



“Bandhan Bank Limited Q2 FY19 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Bandhan Bank Limited Q2 FY19 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, Stanford. Good evening, friends and welcome to the earnings conference call to discuss company's performance for second quarter ending September 2018. To discuss the same in detail, I have got with me Bank's Founder and Managing Director & CEO – Mr. Chandra Shekhar Ghosh and I have also got Mr. Sunil Samdani -- the Chief Financial Officer of the Bank. I request Chandra Shekhar Ghosh sir to give his views and vision for company's performance and the way forward for the Bank. Sir, over to you, please.

**Chandra Shekhar Ghosh:** Thank you, Hiren. Good evening, all of you. I like to highlight some of the performance which have been done by bank in the last quarter, that is the second quarter of 2018-19. So, bank have done a profit of Rs.488 crores in the quarter second compared to the last year the same quarter Rs.331 crores, which is 47% the year-on-year growth of the profit. We have advances of the bank at Rs.33,373 crores which was a one year before the same quarter was at Rs.22,111 crores, that is advance growth has come 51%. The deposits are at Rs.32,959 crores and last year the same quarter closed at Rs.25,442 crores which is Rs.7,517 crores deposit increase from last year same quarter to this year's quarter, growth has come for deposit is at 30%. Retail deposit out of total deposit is 82%, CASA is 36.94%, CA is 6.39% of the total deposit. NIM 10.30%, cost-to-income ratio has come down from the last year same quarter 35.06% to 33.18%. If I compare to the June quarter, which was 34.35% has come down to 33.18%. Return on asset 4.28%, return on equity 19.30%. Gross NPA is 1.29%, if we say that the last quarter means in the June 2018-19 1.26%. Net NPA 0.69% which was at 0.64% in the last quarter, that means June 2018-19. We feel that NPA is more or less have been arrested. Our on-time repayment rate single one installment due today and how many of the customer given the minimum one installment that is 98.89%. Capital adequacy ratio 32.6% and credit deposit ratio is 96.86%. Our total banking outlets are 3,948, out of that 938 bank branches and 3,010 door step service centers. We have the 14.41 million customers, 7,70,000 new customers added in the last quarter, out of that the 2.8 lakh new customers added in the bank branches, 4.9 lakh customers added in the micro credit level. Now employee is 30,870 which was one year before 25,648. Net interest income is Rs.1,078 crores as on this quarter and which was in the last year the second quarter was Rs.694 crores which is 55% growth on NII and non-NII is Rs.230 crores which was one year before was Rs.223 crores, i.e. 3% growth. So these are the growth has come to the bank as on the completion of the second quarter of 2018-19.

So, we like to focus on our credit part. We are looking to continue the micro credit segment, whereas the micro credit portfolio, that means out of total advances is 87%, earlier one year before 88%. We are concerned on more focus about continuing our growth in a micro credit and simultaneously other opportunities we will like to continue in that way.

So, thanks to all of you for patient listening. I hope that you have with some questions and our team will like to give the answer on that.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Parag Jariwala from White Oak Capital. Please go ahead.

**Parag Jariwala:** My question is if we look at the September '17, our loan book was around Rs.20,000-odd crores and by the end of F'18 which is like almost six months we have almost grown from 20,000-30,000, but if we look at our first half performance of this year, the loans have grown from 30,000 to almost like 32,000 odd. So if I look at the last six months of last year versus first six months of this year, the numbers are on QoQ or half yearly basis is not very encouraging or probably the growth in the last year was very high in the second half. If you can throw some light where are the divergence, etc.,? Secondly, is it possible to grow in a similar way which we have grown in the last year especially for the second half?

**Chandra Shekhar Ghosh:** No, if you see that you can understand on that, the last year that quarter we have disbursed the loan of Rs.7,944 crores and this year same period we have disbursed loan of Rs.11,181 crores, so decent growth is there, but point is that this is always the micro credit, is a seasonal growth, first quarter will be low, second quarter little bit better and then third quarter is up and fourth quarter is coming back. So this is always not in a one year or last two years, it is normally we see that in the trend of the micro credit sector.

**Parag Jariwala:** Secondly, in terms of the Non-Micro finance growth, where do we see – again the same trend will be observed like third and fourth quarter again is a busy credit season, so the growth will come on those side as well but if we look at let us say this year as well as the next year which is FY'20, where do you see the Non-Micro credit book as a proportion of total advances?

**Sunil Samdani:** Q3 and Q4 typically is the high growth in terms of absolute amount of growth for microfinance business. So overall as percentage terms we see the non-micro asset share around current levels.

**Parag Jariwala:** How do we record the sell-down which we do for the priority sector – is the income recognition all upfront?

**Sunil Samdani:** PSLC that we do, we amortize it over four quarters.

**Moderator:** Thank you. We will take the next question from the line of Rahul Maheshwari from TCG Asset Management. Please go ahead.

**Rahul Maheshwari:** I have two questions: First of all, what has led to such a strong NIM upbeat on the quarter on YoY basis because as in current quarter the cost of funds also increased, so can you give a scenario on how your cost of funds, your average SA rate and your NIMs have been moved

down? Related to that, on overall basis the yield on advances is 15.4. What is your average yield on microfinance portfolio?

**Sunil Samdani:** The yield on Microfinance book is about 18.4%, the overall yield on advances is 17.5% and then there is a treasury book which generates 7.1%, overall blended yield on funds is about 15.3%. Current quarter. Our cost of funds has come down from 6.5 to 6.3 QoQ. Overall our spreads have improved to 9% from 8.3% in last year versus 8.9% first quarter. That is how we are able to maintain our NIMs at 10.3% QoQ

**Rahul Maheshwari:** Any guidance or any expectation that how the trajectory of cost of funds will be moving from here onwards, no doubt, you are with sufficient CAR and everything but in terms of the borrowings or something?

**Sunil Samdani:** It also depends on the market rate movement. So, depending on where the markets are moving our cost of funds should also move.

**Chandra Shekhar Ghosh:** This is one point. Second point, you see that this is a combination of some of the product. If you see the product of CASA, if it is an increase in CASA, and instead of CASA, if it is in CA increase, then automatically the cost of fund will be cut down. So in that sense if you see that our CASA has come up from the year-on-year basis from the last year same quarter 28.18% and now it is 36.94%, which is 37%, that is good amount of CASA helped us to see that. The same way CA is 1.34% have been increased from the last year to this year, it has helped us to reduce the cost of fund. So, this is a total combination on that way.

**Rahul Maheshwari:** Last question on IL&FS exposure. Still your credit cost guidance maintained at 1% which you earlier had and there any additional provision been provided for IL&FS specifically?

**Sunil Samdani:** Generally, we do not want to discuss names of individual entity.

**Rahul Maheshwari:** Do the credit cost guidance remain intact at 1%?

**Chandra Shekhar Ghosh:** If you see that our credit cost in the last year H1 1.5 and now it has come 0.9. So it is sometimes coming on that way. Always it lies I feel that 1 and 1.5 depend on the seasonality and we will try the best way to maintain the 1% because if you see that the Non-Micro credit, our portfolio only the 13% of the total book, so it does not that much impact to the book.

**Rahul Maheshwari:** In case if it increases from here onwards what would be the downside level...where it can go to if not 1% then?

**Sunil Samdani:** 20-30 basis points increase but, it all depends upon what is the position at that time.

**Moderator:** Thank you. We will take the next question from the line of Prakhar Agarwal from Edelweiss Securities. Please go ahead.

- Kunal:** This is Kunal over here. So firstly when we look at in terms of maybe this IL&FS, just want to reinsure, whether any provisioning was made in this quarter, so there was nothing which was provided towards it as its mentioned it's a standard asset, so nothing has been provided as of now?
- Chandra Shekhar Ghosh:** If you see that our provisioning norms as in micro credit, we are provisioning norms as per RBI 0.25%, we are provisioning 1% and Non-Micro credit as usual whatever the RBI prescribe, we are 100% maintaining on that.
- Kunal:** Ok, So it will be as per RBI norms or maybe conservative. Secondly, in terms of this entire amortization on MTM hit, so again this is also amortized over the period of four quarters, so maybe this trend of say 37, 38-odd crores, that would be there for another two quarters as well, the way yields stand as of September?
- Sunil Samdani:** Q1 MTM loss was amortized over four quarters, Q2 we have not amortized, we have charged it fully.
- Kunal:** So Q2 is fully charged? The only thing is like Q1 maybe whatever was the amount Rs.87-odd crores that will be over the period of four quarters?
- Sunil Samdani:** Yes.
- Kunal:** But it should not be assumed that Rs.37 crores which is there in Q2, that will be repeated in Q3, Q4 as well?
- Sunil Samdani:** That depends on yield curve.
- Kunal:** Yes, but that is not amortized as of now?
- Sunil Samdani:** No.
- Kunal:** Any major run down on the Non-Micro banking assets because when we look at it, even though the quantum is small but sequentially we are seeing a dip while disbursements is still building up. So anything to read into it... any particular asset which would have got repaid or something which is the reason for the rundown in the Non-Micro banking portfolio?
- Chandra Shekhar Ghosh:** There are a couple of exposures which has been repaid. Other than that the portfolio is more or less stable as last quarter.
- Moderator:** Thank you. We will take the next question from the line of Adarsh Parasrampurua from Nomura. Please go ahead.
- A Parasrampurua:** One question on the other income. Can you just explain why the 3% growth? What was the PSL income in 2Q last year?

**Sunil Samdani:** Our policy for PSL last year was that we used to accrue it in P&L, when we sell it and last year we had sold 80% of total PSLC in Q2. As against, this year, we are amortizing it over four quarters to bring it in line with IND AS starting next year.

**A Parasrampuria:** Another question is on the cost side. I think we did have a large hike in employee cost in last year, the MFI or DSC employees also got a hike. So has the full effect run through the employee expense line now – is that now a much more stable stream to look at?

**Chandra Shekhar Ghosh:** From here on it is a regular. We have not hiked anything in that way. It is a normal way of increments. So only point is that this year because of the three years over for the bank and we have a policy on that every three years we will give the promotion, then because of the bank has come these three years, a large amount of people were waiting for that and the same was done in line with the regular process.

**Moderator:** Thank you. We will take the next question from the line of Saurabh Kumar from JP Morgan. Please go ahead.

**Saurabh Kumar:** Sir, on your average ticket size, it is about Rs.35,000, so QoQ it is not more, but YoY it is about 22% increase. So how should we read that – is that just transaction to your long-term loan or is there a real ticket size increase which is happening on your existing loans like even in the short duration one?

**Chandra Shekhar Ghosh:** No, it depends on that. Two points here: One point is that is our number of new customers added in this quarter it has been helped us on that because if you see that the 7.7 lakh new customers added in this quarter, out of that 4.9 lakh in micro credit. So this is the people are getting the loan, their amount is lower than any season the four, five, seven years with us. So always average is coming like this on that.

**Saurabh Kumar:** My point was basically the 22% increase we are seeing YoY, is that something which is concerning, in the sense that the ticket size should not ideally go beyond this anymore at least because last year a lot of your growth is driven also by ticket size, I was just wondering going ahead should one expect the ticket size grows or not?

**Sunil Samdani:** If you compare it with March onwards, it is flat and our strategy for micro finance growth is very clear, we typically look at 15-18% customers growth YoY and about 15-18% ticket size for good customers. We believe it is a reasonable increase given 7-8% GDP growth and 4-5% inflation growth.

**Saurabh Kumar:** Since your customer growth is running at about 3% QoQ, so hardly you are all at 10, 11%, so hopefully in second half you will see a ticket size increase also about 15%?

**Chandra Shekhar Ghosh:** That number we cannot comment, but that is how it grows.

- Saurabh Kumar:** Sir, what is your PSLC income for this quarter?
- Sunil Samdani:** For this quarter PSLC income is about Rs.65 crores.
- Moderator:** Thank you. We will take the next question from the line of M B Mahesh from Kotak Securities. Please go ahead.
- M B Mahesh:** Just three broad questions: One, if you could give us a break up of the loan book on the MFI side from a geographical perspective, more specifically if you could tell us at what is the average ticket size that is now being lent in West Bengal as we speak today? Second question is on the savings account side, if you give us what is the current cost of savings deposit as well as what is more than 1 lakh and also if you could give some colour on the cost of term deposit that is being acquired today. The third question is your PAR 30 book or the MFI Book. Finally, in the senior management we did not see Mr. Rahul Johri this time. Just wanted to check, was it a mistake or has there been any change?
- Chandra Shekhar Ghosh:** Lot of questions you ask, I will go one-by-one, I will start from the last one. Yes, Rahul has started new enterprise of his own, so that we have been now missed him. And our team is processing on that, very good person we are very soon would like to declare the name. Second question is the average loan disbursement to the micro credit. This is Rs.60,205 for disbursement average across the country and West Bengal also aligned on the same line, not more than that, some other states maybe over also.
- M B Mahesh:** Savings deposits the last quarter you had indicated that the average savings cost was about 5.1% and you had 1 lakh and above deposits which was about 67% of the overall savings deposits. Is that number changed this quarter?
- Sunil Samdani:** yes, the savings rate is 5.05% this quarter and the overall 1 lakh and above deposits is 66% of the total deposit.
- M B Mahesh:** The term deposit average ticket size, where does that look like roughly?
- Chandra Shekhar Ghosh:** I will give to you.
- M B Mahesh:** The last question was the PAR-30 in your MFI book. I think you run 2.3% in 1Q?
- Sunil Samdani:** It is 1.97%, and it was 2.13% last quarter.
- M B Mahesh:** The geographical profile of the MFI book or the loan book whichever is available?
- Chandra Shekhar Ghosh:** 13% is our branch in central, eastern region 53%, northeastern 11% and north 7%, south is 7% and west is 10%.

**M B Mahesh:** Is it possible for us to have some granular data on the loan book geographical split on a regular basis?

**Chandra Shekhar Ghosh:** Central 8%, eastern region 58%, northeastern 21%, north 4%, south 2%, west 6%.

**Moderator:** Thank you. We will take the next question from the line of Mayank Bukrediwala from Goldman Sachs. Please go ahead.

**Mayank Bukrediwala:** I have one data related question. Can you give us the breakup of your general banking book between the SEL, MSME and the pure retail?

**Chandra Shekhar Ghosh:** My micro credit loan is 86.7%, SEL 4.9%, retail 3.2%, SME 5.2%.

**Mayank Bukrediwala:** Also just in terms of following from Mahesh's question, on the loan book in terms of the incremental growth, can you give us some color on where the higher proportion of incremental growth is coming from – is this still largely from east or are you seeing more incremental growth coming from the central states?

**Chandra Shekhar Ghosh:** If you see the book, very near to our micro credit book is in March figure. Whatever the March is the percentage wise figure in there, I hope there is not much more increase on that.

**Sunil Samdani:** Typically, on the acquisition of new customer, it is happening outside West Bengal more, but since the existing customer base of West Bengal and the average ticket size is higher than the other states, the mix will not totally reflect the change in customer acquisition.

**Mayank Bukrediwala:** Also, just from an asset quality perspective, are you seeing some issues emerge in certain states like did we see any issues in Assam because of the floods or the political situation over there? While your total PAR is still very comfortable at 1.97%, in any of the states have you seen this move up materially over the last quarter?

**Chandra Shekhar Ghosh:** We have not seen any impact in Kerala and Assam or for that matter any geography which has increased materially from last quarter.

**Moderator:** Thank you. We will take the next question from the line of Supratim Basu from Americorp Capital. Please go ahead.

**Supratim Basu:** If you could just talk a little bit about the IL&FS exposure of Rs.388 crores, it was a bit of a surprise that you have such a large exposure to a single client given the nature of the bank and given your past history, so what was the thinking behind this, when was this loan given, is it a single entity and what is the current status of this exposure?

**Sunil Samdani:** Currently the loan is standard.



**Supratim Basu:** But if you could just talk about the thinking behind this loan, that is given that it is kind of beyond six sigma limits of the normal lending that you have been doing?

**Sunil Samdani:** We are not in corporate banking, This is the only loan, otherwise we do not have corporate book.

**Supratim Basu:** So when this particular liability incurred as in which year?

**Sunil Samdani:** It was taken in two tranches; one was two years back, another was about 6 months back.

**Supratim Basu:** And then what is the tenure of this particular exposure, that is when does it actually come due?

**Chandra Shekhar Ghosh:** We'll restrict any further details on this.

**Supratim Basu:** One other different question which is that with RBI basically saying that you cannot expand any further in terms of branches until the shareholding thing is settled. Do you see that as being a drag on the growth for the next two to four quarters?

**Chandra Shekhar Ghosh:** If you see that we have 938 branches and within that branches we have been opened 2.8 lakh new accounts and the micro credit office we have 3,010. Whatever in this year we needed to open the DSC already we have opened on that, there also added 4.9 lakhs new customers. So this is according to the number of branches and DSC, the business wise we have like to use in this existing branches and good number of accounts. Second point if you see that my credit growth has come 51%. Out of that which is 87% is the micro credit. The business wise it is not a very big issue without increasing the new branch or DSC. If I say that per DSC number of customers now as a borrower is 2,700. We have the capacity per DSC 3,600. So 900 per DSC we have the capacity to add. But if we would like to reach on that 3,600, we are needing another 2.5-years to cross it. So in that sense number is there. Bank branch 938 branches, we average 3,000 customers in there. Any private bank has 25,000-30,000 customers in that branch. Also, the opportunities we like to add more customers in the existing branches. So that I hope the business growth is not this type of challenge for us.

**Supratim Basu:** And then the RBI restriction does not actually affect your MFI service centers, right, it is only actual branches?

**Chandra Shekhar Ghosh:** As per my disclosure whatever I received by Reserve Bank of India given, I hope that, but we will like to take a call because we do not have any plan in this year to open any DSC because whatever the plan we had to open DSC, 250 we already opened.

**Supratim Basu:** So effectively what you are saying is that as far as FY'19 business plan targets are, they have already been executed? Okay, great. One final thing on that RBI thing that any thoughts in terms of the timeline by which you will be complying with the shareholder down sell requirement?

**Chandra Shekhar Ghosh:** Whatever we have disclosed in the matter related to RBI as of now, I cannot go beyond this.

**Moderator:** Thank you. We will take the next question from the line of Nishant Shah from Macquarie. Please go ahead.

**Nishant Shah:** Most of my questions have been answered, just one question on Slide #22 which is the management team, am I also seeing Saurabh Jain who is the Head of Wholesale Banking for the first time. Is this a new hire? What are the plans like do we plan to enter into wholesale banking?

**Chandra Shekhar Ghosh:** We have appointed on that. Because on the Asset side, SME and MSME will be driven under him. Second, we are now working on new product design for liabilities for corporate, like of the salary account and the cash management service, which also comes under him.

**Nishant Shah:** On IL&FS, where is this loan classified – is it fair to assume it is classified under SME loan, right?

**Chandra Shekhar Ghosh:** We request all of you to not to ask any more specific on any particular customer?

**Moderator:** Thank you. We will take the next question from the line of Rahul Maheshwari from TCG Asset Management. Please go ahead.

**Rahul Maheshwari:** Two things: In the current monsoon, we have found especially at the eastern and northeastern region, there was a deficit of 24% rainfall. Do you expect any signs that it may impact at least on a micro credit part or the SME part which is there? This is the first question. Second one, as you said the AUM growth which is there. Can you bifurcate into what is incremental growth from new branches and what is the growth from old branches?

**Chandra Shekhar Ghosh:** First of all, in micro credit, we are not giving the direct agriculture loan, we are giving more of that in allied activities on that, cow, fisheries like on that. So this is not that much related, but we saw that in that area the agriculture production is not very bad on that. So it will be moderate but I have not seen any risk for future in this year.

**Rahul Maheshwari:** Delay in the repayments and all these things, there was nothing...?

**Chandra Shekhar Ghosh:** We have not seen anything.

**Rahul Maheshwari:** Second, on the growth part from the new branches and the old branches, can you give that as a bifurcation? On an average past history what you have witnessed that on a per quarter this much was the growth from the new branches addition and this was from the old branches?

**Chandra Shekhar Ghosh:** As of now if you see that the bank branch growth 100 customers every branch has given to us average. We have not seen any big difference one to other. So this is the main plan target on that and we see that they are achieving on that. Business wise, if you say liabilities, rural semi-urban types of plan and our people are 99% target they are achieving. So that you see main plan is the

CASA increase and CASA has come in a very good way and we are on that, that is nearly 37%. So as of now we find out anything as a new and old there is a very big difference on that.

**Rahul Maheshwari:** In the non-interest income, going forward any different streams of like third-party products and all this you are planning to enter because it would be only plain PSLC income that would become in a major way?

**Sunil Samdani:** Distributing Insurance and mutual fund is the opportunity for us going forward. We have been conservative in starting these business for the first three years because we wanted to stabilize our core banking operations first. We will be looking at this stream of business going forward.

**Rahul Maheshwari:** But in core banking, have you done any tie-ups with any of the insurance and MF third-parties?

**Sunil Samdani:** We have started selling mutual fund. Individual Life Insurance selling we are yet to do.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Sunil Samdani for closing comments.

**Sunil Samdani:** Ladies and gentlemen, thank you for taking your time off for this call, thank you very much.

**Chandra Shekhar Ghosh:** Thanks all of you.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Bandhan Bank Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.