“RBL Bank Limited Q4 FY22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to RBL Bank Limited Q4 and FY22 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajeev Ahuja, Interim Managing Director and CEO of RBL Bank. Thank you and over to you, Mr. Ahuja.

Rajeev Ahuja: Thank you so much. Good evening, ladies, and gentlemen, and thank you for joining us for a discussion on RBL Bank's financial results for the 4th Quarter of financial year 2022. I hope you and your families have been safe and in good health. I am, as always, joined on this call by other members of our management team who along with me will address any questions that you might have. We are sharing a little bit more background on Q4 considering the issues of late December 2021. On deposits and liquidity as you are aware, we have started stabilizing our deposits by end January, that's when we spoke last, and since then, have not only added to the deposits, but also kept improving the retail composition.

Our overall deposits increased to about Rs. 79,000 crores as of March 31. While the large deposit accretion over these three months did happen because of deposit flows from all segments. But even on this larger base, we were able to improve the retail LCR and CASA compared to December 31, 2021. As we progress during financial year '23, we are confident of continuing to walk on this path of increasing granularity in deposits with a larger proportion of incremental deposits coming from retail and given a surplus liquidity we may not increase the overall deposit levels by a big amount.

On Advances:

As you can appreciate, we took a little conservative stand as we first wanted to stabilize the deposits and then look at a growth in advances. This meaningfully commenced in early March. As you can ascertain, most of the growth came from our wholesale segment. But we did manage to stabilize the overall retail segment too, which had faced depletion in the previous quarters. As we look at financial year '23, retail will be back on the growth track. While we will look to consolidate our wholesale segment advances with a focus on profitability. We will talk a lot more about it when Harjeet picks up his section.

On Provisioning:

I think this is something we have been guiding you in our previous quarter as well. We have continued to strengthen our balance sheet. Taken accelerated provisioning, materially added to our provision coverage ratio and are confidence in saying that we are adequately provided on both wholesale and retail portfolios, with the provision largely reflecting the expected loss in the NPA and the restructured book.

We are therefore now at a point where given the trends we are seeing in the recovery and resolution levels and the general external environment; we can say confidently that we are well provided and are entering Financial Year '23 on a solid footing on asset quality and provisioning.

Profitability:

Profitability has been better again in this quarter, and this will improve further in the coming quarters as our interest earning assets increase, and the composition of retail grows up.

On Capital:

We have sequentially improved our capital ratios where in total capital has gone up from 16.58% as at December end to 16.82% as of March '22. Further, you would have seen our announcement of raising $100 million dollars of Tier-2 capital, which will be completed in the next few days improving our CRAR further by approximately 1%.

Liquidity:

On liquidity, we continue to maintain high liquidity buffers, which unwind over the next few quarters as our advances growth proceeds pace.

Briefly talking about our results for the quarter:

Starting with asset quality and related provisioning:

Our GNPA and NNPA as of the quarter end were 4.40% and 1.34% trending lower QoQ from 4.84% and 1.85% respectively. Gross slippages for this quarter were lower at Rs. 619 crores as against Rs. 766 crores. Adjusted for recoveries and upgrades, which continued to be strong, net slippages this quarter were Rs. 292 crores. Of the gross slippages in this quarter, Rs. 201 crores was in credit cards, Rs. 163 crores in microfinance and Rs. 182 crores in the rest of retail. Slippages in the wholesale was Rs. 73 crores. Our gross restructured advances stood at Rs. 1,964 crores down from Rs. 1998 crores as at December end. Our net restructure stood at Rs. 1,614 crores as against Rs. 1,746 crores as at December end. As mentioned earlier, we have taken adequate provisioning on MFI and unsecured retail restructured book.

Provisions:

We took total provisions on advances, which is NPA restructured and standard assets of Rs. 534 crores in this quarter as against Rs. 482 crores last quarter. We had recoveries from written off accounts of Rs.142 crores, net provision on advances therefore was Rs. 392 crores in this quarter. We've given a lot of detailed information on the provisioning on slide 22 of our presentation deck. Our provisioning basis the RBI guidelines and our internal policy for this quarter was Rs. 369 crores. Given that the SMA levels in microfinance have markedly dropped, basis which we had created the COVID overlay. We used the COVID related provision towards specific provisions in the microfinance business. We also increased the provisioning on the restructured book primarily on the unsecured book by Rs. 107 crores. As a result, coverage on our restructured microfinance and unsecured retail advances ex-cards has improved significantly, largely reflective of the LGD we are seeing currently. In summary, we have taken Rs. 160 crores of extra provisioning over and above RBI internal norms. After netting of the COVID provisioning reversal. As a result, PCR is now 70.4% as against 62.9% last quarter end.

Operating Performance:

Overall advances grew 2% YoY and 3% sequentially. Retail advances declined 9% YoY but grew 1% sequentially whereas wholesale advances grew 18% while YoY and 5% sequentially. Retail : Wholesale advance-mix stood at approximately 52 : 48. YoY NII grew 25% and 12% sequentially to Rs. 1,131 crores. Other income was Rs. 511 crores for this quarter. Retail was 77% of our core fee income. YoY total revenue was up 13% at Rs. 1,643 crores. Our OPEX this quarter was Rs. 985 crores, primarily driven by cards, retail build-out branches and technology. PPOP for this quarter was at Rs. 657 crores and profit after tax was Rs. 198 crores for the quarter versus Rs. 156 crores in Q3 and Rs. 75 crores in Q4 2021.

Now on to our deposits:

Summarizing the quarter year-on-year trends were healthy with total deposits growing 8%, CASA deposits growing at 20% and retail and small business deposits growing 13%. CASA ratio was 35.3%, retail and small business deposit ratio was 38.9% as of March 31, 2022. Our liquidity levels continued to remain high with average LCR at 138% for the quarter and it's trended up in the months of April and May. Our cost of deposits was essentially flat quarter-on-quarter at 4.75% in Q4.

Lastly, on capital adequacy:

Our CAPAD ratio as of March end was 16.82 as I mentioned with CET increasing 45 basis points sequentially to 16.21. As I mentioned earlier, we are near closure on our Tier-2, which would add a percent to the overall CRAR. With this we are comfortable on our capital position and don't envisage any need for capital in Financial Year ’23.

Outlook:

On advances and growth. On advances retail engines are now coming back to normalcy post COVID and we expect growth in retail to be in the mid to high twenties in Financial Year ‘23. This growth will be from cards, micro-finance, housing loans, rural and vehicle finance with an initial start in used cars with a digital marketplace. In wholesale, while we will focus on adding clients, which give us good economics over the next few quarters, we also have the opportunity to rationalize some of the low yielding book, which we had primarily built-up last year, which was liquidity parked in highly rated names. This would mean that the earnings quality of the book will improve. In fact, the wholesale business, we are seeing a very strong traction across our client spectrum, and we think this could actually be a very strong year for wholesale bank. On an overall basis therefore, we should see a 15% to 20% growth in advances in FY23 with a result in higher growth and better running assets. The ramp up in earning advances in the first half would take NII total income and PPOP to more normalized levels in H2 of FY23.

On deposits:

As I mentioned, given the surplus liquidity we are carrying, we expect to modestly increase overall deposits. In fact, we probably maintain our CD ratio around 85 or just under that, within this however we will continue to improve the granularity of retail deposits, CASA, and small business deposits.

Operating Performance:

Our cost increases will be from growth in retail assets, cards, microfinance, investments in our housing and rural vehicle business, increase in branches, staff, and technology related expenses. On asset quality we expect credit costs to be markedly lower in FY23 having improved coverage on our existing NPAs, as well as restructured advances. We expect the trends of recovery from stress accounts across both wholesale and retail to continue apace. We are therefore targeting a cost of credit of around 2% to 2.25% in FY23. This as you can acknowledge will be less than 50% of the run rate of FY22.

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

Harjeet Toor: Thank you Rajeev and a very good evening to all. I will outline for you our Q4 FY22 experience and how we are seeing things as we move onward from here.

Let me talk about advances and disbursals first. Advances declined by 9% year-on-year but grew 1% sequentially. However, what is pertinent to note, that we saw year-on-year growth in advances in cards of 10%, home loans of 48% and tractor loans over 600% albeit on low base. On the other hand, we did see a decline in micro banking of around 32% year-on-year. Due to our cautionary stand on the market and our enhanced provisioning, which led to lower net advances and also a decline of around 25% in business loan segment, where the unsecured books as part of our strategy are being runoff. We actually ran off around Rs. 1500 crores unsecured books in the last financial year.

Disbursals which started again from Q3 onwards across all business segments, picked up momentum in the fourth quarter. We should see further pickup this year, for example, micro banking itself saw sequential disbursal growth of 25%. We do expect therefore the non-wholesale business advances to show significant growth of upwards of 25% in FY23, in fact cards and micro-finance would show a growth of upwards of 30%, home loans would double. The tractor finance book would grow 3.5 to 4 times of what it is today.

How we are seeing things today, markets are upbeat and are providing an opportunity for growth across all business segments. In urban markets, we are seeing healthy uptick in credit cards and home loans. In the business lending segment, the demand is back with the opening up of the economy, but one has to be careful in deciding which businesses to lend, depending on the leverage levels, recovery post-COVID and the performance through COVID. In rural markets we see buoyancy in demand across micro banking, agri and tractor loan segment. We should therefore see reasonable growth in FY23.

Collection bucket resolution rates continue to better than pre-COVID levels across all buckets in all retail business segments. This gives us confidence to now start scaling up our disbursal rates. Collection efficiency has seen a sharp improvement in micro-finance, overall collection efficiencies on the non-NPA book has improved from 83% in June to 94% in September to 98% in March. The book originated in FY21 and therefore not subject to any moratorium is running collection efficiencies of 99.5% and gives us confidence that most markets are now stable and back to pre-COVID levels. As pointed out in our earlier commentary as well, West Bengal and Maharashtra continues to be challenging and hence have negligible share in our new disbursals.

The new book accounts for 73% of our total micro banking advances. And this proportion is increasing every month. If I look at the non-NPA book, then the new book proportion is higher at about 85%.

Slippages, as mentioned earlier in overall retail, after a sharp reduction in slippages in Q3 FY22 of around 45% over Q2, slippages further reduced by 16% over Q3, total slippage in Q4 FY22 were at Rs. 546 crores versus Rs. 648 crores in Q3. This is the third consecutive quarter of reductions. As guided in our calls earlier, we had expected slippages in H2 FY22 to be less than half of that in H1 FY22 and this did happen. Half 2 slippages account for only a third of total slippages for the year, indicating that the worst is behind us. Further recoveries and upgrades are much higher resulting in reduction of around 34% in net slippages post write-offs in Q4 over Q3. Cards slippages were at normal levels at 1.5% in Q4 that is around Rs. 200 crores versus Rs. 248 crores in Q3. We expect the benign FY23 with total slippages in the region of around little less than 6%. Further, the cards GNPA for FY22 was now down to 2.4%. In FY23 we expect the GNPA to be in the ballpark range of around 1.7%. The credit costs for cards in FY23 are expected to be at historic lows somewhere in the region of about 4% to 4.5%. While we saw a reduction in the core slippage run rate in other retail loans in Q4 over Q3, however, there was a one-off, which we took, which was out of the implementation of the out of order criteria as defined by the regulator, which was to be calculated on a daily basis versus earlier, which was calculated on a quarterly basis. This did give us a one-time hit of Rs. 60 crores in slippage. A large part of this will get upgraded in Q1 FY23. Including this impact, slippages were slightly higher in the retail loans ex-cards and Micro finance at about Rs. 172 crores in Q4 versus Rs. 140 crores in Q3. In micro banking, as indicated we are seeing lower gross slippages sequentially in Q4 of Rs. 163 crores versus Rs. 252 crores in Q3. This was Rs. 375 crores in Q2, while these are still higher than normal.

As I said earlier, collections efficiencies have shown significant improvement and we are seeing these customers stabilize in their existing delinquency buckets. As indicated previously as well, recoveries happen towards the end of the loan tenures as these customers do not catch up on their missed EMIs and don't generally get upgraded or normalized.

Now in terms of business momentum: Credit cards, after our ever-highest card issuance of six lakh cards in Q3, largely on account of the higher pipelines post our MasterCard embargo on issuance in Q2, we issued 4.5 lakh cards in Q4 FY22. Retail spends in credit card also continued to show robust growth and Q4 has seen a growth of 33% year-on-year. Q4 total spends were around Rs. 12,276 crores, again the highest ever and slightly higher even than the festive Q3 FY22. All this growth is coming from retail spends as we have negligible corporate cards portfolio.

In micro banking, as mentioned earlier, we started disbursals, since the beginning of October given collection efficiency on the new book were upwards of 99%. Q4 disbursals were at about Rs. 1,338 crores with Feb & March clocking around Rs.500 crores monthly disbursal. However, on 16th of March ‘22 RBI issued new directives for the micro-finance segment, which has significant changes in terms of definition of the segment, assessment of household income and profile, introduction of income to installment cap of 50%, to control indebtedness at a household level and increasing transparency in terms of customer communication and documentation. We believe this is a step in the right direction and will be positive for the industry in the long term. In terms of penetration of organized finance within the rural households, which would therefore result in increased cross sell at the household level and reduce volatility and risk outcomes through control, buildup of leverage. As of now, we're in the midst of making these changes in our processing and acceptance rules and technology. Since the implementation timelines for these new directives was 1st, April 2022, we are currently not disbursing any new loans. We should be ready for disbursals in a couple of weeks.

Business traction in secured business loans has also started to pick up and we saw a bump up in disbursals in Q4 FY 22, as mentioned earlier, we have moved to a much safer segment here as well. While yields may be lower, this portfolio will be much more resilient in stress times than before.

Our new business of home loans and tractor loans continues to grow along with the investment in infrastructure and distribution. We saw a significant increase in disbursal run rates in Q4 FY22. While these portfolios will only start becoming meaningful in FY24, it is an important focus area for the bank towards building a secured book and the positive traction is giving us confidence.

I would now like to hand over back to Rajeev for his concluding remarks.

Rajeev Ahuja: Thank you Harjeet. I will end up commentary reiterating some of the things we have done in this quarter and briefly touching upon our medium-term plans. As I mentioned on deposits, our position has returned to normalcy and will continue to grow granular retail deposits.

On asset quality we have increased coverage on our existing NPAs as well as increased provisioning on our restructured books specifically unsecured, we are therefore well provided in our entering Financial Year '23 on a very strong footing. And on an ongoing basis therefore, given our mix of businesses, we expect a steady state credit cost of between 2% to 2.25%. We're planning for a 15% to 20% growth in the near term of which we expect retail growth to be 25% to 30% while in wholesale in the near term, we'll gradually run off the low yielding book, but still, we'll be able to increase the overall business across a wider set of clients. On an ongoing basis therefore overall earning assets yields, etc. should seek continuous improvement. Within retail, besides the cards and microfinance businesses, which will still be a large component, we are growing our rural, housing, vehicles, and business lending segments. Overall, on a three-year basis we do see the bank growing closer to 20% on a compounded basis across all segments. In wholesale the focus will continue to be adding more clients in the corporate, mid-market supply chain, government and NBFC and new economy areas.

With this we will now take questions. Thank you for your time.

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

Nitin Agarwal: The first question is like we have seen back-to-back pretty sharp improvement in margins over the past two quarters. How sustainable this is and where do we see this trending now that we are talking to further see a faster growth in the retail assets?

Rajeev Ahuja: I will let Jaideep answer, there's a, there's a specific thing for this quarter. Let him answer that. We'll give you a sense of where we see NIMs for the balance of this year.

Jaideep Iyer: Yes, Nitin. in the past we had mentioned that we've not recognized interest income on our restructured book. We were advised that we will have to take it into income and therefore we have done that. So that has added about 45 to 50 basis points. On a normalized level, we will be back to 4.5% to 4.6% in the next quarter and thereafter, bit of marginal increase after that, and therefore we have obviously therefore taken all of that and more into provisioning from the restructured book.

Nitin Agarwal: Second is on the fee side, like a fee income from cards. If I look at that, the fee intensity is coming off like every passing quarter. If I compare it to the pre-COVID levels also then fee income as a percentage of spends has come down, how do we see this?

Jaideep Iyer: There is unfortunately a quirk there as well for this quarter, we have reversed approximately Rs. 50 crores of card fee income across late payment charge and over limit charges. This pertains to the COVID period where interpretation issues resulted in us now reversing that charge. If you adjust for about Rs. 50 crores, then it will be sequentially flattish in terms of card income.

Rajeev Ahuja: This is just a one time. So, this will not recur. I think this is something which we discussed with the regulator and the auditor, and we took it all in this quarter.

Nitin Agarwal: Lastly, on the restructured asset provision that we have made this quarter, now that we are guiding for credit cost to decline to 2% to 2.25% range, what is the collection efficiency in the restructured portfolio currently and how much slippages are you building in from this portfolio?

Jaideep Iyer: Not a large part of the restructured book, at least through the largest part of our restructured book is in the retail side is secured loans. I think about 10%, 15% of the book has come out of restructured book. That performance is very encouraging right now. We will not expect any out of the ordinary slippages on the secured book. Even if there are slippages given the LTV that we carry and in the historically we have never lost the principal on the secured retail book. So therefore, we are carrying 10% provisioning on that book, which we think is, reasonably okay. On microfinance and unsecured, we have upped the provisioning quite significantly, and that should substantially reflect LGD, give or take,

Rajeev Ahuja: Sorry, there's a credit card item there, which actually is more a technical issue. These are all performing customers who, from a technical reason, we had to classify them as restructured, but they all are performing.

Harjeet Toor: On cards you have to keep in mind that this entire restructured book pertains to 2020. If the loans are still live, which means they're all good and accounts are still live means they're all good and they are all paying.

Jaideep Iyer: Sorry, in this context, I also wanted to just clarify, we were asked this question in Q3 results. So, the RBI inspection got completed and we have no reportable divergence. The divergence number was barely a single digit crores, low single digit crores.

Moderator: The next question is from the line of Kunal Shah from ICICI Securities, please go ahead.

Kunal Shah: Firstly, with respect to maybe the induction of the RBI Director, and since now it's sometime long. Was it primarily with respect to the management transitioning or there were other observations as well, which has come in say from the nominee of the RBI Director, if you can highlight anything?

Rajeev Ahuja: As I mentioned in my January commentary, it is entirely transitioned. As Jaideep probably mentioned it, we've already gone through a regulatory, normal inspection and barring that 50 odd crores, which is a one-time thing. There's no other observation. I don't think there's anything more than that. Otherwise, it would have to be reflected in our financials for FY22. So that much I can state.

Kunal Shah: This 50 odd crores is what you're highlighting in terms of the daily recognition one, or fee reversal?

Jaideep Iyer: This is the fee income reversal, correct.

Kunal Shah: And secondly, with respect to OPEX. Again, I think the margin trajectory was quite strong, but still cost to income is at roundabout 60 odd percent.

Jaideep Iyer: I think we will be in this ballpark for a while, if you look at our last two to three years, we have interest earning book has actually come down from maybe Rs. 58,000-59,000 crores to Rs. 53,000-54,000 crores on a daily average basis. Till the time we grow our businesses back, which will take us maybe a couple of quarters, we will have this challenge where costs have to grow because we are investing in branches, technology and so on and so forth, retail asset business is coming back where costs are up-fronted, so till the time there is, somewhat of increase in interest earning book, which we will expect the next couple of quarters to give us. This will remain in this range I think for two to three quarters.

Kunal Shah: So that investment both at the employee side, I think again, the cost was higher quarter-on-quarter and even on the operating side and you highlighted maybe in terms of the retail build out as well as technology that is continuing. Any guidance on that part maybe highlighted with respect to growth, credit cost, et cetera. How should we look at the cost line item?

Rajeev Ahuja: I think suffice it to say, I think you should assume in the same ballpark. Also, maybe when we discuss June, we'll give you a little bit more analysis at segment level so that you understand. Because the balance sheet structure, if you can understand, credit cards has come back faster and stronger, microfinance, we started in February-March and now 30, 40 days of hiatus, but it'll come back. Retail loans are coming back. There is a need to understand at a segmental level, what is driving the overall economics of the business, which then translates back to, OPEX ratio, et cetera. I think we give you a little bit more flavor, but I don't think, for right now we are continuing investment in these areas, which you mentioned, and those will eventually lead to better economics for the bank. We will get our retail wholesale mix back to, 65-35 in the not-too-distant future.

Kunal Shah: One last question with respect to the, when we look at the segmental breakup of slippages so in fact, in the absolute term of the business loans, it's still inching up quarter-on- quarter. Even in terms of the growth, that's the only segment wherein we have again since 7% odd quarter-on-quarter decline. How should we look at this particular segment? What would be maybe in the near-term strategy out there and could this throw in a relatively higher stress going forward, given maybe the input cost and everything since going up? Would there be more problems with respect to the business loans?

Jaideep Iyer: On slippages as Harjeet mentioned, we implemented the new RBI circular, which came in effective November 12, and that did result in increase by about Rs. 60-65 crores on slippages on retail. A good part of that we expect to be upgraded next quarter. This is a fairly stringent criteria for OD cases, not term loans but OD cases. If you adjust for that, we will be sequentially lower. I will let Harjeet comment on the business growth.

Harjeet Toor: On the business growth as I said that we've done two things. One, the segment itself has changed. As more and more month's pass, you're getting more and more clarity in terms of the leverage levels of these customers which they've taken during the last one year or as they came out of COVID. I expect business loans to grow core business loans to grow at around close to between 15% to 18% in FY23. But we need to keep in mind that when you look at the aggregates, we are running off an unsecured book. We ran off about Rs. 1500 crores last year. Therefore, that does mute the growth, which we are seeing, but otherwise that's how we look at this business.

Moderator: The next question is from the line of Rupesh Tatya from Intel Sense Capital, please go ahead.

Rupesh Tatya: My first question side is in-between there was this news item that NBFC can issue credit cards. Now obviously they have to go to RBI and take approval and all that, so with respect to Bajaj do you have any comment?

Rajeev Ahuja: I don't think we see any challenges for our growth either from Bajaj or otherwise. I have no idea on what the final regulatory approval structure will be, because we've seen this circular discussion come once in every 12, 15 months, obviously with Bajaj, our plans are very set, not just for this year, but for the next three, four years. I don't think those plans will basically be rolled back in any form as far as we are concerned. Other than that, we don't deal with any other NBFC. We are pretty good there, Harjeet anything more?

Harjeet Toor: No, that's it. I mean, the circular is the same as what it was for the last three, four years. There's no change in the circular.

Rupesh Tatya: In qualitative aspects, can you talk about non-Bajaj credit card organization in terms of attribution ingrain in terms of credit costs, what kind of profitability you make, if you can just give some color then maybe be with respect to Bajaj portfolio and also maybe with respect to industry.

Harjeet Toor: We did mention that both portfolios actually from on a credit cost basis and the ROA basis, both portfolios are fairly similar give or take 25 basis points, 30 basis points here and there. We are obviously now over the last two quarters, I would say putting in a lot of efforts to grow on non-Bajaj book, especially around our co-brands around Zomato and Bank Bazaar and Paisa Bazaar which have started to pick up fairly well. Our spend levels on the non-Bajaj book are, I would say almost double that of the Bajaj book, as a result, if you look at it our portfolio distribution, despite the skew in terms of number of cards, it is roughly 50:50, 45% is non-Bajaj. 55% is the Bajaj portfolio overall. So, from an earning potential ROA, potential fairly similar, but obviously the dynamics are very different, Bajaj portfolios are more widely spread across almost 400, 500 cities and towns versus non-Bajaj book, which is close to about 80, 90 towns.

Rupesh Tatya: My second question is historically, there is a problem with the bank, which is with respect to wholesale banking because the spreads in wholesale banking, at least by my calculation, 75, to 100 bps, and it is an extremely competitive space and there is always the fear of large slippages across the cycle, this is structural issue and being a small bank, we have a slightly higher cost of funds so obviously we have a slight disadvantage. So how take you this 70 to 100 bps spread to, let's say 125 or 150, and how can you assure us that across cycle now, we'll make a good ROA relatively compared to the industry in wholesale book?

Rajeev Ahuja: Rupesh, that's a fair question and I think we have been sharing some of the work we are doing but let me just summarize it. Post 2019, we basically put a very firm underwriting structure which reflected not just our learnings of several years. We had a few relationships where I think the challenge was concentration and not maybe initially the choice. I think those were really what hurt us. We put a very strong regime of underwriting target operating model in terms of concentration. And that helped us during COVID. Actually, if you see our COVID performance in wholesale banking has been extremely satisfactory because we had already implemented that. But to your point, and I also alluded to the fact that because of lack of credit growth between 2020 and 2021, a lot of our wholesale deployment went into high quality low yielding borrowers where obviously you will not make money given our cost of funds. So, gradually over the last two quarters we have seen growth come back. And my guess is that we will continue adding more and more customers in the mid-market, some in the corporate, NBFC, a new economy, we have got seven or eight subgroups Rupesh which operate under the overall wholesale banking. And besides the NII on advances, which is an important part, I think we do a lot of work on FX, trade, cash management, digital services, which actually adds a lot more to the economics of the business. So, as I mentioned to you that we will not hesitate in paring down some of the low yielding exposures over the next 12-18 months and start filling them in with the mid-market and the other segments which will help us improve the overall economics. Long-term I think you will see our book as the retail growth continues the pace now. We will get into a one third, two third structure, but one third will be more granular, a lot more around trade flows, transaction flows, supply chain with a lot of deposits and cash management thrown in which we are already doing a lot of. So, that's the only way you will juice up the economics of the wholesale business. But that's our strategy which got interrupted in 2019. Obviously 2020 and 2021 because of COVID, we were extremely conservative and now we are gradually opening up and I think this will continue reflecting in the overall business we are doing.

Rupesh Tatya: One small follow-up there. I am more interested in the qualitative aspects of the business. You are focusing on mid-market and let's say also MSMEs. So, in terms of employee talent, can you talk about it? Can you talk about recovery? What sort of new to credits or single bank relationship or two banks relationship accounts in the small accounts? Can you give some quantitative flavor? What has changed in the last 2-3 years there?

Rajeev Ahuja: I think invariably most credits we will not be the single lender. If it's a reasonable credit, you will at least have three or four, if not more. So, that's I think one thing I'll say upfront. I think in terms of the opportunity available for us, it's fairly large. We are a very-very tiny part of even the narrow segment I have highlighted to you. Now, I think what is important is that you have very strong coverage guys in the front lines, which we have enough of, and we have added a lot of youngsters over the last one year which are now being blooded in terms of taking junior relationship manager status, strong on credit. In fact, starting with our target operating model implementation, our credit structures have become very robust where basically we are pre identifying a lot of credits we want to do business with and heading to the market with something in our hand before we start prospecting. And I think very-very rigorous follow-up from an early warning system, from a relationship ROA perspective and over a time period we have to ensure that the credit and the liquidity allocation to this segment starts making returns. So, all of these things are now being almost enshrined. Obviously, we were working in an environment where growth was not there, now growth is coming back. So, some of these things are being implemented and we are seeing early signs of success. So, for instance in Q3, we acquired between 80 to 90 new customers in wholesale bank. And I think in this quarter as well while we had our other challenges, but we actually had almost another 40 to 50 new clients acquired in the wholesale segment. And I can tell you that is the most exciting part outside of the asset levels of wholesale bank which everybody looks at that how many new customers we are acquiring across the spectrum. We are one of the top two or three new economy bankers where the credit deposit ratio perhaps is more like 5% to 10%. We do a lot in deposits, trade, foreign exchange, salary accounts. In the NBFC segment also we have a decent share in cash management. So, there's a lot of sub segments which are not exactly asset intensive and where you can actually improve your overall economics. Obviously at the very top end AA and up credits you would never make money, which is what I was suggesting that we will run down over the next 12-15 months in terms of our book we have built because of liquidity reasons.

Rupesh Tatya: That is good to know of our focus on the business economics. My last question is a data keeping question. With this two-third, one-third retail wholesale space, what kind of gross slippages do we see in a normalized environment?

Rajeev Ahuja: I don't know if I can comment right away, but I think a model cost of credit for the portfolio should be in the two-ish range from a long-term perspective. And the only reason it will be two is because we got cards and micro-finance which by their very nature will be on the higher end of the cost and credit curve. Homes and business LAP, which Harjeet talked about where we are moving to the safer end, will be lower. Wholesale we will try to push lower. And all the others we are doing we will have three or four more segments like rural vehicle, used cars. While they be a little higher on a percentage basis, but the overall size of that contribution won't be dramatically high. So, I think 2% to 2.25% over a life cycle of this business evolution should be the model cost of credit for us.

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

Manish Shukla: Harjeet, first question on microfinance. You mentioned the hiatus because of RBI circular. Can you please elaborate what part of the circular made you do that and what is it exactly that you are changing and the MFI business?

Harjeet Toor: I think the core itself in terms of assessment of credit has changed. Earlier assessment was done basis the borrower only, and hence you would take the obligations of the borrower and be in a position to decide the credit and disburse the loan. Today what has changed is that you need to take a household income as well as the household obligation, which means I need to take the spouse and if there are children who are unmarried, their obligations, and then also their income levels, and then apply that and put an incomed instalment ratio. Now, that means multiple hits to the bureau, which then needs to be factored in before you are giving this. I think this is the single biggest change which one needs to get right before one goes ahead and does this. And these things we believe cannot be done on a manual basis because you end up disbursing about 150,000 to 200,000 loans a month. And hence hopefully we in the fag end of UAT testing. In a week's time or so we should be live with it.

Rajeev Ahuja: I will just add. I think the other important thing is while this is a necessary build-out investment, the collateral benefits of putting a robust system at a household level will give us more opportunities with the household, especially the household above a certain income level beyond micro-finance, which today because it's a very simplified operating model, we are not able to capture. So, those are things which obviously will take a little while, but that's our expectations from a medium-term perspective.

Manish Shukla: So, just to be clear, every loan given after 1st April has to be compliant with this new norm? So, there is no grandfathering or anything?

Harjeet Toor: That’s correct.

Manish Shukla: Moving onto cards, we discussed the cards circular. So, besides the NBFC, there were other parts of the circular including data sharing for co-branded cards, etc. So, rest of that circular, how do you think that impacts any part of the card business for you? And then your comments on the broader industry as well, where the card business is going?

Jaideep Iyer: The way I see it is from a data sharing point of view, I think we were fairly okay even before the circular, because we don't share data with any of our partners. And if we are showing the card holder their credentials on, let's say the partner app, then these are all direct SDKs and data is in our environment. So, while they just see it on the app, the data is never available to the partner. So, I think we are okay from that point of view. I think where the changes are coming is more in terms of things like transparency. There was a big talk about activation of cards which hopefully we are getting a little more clarity with engagement with RBI. I think as an industry body we are doing that as to what is meant by an active card. Because the circular says that in 30 days if the card is not active, then you have to block it and cards which have not been active for 12 months, you have to close and the card which you block in 30 days, if they don't get activated in the next seven days, then you have to close. Some of those things are I think big changes. There are some accounting level changes which need to get done. So, there is engagement as of now going on with the industry. You will see some element of, I would say, maybe fee reduction as a business. For example, if over limit is not allowed then over limit fee will not happen. One has to start building up interest rates from grounds up. So, those are some of the things which have been managed in this circular. So, we will see how things are going. As of now, we are in the phase where we are engaging as an industry body with RBI. And I think RBI has been fairly open in terms of discussing this. So, let's see how it comes out. But yes, this time the circular is more prescriptive, I would say in nature.

Manish Shukla: So, the 12-month rule if it is implemented as it stands now, do you think the number of outstanding cards can decline meaningfully at the industry level, not specifically for us?

Harjeet Toor: Dramatically.

Manish Shukla: Yes, that what I would have thought.

Harjeet Toor: We do a more conservative approach because actually if the card holder is not active, we kind close their account, but that's not the industry practice. We are also not a benchmark because we are fairly young in the card industry. I think people have been there for very long and therefore carry cards for very long and therefore would have a far larger base which is not active. Now, the definition of active is being discussed with RBI, so let's see. It need not be only spend.

Manish Shukla: So, on that point when you said when card is not active for you, how do you define active?

Harjeet Toor: Today when we say card is not active, when we close cards after 12 months not active means the card has not spent anything. So, we take it in that spirit. But I think there is a discussion that any customer-initiated action need not only be spent, should be treated as activation.

Manish Shukla: Moving quickly to liabilities. Can you share any data around the number of retail accounts, SA or TD? Because for this particular quarter the difference between average CASA and Period End CASA is the highest that we have seen in a very long time.

Jaideep Iyer: Manish, on average the issue obviously was that on December 25th and subsequent to that for a couple of weeks, so obviously averages for this quarter would be lower because of the impact and the build-out happened subsequent to the let's say third-fourth week of January. And now it's back to where some semblance of normalcy, but obviously it became back ended. So, that is the reason why average CASA is lower. It will begin to normalize by the next quarter.

Surinder Chawla: And in terms of our new acquisition number, the number is actually much higher than ever before. Even in the month of December what we were doing, we are doing about 15% to 20% higher than that now. More in terms of CASA accounts as well as granular time deposit accounts as well.

Manish Shukla: The other question is that given that we are in a rising rate environment and probably a pretty steep rising rate environment, what's your approach going to be on the liability side? I mean, between TD and SA rates, how are you thinking about changing those rates?

Jaideep Iyer: So Manish, we will be lazy to increase clearly because we are on the higher side so this will be an opportunity to narrow the gap by either cutting less than what we were earlier planning to, or clearly not raising on the SA side at least. So, that's one. And I think the rising rate environment also benefits in terms of being able to reprice a lot of the loans, both not necessarily linked to external benchmarks, but also otherwise given the competitive dynamics will also move. If you have noticed we are already hearing larger private sector banks moving materially up in terms of new business, both wholesale and retail on rates.

Manish Shukla: And for you the entire wholesale group plus home loan in retail would be floating, right?

Jaideep Iyer: We will pretty much only have realistically the cards and micro-finance book, which is fixed rate, almost everything else materially would be floating.

Manish Shukla: One last question to Harjeet, Harjeet, you mentioned that on a value basis the card split between Bajaj and non-Bajaj would be over 55:45, but what would be your success in terms of cross sell between Bajaj and non-Bajaj especially on the liability side? Is it better in one channel versus the other?

Harjeet Toor: We haven't really done much. We had done a pilot where we had opened about close to 80,000 accounts and then left it there because we were still figuring out how to get the balances going. While it’s easy to open the account because it's digital in nature. The customer just needs to consent. But the issue is to start getting the customer to use it. I think that because of COVID was something which we had left the side, we will have to start looking at it again within FY23.

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

Mahesh M.B: The difference between consolidated and standalone, the number seems to be quite high.

Jaideep Iyer: We made a loss of approximately 90 crores in our subsidiary because their earnings are basis the interest earning book and we went slow in micro-finance as you know and therefore the subsidiary, unfortunately also had to kind of be in a situation where the earnings fell, but the cost did not fall as much.

Mahesh M.B: Because some of it is just an OPEX to do with subsidiary and income, right? What drove this negative income?

Jaideep Iyer: See, our payout to all BCs including the subsidiary is on the interest earning book. Now we ourselves went cautious so naturally the subsidiary unfortunately does not have the ability to do business with other banks, right? So, they are dependent on us in terms of business growth. And if we became risk averse post COVID for the right reasons, naturally the interest earning AUM of the subsidiary on which they earn fee from us fell and therefore they became sub-optimal in terms of their branch network versus the book they were dealing with.

Mahesh M.B: Harjeet had kind of indicated that the credit cards should be reasonably at about historical lows. MFI doesn't seem to be a big issue now. Where is the 2% coming from? Or is it just that you guys are looking at it from outside rates?

Harjeet Toor: So, credit card credit cost in FY23 will still be between 4%-4.5%. Credit card credit cost normally are in the region of about 5.5%. FY23 will be an exceptionally low year for two reasons. One the recoveries will still kick in. The second is that the bad book was almost washed off completely and therefore it will take time for those things to build. And one of the factors is reward rates are also extremely low. So FY23, you will see a lower credit cost, but it will still be between 4%-4.5%.

Moderator: Thank you. The line for the current participant has got disconnected. We will move on to the next question from the line of Abhishek Murarka from HSBC. Please. Go ahead.

Abhishek Murarka: Actually, my question is on credit cost again. So, I believe I heard that you said that retail slippage would be roughly about 6% this year. And on the retail, I would assume at least 60% to 70% coverage. So, you would have to provide roughly about 3.5%- 4% on roughly half the book that is retail. So, approximately 2% provision would simply come out of the retail book by this math's. So, are you factoring in very-very low slippage and therefore the very low credit cost on the wholesale side or are you factoring in any reversals? How are you getting to that 2?

Jaideep Iyer: Abhishek, part of the answer also lies in recovery, right? We are carrying a largish NPA book, while very healthily provided will on a good day should also be giving back more than what we have provided at least in certain segments.

Abhishek Murarka: So, your 2%-2.5% is net of recovery?

Jaideep Iyer: Yes, credit cost is always net of recovery. Absolutely.

Abhishek Murarka: My second question is on MFI. Would you be looking at higher lending yields over there? I mean, after the new regulations does that give you anyway a little more room because some of the market participants on the NBFC side would also look at increasing rates. So, how are you thinking about that?

Harjeet Toor: One of the things in the regulation is that you need to build up your justification for interest rate grounds up. And therefore, we would see that our current yields, I think, minus about 100 basis points is what we would be at. Can you hear me, Abhishek?

Abhishek Murarka: I couldn't hear you for a bit.

Harjeet Toor: So, what I was saying was that one of pieces in the guidelines says that now you need to be able to build up your interest rate which you charge to the customer grounds up, in the sense from your cost of funds upwards. And therefore, when we are implementing that we would be actually seeing a cut in our yields being or interest rates being offered to the customer by about 100 basis points than where we are today. So, for us you will see a little bit of drop. What you are referring to is some of the MFIs which were governed by the 10.5% kind of a cap they might be increasing. But I think from the bank side, at least for us, you will see a little bit of a drop.

Abhishek Murarka: What would be the rates right now?

Rajeev Ahuja: Today it ranges between 25% to 26%.

Abhishek Murarka: Just another question on cards. So, a couple of entities now including yours have shown that share of cards in self-employed and Tier-3 and all of that is going up. Just what is really happening in the industry? Is that the Tier-1 centers salaries is completely saturated and therefore you are going deeper? What's really happening in terms of the customer profile?

Harjeet Toor: The generic trend is that the leverage levels in your Tier-3 cities are far lower. And therefore, that is a segment you would want to target to be able to bring into the credit card fold. Now it's always been a challenge of being able to get the scale in Tier-3 cities and I think that was the reason why the concentration was largely around the Tier-1, Tier-2 cities and therefore most of us were issuing cards to the same customer. And you had an average about 2-2.5 cards per person which was running. But I think over this period what has started happening is one, as some of the larger banks have started getting into their liability base deeper down into smaller Tier cities. And the second is this entire piece around shift to e-commerce and therefore in partnership with some of the e-commerce players' ability to be able to now enter into smaller cities without actually investing too much in terms of distributions infrastructure there, is enabling Tier-3 card penetration to go up. That is the reason why across the industry you are seeing Tier-3 go up. And it is also as of now proving to be better credit, spend lower than the Tier-1, Tier-2.

Abhishek Murarka: For you, how is the sourcing coming, through your co-branded because you said co-branded is not for….

Harjeet Toor: For us Tier-3 is largely coming through the Bajaj partnership.

Abhishek Murarka: What is the ability to collect that? So, that anyway collection is done by Bajaj?

Harjeet Toor: So, we have a dedicated collection infrastructure which does the cards collection which is independent of Bajaj's own collection infrastructure. So, they have created a separate independent cards collection infrastructure for us in these cities.

Moderator: The next question is from the line of Rohan Mandora from Equirus. Please go ahead.

Rohan Mandora: Just wanted to check; is there any update on timelines with respect to the MD and CEO or where is the process right now on that?

Rajeev Ahuja: Rohan, I think it's in the final leg. So, maybe I don't know the timeline. Obviously, this is with the regulator now, so it should be soon, but I cannot give a timeline, but that's where it stands.

Rohan Mandora: Secondly, if we look at the presentation data, the 3Q FY 2022 numbers with respect to core fee have been reinstated. So, is that restatement primarily because of the same thing that you explained on credit cards or is there something else there?

Jaideep Iyer: Rohan that restatement is actually also if you notice also on cost side. So, there was a netting issue which typically there are certain costs which get netted where it is directly related to income. So, there was an approximate 35 crores which got netted which is why there is an equivalent difference in costs. That's got nothing to do with the reversal that we spoke about in this quarter.

Rohan Mandora: Lastly, what is a PSL level for the bank? Are we PSL surplus right now?

Jaideep Iyer: No. We would be falling short by about 4% to 5%.

Rohan Mandora: So, if you can just share what are the rates on the PSLCs right now and given the fact that HDFC with the merger may look to aggressively acquire PSLCs, how do we expect the market evolve there?

Jaideep Iyer: We don't buy too much of PSLC. We end up being somewhat short. With PSLC prices also fluctuate so we have bought some this year. It starts being high in Q1 and then it comes quite substantially down. But one of the reasons why we were a little short this time was also because of the MFI business being much lower. So, this should at least partly improve automatically next year.

Rohan Mandora: Lastly, if you can share what's the tech spend as of a percentage for the OPEX.

Jaideep Iyer: About 7% to 8%. Only OPEX, generally CAPEX it will be different.

Rohan Mandora: So if you work on both of them?

Jaideep Iyer: But then I can't express that in percentages because the denominator will be OPEX, but that should be double for about 15% to 16%.

Rajeev Ahuja: If you take a depreciation Rohan, then you are more like 9% to 10%, if you include the depreciation which is the right way to look at it.

Moderator: The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: Rajeev, I had two questions, part of it which got asked, when will we have new MD or who's the person would be. The linked question here is with an RBI observer now on the board, does this in any way curtail you guys from doing anything, are there any of the restrictions for that play and what level of freedom gets curtailed through that.

Rajeev Ahuja: Jeetu, in fact there is no restriction or curtailment or guidance on our business. I think as a normal director, they get involved in all reviews and participate in general discussions and actually the way I see it and maybe it will be tough for me to convince you but actually there has been no difference. In fact, we have got a much better engagement with the regulator across the board, as well as an understanding both sides of what needs to be up. These are normal general day-to-day things which happen to most banks. So, it's not just us. I don't see that as an issue at all.

Jeetu Panjabi: A second question, if I may ask, while technically you are termed Interim MD or whatever the terminology is, but you are effectively running the bank; are there long-term investments and longer term thinking that goes out of play while running the bank or is it more just tactical and kind of keeping the shop running while…it's funny I am asking this but I just thought it's important to get clarity on this.

Rajeev Ahuja: Absolutely right. All of us have been around for years and our Board also understands that. So, we are taking long-term decisions and some of these decisions have been in place not just now a year ago, year and a half ago. I don't think there are any changes which have been necessitated by this situation or the fact that I am an interim. I take calls for 3-5 years along with my colleagues, so I don't think we want to either shortchange our stakeholders or ourselves by taking more immediate calls. And there's an active process with the board, we have processes on annual operating plans, capital allocation. And actually, if you go back, Jeetu to our conversation at the peak of COVID-2, we had outlined certain principles which I reiterated in January which was quite fresh after the event. We are proceeding exactly on that and obviously preparing a bank which has a lot more robust cost of credit model, predictability and an earnings profile which can be defended in most market environments. The challenge of COVID actually taught us that. And I think one of the conversations with Rupesh was in wholesale which was already implemented and is now being vigorously pursued. Nothing is short-term. In fact, if you see our provisioning, if it were short term then I would not have been doing a lot of provisioning in this quarter. If we were just to mention that I am an Interim MD, CEO. So, we have taken a long-term view because we want FY23 and beyond to be really a solid year for our troops, for our positioning in the market. Because we have been a little bit defensive last two years, so I don't think we should be defensive anymore. As long as it is disciplined businesses, when we have many businesses right now, we want to take the right calls and these calls are taken with the relevant level of disclosure, discussion, and analysis across the board.

Moderator: The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Congratulations for actually seeming to be a turnaround quarter. My question is that when you are giving the guidance of 2% or 2.2% credit cost, what PCR you are assuming for the end FY23?

Jaideep Iyer: We should be broadly in a 65% to70% range. It is very unlikely we will want to go below 65.

Pranav Tendulkar: So, that is one. Second is that on the other income and fee side, are there any other initiatives to actually improve the fee income growth?

Jaideep Iyer: I think the business franchise growth as it is coming back will naturally carry the fee momentum as well. So, when you look at new business across retail and wholesale which were subdued for multiple reasons for the last 12-18 months, as that engine starts coming the fee income engine will also therefore in parallel come back. As Harjeet was mentioning, cards for example is a very high fee business. So, when the growth momentum comes, so last year we grew only by 10%. So, assuming we grow by 20%-25% of fee income should for example reflect that growth in that business. I think we have been constrained by growth given the situation and I think that now is really turning around and therefore all lines of income should start firing.

Pranav Tendulkar: Last question from my side, other than the MFI yield compression that will happen a little bit. Other than that, the spread and NIM outlook if you could share that will be helpful?

Jaideep Iyer: So, as I mentioned, this quarter we had approximately 50 basis points excess so we should be in the 4.5% range for the next couple of quarters maybe next quarter and then it should start improving, improving because the mix between retail and wholesale should again start favoring retail. And second as Rajeev had alluded before, even within wholesale there will be a progressive realignment between low yielding assets versus more commercially logical yielding assets and therefore, I would be surprised if we don't have an expansion as we go along the year.

Rajeev Ahuja: Pranav, sorry I was just about to chime in when you asked your last question. Just so that you know from our other income perspective, we had the best year in trade FX. In spite of having a tough COVID, this was the best year and while I will not share numbers, almost (+) 50% came from retail and the other 50% came from wholesale which is what I was mentioning to Rupesh that we have a very large franchise in trade FX and related areas from a variety of segments. So see, these are all functions of the underlying economic activity and are obviously what is our target addressable market and how much are we engaging with them? This is an area which will continue growing Pranav, and this needs very strong execution, very strong turnaround times and this is an area where a few private sector banks score very highly. And I think those are the areas we are focusing on. Five years ago, retail was almost zero in that area. Today it is about 50%. So, as our branch catchment, customer catchment improves in retail and that becomes almost like a regular kind of income forever.

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