"RBL Bank Limited Q3 and Nine Months FY17 Results Conference Call"

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Moderator: Good day, Ladies and Gentlemen. And welcome to the Earnings Call of RBL Bank Limited to discuss the financial performance for Q3 nine months FY17. 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 the operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishwavir Ahuja – Managing Director and CEO of RBL Bank Limited. Thank you and over to you, Mr. Ahuja.

Vishwavir Ahuja: Thank you and good evening, ladies and gentlemen. Thank you for joining us for our quarterly earnings call. By now I hope that all of you had a chance to go through our press release, the quarter's results and the investor presentation which has been uploaded on our website. I should speak briefly, perhaps over the next for 10 or 12 minutes and then take you through the performance highlights for the third quarter for FY17. As in the past, we will then open it up for questions for the next 45 - 50 minutes and then we look at cover as many questions as possible.

I have my other colleagues from our management team with me who will also assist me to address your queries. In case any questions remain, you can always reach us separately.

Let me then now get into the overview of the Bank's performance:

As you are aware this has been an eventful quarter for all due to the demonetization drive of the government which put unprecedented pressure on the Banking system from a liquidity, customer service and logistics point of view. There are various view points on the impact of demonetization on the performance of the Bank. That said, I am very glad to report that we have continued to see strong growth in our business and in its profitability. We are strong in broad based loan growth of almost 46% year-on-year and our wholesale and our non-wholesale businesses grew 50% and 40% respectively. Similarly, our deposits base also has seen a very healthy growth of 44% year-on-year, led by a high CASA growth of 83% on a year-on-year basis.

For Q3 FY17 our operating profit increased by 58% to Rs. 235 crores and our net profit increased by 59% to Rs. 129 crores over the same period last year. For the nine months' period ending December 31st, 2016, operating profit increased by 67% to Rs. 639 crores and net profit grew 52% to Rs. 316 crores, again over the same period last year. This is after the one-term provision that we made for the Bank's investment in Utkarsh Microfinance in Q2 FY17 of Rs. 19 crores on a PAT basis, so after reducing that number we had 52% year-on-year growth.

Now, I will give you a brief perspective on our various businesses and the overall business performance of the Bank by segments:

We will take advances first. In our wholesale book comprising corporate and institutional banking and commercial banking business we saw a growth of 50% year-on-year. Within the wholesale business corporate and institutional banking grew 66% and commercial banking grew 23% year-on-year. In our retail asset segment the advances grew 48%. However, during the last quarter there has been drop-in disbursals in business installment loans, in loan against property and small business loans during the months of November and December. We were cautious on our underwriting norms in this environment, that said we expect to touch the pre-demonetization levels of disbursement by February 2017.

In our development banking and financial inclusion business we saw an overall growth of 43% year-on-year. However, sequential quarter-on-quarter growth has been 1%, again owing to disbursements being curtailed post demonetization. However, trends over the past few days point to an improvement in off-take, again here we expect disbursements to normalize by February 2017.

Lastly, on our agriculture portfolio we have seen growth of 20% year-on-year. The growth was slower in commodity business mainly due to high usage of cash in the cycle by growers and traders. You will find more details in our advances slide in the investor presentation.

On the yield front, there has been a reduction of 40 basis points on an overall basis, largely led by reduction in rates in our wholesale businesses. However, the non-wholesale side, the yields have held up very well due to better asset mix and higher proportion of fixed rate loans. We had reduced our MCLR in late September 2016, which also had a marginal flow-through impact in Q3 in 2017.

In terms of deposits and costs of funds. As mentioned earlier, our deposit base has seen a healthy growth of 44% year-on-year, CASA growth has been 83% during the same period. Savings account growth has been 117% year-on-year during the same period and the CASA ratio has increased to 23.2% at the end of this quarter compared to 18.1% as of December 31st, 2015, which is the same point in time last year. On a QoQ basis CASA deposit grew 20%; savings deposit grew 29% while term deposit grew a meagre 3% partly due to a conscious strategy to change the mix of deposits in favor of CASA and to also manage cost of funds. Of the total CASA growth for the quarter, approximately half would be attributable to the demonetization. Of the total influx of deposits that we have seen in the quarter due to demonetization, we believe that approximately 25% to 30% should be retained in the Bank over time.

Our cost of fund has been coming down from 7.4% in Q3 2016 to 6.9% in Q3 2017. Progressive reduction in deposit rates as well as improvement in CASA, while partially offset by the cost of additional CRR maintained for a fortnight as per directions of the RBI is responsible for this development.

In terms of revenue, net interest income and NIM, revenue growth has seen similar strong growth and has grown 52% year-on-year for this quarter. Our net interest income for the quarter grew 45%, our NIM has improved by 20 basis points to 3.4% for the same period compared to 3.2% last year and our NIM for Q3 2017 was slightly impacted by 7 basis points due to the additional CRR. But due to the judicious mix of assets and liabilities the NIM has been maintained around the same level as last quarter which is 3.4%.

Non-interest income grew 66% year-on-year and our core fee income grew 55% year-on-year. We are continuing to see strong traction in our non-interest income, especially in a non-credit linked fee growth categories. Our distribution, client FX income and general banking fees are showing strong growth.

In terms of operating expenses, the operating expense ratio continues to improve gradually and was 53.3% for quarter three in 2017. We continue to focus on better utilization of investments already made. In the quarter, we have expanded our distribution footprint by 14 branches, 42 business correspondent branches and approximately 7000 other customer service points, taking the total 215 branches, 471 business correspondent branches and 48,500 customer service points respectively. This has further deepened our franchise in existing markets and we have also entered new markets such as Chandigarh and Ludhiana where we opened our first branches. At the same time, we have increased our branches and presence in some of our existing geographies. Costs were also contained despite some additional cost for the Bank due to the demonetization exercise, largely related to logistics, ATM recalibrations and cash burials.

In terms of asset quality, we continue to be watchful on our asset quality. Our gross and net-NPA percentages have marginally declined,.with our gross NPA now at 1.06% and our net-NPA at 0.52% against 1.1% and 0.55% respectively for Q2 FY17 RBI's relaxation for certain asset classes granting 90 days' grace period for NPA recognition has not had any significant impact on our NPAs. Our restructured assets level is also quite low at 0.28%, although we have reported one instance of SDR this quarter. Our provisioning coverage ratio has marginally improved to approximately 61% this quarter as against 60.3% in Q2 2017. There is no change in security receipts as compared to last quarter as there is no ARC sale that happened. As in the last quarter this quarter too there was no 5/25 refinancing or S4A case done by the Bank.

We had a bank level credit cost of 56 basis points for the quarter and for the nine months it was 73 basis points. As stated earlier, we continue to target credit cost of approximately 70 basis points per annum even in the long-term.

Moving on, capital adequacy ratio. Our capital adequacy ratio was 14.63% of which Tier-I capital was 12.14% as of December 31st, and as against 15.07% Tier-I in September, and at that time Tier-I was 12.46%. As indicated in our last earnings call, due to high growth rate we continue to consume about 50 basis points to 60 basis points of capital in a quarter.

During the quarter, rating agency ICRA has enhanced our A1+ rated certificates of deposits limit from Rs. 2,250 crores to Rs. 3,000 crores.

A couple of comments on the outlook. We see stronger opportunities ahead post demonetization in growing our scale, distribution and enhancing a digital technology led offerings and strengthening our partnership driven approach. We are seeing increasing traction in our digital banking offerings with increasing customer adoption of our enhanced mobile banking channels. In this quarter, we became the first bank to launch Aadhar payment bridge system to enable microfinance institutions to disburse loans into the Aadhar enabled bank accounts through us. Our API banking solutions continue to see strong growth traction.

I will just take this opportunity to briefly restate our Vision 2020 metrics which we had indicated during the last earnings call. To summarize, we continue to be on track in terms of the metrics we had planned as part of our Vision 2020 which is part of the investor presentation. Our business growth remains strong; we continue to see strong improvement in our CASA. The entire demonetization has helped us accelerate CASA growth somewhat and there has been further diversification of our non-interest income and we are experiencing better operational efficiencies and consequently better return rations as was anticipated.

I think that sort of concludes my narrative, we are now open for questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Vishal Goel from UBS Securities. Please go ahead.

Vishal Goel: I have a couple of questions, one, I think since you obviously deal with even the small and mid-size companies who might be using cash as a medium of their sales, so are you seeing any increase in your overdue buckets, let's say, 30 day 60 day since you might have seen November and December and now even January?

Vishwavir Ahuja: The answer to that is, no, we have not seen any material change in that, in fact, hardly at all. And even in terms of our more granular, if I may say, micro-banking and rural portfolios, even there the collection sort of dipped very little, marginally and therefore we are hopeful that as life comes back to normal, like I said in my commentary, it may be a bit early to say but we expect it to stabilize in the next 30, 45 days.

Vishal Goel: Not even the LAP portfolio, correct, like even the LAP portfolio you are not seeing any increase in overdues?

Vishwavir Ahuja: Actually LAP portfolio our credit cost came down in this quarter and it is actually looking like a better portfolio than it was even related to last quarter. I mean, see our LAP strategy has always been a cash flow driven business lending strategy, it was not sort of typical, collateralized lending approach. So therefore there is underlying cash flow in pretty much each one of our LAP loans. And because of that factor, the portfolio has held up well and moving from last quarter into this quarter with heightened level of, if I may say, consciousness and attention, I would say that that portfolio is in good shape and it is in fact looking slightly better.

Vishal Goel: And another question is actually on your industry exposure, I was just noticing construction is one of the highest and I think even real-estate is like 3.8%. So can you give some sense on how you are comfortable having larger exposure in this segment which has gone through a pretty tough cycle, at least the construction part?

Vishwavir Ahuja: So, this situation is no different from what the composition and character of the portfolio was three months ago, six months ago, nine months ago, etc. I mean, the point I am making is that this is a very conscious strategy and while we have given our sectoral exposures and distribution, the fact of the matter is if you look at the underlying credits they are given to highly rated well established names and they are all I would say investment grade plus, plus names and some of the best names in the country. So in that sense again there is an underlying corporate balance sheet which is very strong and therefore it just so happens that we have multiple businesses with those business groups and construction of real-estate happens to be one of them. So these are all parts of large business houses which are of very strong credit profile, so that is the first point. So actually if you break it down in to individual credits, you will find that they are highly rated, each one of them. And therefore there is no real concern in that portfolio whatsoever. First point. Second point here is that again as per our overall, if I may say business or lending philosophy, we are largely a working capital lender; more than 70% of our total book is weighted towards working capital, short-term revolving self-liquidating kind of loans. So that is the other, if I may say, parameter or filter that is in place even when we do lending in some of these areas. So I guess that should address the question.

Moderator: Thank you. Our next question is from the line of Avinash Singh from Jeffries India. Please go ahead.

Avinash Singh: Sir, on your slide 17 there is a sort of a 100% sequential jump in that non-funded letter of credit exposure. Can you provide some color on that where exactly it had jumped so much? And secondly, if you can provide the trends post demonetization in terms of disbursals and approvals across sectors?

Vishwavir Ahuja: So, taking the first question first. In terms of letters of credit, I think the number has moved from 655-odd to 1,279, I think that is the number you are looking at, right?

Avinash Singh: Yes.

Vishwavir Ahuja: So, all I am trying to say is that at even 1,279 it is not a significant portion of the total, if I may say, risk balance sheet of the bank,. And in fact this is very much part of our transaction banking strategy to have a fairly robust, if I may say, non-fund based business. And to have the benefit of those collateral earnings to improve the overall relationship returns. And if you look at market benchmarks across banks, I mean, there is in fact room for significant growth in these areas. Proportionately speaking, we are still at the lower end of the spectrum relative to the market benchmarks in this space. That is the first point. Second point here is that much of this in the form of trade letters of credit, so it is to fund or to support or facilitate the trade cycle which by definition is self-liquidating. So that is how this whole thing is there. Some of the exposures lead to FX transactions and revenues. So this is very much transactional, very much working capital, again, keeping with our overall philosophy and again in terms of just looking at the size and scale and the proportion of it well within risk comfort levels and much lower relative to market benchmarks.

Avinash Singh: I mean, on that of course I was not point that in terms of high or low, I was just asking because in the subdued credit fund and non-funded demand environment you saw a significant jump and also your level has been sort of stable at Rs. 600-odd crores for a long time and it has suddenly jumped. So my query was more on what the nature is or what is the sector of these clients?

Vishwavir Ahuja: So again, this is across the board, these are in the large corporate segments some of the leadings names in the country and then there are mid-corporate names and then there are some in the SME space. So, it is across the board in terms of spectrum. It is our stated philosophy and if you go back to our past narratives and these things, we have constantly said that we want to maintain a minimum, sort of, one-third to 35% non-interest income to total income ratio and that this is going to be an areas of, if I may say, faster growth going forward. Because at the end of the day as we deepen our penetration levels and relationships in with our borrowing customers, the whole idea is to expand and deepen those relationships by doing various things and multi-products, particularly the non-funded products because that gives you the fee earnings and improves the relationship returns. So it is an integral part of our conscious strategy to move in that direction and it also helps in the overall efficiency of the relationship.

Avinash Singh: So my second question was more on sort of a trend in terms of enquiries, disbursal and approvals across different segments post demonetization.

Vishwavir Ahuja: So I do not have exact numbers, but all I can say I that immediately after demonetization particularly in the agri and the financial inclusion space, as I mentioned in my overall commentary also earlier, there was a dip in disbursals towards end of November and into early December. But moving into end of December and early January we have started seeing the traction coming back. And therefore we are sort of hoping that we will reach normal levels within a month or so.

Avinash Singh: And in other segment like SME or your corporate institutional it has been business as usual?

Vishwavir Ahuja: It has been very much business as usual and those segments have actually grown very handsomely.

Moderator: Thank you. We have the next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Just on the net interest margin, just from a trend perspective do you see given the environment where we have seen sharp cuts in base rate and MCLR by the leading players, do we see sustainability of margins or how do we position our self on the margin picture?

And second question is on the capital consumption, we are sort of losing 50 bps - 60 bps every quarter, so when do we see our self-raising capital given the strong growth and advances we are witnessing?

Vishwavir Ahuja: Yes, I mean, on the margin front look if you ask me in the foreseeable future despite what is happening in the overall environment I think there is movement happening on both sides, I mean on the yield side and on the cost side. And I think we are also very consciously managing our costs, let me put it that way. And we are very conscious of the fact that in an environment like this even if you are able to maintain margins I think that should be a good, if I may say performance. We are confident of maintaining margins; let me put it that way.

Ashish Sharma: But from a longer term perspective do we have, I mean, what sort of a vision we have in terms of the normal or the aspirational level of margins?

Vishwavir Ahuja: Look, if you go back to our 2020 vision sort of guidance that we gave in the last call, some of the things are covered where we have indicated our growth estimation, how the CASA trajectory will go, our focus on non-interest income, our focus on cost income ratios and return ratios including ROA. So there is a clear guidance there and I think what I can say is that all of them are consistent with each other. And in that sense if we have to head towards achieving some of those goals and I would say in two quarters we are well on our way, and in every aspect that we have indicated, we are at or better than our indicated trajectory. So that having been said, therefore this is one aspect. The second aspect is more in terms of how we will drive the whole thing. I think it has been said time and again that there is a lot sitting in terms of how you manage your asset mix. And over time, even though this quarter was a little bit of an aberration where wholesale lending continued to be growing whereas the retail type lending particularly in the micro-lending and agri space was a little softer. But on a more sustained longer term basis our philosophy and approach is to grow that even faster. And when that happens the higher, if I may say, yielding assets will increase in proportion. And we hope therefore that that is the other way of maintaining or improving margins.

Avinash Singh: Okay sir, perfect. And second question was on the capital, sir.

Vishwavir Ahuja: On capital, the fact of the matter is yes we are consuming this, if I may say, scale of capital, kind of on every quarter. So, we have very health Tier-I position as of now, as you can see it is 12.1% or so. And it can easily go down by another 110 basis points to 140 basis points before the next capital raise becomes eminent. And you are as much of an expert in guiding that as any of us. So, yes, that is the landscape.

Moderator: Thank you. We have the next question from the line of Rakesh Shinde from Asian Market Securities. Please go ahead.

Rakesh Shinde: Three questions for my side, first on the credit cost. So, in that this business of branch banking segment I think we have seen the significant jump in terms of that segment in nine months FY17 basis. So, any stress in that segment especially from business loan segment or the personal loan or unsecured loan segment?

Vishwavir Ahuja: Again, let me put it this way. We got into the traditional commercial lending business only two, two and a half years back. I mean, in our six years' journey for the first major part of the journey for several years we were focusing on corporate, we were focusing on commercial lending at mid-corporate SME level, we were focused on agri, financial inclusion lending, that was a focus. We have said earlier, more than once, that because this was high risk this required a stronger capital position, it requires to build the entire risk infrastructure, the entire collection apparatus etc., we got into this business sequentially at a later stage. So this business is very small for us. If you look at it in terms of percentage of the total it is still a very small business, 16-17% of the total business. And obviously the whole idea was to grow quite handsomely on a very small base. And I think in all aspects in terms of return and risk quality, it is holding up pretty well. And there are several parts and pieces to it and I would say in all categories it is doing well for us, whether it is cards or it is installment loans or it is LAP or small business lending or whatever it is. And before this question comes I will sort of hit it right now, the gross NPA in this space is around 1.3% which is well within our planned number in this area. So, it is around 1.25% to 1.3% in that range. And we have gone into this business with a planned strategy of slightly higher impact planned and P&L levels. So we are tracking well and from that basis we are confident of continuing to build and grow this, sell at a fairly good clip.

Rakesh Shinde: And just on this overall business there is a jump in overall risk weighted asset, so on nine months basis from last year 69% of the sales to 77%, so it is like we are going a bit aggressive in unsecured retail segment product or we are lending to comparatively lower rated corporate?

Vishwavir Ahuja: No, actually if you bring down my entire, if I may say, average risk rating of the portfolio, if I just look at the risk profile and we have a system in the bank of taking individual risk ratings and then converting that into an overall average risk rating of the portfolio. We are seeing consistent improvement in overall asset quality of the bank on an average basis across the entire portfolio. So, that is the first part, so there is no increase in overall risk for the bank. Number one. Number two, historically we had very high G-sec and that needed to be corrected, so that we brought down. And even at 77% risk weighted assets I think in terms of efficient usage of risk capital we are not out of it, let me put it that way. It is the right level to be at from an optimization perspective.

Rakesh Shinde: And just lastly on the overall branch expansion strategy, they said I think we have added around 14 branches so what is the strategy going ahead and which geographies or which areas we will be targeting?

Vishwavir Ahuja: There is a map on page 27, now I also mentioned it in my commentary but just to repeat the point, when we look at our distributions strategy we look at a multi-pronged, multi-channel strategy which is branches, which is additional branches through our partners which are dedicated branches for us, and then other sort of distribution or customer service points. And I mentioned some statistic in my commentary how that has all three parts have grown. So when you look at franchise expansion we need to look at all three. And if you see it from that point of view and you also see on the top of the slide in terms of customer acquisition you will also see how that has been growing healthily from 1.7 million customers in Q3 2016 to 2.52 million customers in Q3 2017. So my entire, if I may say, distribution to customer acquisition should be seen in the context of our strategy of how we want to do it and how we are actually doing it. And this also helps us; in fact, manage the risk reward and cost of revenue equations quite favorably. And part of the reason why the ratios stack up well and how the whole thing is happening on a high growth, yet on a prudential and a profitable platform, the reason for that is the way we have operated our strategy.

Moderator: Thank you. We have the next question from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: I had the question on expenses, in your opening remarks you mentioned that demonetization has to some extent has resulted in higher OPEX this quarter, would you be able to quantify that number?

Vishwavir Ahuja: Less than 1% of total cost for Q3.

Kashyap Jhaveri: So, my question again is on cost, and if you look at the total OPEX was about Rs. 180 crores - Rs. 190 crores in Q3 last year, in Q1 this year it went up to about Rs. 220 crores, now this is about Rs. 270 crores. As it is we are on a high cost to asset, high cost to income ratio and that is not materially improving despite such high growth, I mean, we were at 55 now we are at about 53.5. So when do we see operating leverage playing out in it?

Vishwavir Ahuja: No, I do not think that, the fact is that last fiscal year ended March 2016 we were at 58.6. And we had guided that we will improve it to 51% - 52%, it is in writing, it is in our investment presentation also, that our Vision 2020 which I stated in last call is to be at 50%, - 52% in that range by 2020. So, if you just see the trajectory we are actually operating at a much faster improvement than we had initially predicted or guided, let me put it that way first. Secondly, the fact is we are still a very much an investing organization and the very fact that in our various businesses right from day one when there was, frankly speaking, I have invested in infrastructure, in technology, in people, in systems, in compliance, on credit, architecture, everything from scratch, that was zero in the bank six years ago. So, coming from that base and to make a credible competitive position in this very highly competitive industry, if you sit in that context what have you done, we have been able to invest, build, compete, be prudential, be profitable, be fast growing and yet bring down all the cost to income ratios in the right direction year after year. So, in that context we are a six-year-old bank. So in this journey you are seeing constant improvement and I do not think one should sort of, I mean, it is very much in line with what we have said. So, every ratio whether it is CASA, whether it is percentage of total income, operating efficiency in terms of cost income ratio, ROE, ROA is improving every time.

Kashyap Jhaveri: And second question is on your gross NPL in commercial banking as well as retail, though for retail number as a percentage of assets is pretty small but in case of CB the growth in NPLs is higher and the percentage of asset is also certainly higher. Should we then expect to stabilize here?

Vishwavir Ahuja: So, please turn to slide number 14 and it gives you in the fourth quadrant bottom right, it gives you the breakdown of credit cost by business. CB cost, now we have said before in our previous commentaries that CB was an area of relatively high NPL and high stress for us, relatively speaking. While the entire portfolio stacks up beautifully in this area, in the SME space particularly we had experienced, if I may say, some stress. And that lead to, and this is a reported number earlier, higher levels of relative gross NPA. Now, we have looked at this very seriously, in fact we have tried to contain the credit cost in this space and the quality of the portfolio and significant rejigs have been done which have been very effective already based on the efforts put in over the last six to nine months. And now I point you to this current quarter where the credit costs in CB quarter-to-quarter have come down from 178 basis points to 14 basis points, that is the level of stabilization / improvement that has happened. Now, we have actually tried not to grow this at all for the time being till we complete our entire reshaping and repositioning of this business. And now it is reaching levels of stability where we feel that we have got it right and from now hereon we can grow it again on a much better, if I may say asset quality level. And overall it is a small piece in our total pie again.

Kashyap Jhaveri: And last question is on your tax rate, this year Q1was okay but Q2 and Q3 has been about 35% and 36%, on a yearly average that should come back to the overall average level?

Vishwavir Ahuja: Our year to date tax rate is 34.4% and my CFO tells me the answer is yes, it will remain sub-35% for the full year.

Kashyap Jhaveri: On your provision coverage, now we have improved it from about in last two, three quarters by about 10%-odd points, is there a target on this?

Vishwavir Ahuja: So, we are at and around the targeted levels that we have indicated previously. Last year when this question was asked we were around 55% and at that time we had said we will go up to 60% and try and keep it around that level. So, I think we are doing well.

Moderator: Thank you. We have the next question from the line of Mahesh MB from Kotak Securities. Please go ahead.

Mahesh MB: I had just a couple of data point questions on the results. Is it possible for you to share any breakup on your non-interest income?

Vishwavir Ahuja: Yes, it is possible to share. If you can shift to slide 14 it is there. The entire breakdown is there.

Mahesh MB: Sorry, I somehow missed that part. In your employee base today how much of them would be part of the IBA platform?

Vishwavir Ahuja: Yes. So, those who are part of the IBA platform are less than 9%.

Mahesh MB: So we have a total employee base of about 4,700?

Vishwavir Ahuja: That is right.

Mahesh MB: So on that you are saying it is about 9%. And this on an average has remained; it was about 13% last year?

Vishwavir Ahuja: It was 100% six years ago.

Mahesh MB: That is true, more or less you have not seen too much of retirement on this base, it is just that the addition has been more or less on the non-IBA platform?

Vishwavir Ahuja: 100% non-IBA.

Mahesh MB: The third question is any broad changes to your DB and financial institution, that contribution as a proportion of the overall loan book in light of what you have seen on the microfinance space?

Vishwavir Ahuja: You are saying will it impact our strategy?

Mahesh MB: Yes.

Vishwavir Ahuja: Not at all, we are very gung-ho in this space, we have a market leading position in this space, we have an excellent track record in this space. Over five years or plus our gross NPA in this space has been less than 0.5%, in fact even less. And even now we do not see that position changing. There has just been a temporary, if I may slow-down for a few days, I would call it a temporary disruption, and you can have truck strike or something like that. But having said that, this is one of our core businesses, it is a fast growing highly profitable, high asset quality business for us. And five years in a row we have met and exceeded our priority sector targets in every sub-category in this space and we have done it profitably without the pressure of this and that. So, very much core to our business.

Mahesh MB: And how much of this roughly about Rs. 3,700 crores is originated through the BC channel and how much of it is outsourced?

Rajeev Ahuja: Let me just clarify. Well, we do your JLG business we only do it through BCs, so when you say direct and when we say direct it really means BC, about 50% plus, 55% of our total book of 3,700 crores is through the BC business. The rest of it is where we are lending directly to the large MFIs and to - be - small finance banks which we have indicated in the past is going to plateau because a lot of them are moving to become banks. Our core BC business is increasing at a faster pace, notwithstanding the last two, three months, so we believe that will take care of the overall growth and therefore so there is no bought or anything like that at all.

Mahesh MB: And just one last question, in your SA balance today can you give a rough composition of the portfolio as to how is it skewed between across various buckets that you give in terms of interest rates between 5.5% to 7%, just some indicative color as to how is the composition looking like today and what it was probably previous quarter or previous year, just to get a granular trend on how the movement looks like? Even qualitative information is quite sufficient.

Vishwavir Ahuja: So, up to 1 lakhs it is 12%, 1 lakhs to 10 lakhs it is 22%, 10 lakhs to 50 lakhs it is 15% and above 50 lakhs it is the balance. And it has been growing in all segments. So, if I look at previous quarter, every segment is growing.

Moderator: Thank you. Our next question is from the line of is the line of Praveen I frin Cholamandalam Securities. Please go ahead.

Praveen I: Sir, one question I had was on the commercial banking sir. So, this quarter we have seen a spike of quarter-on-quarter of 9%, so is it like strategically we are again getting into commercial banking because we were kind of planning to slowdown the pace in this because of the NPA issues?

Vishwavir Ahuja: If you see year-on-year this growth is the smallest growth after agri we have. So we have slowed it down, and for the first six months it was even slower, because of the comments I made earlier. I just made a comment that we stabilized the asset quality in the last quarter and we have rejiged the entire team and business plan, etc., and that we are starting to grow again. I did mention that few minutes ago. So, some of this growth that you see has happened in the last 15 days - 20 days of say December. For the first seven, eight months it was pretty muted, let me put in that way.

Praveen I: Yes, I was a kind of wondering if it is because we were not able to deploy so much of funds in DBFI and agri.

Vishwavir Ahuja: No.

Praveen I: And can we expect this kind of growth going forward from now, if we are comfortable with the NPA issues?

Vishwavir Ahuja: Yes, you will see growth here.

Praveen I: And going forward we still go with the 50-50 growth ratio, right, the wholesale and non-wholesale 520?

Vishwavir Ahuja: Yes, we are still sticking to that, if I may say, ambition.

Praveen I: And just one data point, how much was our income from sale of PSLCs for this quarter?

Vishwavir Ahuja: Rs. 1 crore only.

Praveen I: And can I get the ratio?

Vishwavir Ahuja: Ratio of?

Praveen I: To the net adjusted book. Or linked in ratio, like we were around 51% for financial year 2016.

Vishwavir Ahuja: We are comfortable and fully meeting the requirements. Like I said, we have been meeting and exceeding every year for the last five years.

Praveen I: Yes, sir, that I have seen. In fact, we see that as an opportunity.

Vishwavir Ahuja: Yes, because that is so much integrated with our overall business minded strategy we do not, sort of, worry about it separately, let me put it that way. When we do not sell we do not sell because we want to have a higher balance sheet. But we could sell, we have enough to sell.

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

Alpesh Mehta: Sir, first of all on the tie-up with Bajaj Finance, if you can throw some light regarding this tie-up?

Vishwavir Ahuja: Yes, I am going to ask Harjeet Toor to answer this question.

Harjeet Toor: Yes. Actually, we have tied-up with Bajaj Finance to offer co-payment credit cards for their existing customer base. Now as you are aware they have a large customer base of about 12 million plus and have a very strong distribution network. And therefore, with them we are kind of bringing out some pretty innovative digitally powered propositions for their customers which have gone live from this month as we speak. So, I think that is the business in the coming days you will see which will be out there for all of us.

Alpesh Mehta: But within that 12 million customer base any specific customers that you guys are targeting, because Bajaj Finance already has their loan card available. So, doing this credit card business would Bajaj Finance stop doing the loan card business after this tie-up or the substantial part will move to your customer?

Harjeet Toor: So, the customers who qualify for the credit card they will also have their same facility available on the credit card itself. But the entire loan card base of theirs, which I think is in the region of about 6.5 million today, we will do a part of it and part of it will continue to be on the loan card. Because the credit card is going to be far more than just what the loan card offers, loan card today offers only an EMI on the purchase whereas the credit apart the credit card offering will also take care of any additional personal loan which the customer may want to take or convert, spends into loans, or there are some cash features which we are bringing out on this. So, this is going to be an overall piece on which loan card will be one of the offerings.

Alpesh Mehta: Okay. But in that case for example, if Bajaj is offering a loan card, so it is kind of a personal loan which is also given by Bajaj. Whereas, now you would be doing that business, so how the profit sharing, I do not need a specific number but in terms of profitability how would it move for us?

Harjeet Toor: No, so before Bajaj the arrangement is very simple, they refer customers to us. They source customers for us for which they get a fee**.** The profitability of card in any case is on a card profitability model. So understand, a card customer only has a small percentage which is because of the financing of consumer durables which is what the Bajaj business is, and that is a very small percentage of the cards overall book or profitability.

Alpesh Mehta: Okay. Any specific targets that you have in terms of this? Because basically Bajaj has a very large customer base, so any internal targets in terms of what percentage of your profitability would come from this business?

Vishwavir Ahuja: Okay, listen. I do not think we can answer in such details. Surely we have a plan and surely we have targets and surely it is a profitable business. But I can assure but whatever it is not built in our plans or projections at this moment.

Alpesh Mehta: Sure. And just a clarification regarding this confusion of DBFI and the agri business. Rajeev, if you can again run me through those numbers please for the MFI?

Rajeev Ahuja: So, the DBFI business is about Rs. 3,659 crores at the close of December. Approximately 55% is the business we do through business correspondence reaching out to customers through them, and that is the only model we have on micro-banking on micro-finance. The balance 45% is the loans we give to MFIs and to the small finance banks, that is also clubbed here. And I was telling Mahesh that size of the portfolio as the small finance banks really become small finance banks will plateau and mature at certain level, okay. The growth will be driven by our BC business which is what we call direct micro-banking.

Alpesh Mehta: And how about the agri part, because agri part was also involved in this.

Rajeev Ahuja: No, so the agri business in which the reference was our entire rural business agri and DBFI, the agri business is done substantially through our branches and a separate set of agri banking team either with the farmer or the logistics or warehousing or value added or corporate. So, there is a whole team which is doing agri. That business we typically do substantially through our own field force and our branches, and anchoring around buyers and sellers of agri products and inputs.

Alpesh Mehta: So, this business does not have any MFI link over here, right?

Rajeev Ahuja: No, agri business is really pre-harvest, post-harvest, value addition, processing storage and things like that.

Alpesh Mehta: Okay. And lastly, in terms of PSL certificate fees in which line item do we normally book in the core fees?

Rajeev Ahuja: It is other income.

Alpesh Mehta: That is trade and others?

Rajeev Ahuja: No, that is other income.

Vishwavir Ahuja: Trade and others.

Alpesh Mehta: Trade and others, right, okay.

Moderator: Sure. We will take two last questions. The next question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani: So, I just wanted to understand that do we have any other product in pipeline, I mean, are we going to increase our service offering going forward?

Vishwavir Ahuja: Yes. So Megha, I take it you are talking about the retail business?

Megha Hariramani: Correct, yes.

Vishwavir Ahuja: Yes, so in the retail business we already are doing a large number of products both in the rural space. In fact, the rural space and agri space we have almost all the products we need. In the retail space like we said we have added this partnership with Bajaj Finance, we will certainly look to add more products. I think our plate quite full right now we are showing a lot of traction. We are building a lot of other channels around the retail business in terms of digital alternate; we have a lot of platforms on the credit card side where we are seeing a lot of digital take up. So, all of those things are being explored. I do not think we have anything specific to share with you today. But clearly the retail business is a focus area, so we will keep adding more services and segments as we evolve over time.

Megha Hariramani: And the next question is on the loan book. What is our estimate in terms of growth for next two, three years; at what percentage do we see the loan book growing?

Vishwavir Ahuja: Yes, so Megha, I will point you to the slide which we have shared, slide eight, where we talk about our FY 2020 vision where we are seeing our loans business at 30% to 35% compounded growth. So, you can do the math, we are not giving any specific guidance for this quarter or this year or the next year.

Moderator: Thank you. We will take one last question which is from the line of Bobby Jayaram from Falcon Investment. Please go ahead.

Bobby Jayaram: Just a couple of questions, rather fundamentals. If you look over the past couple of decades the banking industry has had a great growth from 1990's when HDFC launched and the early 2000 when Kotak, Yes Bank launched, they were going at 20%, 30% for several years. So, how do you think the banking environment over the next decade or so given the increased competition and potential of technological disruptions, do you see such growth rates are sustainable?

Vishwavir Ahuja: I think the answer to this question requires a separate meeting. It cannot be done in a one call. But I think the short answer probably is yes.

Vishwavir Ahuja: Yes, indeed, which is why we are here. I think what is going to happen is that obviously with a lot of disruption there will be some shakeout and some market share movements at the end of the day. And those who are nimble and navigating well and keeping focus on fundamentals and at the same time exploiting the opportunities that are coming out of the disruption and maintaining us strong capitalization position, I think those are the players which may emerge stronger overtime, right. So, I do believe that there is a lot of potential in this country for more than a few well managed banks. And in fact, therefore there is a huge growth potential that exits.

Bobby Jayaram: The second question is, I noticed your management team is from large different international bank. So, what is your company culture, do you emulate any bank, are you like the Standard Chartered, HDFC, how are you going to keep the team together?

Vishwavir Ahuja: So, I think it goes back to the basic genesis and ethos of the bank and how we all came together. I mean, this bank, frankly speaking, had no parentage and it had, in that sense, no dominant shareholders, it had no vision and no direction. And it was also under managed, underperforming, underinvested, and literally a weak situation. So, in fact, six years ago it was the smallest bank in the country, scheduled commercial bank in the country, not one of them but the smallest. So, when we came together, we came together on certain pillars of partnership with a certain vision and game plan, and I think we have talked about that in a lot of our several commentaries over the years. But we are all, if I may say, here to say built, if I may say, a great and respectable institution. And it takes long many years, several, several, several years, going into certain number of decades to build a really strong institution. And we are here with that vision and perspective at the end of the day. So, we have come together on that platform of getting together and having the best quality team, best in class as we say across all levels, senior, middle, and junior. And what we are building is a cadre which is so strong that will build and sustain this organization successfully over a period of time. What binds us all is that a bulk of the employees of the bank also have a stake in the bank, some in small measures, some in more significant measure. And I think, that has been the glue along with the opportunity to build a great institution and to enjoy that journey and to be a part of that journey. And that is an opportunity that goes beyond many other things in life. So, it is a very fundamentally, if I may say, simple value system with a commitment to work hard, with a commitment to maintain high levels of governance and professionalism and to have a well-grounded, if I may say, approach with a very long-term perspective, with a very long-term perspective. So, our entire compensation philosophy and everything is on the basis of default gratification that you have to work hard for several years before the gains will come through, and ultimately there will be gains. So, if you put it all together what I have just said in a couple of minutes, you know, it really creates a very stronger internal character or organization culture. And I think we have that in place and we are all very committed to it, and indeed the glue is very strong. If you see just several of us who was there six years ago, we are very much there and we are more driven and more motivated even compared to how it was five, six years ago when there was hardly anything here. And I think so we are well set.

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 e-mail at ir@rblbank.com. I repeat, the e-mail id is ir@rblbank.com. On behalf of RBL Bank Limited, we thank you for joining us this evening. You may now disconnect your lines. Thank you.