"RBL Bank Ltd. Q3FY24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to RBL Bank's Q3 FY'24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone, Please note that this conference is being recorded.

I now hand the conference over to Mr. R. Subramaniakumar – MD and CEO, RBL Bank. Thank you. And over to you, sir.

R. Subramaniakumar: Thank you, ma'am. Good evening, ladies and gentlemen and thank you for joining us for a "Discussion on our Bank's Financial Results for the Third Quarter Financial Year 2024." We have uploaded the "Results" along with the "Presentation" on our website and I hope you have had the chance to go through it in detail ahead of this call.

I am, as always, joined on this call by Mr. Rajeev Ahuja; Buvanesh Tharashankar – our CFO and other members of our management team who along with me will address any questions that you have.

First of all, I'm happy to share with you that this quarter's operating performance has been in line with our guidance.

I would like to highlight some of the key points from our performance this quarter:

Advances grew 20% YoY and 5% sequentially. Retail continues to grow faster given our focus on granularity. Similarly, on deposits, small ticket deposits have grown 23% YoY and 5% sequentially. So, continued granular growth on both sides of the balance sheet and we continue to see good momentum for the same.

The credit quality is generally holding well and focus remains on ensuring better collection efficiencies and recoveries from slippages and written off cases. ROA and ROE expansion is on track and profitability continues to improve. I will separately explain the contingent provisioning on AIF and the resultant profitability ratios. While our Bank has maintained its trajectory on ROA and ROE, the reported ROA and ROE has been reset due to adherence to the regulatory guidelines on AIF investment. Our growth in retail secured products and expansion into the new geographies is also progressing well.

In Summary:

Our broad direction of deposits, of loan growth, of profitability, of asset quality, all of them are quite stable, and as per our plans. Our initiatives on going from product-focus to the customer-focus is progressing well. The significant progress has been made on housing loan and business loans being originated through branches. Early success seen in savings accounts to cards, cards from branches, etc., We now also have our 100% subsidiary, RBL Finserv also actively sourcing leads for products relevant to that market, namely the tractors and the liability account. We have also commenced the sourcing of two-wheeler loans as well as affordable housing loan and MSME.

. In our quest to grow secured retail advances, in this quarter, we have expanded our direct sourcing locations from 68 to 185 locations with 54 hubs for processing these advances. We plan to add another 51 locations in the next two quarters. Our plan of cross to leverage the customers base by making the branch to anchor retail asset lead generation is picking up.

As I said earlier, our advances grew 20% YoY and 5% sequentially. Retail advances have grown at a faster pace than the overall advances at the rate of 33% YoY and 5% sequentially. The secured retail grew at 53% YoY and 13% QoQ. Our wholesale advances grew 6% YoY and 4% sequentially. Within this, Commercial Banking, which is a sweet spot for us, has grown 19% YoY and 7% sequentially.

We also saw expansion into the new geographies in West and North India for our commercial Banking operations during this quarter.

We continue to focus on strategic product and client segments to grow our wholesale business. We went live with E-BG with NeSL and direct integration with the GST portal for tax payments.

We are already live in TIN 2.0 and expect to go live on ICEGate (which is the portal for customs) in the coming quarter. We believe these are the use cases which will benefit our customers and help us add to share in the customer wallet. This will also more to help us in improving the current account balances.

Disbursals:

Our disbursals across all our retail businesses ex-cards was approximately 6,000 crores this quarter as compared to 5,000 crores in the previous quarter and 3,400 crores in the same quarter last year, clearly demonstrating our execution capability. Microfinance disbursals were at 1,989 crores this quarter, flat sequentially.

We went a little slow in this quarter given the risk perception due to elections in the various states, but we will look to ramp this up in Q4. The book growth was flattish sequentially for the same reason. We continue to see opportunities to monetize surplus PSL which we generate in microfinance which we have been doing selectively.

Housing:

Housing saw a disbursal of approximately 1,400 crores and secured business loans of approximately 585 crores. These two products have been an important focus area for crosssell through our own branches as it one, it reduces the cost of acquisition; two, improve the engagement with our liability base; and three, aids new liability customer acquisition. Over the next few months, in the new sourcing locations, we will focus on expanding the teams and we hope to start seeing the benefits in the new sourcing in the coming quarters.

Business Loans:

On the business loans, that is mortgage loans, we saw a reduction sequentially as we ran down a pool of loans with the intent to have direct sourcing for better revenue. We are now seeing a steady disbursal run rate of 585 crores on a quarterly basis and it will increase with the new locations which I said earlier.

Rural vehicle business:

Our rural vehicle business, tractors also crossed 400 crores in this quarter in disbursements, which is the highest ever for this business.

Rural Vehicle Finance:

On rural vehicle finance, we today have an approximately 4% to 5% of the market share in the areas where we operate, and we will continue to selectively expand the newer states. We have expanded from 9 to 12 states in this year.

Two-Wheeler Businesses:

The two-wheeler businesses have started disbursals this quarter and we expect to see critical mass in the coming quarters.

Card:

In cards, we saw an issuance of 5.75 lakhs this quarter. As part of our strategy, we continue to focus on diversifying our sourcing engine and we expect to add few more partners in the coming weeks or months to further broaden our sourcing base. We are already doing approximately 20,000-plus cards per month through direct sales and branches. We have deployed 2,000-plus DSTs and they source directly from the market. This will increase as we progress.

In a nutshell, we continue to see broad-based retail growth this quarter as well. We have expanded our retail asset footprint from 9 to 12 states in this year. Scaling of the retail advances will be achieved as planned with the digital platform created for this purpose with necessary sourcing, risk underwriting and collection teams on the ground.

Deposits:

On deposits, we saw a 13% YoY growth in the overall deposits and a 3% sequential growth. We, as planned, saw a 23% growth YoY and 5% sequentially in deposits below 2 crores, which now forms 45% of the total deposits. Our expectation is to continue increasing this proposition to get this closer to 50% in the coming quarters. We have focused consciously on the quality of sourcing, making sure our cost of sourcing translates into large wallet share of our customers.

While we continue to invest in the traditional Banking, by sourcing deposits through branches, a large part of our effort is also directed towards acquiring accounts through cross sell and digital channels and partnerships, etc., We will continue to drive incremental deposit growth from granular sources to fund our advances growth. We are enabling the 800 BC branches of our subsidiary and other partners to source liabilities, that is savings accounts and TD. From the geographies where we don't have a presence and this will be executed through the digital journeys. We will be sourcing from 1,300 touch points in total, including our own branch.

Asset Quality:

On asset quality, the GNPA is flat QoQ at 3.12% and NNPA is 0.80%. The PCR is up YoY and marginally lower sequentially and stands at 75.1%. The net slippages during the quarter were 466 crores as against 375 crores last quarter. Of this, the net slippage is negative for the wholesale, signifying recoveries are higher than the new slippage; 97 for microfinance, cards is 324 crores and other retail credit is 49 crores. Our net restructured advances stood at 0.63%, down from 0.89% in Q2 FY'24.

Provisions:

On provisions, I need a little extra attention on this particular paragraph. We took a total provision on advances of 435 crores in this quarter. We had recoveries from written-off accounts of totaling 81 crores. So, the net provision on advances therefore was at 354 crores. The credit cost for the quarter was 47 bps as compared to 54 bps in the last quarter on a like-for-like basis, including the change in the policy we had done in the cards in Q2 FY'24.

Now, separately, additional part. We took a provision of 115 crores on AIF as per the recent RBI circular. These AIF investments are primarily in ventured debt funds and these are investments which have been made over the years for building inroads into new age digital businesses. We have worked with these venture debt platforms, very widely held, for nearly ten years and do not see any issue in realizing our principal and returns in the normal course for context. Against our investment value of 115 crores, we have NAV currently at 161 crores. I will reiterate that this provision is not against impairment and can be redeemed on profitability.

In the context of AIF provision, our reported net profit was 233 crores, up by 12% YoY. Since this AIF provision has been enforced with the clear direction of either redeem within 30-days or provide for, we have chosen an option for providing it fully. That's the reason the PAT has come down. Without this AIF, clearly indicates the profitability of the organization emanating from the operations. Without AIF-related provision, our PAT would have been seen an increase of 53%, which is an actual increase and 9% sequentially to 319 crores from 294 crores last quarter. Similarly, the ROA without this provision were 1.03% this quarter, up from 1% in last quarter. From the operations, we were able to achieve a PAT of 319 crores and ROA of 1.03%. However, it gets restated because of the AIF contingent provision which has been made by us.

NII:

Our NII was up 21% YoY and 5% sequentially at 1,546 crores. Other income was 778 crores this quarter, higher by 26% YoY and 10% sequentially. The core fee income grew 23% YoY and 7% sequentially to 729 crores. Our total income was up 23% YoY and 7% sequentially at 2,323 crores. It can be observed that all the profitability parameters have been growing consistently as we projected earlier.

NIM:

Our NIM this quarter was up by 24 bps YoY at 5.52%. We saw an increase of 10 bps in the cost of deposit this quarter. We saw marginally lower NIM sequentially because of the lower disbursals in some of the asset businesses, namely micro finance. Despite the costs have risen across the market and are likely stickier for the longer and conservatively we estimate our NIMs to be in the same range in Q4 as well.

OPEX:

Our OPEX was up by 17% YoY and 8% sequentially at 1,558 crores. Our cost-income ratio was 67.1 this quarter against 66.5 in Q2. Increase was driven by the business acquisition cost, marketing spends and on products and expansion of teams. We saw healthy increase in the PPOP this quarter at 765 crores, up 35% and 5% sequentially. It can be observed that the PPOP is almost equivalent to that of our other income.

Our total capital was 16.42% and our CET-I ratio was 14.58% as at December end as against 17.07% and 15.15% as of the last quarter end. We had a net impact of 57 bps in CET-I and 65 bps in total CRAR this quarter, taking into account the regulatory change in November, but had some capital efficiencies which we could take out in this quarter. Had it been a simple application of the regulatory changes, our impact on tier one and CRAR would have been 65 bps and 75 bps respectively. However, due to efficiencies in management of the balance sheet we were able to reach the net of 57 bps in CET and 65 bps in total CRAR

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Cross Sell Technology and Digital:

On cross sell technology and digital, we have made several shifts in our digital orchestration on customer journeys, payment infrastructure, channel availability and cross sell. Various assets and liability journeys have been made live during this quarter, including savings account for credit card holders, co-origination of liability accounts with a few asset products, upgraded and personalized digital liability and savings account journeys.

We are building our in-house UPI switch with the capacity to handle 1 crore plus transactions per day. This is providing a big opportunity to increase our fee income. We have already introduced eSign and eStamp for our retail products which has shown good results in improving the customer experience.

Pioneering the Innovation:

Pioneering the innovation, we have become the first in the industry to provide WhatsApp-based OTP to our NR customers, enhancing our service delivery. I already spoke of our GST integration and E-BG launches. The unified KYC which we have spoken about in the past has shown early success in facilitating co-originations of assets and liability products together.

We continue to invest in our digital repertoire while exploring the symbiotic partnerships to leverage the digital public infrastructure and the newer initiatives such as ONDC, CBDC, account aggregator, etc.,

Technology:

Lastly, on technology, we continue to drive operational efficiency. Optimization of the cost with the consolidation of multiple systems into fewer advanced solutions and enhancing system availability.

In Summary:

We continue to see steady growth and improving profitability and remain on track to achieve our metrics outlined. We expect to see a steady growth in advances in the range of 20% with the retail driving the credit expansion. This we believe will continue to be well supported by the granular deposit growth, which will outpace the overall deposit growth. Our focus remains on scaling up the new retail asset products, continue to improve our retail liability franchise, platform-wise products and services for our customers, have a customer-first approach, and most importantly, keep the customer services at the heart of everything we do. There is a high degree of motivation in our internal teams. The morale and the excitement of the team is leading to a better operating outcome.

On capital, we have absorbed the regulatory direction of November. Our capital ratios continue to be healthy and we believe we remain well capitalized for the growth in short and medium term. In last word, without that AFI provision, which is a contingent in nature, our PAT growth was 53% YoY.

Thank you very much. We open the session for the questions and answers.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Riken Shah from IIFL. Please go ahead.

Riken Shah: Two questions. First was on the credit card business. So, we issued 5.75 lakh new cards in the quarter. Would you be able to give a sense of what would be the breakdown of this between co-branded partnership, internal sourcing either directly or via the DST and how do you see this kind of panning out over the medium term? And question #2 is on asset quality. Of course, the slippages have inched up, but if you could provide some color as to what's driving the increase in the slippage between the segments, because there have been industrial reports that MFI delinquencies have started moving up, so, is that more of a precursor to a sustained increase or it's kind of a one-off in some of the states?

R. Subramaniakumar: Yes, I'll just give you a broad number of the credit cards, then I'll ask our team to mention about it. Our total sourcing of the card is just divided into rest of the partners plus internal which include the branches and direct sourcing. And now it was the major partner we were doing it a year before, around 85% of total sourcing was with them, now, that has come down to 65%. So, around 35% of it is being sourced by other sources, and we have around 20,000-plus is being done by the branches as well as by our DST on the floor, and the other details I will ask our team to give it.

Ramesh Ramanathan: So, that is how we split. Riken, just to answer your question, this quarter we had about 5.7, 5.8 lakh cards, that's broadly 65:35 in Bajaj and non-Bajaj. Over the next three, six months, you'll see us keep picking the share up from 35% closer to 50%. I will ask Bikram to add on a few partnerships, we are looking to explore across various platforms and sectors. So, that's our broad strategy. So, the idea would be that they are an important partner, want to continue growing with them, but also to be more prudent, we would like to derisk by looking at our own sourcing as well as expanding our co-brands. Bikram, do you want to give a flavor of our co-brands that we're growing with?

Bikram Yadav: Yes. So, as have been informed by Mr. Kumar, we have been working on derisking with one of the large co-brand partners that we have for last two quarters now. We have been reaching out to multiple consumers and other co-brand partners and we have got into some advanced stages of closure on that and in the next 30, 35 days we'll be announcing a couple of partnerships which will de risk from the largest co-brand partner that we have. In addition to that, we are also augmenting our own field sales force. We have already taken it to about 2,000 and in another three to six months it will continuously grow at around 10% to 15% quarter-on-quarter. We have been doing about 25,000 cards from this field sales force and we aim to take it to over 25% to 30% of our total sourcing. Rest of the 25% to 30% sourcing would come from other co-brand partners and the largest co-brand partner that we have today will contribute to about anywhere between 40% to 50% of the sourcing.

R. Subramaniakumar: Coming to your second part of the question, that is with regard to the asset quality. The credit cost what we have been selling is well within our guided range, we don't see any change as far as that guided range is concerned. However, there was some impact of the lower recoveries, but we are confident that it can be clawed back. How we are saying is that the recovery percentage of the MFI got impacted in the few states where there were elections. Now, in those states we have come back to that collection efficiency of 99.41%, which is in fact all India average is 99.41%, previously these states were less than 99%, we have also come back to 99.5% stage. So, we don't see any impact as we move forward in MFI. And as far as the credit card is concerned, we saw some small blips during the same period. We were able to claw back in the month of December and we are confident that going forward we will be able to maintain that momentum of higher efficiency in collection and we don't see more problem as we move forward.

Moderator: The next question is from the line of Jai from ICICI Securities. Please go ahead.

Jai: I have a couple of questions. Sir, first is our yield this quarter was flat or actually in a few basis points has declined the loan -

Moderator: I'm sorry to interrupt, sir. May I request you to kindly use your handset, please. Your audio is not clear.

Jai: Sir, first question is on the yields. So, it looks like that the yields have dropped or declined marginally. You mentioned that there are few MFI disbursements were a little bit weaker or flattish, but it looks like still we have done fairly well in other of the higher yielding segments, right, such as affordable housing, retail, agri, etc., So, what could explain the adverse yield movement -- is it competition or is it something else, if you can elaborate a bit?

R. Subramaniakumar: See, one of the reasons what we saw was the cost of deposits were higher by 10 bps. We had some benefit of liquidity utilization, but we were little prudent on some of our segments like microfinance given the state elections is a flattish, which you really said about it. The NIM is supposed to be slightly higher in QoQ. For Q4, given the dynamics around the deposit cost, conservatively, we will be able to maintain the NIM at the same stage. I will ask our to add up.

Ramesh Ramanathan: Jai, just to add, while growth has been very, very good, a large part of the growth in the quarter is also back-ended across some of these products. So, you should see this yield improvement happen in the next quarter...So, a lot of the translation will flow into Q4.

Jai: Sir, our ROA improvement trajectory in part is predicated on favorable NIM outcomes, right? So, maybe given your stances in interest rate, maybe fourth quarter could be flattish as you said. But, how confident are you on improving NIM for FY'25?

R. Subramaniakumar: There are two more pointers which will enable us to achieve this. One is the cost efficiency which we will be able to achieve it, that is one which will add up to that. The second is the provisioning part which we are working on. Both will also add up to it. Now, today, the operating leverage has started and you would have seen that. Just as a pointer, the operating profit for 12 months increased by 33%, whereas my advance grew by 20%. So, the resultant benefit will also flow into the next quarter which will help us to achieve this number.

Ramesh Ramanathan: And also on NIM, you should see some positive. To be very candid in the near term given the dynamics of cost of deposits and all of that, we are being conservative, but sustainably as the mix shifts more to retail this year benefits will come through.

Jai: On your deposit growth, right, so in the framework of FY'26 vision, I mean, we have been doing fairly well in almost all of them, but the deposit growth is now 13%-odd, which is slightly slower than loan growth. What are the levers to accelerate the growth from here onwards considering the competition going to remain competitive? And in that context, do you sense any need to tweak the deposit rates?

R. Subramaniakumar: We don't find a reason for tweaking with the percentage right now because of the four, five points. First point is that we are increasing our ability to source the deposit from the current 500 plus branches to 1,300 touch points, which we have just started it with our 800 branches going to do that liability through our digital journey. Digital journey was hitherto not available, now it is available, it is already put under pilot in a few 50, 60 odd branches and we will be creating the liability test at every touch points, that's one. The second, we have started the cross sell in respect of our customer base off of the credit card, RBA. Already, we have just launched a product called GO Account, which has been integrated with our LOS of our front end tractor, RBA Finance and the pilot has been successful. So, we are going to expand it to the asset team, which is on the sales team. On the floor, we have 1000 plus people working on the respective individual products like housing loan, LAP loan and RBA and things. All these people will also be sourcing our savings front. The third would be that the credit card which is that too we were not having a journey, now the journey for the credit card to co-originate when opening savings fund account and funding account through that is also going to start. So, there is a team which has been set up at the Bank which we call it as a smart branch or a virtual RM, the people who have been onboarded to these channels are going to be engaged based on the strong analytics which a separate team is working on. So, we'll start engaging. We saw some early benefits also. Some of the customers who have around 30%, 40% of the people will be inactive in their activation. We are reaching them out. And the early signals in this virtual RM is that it's pretty positive and we are able to see that increase in the balance that is being maintained by these accounts. With all these initiatives, we are confident that we will be able to maintain our forecast especially that retail deposit less than two crores, which is healthily growing at the rate of around 23%, 26%, going forward. it will continue to grow at that pace.

Jai: Sir, in that context, how should one look at LDR ratio? I mean, of course, there have been some chatter about keeping the loan-to-deposit ratio in some prudential limit. We have increased the LDR steadily and right now we are at around 36%. How should we look at LDR?

R. Subramaniakumar: We said in initial our forecast as well as in our vision document that we are comfortable in the CD ratio in the range of 83 to 85, which we'll be able to maintain. However, I just want you to appreciate one fact, that is the CD ratio is not to be seen only in the credit and the deposit, you have to see from funding of the advances is the way we look at it. We feel that refinance is also one of the very good methods or opportunity available for funding the advances which we started leveraging which is definitely beneficial in terms of the cost also. If I try to merge the deposit as well as the refinance facility available to us, ratio which we are measuring it now will drop down to 73%. So, we feel with this combination and we have sufficient headroom available. See, our housing loan is increasing, but we have headroom for getting a refinance, which we haven't not been able to leverage or repeat so far, which we will try to do the combination. It is for the purpose of effectively ensuring the cost of the funds and the cost of our deposit at a reasonable level.

Ramesh Ramanathan : Just to clarify, we'll look to keep the CD ratio in this ballpark only. And so on the margin, now, pretty much incremental advances will probably be funded by 1.1 or 1.2x deposit. So, that's broadly how our plan is in terms of growth.

Jai: Last clarification. This AIF investment we have done, the entire amount whatever was needed, right, I mean, we have taken the entire thing?

R. Subramaniakumar: That's correct. We have done it. Our entire investment is 120 out of 115 is required which was given by the circular we provided for. Of course, it is not against any impairment and that is redeemable, right, so the options are open.

Moderator: The next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Again, the question is on retail yields in particular; they are down like 20-odd basis points. But, I think structurally the movement towards the housing loans, that would pretty much continue away from say what we have seen with respect to the MFI or even on the business loan side. So, then should we see that maybe overall yield improvement might not be there going forward, okay, would there be a fair stance maybe apart because this quarter again there was decent growth on the commercial Banking plus maybe in housing, which might continue as such?

R. Subramaniakumar: I'll say just a couple of points, then I will ask Ramesh to give you the data points. So, first one is housing loan all along if you see that the focus was on prime housing loan, where that yield was relatively lower. Now, I just told you in my speech that we are expanding the 186, we have already put the people, there are 54 hubs underwriting teams are ready. So, these teams will be looking at, we call it as a small LAP whose average yield is much higher than that of your regular LAP, and we are also putting efforts on AHL, hitherto we couldn't do that. So, these two will be in a position to trigger our additional yield on that. Coming to the data points, I will ask Ramesh to explain.

Ramesh Ramanathan: Kunal, broadly, we'll be in this 17.30, 17.60 range. So, you will see some interest reversals, there'll be some mix change would have happened, the growth and advances have been back ended and all of that. So, it will be a combination of a few things that will happen. Like we said earlier, we went a little slow in microfinance just to be prudent given elections in a few states. So, you'll have these yoyos, but broadly, we should be in the 17.50 handle give or take in terms of retail on an ongoing basis.

Kunal Shah: We have not increased the rate towards the risk weight. Has there been not passed on in any of the unsecured consumer credit or the lending?

Ramesh Ramanathan: We only have two real unsecured businesses – cards and microfinance. This quarter, we started disclosing the breakup of personal loans to our card customers which to show only the card receivables. So, that is only a function of how you onboard the customer, what is the behavior of the customer and therefore rates are what they are. We don't do any real open market sourcing for PL or any other unsecured product. So, not so much of a rate change because of the regulation that's come through.

Kunal Shah: And this housing, if we look at it, overall disbursements are almost 1,400-odd crores and portfolio is also up, there is hardly any run down which is there. So, is there a bought out portfolio or something which is there?

Ramesh Ramanathan: In this quarter, we selectively bought a small portion through a DA portfolio, but yes, on an ongoing basis, we are now averaging close to 300, 400 crores of disbursal on a monthly basis and that run rate should continue. You will start seeing the shift happen more towards the smaller ticket housing loans. We are today in the 50, 60 crores monthly run rate. I think adverse benchmark we will take it to 100 and then take it up from there.

Kunal Shah: A couple of points on asset quality. So, one is, if I hear you till last time, we were saying that our credit cost will continue to be high and that might not deliver on the ROA improvement, but now, maybe you highlighted that there are efforts being made to just try to contain the credit cost, which can also help the ROA as such. So, maybe why is that change in stance, what has been done? And second, if you can just provide the breakup of the gross slippages because that has also gone up. So, just want to look at it in terms of the incremental delta of 120, 130 crores where is it coming from?

Ramesh Ramanathan: What was the last one?

Kunal Shah: Breakup of the gross slippages, 666 exactly if I have to look at it with a delta of 120, 130 crores where is it coming from?

Ramesh Ramanathan: So, in terms of gross slippages, we had cards at 370, we had microfinance at 100, retail asset was at 150, but within retail because of recoveries and upgrades means that the net slippage in retail was only about 50 crores.

Ramesh Ramanathan: So, Kunal, I'll just repeat again. So, in the cards, we had about 370, microfinance about 100, retail assets we had a total of approximately 150, but within that we also had recoveries and upgrades, so our net was much, much lower. So, that is the broad breakup of slippages in this quarter.

Kunal Shah: Incrementally this 120, 130 crores higher delta compared to last two quarters, this is coming particularly on the cards side?

Ramesh Ramanathan: From cards, some bit from microfinance, some bit from retail asset. But like I said, the net slippage numbers are lower, the gross numbers added up to approximately 130 across these three.

Kunal Shah: And credit cost maybe with the ROA lever, that's change in stance, yes?

R. Subramaniakumar: Yes. Sorry?

Kunal Shah: No, I was just saying that some change in stance in terms of credit cost supporting the ROA, till last time we have been highlighting that we might not see too much of delta coming in credit cost given the product profile, but I hear you that maybe you said there could be some -

Ramesh Ramanathan: There are focused programs being run, for example, in microfinance and cards on recoveries and all of that that we are rolling out. Essentially, our two large pools which generate slippages are typically cards and microfinance. So, that is the larger focus. Within the rest of retail assets, the idea is to focus on upgrades, recovery, go out and get resolutions done, look at property collaterals being liquidated and all of that. So, we have, for example, historically had NPAs in our business loan portfolio. There are efforts to go out and do some liquidation and all of that at a faster pace. So, we should have some benefit from that. But in our sense that will be a more near-term outcome that will happen. Sustainably for us, it will be a combination of higher income, much better on cost and provisioning being largely range-bound in the 1.5%, 2% range.

R. Subramaniakumar: It's a two-pronged strategy. #1 is that arresting the slippage which I said that we see some green shoots in the month of December itself. Our collection efficiency in zero bucket has moved up from 99.41, that is one of the major indications saying that by end of the quarter we will not be able to do it. In cards also, the recovery has just moved up from a couple of percentage points and above that in the zero bucket. So, first we arrested the first strategy of not allowing the things to slip out of hand. The second strategy was looking at the technical rate of account and NPAs as two separate events and we have rolled out a separate program. In fact for microfinance, dedicated 250 people have been put on the field only to attend to this technical rate of recovery. So, we feel that with this focus attention the recovery will be higher, which will add up to what you have been asking for, it will be able to counterproductive. Second, if the slippage is arrested, then you are able to get the recovery and meanwhile we have a very clear program of non-discretionary, non-discriminatory settlement program which is going to accelerate it which is hitherto, it was on a selective basis, now this will also add up to that OTA settlement in those vintage accounts where getting the recovery beyond around 14%, 15% is going to be a challenge, so, that is also being rolled out. And we are confident with all these three, four, five measures, we'll be able to make a further one, Vijay, do you want to add something?

Vijay Anandh: As you rightly said, initial bucket resolution rates are very good, and our recoveries have also been good. So, this two-pronged strategy is helping us a lot in a couple of products in cards and -

R. Subramaniakumar: We strongly believe we will be able to achieve it.

Moderator: The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Most of my questions have been answered. Just a couple of clarifications. Firstly, on the news that RBI gave only one year extension for your co-branded card with Bajaj. They found some deficiency. So, can you just clarify on what they were and what are the remedial actions you all are taking?

R. Subramaniakumar: While I may not be able to comment about the regulatory discussions with them, but however, I can just give a clarity on the whole relationship what we have been enjoying with the BFL. First is that, we have an agreement which is there for the five years just signed around, which is going to be in place up to December 2026, that's #1. #2 is that internally when we just evaluated it, we have decided to have a delisting of dependency on one major partner. So, our strategy is to have a multiple NBFCs, multiple PSUs onboarded, and we are in a very advanced stage, what Bikram also said initially that in maybe a couple of weeks or a couple of months you will hear because it is in the different stages of integration and agreement where we will be able to have multiple partners coming up. And a third very important thing as a strategy we have decided to move up to the level of 50:50. We were at 85% at the beginning of the year… 85% sourced through our major partners, which moved down to 65% today, and we want that to be taken to 50% maybe in two quarters or so once these agreements are done. That is going to be done apart from relationship through others and we already put around 2,000 plus DSTs on the floor, and all the branches have commenced leveraging it hitherto that was not being done. We have around two million customers who are associated with a liability product. We have a very good relationship with them, and a conversion of those will also in a position to add up to our numbers.

Piran Engineer: I appreciate the diversification strategy. I just want to understand like is it a small technological issue because let's say RBI does not renew it after one year, I know it is only going to be 40%, but it's still a large number. I don't want details, I know it's confidential, but can you just give a sense of how difficult the challenges are to overcome whatever RBI would have told you all to do? Are they mere technical upgrade or is there more to that, that is my only thing?

R. Subramaniakumar: No, it is a majorly an execution part of it. I'm pretty confident as a person who went deep into it to get it executed in a short while…maybe a couple of quarters.

Piran Engineer: Secondly, did I hear it correctly that MFI collections were slightly lower in the election states?

R. Subramaniakumar: No, no, no. What we said as a prudent measure, we just wanted to hold back the disbursement. That is the reason that our disbursement has not been matching like what we projected at the beginning of the quarter. Why we did was with the election year, there may be a problem. So, instead of focusing only on the disbursement and collection, we focus mostly on the collection. So, in these elections, there was a set back because in the collection number of days when people are working there instead of 25 days, it got reduced to around 15 to 20 days because of the various reflections which happens in the villages. So, we prudently disbursed with our ability. Now, we are ramping up during this quarter. And what we have achieved in the month of December is that the full efficiency has been achieved back in the collections, so it is around 99.41% which you will definitely appreciate. This I'm talking about the entire portfolio. And the states what you're talking about, which was little backward in collections, which is 99.1 has also moved up to 99.5. There are the states where we achieved even 99.6 and 99.7 in zero bucket.

Moderator: The next question is from the line of Prabal from Ambit Capital. Please go ahead.

Prabal: First, on business acquisition cost you mentioned on Slide #17, what exactly is it?

Ramesh Ramanathan: It's a combination of all the cost to incur for sourcing new cards, sourcing new tractor loans, home loans, microfinance, all of those have done the business acquisitions.

Prabal: Is there a possibility of efficiency getting generated out of it in the near term?

Ramesh Ramanathan: So, in the near term, what you'll actually see is the loans that we generated from these costs that we have incurred should contribute more to the income line. This is purely a function of what you want to source incrementally. If you want to source a certain amount of tractors or a certain amount of cards, there is certain cost that you incur. The benefit of that flows through the income, so therefore the income generation that happens is higher than the cost that you incur because you will appreciate most of the costs are incurred upfront by us in terms of onboarding a customer constitute to that model, the benefit flows through in the subsequent months.

Prabal: And an extended question will be on OPEX-to-asset. How do you see that trend going ahead?

Ramesh Ramanathan: It will start to calibrate down as we start increasing the share of our own sourcing like for example in cards Bikram spoke about getting 30%, 40% sourcing done through his own sales teams. Similarly, in home loans and business loans, Vijay and Kamal and Parag are working on generating from branches. We are also taking the help of RBL Finserv to generate leads from their own customer base and in their geographies. So, the idea would be to pare down the cost of incremental asset sourcing through some of these levers which we are working on. A lot of these have gone live over the last few years. That will give us a few months and the quarters to start seeing the benefit flow through in terms of incremental share of sourcing.

Prabal: You mentioned about diversifying on the cards side. So, congratulations first on that. My question would be just if I have to see for example a Bajaj Finance card, how is the dynamic different versus your card which is getting sourced by us in respect of yield and the cost of acquisition? And also if you can mention that historically how has the Bajaj customer asset quality has been versus the cards which was sourced by?

Bikram Yadav: I'll take the first question. I think I'll break the question into three parts. Asset quality, both the portfolios are almost range bound. Bajaj being credit tested at certain points in time has given above 50 basis points, better performance than the other portfolio. In terms of performance, our other side of the portfolio is more mass affluent to affluent and the Bajaj portfolio is more mass to mass affluent. So, what we see is that the spends and the ANR per customer on the other ex-Bajaj portfolio is almost two times. So, asset and spend on Bajaj customer is 10, it would be 20 on the other side. Therefore, if you were to see spend and asset mix is 40:60, whereas in our portfolio is about 75:25. And sourcing as we have covered earlier in the commentaries that earlier it was 85:15, which now is about 35:65 and we are inching very close to take it over 50:50 in another maybe two quarters max.

Prabal: This is the quantum of spend which the new card is coming which is why we are able to reduce the share of Bajaj so quickly, is that the right understanding?

Bikram Yadav: Yes.

Prabal: And on the yield side, what would you be running on the co-branded side and when it becomes your customer, how can that be different?

Bikram Yadav: Say this question once again, please.

Prabal: So, on the yield and the cost side, so when it is getting sourced from Bajaj -?

Bikram Yadav: Yields are also range bound. So, as a percentage of exposure, yields are range bound, on a per customer basis, we clearly get better returns on ex-Bajaj portfolio.

Prabal: Is Bajaj better with respect to ROA than a Bajaj customer?

Bikram Yadav: ROA would be slightly better with Bajaj customer, but it is largely rangebound for both.

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

Anand Dama: My first question is on the AIF. Basically, if you can explain like what is this investment that we have made, is this basically investment that we have made over 10 years and how much of that there is in the last ten months? RBI today also said that they will be watching the AIF build up over the past 12 months and their main concern was that a lot of lenders basically have sold out their NPAs to this AIF and basically indirectly investing into EGS. So, how much of that do you think they could be in our portfolio, if you can talk about that? Number two is that we talked about that basically we will look at redeeming this investment. So, what is your view on like how much time will it take for you to redeem this investment and will that lead to complete write-back of all these provisions that they have made in the third quarter, if you can just know for some light particularly on the AIF?

Rajeev Ahuja: Anand, this is Rajeev. I'll take that. See, we are largely in a venture debt platform and our relationship with them goes back almost 10-years. And the idea is basically that they are a premier platform which invests in debt-oriented securities in the new marketplaces, digital businesses, many of them have some of the largest brands which you all know. We have been a partner LP with them and by the way, it's widely held. In fact our last investment was just under 5% of the entire funding they had raised. They have raised three rounds of the funds for this purpose and obviously quite successful. Very widely held as I said. We also have an independent business focused on the new economy group and it's highly successful. We have done payments, treasury, a little bit of lending, deposits, etc., and I would say one of the few Banks which is deeply embedded in the entire ecosystem. So, our endeavor to partner with them going back almost 10 years was with the idea that this will give us a window to understand this ecosystem because these guys bring tremendous relationship with the VCs and the companies and that has served us extremely well. Now, this requirement of the RBI has a particular purpose which is actually I think very clearly stated in the circular. However, the way the circular requires all regulated entities is to basically assess what is the common borrower/investor and the exposure we have. So, unfortunately whether your exposure is kosher or not, it gets caught. So, I can only confirm to you that over the three funds we've invested, we received our money and a significant amount of return, which should be the case, and going forward, we don't anticipate anything other than the return of our principal plus the indicated range of return they have mentioned. To your second point on redemption, see what happens is, as the fund life starts coming closer to its final date, the investments keep getting redeemed. So, that is 1 normal rate of redemption. I cannot sit and tell you exactly what will be the rate of redemption, but it keeps happening every quarter. Secondly, obviously, this circular came towards the end of December. Everybody's been grappling with trying to understand what the meaning is. We took the view that let's provide first and then explore if we would like to do other options. This fund is in the money, the NAV is in the money. So, once there is a little bit of a clarity in breathing space, I'm sure if we'd like to, we can get liquidity for our investments, in which case all the provision will be written back once we sell it. In any case, Anand, like I said, we don't anticipate anything other than return. And I think as Mr. Kumar was repeatedly mentioning, it is just a contingency to meet with the RBI guidelines, not at all in the nature of any impairment. I hope that addresses that.

Anand Dama: If I basically understood it correctly that none of these investments that we have made is in a nature where basically we have tried to sell off our business assess to those AIFs and indirectly basically we have invested?

Rajeev Ahuja: Absolutely, absolutely. Anand, I'll just say one more thing. I mean, in many cases, we made the loan first and then independently they may have made the investment or vice versa. So, there is no connect between this funds practices and our own independent assessment. Unfortunately, like I said, everything gets captured in the circular… the intention was very clear in the circular, but so we have to abide by it. From an economic perspective, we don't see any problem whatsoever.

Anand Dama: Do you expect any of these reversals happening in next quarter and basically if you can quantify what maybe the next one year?

Rajeev Ahuja: Like I said, I can only say we are not perturbed one bit. We wanted to play it very, very straight and just go by and comply with the guideline. We'll see what happens. Like I said, this has barely been 2-3 weeks for us. End of the year, beginning of the year, we have other things to do. There is a lot of options on the table. We'll take it with a little breathing space and then decide what to do.

Anand Dama: Next question is on the corporate NPA pool that we have. So, one basically any lumpy recovery that you expect in the next two to three quarters, #1?

Rajeev Ahuja: No, no, no -

R. Subramaniakumar: It is a work-in progress. See, if you look at it last time, the recovery was much higher than the slippage which we have been able to do it for the last three or four quarters consistently like that. The efforts are on. There are certain accounts where it is in advanced stages of getting realization. There are some advantage stages, efforts have been started right, it's going on because the portfolio is around 1,500, 2,000 crores.

Anand Dama: Basically, even during the current quarter, we have had some recovery from written off accounts and that we tend to show it in provision line item. But there are some Banks, basically who show it to the other income line. So, is there any further change in the accounting as well?

R. Subramaniakumar: Can you repeat it again?

Anand Dama: So, basically, recovery from written off account, we have taken it out from the provision line item, whereas typically we are seeing that some Banks show it in the other income. So, any change that you want to do even on that front?

Ramesh Ramanathan: If I remember, right, the circular which came from RBI first asked Banks to take it from the provision line and then there was a dispensation. So, I know a few Banks who have done it on the provision line and some who have done it in the income line. This has been a practice for the last three or four years since the circular change. I think we will continue with this process only.

Moderator: The next question is from the line of Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: So, the question was with regards to the sale of credit card portfolio of around 793 crores where the loan account number is close to around 1.5 lakhs as we have given in our result note. So, what was the provision that we were holding because I think we have reversed whatever we realized, if you can throw some light on that, sir?

R. Subramaniakumar: See, first of all I wanted to say that our provision thing is 120-days, we provide 100% of that outstanding, previously 180. The entire portfolio what you saw was a two years of vintage and they have been 100% provided for and we made a complete evaluation and calculation. It is going to be recovered over a period of 2-3 years let us assume. The amount of collection charges, spend we will make on that collection will be higher than that of the upfront money what you're getting it. Hence, we decided to prudently move towards the selling and closing it.

Rakesh Kumar: Other thing was that considering this total retail loan disbursement that we have seen this quarter and out of that the disbursement was the secured retail loan. So, is there any like this is just the opportunistic move in the business or is there any thought that we have to go more into the secured retail side if you can explain, sir?

R. Subramaniakumar: See, as a strategy we explained earlier, in the vision document also we said that, we will be in a position to expand. The run rate of growth of the secured portfolio will be faster and higher when compared to the run rate of growth of your other unsecured product, that is a given. So, when you just make that beginning and a lot of products were launched in the last 9 to 12 months period and those are started scaling. For example, tractor was done a couple of years before and they started scaling. Housing loan and LAP loan which we call it as in the mortgage loans have been commenced with the AHL and PHL and small LAP and other things, they have started scaling in the last two quarters. In respect of other loans, two-wheeler we have just commenced and the four wheeler we have commenced it. So, they will start scaling after a quarter or so. So, in nutshell the strategy is that in our entire credit growth, there will be a growth of 20% straight upfront. It will be 20-plus as we move forward next year and next year. And within that, the retail growth will be around 25%. And within that the secured credit growth will be somewhere around 25% to 30%. So, that is how exactly it has been planned out and we will be achieving it as per the plan of action. We have been achieving it and we will continue to achieve it.

Rakesh Kumar: So, just coming back to the first question, so the loan accounts that we have sold, the credit card, this is to some private Bank we have sold, correct?

R. Subramaniakumar: Yes, it is I think Kotak.

Moderator: The next question is from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra: Three questions on the credit card portfolio. First one is when we land a credit card to a Bajaj finance customer, what is the ownership of that customer -- so does he permanently become our customer and Bajaj Finance cannot give him any kind of such products whether it is credit or non-credit or is it a transient movement, Bajaj can also lend him any credit or non-credit product, we can also lend him any credit or non-credit product whether savings account or any type insurance or another personal loan for example? Second question is the present set of regulations say that the originator cannot be the collection agency. So, in the co-brand of Bajaj Finance, is Bajaj Finance or any of the subsidiaries or any of its parent subsidiaries doing the collections for that particular portfolio? The third question is what is the percentage of less than 25,000 credit limit credit cards in the entire credit card portfolio?

R. Subramaniakumar: So, one or two points, I'll clarify, the remaining data I will ask Bikram to do it. First one is when the customer is acquired it comes into the balance sheet of the Bank and he becomes the customer of the Bank, right. That is a major point. So, once he is a customer of your Bank and the rest of the things are left to the Bank for cross and upsell and everything. So, I just park in that. The second when come to that collection agency previously it was a part of the BFL. Now, it is not with the BFL. If you look at it, there is arm's length relationship as far as the current company which is visible in the collection. Ultimately, the collection is not by the company, it is the agencies below that. We are on 1,300 plus agencies and all these agencies are independent of it and it is managed by the Bank. So, the moment the agencies are managed, allocation is taken by the Bank. The question of interpreting in another way may not arise. This is what I allude to it. As regarding that point and other things I want Bikram if you can give the data.

Bikram Yadav: As Mr. Kumar has mentioned, the customer, once he takes the card from RBL Bank from any of the channel whether co-brand or non-co-brand becomes the customer of the Bank. We can sell anything to that customer and so does can the co-brand entity. It's an open market customer, anyone can reach out to him and sell whatever they deem fit. Second question that you have asked is that how many customers are less than 25,000 customers. That would be less than 5% of the portfolio, maybe in a range of 2% to 3% and that is also the test program that we have done to test certain segments is where this number would lie like most of our portfolio would be about 25,000.

Shubhranshu Mishra: Who is doing the collections of the Bajaj Finance portfolio right now… what is that entity's name?

Management: Collections are done by the agencies and the agencies as typically told by Mr. Kumar they are managed by us, we control the agencies and the field agencies goes and collects for Bajaj customers as well.

R. Subramaniakumar: Thanks, everyone.

Moderator: Ladies and gentlemen, that was the last question. We now conclude the Q&A session. If you have any further questions, please contact RBL Bank Limited via e-mail at ir@rblBank.com. I repeat, ir@rblBank.com. On behalf of RBL Bank Limited, we thank you for joining us and you may now disconnect your lines. Thank you, members of the management.