"Bandhan Bank Limited Q3 FY-23 Earnings Conference Call"

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MANAGEMENT: **MR. CHANDRA SHEKHAR GHOSH – FOUNDER, MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, BANDHAN BANK LIMITED**
MR. SUNIL SAMDANI – CHIEF FINANCIAL OFFICER, BANDHAN BANK LIMITED
MR. SHANTANU SENGUPTA – HEAD (RETAIL BANKING), BANDHAN BANK LIMITED
MR. SURESH IYER – HOUSING FINANCE HEAD, BANDHAN BANK LIMITED
MR. SUBHASH SAMANT – HEAD (HIGH VALUE HOUSING FINANCE), BANDHAN BANK LIMITED
MR. SURESH CHANDRAN – HEAD (COMMERCIAL BANKING), BANDHAN BANK LIMITED
MR. HIRAK JOSHI – HEAD (RETAIL LENDING), BANDHAN BANK LIMITED
MR. VIKASH MUNDHRA – HEAD (INVESTOR RELATIONS), BANDHAN BANK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Bandhan Bank Limited Q3 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Mundhra. Thank you and over to you, sir.

Vikash Mundhra: Thank you Inba. Good evening everyone and a warm welcome to all the participants. It's our pleasure to welcome you all to discuss Bandhan Bank's business and financial performance for the quarter ending December 2022. We will take this opportunity to update you on the recent developments in the industry as well as on Bandhan Bank during the quarter.

To discuss all this in detail I've got with us Founder, Managing Director and CEO – Mr. Chandra Shekhar Ghosh; our Chief Financial Officer – Mr. Sunil Samdani; Head (Retail Banking) – Mr. Shantanu Sengupta; Head (Housing Finance) – Mr. Suresh Iyer; Head (High Value Housing Finance) – Mr. Subhash Samant; Head (Commercial Banking) – Mr. Suresh Chandran; Head (Retail Lending) – Mr. Hirak Joshi and myself Vikash Mundra – Head of Investor Relations.

Now, I would like to request our Founder, MD and CEO Mr. Chandra Shekhar Ghosh to brief you all about our Bank operation and financial performance, along with developments for the quarter ending December 2022. Over to you sir.

Chandra Shekhar Ghosh: Good evening and Namaskar to all of you. Firstly, on behalf of Bandhan, I extend it to you and your loved ones best wishes for the New Year 2023. I am pleased to state that, the September quarter, September to December quarter of this financial year has been on expected lines rather it is slightly better than expectation. It has been yet another quarter of a decent business growth trajectory. The first half of the financial year was not as expected, we have to see more unexpected shocks in terms of NPAs specially in the microcredit book, specially is restructure books.

The bounce back in the economy is visible across businesses and among consumer sentiment. We have seen good festive buying by all section of the society. As a result, credit growth of the Bank has been encouraging. For the first time in the history of the Bank, it has crossed two lakh crore in business. The overall advances recorded a 14% year-on-year growth in Q3FY23. The significant growth for the Bank has come from the retail segment including housing and MSME. However, including the write off the advance growth will be 11% YoY. The housing finance book has registered a growth of about 28% YoY and 4% QoQ. We have seen good demand for housing loans across the country and we are planning to grow our housing book by more than 25% YoY. The retail loan book other than the housing finance book, consisting of personal loan, gold loan, two wheeler loan and auto loan has grown by 133% YoY and 22% QoQ. The commercial banking vertical consisting mainly of NBFC, SEL is a small enterprise loan and SME with 87% growth YoY and 12% growth in QoQ.

One important point I would like to highlight is that, when we look at loan book growth, other than the EEB loan book, we have seen a growth of 48% YoY which is very encouraging for the Bank. The growth in these segments is a welcome sign for the Bank as this is in line with the Bank's portfolio diversification agenda and also in line with the trend of increasing business with the onset of the festive season. We are confident that Q4, like each year will continue to further trigger business growth. As I stated earlier, the second and third quarter of the current financial year coincides with the festive seasons, and has seen stable momentum in economic growth, as many businesses return to normalcy, given the significant increase in the confidence among the population of managing COVID. We are happy to see signs of strong demand for credit in most of the business in the third quarter, including the EEB.

During the quarter in review deposits have grown 21% YoY, we are looking to build a robust and granular deposit franchise however, during the quarter the Bank has seen the movement of deposits from customers maintaining savings balance above two crores to bulk deposits. The same has been classified as a bulk term deposits. Also due to the festive season, we have seen some impact of consumption on the deposit base. As a result, our CASA deposits have seen a big growth of 3% YoY to Rs.37,212 crores and a CASA ratio is still at a healthy 36.4%. The retail to total deposit ratio stands at 69%. We do not expect any further movement from savings account to the bulk deposits. So, we will definitely see improvement in CASA deposits from Q4 onwards. A few numbers shows a strong momentum in our portfolio diversification agenda. The share of housing loan book to total loan book has increased from 24% to 27% year-on-year. The share of group loans to our total loan book has come down from 52% to 37%. Our share of commercial loans has grown up 22% to 33% in the total loan book year-on-year. Along with the business growth in advance and the deposits we have also seen very encouraging collection efficiency trends during the quarter. We have seen good improvement in the overall collection efficiency. For the Bank overall collection efficiency excluding NPA stood at 98% in the month of December up from 93% in the month of December of the preceding year and 97% in September month of this financial year.

The collection efficiency for the month of December in the EEB which is called the microcredit vertical excluding NPA improved 98% from 97% in December for the financial year 2022. Even while comparing to September month, we have seen the collection efficiency improving from 95% to 98% in microcredit. With people's livelihoods coming back on track, we have observed an eagerness among our customers to standardize their accounts in order to continue to enjoy the benefit of formal credit by maintaining a healthy credit record. Our collection efficiency in Assam and West Bengal for EEB customers has improved significantly over the last quarter. It remains at 96% in Assam compared to the September'22 at 87%. And West Bengal it is now 98.4% which was 95% in September'22. An important point here is to note that our collection efficiency in West Bengal is higher than our national average. Bank has also received a sum of Rs 917 crores as a part of CGFMU, recovery from the government. We expect another up to Rs.1700 crores to come as a recovery in the H1FY24.

This quarter Bank has also sold written off loans Rs.8897 crores at an aggregate value of Rs.801 crores out of that Rs.387 crores has been issued as Security Receipts. The rest of Rs.414 crores has been reflected in the P&L of the Bank. Our net profit for the quarter at Rs.291 crore against a net profit of Rs.859 crores in the last financial year same quarter. Our net interest income has shown a minor dip of 2% YoY. It has come down Rs.2081 crores in Q3FY23 from Rs.2125 crores in Q3FY22. This is mainly because the higher reversal of interest income and also increase the cost of funds. Our net interest margin for the current quarter is 6.5% compared to the 7% last quarter, even after the dip we are still amongst the highest in the industry. But, I would like to mention a few points here.

First point is that, we have a high interest rate by nearly 2.5% in the last few months on advance, Secondly, this quarter we have also set up a separate team of current account mobilization till now it is working is very good with the branch network. Thirdly, we expect lower interest reversal from next quarter onwards. The impact of all these things will be seen as an improvement in NIM from the next quarter onwards. We'll also consider further rate hikes if required. Total credit cost for the quarter was at a 6.4% compared to 3.7% in the previous year, and 5.3% in the last quarter. This is largely due to the increase in provision coverage on the total stress book during the quarter.

Our gross NPA stood at 7.2% versus 10.8% in the previous year, but our net NPA stood at 1.9% versus the 3% in the previous year. During Q3, the gross and net NPA ratio has remained flat compared to the sequential basis. However, here we have to keep in mind that the majority of the slippage is during the quarter are from already declared stress pool. We are also used data science and analytics for the purpose of NPA management and recovery and also the business growth. It has already shown positive results for the Bank. With the initial trends and reports from the growth, we are confident that Q4 will see good improvement in the performance of the Bank. We have also seen improvement in our DPD book across buckets which gives us confidence that the worst in terms of slippage is over.

Many of our customers have been paying regularly and are showing their intent to regularize their overdue account. But until the entire overdue amount is recorded they cannot be categorized as a non-NPA customer. In the third quarter number of full paying customer have increased from 88% to 92%, amount wise it is a 92% to 96%. If it is go to this the number of non-paying customers have decreased from 6% to 5% quarter-on-quarter. But if I say that the amount wise it is coming non-paying customer 2% to 1%, which have been shows to the Bank on that the customer is coming to this regularized there account and future credit growth and quality will be better. From the recovery perspective, we have seen that the total recovery and up-gradation for this quarter is Rs.622 crores. We are engaging with our customers on a regular basis to encourage them to ensure timely payment and recovery wherever needed. We are confident that it is only a matter of time before this customer regularize their account fully, after which we expected to see a significant drop in the gross NPA in the next couple of quarters. The Bank has also seen the total fresh slippage has come down by Rs 700 crores from the last quarter which is this quarter has been slippage Rs.3265 crores in the last quarter it was a Rs.3954 crores, the majority of the slippage is from the already disclosed stress pool of COVID. Within this our slippage in the EEB segment was Rs.2846 crore in the quarter which was in the last quarter Rs.3624 crores which is Rs.800 crores down**.**

We have made provision of Rs.1542 crores including NPA and the standard asset provisions in this quarter. We are more than covered in terms of our provisions, the total provision of the Bank stands at Rs.6257 crores. We have seen 1% increase in our PCR at 75.4% which has increased from 74.4% in the last year. Bank has done a write off of Rs.2533 crores in this quarter.

Coming to the outlook for the last quarter. As you all know, we are seeing economic activity picking up and the business coming back to the normal across the country. Bandhan has always had an ear to the ground given ease to the distribution reach and we have observed that our customers businesses have been gaining traction once again. We remain confident that this will have a positive impact on our business operations. We have started a new stream such as a commercial vehicle lending, loans against property for business. We have been also started the government business operations in the Bank, among others this will add further revenue streams over the next few quarters. We also go live on our IT transformation project in the next financial year first half. We expect to grow our advances and deposits by 22% to 25% CAGR forward FY25 with our focus remaining strong on the retail segment and diversification. With our continuous effort in diversification, investment in technology, people and processes, the Bandhan growth stories remain strong and promising. We have added about 9.4 lakhs new customer in last quarter. It is also showing that how business is growing. I wish you, your family and all the very best. Please take care, stay safe. Thank you to all of you.

Vikash Mundhra: Thank you sir. Now, I would like to request our CFO – Mr. Sunil Samdani to give you more details on financial parameters during the quarter. Over to you sir.

Sunil Samdani: Thank you Vikash. Good evening everyone. First of all, let me take this opportunity to wish you all a very Happy New Year. While Mr. Ghosh has mentioned most of the highlights of the quarter, I just want to particularly focus on few aspects, which I think is important for everyone to understand what went in this quarter. Let me start with the asset quality, particularly on the EEB side. This was the quarter where we have seen the slippages from the restructure pool happening and as per our estimate and the guidance which we had given on the 1st of December, we are pleased to inform that we have done better than that across all accounts, whether it is NPA, whether it is stress pool and the provision coverage ratio around that, and this I'm talking without considering the write off effect. So, on a like-to-like basis, we have been better by two to three billion across all the sides, whether it's NPA, stress pool and the provision coverage.

Secondly, I would want to highlight slide five of our presentation. There it is pleasing to see that our collection efficiency excluding NPA customers have gone back to the pre-COVID level. This improvement is across pan India, including our core geographies of West Bengal and Assam. So, while West Bengal stands at 98% for the month of December, Assam has improved substantially from 87% to 96% and rest of India at 98%. What is more important is the customer behavior and the paying profile. We now have a situation where 96% of our EEB customers pay full installments, which means 3% of them are partial paying installments and 1% is non-paying installments. So, this gives a comfort that the flow going forward, in stress pool, will be contained, because it's only these 4% of the customers within which three are part paying, the forward flows will be visible.

On slide six, there is another important messaging is the improvement on our delinquency buckets. It is heartening to see that across all buckets, we have seen an improvement. And even if I don't consider the benefit of write off, we have seen a three billion reduction in the overdue pool. What this gives us an assurance is, that the flow forward have stopped and there has been an improvement or rather rollback from the delinquent customer base. So, this gives us the confidence that going forward, we should see a much lower slippages in-line with our guidance.

Lastly, on slide seven, here we typically guide the reader on the stress pool that we have on our EEB portfolio which got build on account of pandemic and how are we addressing them. It is heartening again to see that at the end of September 22, we had a stress pool of Rs 95 billion against that we had a provision of Rs 53 bn and a CGFMU expected recovery of Rs 25 bn, which effectively means 82% of our stress pool was covered, and the rest we have to work on the recovery side. Now this ratio of 82% has improved to 88% as on December 22. Of the total stress book of Rs 76 billion, we now have a book provision of Rs 50 bn. So, what is important here is, while my stress book has gone down from Rs 95 bn to Rs 76 billion my provision is consistent from Rs 53 billion to Rs 50 billion, which means we have not utilized our provisions fully. We've continuously created buffers and strengthened and given our experience of the CGFMU recovery and the slippages that we have seen from the portfolio which is covered under CGFMU, we now expect another Rs 17 billion to come in the first half of the next financial year. So, with Rs 50 billion of provisioning and Rs 17 billion of the CGFMU expected recovery, we've almost covered 88% of the total stress pool. As always we are not considering the Assam relief scheme, which is an added positive as an when it comes.

What is also important here to mention is, on the new side if I have to talk optically, you may see that our NIMs have come down quarter-on-quarter from 7% to 6.5%. But that has largely to do with the large slippages into NPA that we've seen in the month of October and November. If we look at December month, the NIMs have already improved to 7.3% and as the re-pricing of the interest rate increase that we have taken over the last three months, factor then kicks in we should see a further improvement here.

On the slippages side, as envisaged we have seen a lower slippages quarter-on-quarter the numbers have already been discussed by Mr. Ghosh so I will not repeat them. And that gives us the confidence given the lower DPD pool and the improvement in collection efficiency and the paying profile of the customers. We expect slippage in Q4 to be materially lower, in-line with our expectations. And hopefully, on a steady state what we have guided it should come in-line with that. I know you will still have few questions, happy to take them. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question-and-answer session. Our first question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Sir, so if you could give us a color on what does steady state SMA pool would be like a completely normalized SMA pool on the EEB side, that's my first question and I have a few more.

Sunil Samdani: So, there again steady state is all depend on the environment. But if you talk about pre COVID levels, that's where we used to have a gross NPA of about 1.5% and another delinquent pool the stress pool that we call it of about 3%. In the new scheme of things, we say that the steady state credit cost or rather the collection efficiency for the microfinance or the EEB business should be taken as 98% instead of 99%. So, you can add another percentage points to a steady state that we used to have historically.

Mahrukh Adajania: Okay, make sense. And my other question is on the new ECL norm, how would they impact you, would there, are you filing any more grants with the RBI already and any sense you can give on it, what would be the impact between IGAAP and IndAS.

Sunil Samdani: So, as far as banks goes, these Indian banks have been submitting the pro forma in their financials which includes the ECL calculation as well to RBI on a quarterly basis for the last two years. So, we keep filing on a quarterly basis the IndAS financials and if we take that as a reference, there is no material difference between the provisions that we carry and the provisions that we are required to make under the ECL provisioning norms. This of course, is based on the IndAS definition of ECL. So, if there is a tweak to that definition, which RBI brings in, in their final recommendation that needs to be factored, but if you go by the standard IndAS way of calculation ECL there is no difference.

Mahrukh Adajania: Okay, got it. And sir would that be lifetime ECL or just like say two, three year model, any idea?

Sunil Samdani: So, here as far as IndAS goes which we take last seven years that's our lifetime span and the experience and basis that we file it with the RBI. But more importantly, if it's a factor of your probability of the default and the provisions that you carry in your book. Since we've always been carrying adequate provisions in our book, even if I have to take a seven year or a three year precedence, or the average, I don't think that will have a material impact on or rather any impact on our ECL or provisioning requirement.

Mahrukh Adajania: Got it. And just one last question your outlook on deposit growth for FY24, given that there is a lot of competitive intensity is increasing in deposit taking, so your outlook on deposit growth and margin for next year?

Sunil Samdani: I'll request, Mr. Shantanu Sengupta to take this question.

Shantanu Sengupta: Yes, sure thank you Sunil. Good evening and thank you and thank you for the question and wishing all of you a very Happy New Year. The question on deposit outlook is, we are quite optimistic given despite the fact that we see intensity in terms of competition, because of few reasons one, the focus for the Bank has been to grow our organic book and as we move forward the granular book is growing steadily. So, that's one comfort that we have. We've also invested a lot of effort in terms of creating some new initiatives for the Bank, we are expanding our branch network, we are investing in digital. So, we are seeing opportunities that carve out as triggers of growth going forward. So, to answer your question, our outlook for deposit growth remains positive.

Sunil Samdani: And just to add on the deposit rate side, today till December quarter our rates on TDs were in line with the rates offered by other Bank. And we believe with a 25 basis point premium, it should not be a problem to garner deposits for our growth that we are looking and going forward.

Moderator: Thank you. We'll take our next question from the line of Krishnan ASV from HDFC Securities. Please go ahead.

Krishnan ASV: I just wanted to understand you made an announcement around the fact that people who have been in default, don't get money back and until they are able to completely pay back and then there is a certain sunset clause, etc. I just want you to understand, is it possible for you to share any disclosures around the fact that money is not going back to these borrowers account, just to create more confidence among stakeholders, is there anything that the Bank can do to demonstrate that this money is not being given back to the same, it's not that this money is coming back because we have given new money to clear your loan?

Sunil Samdani: So, Krishnan firstly, let me clarify that we don't give a new loan unless the earlier loan is repaid. So, it's never a case that we offer a loan with an earlier loan outstanding, or the customer is still delinquent. So, that's point number one. Point number two, our change in credit norms was that after the customer repays the earlier loan, if the customer has flown into NPA, despite repaying the earlier loan, we would still wait for 90 days, and only then give them a fresh loan. This was because as we mentioned in the previous call, we don't want customers to be opportunist, because they want a new loan they come and repay us but during the tenor they were not disciplined and move to NPA. So, it's a messaging that we want to give to our customers that if you are not regular throughout the loan, you are not eligible for a new loan. So, the change here is despite customer paying, we don't extend the new loan.

Krishnan ASV: Right, understood. While you made this fairly and is there anything that the Bank can do to demonstrate this, in any way just to.

Sunil Samdani: So, let me explain that right. So, we made this policy starting, August/September some time that we should not extend loan. During the quarter we saw some 400-500 customers receiving the loan after paying the earlier loan. And we proactively to provision against those and asked our team that not to extend any further loans. So, it has been a very strict policy that we are following, because we want the messaging on the ground to be very clear, it was a small amount of Rs.20 lakh. But still that messaging has to be very strong, that once there is a policy, we can't deviate from that policy.

Krishnan ASV: Understood. My second query is around just the pivot that we are now making to go from relatively subprime customer base more towards prime across most of your customer segments, across most of your businesses as well. Purely in terms of the acceptance of Bandhan, there has been some chatter around this. So, just wanted your thoughts around acceptance of Bandhan as a brand in some of those businesses, how have you found the early evidence so far?

Sunil Samdani: So, Krishnan if you had asked me this question on the deposit, I would have still felt that there is something that we need to discuss here, in a lending clearly it doesn't matter so much. That is the lender as long as the customer gets the right money at the right rate. And in our case, even on the deposit side, our momentum is strong and we've got that branding and the image to get that customer trust. So, I don't think that's an issue that we faced and that we discussed. Our endeavor is to continuously improve our customer service and customer experience that is what we focus on and that helps us building trust and confidence.

Moderator: Thank you. We'll take our next question from the line of Adarsh from CLSA. Please go ahead.

Adarsh: My question is on the slippages side, so on the slippages Sunil just wanted to understand what was the slippages in the quarter and if you could highlight what are the slippages if you remove the spillovers from any kind of stress which was there right so this slippage is from the standard book in the MFI portfolio in this quarter.

Sunil Samdani: So, for the MFI book, my gross slippages for the quarter was Rs 2846 crores, there was a recovery and upgrade of Rs 376 crores, this recovery and upgrade I'm talking is from the NPA not from the return of account that is additional. So, just from the NPA it's Rs 376 and from the return of portfolio which is a non-ARC portfolio it is Rs.140 crores. So, that's on the numbers of gross and net slippages. Within this Rs 2846 crores of slippages 90% of them is from the stress pool which is already identified.

Adarsh: So, you're saying that only Rs 300 crores was the slippages from the non-stress pool?

Sunil Samdani: Less than Rs 300 cr.

Adarsh: Got it. And just the second element right, you had mentioned the margins of 7.3% which is adjusted for all the interest versus just for understanding if we take a two year view there is a drastic change in business mix that will happen you all have taken a rate hike that will come in, what's the fair margin that you would expect as you have some of these yields kick in but also at the same time the share of MFI go down?

Sunil Samdani: So, there again, firstly let me explain how this shift would look like. When we say the share of MFI goes down, it's the group loan which goes down. The SBAL customers which are at the same yield gets reclassified as commercial loan between SBAL and MFI we would still be around 55% which is at the similar rate of interest. So, the impact of change in mix for the next one to one and a half years will not be more than 50 basis points. Now from which rate 50 basis point is the question. We expect our steady state NIMs to inch up from 7.3% that we clocked in the month of December and we expect this to go up to 7.75% in next few quarters and from there we should see the impact of change in mix to come in, over the next two years.

Adarsh: Got it. And so the yield that you had 250 bps was, when was this implemented just trying to get a timing of when does the margins improve on the MFI book?

Sunil Samdani: The 250-basis point increase that we took in EEB, 200 basis point came in November first/second week and 50 basis point was sometime in September/October.

Adarsh: So, you move from 19% to 21%/21.5% is it?

Sunil Samdani: 21.95%.

Adarsh: Got it. And the previous whole thing that Bandhan it's a Bank people look for we've offered them a lower cost of fund benefits when you became a Bank you lowered your rates to closer to 19%. What happened to that, I'm just trying to understand as to, would that not be the expectation that would prevail?

Sunil Samdani: No, that continues. The differential between the Bandhan rate of interest against you compare it with the industry it is still 250 to 300 basis points lower. So, that continued, with an interest rate environment, the credit cycle environment it has to considered.

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

Saurabh: The question is more direct. So, at the analyst meet you have guided to around Rs.3400 crores of credit cost. So, now plus we start recovery, so few fall into the Rs.350 crore number now basis the guidance?

Sunil Samdani: So, we had earlier guided that in H2 we will look at Rs.1500 crores of credit cost which will be divided as Rs.1000 crores in Q3 and 500 in Q4 broadly. And if you look at our numbers now, it is still in those lines, while it looks 1500 is because we got that Rs.414 crores of ARC sale upfront, which we took as provision and increase our coverage. What we discussed earlier that my stress pool coverage has gone up from 82% to 88%. So, that's where this Rs.414 crores was utilized and that's why this looks higher. So, otherwise if you remove for this it's in line with our guidance that we had keep.

Saurabh: So, you should still be around that Rs.500 crore mark?

Sunil Samdani: Yes, plus or minus Rs 100 crores.

Saurabh: Okay, got it. The second is essentially just on this, now you have given some disclosures on your OPEX so there is a new provision you've done for nine months Rs.90 odd crore. So, will it be fair that this will run off next year?

Sunil Samdani: While it will not entirely run off, it will come down materially because my outstanding book has reduced materially. So, next quarter we expect this quarterly number to be because since I will be claiming in the next financial year, I still need to pay the premium in the next financial year that's point number one. But that quantum of premium would come down substantially from Rs 90 crores a quarter to about a Rs.20 crores a quarter.

Saurabh: Okay, got it. And this last question, SMA-0 which you don't include in your stress book, it's about 3.4% will it be fair that there is a collection efficiency is 98% this number will not realistically go down below 2%-2.5%?

Sunil Samdani: Sorry, Saurabh can you repeat the question and we can you please be a little closer to a microphone?

Saurabh: So, just for the SMA-0 this 3.4% you have which is not considered in the stress pool, will it be fair. I will take it offline, thank you.

Moderator: Thank you. We'll move to our next question that's from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: A couple of questions like, first is around we have seen a good progress in the month of December margins, also have been improved in this month. So, can we say that the probability of default now from the SMA number that we have reported will be much better than what we have seen in the prior quarters now?

Sunil Samdani: You mean the slippages?

Nitin Aggarwal: Yes, the slippage rates from the outstanding SMA pool now, is it likely to decline pretty sharply now that the December was a pretty strong month for us?

Sunil Samdani: Yes, so slippages as we said that my SMA pool has come down and most of my restructured book has already flown almost 95%. So, slippages has to come down and will come down. And it will come down materially, it's not what we saw between Q2 and Q3, so there will be a marked improvement there. That is also a way to look for the month December, the way NIMs have moved.

Nitin Aggarwal: And secondly on the SA side where in we have reported a decline in CASA and that probably have indicated that as a larger because of customers migrating to term within our ticket size is within two crore, and we also have to classify them as well. So, what is the total quantum above two crore, because that will tell us as to when this number go down further or not?

Sunil Samdani: So, if you are a rate sensitive customer, you will not wait for six months, so while I take your question, the point I want to make here is, a customer who is rate sensitive and who was earlier not getting a differential between a term deposit rate and a CASA rate. Because I was offering 6% in savings, and 6.25% in term deposit, they chose to keep it in savings. Now there is a difference between 6% to 7.5%, 7.75%. So, they have moved so that's the moment we saw. To your question on what is the proportion of SA above two crores in our book, it should be around 10%, a little less than 10%.

Nitin Aggarwal: Okay, so you think that will remain on that, under 10% we may see vulnerability as probably the rate?

Sunil Samdani: No, as I said, if these customers had to move, they would have moved by now and since these are high ticket customers, they have a relationship officer and they are continuously in touch. So, we have a fair sense of their behavior.

Nitin Aggarwal: Yes, and lastly any discussion going on in respect to recovery across Assam relief scheme and what can be the ballpark number that we can get from this?

Sunil Samdani: So, as always, this is a crystal ball which I don't want to gaze because it is not something which is my right. It's a scheme of government while they have started distributing the cheques to the delinquent customers, it is still not material enough to talk.

Moderator: Thank you. We'll take our next question from the line of Rahul from Goldman Sachs. Please go ahead.

Rahul: Sunil, on your slide seven. Just wanted to understand these numbers a bit better. So, Rs 76 billion is the EEB stress pool, you are expecting CGFMU recover in the first half of Rs 17 billion so that comes down to roughly about Rs 60 odd billion. So, that against that, provision plus estimated recovery of Rs 60 bn would be almost like negligible pool so there is no incremental provisioning that is needed, but for the new stress information that might happen on the portfolio. Is that a fair understanding?

Sunil Samdani: Yes, but there could be timing difference, because let's say this money comes in September. But you are assuming that they are like-to-like in terms of timing. So, other than that yes, if you talk about the six-nine months period from today, your understanding is absolutely right

Rahul: So, in that context, the fourth quarter provisioning of Rs 5 billion would that also be needed, apart from of course the vintage moment?

Sunil Samdani: If you see even in this quarter while my stress pool has come down from Rs 95 bn to Rs 76 bn, my provisioning has not come down right from a Rs 53 billion I'm still continuing to hold Rs 50 billion. So, if I have an opportunity why not in-line with my guided credit cost, guide I would want to provide for it.

Rahul: Okay but there was an element of write-off also right, so that's.

Sunil Samdani: Yes.

Rahul: Just on the active MFI customer. So, you give total and active, the ratio has kind of reduced quite a bit of active to total, by about 10% in the last year or maybe even more if you compare the last couple of years. So, this reduction is mainly because of write offs that we may have done of these customers and therefore, the improvement in this number how should we think about?

Sunil Samdani: So, you are right a part of it is because of write off. And once these write off stops, which we believe with time unless we optically change the gross NPA numbers so this number should start going back to that original ratio.

Rahul: So, the growth in MFI book will be more driven by ticket sizes?

Sunil Samdani: No not really, it's both my new customer acquisition doesn't stop.

Rahul: Yes, but those customers would be like what tickets size Rs.30,000?

Sunil Samdani: So, MFI is up to Rs.50,000 and then there is SBAL.

Rahul: Got it. Just, one last question on the disbursals in EEB pool, its down quite a bit understandably so I'm looking at slide number 12, its down from Rs 200 odd billion to Rs 152 billion. So, in the fourth quarter, as Mr. Ghosh also articulated, should we expect a big recovery in this number from Rs 152 bn it maybe North of Rs 200 bn to Rs 250 billion of disbursals?

Sunil Samdani: So, it's a very difficult thing to quantify that today. But clearly, historically Q4 is the best quarter for us. So, it should be higher and it continues to be higher. One should also factor the tightening that we have, the change in policy that we have done, which is slightly impact on the disbursement side. If you compare Q3 versus Q4. So, Q4 clearly be a best quarter in terms of disbursement that much I can assure you.

Rahul: Okay. Just one last question I want to squeeze in is the discussion with RBI on PSL, any updates there?

Sunil Samdani: So, no update. So, hopefully we restart this in next financial year.

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

Kunal Shah: Firstly, in terms of the write off, so that's still continuing. So, last quarter, we saw some sale to ARC of the written off portfolio. So, would we be evaluating further sale to ARC or with the same ARC wherein we have contracted, how would that be over the next couple of quarters and any recovery expectation from this, because last time it was 10% how would that behavior?

Sunil Samdani: So, let me take your second point first. When we did the deal at 10% odd, that is not the expectation that we have on the recovery, because that that valuation depends on the structure of the, in our structure we have assured IRR to the ARC and beyond that any further recovery comes to us. So, we don't want to part away with the recovery of all our customers in the same ratio. So, that is how we valued that transaction, because we believe that our customers are loyal and as things improve on the ground there is a good scope of recovery. And that's how we valued that. So, effectively the point I'm trying to make is that's not our fair estimate that we would recover. We expect a better recovery than that, that's the point and into your first question whether this is something that we will actively look at. Well, it's a commercial decision if we get a good value why not, if we feel that the, if I have to do the net present value, I'm better off, I will look at it or else because ultimately it's me who is doing the collection. So, nothing changes there so it all boils down to a commercial decisioning and if it works in our favor, we'll do it.

Kunal Shah: Okay. So, that can be evaluated. And secondly, in terms of this housing finance disbursements. Okay, so how should we look at the quarterly run rate maybe there was some moderation out there in this particular quarter any reasons for that and eventually over the next four to eight odd quarters what kind of disbursement section can we look at it the kind of franchise which we are trying to build?

Sunil Samdani: Suresh you want to take that question?

Suresh Iyer: Yes, thank you Sunil, and good evening everyone. So, in the housing there has been, the main factor why there has been a slight slowdown or whatever stagnation is because this quarter we've experienced a very high increase in the rate of interest for the customer so the EMI and eligibility is actually coming down that's the main reason why we've had it but with the demand still being strong, and secondly, with the rates almost stabilizing and likely to come down in spite it should have been picked-up. And again, Q4 is going to be is always the best quarter. So, we definitely expect that things will pick up and this was probably just because of the rate revision that it is there otherwise, it will definitely pick up.

Kunal Shah: Okay. So, on a quarterly run rate basis, we can get towards Rs.2000 crore, Rs.2500 odd crores?

Suresh Iyer: You are talking about the disbursements or the new products?

Kunal Shah: Disbursements.

Suresh Iyer: Disbursement definitely we should be touching at least crossing Rs 2000 crores in a quarter definitely, it could be normal as I said the Q4 is the best quarter. So, it is likely to be better than that, but Rs 2000 cr definitely should be possible and will very soon happen.

Kunal Shah: And lastly in terms of the deposits so, given that the retail proportion is coming off, and there has been some reliance on the wholesale deposits as well what could be our stance with respect to the increase in the rates now. So, deposits, we are still at 25-30 odd bps premium to the other leading banks would be want to have a maybe a higher gap and try to mobilize more of a retail deposits?

Sunil Samdani: So, it's a combination of both. In fact, we are watching the market closely, we do believe that the interest rate cycle is coming to a peak so we are watching that closely. We do believe that there could be one more rate hike as we look forward but, it's part of the strategy in terms of how we should have gone the deposits.

Kunal Shah: Okay, but any increase can be expected maybe lending we have seen that kind of a pass on almost like 250 odd basis point, on deposits if we have to look at it say from March till over here it's been almost like say 150 odd basis points kind of an increase for us from 5.75% to almost 7.25%.

Sunil Samdani: Compared to what is happening in the market and RBI there increase, on that basis it will become, as of today we are not filling on that, but if someone trans will be again increase this, repo rate increase so, maybe that will be like impact on that, I hope that this is not coming much more on that as per previous record.

Kunal Shah: No, the question was, maybe when we look at the bulk deposit proportion that significantly up, even on a year-on-year basis, and every quarter we are seeing the huge build up like last time it was Rs 25000 crore, now we have seen like almost Rs 31,000 odd crores, so not able to understand maybe should we continue with that kind of a bulk deposit proportion in the overall pool or there would be a real retail deposit acquisition strategy as well.

Sunil Samdani: So, Kunal, as I mentioned earlier, if the whole deposit growth strategy is a mix of growing the organic growth, growing to some specific segments, looking at interest rates, looking at the strategy, looking at what the market is currently positioned at. So, the answer to your question is, yes we will look at it, but the point is that it's not something that we want to commit right now. We are not close to raising rates we have seen that, but the point is that we are looking to grow the non-individual, the individual book more than the non-individual as we sort of try and balance out the steadiness of our organic growth. So, as of now, that's the outlook that we have and we are seeing some good trends coming in. And hopefully, as we go down the coming quarters, the reliance on large bulk deposits will obviously come down as we grow the organic book. So, I hope that addresses your question.

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

M B Mahesh: Just a few questions. So, one is, how are we accounted for both the security receipts income as well as the CGFMU balances?

Sunil Samdani: So, CGFMU of Rs 917 crores we have adjusted Rs 785 crores from the provisioning. The balance still continues to stand as liability because that's the recovery we have done on the last from the cutoff date, when we filed which is October end till December.

M B Mahesh: Rs 75 crores is the income which has gone into the NPA is it as a reduction?

Sunil Samdani: NPA provision has come down to that extent.

M B Mahesh: Okay. And you also added Rs 414 crores against from the receipt of SRs?

Sunil Samdani: Correct. So, let me tell you the math Mahesh. If you see my flows to NPA for the quarter is Rs 2644 crores the increase in NPA for the quarter pre write off. How have we addressed this Rs 2644 crores, it is Rs.785 crores of the CGFMU money, the Rs.414 crores of ARC sale money and the rest is the provision that I have booked which is about Rs.14 crores - Rs.15 crores, the requirement was less but we took more provision to improve the coverage ratio. So, that's why you see despite the stress pool coming down from Rs 95 bn to Rs 76 bn, my provision still continues to be similar level of September and despite the write offs of Rs.2500 odd crores.

M B Mahesh: And on the other hand, what will be the moment of this Rs.917 crores in your gross NPA line?

Sunil Samdani: Nothing. So, it only reduces my provisioning that's it, it doesn't change my gross.

M B Mahesh: So, these are not in the gross NPA line itself in the first place, it was written off earlier is it. There will be loan credit like Rs.1300 crores of loans which are sitting against which you got Rs 920 crores.

Sunil Samdani: Correct. So, these are part of my NPA book and against which I have received the claim and as per the CGFMU circular this can be used to adjust the provision required.

M B Mahesh: That's right Sunil but how would you adjust it on the loan book?

Sunil Samdani: So, for that I have taken the prudential write off.

M B Mahesh: Okay perfect. So, I would assume that you also made a similar 414 crores as, or in other words can you give us a break up of your other income?

Sunil Samdani: Okay, I shall but let me explain for the benefit of others also on the Rs.414 crores. Rs.801 crore is what we received from ARC as the valuation of that tool that we sold to them. Of that Rs.801 crore, Rs.387 crore worth of SR was subscribed by Bandhan and Rs.414 crores of SR was subscribed by ARC and another investor. So, to the extent of the SR that we have subscribed which is Rs.387 crores we have taken a provision against that Rs.387 crores So, the book value of those SR in my books is zero while there is an SR on the asset side there is a provision on the liability side. The balance Rs.414 crore which I received from a third party which is ARC an investor, that I have you taken it as other income, non-interest income and which was utilized for creating provisions. So, that's how the accounting of the Rs 801 crore was done. As far as the breakup of the non-interest income goes of Rs.1,033 crores if I have to list down the top five or four elements there, clearly Rs 414 cr is the biggest which is the ARC sale income followed by processing fees of Rs.212 crores, then the bad debts recovery of Rs 140 crores. So, typically we used to recover about Rs.70 crores - Rs.80 crores every quarter it has gone up to Rs.140 crores because that customer realizes that we are not going to lend to them unless that discipline is coming back. So, that is Rs.140 crore and the other large piece is the third party distribution of insurance and mutual fund which is Rs.90 crores.

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

Manish Shukla: So, Sunil you said that as of December roughly about 10% of your SA customers would have been more than two crore, what would this number have been in March 22?

Sunil Samdani: Sorry, Manish I could not hear your question, could you please.

Manish Shukla: The share of SA customers with more than two crore deposits, you said that's about 10% today, what number would this have been in March 22, the proportion?

Sunil Samdani: That would be much larger because we have seen the movement from savings bank to term deposit this quarter. So, earlier in March 22 there was no big difference between my SA rate and the term deposit rate so we prefer to keep it in the SA**.** Unfortunately, I don't have that March 22 number ready available here. But clearly this would have been much larger.

Manish Shukla: I'm talking about slippage numbers for the quarter. You said Rs.2846 crores of slippage of which roughly 90% was from the existing stress pool that makes us Rs.2500 crores, but the Q-o-Q decline in stress pool is about Rs.1900 crores. So, that essentially means there is an additional Rs 660 odd crores of addition to the stress pool is the math right or am I missing something?

Sunil Samdani: So, stress pool I have already given in my presentation. And if you need to adjust it pre write off you can do that because write off numbers are already available. If you can see the Slide #7 you will see the stress pool and how it has come down and what has contributed how much.

Manish Shukla: Okay, fair enough I will take it separately. Lastly at the Bank level, can you please provide the moment of NPA again slippages recovery and write off for the entire Bank?

Sunil Samdani: Yes, so the slippages for the entire Bank was Rs.3265 crores gross, the recovery is of Rs 622 crores and the net addition of Rs.2644 crores.

Manish Shukla: And the total write off at the Bank loans?

Sunil Samdani: Rs.2533 crores.

Moderator: Thank you. We'll take our next question from the line of Param Subramanian from Macquarie. Please go ahead.

Param Subramanian: My question was on the steady state or the near term margin outlook that you guided Sunil of 7.75%. So, any color on that, just to rough math 250 basis points if we take on the overall microfinance book shouldn't it be materially higher than that and considering also the housing book will re-price along with the increase in funding cost. So, just some outlook on the near term margin?

Sunil Samdani: So, Param what we are discussing is the next two quarters. How do we define near term, we are saying that as of December end we are at 7.3% and this will keep improving as the re-pricing impact and the lower slippages impact starts get factoring. So, by the next few quarters, I'm saying that it will reach at that level and that is when we will have to reassess and think how is the deposit cost environment doing. If there is any further increase on the lending rate. But on a steady state basis, let me tell you, let's assume that the ticker stops here on the lending and the deposit rate side, we expect this to move to 7.75% to 8% and with the change in mix happening, it will further come down over the next one to two years to 7.5%.

Param Subramanian: Got it, so Sunil actually as I was looking at it more from the perspective that we expect slippages also to normalize from next quarter onwards. So, is there some amount of margin downside that we're building in for next quarter as well some softness because of the reversal still?

Sunil Samdani: No, I don't think so see, clearly there can't be a scenario of zero slippages. So, there will be a few slippages as we discussed in line with our guidance that we have given earlier and we are building for that as well. So, we will have to take it because my cost of fund the point I'm trying to make here is 70% of my book is a fixed rate loan and 30% is a variable rate loan. So, the re-pricing of that 70% will come with a lag, my cost of deposits have increased faster than the yield on advances. So, that the gap and as the timing changes the 7.75% can also improve.

Param Subramanian: Got it. That part is understood. Just, one more follow up if I could again on the disbursement Outlook. So, the disbursement if I just compare the number, Y-o-Y in the microfinance book it is down pretty sharply. So, of course there has been a change in how we are giving out incremental disbursements the underwriting so, any outlook in terms of the near term growth in the microfinance book, considering Y-o-Y is this more of a steady state or is this going to pick up substantially from there?

Sunil Samdani: There is always a seasonality on disbursements. So, Q4 will always be better and on a longer term, midterm we've already guided that at the Bank level we are looking at 22% around thus, advances growth, of which microfinance should be 17%-18%.

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

Jai Mundhra: If you can provide a weighted average tenure of let us say, group loans and individual MFI loans?

C. S. Ghosh: What is it tenure that the, group loan is a manually one year and individual loan is one and half year to two years.

Jai Mundhra: Sure. And secondly on the stress pool so if I were to look at SMA-0 plus one plus two, last quarter, to this quarter, the dip is around if I were to calculate is around Rs 28 billion, and let's say Rs 25-26 billion has been slippages out of this. So, more or less, the understanding that there is virtually on a net basis the forward flow has been more or less negligible is that the math right?

Sunil Samdani: Yes, that's what it looks like. That's how it is.

Jai Mundhra: Okay. And lastly on deposits, so you had mentioned that part of this deposit, Q-o-Q decline is because of the bulk rate or the differential between TD and SA has reduced dramatically. But in the analyst meet when the first week December, the Bank had presented that SA should be growing by at least 15%-16% Y-o-Year and then it has actually quarter to date or maybe Y-o-Y would actually decline. So, just wanted to double check is this the only factor or that has also changed something which is apart from the rate differential?

Sunil Samdani: It's a rate differential. We were a Bank which was always offering a premium rate on SA and like large banks will still work on a 3%. So, it is very natural that we will have a rate sensitive and it's an impact of that.

Moderator: Thank you. Our next question is from the line of scattershot Kaitav Shah from Anand Rathi. Please go ahead.

Kaitav Shah: I just wanted to understand more about the housing finance book, if you can talk more about the average ticket sizes and if within the disbursement mix, if you can give us color more on the premium segment class that you were kind of alluding to earlier, what sort of proportion have you reached there?

Sunil Samdani: Suresh, you want to take this?

Suresh Iyer: Yes, sure I'll take this thank you. So, in terms of the composition of the incremental business, we are seeing a good traction in the prime segment, which is now contributing almost, 16% to 17% of the incremental business and in terms of the overall book composition, we still have, majority of the book being in the affordable segment only, almost Rs.18,800 crores is the affordable housing segment only. So, the majority continues to be there, but we are seeing good traction and this segment of prime home loans.

Kaitav Shah: Okay. And sir some color around the average ticket size of the housing finance book, over two years how it has moved, two years, one year, whatever?

Suresh Iyer: Yes, sure. So, in the last two years it has moved from our average ticket size of the incremental business to around Rs.11 lakhs. Now it has moved to close to Rs.14 lakhs if I look at the overall full year, but on a month-on-month basis it is kind of increasing. So, Rs 14 Lakhs would be the average of the entire year, but probably incremental. If I look for the month of December, it's around Rs.17 lakhs.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments.

Vikash Mundhra: Thank you, ladies and gentlemen, thank you for your time. Wish you a very Happy New Year again. Thank you.

Moderator: Thank you members of management. On behalf of Bandhan Bank Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.