credit cost, which is better than pre-COVID level. Our slippages in other retail was INR 213 crores, of which INR 45 crores pertain to the impact of out of order circular of regulator.Net slippages in retail were INR 89 crores because of upgrades and recoveries. We had no material slippages in our wholesale book. Our net restructured advances stood at 1.44%, down from 1.87% in Q2 FY'23.

Provisions. We took total provisions in advances. NPA, restructured, and standard asset all put together of INR 339 crores in this quarter as against INR 296 crores last quarter. We had recoveries from written-off account of INR 95 crores. Net provisions on advances, therefore, was at INR 244 crores as against INR 226 crores in the last quarter The increase in the provision this quarter has been primarily on account of, the normal provisioning as per the internal norms, specifically in micro finance, where we provide 25% each quarter. The credit costs for the quarter were 40 bps like the last quarter.

As I said earlier, our PCR was 68%, again, similar to the previous quarter. We have also given you a detailed breakup on provisioning on slide 22 of our presentation. In summary, we are seeing stable asset quality and good recovery trend. We expect this to continue for a couple of more quarters at least given our historical pool of NPAs. However, as you can see, the fresh

slippages are trending lower. Lastly, on capital. Our total capital was 17.0% and our CET1 ratio was 15.5% as at December end, as against 17.4% and 15.9% as at September end.

I will end my speech by reiterating some of the key points. Our balance sheet position continues to be stable, and we are getting into the good operating rhythm in terms of growth, specifically in retail and we expect this to continue and improve going forward. We will selectively look to trim our wholesale exposure, which were more tactical in nature as sensible organic growth continues. We are adding focus on commercial banking, which is seeing a lot of opportunities and is also in line with our plan of adding granular right yielding advances.

Consequently, top line and operating income growth is also picking up steadily, as we look to build consistent uptick in income levels .On the employee front, we continue to address gaps especially in our new businesses with some key hires. As you may have noted, we have added new CIO and Head of Corporate Center in the last few months. We are attracting new senior level talent. Capital position continues to be robust, giving us sufficient runway for growth. I'll stop here with this. We'll take now the questions.

Moderator: We have our first question from the line of Shubhranshu Mishra from PhillipCapital.

Shubhranshu Mishra: Two questions, sir. The first one is if you can give us split of Bajaj Finance and own sourced customer in cards in force, acquisitions as well as in total spends. That's the first question, sir. Second is what is our-- if you can make a qualitative assessment of the revolvers both at an industry level and also for our banks own revolver proportion going up, going down, if we can make a qualitative assessment of that sir?

Jaideep Iyer: Yes. So on the Bajaj Finance split, we are approximately in the 75% plus minus with Bajaj Finance and 25% non-Bajaj in new sourcing. The spends would be slightly more skewed in favor of non-Bajaj because the typical limits offered on the Bajaj cards will be slightly lower. So that would be more like 70-30 or 72-28 types. On the revolver trends, we've seen a reduction in revolve across industry and that happened to us as well. But it has been steady in the last few quarters. We have seen an increase in transactors and slight reduction in our, let's say, the term loan equivalent portfolio.

Shubhranshu Mishra: Just to be clear, sir, 75%, 25%, you said on cards in force and acquisition? Or acquisition is a different proportion sir?

Jaideep Iyer: Acquisition will be slightly higher than the book. This is acquisition, the split would be slightly lower than this. New acquisition is in the 75%, 25% range.

Shubhranshu Mishra: And cards in force would be lower than 75%?

Jaideep Iyer: It will be more like 70%, 30% or around 65%, 35% and the book will be more 55%, 45%.

Shubhranshu Mishra: 55% would be own and 45% would be Bajaj Finance?

Jaideep Iyer: I didn't hear that.

Shubhranshu Mishra: 55% would be own and 45% would be Bajaj Finance, sir?

Jaideep Iyer: No, in terms of the book, no, no, 55% would be Bajaj.

R. Subramaniakumar: Just an. add to one factor there. The average spend for the card sfor us is in the higher range and the average spend on the Bajaj card is lower range, it's around the INR 7,000, INR 8,000 range, whereas what we have around INR 19,000 to INR 20,000 spent per card.

Shubhranshu Mishra: INR 19,000 to INR 20,000 on our cards and INR 7,000 to INR 8,000 on Bajaj cards, sir?

R. Subramaniakumar: INR 8,000, INR 9,000, average.

Jaideep Iyer: And if we take this on the active card, then this will roughly both will double.

Moderator: We have our next question from the line of Sanjay Awatramani from Amara Capital.

Sanjay Awatramani: So sir, my question was that as we've seen that RBL is collaborating with many fintech like we saw last time Zomato, Razorpay. So can you just elaborate on how do we work on this unit economics? How do we participate -- are we participating in the cash burns? Or how is the unit economics for this site?

Jaideep Iyer: So on fintech, honestly, our partnership is such that we are the banking leg for the fintech, wherever it is logical. And then our attempt will be to use that transaction flow intelligence over a period of time to see what we can do with those customers. That is largely our positioning. So we've used this logic to look at how we can also completely digitize the journeys and therefore make the customer value proposition smoother. So credit card is one example, we have prepaid cards. We have transactions which flow through us and which we will hope to leverage for cross sell at some point in times. But it is income accretive for us. We don't burn money on that.

Rajeev Ahuja: Hi, Rajeev here. The endeavor is that partnership should be meaningful and give us scale. At the end of the day, while the partner needs to make money to make it interesting for the partner, our medium-term risk-adjusted ROA should be similar to what we would have done otherwise. That's our kind of going in assumption. Obviously, the speed and scale of many of these things is different. So I would say that, that's the long-term objective that our ROA should not be adverse or different level than what we have done on our own on a risk-adjusted basis.

Moderator: We have our next question from the line of Mona Khetan from Dolat Capital.

Mona Khetan: Sir, my first question is on the loan mix. What share would be EBLR versus MCLR versus fixed rate?

Jaideep Iyer: So fixed rate is approximately around 35% to 40% or so, and I'm taking the benefit of excluding short-term fixed rate loans because they are as good as floating. Largely, our portfolio would be micro finance cards would be fixed rate. Tractor finance is fixed rate. And we will have a small amount of wholesale which would be fixed rate.

MCLR book is roughly about now left over with about 16%, 17% of our loan book. And EBLR is effectively rest of it is external benchmark which is largely repo on retail. And repo and MIBOR in wholesale. So in a nutshell, about 35% or so fixed rate.

Mona Khetan: So roughly 40% would be EBLR as well?

Jaideep Iyer: Yes. Effectively, what is non-fixed which is floating. If you exclude MCLR, the rest would be effectively external benchmark.

Mona Khetan: So if I look at the margin -- sorry yield expansion this quarter of about 50 bps, is it largely driven by the repricing of assets, the EBLR book?

Jaideep Iyer: Yes. I think multiple factors, Mona, here. I think one, as we've seen all the external benchmarks move up and the deposit repricing is obviously with a lag here. So that's one part. Second, we have the reduced our excess liquidity through deployment into the traction in loans that we are seeing on retail and wholesale. And third, there is a marginal mix improvement in favor of cards and micro finance. So all of these would have resulted in an increase in margin.

Mona Khetan: Got it. And EBLR loan, the reset would be three months or immediate?

Jaideep Iyer: Yes, typically three months.

Mona Khetan: On asset quality, I just wanted to check by, when do we expect slippages to normalize? And what could be the normalized slippage ratio for that?

Jaideep Iyer: So fresh slippages are close to getting normalized. I think we are in the tail end of our restructuring increase which we had and there is data that we've given on how much slippages from restructured. If you look at micro finance, we've hardly got any restructured book. The only material restructured book that we now have is in business loan, which are secured and those are performing pretty okay. So the noise at restructured is pretty much now over. So from Q4 onwards, we will see some reduction in slippages, but that could pretty much be close to our run rate.

Mona Khetan: So is it fair to say that 3% or so would be the normalized run rate for us?

Jaideep Iyer: Yes, I think.

R. Subramaniakumar: Around that.

Jaideep Iyer: Absolutely, yes.

Mona Khetan: And what would be your sense on the NIM trajectory here on? You've seen a strong expansion over the last two quarters. So would you think a 4.7% is sustainable NIM for RBL Bank?

Jaideep Iyer: So I think in the next one odd quarter, we should see a little bit of a catch up on deposit pricing coming through, whereas the external benchmarks might not increase in tandem. So that would

be a headwind for NIM. But at the same time, we will have tailwinds in terms of reducing our excess liquidity and moving towards better pricing loans, both on wholesale and retail. So on balance, we would expect it to be flattish to then slowly going up further a little bit over the next six months.

Rajeev Ahuja: In fact, if I just add to what Jaideep said? You've seen our micro finance portfolio actually started recovering in the last quarter in terms of aggregate outstanding. And as we mentioned, we lost about six to seven weeks in Q3 because of technology improvement. So that -- as that comes back, which it has, it will improve the mix of business and the average yield in the portfolio.

Mona Khetan: And if I look at the P&L, there is this other provision of INR 49 crores. So in your opening remarks, you did mention something around MFI normal slippages. So what exactly is the pertaining to?

Jaideep Iyer: No. So this is an old investment, which was part of our restructured loan book, three, four year old investment, which we have now fully provided, that was approximately INR 25 crores, INR 30 crores. And we have some small security receipts outstanding, which had some routine increase in provisioning of around INR 8 crores to INR 10 crores. So broadly, that was it.

Mona Khetan: But investment book, are the provisions now being captured under other income under the treasury line?

Jaideep Iyer: No, this was impairment.

Mona Khetan: And just finally -- sorry, two more questions. On the HL book, what would be the yield today?

R. Subramaniakumar: What would be the yields?

Mona Khetan: Yes.

Jaideep Iyer: Sorry, can you repeat the question?

Mona Khetan: What will be the average yields on the home loan portfolio and the kind of security side we are lending at?

R. Subramaniakumar: Around 9%.

Jaideep Iyer: About -- between 8.5% and 9% would be going rate.

Mona Khetan: And what is the ticket size we are operating in at rough range?

Jaideep Iyer: So we will have ticket sizes ranging from INR 25 lakhs to INR 30 lakhs to about INR 1 crores to INR 1.5 crores. That would be the sweet spot. Obviously, we'll have some larger and some smaller, but...

R. Subramaniakumar: Average will land us somewhere around INR 30 lakhs, INR 35 lakhs.

Mona Khetan: And just finally -- yes, sure. And just finally, on the ROA trajectory, how do you see that evolving over the next fiscal?

Jaideep Iyer: So I think we've given in the past guidance that we should exit the year at somewhere close to 1% ROA. So we, right now, don't see any reason to change that. And we will come out with more details for next year over the next few months, probably closer to the next year results or maybe before that in which we will give some guidance on this. But it is unlikely that we will be shooting lower than where we are exiting in the Q4.

Mona Khetan: So 1% exit ROA for FY'23?

Jaideep Iyer: Yes, that's right.

Moderator: We have our next question from the line of Sandeep Joshi from Unifi Capital.

Sandeep Joshi: I have two questions. Firstly on the cost to income ratio. Sir, our cost to income ratio is slightly elevated, let's say, around 68%, 69%. Can you just guide us how we should look at this number and in terms of how this should trend over a period of three to four quarters?

R. Subramaniakumar: So today, if you look at our cost from three different angles. One is that we have told about we are launching multiple products, which requires upfront investment, which is going to take place, which is taking place right now. And we also said that in respect of diversification of the card portfolio, we are creating infrastructure within the bank, that means which is also required upfront investment. The third is that we have been expanding the branches in the last one, 1.5 years, and it has just increased. You know that BBB is again increasing a branch. It will take some time for it to turn profit.

And all these channels, if you look at it, and of course, the technology investment is one which we have been doing in the last two, three years, which is consistently consuming in terms of operating expenses also. They will start to pay back once the consolidation completes and the product reaches some critical mass. The new products will definitely take, for example, the tractor which we have launched it in the year before by end of this year, by March '23 it will turnaround, right, it will be. Whereas in respect of other products of housing loans, two-wheeler, four-wheeler where the investment is going on, it will take some time. To be fair with you, that the cost will be hover around the same level what we have been seeing it.

If you look at it, the cost for the last quarter, there was a jump in the Q1. Thereafter, we were able to maintain -- sequentially we are not increasing than what we have been doing it in first quarter. It hover around 3% to 6% on average of around 4% sequentially. That is something which will continue for some more time.

Since our investment in people, investment in technology, investment in the product, investment in services, these are all for the purpose of acquiring the customer. So it is nothing. So when all these acquiring investments start generating additional ones, they will start trending downwards

maybe sometime in the fag end of next year, it will be able to see some trending down in this cost income ratio.

Sandeep Joshi: So you mention that this quarter actually appended, so when this quarter actually going to normalize? Can you guide something may be next two quarters or three quarters?

Jaideep Iyer: See, I think the way I would also add to Mr. Kumar was that from here on, like we've seen Q3 over Q2, we've seen growth in income, outpacing growth in cost. I think broadly, this trend should continue, which means that I think it is difficult for us to imagine that cost will go down. We will continue to grow the business and therefore, costs will go up. The only thing that we are now seeing is that we are able to see income growth lead the cost growth, which will mean that we should continue to expand slowly though the operating profits.

Sandeep Joshi: Sir, you guided exit ROA for this financial year at 1%., currently, we are running at an hour of about may be around 70 so odd basis points. So where is the delta coming from in just one quarter?

Jaideep Iyer: So I think for the next quarter, we should see a reduction in provisioning because of recoveries and further continuing trend on lower slippages, and we should see some more expansion on jaws on operating profit. Led by both NII & other income growth.

Sandeep Joshi: I could just slip in one more question. Sir, if I look at my gross NPAs in my business banking, these are actually increasing over the last two quarters. And in this context, if I look at the break up of restructured book, this segment is contributing a very high proportion of restructured book. Can you just comment on what's happening in the business banking where the NPAs are actually coming from and how is the restructured portion of that business loans are performing?

Jaideep Iyer: So there are two parts to that book. There is a small part left, which is unsecured business loans. And the bulk of it unsecured business loans is in the range of INR 80 crores to INR 100 crores. The rest is effectively business loans, which is loan against property, and we have property as collateral. So we will not expect any material slippages going forward. And also, if there are slippages, we definitely don't expect loss given default here. So because the LTVs would be for dated loans would be averaging somewhere in the 50% to 55%.

Sandeep Joshi: So what the proportion of LAP and unsecured within business loans?

Jaideep Iyer: So I said I'm secured in about INR 80 crores to INR 100 crores. The rest of it in restructured book is all secured. You were also asking the proportion of total book or were you're asking about the restructured book?

Sandeep Joshi: I was asking within the business loans, what is the proportions of unsecured and LAP?

R. Subramaniakumar: About 85% to 90% would be secured LAP.

Moderator: We have a next question from the line of Rakesh Kumar from Systematic Shares.

Rakesh Kumar: So sir, like now since some time back, RBI was quite aggressive in raising the policy rate. And we had some benefits coming to have a portion of loan on EBLR. But now when we are in the fag-end of the rate rise and we see that CASA proposition for the system kind of coming down especially CA proposition. So how do we adjust the cost rise on the deposit side in our EBLR mechanism. So are we changing the spread or what are we doing there?

Jaideep Iyer: So Rakesh, the guidelines are quite clear. The existing loans, we cannot change the spreads. It will only move up or move down, this is the external benchmark against which it's linked unless there are exceptional cases for credit spreads, but which rarely happens in retail atleast. So the existing book will reprice basis the benchmark it has been to. As I mentioned in the beginning, at least, we will have situation where cost of deposits might from here on go a little more than what the external benchmark repricing will happen because repo, as you rightly said, repo rate will stabilize maybe another 25 basis points, whereas the pass-through on deposit might continue a little longer. And therefore, that is a headwind, but we will have tailwinds across lower liquidity.

If you look at our LCR, we were at about 150%, 160%. Now we are at about mid-140s. We should further come down and deploy this liquidity into granular, retail and wholesale loans where there will be a 2.5% to 3% differential spread of deployment. We will also have the benefit of, as Rajeev mentioned, we will have continuing mix improvement in favor of -- for some more time in favor of -- fixed rate loans, micro finance, cards.

We will also have the ability to reduce some of the lower yielding loans we have on the wholesale side with more commercial banking, more retail loans. So there is enough tailwinds in terms of mix of businesses that we have, which should more than compensate for the slight lead lag challenge that all banks have on interest rate.

Rakesh Kumar: So I fully appreciate and understand this mix change thing. But just this is kind of a situation that we are not able to transmit the higher deposit cost coming because of mix change. And we are not able to put the extra spread on the EBLR. So if two customers have similar kind of risk profile then they still as per the regulation, we can't have the different spreads for the two customers with the same trade profile. So for on the like-to-like basis, how do we transmit or we lose out? Is that the eventual scenario that we are not able to pass on the cost on the EBLR. Then is that the case that we would tend to increase the MCLR proportion. So that is like the last question -- related question on this topic.

Jaideep Iyer: Rakesh, MCLR sunseted long back. Regulations do not allow banks to do business on MCLR. You are supposed to do business on external benchmark for retail and wholesale so pretty much we are now living with a situation where all banks have basis risk. Their assets are going to be linked to an external benchmark and liabilities will be linked to competitive dynamics on term deposits. That's the reality banks have to face. And all banks like us, including us, will look at ALMs in the right way in terms of how do we balance fixed rate versus floating rate, how do you balance high yielding rate book with average yielding book. So that's a daily affair that the banks have to do.

Rajeev Ahuja: So Rakesh, this is Rajeev. I just, maybe I think what's important for us is that we have many segments now versus, let's say, a year ago, okay? So most of our segments are actually somewhere between housing loan -- which is what our new segment and where we would do, let's say, micro finance or somewhere there. So our tractor finance is at 12% to 15% yield range. We have a small MSME book, which we are restarting will be in the same ballpark.

So for our size of the book, there are other levers, besides what you have highlighted that the transmission of repo has happened almost entirely, whereas the cost of deposits will actually continue for a while in terms of going up. So we are pretty confident that if our scale trajectory on all our retail loans and what we can take from the low-yielding wholesale loans, which we had to put for the last 12 months, 18 months, we can transfer them into commercial banking, which is already happening. So we have a few other levers at our size of the balance sheet, which is the only difference, I would say, relative to what you might say for the industry as a whole.

Rakesh Kumar: Sir, just one clarification I needed. So if you look at the industry data, actually, for the PSU bank MCLR proportion loans have actually increased, in the September quarter. So that there is like most of the floating rate loans in the retail and MSME are mandated to be priced on EBLR. But if you see the industry data, something else is happening especially on the PSU banking group.

Rajeev Ahuja: So Rakesh, I wouldn't know that. I think our MCLR book is kind of now coming down. And my sense is that anything up to --between large corporate and mid-corporate will be on a different rate regimes, but most of the others will be linked to a repo rate, which will be more reflective in my view, also based on -- see, again, if it's all housing loans then we have a certain rate trajectory, but we have five or six segments even outside of micro finance and cards.

So we have a little bit more different room to play purely because of balance sheet size is -- we have more degrees of freedom Rakesh. If you are a much, much larger bank, you have to play in the wholesale bank at the top end where your bargaining power is much less. Even if you have an MCLR book, it may be much less in terms of average yield. That's all I would say. We have done our analysis. I don't think we can answer what will happen to industry, but I think we will navigate basis our medium-term strategy, which is adding more customer segments.

Moderator: We have our next question from the line of Mayank Agarwal from InCred Capital.

Mayank Agarwal: So my question is, basically, we are entering into many different segments in detail, two-wheeler, gold loan, and etc. So can you throw some color on the retail book? In the long term, what would your mix between the high-margin products like MFI, two-wheeler and between the low-margin products like gold loan or housing loan.

And my second question is on the deposit side. What is our strategy to acquire the retail deposit, it will be the higher offering better deposit rates? Or what else could be there?

R. Subramaniakumar: Coming to the deposit, we have identified multiple channels through which we will be able to acquire the customers, right? The first one of the channels, which has already been activated, which is working in full energy is the branch channel. So the branch channel so far is being

liability-led liability is a model which has been working at the branch channel. We are expanding the branches as we move forward. Next year, we have a plan of adding around 100 branches on an average of around 15 to 20 per quarter. And this is one channel which will be in a position to penetrate the market, establish the trust factor and will be in a position to augment the liabilities on a stand-alone basis.

Now the branches are being provided with all the retail products what we are talking about today, which I said today, all these will be available as off-the-shelf product for the branches, which is going to be end-to-end digital. So with the facilitation of the retail assets through the branch, that will led to liabilities again.

The second, we have considerable penetration of the cards. You know that around 4 million-plus cards are available. Majority of them are not our liability franchisees. So we have already initiated the concept of cross-selling with the cards. So that means the cards with the customer who has been using it, as an active with us is around -- if you look at it, our own card which has been sold by the bank, it reaches around INR 15,000 to INR 20,000 with an average spend there.

If you are able to leverage that and try to position our product with them, we'll be in a position to make them to come to the liability side, for which we have already established a central -- CDP -- central with the Google platform, which is going to us a 360 degrees view of the customer and we will be able to identify those customers with whom we will be able to expand our relationship. The wallet share of the customer will be start moving up with these two.

The third is we have a considerable penetration in the micro finance and a fair number of them are maintaining a decent balance elsewhere. And those kind of -- now we have tagged the micro finance from the lady of the house to the family data is now available. We will be in a position to expand our reach from our borrower who is a lady to the rest of the family, with another channel through which will be in a position to do it. We have just -- we are in the process of rolling out our digital strategy.

That digital is going to be a third channel, as somebody asked earlier that we have a strong connect and partnership with the fintech. We'll be able to leverage our relationship with our partners and those of them which are using our platform for transacting in the payments are transacting for settling their bills. We will be in a position to bring them on board. This is another channel through which we will be able to do it.

On average, we have around 12 million customers across these channels who are more or less on a single product mode, which will convert them into double product, which will provide us an avenue to increase our liability. Now coming back to the first point of your telling about the retail assets. Retail asset, there was option available to us near before is that we have our micro finance and credit cards. We will continue to grow there, which we said that we'll continue to grow decently in that area, but that is not going to provide the stability, and we have to expand our product size because you can't go indefinitely in those products.

For that purpose, we are in the process of launching or we've already launched. Housing loan has been revived, which I said that around INR 4,140-plus crores is outstanding there, which is growing at the rate of somewhere around INR 200 crores per month. And our LAP credit, which is also -- which is again a secured product is growing at the rate of INR 100 crores. Other business loans, we have just started with the focus on our -- which is going to be our -- other than the micro.

We have a small and medium industry is going to be another focus we are coming with -- in that space we are introducing a LAP micro and LAP medium, which is again, as Rajeev was telling, it is around 14% yield. That is also going to be a product which we are positioning at the branch for growth of our retail.

So when you look at it two years down the line, if we look at it, my balance sheet will look at 60%, 40%. 60% is going to be of the retail. It may move to 65% depending on how we are scaling our products and services. So 60% to 65% will be the retail and 35% to 40% will be the wholesale. And within the wholesale, we will move towards more of a commercial with our better and decent return products than that of the wholesale product which is going to give us a less return yield. Out of the 65%, there will be around 23% to 25% will be on credit card. Then 9% to 10% will be on micro finance and remaining 25% to 30% is going to secured retail credit. I'm just talking about this pathway in which we are working through, this is tight path for next two years.

Moderator: We have a next question from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: Sir, this question was on the MFI space. So I'm just trying to understand what is the customer profile in Bihar? And also what is our policy with respect to the branch in district level concentration in MFI where we are seeing a sharp increase in the exposures in Bihar and proportion of the overall market?

R. Subramaniakumar: Our MFI overall policy is that we will be spreading across through our 100% subsidiary, which is our RBL FinServe. That's the first division. We do have a BC-based model in respect of other two BC agencies also who are present in other geographies where RFL has not penetrated. This is one.

The second being a subsidiary and now the product which are being offered is JLG which is women and the group. That is the model which is being offered by every MFI today. That we'll continue to do it. While this growth you are seeing today in the last two or three quarters is that, literally, for the last eight quarters, you might not have seen, there was a track and it was just getting dwindling rather the MFI was, that the peak in September '21 to the tune of around INR 7,400 crores or something like that, which dropped down INR 4,000 crores for two reasons.

We withheld that advancement because now the concept of MFI has moved from the single borrower to the family based income assessment. So we are preparing our background, preparing our policies, preparing the processes and systems to suit that particular revised guidelines. So

there was a withheld, we just withdrew from during these changes were happening, we are holding back our expansion.

Second, when we started expanding it, we have migrated from the old software system and the system to another new system, there was a disrupting due to the transition though there was a little retardation in our distribution in this current quarter. However, those things are over now. So there will be an improvement. When we are talking about increment, our going forward strategy is going to be. We are not going to start with the single JLG only. We are going to look at other family members whose accounts can be taken, which includes the secured product of the family and now MFIs have their own restrictions in terms of 75% of it has to be MFI and the remaining has to be.

So if the income goes beyond INR 3 lakhs, they will not be in a position to consider that as an MFI. There the space is getting opened up for the banks like us who are having a deeper penetration in MFI. So this is going to provide us an opportunity for the secured growth in the MFI. So the another important thing which I said just before to another was that, the cross-sell. This segment provides us an enormous opportunity for augmenting in terms of business loan. Since the business loan product is also getting established and stabilized, we are going to spread it on that. We have around 800-plus branches of our subsidiary, which will be the arm and legs of the bank for the purpose of expanding our reach.

With the total digitalization from end to end, we will be in a position to strategize it for better return or to protect the current return what we are having it. This is a distribution center, which is going to provide us enormous opportunity for expanding with a multiple offers and multiple opportunity for the same family to be reached out.

Rohan Mandora: My question is around like if you have any ratio level and the decisions of at branch level or district level in terms of MFI exposure that a certain district cannot have more than, say, 2% to 5% of total portfolio?

Rajeev Ahuja: Yes, yes.

Rohan Mandora: And also in the Bihar state like in terms of the income profile of the customer, is it more a farming linked or dairy linked? Or how is it split, if some color you can share around that?

Rajeev Ahuja: Yes. I think we have to also see that the base of the portfolio has dropped considerably. So the percentage look a little out of place. We overall have a cap between 15% to 18% at a state level and which we revisit basis, local events or our own portfolio or leverage. And as said, we go down to leverage in specific branches or and the district level. But Bihar is largely farming, dairy linked, which have stood up quite well. But as we grow our other states, so the percentage keeps coming down. This is a statistical anomaly.

Actually, if you look at it, it's been barely a INR 300 crores portfolio increase between March '21 and December '22. March '21, our portfolio was 7,100 and now we are about 5,000-plus. So just the base effect has made the change. But I think over the next two, three quarters, this

percentage anomaly will also get addressed. But we do follow risk metrics based on overall geographical split as well as analytics at a branch level or at smaller village level to know how much leverage we will be participating in it.

R. Subramaniakumar: See, in fact, our risk underwriting has a very strong risk engine. We have reworked on the entire thing on a quarterly basis. If you look at that 46th slide, which you are looking at it, the Tamil Nadu, Karnataka and all our share has come down. So we have made analysis once we are in a position to expand in these geographies where we find that the trending and the recovery is better than the -- are equivalent to that of the industry, we will be in a position to expand our reach in those. Once they expand, naturally, that other percentage will come down. We do revise it every quarter on that.

Rohan Mandora: And just to reconfirm the Bihar customer profile when you said that dairy and farming, so most of them will have both income? Or is it like while some of them will have farming income and some will have dairy?

Rajeev Ahuja: I think generally, you would always have some dairy as a part of farming. I mean, I don't think, I think most farm households rely on actually multiple income sources. So I don't think you'll just get only a farm or only a dairy, it will be a combo.

R. Subramaniakumar: It is allied industry, you know it...

Rohan Mandora: And sir, on the Slide 44, if you look at the average ticket size from June to September for RBL that thing has gone up by almost Rs. 5000?

Rajeev Ahuja: Yes. This is, again, as I was mentioning, if you see our average, our book size has come down. If you look at March '21, where we were at 7,100 portfolio, we bottomed at about 4,700 or thereabouts in June. And if you look at the average portfolio outstanding will come down. Whereas I think we've just started growing again.

Jaideep Iyer: Yes. So what happens is when you grow the book again, you're acquiring new customers where new ticket sizes will be in that range? And now the last few months are skewed towards new acquisition, which is why that is going up.

Rohan Mandora: And sir, on credit cards, I just want to understand with respect to the new partnerships that we are having, what kind of customer behavior we can expect in terms of revolving trend, vis-a-vis, say the core to so that we are having on vis-a-vis Bajaj. Do we expect more revolvers here? Or it's more going to the transactional link fees that we'll learn just on the newer partnerships?

Rajeev Ahuja: Yes. So it's a little early to say about the new partnerships. I can just give you a sense that, see, the Bajaj average spends are about 9,000 or thereabouts per month. The non-Bajaj book is between 18,000 to 19,000. The new partnership very early to say, very early. BookMyShow actually was at the higher end and obviously because of COVID, it took a little bit of a backseat. It's been relaunched. PayU, LazyPay is very new. So can't hazard but I think in general, we are

seeing spends -- reflects the kind of segments we are working with. My sense is it will fall in that line. New book will have to wait for three, six months to give you some color.

Rohan Mandora: And in terms of seeing the liability relationships that we have with these credit card customers, how is the liability, average liability balances vis-a-vis overall liability customer base where we have a credit card and liability relationship?

R. Subramaniakumar: As I said earlier, this is a new area, which we are venturing into today. So it is too early to comment about that liability depth we have done it. So all along, it has been a silo product, which we have just started leveraging on that for the last one quarter, it will be taking some more time for us to see that. We are yet to onboard many of them. Now we are providing a systemic way of making these customers to come to the liability side today.

Jaideep Iyer: So we also see that when we have cross-selling cards to our liability customers, typically we see the average balances go up. So obviously, this is because of better engagement with the customer. So we should see a similar trend when we do reverse

Rohan Mandora: And Sir lastly, in terms of term deposits, if you look at the sequential growth, it's 2.3% sequential growth. So just want to understand, during the quarter, were we going slow on new acquisitions or is that customers who are maturing, they were not renewing FDs given that we were having surplus liquidity in the branch. So just want to understand what are the studies during what term deposit will be?

Jaideep Iyer: So the strategy for us is honestly to focus on retail term deposits and retail CASA, both of which are growing significantly over the overall term deposit and overall deposit growth. We are trying to one debunk on the liability side. And second, at the same time, as you rightly said, we are running down liquidity. If you look at our past quarters, we were averaging LCR in the range of 160% to 150%. This quarter, seen it come down to somewhere in the mid-140s. And we should progressively take this down as we get our granular retail asset engines beginning to fire.

Fortunately, for us, in an environment where rates are rising and there is a scramble for deposits from a competitive standpoint, we are actually better placed with the liquidity and CD ratio that we are sitting on. So the need for deposit growth will be lower than the need for asset growth. At the same time, the growth in retail deposits should be much more than the overall deposit growth.

R. Subramaniakumar: Having said that, if you look at that numbers, what we have done in this, the LCR or the retail deposit what we call as grown by 25% Y-o-Y, which is very healthy when compared to the rest of industry also. This is a focus. We are not looking at the total deposit. We are looking at the deposit, which is stable, which is retail in nature, so that it is a spread, which will provide us an opportunity for the engaging with the customers for multiple other products as well. Our retail deposit is now today 42.5% of the total deposit. That's the base.

Moderator: We have a next question from the line of Pankaj Agarwal from AMBIT Capital.

Pankaj Agarwal: Sir, you said that your delta in your ROA will come from credit cost. So if I look at your current credit cost is roughly 1.8%. So what's the sustainable credit cost you are assuming based on your targeted loan mix?

Jaideep Iyer: So Pankaj, honestly, if I have to give futuristic guidance, we would request you to wait when we will give a two-year, three-year plan going forward. This year, we have said in the past, our credit costs are actually below the run rate simply because you have a large stock of NPAs from which recoveries are happening. So on a net basis, we are trending lower. The Q4 number of exit ROA was in the context of higher recoveries that we are seeing, which will therefore compensate for provisioning and also continued expansion in the operating profit jaws that I spoke about.

Pankaj Agarwal: So this exit ROA you are talking about, it's only for 4Q, right? It's not the guidance for the FY'24?

Jaideep Iyer: I also said that it is highly unlikely that we'll come out with the plan, which will be lower than that going forward.

Pankaj Agarwal: The reason I'm saying that if I look at your ROA tree, right, your current credit cost is roughly 1.8% and for the entire year is roughly, I think, around 1.7%, right? Now 25% of your book is credit card. And if I assume even 6% credit cost, you are roughly getting 1.5% from credit cards alone, right?. And even if I assume only 1% for rest of the book, your blended credit cost should be 2.25% on a sustainable basis. And basically, which is 40 to 50 basis points higher, right? So if your credit cost is going up, how you are going to bridge the entire gap and then still increase your ROA?

Jaideep Iyer: One thing is your assumption on cards is wrong. I think we are significantly lower than that and should be continuing to be lower than that going forward. Second, I think we have to work towards expansion in income, right? So today, we are sitting on less than optimal mix of our assets, not advances but assets. As we move towards optimizing that, we should see tailwinds in margins. We should see continued increase in fee income as we grow, as our growth on a sequential month-on-month, quarter-on-quarter, we start disbursing more-and-more loans across all our products. That should result in some tailwind on fee income.

And as I said, we are working hard on trying to optimize costs while the cost will grow, but we should start seeing a reduction in cost growth as compared to income growth. And therefore, we should have expansion at the PPOP level. So, and therefore, while credit costs will go up next year given the mix of businesses, but it's not going to be in the range. I think it should be more in the 2% to 2.5% range. But as I said, we will come back with more details in the next few months.

Pankaj Agarwal: So the targeted mix which you are -- mix which your targeting for FY '24, FY '25, you're saying that your margins and PPOP should be higher than what it is right now?

Jaideep Iyer: Yes, absolutely, correct.

Moderator: Thank you. We now conclude the Q&A 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.