"Bandhan Bank Limited Q2 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Bandhan Bank's Q2 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. Vikash Mundhra – Head of Investor Relations. Thank you, and over to you, sir.

Vikash Mundhra: Thank you, Sagar. 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 September '2024.

We appreciate your time and participation today. We will take this opportunity to provide insight into our operational activities, including any significant achievements or challenges. We will also touch on market conditions, strategic initiatives and any changes in our business environment.

To discuss all this in details, we have with us our MD and CEO (Interim) – Mr. Ratan Kumar Kesh; Executive Director and Chief Business Officer – Mr. Rajinder Kumar Babbar; Chief Financial Officer – Mr. Rajeev Mantri; and myself – Vikash Mundhra, Head of Investor Relations, along with other senior management team of the Bank. We will be happy to provide you with any clarity required from the current quarter numbers and the way forward.

Now I would like to request our MD and CEO – Mr. Ratan Kumar Kesh, to brief you all on the Bank's Quarter Performance.

Ratan Kumar Kesh: Thank you, Vikash. A warm welcome and a very good evening to all of you, Namaskar.

As you all are aware, pursuant to the approval of the Reserve Bank of India, the Board had approved my appointment as Interim MD & CEO with effect from July 10, 2024 for a period of three months and further extended it by a month or till the new MD & CEO takes charge whichever is earlier. I am happy to inform you that RBI has granted its approval to the appointment of Mr. Partha Pratim Sengupta as MD & CEO of the Bank for a period of three years. Pursuant to this approval, the Board has earlier today approved the appointment of Mr. Sengupta as MD & CEO with effect from November 1, 2024.

Mr. Sengupta is an experienced banker, who has nearly four decades of experience in the banking industry. He has worked in different geographies, across various business verticals including retail and corporate banking and has leveraged technology and innovation for achieving business results. He brings a wide array of experience from his roles as Deputy

Managing Director & Chief Credit Officer at State Bank of India and later as MD & CEO of Indian Overseas Bank. On behalf of the Bandhan Bank family I extend a warm welcome to Mr. Sengupta. As our new MD & CEO joins us, we will work with him hand in hand to manage the transition and continue on the growth path of our Bank, as Bandhan Bank 2.0 with renewed energy and commitment.

Coming back to the quarter, let me begin by talking a bit on the macroeconomic scenario

Despite global uncertainties, India's macro parameters remain strong. Real GDP witnessed a growth of 6.7% in Q1FY25. Against the backdrop of healthy business and consumer confidence, RBI expects real GDP growth of 7.2% during FY25. CPI inflation is expected to average around 4.5% during FY25. Globally, several central banks, including the US Fed, have started easing interest rates. The RBI continues to stay cautious. However, the stance of monetary policy has changed to a more nimble "neutral" from "withdrawal of accommodation" earlier.

Banking system liquidity turned surplus in Q2FY25 from a deficit between January and June 2024. The government maintains its focus on long-term goal of sustainable growth and development towards a 'Vikshit Bharat' with special emphasis on several key areas such as infrastructure, rural development, agriculture, MSME, affordable housing, employment, skilling, middle class and women empowerment. Bandhan Bank remains steadfastly committed to create greater impact by participating and contributing in this journey

Let me now move to the quarterly performance of the bank

The last few quarters have witnessed a relatively tight liquidity environment and an extremely competitive landscape for bank deposits. Further, the microfinance sector has been facing headwinds and witnessing elevated risk in portfolio quality. Whilst the microfinance sector continues to face headwinds, we have been proactive and have taken steps over the last 18+ months to address the business risks. I am happy to say that in Q2 we have been able to grow our overall business driven by healthy growth in secured book while containing portfolio risks for sustainable growth in future.

In the quarter ended September 30, 2024, we have seen an improvement in business momentum, largely stable margins, control on operating expenses despite investments required to grow our secured book. Though the headline asset quality has marginally deteriorated, credit costs are largely in line with our guidance. The quarter has seen stability on return ratios. On a YoY basis, we have seen an improvement across all parameters.

In terms of balance sheet parameters, the bank has witnessed a strong pick-up in both advances and deposits, in line with our guidance. In this quarter we have seen a sequential 4% growth in advances at Rs 1.31 Lakh crores with a YoY growth of 21.4%. On the deposits front, Deposits stands at Rs 1.43 Lakh crores with YoY growth of 27.2% and a QoQ growth of 7%. Deposit growth remained higher than the advances growth. Share of retail deposits (CASA + Retail TD) was largely stable at 68%. The deposit market remained competitive resulting in slightly higher cost of funds. Despite the change in product mix in favour of secured assets impacting yields the Bank was able to report healthy NIMs at 7.4%

Cost metrics were largely in line with our guidance and we are committed to invest in people, products and technology over the next few quarters. We are moving rapidly in the digitization front for delivering super customer experience coupled with greater automated controls. These initiatives are also helping us augment effectiveness of the second line of defence. Our Transformation program including Intelligent Automation initiatives, RPA and AI adoption are looking quite promising and should enable us to drive greater efficiency from end-to-end perspective.

In Q2, the pain in the microfinance sector has increased and accordingly we have seen a marginal increase in slippages leading to slight deterioration in asset quality. Gross NPA is at 4.7% and Net NPA is at 1.3%. In Q2FY25, the bank reported PAT of Rs 937 crores, up 30% YoY with an RoA and RoE of 2.1% and 16% on an annualized basis. I would like to thank entire Bandhan Bank team for its unwavering commitment during this transition and I am confident that we will endeavour to achieve our strategy to the satisfaction of our stakeholders

I would like to also take the opportunity to update you on the CGFMU audit

I am happy to inform you that there has been a positive development on the same. As mentioned in our communication to the Stock Exchange on October 10, 2024 the in-depth audit has been completed. The historical context of the CGFMU scheme has been detailed in the Stock Exchange filing done by the bank. But, just to update, that nearly 85% of the total portfolio of approx. Rs. 20,807 crores insured under CGFMU scheme, have been repaid by customers.

Based on the review of the audit outcome, the NCGTC has assessed the total claim pay out to the Bank under the CGFMU scheme as on March 31, 2024 at Rs. 1,231 crores. Considering that the first claim of Rs.916 crores had been settled, the final claim pay-out as on March 31, 2024 stands at Rs.315 crores. Further, the above claim amount is net of recoveries of approx. Rs.228 crores claimed under first tranche which are currently held in the Bank's balance sheet. In summary, therefore, the outstanding claim pay out of Rs.315 crores and the recoveries, from the first tranche claim, held in the Bank's books of Rs.228 crores as on March 31, 2024, i.e., total of approx. 543 crores will be suitably accounted in the Bank's P&L as part of 'Other Income' on settlement of the claim.

In addition, regarding the ECLGS schemes, as the audit is now complete the bank has been allowed by NCGTC to review and submit a fresh claim.

Let me now hand over the call to my colleague, Rajinder Babbar – Chief Business Officer, to discuss on a few of the important "Business Updates".

Rajinder Kumar Babbar: Thank you, Ratan.

The Bank's Quarter 2 performance reflects that our growth momentum is robust and improving. Our performance is improving and is good in most of the parameters, in line with our guidance. This is the second consecutive quarter where the Bank has performed better. I continue to visit and interact with my colleagues at the different offices and the branches. The excitement and the motivation that I observed make me feel elated and give me the confidence. Our commitment to sustainable growth, delightful customer experience and the financial inclusion continue to drive us towards our goal of becoming a Bank for all. With our wide range of services availed by more than 3.5 crores customers so far, the extensive network of ~6,300 banking outlets across 35 states and UT, we are stepping towards our goal.

In Q2FY25, we witnessed robust growth in our key metrics. On the deposit front, we grew better due to our targeted marketing strategies, coupled with our innovative product suite and extensive branch network. Overall, the deposit has grown 7% QoQ and 27% YoY. With our diversification strategy in place, as communicated earlier, we have taken a risk-calibrated customer-centric digital approach. We are strategically expanding the retail asset, Housing Finance and the wholesale banking. Our growth in segment in the Q2 strongly reflect the same. The retail asset has grown by 91% YoY with a QoQ growth of 21%. The Housing Finance has grown by 17% YoY and 7.5% QoQ. The wholesale banking has grown by 40% YoY and 14.8% QoQ.

As informed earlier, the four cornerstones of our future growth will be:

First, Diversification: While East will continue to remain our stronghold, we will expand our presence in non-eastern geographies to increase the outreach of our services. We will also keep diversifying our loan portfolio across the product segments, catering to a wide range of customers, a strong emphasis is also on increasing the share of secured portfolio. A strong emphasis is also on increasing the share of secured portfolio. The secured portfolio from 42.8% has gone up to the 47%.

Innovative product to enhance the customer experience: The Bank is committed to deliver excellence by offering products and services tailored to meet the requirement of the customer and to enhance their banking experience with us. **We want to become a one-stop solution for all banking needs.** The Bank is continuously introducing new products for its customers. Some of the key products launched during the quarter are the (a) Avni Savings account; (b) GST and the pension collection; (c) Delight, which is a loyalty rewards; and (d) debit card for the non-individual.

Leveraging the technology to grow digitally: We recognize the digital transformation is key to our future success. Our investments in technology are enhancing customer experience and streamlining the operation. We are committed to expanding our digital banking offering, enabling our customers to access service seamlessly. Our goal is to leverage technology to enhance efficiency, reduce cost and drive engagement - positioning Bandhan Bank as a leader in the digital banking space.

And the fourth and the most important is **fostering a culture of risk and compliance**. As we continue to navigate the complexity of our industry, it is essential to reaffirm our commitment to compliance at all levels as it is not merely a set of rules; it is a fundamental aspect of our Bank's culture, and we believe it will be a key driver of our Bank's long-term success. The Bank has enhanced its risk and compliance framework to identify potential challenges and the opportunity, and to safeguard the Bank's asset, reputation and the long-term viability. Quality and the customer experience has been and will be our topmost priority going forward, too.

As we look forward to another quarter, I would like to reiterate our commitment of delivering our value to our customers as well as to our investors by driving an inclusive growth for our communities. Our strong performance in the Q2FY25 is the beginning. We are excited about the road map ahead and confident in our ability to navigate the challenges and seize the opportunity for life between us.

Now, I would like to hand over to my colleague, Mr. Rajeev Mantri – CFO of the Bank, who will run you through the "Key Financials".

Rajeev Mantri: Thank you, Rajinder, and welcome to all the participants to this Earnings Call. The Board of Directors of Bandhan Bank Limited approved the Bank's Financial Results for the quarter and half year ended September 30, 2024, at its meeting held earlier today. Let me begin with the details of the business numbers for the quarter.

Firstly, On Advances:

As at September, 2024, Gross Advances stood at Rs 1.31 lakh crores, a growth of 21% YoY and 4% QoQ supported by growth in the secured assets books. Our secured book now constitutes 47% of advances up from 42% in March 2024. In line with the strategic plan of product diversification, the focus is on growing the share of secured book like housing, commercial banking and secured retail products. Growth in EEB would also continue albeit at a relatively lower growth rate than secured assets. During the quarter, EEB portfolio increased 11% YoY but declined 4% QoQ at Rs 59,288 crores, as a result of portfolio controls in the wake of elevated risks in the industry.

The Secured book growth was contributed by Retail Assets which grew at 92% YoY, Commercial Banking Assets which grew 40% YoY and Housing which grew at 17% YoY. Retail Asset growth is largely driven by auto loans, commercial vehicle and equipment loans and gold loans. From a business mix perspective, EEB group lending constituted 29% of the advances, Small Business and Agri Loans at 16%, Commercial Banking 25% Housing 24%, and Retail 6% respectively

The bank has made good progress on geographical diversification, whereby share of Advances in East and North East regions have reduced by 12% (from 53% in FY22 to 41% by Q2FY25), and increased in North, West and South regions by 3%, 2% and 7% respectively. Top 5 states namely West Bengal, Maharashtra, Bihar, Gujarat and MP - contributes 59% of gross advances. West Bengal contributes 23% of advances vs. 25% in Q2FY24.

Moving to liabilities:

As at September 30, 2024, total deposits stood at Rs 1.43 lakh crores as against Rs 1.12 lakh crores in the previous year Q2, a growth of about 27%, higher than our advances growth. The Bank continues to focus on granular retail deposits. The total retail deposit i.e. CASA + Retail Term Deposits grew by 16% YoY. Of which, growth in retail Term Deposits was 24% YoY. Retail deposits (CASA+ Retail TD) to total deposits ratio was ~ 68%

CASA Deposits stood at Rs 47,283 crores – up 9% YoY and 6% QoQ. Within CASA deposits, SA deposits have grown 11% YoY and 7% QoQ as the bank continues to focus on building relationships across its customer base, strengthen its value proposition and garner new customers. The CASA ratio has been stable QoQ at 33.2%.

Top 5 states namely West Bengal, Maharashtra, UP, Odisha and NCT of Delhi - contribute 64% of total deposits. West Bengal contributed 40% of deposits vs. 44% a year back, reflecting reduced geographic concentration.

Moving to collections and asset quality:

The Bank's overall collection efficiency (excluding NPA) in Q2FY25 was marginally lower at 98.2% as compared to 98.7% in Q1FY25. For the EEB book, collection efficiency (excluding NPA) in Q2FY25 declined to 98.1% vs 98.7% in Q1FY25 reflecting the stress in MFI segment; however, collection efficiency for the non EEB book improved to 98.7% vs 98.3% in Q1FY25. Within EEB, moderation in collection efficiency is largely in rest of India portfolio; while, collection efficiency in WB and Assam on sequential basis is largely stable at 99% and 99.2% respectively

On the asset quality front, the Bank has seen some incremental stress this quarter. As context, the bank had seen a slippage run rate of Rs. 1,350+ crores in first 3 quarters of FY24, which reduced to Rs. 1,016 crores in March'24 quarter and to Rs.891 crores in June'24 quarter. However, in this quarter (Q2FY25), gross slippages were higher at Rs 1,115 crores. Increase in slippages in Q2 was mainly in the EEB book, where it increased to Rs 752 crores as compared to Rs 543 crores in the previous quarter. Upgradation and Recovery was Rs 305 crores vs Rs 371 crores in Q1FY25.

The overall EEB DPD pool (SMA 0, 1 & 2) was at Rs. 1,984 crores representing 3.3% of EEB advances and reflecting an increase of Rs.548 crores QoQ. Within this, the SMA 1 and 2 buckets witnessed slight upticks. SMA 1 book increased by Rs. 143 crores from Rs. 420 crores (0.7%) in Q1FY25 to Rs. 563 crores (0.9%) and SMA 2 book increased by Rs. 102 crores from Rs. 436 crores (0.7%) in Q1FY25 to Rs. 538 crores (0.9%) in Q2FY25. Whilst the increases in SMA 1 and SMA 2 buckets have been contained in the context of the challenges of the micro finance sector, we are working hard on the SMA0 bucket recoveries to ensure that these loans are regularised and do not slip into higher buckets in ensuing quarters. SMA 0 book has increased by Rs. 303 crores from 580 crores (0.9%) in last quarter to Rs 883 crores (1.5%).

Credit costs for this quarter were at 2%; however, for H1FY25 credit cost is at 1.8% - which is lower end of our guided range of 1.8% - 2% for FY25. Gross NPA ratio is at 4.7% in Q2FY25 as compared to 4.2% in Q1FY25. Net NPA is at 1.3% vs. 1.2% in last quarter with largely stable PCR at 73.5%

Let me move on to the profitability:

Coming to the quarterly P&L - NII, at Rs 2,948 crores, grew by 21% YoY supported by steady NIMs, healthy advances growth and lower slippages than the same quarter last year. Sequential decline in NII, about 2%, is primarily on account of change in product mix towards secured and impact of higher slippages.

Our Net Interest Margin (NIM) is 7.4% in Q2FY25, as compared to 7.2% in Q2FY24. It is important to note that despite pressure on cost of funds and change in the product mix, we have been able to sustain and protect our margins on YoY basis. On H1FY25 basis, NIM is at 7.5% - at higher end of our guided range of 7%-7.5%

Net Total Income in Q2FY25 was Rs 3,543 crores an increase of 19% YoY. Operating Expenses, on YoY basis, grew by 21% as a result of investment in people, technology and infrastructure and based on business volume growth. During the quarter, operating expenses to average assets ratio was at 3.8%; while, in H1FY25 the opex to asset ratio was at 3.7%. We guided that in FY25, cost to opex ratio should be at similar level of FY24 as we would continue to invest in people, technology and building key capabilities through the year.

Consequently, operating profit in Q2FY25 was Rs 1,855 crores registering a growth of 17% YoY. The Bank reported a net profit of Rs. 937 crores in the quarter compared to Rs 721 crores in Q2FY24 – growth of 30% YoY. In Q2FY25, ROA is at 2.1% and ROE at 16% for the quarter (on annualised basis).

I will now briefly summarize the Half Yearly Results:

For the half year ended September 2024, NII was at Rs 5,953 crores, Net total income was at Rs 7,076 crores and Operating profit at Rs 3,796 crores – all three line items grew by around 21% YoY respectively. The Bank reported a net profit of Rs. 2,001 crores in H1FY25 compared to Rs 1,442 crores in H1FY24 (representing 39% YoY growth). ROA is at 2.3% and ROE at 17.3% for the six months (on annualised basis). Lastly on Capital Adequacy – CRAR is at 15.6% (incl. profit of H1FY25).

With that, on behalf of the management team, I would once again like to thank you and will just pass on to Ratan Kesh.

Ratan Kumar Kesh: Thank you, Rajeev. I want to take a moment to express my heartfelt gratitude for the hard work and the dedication of all my colleagues as their commitment to excellence and collaboration has not gone unnoticed. Last 4 months have been greatly rewarding experience for all of us and particularly for me during the transition phase of the Bank. I also want to acknowledge the continuous support of and guidance of our Board members, investors, shareholders and most importantly, our valued customers. It is because of all of them, we have been able to grow sustainably. I hope and wish to get their trust and care in future as well as we move forward with greater confidence into the future.

Thank you. Over to Vikash.

Vikash Mundhra: Sagar, we can start the questions.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question comes from Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Congrats on the quarter, decent numbers in a tough quarter. Firstly, how should we think about slippages in the coming quarters? If you can give us a sense of maybe what percentage of your customers are overdue, but they're still paying their EMIs, or what percentage of your GNPA customers are paying in EMIs that will give us some color on future asset quality?

Ratan Kumar Kesh: So, broadly, see, given that overall industry narrative, Q3, our slippages will remain elevated. While in our portfolio, we see the bigger problems are in specific geographies and not necessarily the entire state, in parts of a particular state. But in terms of percentages, Rajeev, just tell what the percentage is.

Rajeev Mantri: So, if I can answer, Rajeev here. Piran, I think, as we have mentioned, we have seen the slippages a little elevated in this quarter itself by Rs. 225 crores. What we have also highlighted is the DPD pool, which is the SMA-0, SMA-1 and SMA-2 buckets, where we have seen an elevation, especially in the EEB book, which is the microfinance sector by almost Rs. 500 crores. So, these are, I think, indications. The team will work hard to make sure that we are able to stem and improve our collections and stem this kind of an increase. However, I think with the elevated risk in the industry, I think we also expect some bit of an impact could come through. Overall, as we have guided our credit cost, our credit cost for the first half of the year has been 1.8%. We had 1.6% in Q1 and 2% in Q2. We had guided that we will be in the range of 1.8% to 2% of credit cost for FY5. At this point of time, we continue to have the same guidance with the belief that, yes, in the third quarter, the slippages could be elevated and the credit cost could be elevated further. But by the fourth quarter, we would believe that the market would start showing some signs of positivity returning back. And on an overall basis for the financial year, we would still like to be within that range. However, we will continue to monitor this and in the next quarter, be able to provide a closer update on how we are seeing the market.

Piran Engineer: Could you also just share what percentage of your customers are unique to you? How many have 1 additional lender, 2 additional lenders?

Ratan Kumar Kesh: So, Bandhan Bank Unique is 60%; Bandhan + 2 is nearly 80%; for us, Bandhan + 4 and above is ~4.5%.

Rajinder Babbar: We are more secured because the Bandhan + 4 and above is ~4.5%. So, mainly 60% is basically, we are the sole lender to the customer.

Piran Engineer: And also just on Slide 24, given the breakup of your other income. And there is this others line item which has more than doubled YoY. Just want to understand what is that? Is there something lumpy in that line item, which is Rs. 184 crores?

Ratan Kumar Kesh: Piran, sorry, just correcting this. Unique to Bandhan is 60%, Bandhan + 1 is 80%, Bandhan + 4 and above is ~4.5%.

Rajeev Mantri: Yes. On the noninterest income, I think your question is on the others where we are seeing a figure of Rs. 184 crores. This actually includes a portion of income that we have seen from the treasury teams, which is basically profit on sale of certain investments and the revaluation gains, which totals to about Rs. 80 crores, which is not a sort of regular feature every quarter. So, this can be taken as a one-off for this quarter. And in addition to that, I think there are usual charges like the average quarterly balance charges, which are about Rs. 19 crores, and I think that constitutes the reason why exactly some of this number is higher.

Piran Engineer: And just lastly, one confirmation. Your Tier-1 decline of 50 bps. That's just because you're not adding the profit of the quarter, right?

Rajeev Mantri: Yes. So, if we add the profit for the half year, our total CRAR is at 15.6%.

Moderator: The next question comes from Gaurav Bansal from Pvc Consultants. Please go ahead.

Gaurav Desai: I am Gaurav Desai. I am just a normal shareholder. I am not an institutional shareholder. So, my concern as a shareholder is looking at the value of the share, the decline in share value, so aren't we considering for buyback or some measures to boost up the share price?

Ratan Kumar Kesh: So, we have not taken any decision of that sort at this stage. So, the simple answer at this stage, no.

Vikash Mundhra: Gaurav, I would request if you just stick with the quarterly related questions, that would be great, please.

Moderator: The next question comes from Prabal from Ambit Capital. Please go ahead.

Prabal: Sir, some of your peer banks have mentioned that the forward flow rate this time has been quite high compared to the previous cycle. How is your experience on the ground, meaning if the account is turning into SMA, is the possibility of it becoming NPA has increased compared to the previous cycle?

Rajeev Mantri: Yes. Just give us a second.

Vishal Wadhwa: Okay. I will take that. Vishal here. I manage the EEB business. So, overall, if you see, whatever elevation we have got on our SMAs, those typically, we're able to always collect 50% and above. And like what Ratan said earlier that our total state-level problems would be there also in parts of states. Overall, on a pan-India level, we are not that much on delinquency front simply because we took prior action. So, parts of states of Uttar Pradesh, Maharashtra, Gujarat, Tamil Nadu, where we have seen some stress on our EEB book. Having said which, I would say that 50% of that, whatever got elevated, Rs. 500-odd crores, we typically collect. So, Rs. 250 crores is something which we would like to work upon even more and get that amount collected over the times to come.

Rajinder Babbar: Further in totality, our SMA book incl. SMA-2 book are well under control and being better than the last year. No doubt, in September, a little bit movement is there. But if you compare September to the last year, the SMA-1 book was 1.1%, this year, it is 0.9%. So, plus/minus is there. So, we're much better placed as compared to last year same quarter.

Prabal: And my second question was, we have seen a very strong growth in our Commercial Banking book. Just 3 to 4 years back, the NPL in this particular segment was as high as 10%. What is your feedback from the ground on asset quality in this segment? And how should we look at this going ahead?

Ratan Kumar Kesh: So, our asset quality in commercial book as of now is pristine, I would say. In fact, 93% plus is A- and above. So, the book quality is absolutely strong. The reason why we are growing commercial book are twofold. One, clearly, we want to be growing a bit more secured. We also won some of these customers to be in our kitty to be able to do whole lot of other income businesses on trade, CMS, FOREX and transaction banking businesses. So, that's a clear rationale. On retail book, it's growing at 90%. The NPA levels are at the same steady to improving. So, to that extent, I think retail is also looking quite good.

Prabal: And how much of our Commercial Banking would be to NBFC MFI corporates?

Ratan Kumar Kesh: Total Rs. 3,000 crores.

Prabal: Rs. 3,000 crores is the NBFC MFI corporate exposure?

Rajeev Mantri: Right. Yes.

Prabal: Sir, just last one question. On Tier-1, even if we include profits, which at 14% and industry-wide, we are seeing asset quality, too. Would you like to have more capital? Or say, would you be okay slowing down the growth in terms of capital? How to look at that?

Ratan Kumar Kesh: See, as of now, our growth targets of 18% (+-/1) with more secured buyers will continue to happen. And given the profit-generating capabilities that we are demonstrating, we are fairly comfortable at 15.6%. Having said that, we will continue to watch this space and keep evaluating and then take a call at some point. As of now, for the next 4 quarters, we don't see any need for us to do that.

Prabal: Sir, on the Slide number 18, there is a table of vintage analysis. Just curious as to the disbursement done in the previous quarter, the June quarter. How are these disbursements becoming SMA and NPA? I mean what has changed in 90 days of customer assessment that accounts are becoming NPA and SMA?

Ratan Kumar Kesh: So, the collection efficiency, if you look at it, our collection efficiency on the full paying customer, that has come down by 130 basis points as overall level. The partial paying and the nonpaying customers has gone up by that extent. So, that's the reality. It's an overall reflection of the over-leveraging and the overheating in the overall market. Although West Bengal, which is our largest territory, we are holding at 99%, but rest of India has come down by 100 basis points. So, it is a reflection of that. Clearly, while in my book, Bandhan + 4 is just about 4.5%. But after taking an exposure from me, somebody would have taken exposure outside. So, it's an overall market liquidity issue. Some of these sales will flow into us. But as of now, it's just about 0.02%, which is not very alarming.

Rajinder Babbar: Just for the further update on the vintage analysis of the disbursement, disbursement of the Quarter 4 and the Quarter 1. Basically Quarter 1, the SMA-1 is 0.35%, SMA-2 is 0.17% and NPA is just 0.06%. So, whatever the book we created in the Quarter 1.

Prabal: The question was that just in 90 days of disbursement, even having this much amount of SMA and NPA --

Vishal Wadhwa: If I would just add here, this is coming from cross linkages. I was talking about 0.06%, right? NPA with 0.02%.

Prabal: SMA-1, SMA-2, sir.

Vishal Wadhwa: No, SMA-1, right? 0.02% number is what you are speaking here?

Prabal: The totality, SMA-1, SMA-2 and NPA.

Vishal Wadhwa: So, let's go quarter-by-quarter. If you see first, let me tell you, whatever we have disbursed quarter-by-quarter, over the years, if you see, there is a marked improvement. If I see quarter of '24, if I have to compare it with quarter of '23. Similarly, the last 2 quarters of our disbursal of Rs. 13,000 crores, Rs. 14,000 crores, our total SMA is around about 0.5% and NPA is 0.06%. And that 0.06% also got a component of link loans. That some other relationships could be there, 1 or 2 loans here and there, which has resulted into NPA. Otherwise, fresh NPAs in the last 90 days have been 1 or 2 loans out of 15 lakh loans we would have disbursed.

And deposits too, this 0.02% is something what Ratan again spoke of that there are customers who have taken a loan. These are 4 months vintage of a 12-month loan book. So, 0.02% of that would have also gone bad outside and similarly with us also, they have not performed. So, within giving a loan million 4 months, they have become delinquent. That is 0.02% of loans. So, we track this number very closely and take action as well.

Moderator: The next question comes from Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Congratulations on decent number. I have a couple of questions. First is, so how do you look at the disbursement in MFI going forward? I mean it has been coming down and maybe the first half is usually a bit weaker. But as we go into October and festive season, how do you look at the disbursement in the MFI in the near term?

Ratan Kumar Kesh: So, one, as a Bank, we have decided to be a bit more secured, which means that micro will grow, but the other businesses will grow at a much faster pace. So, that's at one level. Second, generally, Quarter 3, Quarter 4 are better quarters for us traditionally. Having said that, this year, we have, in a sense, have been bucking the trend by growing well in Quarter 1, but Quarter 2, purposely, we have decided to be a bit more watchful and careful across various states and specific pockets and even specific BUs.

And given the elevated risk in the industry, we would like to maintain similar watchful posture in Quarter 3 as well. In October, we are already seeing some bit of a better uptick, both in terms of collection efficiency in the regular pool. And if, therefore, it turns around positively by January, we will then have an opportunity to grow that book. So, as of now, I would say we will be more careful in containing the portfolio quality rather than focusing too much of a growth in the microfinance portfolio.

Rajeev Mantri: I think just to supplement, Jai, Rajeev here, 2 more points. One is, on an overall basis, as Ratan had mentioned, while the advances growth we're expecting at 18% plus minus 1%, I think EEB, we will be working towards a growth of between 10% to 12%. And I think that is the broad range that we have seen in the first half, and we would continue to see. At the same time, I think the risks which are there are elevated. But we are also clearly evaluating the risk in which particular geographies and which particular states within the country and within that, which particular cities. And therefore, those targeted actions have been done for portfolio controls in those areas. But other areas where the risks are lower, the team will clearly be looking at the opportunities for growth. And I think that's within the overall guidance that we mentioned of between the 10% to 12% growth.

Jai Mundhra: And sir, on asset quality, I mean if I look at the slippages for this quarter for MFI that you mentioned at around 700 plus, this turns out to be around 5% on an annualized basis. Is there any difference in individual and group delinquency or you would believe that both are more or less operating in the similar band within MFI?

Ratan Kumar Kesh: While both are operating in the similar band, but clearly, individual is doing better than the group at this stage for us. And that's the reality, and that's almost expected that when a bit of an industry overall issue happens, generally, the individual behaves better than the group.

Jai Mundhra: And sir, a related question with growth and asset quality. So, in the last 2 years, you have been calibrated in the MFI loan growth, right, if I look at last 2 years, CAGR will be single digit, maybe 5%, 6% in MFI growth, whereas other players which have grown at a much faster pace. And hence, the industry itself has grown at a very higher clip. Would you believe that the lenders which have grown slower are better placed? Or because this time around, the asset quality issue is not in your assessment and you're not in your underwriting, but maybe the marginal lenders or the third, fourth, fifth lender, the issue possibly has come up from their side. Would you believe that the lenders which have grown slower are better off or there is not too much a preference?

Ratan Kumar Kesh: I think, frankly, your question has an answer built into it. It's a fact that over the last 2, 3 years post COVID, the industry has been growing, our view is that, rather at a significantly higher rate of growth while you've been growing moderately. And more importantly, we have also been taking a lot of guardrails and to improve our portfolio quality. So, some of these have been helping us to improve. Having said that, while we have 60% unique customers to Bandhan, 80% is Bandhan + 1, but we still have ~4.5% or let's say, about ~6-7% as Bandhan + 3. And some of these are going to come back. And when the borrowers are coming back for renewal, we are obviously taking steps.

We have also taken a few more steps in improving our bureau score, etc. etc. in specific pockets and geographies. Having said that, yes, we will still be holding on. That's why our credit cost guidance continues to remain in the 1.8% to 2% for this year. And we will look at it, review it and then come back to you with more information as we get it by end of Q3. But I would say that we are not isolated. We will still be better than others, hopefully, but we are not isolated.

Rajinder Babbar: Just adding to Ratan, basically, our main aim is for this quarter because keep in mind the current situation, we will more focus on our existing customers because we know they are the regular customers paying us for the last so many years. So, our main focus for the growth will be our existing customers as compared to the NTB.

Jai Mundhra: And sir, just related to this, RBI has recently banned 4 MFI lenders. And if you want to put together the combined AUM, it is a higher single digit at the system level, right? Now they will probably not disburse loan incrementally. Is that an asset quality risk at the system level? Or you believe that is not a problem even from asset quality perspective?

Ratan Kumar Kesh: So, these entities who have received that regulatory sort of guidance show of action are very strong entities per se. And our belief is that they obviously are taking corrective actions and quickly go back and ensure that suitable steps are undertaken. Having said that, a certain amount of disbursement moving out of the industry, definitely would pose a risk to the overall industry to an extent. But given the size of these entities put together, may not necessarily be too high. So, the risk may not an additional risk given this fact. But overall, over-leveraging and its impact, how long it sustains is something that we are still also observing.

Jai Mundhra: And last question, sir, from my side, is we have grown significantly in the secured book this time. I mean MFI has been degrowing and there is a significant growth in secured. And still, the yields for the margin impact has been very resilient. How would you explain this that MFI degrowing and some of the secured assets growing at a very fast pace and yet the yields have not been impacted too much? I mean, is that the pressure likely in the coming quarters? Or the yield of those products are also relatively comparable?

Ratan Kumar Kesh: So, the short answer is yes, that in the coming quarter, we may see some stress in the overall yield, but we will still remain in the range of guidance that we have been providing. Rajeev, if you could give a bit more color to that?

Rajeev Mantri: Yes. So, I think 2, 3 factors. One is within the secured book, obviously, we are also looking at the products which can give us good yield. So, I think there is that calibration that the business team continuously looks at. Second is on a year-on-year basis, if you look at it, while quarter-on-quarter, the slippages may have been elevated and the portfolio quality of the credit cost might be elevated. On a year-on-year basis, we still see an improvement compared to the levels that were there last year versus the levels now. And therefore, there is that much of fillip that comes through on the net interest income or net interest margin and the interest income as well from a year-on-year perspective.

So, I think that comes through as well. But as Ratan rightly mentioned, some of these do have a bit of a lag effect. So, we should see, I think, some moderation in the next quarter. Albeit we still, as we have guided, our broad range of net interest margin between 7% to 7.5%. Our endeavor is to be within that particular range, and we feel confident about that.

Moderator: The next question is from Param Subramanian from Nomura. Please go ahead.

Param Subramanian: Most of them have been answered. But on Slide 6, you've given your loan mix and the last 2 years, we have seen a sharp increase in the retail loan mix. I think over the last 2.5 years, the number has gone up about 4x. So, if you could just remind us what are the products that contribute to this retail mix, which are the predominant products? Yes, that's question 1.

Rajeev Mantri: Yes. So, I think within retail, the growth is coming through primarily from secured assets, which is gold loans, the auto loans, which is both 4-wheeler and 2-wheelers, as well as commercial vehicle, commercial equipment. So, these are the key drivers of the growth within retail assets. And we have a team, which is really spread across the entire country. We are looking at sourcing across the country. And clearly, the progress in terms of the year-on-year growth as well as the sequential growth has been quite remarkable.

Ratan Kumar Kesh: So, I just want to add that we will continue to see a significant growth in retail portfolio because 1,700 branches that we have, we still have enormous amount of opportunity to sort of leverage that, do cross-sell through these existing branches, as also tap some of the other potential, including digital lending channels and others. So, to that extent, I think that portfolio will continue to grow. But albeit, our focus is to grow more secured in the retail portfolio as well while maintaining the portfolio quality.

Rajeev Mantri: And Param, Slide #10 in the deck actually gives you more details. It has the breakup.

Param Subramanian: Secondly, the credit cost guidance that you've given for the full year includes the write-back that we are going to get from CGFMU or how should we look at it?

Rajeev Mantri: No. No, the CGFMU money that will come through, as we have mentioned, will be part of our other income because the associated portfolio was already technically written off in the March quarter. And on written-off accounts, if you get an income, it's actually going to the other income. So, that's not part of this. So, this is on the current sort of NPA books that we are basically guiding you the credit cost.

Moderator: The next question comes from Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: So, a few questions. One is on, if you can talk about how much of the yield differential between the EEB book and the rest of the segments, like the retail and the small enterprise loans? Because if I see like, there is a 400-basis point drop in mix of MFI and CD ratio has also declined sharply, but margins have been very resilient and dropped just 20 basis points. So, just explain this math actually.

Rajeev Mantri: Nitin, actually, the yield difference is roughly around 10% between the EEB book and the overall secured portfolio books.

Nitin Aggarwal: But then why the NIMs or the yields have held up so well because there is a 400 basis point exchange with EEB going down, then the impact on margins?

Ratan Kumar Kesh: Two points, as Rajeev mentioned. One is this lag effect. Second is clearly the slippages on the credit cost has been better compared to the previous year. So, these are the 2 broad factors.

Nitin Aggarwal: My question is on the experience that we had with the CGFMU claim and the audits that happened. So, what will our approach be to the CGFMU cover on an incremental basis? How do we plan to go about that?

Ratan Kumar Kesh: So, the CGFMU audit, the experience has been a little bit exceptional. I will tell you why, because this whole portfolio is FY21, which was a peak of the COVID period. And therefore, we would believe for the sake of humanity, that similar experience doesn't happen to anybody in the future. Having said that, in general, we believe that if there are opportunities available in terms of participating in the government schemes and the grants and in some of these valuable schemes, we will continue to participate in that in future as well. How, how much, which way, that obviously the future will tell us.

Nitin Aggarwal: And last is on the retail assets, which you're seeing a healthy growth. So, how many products have you really broken even in this segment? And what is the ROE that you make in this portfolio?

Rajeev Mantri: I think retail assets' journey started only a couple of years ago for us. It's been 2 to 3 years. So, as part of the journey, it's still early stages, the business is ramping up quite well. And I think any new business, which gets started does take time to break even and increase profitability. Having said which, I think year-on-year, we are seeing the overall contribution of this business improving. But it takes time for our business to fully mature, like we have some of the other businesses, which have been there for some time as mature businesses. We are working in that direction for retail as well.

Moderator: The next question comes from Prakhar Sharma from Jefferies. Please go ahead.

Prakhar Sharma: Congratulations and best of wishes. I wanted to ask you, you had made material changes to your underwriting policies introducing the cooling off period, the 30-day, 60-day, 90-day period. So, can you discuss how much of your book has actually gone through this change of underwriting standards? And do you think that's one reason why the book will behave well?

And secondly, can you discuss what sort of investments you have made in the broader collections and recovery platform?

Ratan Kumar Kesh: So, I will answer both. So, one is that out of the total Rs. 60,000-odd crores roundabout book that we have, Rs. 3,000 crores will be pre-April 2023 regime when we started putting those cooling period guardrails. So, that's a limited size of the book that we still have outstanding in our book today. Therefore, is it one of the factors? Definitely, yes. That cooling period that we introduced has definitely an impact on our portfolio quality. But I will still maintain the fact that given the overheating, overleveraging in the industry for the remaining percentage of 4.5% - 5%, we are not isolated. To that extent, it will still remain elevated for us in the next quarter. We believe that Q4, it should turn around and turn positive. The second question that you had was?

Prakhar Sharma: Investment in collection.

Ratan Kumar Kesh: Investment in collection, we are implementing the best-of-breed collection system. I will not name it, but that's something which is the best-in-class system, which is used by the very scale players. We hope to go live with that pretty much by end of this quarter. Also, we are deploying more collection resource across the entire network of banking outlets that we have because not only that we are seeing putting a dedicated collection officer helps in improving the collection in the early buckets as well. So, we will continue to make that investment in that area.

Prakhar Sharma: And is it possible for you to share the exposure, the EEB segment exposure for the top 5 states individually? You've shared for West Bengal, but is it possible for you to share for the other states, the top 5?

Ratan Kumar Kesh: Top 5, we have given that.

Prakhar Sharma: Sorry, have I missed it?

Vishal Wadhwa: If I have to add here, we have really invested quite a bit on our credit structure. We are one of the very few organizations who have got an independent credit vertical across our EEB segment, which is not there if you see in many of the organizations. In terms of the bureau scores also, we have been stringent in terms of the areas where it has not performed well. across the industry. So, these proactive measures of ensuring stringency on our growth and being conservative has helped us in good stead if I have to compare it to the other market players. So, that's one. Other thing what Ratan spoke in terms of collection. The entire setup is there, which distinguishes between 60 DPD, which business is responsible for collection, and beyond 60 DPD, it's independent collection vertical augmented with collection system coming up. With these good practices, we have ensured that we have to compare to my peer growth, even with an elevated SMA bucket numbers, you have to compare a much better off in terms of last year comparison, vis-a-vis, my peer group comparison. On the top 5 states, just to add up.

Rajeev Mantri: So, maybe I can just read out. So, the top 5 states that we have is West Bengal, which has roughly around 36%.

Prakhar Sharma: Rajeev, this is only the EEB part, right?

Rajeev Mantri: We're talking about the EEB, that's correct. Yes. So, basically, the top 5 states that we will have is basically West Bengal, Bihar, Assam --

Prakhar Sharma: Sorry, can you give the percentages also?

Rajeev Mantri: Yes. One second. We will just provide that.

Vishal Wadhwa: We don't have it ready. But what we have on the back of the call, I could say, West Bengal is the top in chart. Then we have Bihar. We have Assam, Maharashtra and MP, in that order.

Prakhar Sharma: Got it. Probably Bihar is the one where, among the top 5, where you have the highest level of stress building up?

Ratan Kumar Kesh: So, Bihar is holding up pretty well for us. West Bengal is doing very well. Assam, as you see, is doing extremely well for us. Odisha is a little bit of a problem. Parts of UP, bit of a problem. Maharashtra, parts of Rajasthan, bit of a problem. So, it's like not the whole state, it's just parts of it.

Prakhar Sharma: Interestingly, you are saying that in the top 5 states, 5 states are holding up well. It's outside the top 5 states where you are seeing a higher elevated sort of --

Vishal Wadhwa: Maharashtra is elevated, in parts like what Ratan spoke. Bit of UP, Eastern One is also elevated and that's one of the markets as well. Our good state that's still continues to hold good is West Bengal, which is our state, which we have good strength here. Bihar for us is doing very well.

Prakhar Sharma: That's interesting to hear.

Vishal Wadhwa: And these are 2 large big states for us.

Rajeev Mantri: Assam is also doing well.

Vishal Wadhwa: Assam is doing very well. So, the top 3 states, the ones that are really doing well.

Prakhar Sharma: And my last question. It's slightly contextual. Can you give us a sense of what's happening on the ground in terms of getting access to credit because this segment of customers do rely on getting access to slightly steady state of credit flow. But if lenders are always cautious about whether they will be the last ones to be paid off. So, is there a credit freeze in the market? Is there a probably more rationed credit, but not a freeze? So, can you give us some flavour of what's happening on the ground?

Ratan Kumar Kesh: There's no freeze per se. Look, the SRO guidelines have been sort of adopted by most of the MFIN partner players. 10% to 12% drop in disbursement is clearly sort of seen in the overall market for the 4-plus lenders. So, to that extent, if someone is already overleveraged with 4-plus lender exposure, that clearly, there is a bit of a guideline and most of the players have adopted to it.

Moderator: The next question comes from Abhishek M. from HSBC. Please go ahead.

Abhishek M.: I have just one question. Your credit cost guidance for the year, how much have you assumed for EEB or for MFI basically?

Rajeev Mantri: Around 3% plus.

Abhishek Murarka: And do you think that is sufficient given whatever slippages, et cetera, you have seen so far?

Rajeev Mantri: Yes. So, like I had said earlier, I think this is within assumption that whilst we are clearly seeing that the risk is elevated and we have seen the impact of that in second quarter, and we expect that impact to come through in the third quarter as well. We do have a belief that by fourth quarter, the situation should start to turn around to some extent. That is a belief as of now. However, as we have said that we will continue to monitor this. And if this becomes prolonged, we will certainly come back by the next quarter with an updated guidance.

Moderator: Ladies and gentlemen, we would take that as the last question for today. I would now like to hand the conference over to Mr. Ratan Kumar Kesh, MD and CEO, for closing comments.

Ratan Kumar Kesh: Thank you, everyone, for joining the call, and thank you for your continued support. We look forward to your support in future as well as we welcome our new MD and CEO and take this brand to a new level. Thank you so much.

Rajeev Mantri: Thank you, everyone.

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