



“Bandhan Bank Limited Q1 FY20 Earnings Conference Call”

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Moderator: Good day ladies and gentlemen, and a very warm welcome to the Bandhan Bank Limited Q1 FY20 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hiren Shah. Thank you and over to you sir.

Hiren Shah: Thank you, Ali. Good evening, everyone. And thanks for joining the conference call. We are here to discuss Bandhan Bank's business and financial performance for the quarter ending June 2019. Along with that, we will also take the opportunity to update on the merger of Gruh Finance with Bandhan Bank.

To discuss these in details, I have got with me our Founder, Managing Director and CEO – Mr. Chandra Shekhar Ghosh; our Chief Financial Officer – Mr. Sunil Samdani; and myself Hiren Shah – Head of Investor Relations.

Now, I would like to request our Founder, MD & CEO – Mr. Chandra Shekhar Ghosh to brief you all about the financial performance of the company and developments of the company during the quarter. Over to you sir.

Chandra Shekhar Ghosh: So, thank you to all of you. I hope that you have already seen something in the media. So, our advanced growth is very excellent in this quarter which stands as at Rs. 45,420 crores, year-on-year growth of 39.36%, but quarter-on-quarter growth 1.43%. We know that the first quarter always it is little bit down compared to the last quarter of any year. So, micro credit portfolio remains 86% and the balance is 14% of which major is in micro finance institution and SEL, which is small enterprise loan, which is that the range is Rs. 1 lakh to Rs. 10 lakhs. And we have at the deposit growth also- is in same line, 42.34%, and deposit stands at Rs. 43,701 crores. CASA little bit down, 36.06%, but if I compare with the June for 2018, it was in the 35.50%, it is higher than June last year. And retail deposit, we are still now focusing retail deposit of 76.09% retail deposit. Our micro credit customers have contributed only 6% of the total deposit and these are the things in there.

Profit growth has come 45.44%. Amount wise, Rs. 701 crores in this quarter, which was in the June quarter 2018 was Rs. 482 crores. So, growth has come as year-on-year 45.44% and quarter-on-quarter growth has come 7.68%. Net interest income Rs. 1,410 crores, non-interest income Rs. 312 crores and last year June it was Rs. 211 crores. And this amount is 12.77% of the total income. NIM is 10.45% and cost to income ratio is 29.93%, ROA 4.89%, last quarter it was 4.23%. ROE 24.39% which was earlier 18.96%. Capital adequacy ratio has come to 27%. Our cost of operation is a ratio with 3.38%, earlier 3.60%. Cost of funds is 6.59%, and if I include the equity then it will come to 5.20%. And gross NPA 2.02%, without IL&FS 1.11%. Net NPA has come 0.56% from 0.58%. CD ratio 96.35% and on time repayment rate 99%. We have the 999 branches and the door step service centers are 3,014. Total banking outlets are 4,013. Thirteen branches we opened in the last quarter.

And customer point of view, 1.73 crores total customers, 37 lakhs in bank branches which is catered by 999 branches, and Rs. 1.36 crores catered by micro credit. So, this is quarter we have opened 7.25 lakhs new account, 5 lakhs opened by micro credit, 2.25 lakhs opened by my bank branch. And we are trying to diversify the business and that geographically also we are to diversify. A total of 34% of the new micro borrowers have been added in the last quarter, out of that, 57% have been added from non-East. Similarly, out of a total of 15% CASA account opened during the quarter, 25% have been added from non-East. So, till that we are trying to expand in other states also, and our branch and DSC will be open in this year. So, we got our Board approval, we are waiting for RBI approval. We have been approved by our Board for 187 branches and 340 DSC in this year.

Gruh update; so you know that the RBI, SEBI and CCI approval is already done, and the Ahmedabad NCLT already conducted the shareholder and creditors meeting. We are awaiting the final report from the NCLT's final approval. And Calcutta point of view, our NCLT has given the time till 30th of July as a shareholders meeting. So, I hope that after that they also give the final report. So, hopefully very shortly we are likely to get their approval. And as their approval comes, we will start the merger. The merger preparations we all team are working together, the Gruh team and Bandhan team, and a lot of preparations have been done. We are waiting only for the approvals from NCLT. And when it will come, I hope that we will like to make it in business growth. So, these are my points, I hope that you have some questions. You ask and I would like to explain all that. Thank you to all of you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kartik Chellappa from Buena Vista Fund Management. Please go ahead.

Kartik Chellappa: Few questions, firstly on the micro side have you noticed any overleveraging or anything similar in your focus markets in the East, specifically let us say West Bengal, Bihar or Assam or so? And in any of the markets have you brought down your hurdle rate for new borrowers?

Chandra Shekhar Ghosh: We have not yet found anything on that very exceptional, because in the last two weeks I have visited in Assam-Tripura meet and Siliguri. I met the customers and my staff and the non-staff, non-customer, and I have not got any delinquencies, and very normal meet, people are happy to get this banking service. I have the plan of that, in the next to next week I am also going to Patna and Jharkhand, and after that also. But I have been closely in touch, other than my team, we are going on that. Other than me, my full team every month for two days they visit across the country, my DSC which is micro credit office and group meetings and borrowers and also bank branch, and we have consolidated it, if something is found out we immediately like to takes on that.

But as of today, I did not find anything which is like to mention or I feel that bad. Only thing, I was in a little bit worry about it that time when the Odisha was affected by Fani, my nine DSCs have been affected, I mean, core affected; some others also but not that much. And we find out

on that how we can help them, we have given, distributed some of the relief in that area, not only to our borrower but across that area, with the government help on that. But that said, you know that we have one calculation always made on that OTR, on-time repayment, how the borrowers are paying me in that day, which day it is due, and what is percentage wise it is more than 99%.

But in May we found that we should have come to 88%, but very surprised on that as in June I have found that 95% increase from 88%, how the people are coming, the point is they regularized their repayment on that. So, at that point I felt that that is important. Though you would say that some of the flood has come, Tripura's flood has come, Assam, and rainfall has come to Maharashtra and also has come to Bihar. We are working something on that, but till now there isn't that much issue that has come to us for the repayment point of view, disbursement point of view, no.

But this time always the first quarter is little bit slow, second quarter up to August little slow, and starting to the before the Puja or Diwali starting the disbursement in the microcredit level. And I feel that the ground level is not filling in that.

Kartik Chellappa: Got it perfect. Thank you very much for the detailed explanation. My second question is, in terms of our advances to other NBFCs, MFIs, that has practically doubled in the last three quarters. So, could you take us through what is the criteria that you are using to lend to the NBFCs, MFIs, and what would the average yield be that you are earning?

Chandra Shekhar Ghosh: If you see, the microfinance institution actually we know these organizations, this is our expertise. I am not going to other than microfinance organization with this type of exposure, this is one part. Second part, we say that we have principally decided whatever borrowing money they have, you see that in a microfinance institution they borrow 86% from banks, and then they lend to their customers. So, our policy is that we cannot go beyond 12% to 13% of the total of their portfolio whatever their bank borrowing is there, out of that we cannot go to 15% to 13%, not more than that. As of now it is very low on that.

Kartik Chellappa: And what would they be that we are charging for these loans?

Chandra Shekhar Ghosh: 12 to 13%

Kartik Chellappa: Okay. And my last question is on our SME advances, that has actually come down, both year-on-year and quarter-on-quarter. Is there any level of caution that you are exercising in this segment? And if so, why would that be the case?

Chandra Shekhar Ghosh: If you see it as SME and the point of this, you can see that there is a different type of SME as a quantity, Rs. 1 lakh to Rs. 10 lakhs, Rs. 10 lakhs to Rs. 1 crore, Rs. 1 crore to Rs. 5 crores, these are different types. But we are feeling that there is a there is a need to build up the people, staff, who can handle this type of portfolio so that not in a very big way growth will be expected continuously on that point of view. So, that we have started, after two years we have

consolidated, we have built up the skill of the people, we have recruited good people at the senior level, and underwriting, endorsing and restructure the total system causes which is appropriately fit for next growth on that. So, accordingly we are providing on that so that sometimes it will come down, it's a concept call, but still that market is not there, but market is there.

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from TCG Asset Management. Please go ahead

Rahul Maheshwari: A couple of questions. First, can you give the average ticket size in different cycles, suppose at start at initial what it is, in first cycle and in second cycle? And also the proportion, currently the customer profile where they are standing in at first, second, third and fourth cycle?

Chandra Shekhar Ghosh: So, a good point, thanks to you. We have divided our total customers because sometimes we have customers with 18 cycles 17 cycles, so a lot of cycle is there. So, we have divided into two cycles on the basis of our experience and different encounters. So, we find out on that the first of three cycles is one type of category, which we are going on that and after the three cycles, the fourth cycle and onwards we are streamlined as a very normal systematic way they are growing on that as a business point of view. But first three cycles we are very conservative, our retention rate, dropout rate is high in first three cycles, so we are divided in that way. So, if I come to on that point, our 55% of the customer which is more than three cycle with us, and their average alone outstanding is Rs. 49,358 rupees, so those are with us. Average if you say that, out of 18 years 3 years, you divide 15 years, seven and eight years average these people are with us. But if I go to these the other customers who are not with a very much as the latest coming on that, and they are coming on that with 35%, their average is Rs. 29,000 rupees on that.

Rahul Maheshwari: Sir, this latest 35% of the customers are in the first cycle kind of thing which are the new to the...

Chandra Shekhar Ghosh: First cycle, second cycle and third cycle together.

Rahul Maheshwari: And this gross-up to 90% and the remaining 10% stands in which cycle?

Chandra Shekhar Ghosh: No, sorry, its 45%. 45% plus 55%.

Rahul Maheshwari: And is there any asset quality also for the bifurcation? I knowing I am pulling deeper, but what is the trend which you are witnessing if you make a two bifurcation up till first three cycles and fourth cycle onwards kind of thing?

Chandra Shekhar Ghosh: No, if I see that is first three, first cycle is relatively new customers, and we saw that if the dropout rate is high, we not continue them to the next cycle. And the next cycle also the same way, a little bit better. On the fourth cycle has come, it has been a normal.

Rahul Maheshwari: And second question if I ask on the deposit side on the micro banking side, quarter-on-quarter we found a little bit dip and average SA balance, how we are moving towards the SA business? Because generally you are further penetrated into the northeastern side and that's growing much faster in the deposit right. So, can you give a guidance also in terms of at least how that would be going forward?

Chandra Shekhar Ghosh: If you see that our principal from beginning of the bank, we have targeted deposit from the bank branch, not my microcredit official. So, whatever the microcredit customer they are not my deposit customer focus, no target of the microcredit staff, no target of my door-step service center, only they will collect the instalment. If a small amount they can give as a behavioral change of the people. But no things we have targeted, so that we are not concerned about how much my deposit has come from microcredit, for us no concern. But if you see that it is 6% of the total deposit, because we not have any plan to do it, only liability is he will drive from my bank branch and from there to my customer, which is my 37 lakh customers now, they contributed 94% of the deposits. So, CASA is coming from there also. And future plan. I already mentioned my more branch openings because of the deposit.

Rahul Maheshwari: Sir, a few data questions. What was the par 30 number for the quarter portfolio at risk, 30?

Sunil Samdani: Micro banking par 30 as of June is 0.90.

Rahul Maheshwari: And what was the collection efficiency?

Chandra Shekhar Ghosh: As we said, it is 99% plus.

Rahul Maheshwari: And during the quarter what was slippages number?

Chandra Shekhar Ghosh: Slippage is more or less same on that.

Rahul Maheshwari: Because previous quarter it was 700-odd; no doubt it was including...

Sunil Samdani: Rs. 137 crores are gross.

Rahul Maheshwari: And net slippage, means, reductions was how much during the quarter?

Sunil Samdani: Net is Rs. 30 crores.

Moderator: Thank you. The next question is from the line of Shagun Varma from Goldman Sachs. Please go ahead.

Rahul: Hi, this is Rahul from Goldman. Just had a bunch of questions. First of all, just a data keeping questions, this lumpy income that we have seen in the other income line within the interest income, what would that be an accountant of? Is this interest or income tax refund or something?

- Chandra Shekhar Ghosh:** Our typical other income is a large amount as a processing fee from the loan.
- Rahul:** Sir, I am referring to interest income line.
- Sunil Samdani:** So, what is the question here?
- Rahul:** So, we had Rs. 130 crores of other interest income, right?
- Sunil Samdani:** The other interest income is on the IBPC portfolio, essentially it is the core interest income, but because it is from the portfolio which has been sold, it is shown as other interest income.
- Rahul:** Okay, got it. Thanks. The other question was; can you share the write-off number during the quarter?
- Sunil Samdani:** ~Rs. 81 crores.
- Rahul:** And what was it the previous quarter?
- Sunil Samdani:** March it was ~Rs. 92 crores.
- Rahul:** Okay. And third question is with regards to the credit cost. So, the loan loss provision to loan book was about roughly 130 basis points. How should we think about going ahead? I mean, this is going to be around the similar levels or are you trying to build in some buffers also, given the environment, particularly east has seen some flooding, there are concerns about over leveraging, etc. So, the credit cost could increase in the future or it could remain or it could come down, how should we think about it going forward?
- Sunil Samdani:** If you look at the breakup of this credit card, it is the sum of NPA provision and the standard asset. The NPA related is about 1%, the rest is standard asset 1.1 is the credit cost on the NPA side, and the rest is standard asset. We expect the NPA related cost to be around 1% - 1.1%.
- Rahul:** And the other question was, can you share the number of unique customers that we have? Last quarter I guess it was 60% in the quarter before was 72%. So, how did it stand in this quarter?
- Chandra Shekhar Ghosh:** So, it remains around 55%.
- Rahul:** Okay. Got it. And one final question, is it possible to share the incremental disbursement ticket size that you have done in this quarter?
- Chandra Shekhar Ghosh:** See, there is Rs. 64,266 on average disbursement size, and outstanding was coming Rs. 39,298. So, if it is in March, outstanding was Rs. 40,336 has come down to Rs. 39,298, because the new borrowers have not been coming

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Sir, just wanted to know one thing that with our expansion into areas other than eastern and north eastern geography, do you think the seasonality that we have in our business with respect to loan book growth during Q4 will reduce going forward as proportion of these geographies increase?

Chandra Shekhar Ghosh: We not see that anything very exceptional we can grow and down, we continue on that in the same range on that to build in that region.

Ankit Gupta: Okay. So, Q4 will continue to remain a large portion where we will see the loan book growth?

Chandra Shekhar Ghosh: Correct.

Ankit Gupta: And sir, can you also talk about the growth in deposits and each of the areas, each of the regions, east, northeast and other than that how much was the growth in west, north, central and south?

Chandra Shekhar Ghosh: No, because of our work... I have to also mention some other points that is in the eastern region is our strength for the deposits.

Sunil Samdani: So, typically if you look at our deposits, it kind of mirrors our branch network. So, east region contributes about 57% of our total deposit.

Chandra Shekhar Ghosh: And it depends on how much network is there because of the east and northeast our branch network is high, so that is also little bit coming on that more. But in your other point I would say that some trend we are finding now, that is a good amount of the deposit now going in a central and the west, that is also good. If I can mention some point here, the CASA deposit grew 52% in the central and 74% in west, only 42% in east. So, that I said that this is good. If we go to the retail deposit growth, 45% in central and 42% in west, only 37% in east. So, in a good way I think that is east, because of the number of more mode, and rate also isn't high. So, that's way simultaneously we are going other state also.

Ankit Gupta: And sir, last question on the Gruh merger and the kind of synergies that we are expected to gain from that. Can you just broadly highlight how do you think the Gruh's business model can be implemented in areas where we are strongly present, primarily northeast and eastern side? So, if you can briefly highlight our strategies for growing this housing finance business in our key geographies?

Chandra Shekhar Ghosh: If you see, we have taken this organization, it does not mean I have been called them to east and northeast, that is not the objective. So, that we are talking and working together with a Gruh teams and our team. And Gruh team is surveying the area where there is more potential on across the country, not only specific in this area. So, whenever they are finalizing, they have seen that potential accordingly, they will like to drive. And we only provided the infrastructure, our

branches or software; connection and funding. So, I hope that with this it will grow. Potential it is very big, because we are working in the ground level we see that. And we also see that our government is also very much keen about it.

Moderator: Thank you. The next question is from the line of Parmeshwaran S from JM Financial. Please go ahead

Parmeshwaran S: A couple of questions. Firstly, on the tier one capital, so what explains the comparatively higher consumption on the tier one capital for the last two quarters?

Sunil Samdani: As per the RBI regulation if the NPA growth at the end of a financial year is more than 25% vis-à-vis its previous year. Then in the subsequent year till the accounts are audited, profits are not considered for the purpose of calculating CRAR. In FY19 because of ILFS our gross NPA growth was more than 25% vis-à-vis FY18, hence this year till the time the accounts are audited we are not including the profits for the purpose of capital adequacy. Once the accounts get audited at the year end, these profits will be considered.

Parmeshwaran S: Okay. So, from when have we not been adding profits, from which quarter onwards?

Sunil Samdani: From this quarter.

Parmeshwaran S: Okay, so till last quarter we were adding profits?

Sunil Samdani: Yes.

Parmeshwaran S: And when can we start adding this back?

Sunil Samdani: When the audited accounts are done. Currently for quarterly accounts these are subjected to limited review. Once the full audit happens, which is in the year end, we can again consider.

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

Rinish Bhuva: Sir, most of my questions have been already answered, just a couple of clarification about what you mentioned earlier in the call. The one is the incremental disbursement ticket size; I just missed that numbers.

Sunil Samdani: For micro loans?

Rinish Bhuva: Yes, micro loans.

Sunil Samdani: Rs. 64,000 average disbursement, on the outstanding book the average is Rs. 39,700.

Rinish Bhuva: So, outstanding ticket size is Rs. 39,000 but incremental disbursement is 64,000, right?

- Sunil Samdani:** Right.
- Rinish Bhuvu:** Yes. So, a second is, again on the ticket size in the bucket of more than three cycles of customers with us. So, I think more than three cycle you have told it is around 49,350. And below three cycles, what's the average ticket size, is it 29,000?
- Sunil Samdani:** Yes.
- Rinish Bhuvu:** Okay. And the breakup is like 45% of the customer base is under less than three cycle and 55 is more than three cycles?
- Sunil Samdani:** Right. That's on the number of customer side. In value terms it is close to 65%.
- Rinish Bhuvu:** Okay, which are more than three cycles?
- Sunil Samdani:** Yes, fourth cycles and above.
- Moderator:** Thank you. The next question is from the line of Aseem Pant from HSBC Bank. Please go ahead.
- Aseem Pant:** Just few questions. One is, in terms of your DSCs, could you please share the number of employees there? And within that the number of loan officers, if that's possible?
- Chandra Shekhar Ghosh:** Roughly I'd say total microcredit staff is at 22,428.
- Aseem Pant:** And the loan officers within that, would it be possible to share?
- Chandra Shekhar Ghosh:** I hope that the 16,000 something.
- Aseem Pant:** Okay. And sir secondly, in terms of your microfinance portfolio in rural, semi-urban versus metro-urban, would the ticket sizes or average outstanding per client be similar between these two centers or would it be significantly different?
- Chandra Shekhar Ghosh:** It is little bit different from the urban and the rural, it is a difference also from state to state. It depends on the business that we get, or you can say that the cycle, how many cycles are there. There are multiples.
- Aseem Pant:** But sir broadly could we assume that there is may be the deviations between the two sets is plus/minus 10%, is that a fair assumption on average?
- Chandra Shekhar Ghosh:** No, if you go to this, cycle wise it is different. So, cycle if it is say customer has started with me since 2003 and they started the loan amount is Rs. 3,000. And now if someone started with a with a Rs. 20,000 automatically it represents coming at a different cycle. So, how long it will be here and how what types of businesses is based on that, on the basis of that it is then given.

- Moderator:** Thank you. The next question is from the line of Kartik Chellappa from Buena Vista Fund Management. Please go ahead
- Kartik Chellappa:** Earlier you had mentioned that in this quarter 55% of your customers are unique customers. Could you give what percentage of your customers are actually borrowing from three MFIs?
- Chandra Shekhar Ghosh:** I have not yet seen that, but I'd say around 55% of the customers only with us.
- Kartik Chellappa:** Okay, got it. And as far as our NBFC MFI portfolio is concerned, what would be the number of customers at this point of time?
- Chandra Shekhar Ghosh:** I will give that. Please, next questions?
- Kartik Chellappa:** Yes. The last one is, if I look at our term deposit amount of about Rs. 27,900 crores, can you give me the split between TD retail versus TD others? I believe we used to do it in the past.
- Sunil Samdani:** 76.5% of our total deposit is retail deposit, which means CASA plus retail TD.
- Kartik Chellappa:** With what sort of above let's say Rs. 21,380 crores?
- Sunil Samdani:** Bulk deposit is about Rs. 10,400-odd crores.
- Kartik Chellappa:** Sorry, what would be Rs. 10,400 crores?
- Sunil Samdani:** That's the bulk deposit.
- Moderator:** Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.
- Jai Mundra:** Sir, I joined a bit late, so I don't know if some of the questions may have been asked already, you can pass it on if that is the case. So, first question is, we have shown 9.8 million customers in MFI space. Is it fair to assume that these are the unique customers and this is not the number of loan accounts?
- Chandra Shekhar Ghosh:** Yes, these are unique customers, not the loan account. And we have a policy of one loan per customer.
- Jai Mundra:** Okay. And second, you have given the geographical mix of the distribution, how different would it be in terms of your MFI loans?
- Chandra Shekhar Ghosh:** MFI loan means loans to MFI institutions?
- Jai Mundra:** No, your MFI customer's loan, not the MFI NBFC, so retail loans.

Chandra Shekhar Ghosh: Question is not clear.

Jai Mundra: Sorry, so I will just rephrase the questions. So, on slide number six, which is your rural, metro, urban and semi-urban distribution, would your MFI AUM more or less be similar in that fashion?

Sunil Samdani: On the AUM side it will be slightly higher in East India as it depends upon the vintage of the customer, since we started our business in East India the vintage of customers in East India is higher.

Jai Mundra: Okay. And secondly, if I see your Mudra loan, I mean just on this Mudra website, then our share of Mudra loans as a percentage of AUM is somewhere around 45% odd. Sir, any clarification there? Of course, a lot of customers would qualify under Mudra loan, but just wanted to get some more comments here.

Chandra Shekhar Ghosh: So, full year also I mentioned, but I can repeat that. We give micro loans for livelihood. These loans meet the criteria for Mudra Loans.

Jai Mundra: But would the customer know that he is taking a Mudra loan or the loan that he has taken is a Mudra loan?

Sunil Samdani: No, we are not telling.

Jai Mundra: And just last question, sir. What would be a rough loan growth in your state of West Bengal? Is it slowing down or is still stable, just the trend there?

Chandra Shekhar Ghosh: West Bengal as of now we have 46% of the micro finance loan book, So, last if you see the five quarters, it continues the same percentage of the total, more or less same.

Moderator: Thank you. The next question is from the line of Deepak Gupta from Reliance Nippon Life. Please go ahead.

Deepak Gupta: Sir, my question is relating to your CASA deposits which has seen a significant decline on a sequential basis. If you could explain what is the reason for the same and where exactly do you see CASA going up to in the next few quarters?

Sunil Samdani: What we have seen this quarter, as the interest rates directionally falling we have seen the customers wanting to lock-in at the higher TD rate. If you see our entire advertisement campaign, we want the longer tenure deposits because we are preparing ourselves for the Gruh merger. So, this is one of the reason which resulted in a shift from CASA to TD. Since our total retail deposit has remained constant on quarter-on-quarter basis, there is a shift between CASA to TD. And secondly, there has been a reduction in our government deposits closer to election, which typically happens when the money gets disbursed to the beneficiaries.

Deepak Gupta: Okay. So, at what level do you think CASA can stabilize to, or you think these are the levels at which it will sustain?

Sunil Samdani: We think it would be anywhere between 35% to 40% should be in the range.

Deepak Gupta: Understand. And if you could just give us some indication in terms of the incremental advances growth that your bank is re witnessing, how much of that is coming from the non-east and north eastern states?

Chandra Shekhar Ghosh: Incremental growth is for the same way whatever we talked earlier also, we are not growing more branches in this area, only we are growing existing customer and the existing brands and the new customer adding on that. So, that's the reason I have been not seeing that was a very significant change coming to the eastern region as a number of borrowers, but we see that the amount of the loan because of the 55% of the customer, more than three cycles loan with us, they are very captive customer out of that. So, that growth is coming from the basis of that base, not in a much newer customer. We have decided 340 microcredit office we will be opening this year, and these branches are opening more in the south and north, not in Bengal, not a single in Bengal and Bihar. So, for that reason that is not that much coming in here. Other point I also share on that, 80% of our customers which are newly added in the microcredit in the last quarter, 80% is in non-east. And it is a very good way for that coming up.

Moderator: Thank you. The next question is from the line of Nishant Rungta from Premji Invest. Please go ahead.

Nishant Rungta: I have just one question. Sir, some of the peers in the industry and some of the industry experts have been concerned about the eastern India segment around that space. Just wanted to check with you, are you concerned regarding the same issues and the reasons for the same? Thank you.

Chandra Shekhar Ghosh: Okay. So, I would like to give one point to you on that, till now we have not felt anything in that angle because I calculate on that basis for east and northeast, the big states of Assam, Tripura, Bengal, Bihar, Orissa, they have 30 crores of population. And as per some report I saw that there borrowers are 1.67 crores. In that sense if I see, there is in 5.56% of the coverage has done in this east and northeast. But if I go to the south, there are states of Kerala, Tamil Nadu and Karnataka, there is a 16 crores population and same report I saw somewhere on that, they have as a borrower of microcredit 1.30 crores. So, if I see that as a percentage, it is 8% covered. So, the south of three states cover 8% of the total population, and east four states covered the 5.56%. So, I hope that there are big opportunities in east to grow more compared to others add on that.

Second point, our data shows that eastern region is an NPA point of view. If you see Orissa is 0.4%, Assam 0.42%, Tripura 0.25%, Jharkhand 0.46%, West Bengal 0.58%. We will like to come on that. So, I hope that this is a very good opportunity today, with low NPA, and less penetration by the microcredit institution. So, in that sense it is not really that much hurry to feel

about it. And other point, whatever we are very closely touched at the ground, I am not feeling anything in that way.

Moderator: Thank you. The next question is from the line of Gaurav Kochar from Ambit Capital. Please go ahead.

Gaurav Kochar: Just three questions. Firstly, how big is the portfolio in Orissa? And what is the situation there, I mean, what is the par 30 in that state if I take the cumulative portfolio?

Chandra Shekhar Ghosh: Orissa is a very small presence of us, but whatever we are... I just mentioned on that, my 90 days' par is at 0.44%.

Gaurav Kochar: And par 30?

Chandra Shekhar Ghosh: Par 30 report is not in my hand; I can check on that because it is state wise.

Gaurav Kochar: Sure, any qualitative color on stress?

Chandra Shekhar Ghosh: I haven't seen that, the mention about it on that. In May I saw that to my OTR has come 88% from 99.3%. But now after one and a half months when this Fani has been over, the crisis is not permanently over on that part, it is a challenge. But still now my borrowers have been coming back to repay to us, there is an on-time repayment rate has come 95%. So, I have the confidence on that, this is not very risky, it will come back.

Gaurav Kochar: Okay, sure. Secondly, where is the CA coming from? I've seen there is a sharp decline in CA sequentially. So, is it secular or is it like some large accounts in our CA book?

Sunil Samdani: It is largely secular, from small traders.

Gaurav Kochar: Okay. Is it seasonal or does it happen in the first month? Is it the year end effect?

Sunil Samdani: Not really, we don't see that happening too often.

Gaurav Kochar: Okay, sure. Lastly, what is the cost of SA deposit in this quarter?

Sunil Samdani: Cost of SA deposit is 5.13%.

Gaurav Kochar: If I tie this up the last quarter, what was it last quarter, if you have that number handy?

Sunil Samdani: 5.12%.

Gaurav Kochar: Even in last quarter it was 5.13?

Sunil Samdani: No, 5.12 was last quarter, 5.13 is this quarter.

- Gaurav Kochar:** And how many unique customers in SA?
- Sunil Samdani:** Our average balance is approx. 35,000.
- Moderator:** Thank you. The next question is from the line of Nishant Shah from Macquarie please go ahead.
- Nishant Shah:** Sir, three questions from my side. So, first, on this disclosure part, I see you have merged the SEL and SME this quarter onwards. So, could I just get a sense like what this number now represents the SME outstanding portfolio that that you talk about? This is largely the HCL portfolio just rebranded SME right, largely unsecured loans with average ticket sizes of Rs. 1lakh to Rs. 10 lakhs, correct?
- Sunil Samdani:** In terms of number the SEL book is close to Rs. 1400 crores of the total SME book
- Nishant Shah:** Okay, fair enough. Secondly, if I look at some government data sources, what we see is West Bengal as of FY19, as in absolute amount for your exposure is somewhere near Rs. 207 billion. So, if you were to kind of back calculate that, that works out to be approximately like half of your micro finance book. And again, if you go back in time, this used to be maybe 43% two, three quarters ago. So, how would you like to comment on this later, like, is this not factual, is it incorrect, any comments? Because what it looks like, it's optically looking like your share of West Bengal in microfinance AUM is in fact going up.
- Sunil Samdani:** Our share of microfinance in West Bengal in the total micro business is 46%, which has been constant for the past four quarters.
- Nishant Shah:** Okay. Fair enough. And the last question, I joined the call late, so I am sorry if I have missed this. So, an hour ago one of your competitors, RBL, said like the eastern geographies are really heating up in terms of leveraging, ticket sizes are going up. Bharat Financial also echoed the same sentiment on Friday when it reported its results. So, would you like to just comment on like how are you assessing your portfolio, how are your NPLs still so much in control in Odessa specifically, any incipient signs of like stress in Assam or West Bengal, anything that you would like to point out?
- Chandra Shekhar Ghosh:** So, we cannot comment on the others, but what we see that the strength point of that, the eastern region there are very few people working in this area. Now, suddenly many of MFIs have come in the last three to four years. So, any organization coming in this any geography, even though we are going to other geographies also, first challenge is to develop the staff who can like to drive the business with a not in this business growth but for a customer development. If we see that you are long time with us in this session, I have mentioned about the first, second, third cycle, how we are creating the comeback. But any organization if it is in first, second, third, created as a fourth, fifth and ninth cycle, that is a risk. So, for that reason this is a one cycle thing.

Second point on that, because of our 55% of the customers who represent more than three cycle, a concrete base has already been done on that. And these people are not moving, I am surprised on that when my other investors community and people field visited, coming back and told me that your customer is very different and the staff also very different, they are committed to them. I hope that these are the same, we build upon that. We have 11 training centers across the country, one in Assam, one in Tripura, one in Siliguri, one in Calcutta, one in Shantiniketan and Patna, all that. But every time we are building that how they behave with the customer, how to understand the customer. So, until this base is not strong the growth is will be challenged. So, I feel that what is our advantage in the eastern region, our base already has been built up on that. So, then after that growth will come automatically. But if you say we go to south and growth in this momentum, this I cannot do it, because I would like to very carefully select the customer, build up the customer, build up their discipline, masses will come to this group meeting.

Now next point, the microcredit is my learning, I find out of that, that is a physical task weekly, it is a very good strength. Physical touch is not collection taking, physical touch is sitting in there, talking with these people, build up the bonding and then collect the money, that is a big long-term benefit is there. So, if my customer says that I really like to repay to Bandhan or whatever my channel is, this is my strength. So, we like to develop on that types of people.

Next point is the supervision. If you see, the supervision, monitoring is very tough in this type of activity. So, that supervision and monitoring we are controlling in a very big way, not only the IT. IT base will not happen. And final one point is, microcredit organization field is mine, it is not agency-based program. Agency based program is very different, they not feel ownership of that. So, if there is no ownership, I mentioned you about Orissa, I am also surprised. What is my nine DSC has been totally damaged, there is no connectivity for 15 days to one month, but after that this 88% has come to 95% regularly repayment. If you say how people know, I don't need to explain on that. I am listening on that these villages have some problem, that village has some problem, everything. But when I am going to that village, talk with my staff, they say no problem sir, collection is coming good. So, I do not know, I also feel that and people feel that at the ground level. I need Bandhan to take the loan to run my business, whatever the surrounding people told them, many people can give suggestion, but they cannot give single money to me. So, that is a big way their mind has been set up with Bandhan. So, this is a big thing, because earlier I have been given lot of time earlier to the rural and the ground level how can build up the people. And that people now continue on that. So, that means that there is a dedicated team who can be tried at a ground level, even temperature 45 degree or full raining, people are going in there. It is not pushed from me. I say microcredit is different, it is not only the geographical issue, the issue of building up the team and build up the discipline among the customers. And accordingly it will automatically be run on that, I am saying from my experiences.

Nishant Shah:

Right. Sir, when one other question, if I can sneak in. Gruh's housing book, what are your plans for that? Like, how do you plan to grow this book? Do you want to grow it slowly for the first couple of years, see how it pans out in the eastern geographies because culturally these are

different markets? Or are you confident that you can scale this book up quite aggressively right from the start?

Chandra Shekhar Ghosh: I also mentioned the same point, some other one asked, I will repeat on that. I know microfinance, I am doing microfinance. I am not knowing housing, I have been taken that as a total system and people and their IT, they will decide where is the best, how it can be driven, how can we grow, and how much they can grow, everything they are independently deciding, I only make this portfolio as my book, I only provide my liability support to them, they will not suffer any of the funding point of view. If they have any skill development, they can develop the skill development without a training center, I am not thinking of it, I am not like it. But the customer base we have which can help them, we have the infrastructure base which can help them and they independently decide where it is. They are also talking with me, Mr. Ghosh can you give some people? No, I say I cannot give the people to you. Because if I give the people you will say that I have given bad people. So, better you decide, you recruit, then they say that no I am not talking that. You are doing that only, so better keep this expertise and build it.

Nishant Shah: Just as a follow-on to this question, you said like you know microfinance well, and we agree. And you will let the housing finance guys to housing finance. So, what kind of like incentive structures or contracts have you gotten the Gruh management to sign, how are we going to retain them?

Chandra Shekhar Ghosh: It is totally confidential, I cannot disclose to you how much I pay to my which people, and what incentive, no. But I will only request all of you on that, including you, visit my field, come, visit, talk without my presence or my people or head office people to my customer and to my staff. And then you will understand whatever I told how much is correct. It is open to all.

Moderator: Thank you. The next question is from the line of Sanpete Purushottam from Cogito advisors. Please go ahead

Andre Purushottam: This is Andre Purushottam. I have two questions. One is that in your non-eastern territories are you being able to replicate the similar kind of cost structures, particularly for employee costs, and therefore being able to replicate NIMs? That is my first question. And my second question is, are there any synergies that are available to the Bandhan business because of the Gruh acquisition?

Chandra Shekhar Ghosh: First question you know that till now our government is suffering from state to state difference in wage rate, they are trying to align to each. So, we are either working in the country we are maintaining as per what is the rate in which state and how people are happy to work, accordingly we are providing on that. We have not leaving behind anything. And the second point you are talking about Gruh, of course, it is an opportunity for both of you. If we will find out on that, Gruh will feel that our customer is there, opportunities are there, and if we also see that their customer is also an opportunity for us or other credit, we like to find out the way how can we work with them.

- Andre Purushottam:** The Gruh customer is very different from yours, both in terms of affluence levels and ticket size. So, do these target groups actually have anything in common? And are there any significant synergies that the Bandhan Bank can actually get from Gruh?
- Chandra Shekhar Ghosh:** I will give one point to you, if you see that Gruh loan is a non-productive loan, that means they already have an income. So, even if they have the income, they have the business, they have the need of credit for business. that is an opportunity for us, will they like to give that MSME credit to that.
- Andre Purushottam:** Right. And first part of my question was also to do with NIM in the non-eastern territories. Are you being able to get the same NIMs as in your eastern territories? And are you having to increase your interest costs to your non-eastern territories or are you paying it, are you giving the loans at roughly the same interest cost as you are doing it in the east?
- Sunil Samdnai:** Our Micro Finance interest rate is same across to all our geographies or customers.
- Moderator:** Thank you. We will take the last question from the line of Anand Dama from Emkay Global Please go ahead.
- Anand Dama:** Can we have the number of your liability customers?
- Sunil Samdani:** about 37 lakhs.
- Anand Dama:** So, basically who are these customers who are giving this or kind of not keeping basically current deposits with us?
- Sunil Samdani:** These are essentially small traders.
- Chandra Shekhar Ghosh:** 20,000 is POS machine and that is also the source of CA.
- Anand Dama:** For us basically?
- Chandra Shekhar Ghosh:** Yes
- Anand Dama:** Sir, apart from that how many of our microfinance customers now will be basically individual customers or JLG customers?
- Sunil Samdani:** To all our microfinance customers we give the individual loans.
- Chandra Shekhar Ghosh:** Sunil is correct on that, all microcredit loans individually assessed, and with the group recognition and recommendation we approve and given the loan, but disbursing individually, collection individually and assess individually

Anand Dama: Okay. And apart from that, I mean, you elaborated basically on the overleveraging, overheating which is going around in the eastern markets as such, what percentage of our portfolio is only in Assam and Orissa? Have you actually withdrawn from some pockets where you also feel that there is some kind of stress which is building up or there is some kind of overleveraging which is happening?

Chandra Shekhar Ghosh: Till now we have not withdrawn any location. And I am not seeing that anything in the future as of now, I am not feeling that from any branches from any of the state.

Anand Dama: Okay. So, you don't feel basically there is over leveraging or there are multiple lenders per customer which is happening at this point of time?

Chandra Shekhar Ghosh: No, I have not seen that. I will give another data to you, which is earlier I have also given on that how less penetration compared to south on that. Again, I have been given on that, if you see district wise that data, per district West Bengal population is 40 lakhs, and per district Tamil Nadu population 20 lakhs, Karnataka 21 lakhs, Kerala 25 lakhs, per district. So, if you see one district of West Bengal, in 40 lakhs if it is 25% I have been covered and given the loan, which is equal to 50% of Tamil Nadu. So, Tamil Nadu will come 25% cover of that district, so my district will become as a highly penetrated credit, but there it will show low. Actually, it is not like that, because across the country whatever the number of districts, now district has similar number of population, one is 20 lakh, another is 40 lakh, so it cannot be calculated this way. There is a potential, we should like to drive this type of service to the people. These service people have needed is bread and butter, not in a pressure. So, there we keep it seriously to use for business and return back. Only need the relationship buildup better from us.

Anand Dama: And lastly basically what is the kind of AUM and deposit growth both for this year?

Chandra Shekhar Ghosh: That is our life, I have been saying that gradually it is coming down because the denominator is increasing. I have not seen that India is under 30 crores population anything cannot whatever is history they have. We try to grow, only risk there is how much people I have developed to fit with my type of service to reach you to this paper. So, that is a challenge. So, that challenge we are overcoming by the training center. And with all of your help. So, I am not feeling that the growth is challenge in India.

Anand Dama: So, can we expect about 35% to 40% kind of growth this year as well?

Chandra Shekhar Ghosh: You can expect this, more or less, although this is your part. **Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Bandhan Bank Limited, that concludes this conference call for today. Thank you for joining us, and you may now disconnect your line.