“RBL Bank Limited Q1 FY23 Earnings Conference Call”

July 21, 2022

MANAGEMENT:

R SUBRAMANIAKUMAR – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
RAJEEV AHUJA – EXECUTIVE DIRECTOR
JAIDEEP IYER – HEAD (STRATEGY)
SURINDER CHAWLA – HEAD – BRANCH BANKING
BRIJESH MEHRA – HEAD – CORPORATE, INSTITUTIONAL AND TRANSACTION BANKING
PARAG KALE – HEAD, SECURED RETAIL BUSINESS
BIKRAM YADAV – HEAD, CREDIT CARDS
KINGSHUK GUHA – HEAD SALES, RETAIL LOANS & INCLUSION

Moderator: Ladies and gentlemen, good day and welcome to the RBL Bank Limited Q1 FY23 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. R Subramaniakumar – Managing Director and CEO of RBL Bank. Thank you and over to you, Mr. Kumar.

R Subramaniakumar: Thank you very much. Good evening, ladies and gentlemen and I thank all of you for joining us for the discussion of RBL Bank's Financial Results for the First Quarter FY23. I'm joined on this call by Mr. Rajeev Ahuja, and other members of a management team who along with me will address any questions that you have. I'm sure given the events over the last one month or more so, there are quite a few questions on your mind, I will make an attempt to address the key ones and then of course, we'll have a Q&A session as well.

First of all,

Asset Quality:

As you can see from the numbers, which is there in front of you our asset quality position continues to be an improving trend quarter-on-quarter. And I hope, this lays to rest any concerns on any large, stressed book.

Secondly, on growth and the banks focus on cards and micro finance. One of my important focus area is to ensure profitable growth with continuity. For the Bank of our size, we have developed niche presence and scale in credit cards and micro finance and these will continue to remain the focus area. Having said that, we would like to expand our product suit to be able to cater to the more holistic requirement of our growing customer base. We have base of around 11.5 million customers which is getting added at the rate of 0.15 million per quarter.

This customer base is coming from urban India through liability products and credit cardsAnd from rural India from the large microfinance customer base and distribution network we have built. So, natural corollary will be to expand the product, line and new product, we will continue to invest in these products with an aim to reach a critical size over next two to three years. We are a growing Bank with aspirations and the more we widen our product offering the more growth engines we will have. Leading to better mining and serviceability of our customers. We specifically would want to focus in the areas of vehicles, housing, small business lending and other retail products to build the niche areas. Some of the products which are already capitalized and other things we will be focusing and we will be rolling it out as we move forward.

This quarter our growth has been muted specifically in microfinance as we paused consciously to implement the new regulatory guidelines and in the past, I understand we have been understandably cautious given the external environment, the pandemic, but we will look to grow meaningfully from here on. To give you some context around this we had around 700 crores of disbursal in our retail business in Q1. This will be around 3x in Q2 and improve every quarter there on.

I want to also briefly touch on my first impression of the Bank and my focus areas.

My first impressions have been very positive and the quality and the debt in the management, the financial strength of the Bank, solidity of the platform across rural and urban India. And like I said earlier, there are interesting business where there is a scale and profitability. My key focus areas will be to provide clarity and focus on execution of the management plan and provide guidance from my experience in commercial banking, retail banking, technology, MSME, rural business, etc.

Taking an outside in view, while there have been a success, the full potential of the platform has not been achieved. My focus would be to drive the Bank towards that, in essence leverage the present and build for a higher profitable future.

I have been impressed by the digital capabilities that have been built and the market recognition we have received. The focus will be to drive digital to drive incremental growth in the customers and reduce operating cost.

As we invest in the business we want to scale,we will also invest in hiring the necessary skill sets to add to the management depth. And shall optimally utilize the branch network for retail asset business growth.

The same depth I wanted to tell you about the existing depth, existing depth on an average, has eight years of experience in the Bank they understand the business which they are heading it thoroughly. And they continue to excel in their area and provide a lever for the growth.

And lastly, I will take opportunity to build relationships through transparent dialogue with all the stakeholders and continuing to build trust and credibility. In the very short term, we will consolidate, leverage and optimize the existing infrastructure so that we are able to expand and accelerate in next two to three year’s timeframe.

With that I’ll briefly touch upon the results of this quarter, starting with asset quality. As I said earlier, our asset quality position continues to improve.

GNPA and NNPA as of the quarter end were 4.08% and 1.16% trending lower Q-o-Q. Gross slippages this quarter was 653 crores; adjusted for recoveries and upgrades which continue to be strong net slippage in this quarter was 273 crores. Of the gross slippages in this quarter 228 crores was in credit cards, 133 crores in microfinance and 205 crores in rest of the retail.

Slippages in the wholesale was around 87 crores. Our restructured advances stood at 1739 crores against which we are carrying 323 crores provision.

The Provisions:

We took a total provision on advances; NPA, restructured and standard asset provisions of 329 crores in this quarter as against 534 crores of last quarter. We had recoveries from return of accounts to the tune of 80 crores. Net provision advances therefore was lower at 249 crore as against 392 crore of last quarter.

We have also given the details in our presentation, I'm sure you would have seen that on slide #22 for more details.

As a result of this provisioning our PCR is now 72.52% as against 70.44% of last quarter. We expect credit cost to be markedly lower in FY23 and we expect recoveries from distressed accounts across wholesale and the retail to continue.

Coming to Deposits and Liquidity:

Summarizing the quarte,r Y-o-Y trends were healthy with a total deposit growing 6%. CASA growing by 14%, retail and small business deposits growing 6%. CASA ratio was 36.0%, retail and small business deposit ratio 39.7% at the end of the quarter. Our liquidity level continues to remain high with LCR of 149%. Our cost of deposit was 4.84% for the quarter.

Given our credit deposit ratio which is around 76% and we have a portion of the wholesale advances to highly rated large corporates. While we may not grow the overall deposit number meaningfully over the remainder of the year, the focus will be entirely on growing the small retail deposits. This means that the proportion of retail will be far higher in the overall deposit. The run rate of retail deposit granularly will outpace the run rate of other deposits with the wholesale**.** This should set us up well to absorb the surplus liquidity we have been carrying and increase the pace of the retail deposit acquisition which will be essential as we continue to drive asset growth in next year. This will also positively impact the margins as we run down the excess liquidity over the course of the year.

Briefly on Advances:

Overall, advances grew by 7% Y-o-Y and flat sequentially. Retail advances declined 5% Y-o-Y and 3% sequentially, primarily due to rundown of micro finance book as I mentioned earlier. The wholesale advances grew 22% Y-o-Y and 4% sequentially. The advances mix to the retail and wholesale stood at 51:49. I said earlier we'll start correcting this from Q2 as retail growth resumes.

On capital we have sequentially improved over capital ratios, where in total capital has gone up from 16.82% in March 22 to 17.5% June. We completed our $10 million Tier II capital which has also improved the CRAR. Development Finance Corporation, an arm of US government's investment in the Bank is a strong endorsement of the platform.

Briefly on our Operating Performance:

NII grew by 6% to 1028 crores, other income was 614 crores for the quarter, lower Y-o-Y as treasury gains this quarter were lower given the rate cycle. The total revenue was 1641 crores this quarter, flat sequentially and marginally higher by 100 bps than last year.

Our OPEX this quarter was 1,112 crores primarily driven by expenses in the cards, retail branches and tech cost. Mostly we'll consider it as an investment for the purpose of our journey for the growth as we plan ahead.

PPOP this quarter was at 529 crores and profit after tax was 201 crore for the quarter, versus 198 crores of last quarter.

Now briefly on our Retail Business:

First on advances and disbursals.

Advances declined 5% Y-o-Y and 3% Q-o-Q on retail. However, we saw Y-o-Y growth in advances in cards by 17%, home loans were 65%, tractor loans by over 700% of course it's a low base. We saw a decline in micro banking by 36% in the quarter. The Bank paused disbursals in April and May in this business to carry out the required process amendments to ensure we are fully compliant with the new regulations. More specifically to ensure we have an end to end 100% digital process. Today we achieved it and the disbursement started in the mid of June. Disbursement started second half of June. We are already back to our pre COVID run rate in July. As I said earlier, retail advances in Q2 will see a sharp increase primarily as we ramp up the microfinance, business loan, home loan and rural vehicles during Q2.

How are we seeing things today. Markets are upbeat and are providing an opportunity for growth across all business segments. In urban market, we are seeing a healthy uptick in credit cards and home loans. In the business lending segments the demand is back with the opening up of the economy. But we are being careful in deciding which business to lend depending on the leverage levels, recovery post COVID and the performance through the COVID.

In rural markets we see buoyancy in demand across microfinance and rural vehicle loan segments.

Slippages:

I would like to touch upon the slippage of the retail book. Total gross slippage in Q1 were at 566 crores versus 546 crores in Q4. The net slippage post upgrades and recovery was 225 crores lower than 257 crores in Q4 of last year. Card slippage were at normal level 228 crores versus 201 of Q4 last year. Cards GNPA for FY22 was 2.4% in FY23 we expect the GNPA to be in the ballpark range of 1.8% in FY23 and credit cost to be around 4%-4.5%. In rest of the retail loans while we saw a gross slippage of 205 crores, net slippage of 12 crores. The large majority of the upgrades from slippages is related to the impact of out of order criteria.

In Micro Banking:

As indicated in the earlier calls, we are seeing a lower gross slippages sequentially in Q1 F23 of 133 crores versus Q4 of 163 crores. As I said earlier, collection efficiency have showed significant improvement. And we are seeing these customers stabilize in the existing delinquency markets. Recoveries and upgrades continue and as a result, net slippages were 36 crores. The book originated FY21 onwards is running at the collection efficiency of 99.6% and this gives us a confident that most markets are now stable and back to pre COVID level. This book now accounts for 81% of the standard book.

We are also seeing almost 40% of NPA customers paying, now, so we expect the recoveries from NPA pool to continue. Although they continue to be in NPA, but 40% of them are paying one installment or the other.

The restructuring book and retail was at 1503 crores in Q1 as against which we are carrying 279 crores of provisions.

The business momentum, under credit cards we issued 4.3 lakh cards in Q1, maintaining the run rate from Q4. The retail spends in credit cards also continued to show the robust growth and Q1 has shown a growth of 54% Y-o-Y, though of a lower base last year post second COVID wave. Q1 total spends were around 13,161 crore, again the highest ever. All this growth like we have said earlier is coming in retail spends as we have a negligible corporate cost portfolio.

Microfinance:

As mentioned earlier disbursals in micro finance were muted in Q1 FY23 at 23 crores starting July we are now back to the run rate of 500 to 600 crores per month. So, we should be seeing a sharp uptick in Q2 under microfinance disbursals. On other retail business, the business traction in the secured business loans, home loans and rural vehicles continue to see an pickup in Q1. We expect this to ramp up further in Q2 onwards. Our rural vehicle business especially which is an end-to-end digital offering is performing well. And we are looking to grow this 3x this year of course it’s at a low base. I will end my speech with reiterating some of the points I touched upon at the beginning of the call.

Our asset quality position is improving and we expect this to continue. Our credit cost should also be sharply lower this year.

Profitable growth with continuity and executing on our plans is a key focus and you will see progress on both in the coming quarters.

Deposit focus will be on the growing granular deposit even as we run off surplus liquidity. Capital position continues to be robust and we don't envisage any equity capital for at least next 18 to 24 months.

I will stop here and with this we will now take the questions. Thank you.

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

Anant: I just want to understand as to what is happening on the operating profit. The operating profitability of the Bank has actually come down significantly both Y-o-Y and quarter-on-quarter can you please explain what's happening on that sir?

R Subramaniakumar: Yes, I'll ask Jaideep.

Jaideep Iyer: Yes, Anant so one of the challenges we've had is we've not seen growth in our interest bearing book. And it's been for multiple reasons, COVID issues and other aspects and therefore that book has been therefore the interest income, or the net interest income has remained at similar levels. Also, because of lack of momentum in new disbursals on retail which also was conscious partly, the fee income has been subdued in terms of processing fee and the fee that comes with it. At the same time, we've been investing in branches, technology and other such things where costs have gone up and till the time we get to a certain scale, which will come in my judgment between Q3-Q4 timeframe operating profit will remain a little subdued, it will grow but it will remain subdued. And therefore the profitability is really coming from sharp reduction in provisioning which will also continue.

Anant: So, what kind of operating profitability that can we see going ahead, can we reach the Q1 last year FY22 level operating profitability at some time in Q3, Q4 is that your suggestion?

Jaideep Iyer: Yes, I think that should be a fair estimate. Yes.

Anant: The second question is that we have for our size of Bank we are actually carrying a lot of excess liquidity, now this liquidity will it also impact our treasury yields or how our treasury performs, is it going to impact in the coming quarters?

Jaideep Iyer: No, Anant so we're not carrying risk on that, it is typically deployed in reverse repo type situation. So, it is an extremely short dated so there's no interested risk we are carrying. We would have built some position now. But not commensurate with the excess liquidity that you are seeing.

Anant: So, how do you see treasury going forward like because in this quarter we have only had half of the quarter since which the rate increase should be calculated for so how do you see this going ahead, do you see another muted, do you see losses on the treasury side while going ahead for the next quarter?

Jaideep Iyer: So, in Q1 we had a decent treasury income from a pure fixed income perspective, despite the fact that rates went up. So, we had positioned ourselves right from here on it is unlikely that we will see losses but one can never say so it is not going to be an outsize gain situation for the rest of the year because of rising interest rates generally.

Anant: But we should not see any significant losses also coming from treasury yields that like a fair assessment?

Jaideep Iyer: Yes, so for our size of the Bank and the book we really don't carry large positions either way.

Anant: Okay. My next question is that, I remember I had gone through our Q3 and Q4 conference calls where we have suggested that we need to grow at 20%, roughly around 20% for this year. Our Q1 has been pretty much a stagnant kind of a quarter. How do we see like in order to achieve this 20% kind of a number we need to actually accelerate much faster from here. How do you see that happening and plus how do you see our MFI portfolio going ahead?

R Subramaniakumar: I'll just tell you Mr. Anant.

Anant: Just one second, the MFI other banks who are into MFI lending are actually growing very fast. This one, yes, go ahead sir.

R Subramaniakumar: Okay, just coming to the MFI since you made a comparison other banks, as I said very clearly that we paused as how other banks did during that period am not commenting about it. But how or what we did was that we were very, very conscious of the fact that it has to be end to end digital. We had to strengthen our collection mechanism and that of our underwriting skills. So, with this particular thing has been completed as I said that we have already seen in July, we have touched the pre COVID level of disbursement. With this disbursement continuing we are confident that we will be able to surpass even what we have been doing it nearly a month and we will be able to achieve what we have planned for in microfinance. Second one with regard to that growth over in 2020, we still hold the same view, only thing is there will be a movement of which particular segment is going to give you growth. If I look at the retail with the existing product of the card as well as the micro finance and with the new product line which we have said about the tractor, agri and vehicle finance, we will be in a position to annualize growth in next three quarters of 20% - 25% is given that we'll be able to achieve later. With a moderate growth in wholesale we will be overall the credit growth will be somewhere to the tune of around 15% to 18% that is what we will be able to achieve that with our plan of action.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: I just wanted to understand, you mentioned on the operating profit is to remain subdued, and to reach first quarter level of operating profit by fourth quarter FY23. So, can you just repeat or clarify on that sir?

Jaideep Iyer: Yes, basically what I mentioned was that we have not been growing, interest bearing loans, there has been challenges like microfinance de-grew quite substantially in Q1 as I said so we will need some time to claw back on that. And therefore the level of operating profit which we had in the past as a run rate it will take us three to four quarters to get there.

Deepak Poddar: Three to four quarters, right. So, quarter-on-quarter we will see some improvement in operating profit will that be a fair assumption to make?

Jaideep Iyer: See, honestly please don't box us into such precise numbers. So, we are only saying that we will have steadyish kind of operating profit for a while before it starts inching up.

Deepak Poddar: A steady kind of, okay understood. But reaching 700, 750 crores it will take three to four quarters right, in terms of operating profit.

R Subramaniakumar: Yes, that would be a fair estimate. Yes.

Deepak Poddar: That would be a fair estimate to me. And sir in terms of your credit cost in FY23. You mentioned it will lower than FY22. So, are we looking at 1.5% to 2% kind of a credit cost range in this year FY23?

Jaideep Iyer: I would say we should be less than half of what we had last year in terms of absolutes.

Deepak Poddar: Less than half in terms of absolute numbers?

Jaideep Iyer: Yes, that's correct.

Deepak Poddar: Okay. And lastly on the cost to income ratio, cost to income ratio has seen a start jump to 67%, 68% so how do we see that, is it because of the denominator effect?

Jaideep Iyer: So, Deepak that's a function of operating profit, till we get our income right and the cost stay back, the jaws have to open up which will take as we discussed three to four quarters.

R Subramaniakumar: We have said about the investment we made in respect of the expenses we have technology and other things. So, given that and the revenues table so maybe that operating profit when kicks it this will also get adjusted.

Moderator: Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: So, a couple of questions. Now, firstly, in terms of the operating cost, if you can just highlight in terms of the incremental cost, which is coming in mid let say 100 odd crores in the other operating cost and even like 30 odd crores coming in on the employee front. So, what is, one of you alluded in general as to what is leading to that, but precise number would really help in terms of how much is maybe of the incremental growth, how much is coming from the technology towards the volume related, and maybe any new business or new product segment initiatives which we have been taking, so that would be really helpful.

Jaideep Iyer: Yes, so Kunal on one clarification on employee cost, there is a disclosure in our SEBI release, we have this time taken entire ESOP cost through P&L. So, if you recall, the RBI circular came sometime last year, where a material risk takers and control functions ESOPs given to these people were supposed to be taken through P&L basis fair value, whereas prior to that everyone operated on the intrinsic value method. So, what we have done this quarter is, we now move to all employees, all ESOP costs through P&L and we also had to therefore catch up from 1st April 2021 for last fiscal in this Q1, so that amount is approximately 22, 23 crores which is unusual bump in Q1. But having said that, now the ESOP cost will go through P&L so that's one. Second of course we have been investing in newer businesses like we mentioned, rural vehicle business we are also investing in mortgages which we need to set up branches, people, hire leadership, et cetera in terms of regional leadership so all those costs, when you're building a newer business, the cost will be affronted income will come later. And third is credit cards continues to grow. So, that typically adds to 50 to 60 crores a quarter in terms of costs, but then that gets somewhat compensated by the income as well from cards. In terms of specific set of how much variable, how much for tech, I don't think I'm carrying that level of details Kunal right now, we will have to have that discussion offline.

Kunal Shah: No, so just broadly wanted to understand in terms of is larger part of investment still done or we will save to be elevated because maybe newer businesses, some investments would have been done, but not a significant part would have been done in this quarter. And as we go and launch more and more products and try to scale it up, in fact, this will keep on going up from the current level.

Jaideep Iyer: Which is why I mentioned that operating profit to start increasing will take us some time right. So, which is an indication that income and expense will grow along similar level for at least a couple of quarters before the jaw start opening up.

Kunal Shah: Sure. And secondly, overall broadly we are targeting not many segments, but maybe from the management perspective, what would be the priorities out there and overall if we can just know in terms of how would we see the mix say two, three years down the line and any change in the portfolio which we will try to do in terms of scaling down any part of the portfolio for say quite substantially from the current level?

R Subramaniakumar: See, this journey if you look at it in two to three years, they initially in the short run we will be protecting the turf in retail in respect of the credit card and microfinance. Thereafter they'll continue to grow, but the run rate in respect to the other products which we wanted to increase first one is the housing loan. The second one is the vehicle loan, the vehicle one we wanted to divide it into two different parts one is that used vehicle and another new vehicle and then we are a rural two wheelers, then we will expanding our self into some of the products like the rural consumption products and we will also be going in for a capital light products as we move forward so that we are able to leverage the growth as well as the NIM can be easily managed over there.

Kunal Shah: Okay. And one last question in terms of the momentum of the restructured side, if you can just explain in terms of how much would have actually slipped into GNPA, how much would have got recovered or not. And what is leading to a higher recoveries and from which segments are we seeing the recoveries and the recovery from the return of account as well.

Jaideep Iyer: So, Kunal approximately restructuring book, reduction would have come approximately 50:50 from reduction in principle and slipping into NPA. Recoveries are coming from everywhere, we've had corporate recovery, we're MFI recovery, we've had credit card recoveries. So, that's coming from all segments.

Kunal Shah: Okay. So, nothing specific and nothing's chunky out there.

Jaideep Iyer: No, not really.

Moderator: Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: A couple of things. One is that, as you mentioned that the recovery on the PPOP operating profit will take three, four quarters, as a management team when do you believe we can kind of start looking back at let's say a double digit ROE numbers?

Jaideep Iyer: Ashish, at this stage given what we've seen in the last 18, 24 months, we will take some time to kind of lay out that plan for a double digit ROE in terms of timeframe and how.

Jaideep Iyer: Early days yet.

Ashish Kumar: And maybe what will be helpful is and just taking out from what the last speaker talked about, is that maybe three years down the line, how do you expect the Bank to kind of pan out maybe, as things settle down over the next couple of months, if we can try and understand the guidance as to what the Bank will look three years down the line and what kind of an ROE profile would that entail, that will be very helpful that's a request from the industry, because a lot has changed in the last 18, 24 months.

Jaideep Iyer: Agreed and leave it to us and we will come back.

Moderator: Thank you. The next question is from the line of Alpesh from IIFL Securities. Please go ahead.

Alpesh: A few questions from my side. In between there was some network issue so sorry, if it's a repetition but sequentially I see that investment book has grown significantly on a Q-o-Q basis any strategic reason for that?

Jaideep Iyer: No, Alpesh this is just liquidity getting parked there is no other reason.

Alpesh: No, the 25% Q-o-Q increase I don't know whether in case there is any issue with the numbers but 25% to almost 23%, 24% Q-o-Q increase in the investment which seems to be quite higher. Anything related to the repo transactions with RBI or something like that, because that number seems to be quite high.

Jaideep Iyer: No, I'm not aware of anything unusual. I will come back to you offline there is nothing specific that we've added to the investment book as such.

Rajeev Ahuja: Alpesh, it's Rajeev here, we squared off all our long debt securities well before the April policy. So, after that, we went majorly into the short end of the market and up to one year T bills. Look we've been sitting on a lot of liquidity over June, May, June so that has been parked. We also raised about 800 crores of Tier II, that was incremental liquidity somewhere around mid-May. So, that also, and if you have seen the growth rate of advances has been muted so, all of this is frankly excess liquidity we have been carrying, I don't think there's anything which is very specific so Jaideep is just checking the numbers he will let you know.

Jaideep Iyer: Alpesh the cash and cash balances with RBI has come down so if we would have just moved from reverse repo to with RBI to shorter dated securities. So, if you look at both those together, you will find nothing unusual to combine.

Alpesh: Okay. And now as the things are stabilizing for us, what's your outlook on keeping the excess liquidity on the balance sheet because the LCR is still at around almost 150% right. So, where do you see it stabilizing or by when do you expect to reach by around 110%, 120%?

R Subramaniakumar: If you just recall what I said in my narration, in the commentary. We said that we will be in a position to gradually just run down liquidity over this period for the two-pronged strategy

one, we wanted to maintain that deposit whatever we are having into the current position but the composition will change from bulk deposit to granular so there will be a moment within that deposit portfolio itself. But at the same time we wanted to grow our retail which we said that maybe in Q2, Q3 the growth will be approximately as an annualized rate of around 25% which will consume a part of the liquidity as we move forward and we feel that by the end of this year we will be in a position to consume a major part of the liquidity what we have without any stress on the need for maintaining that.

Alpesh: So, sir in that case, if I summarize everything liquidity coming down that will be increased into the high yielding loans into our Balance sheet and some bulk deposits also running out. So, is it fair to assume that every quarter from here on we will see a sequential improvement in margins?

Jaideep Iyer: Yes, quantum of improvement, I will not want to hazard a guess. But yes, the trend will be on the upper side. Yes.

Alpesh: Okay. Jaideep also can you just remind me what was the one off in the 4Q because there was certain restructure loan related interest accounting that happened in the 4Q in the interest line item and what was the quantum of it and if you adjust for its, what's the sequential drop in the margin?

Jaideep Iyer: So, if we adjust for that 90 odd crores then there is flattish margin. That was essentially Alpesh we had not taken interest income on our restructured book in Q1, Q2, Q3. Substantially, Q2, Q3 because restructuring started in Q2, Q3, which then we were guided by auditors to actually take it to income and then of course we took that opportunity to provide heavily and so that was approximately 90 odd crores. And if you adjust for that, that is sequentially flat.

Alpesh: And just last quarter from my side it's related to the provisioning guidance that you guys gave, last full year was around 2800 crores and for the full year you're saying that it would be half of that, but still it works out to be almost 1400 anywhere between 1400, 1500 crores. Our 1Q number itself is around 250 crores per se and logically since the things are improving for us, what is leading us to give an aggressive, a very conservative guidance per se which is higher than even the 1Q run rate of around 250 crores?

Jaideep Iyer: We said less than half, we haven't said half. And I will leave it at that.

Alpesh: But any specific concern on the asset quality that you see, that that could lead to a higher charge because last year 1Q we had almost 600 crores of.

Jaideep Iyer: No, Alpesh essentially there is a restructuring book which will come out, part of it has come out in Q1, part of it a substantial chunk will come out in Q2 and Q3 we're just wanting to be a little cautious there. So, that is it, but I'm not suggesting that we are talking about 50% or 49% or 48% it will be lower. It will be somewhere between the run rate and less than half kind of range.

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

Jai Mundra: This is Jai Mundra from B&K Securities. Sir, if you can comment any change already happened or in envisage change in the senior management team while in your opening remarks you had mentioned that there is a decent depth, but if you can comment on is there already change or maybe over the next 6, 12 months do you can envisage any change?

R Subramaniakumar: Yes, as I said when I joined this Bank itself, I am used to continue to work with the team itself and already anchored themselves in the last one decade, when I look at that the depth of management, they are the first layer, second layer the heads of various departments are well entrenched in their respective area they have it and we will continue to work with them. And only thing is wherever we are taking the expansion, wherever we are venturing into the new area of business, we will be looking at some of the skill set which will be hiring it which also I said about it. So, we are not averse to hiring the skills while I assure you that I do think that there will be a change in the management team, the current team which is heading it are well entrenched in their area of operation, each of them average eight to 10 years of service all of them are having it, they know the Bank's DNA fairly well and very comfortable with the team, their knowledge level and the depth and commitment.

Jai Mundra: Right. And sir in your opening remarks you mentioned that the Bank of course, this is more to the prudent strategy also to consolidate and then re-accelerate. And you had mentioned that rural businesses and small and secured businesses will probably be getting more focus. Could you highlight a few areas where you would actually want to go slow for considering the current trend, it looks like MFI business is undergoing a bit of a pressure, so any two, three areas where you would like to consolidate and then have a relook and then maybe reaccelerate.

R Subramaniakumar: When I said about the consolidation, I said the current book and its run rate which will be happening in the last one year we see it as a more or less a flat or muted growth. That particular thing is not going to be there as we move forward, there will be growth acceleration taking place after for example, you take for microfinance, we consolidated in last one or two months, three months rather, wherein we said that we will put end-to-end control on it and then once it is there, the engine will start firing. Same way we are trying to do it in respect of every other areas the Bank has already done it. Then another assessment what has been done is that there are three different channels which we observed as a one which can propel the growth, one is that branch channel, second is digital channel, the third will be that of a BC channel. The BC channel all the three channels will be individually consolidated & leveraged. So, you know for sure that the digital channel cannot start delivering it unless otherwise a consolidation of the platform and take some time for leveraging the platform, this is what I was meaning there. The third one is there is nothing like one area is going to be slowed down or one area as to where the Bank has already created a niche in respect to the credit card and micro finance, and already it has started doing well in tractor loan and agricultural loan, and those will be ramped up and especially the one which has the low base will be ramped up at a faster rate, whatever is doing in respective areas where there is already an established one that will be strengthened, and the growth will be continued in those areas also. Parallelly we will be identifying some of these new products and services which we will be in a position to roll up that we will identify and prepare the platform for that and thereafter we will start accelerating that after maybe a couple of quarters going forward.

Jain Mundra: Right sir. I just remember that you said that capital light products would be more favorable. So, if you can highlight, let's say specifically for credit card, would proportion of this business would it be similar or would it be higher or it can potentially decline over the next one, two year?

R Subramaniakumar: We are mixing two issues here. When I said about the capital light product I said moving forward, then we wanted to identify the products for launching which is going to expand that is going to be the capital light, because we said that we are not going to look for the capital for the next 18 to 24 months, we wanted to optimize. So, there you take the case of the housing loan, the housing loan is one good product where we will be in a position to go forward and look at it is going to risk rate is low. Similarly, there are so many other products we are looking at maybe that I'll share with you once the product line is ready and then we are ready to launch it, all those retail products will be, I also said that we will leverage existing platform. So, we have brand channel, we have BC channel, we will be able to leverage for selling or making this product to reach the customers. And I also said that our customer base is a mix of urban and rural. So, we wanted to launch a product which is suitable to both the segment.

Moderator: Thank you. The next question is from the line of Rajakumar Vaidyanathan an Individual Investor. Please go ahead.

Rajakumar Vaidyanathan: So, I've got couple of questions. So, if I see your update on the advances and deposits, I see that your advances have gone up by 7% year-on-year. And retail has come down by 5% and wholesale has gone up by 22%. But if I see your income Q-on-Q, the income line is kind of static between June 21 and June 22 and if you see your 10-year G-Sec that itself has moved from 6 to 7.5 that is about 20% more, but why is your income line is static, I am not able to marry the balance sheet growth vis-à-vis the income line.

R Subramaniakumar: See you look at our product line, we said that the micro finance is de-grown to the tune of around 36% last year which is one of the high NIM product so, there the revenue stream is higher. Whereas in respect of the corporate loan, where we showed 22% over here and around 4% sequentially. So, that particular thing if you look at it, that I will not say there is a normal trend.

So, the revenue firing products in the last one year were not high. So, those products which the credit card is one which continues to be performing and this is also had a small blip in last year during the pandemic period. And in respect of this micro finance we consciously did not do the business for the simple reason that we wanted to comply with all the regulatory compliance. So, these two things is brought down our revenue stream. So, in that actions you will see this mismatch because of this reason, but this is going to be corrected as we move forward as I said very clearly that we wanted to ramp up and already in July our micro finance already touched the pre COVID level of disbursement and we are confident that with the new regulation setup and new digital platform has been established we will be able to ramp up that also to cover up the gaps which we lost itso, the revenue stream has been opened up that's why the response has been very clear that it will take a couple of quarters ahead for achieving the revenue stream what we have been planning to achieve them after this correction will take place.

Rajakumar Vaidyanathan: Okay. And sir how about your expenses, your expenses are more than 30% again Q-on-Q so it would be helpful if you're doing some correction on the income side, then there should be a corresponding drop on the expenses as well right. So, we can't take a 30% hike in expenses and corresponding drop in the income side that is what, it kind of shows that the DNA of the Bank has changed from what it was in June 21. So, I just want to whether the DNA of the Bank will be retained or we are going to be more conservative when it comes to the advanced side?

R Subramaniakumar: No, advance I said it very clear that annualized growth of around 20% to 25% in respect of the retail, which I don't think that by any streams are conservative, and when it comes to the total growth of the credit I said that it is between 15% to 18% which in the given circumstances is definitely something which, although I don't call it as an aggressive it is a very decent number, which we wanted to post it, while the cost you said about 30% increase, it is well explained, it is a one off case in respect of the employee cost which has been accounted for when the stream, when the ESOP accounting principle has been changed. The second one was that, a fair amount of investment has gone in credit card and it was explained that credit card is a business where the continuous investment has to be made, when you ramp up the number of the cards you have to spend that money of course it will come back to us in the form of profit. And the third point is that the technology and other related investment is continuing to grow, you know that pretty well when you have opened up couple of new products there has to be an investment. Last year 80 branches were opened and the branches have to be ramped up for providing it. Now having investor and all those things, all these channels are to be leveraged and we will be in a position to enable these channels to contribute interest in respect of CASA deposits to the granular retail deposit and enabling the Bank to ramp up their retail advances which consisting of four, five products which I told you about. So, it is something a combination of both so it does indicate that the credit is definitely growing.

Rajakumar Vaidyanathan: Has any other DNA of Bank changed from what it was a year before, from a risk standpoint?

R Subramaniakumar: Yes, we wanted to & we have crossed that bridge and we have come out of it and everything is left behind, pandemic is behind us and now whatever we have stabilization or rather addressing the stress level has also gone behind you would have seen last year the provision which has been made, last year the cleanup effort has taken place, which definitely brought the book to the current stage. Now the book and the platform has been stationed for the growth. So, this is the starting point of it, it started in the month of July itself and moving forward you will see the growth, the growth cannot be high speed it's a gradual growth in couple of quarters and where you will start seeing the momentum gaining as we move forward.

Moderator: Thank you. The next question is from the line of Mohit Surana from CLSA. Please go ahead.

Mohit Surana: I have two questions. First is on your breakup of fixed rate and floating rate loans. So, if you can give the breakup and if you can clarify the extent of re-pricing that has been passed on the floating rate loan, so if there is a lead lag between the benchmark and the loan pricing so and if you can also give us some sort of guidance or your thought process on the margin trajectory, because you've guided that, the operating profit will take a couple of quarters to normalize so if you can also give us your thoughts on the NIM trajectory. And the second question really is about the Bank, Bank has in the past spoken about recalibration in business banking segment in terms of moving towards more secured assets and run off maybe the unsecured piece of that business. So, is that recalibration in this business over now and what's the growth outlook in this segment?

R Subramaniakumar: First question I'll ask Jaideep to answer that on the floating rate.

Jaideep Iyer: So, Mohit apart from cards and microfinance, and maybe a small part of retail loan, the book is pretty much floating so I would say somewhere between 65% to 70%, 65% or so would be floating. What is fixed is of course, high yielding cards and microfinance. The wholesale book is largely floating on benchmarks like MIBOR or T-Bills whereas the retail book is floating on repo. The retail book re-prices, all re-pricing happens and then of course we have approximately about 15% of our loan book, which is on MCLR, which is the legacy book which continues, so MCLR gets re-priced depending on the benchmark of three months, six months or one year, whereas repo and T-Bills typically reprise every three months. So, some of the re-pricing of the 90 basis points hike in repo and corresponding hikes that we've seen in benchmarks like T-Bills and MIBOR is happened and some will happen in this quarter. Having said that, with all this pulls and pushes we believe margins should, trajectory should be improving as we go forward from here.

R Subramaniakumar: Yes. Going through the recalibration part what you talked about it and we said that we will be focusing on secure assert in respect to the products and services, product line which you wanted to unfold as you move forward. It doesn't mean that overall, we are going to shrink the unsecured portion, unsecured portion will continue to grow the rate at which it is growing, whereas the other secured portion will grow at a higher rate. So, when my total size of the book is going to increase as proportionately if you look at it, the portion will look like we need to be balanced as we move forward in two, three years' time.

Moderator: Thank you. The next question is from the line of Subhranshu Mishra from UBS. Please go ahead.

Subhranshu Mishra: A couple of questions on the credit card portfolio. First of all, what's the steady state ROA that we make on this particular portfolio. Second is, what's the outstanding from the Bajaj finance customers and from other sourced customers and what is the incremental mix that we are getting from Bajaj Finance versus others and the third would be, given the fact that Bajaj Finance is also thinking of sourcing it from having a co brand with other banks. Are we also thinking or the pipeline of having various other co-brands but apart from the Bajaj Finance. So, these are my three questions sir. Thank you.

Jaideep Iyer: Yes. Especially on the first one, steady state ROAs, let me put it this way, we had achieved ROA pre COVID in the range of four plus or thereabouts. And we should head in that direction over the next few quarters. On the mix between Bajaj finance and other partners cards we would be approximately 55:45 in favor of Bajaj. Incrementally in terms of the number of cards we will be probably be a little more skewed toward Bajaj than the book. And yes, of course, while Bajaj Finance has gone ahead and tied up with another Bank, we've always anyway been doing partnerships so of course our partnership continue with Zomato, Bookmyshow, ET Money, Paisa Bazaar, Bank Bazaar kind of products and we will continue to add partnerships. We are and of course we are also now giving a lot more trust to our own branch customer because now somewhere we are getting to some sort of critical size in terms of our liability customers as well. So, all those growth engines will continue and accelerate.

Subhranshu Mishra: Thank you for that. Just to clarify sir 4% steady state is from the credit card portfolio right?

Jaideep Iyer: Yes, correct.

Subhranshu Mishra: And just if I can squeeze in one last question. Do we have any kind of plans to take advantage of the present regulatory conundrum around the PPI, are we in talks with **fintechs** issuing the PPI sir?

R Subramaniakumar: Yes, this Bank if you look at it, it is having one great advantage vis-à-vis the rest of the folks in this particular space. We are known for being the first choice for any of these FinTech companies is always to work with us. We will continue to work on, that's what I said that we wanted to leverage the digital platform which we have already established or maybe that the work is in progress and we will definitely continue to maintain our leadership position in respect of the times.

Moderator: Thank you. The next question is from the line of Anurag Mantri from Espirit Advisors Private Limited. Please go ahead.

Anurag Mantri: I just had one question on the MFI disclosures that you have on your deck, slide #45, where you show the ticket size for the outstanding and new loan. So, this outstanding balance that you show is on a per loan basis because each borrower also as per the databases seems to have about almost 1.8 to 2 loans. So, the outstanding per borrower is actually larger, almost double. Just was curious that, why is the ticket size on the new loans, almost double of the outstanding on the balances is it that, incrementally like for one borrower is having two loans, instead of that you guys are doing like a larger loan or I mean the outstanding loans per borrower sort of remains on each loan the ticket is higher?

Jaideep Iyer: Yes, so let me clarify the outstanding is also a function of if we haven't grown in general and the repayments have kept coming, right. So, the proportion of new disbursements is less today than it was, let's say three months back or six months back, because the book has come down. The chart on the left which indicates average ticket size is we don't have multiple loans to a borrower. So, that's single.

Anurag Mantri: Got it. So, the deduction from this is whether the outstanding on the new is much higher than on the balance because the balance is also on reducing balances?

Jaideep Iyer: Correct because the moment we start originating significantly higher there will be a convergence between outstanding and new to some extent.

Moderator: Thank you. We now conclude the Q&A session. If you have any further questions, please contact RBL Bank Limited via email at ir@rblbank.com. On behalf of RBL Bank Limited we thank you for joining us this evening. You may now disconnect your lines.