"RBL Bank Limited's Q1 FY21 Earnings Conference Call"

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CHORUS CALL®

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Moderator: Ladies and gentlemen, good day and welcome to RBL Bank Limited's Q1 FY'21 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vishwavir Ahuja – Managing Director & CEO of RBL Bank. Thank you. And over to you, Mr. Ahuja.

Vishwavir Ahuja: Good evening, ladies and gentlemen, and thank you for joining us for a discussion on RBL Bank's Financial Results for the First Quarter of FY'21.

I am joined on this call by other members of our management team, who along with me will address any questions that you all may have later.

The last quarter was a mixed bag. On the one hand, COVID infection rates increased across the country, causing partial lockdowns to be reimposed in certain states and therefore continuation of uncertainty. On the other hand, as we transitioned from a strict lockdown to various stages of unlocking and easing, we saw an improvement in economic activity begin in May 2020 with the sharp lift in June as majority of the country went into unlock phase. The economic forecasts point to a contraction in FY'20-21 GDP of anything between a 5% to 8% range. And while the government and RBI have announced a slew of measures, growth according to us is expected to come back only in the fourth quarter.

As articulated in our last call, the rural economy were the first to see a bounce back. As soon as the process of unlocking began, small businesses started and agriculture-related activities witnessed a robust growth. The infection levels continue to remain low and the government stimulus in terms of direct cash transfers and MNREGA helped. For us, this was quite positive for a rural inclusion and agri business.

However, we believe that the overall economic recovery will likely be incremental as labor availability, low demand and location-specific restrictions will constrain businesses from reaching their pre-COVID levels in the near future.

As a bank, we therefore continue to remain focused on balance sheet in terms of risk mitigation, in terms of capital conservation and in terms of maintaining surplus liquidity. We have had a satisfactory quarter from a profitability perspective.

However, as an important prudential measure, we have significantly increased our PCR by over 6% to 70.5% now and have taken additional COVID-related provisions also.

At an operational level, of course, our employees continue to work tirelessly despite localized interruptions in some areas caused by the pandemic and have ensured that all our operations are run smoothly and at almost full capacity.

I will now briefly talk about our "Performance Highlights for the Quarter."

Advances were flat year-on-year and declined 2% sequentially from the previous quarter. The retail, wholesale Advances mix is now 53:47.

Our wholesale business declined 18% year-on-year, 3% sequentially as we continue debulking, derisking and rightsizing our portfolio in line with our target operating model. Non-wholesale businesses grew 24% year-on-year.

Our total deposits grew 7% sequentially to Rs.61,736 crores. Deposit traction has continued to remain strong throughout this quarter, leading to a further increase in our surplus liquidity position which now stands at Rs.13,600 crores at present.

Our LCR averaged 164% for the quarter. We expect this to gradually unwind as our risk appetite on lending in retail and wholesale segments comes back hopefully in the next few quarters.

Meanwhile, we are focused on reducing cost of deposits, increasing granularity and that leads to a reduction in cost of deposits by 13 basis points to 6.27% in this quarter. We have recently cut our rates on both term and saving deposits further and we expect the cost of deposits to trend even lower in the coming quarters.

CASA deposits grew 18% year-on-year and 8% sequentially. CASA percentage crossed 30% for the first time and was at 30.1% in Q1'21 as against 25.8% in the same time last year.

Revenue growth saw some impact owing to lockdown, etc., But despite that, we have grown 6% year-on-year in Q1'21.

NIMs continue to be strong at 4.85% for the quarter. Net interest revenue was Rs.1,041 crores, a growth of 27% year-on-year.

Other income, of course declined 31% year-on-year primarily because of lower credit offtake, conservative risk appetite and reduction in credit card income.

Our cost-to-income ratio was 49.8% for the quarter. Costs did have the benefit of a lower variable costs as the retail loan origination was subdued. Moreover, we have also initiated a process of cost rationalization.

Our pre-provision operating profit grew 14% year-on-year to Rs.690 crores. As a result of the above and after taking necessary provisions, PAT for the quarter was Rs.141 crores.

Now to touch upon the "Moratorium Situation as of June 30, 2020."

For the bank, the overall book under moratorium is now at 13.7% as of June 30 as against 33% in our last quarterly update. Within this, wholesale is at 5% as compared to 22% as last reported.

In the wholesale book, we have seen a sharper reduction because of multiple reasons, including the fact that many customers who initially thought they needed it, decided against availing morat as well as customers who were given conditional approval at the time deciding against it. The morat in our non-wholesale business is approximately 30%.

In micro banking, as rural markets have increasingly returned to some semblance of normalcy, we have seen collections improve. So now almost 77% of our customers have started paying their EMIs in July. In credit cards, approximately 11% of our customers, constituting a little under approximately 21% of advances are under morat. We have again, in this quarter taken some COVID-related provisions on the retail portfolio which we will discuss a little later.

Coming to "Asset Quality."

Our gross NPA was at 3.45% as against 3.62% at the end of the last quarter. So, there was a decline.

Our net NPA was down to 1.65% as against 2.05% in Q4 FY'20, which means a bigger decline due to higher provisioning along with an increase in PCR.

As such, in this quarter, as a strong prudential measure, we raised our PCR by 6.4% to 70.5% as of Q1 2021 which is approximately an amount of Rs.250 crores of additional PCR-related provision. We have also taken another Rs.240 crores of additional provisions on account of COVID. This is in addition to the Rs.110 crores provision we took in fourth quarter 2020. So, total of Rs.350 crores of COVID-related provisions have now been taken which translates to approximately 63 basis points of our advances book.

Majority of this provisioning is towards our credit card portfolio where we have provided for approximately 10% of the credit card book under morat.

In our estimate, we are on track to remain within the credit cost guidance we had given earlier for FY'21 and that too of remaining at/or within the FY'20 levels.

On our capital position, we ended the quarter with a comfortable capital adequacy ratio of 16.35% and with a CET ratio of 15.2%.

I will now hand over to Harjeet to take you through our non-wholesale businesses in some more detail.

Harjeet Toor: Thank you, sir, and good evening, ladies and gentlemen. I will now give you the highlights for the quarter and the operating results amongst our different businesses in the non-wholesale segment.

In our micro banking business, almost all our branches are open with over 90% staff in attendance and client-centric meetings are happening regularly in areas where there are no restrictions on movement. Over 95% of center meetings are now happening in person or on phone. In our business loan segment, we notice that the MSME businesses in the market was slow to pick up as expected and mentioned by us in our May call. While the supply chains have opened up, the businesses are facing twin challenges of low demand and disruption in their regular operations because of restrictions.

The moratorium has helped the MSME segment the most as it has just deferred their EMIs and elongated their tenor of the loan while not changing the EMI amounts.

The recently announced credit guarantee scheme is also enabling these businesses to raise cheap debt in order to kick start their businesses. We have sanctioned around Rs.225 crores of loans and disbursed Rs.192 crores under the credit guarantee scheme of the government. All these have been given to good strong businesses that were in good shape before the lockdown and need assistance in the post lockdown scenario.

For the individual segment, we have seen some amount of confidence restored though the health scare is still there. Based on our collections feedback, we have not seen much signs of large scale job loss in our client segment, but we have observed salary delays or cuts in some instances. However, the sentiment continues to remain cautious amongst this segment with a strong bias for cash preservation on account of the uncertain future.

In our credit card segment, we were wary of an increase in the number of customers availing moratorium with the extension of moratorium and lockdown. However, we are happy to report that the moratorium has in fact reduced from 24% to 21% by value.

Around 11% of our card customers numbers are in moratorium now. 58% of the customers in morat-1 moved into morat-2; however, 25% of these have already moved out. Today, 60% of customers in morat-2 pool are therefore from morat-1, indicating that there is a lot of churn in customers under moratorium and hence not everything is sticky.

70% of this customer base is salaried, same proportion as the portfolio. Further, 95% never have been delinquent in the preceding 6 months.

For clarity, let me spell out the "Definition of Moratorium." We define moratorium as balances of customers who have not made a payment to us in June, irrespective whether they opted in for moratorium or not.

In fact, from July onwards, we have asked customers to apply specifically for moratorium. Only 38,000 customers applied. However, payment has not been received from about 3.2 lakh customers. For us, that is the moratorium pool and not the 38,000 which is 11% of our customer base. This is the pool which we need to collect from.

Let me now talk a little about "Customer Spends." We have seen pick up in spend from May onwards and for the month of June, spends were at 78% of March levels. July has even been better than June. And as of date, we are at 84% spends as compared to March. However, we are seeing some variations happen especially in the last two weeks as more and more cities go back into complete or partial lockdown.

Let me now talk about the "New Business Origination." We had taken a conscious call not to book any new business for April and May. We started new business in a very, very cautious manner only mid-June. In micro banking, we did not disburse new loans as we wanted to see one full month of pure collections to judge the situation on the ground and ability to pay by the clients without any promise of new disbursals, including emergency loans.

Since July, we have started disbursing in centers where we are seeing regular collections. We will start increasing our pace of new business in the coming months as we get more comfortable with normalization of economic activity. However, we will wait for moratorium to end and at least a month of collections post that before we open all our acquisition channels. Therefore, we expect normal disbursal run rates only by around December 2020.

Needless to say, our credit filters continue to remain extremely conservative and we are looking at every client in terms of their current cash flows, repayment on their existing dues across finances and a degree of certainty in terms of their future business.

Let me now spend a little while on the "Business Performance for Q1 FY'21." Advances as mentioned for the non-wholesale business grew by 24% year-on-year with retail lending growing at 25% and DB&FI at 22% year-on-year.

The growth is a reflection of the business already done by the end of Q4 FY '20. On a sequential basis, the overall advances book degrew between 2.5% to 3% quarter-on-quarter as new business were shut for a major part of Q1. The yields on the overall non-wholesale book further increased by 150 basis points year-on-year to 17%, primarily on account of the mix change within the retail segment.

Fee income in Q1 FY'21 was down 41% year-on-year for the non-wholesale asset business and was lower than Q4 FY'20 by Rs.180 crores. Cards accounted for dominant part of the reduction in fee income, largely on account of no late payment charges and reduced interchange income on account of lower spends. The processing and annual fee were also down due to negligible new business plus lower EMI loans. The fee income especially in credit cards will pick up from September onwards once the moratorium ends.

In credit cards, the total portfolio now stands at 2.7 million cards, flat to previous quarter. We took significant steps to bring down risk in our portfolio through limit reductions and blocking cards. We even blocked cards for customers who were in moratorium to cap our exposure to them. Our spend drop was lower than the market average as the customers continue to remain engaged with us and have also seen a bounce back in line with some of the larger players in the market. Our spends per account in June were at Rs.7,450 per month as against Rs.9,650 in March. The spend per active card was around Rs.19,100, almost the same level as Q4, which is an encouraging sign. However, we did see a decline in our 30-day active rate which was at 39% in June as against 53% in March. The active rate drop is on account of cautious spend behavior by some clients in these uncertain times plus blocking of cards under moratorium. Adjusted for moratorium, we have a drop of around 5%-to-6% in terms of active rate. We are seeing these numbers slowly rise every month in terms of the active rate.

The collection build out is another thing which we focused on in the last quarter. As mentioned in the last call, we had proactively enhanced the capacity of our collections team by 1.6x in anticipation of the buildup in delinquency buckets once the moratorium ends. In fact, much of the capacity build out was already in place in May as earlier the moratorium was to end by 30th of May.

With the extension, the teams have now three more months to reduce the stocks till 31st of August. The opening of field collections in June has been a big help. Collection efficiencies have been increasing. In cards, we have also seen on-time payment rates move up to 84% of earlier levels. Success is also visible in moving out customers from moratorium. The collection efficiency is further enhanced through advanced collection scorecard models, digital payment links and interactive voice and chat bots.

We have even seen our recovery channels operational in this tough environment and started to produce results on NPA accounts. Our focus this quarter will be to reduce the opening bucket of September post the moratorium by as much as possible in the intervening period when the account DPDs are frozen because of the moratorium.

In our micro banking business, the focus has been on branch resumption of operations, ensuring safety of our staff and starting the discipline of center meetings. In June, as we said, we were able to hold almost about 95% of center meetings.

While we explained the moratorium and the associated costs to the clients, we noticed the following: Client business activities had started since May and cash flows were improving with every passing week.

Households engage in agricultural activities were seeing cash flows come on account of robust crop and pickup in allied agri activities. Majority of the customers did not want to bear the additional interest burden due to moratorium and wanted to start paying.

Therefore, despite 100% moratorium offered to our clients, 62% payments were collected against the full June month's demand.

We also saw efficiency of collections pick up with every passing week in June and the same has continued in July as well with around 77% of the customers making payments.

However, here again, in the last two weeks, we have seen lockdowns restart in various forms as in many states the authority to announce and enforce lockdowns are now at the district levels and some places at the panchayat levels as well. This does cause some disruption in collection activities and these will be closely watched.

We are also closely watching the flood situation emerge in Assam and a few districts of West Bengal and Bihar. The positive feedback is that one has not seen any type of mass behavior in terms of nonpayment or call for loan waivers.

To sum up, the portfolio performance and business metrics seem to be on the lines of our scenario model build out earlier and we are confident of coming within our business forecast. We need to continue to watch the growth of the pandemic and the unpredictable nature of lockdown, which have the potential to disrupt any normalcy which we are trying to restore.

I will now hand over to Mr. Vishwavir Ahuja for his concluding remarks.

Vishwavir Ahuja: Thank you, Harjeet. That was very elaborate. Overall therefore, I want to emphasize on a few key thoughts. As we navigate through these uncertain times, the focus of the board and the management team this year would be to preserve and continue to fortify the balance sheet; ensure that asset quality outcomes in both wholesale and retail stay within guidance that we have provided; focus on granularity on both sides of the balance sheet as already being evidenced in this quarter and take the opportunity presented to become sharper on cost and efficiency of delivery; focus on businesses where we believe that we have built scale and invest further capital and resources to acquire a market-leading position over the next few years.

And lastly, I want to say that as a management team, we have the experience, gravitas and are capable and determined to ensure a successful outcome for the bank irrespective of the nature of the challenge on hand.

I will stop here and we will open up the call for question-and-answer.

Moderator: Thank you. We take the first question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Given the focus on the balance sheet quality preservation, so are we looking to raise the capital also to sail through this tough period or we are sufficiently capitalized for at least one to two-year perspective?

Vishwavir Ahuja: I think the way I would like to answer that is that if you look at our current capital position, it is more than adequate, we are maintaining a capital adequacy overall of approximately 16.4% with a CET ratio of 15.2% or 15.3% which is more, more than adequate. The second thought here is that the way we are continuing to in fact manage and remain profitable, we are not seeing any possibility of a capital depletion to happen over the next few months or quarters, whatever, I mean, in the sense, throughout this challenging period, as I had suggested even in terms of our total credit cost, they should be within our so-called last year levels. And if we project out, there is no possibility we see of any capital depletion. So in the sense, there is no capital erosion possible, in other words, we will maintain the more than adequate capital position. So that sort of calls into question the need and efficacy of any potential capital raise. The environment being what it is, there is no defensive need to do that, but we will look at the environment and see and continue to evaluate that situation.

Manish Ostwal: So you made a very detail comment about the definition of moratorium. So when you just rewind yourself from Q4 to Q1 and assess the moratorium trend, so it is in line with your expectation or anything which is abnormal which you would like to highlight to us?

Vishwavir Ahuja: No, actually, I would say that we are actually positively surprised on both wholesale and non-wholesale in terms of the improvement in the moratorium situation. At the time of our last sort of update or presentation in the first week of May, I mean, the number, as we have said earlier was one-third of the book and now it is down to 13.5% or 13.7% overall. And on both sides Wholesale and non-wholesale, come down significantly. So, on the wholesale side, we were very confident that things will dramatically improve. And we commented on that previously because a lot of the belt tightening and derisking and debulking had started nine, 12 months ago because of our last year's situation around a few corporate assets where we are facing stress. So, we started moving towards a much tighter operating model 12-months ago and we have been consistently tightening our risk filters and the overall risk culture in the organization even beyond its satisfactory nature.

As I said previously also, we walked into this fiscal year on a pretty clean corporate book. So, we were confident that we were very well positioned in terms of asset quality on the corporate side. And that is now bearing out even in terms of the morat percentages. So while positively surprised, but not so surprised that on the wholesale side, things were to improve, and they look to have improved.

On the retail side, as Harjeet has amply explained, that the segments in which we are, have shown very good improvement particularly on the inclusion side, agri side and also I would say on the cards side which are our two biggest if I may say business segments on the retail side. So, that is an encouraging sign. And while to be cautious, this little bit of disruption of repeat lockdown and all that, is of concern. If they continue to happen again and again, that disruption will cause some level of uncertainty to continue. But I think the overall trends are headed in the right direction.

Moderator: Thank you. The next question is from the line of Utsav Mitra from Falcon Edge Capital. Please go ahead.

Utsav Mitra: Are there any specific pockets that you are particularly worried about, in your sense is this close to the bottom and do we build from here particularly when you look at the ROAs, ROEs and the question on capital requirement incrementally has already been addressed, but how should we think about the one and a half, two years, probably even a three year plan of the original guidance of 1.5% to 1.6% ROA or 15% to 18% ROE, are we still on track based on what you are seeing currently?

Vishwavir Ahuja: So, I will give you a very practical answer to this. We are not pushing for growth in the next three, four, five, six months. The kind of if I may say focus on our capital preservation, liquidity preservation that I have talked about, is going to be very much the guiding principles for now. I do not think as a thoughtful cautious institution which has to take care of all its stakeholders, we should be thinking otherwise in an environment of remaining uncertainty. And I think the time for that will come and will hopefully come soon. Yes, the virus situation has lasted longer. The peaking is just about happening in Mumbai, Delhi whereas in other parts of the country it is still increasing. And I do not think we should call an end to it and we should remain cautious. So, in that sense, our hopes of a full revival have got pushed back by three, four months for sure, which is why we are saying that perhaps by and large that kind of growth perspective will come back perhaps closer to December. And that is what all the experts in the country and in the world are also suggesting based on the various trends. So no, we are not looking for growth right now, but we are positioned for growth and I think that is the way to look at it that we are extremely well positioned for growth. And we are positioned for growth, and as and when those opportunities start presenting themselves, I think we will be very agile and ready to get off the block just in the way we are positioned, and I think that is the way to look at it. Now to answer the second part of your question, in simple terms, we see the growth trajectory reviving closer to December of this year and perhaps not earlier. And in fact, in the second quarter, we may see a similar flattish to minor down territory. Although in Retail, new business has started happening and I think Harjeet can elaborate on that. But overall, I would say that trajectory will remain where it is. Beyond that, I think once the growth starts reviving, in terms of our overall metrics today, and reaching the so-called benchmark metrics that we have talked about earlier and you just mentioned, our path to getting there will in fact be faster this time around because a lot of improvements have happened in the meantime in terms of our operating and financial ratios. So as the growth in the top line start reviving, not so much in terms of just the net interest income, it is more in terms of the other income line which have been impacted more because of COVID.

And once they also start reviving, along with the growth on the top line, then I think with a pretty decent asset quality going into the growth stage, I think therefore the provisioning that will be required in the future will come down dramatically and will have a direct impact on not just profitability but also on all our return ratios. So, I would say that the path to reaching those benchmarks will be a lot better because of the tightening that has already happened in the meantime. Cost rationalization efforts have also started bearing fruit. So, in a sense, we will be a much better organization coming out stronger on the other side to reach those goals and targets.

Moderator: Thank you. The next question is from the line of Amit Kumar Premchandani from UTI Mutual Fund. Please go ahead.

Amit K Premchandani: Just had a question on the morat number for credit card. I think Harjeet mentioned that this 24% has moved to 21% and there has been a churn of around 42% of the earlier morat customers paying, is it right?

Harjeet Toor: That is correct, so 42% of the morat-1 customers exited and 58% of the morat-1 pool entered into morat-2.

Amit K Premchandani: Reading on the numbers, so around Rs.25 billion of credit card loan took morat in 1, and of that, around Rs.1,050 crores have paid. So basically under Rs.1,400, 1,500 crores of this Rs.2,500 are still to yet to pay, right, in the morat, so of the Rs.2,500 crores, around Rs.1,400 crores are from morat-1.

Harjeet Toor: Let me just look at it this way. If I look at the pool today, which is around Rs.2,200-odd crores, 60% of that, so about Rs.1,200-odd crores roughly is from morat-1, but they either are from April or from May.

Amit K Premchandani: So this Rs.13 billion of pool which are taking two morats, how viable is taking a morat for these kind of customers? And hence what can be the credit cost estimate for these kind of customers who are taking six months morat for a loan product which is anywhere between 20% to 40% rate?

Harjeet Toor: Understand that the outstandings here are fairly low. We are talking about average outstanding in the region of about Rs.30,000, Rs.40,000 and therefore, the interest burdens are not prohibitive from that point of view. While from an interest rate perspective, they look, but in actual rupees, they are not. Having said that, majority of the losses which will come, will come from this pool because what is left is able to service, are unlikely to go bad for the rest of the year. And therefore, when we have said that credit cards could actually see a credit cost increase by almost about 70%-odd over its normal 5% levels, this is the pool which will result in that. The only good thing or silver lining which we are seeing is that if I would have said that 85%, 90% of my morat-2 pool consists of morat-1 customers, then I should be worried because that is a very sticky pool. That is not the case here. Even when I said 58% entered morat-2, in July itself 25% of them have paid. So you are seeing people go in and come out and therefore the churn is there. But the reality is that yes, we will see a credit cost increase and that will come from the morat pool itself.

Amit K Premchandani: And just to clarify, you said 38,000-odd people have actually taken morat as compared to 3 lakhs who have not paid and you have taken 3 lakhs as a morat pool. If you look at a listed player with 100% card business, for that player, the morat number went down quite sharply. Why is this divergence between your number and in the same industry someone else number?

Harjeet Toor: I think it is a question of how you define morat. If I was to define morat as saying that people who opted for it, then my morat number in terms of number of customers would be 38,000 out of 2.7 million customer base which would be maybe 1.5% to 2%. The way we define morat is people who have not paid and on which you have to collect. And that is the reason why I gave the definition, at least from our point of view to clarify what the morat is. Now different players will use different definitions, but we wanted to be clear as to what are we seeing.

Amit K Premchandani: In terms of value, this 38,000 customers would be?

Harjeet Toor: Proportionately the same. See, the average ticket sizes do not vary yet. This is cards product. So they are all same.

Amit K Premchandani: And the overall morat number is 21% by value, that is right, because I think in the call, 13.5% was mentioned somewhere.

Vishwavir Ahuja: No, no, that is for the aggregate book of the bank.

Harjeet Toor: Bank morat number is 13.7% by value.

Amit K Premchandani: So there was some confusion about whether it is 21% by value and 32% is just for the credit card number.

Harjeet Toor: 21% is specifically for credit cards.

Vishwavir Ahuja: 13.7% for the bank as a whole and down from 33%, that is one parameter. Within that, wholesale 22% down to 5% and cards 24% down to 21%.

Amit K Premchandani: And sir, how do you classify morat under micro finance now?

Harjeet Toor: Customers who start paying their EMIs are out of morat. Customers who have not paid their EMI are in morat. So customers in June who have paid their EMIs will be out and customers who have not paid their EMIs continue to be in morat.

Amit K Premchandani: And what is the morat number for micro finance?

Harjeet Toor: Micro finance when we said, in June, it was about 35%. These are customers who have not paid. When we said in July, we have seen 77% of the customers pay their EMIs and hence 100 minus 77 is what would be the morat number if I was to let us say calculate for July.

Amit K Premchandani: And this is opt-in or opt-out?

Harjeet Toor: There is no question of opt-in here. So we do not follow a principle of opt-in and therefore classifying morat. See, in micro finance, you go, meet customers, you explain the morat, there are customers who come and pay you an installment which means they are opting out of the morat and customers who do not pay you continue to be treated as opt-in irrespective whether they have given a request to you or the request is simply in the form of not paying.

Vishwavir Ahuja: I think we want to emphasize this fact a little bit that this is the most conservative view that should be taken, I mean, we are not pointing fingers at anybody else. We are not going by this opt-in, opt-out structure. As far as micro finance is concerned, we gave them morat to 100% previously. It is those who have voluntarily come forward and paid, are the ones that are out of morat. Those whether opt-in or not opt-in, those who have not paid automatically get treated from our point of view as morat which is why we are more confident about this number improving steadily and not necessarily becoming the so-called bad asset which is a natural implication largely because we are not using that opt-in definition. If we were to use opt-in definition, the numbers would go down dramatically on our morat and we do not want to therefore mislead anybody by using that kind of assessment of the situation. I hope we are amply clear about this.

Moderator: Thank you. The next question is from the line of Manish Karwa from Axis Capital. Please go ahead.

Manish Karwa: My question is also on credit card. So Harjeet, you mentioned that of the morat pool, almost 40% or 45% of the customers are actually new customers. Is it not a bit worrying that even after four months of recovery, I guess, we may have seen a much lower new number coming in, but still the numbers which are coming in for morat is fairly high or people who are not paying is fairly high?

Harjeet Toor: I think Manish what you have to keep in mind is credit card is a product where you bill a customer. Customers pay you on due date because there is always a threat of a late payment fee which is levied. When the threat of late payment fee goes away, customers tend to miss their due date. And therefore, when they miss their due date, they come into morat. And then when the card gets blocked, they come back and pay again. That is why you are seeing a big churn happen and you are not seeing sticky customers who just continue to remain in morat. That is the main reason why you will see this. So, I am not worried about people suddenly in the month of June or July come in on morat because I know that they will also exit morat very easily. Today, I say that in my total morat pool, 60% are customers from morat-1 which means the others are coming and going very fast and therefore, I am not that worried about that. But yes, you will have a situation till you do not levy the usual threat of late fee, customers today will pay as and when they remember to pay.

Manish Karwa: So basically, what you are saying is these are the customers who are just simply choosing not to pay, we are classifying them as morat. And when we go out and engage with them or you apply some fees or something, they may come back and pay something?

Harjeet Toor: We do not apply a fee. See what happens is they miss their due date, after the grace period, the card gets blocked, the customer is intimated since you missed, your card is blocked, therefore, a lot of those customers then come back and make a payment and therefore, the card gets opened again. Now in this period, when they do not make a payment, it gets counted as morat. But when I give you a morat number, let's say, 21%, I am basically saying is, at the end of June, 21% of balances were not paid, which means from these 11% customers, I did not receive a payment in the month of June.

Manish Karwa: How are you defining active customers -- guys who are in morat are no longer active customers, is that?

Harjeet Toor: No, people who transacted in the last 30-days are active. So a customer in morat, since the card is blocked, cannot transact, and therefore, they are not. That is why I said, adjusted for morat, we are only about 5%, 6% down in terms of active rate. But people who are active are now spending as much as what they were spending in Q4.

Manish Karwa: And just to read through the first morat, 54% of the people are in Morat 2. So if the first morat was say 24% and 54% of that is say 12%, 13%, those guys have not paid at all over the last four, five months?

Harjeet Toor: That is right.

Manish Karwa: And you will bucket that as some sort of high risk customers or you think that they can?

Harjeet Toor: No, they are already bucketed as high risk. Field collections are going, but understand that we cannot use the usual intensity till the moratorium is on because that is the regulatory guidance which has been given that till that period of time while we speak to them, we try and coax them and show them the costs associated with moratorium. But if they choose not to pay, that is their right. Therefore, once the moratorium ends, the intensity on these customers will increase because they are the ones which are the most risky the way we see it amongst all the moratorium customers.

Manish Karwa: And as you are saying, some part of that customer base will probably become NPAs most likely in the December quarter?

Harjeet Toor: That is right. Actually, you will see more in the quarter after that which is the Jan to March quarter because even if they make one payment in between, they will not become an NPA.

Manish Karwa: Just a small question on the staff cost. In this quarter, that number has actually gone up. Any one-off there? Ideally, I think for every bank, we are seeing that number either remaining flat or declining.

Jaideep Iyer: Manish, Jaideep here. We start the year with some sort of provisioning on bonuses and gratuity and other costs which are more provisioning oriented rather than actual costs where we typically start with being conservative in the beginning of the year. So that is the primary reason. Plus, of course, certain hires which were done in March, we are a growing bank, we have expanded our branches, so all of those additions have also come in, people have joined, we are happy to kind of take people in morat as we have committed and that is also added to it. So a number of people today are higher than what were there in the last quarter.

Manish Karwa: So we should assume this is a run rate as in this kind of a number will continue?

Jaideep Iyer: Yes.

Manish Karwa: And other OPEX I believe it is purely because of lack of activity. And as activity picks up, this number also starts going up, right?

Jaideep Iyer: Yes, substantially, the reduction on other OPEX from a variable standpoint is more than what you see in the final outcome because there will be some incremental increase also. So the variable, new business-oriented, especially retail is down by more than Rs.100 crores, but there is some compensating general increases also. But yes, that will come back as and when business origination happens at some pace.

Moderator: Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: A few more questions on credit cards, all some conceptual queries. Payment for credit card is defined as it is just that anything above the minimum 5% that requires to be paid, right? So if I have a revolver balance of whatever X, Y, Z Rs.30,000, 5% of that, if I pay. I'm out of morat. I am now able to transact using my card. Is that correct?

Harjeet Toor: That is correct.

Nishant Shah: For the cards that are under morat, you do not necessarily ask them to clear the entire balance to be able to start using their cards again?

Harjeet Toor: Look at it this way. When you take a loan, your EMI is 5% of the loan amount. That is what you demand and that is what you pay. As a credit card, I demand only 5%. It is a choice of the customer if he wants to pay the full amount or anywhere in between. So contractually, he is supposed to pay the minimum amount due which is what I am asking for.

Vishwavir Ahuja: Even in normal times.

Harjeet Toor: So if the customer continues to pay me, even if it is a minimum amount due, he is out of morat. A lot many times, lot of us get confused with this 5%. A normal loan EMI payment is also 5%.

Nishant Shah: Second question on Slide #39, you have given advances breakup of your credit cards for the month of April, May and June. I am kind of surprised that the mix has not really changed quite materially. Ideally, I would have thought that the transactor balances would have gone down by a little bit more and perhaps like a disproportionate kind of an increase in the revolver and the term balances because your spends will go down and transactors go down first. It is not as intense of a drop as you would have expected. There is still a 7% kind of mixed drop. Could you explain probably why is like a month-on-month between 4Q and the month of April, the increase is only about 600 basis points on the revolver pool?

Harjeet Toor: See, two things happened; one is that the spends themselves are depressed. So when the spends are depressed, the number of customers who normally would revolve would go down and therefore, what you are seeing here is on account of the moratorium because the moratorium customer is therefore accruing interest and is being treated as a revolve balance. But look at two things; one, the number of active customers have gone down. And hence that is also therefore bringing down the revolve balances and the spend itself has gone down. So that is the mix, which is at play. To me, 31% of our revolve balance, let us say in Q4, went up to 37% and then came down to 34% in June, that is when the moratorium also came down. So it is a direct correlation to the moratorium which is happening.

Nishant Shah: Just in general on, say, for example, micro finance, this is a very separate question. When you classify someone out of morat, you are including that month's billing or are you including the backlog as well like if someone has not paid for the month of April, May and June, do they have to clear the entire balance or just the month of June and remaining is just adjusted in the principal amount outstanding?

Harjeet Toor: Understand that if a customer, let us say taken morat, the EMIs are no longer due, the EMIs have been pushed forward by that period. So if a customer pays voluntarily, it goes and gets applied to the first due which was there which is let us say in this case April. As long as the customer begins the cycle of payment, we take them out of morat because they are now paying, but the EMI dues are still later, the EMIs are still not due. So if a customer pays me back in July, the EMI is due three months hence. June month EMI apply to April, the July month EMI which is payable get applied to May.

Nishant Shah: What is the component of corporate spends in your total spends?

Harjeet Toor: Nothing.

Nishant Shah: So it is 100% Retail?

Harjeet Toor: Yes.

Moderator: Thank you. The next question is from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh: Three questions from my side. One, when you indicated that the customers who are in moratorium, you kind of classify this under the revolver?

Harjeet Toor: I do not classify moratorium customers as revolver, but when you split your book, customers who are paying you interest on a non-term book automatically become revolvers and therefore, moratorium customer who is therefore accruing interest will be treated as a revolving balance.

M.B. Mahesh: Sorry, I did not get it. So for example, if I go to that slide 39, 31% has gone to 37% from March to April and our moratorium book was about 22% by value. Just kind of figure out what has happened here? That is just the first question. And just to kind of extend this discussion, this 22%, where has it come mostly -- Has it come from the term side or has it come from the transaction?

Harjeet Toor: First, understand what 22% balance is, customer has both term and revolving balances, that split roughly is 65% revolving balances, 35% term balances.

M.B. Mahesh: Just to extend this question, if the customer was in revolve, how do you kind of step into the portfolio and said that look, why do you not just kind of move it into a term book as well?

When I look at repayments, you are doing roughly about Rs.1,600-odd crores every month. Would you include a transaction from a revolve to term as a repayment as well?

Harjeet Toor: No, we will not include it as a repayment, but we do offer what we call as balance transfers to customers who may want to convert their entire outstanding into a lower rate term loan, that is offered, yes. That is not repayment.

M.B. Mahesh: The spend that you are seeing today of customers, how are they across customer segments? What are the challenges you had when the cards can be issued to all segments of the population, where has the spend picked up for you, do you think it is a risky spend or a less risky spend?

Harjeet Toor: If I can just take you to Slide #43, we have classified spends into daily spends, discretionary spends and travel and cash. And roughly let us say March mix, we have given you 78% were daily spend, 17% were discretionary and 5% for travel and cash. Now in the recovery phase, which is July first half, in terms of 85% of that value spends are back, 93% of the discretionary spends are back. Travel and cash is not back which is understandable. I think the ones which need to still pick up are areas like fuel, cabs, dining, food delivery. These are still not at the levels which they were before and those are the ones which need to come back a little more.

M.B. Mahesh: Sorry, Harjeet. My question was the other way around. How is the quality of the customers who are spending it?

Harjeet Toor: Look at it this way. There are no morat customers in this. So the balance customers are, in any case the good quality customers which are not seeing any stress and they are the ones who are spending less. So in any case, the customers are spending less are good customers.

M.B. Mahesh: Just wanted to understand, you have done a very good job kind of addressing that the key concern which was sitting in the month of March. If you could just kind of broadly give us some color, this deposit mobilization that you are doing today on the retail and also to some extent on the wholesale side, how was the duration of the book of those deposits looking like as compared to where we were probably a few months back and how sticky are these deposits that you are able to originate today?

Vishwavir Ahuja: I will try to start answering that and then Surinder can chip in. First of all, on two fronts, there has been positive movement. One is that the bulkier deposits which are also relatively higher cost deposits, we have been working on bringing them down. And the more granular retail stuff, we have been working on increasing that. And in that endeavor, we have seen very positive traction which is a very, very good sign. And that is why stuff like CASA in both absolute and percentage terms, etc., is going up. So that is the first, if I may say, trend, which is a very positive trend. The second is that more and more people are coming forward now on their own despite some of the rates that we brought down and that deposit traction is continuing even at lower rates. So our second attempt was to first reduce the bulky ones and also the second trend was to see whether at even lower rates that percentage of growth can be sustained and that also is happening. So both are positive signs from that point of view. To your third question, so that duration is also headed in the right direction. Am I right, Surinder?

Jaideep Iyer: Mahesh, basically, we have accreted almost entire increase at a net level Q1 over Q4 through retail. And typically, retail comes in the two-year to three-year bucket, which is where we have been offering our let us say the peak rate. So in that sense, June 30th over March 31st we increased duration of deposit.

M.B. Mahesh: And as compared to where you were probably a few months back, is this back to those levels?

Jaideep Iyer: Yes, absolutely.

Surinder Chawla: Mahesh, I could give you some more color for the retail book in particular. We have improved both on the granularity side vis-à-vis say last June or last December as well as the tenure side.

Jaideep Iyer: Mahesh, just to add, we are resisting clearly the temptation of going short to reduce the cost of funds.

M.B. Mahesh: No, question was actually just to see the stickiness of the deposit actually. So I do not think the margins is an issue, which is kind of looking at the stickiness of the deposits.

Surinder Chawla: On many other parameters, first, like Jaideep also mentioned, the tenure is one up. We are getting now 85% of our deposits on the retail side, which are above one year. On the granularity side, our less than Rs.5 crores deposits has gone up to 66% on the retail side which is about 60%-odd last June. The same trend is visible on the CASA side as well. And if you look at the individual entity, which has been clearly the stickiest segment so to say, even that has gone up significantly as an entity proportion to the overall mix. On the retail side, we have now started garnering about Rs.30, 35 crores a day on our branch network which is absolutely retail deposits, I mean, it is less than Rs.10 lakhs for example. That is the kind of granular deposits that we have gone down to.

Vishwavir Ahuja: Higher than ever before.

Surinder Chawla: Yes, so concerted efforts on making sure that the retail proportion to the overall business goes up, cost of deposits come down and tenure goes up as well. And given the fact that we added a few branches last year about 60-odd which are fully operational now and another 20-odd which are almost ready, which will get operational now, this proportion is only going to improve from here.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Real estate book, what will be the moratorium? And secondly, on the book, how much standard asset provisions do you have now?

R. Gurumurthy: On the real estate portfolio, morat is 0.7% of overall book. And these are good names, not people preserving liquidity.

Saurabh Kumar: Total standard asset provisioning on the book including this 63 basis points is part of your standard asset, right, the COVID-19 provisioning?

Jaideep Iyer: That should be about 100 basis points.

Moderator: Thank you. The next question is from the line of Chirag Sureka from GSP Mutual Fund. Please go ahead.

Chirag Sureka: Just two quick questions. On the micro finance book you said 23% are in moratorium, but 95% meetings are happening. So what is that getting from those customers, are they just having a strategy cash flow mismatch and they will come back, so some color on how you think the next few months is going to be? And question #2 is on the deposit side. You alluded to previous stickiness. The customers have moved to you, where did they move from, I mean, is it like new salary accounts or it is probably more sticky than let us say somebody moving in for higher rates and then later when the market turns, go somewhere else, so stickiness component and if you could put your thought, that would be helpful?

Harjeet Toor: So I will start with the micro finance one. You have to understand that while technically rural areas do not have infections, you still have restrictions in terms of holding large center meetings in rural areas, which is where most of the discussion typically happens. So, sometimes in some of these meetings, you contact the center leader, center leader therefore, gets in touch with all the other members and she therefore then collects from them and gives it back to your loan officer who goes and does there. Our feedback as I said was that the business has started. So I do not think there is much which is happening there. Also, customers have understood that they have morat. But because of the interest issue, they want to start repaying early. Some of them are also paying in installments. So, for example, they may not pay their full EMI at one go, but during the month in two-odd installments they would pay their EMI. So that is the flavor which one is seeing. Assam because of floods, West Bengal because of the Amphan piece which happened and a few districts in Bihar now which are again impacted by the floods, while the center meeting and the contact is happening, yet collections has taken a little bit of a pause which will start, again, once the floodwater recedes. But people seem to have the money.

Surinder Chawla: On the deposit side, there were two, three points that I wanted to mention: First. As a general routine business has, in the months of June and July, on the physical side about 80% of the accounts that we were opening earlier, but on the digital side, we have actually ramped up significantly from our last quarter business. So, we should do about 100, 150 accounts a day on the digital side and we now go up to 450, 500 a day. And all of these digital accounts, because that is how enabled are essentially individuals. So clearly, there is a significant shift happening in the entity mix that we are generating now. That is point #1. Point #2 is the stickiness as you mentioned really comes from the fact that you are not only just opening an account of an individual, you are making sure that at the same time you are doing multiple other products and channel engagement with the client as well. So, we have very focused effort around product holding and channel engagement. Every customer only as a customer in the first place, we do not only sell an FD, we first sell CASA account and then start to open FDs. Point #3 is that when we say that deposits have come back, all the time deposit accretion that has happened in the last three months has essentially come from CASA customers essentially. So the same customer has increased his wallet size with us. And a retail customer, we are talking about very small values, it is going to help on the deposit side, and it also helps on the CASA side in the long run as well. So that has been our focus. On the new acquisition side, we have had a very long-term strategy around making sure that we look at NR customers, the salaried customers and high net worth individuals around our geography catchments. And I think that clearly continues to be one of our biggest strategies and our customers are really coming in from almost all the banks, but clearly that mix has not changed, but our penetration and productivity with our branches and our people going up has improved drastically. So the mix is good and same as earlier, the number has come back, and now we are selling more within the same customer base as well.

Chirag Sureka: So what you are saying is the transacting account stickiness increases, and that is what we are doing and cross-selling a lot of things from the account, and that is what we are doing?

Surinder Chawla: Absolutely right. One another indicator, very small one. Our mobile banking penetrations gone up by about 70% since last year. Our FD unique penetration has gone up by about two percentage basis points on the overall base. And that is like really changing the way the stickiness is improving.

Moderator: Thank you. The next question is from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.

Saurabh Dhole: I have two questions; the first one is, could I have the number of cards that you may have blocked and which are out of your moratorium book?

Harjeet Toor: Cards blocked out of the moratorium, that would not be a very large number. We have reduced limits, but blocking would be for customers who have not paid.

Saurabh Dhole: And reduced limits would be for what proportion of that portfolio,

Harjeet Toor: If I was to see the reduction in limits is something we have been doing for the last two, three quarters, all now put together, this will be close to about 150,000 to 200,000 customers over the last let us say three quarters.

Saurabh Dhole: The second question was on the MFI business. If I remember correctly, you said that during the months of April and May, you did not make even any top up loan, is that right?

Harjeet Toor: Even in the month of June, we did not make any top up loans.

Saurabh Dhole: Actually, when we were listening to a few other players, they said that because the segment is so vulnerable, they were selectively giving top up loan. So I am a little curious to know as to what risk do you have by not giving top-up loans to this segment because you are losing those customers, right?

Harjeet Toor: No, the way it happens is, look, we wanted to therefore, get a good insight into which customer is paying you because they have enough cash flows and they would do it and not get influenced by the fact that there is a top-up loan which is coming, so therefore, let me just pay one installment and then I will get my top-up loan. The installment which the customer is paying is only a fraction on the top up loan which the customer is getting. So we consciously took a call that at least for the month of June, we will wait out and see how many customers start paying and show intention to pay. And therefore, now we will start doing or have already started doing disbursals, both top up and renewals. And in some markets, even new businesses in the micro finance space. It is still 30% of our normal run rate.

Moderator: Well, 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. On behalf of RBL Bank Limited, we thank you all for joining us this evening. You may now disconnect your lines.