"Bandhan Bank Limited
Q4 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to the Bandhan Bank Q4 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vikash Mundhra. Thank you, and over to you.

Vikash Mundhra: Thank you, Yashashri. 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 and year ending March '24. We will take this opportunity to update you on the recent developments in the industry as well as on Bandhan Bank during the quarters.

To discuss all this in detail, we have with us our Founder, Managing Director and CEO - Mr. Chandra Shekhar Ghosh; Executive Director and Chief Operating Officer - Mr. Ratan Kumar Kesh; Executive Director and Chief Business Officer - Mr. Rajinder Kumar Babbar, Chief Financial Officer - Mr. Rajeev Mantri; 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 Founder, MD and CEO, Mr. Chandra Shekhar Ghosh, to brief you all on bank's quarterly performance.

Chandra Ghosh: Thank you, Vikash. Namaskar. A warm welcome to all of you. The Board of Directors of Bandhan Bank Limited approved the Bank's financial results for the quarter and year ended March 31, 2024 at its meeting held earlier today. I am pleased to state that we have had a satisfactory quarter on the business front.

Let me begin by talking a bit on the macroeconomic scenario. Despite various global uncertainties, India's macro parameters remain strong. RBI expects real GDP growth of 7.0% and CPI inflation of 4.5% during FY25. The banking system liquidity has eased a bit in the last three months. One expects the RBI to lower the repo rate in the second half of this financial year. The favourable macro backdrop should continue to help the momentum in the Indian BFSI sector in the coming quarters.

Performance for Q4 and FY24: Our Bank has had a robust quarter in terms of balance sheet parameters with a pick-up in growth on advances and deposits in line with our guidance. The advances portfolio in the last 2 financial years has shown resilience, which is reflected in the improvement in our SMA buckets as well. Additionally, with an even stronger focus on recoveries, we should see positive traction in our asset quality.

As you are aware the microfinance business faced severe headwinds during the pandemic and we faced issues with asset quality. We had over the last few years made provisions against these assets. We have reviewed our legacy portfolio and as a prudent measure have done a technical write-off during the quarter which resulted in lower profits for the quarter. Our CFO Rajiv will explain this in detail with numbers.

Profitability has been stable for the first 3 quarters of FY24. In the current quarter also, our topline has met with expectations. However due to an increase in provisioning on account of technical write-offs and slightly higher operational expenses there is a dip in the profit for the fourth quarter.

The Bank is on the path to becoming a strong universal bank and I am happy to say that the Bank has a committed team with shared values which will strive to meet the expectations of all shareholders. With respect to CGFMU the audit is in progress and should be completed shortly. Based on my interactions I am confident and hopeful that we should get a positive result.

Going Forward, we expect the growth momentum across major business verticals to continue for the next financial year and build a strong retail franchise. Bandhan Bank has a strong network base of 6300 banking outlets & more than 3.35 crore customer base. Our focus will continue on rural and urban areas in the underserved regions. Growth momentum in Micro-credit will continue along with a focus on growing the housing and commercial banking portfolio.

After the successful completion of migration into the new CBS we have initiated several steps to boost cross-sell and branch-led sales to grow the retail assets and liabilities portfolio and also increase productivity per employee supported by our digital and analytics initiatives. The bank is in the hands of seasoned talented leaders who will take the strong risk culture ahead. Overall, we are well on our way to achieving long-term strategic goals of portfolio and geographical diversification.

On New Senior Leadership Talent, as mentioned in our earlier calls we were in the process of strengthening the senior management in line with our growth plans and our journey to becoming a universal bank. During the last 3 months we have had several members of senior management joining the bank.

Our new Executive Directors Rajinder Babbar who is also our Chief Business Officer joined us in March 2024. Ratan Kesh who is our Chief Operations Officer has been with us for over a year. Rajeev Mantri our Chief Financial Officer also joined us during the quarter. We also have appointed Heads for our Wholesale Banking and Housing & Retail Business. With these new appointments we now have the full management team on board and these colleagues bring in a wealth of experience and domain knowledge. I am confident they will lead the Bank in the next phase of growth, which is Bandhan 2.0.

As you are aware, on April 5, 2024 I announced my decision to retire as MD & CEO of the Bank on completion of my current tenure on July 9, 2024. The Board in accordance with the Business Continuity Plan and the Succession Plan of the Bank has appointed a search firm to assist in identifying potential candidates to take on the role after which we will approach RBI for its approval. We will keep you updated on the developments in due course.

However, I can assure you that with the current management team the bank is in very safe hands. Also, as disclosed earlier, I will take a strategic role at the holding company. I will be available for any guidance or advice, if bank need. As this will be my last earnings call as MD & CEO of the bank, I would like to personally thank the investor community for the support and guidance provided to us over the last decade. I thank my depositors for trusting me and my organization and depositing their money to the bank.

I now request Rajeev Mantri our CFO to take you through the Financials for Q4 and FY24. Thank you to all of you.

Rajeev Mantri: Thank you, Mr. Ghosh, and I would like to welcome all the participants to the earnings call. This is Rajeev Mantri, I'm the CFO for Bandhan Bank. **Let me begin with the balance sheet as at March 31, 2024.** We'll start with the details on advances. As at the end of the financial year, the gross advances stood at INR 124,724 crores, which grew at about 14% year-on-year and 8% quarter-on-quarter. However, this number has been after the impact of technical write-off that was done during the quarter, which we'll talk about in more detail.

If we adjust for that, the growth in advances would have been higher at about 18% year-on-year and 11% quarter-on-quarter, respectively. In the base of financial year 2023 numbers, there was a short-term loan of about INR2,150 crores against fixed deposits, which was for a short period of time. If we adjust for the same, the growth in advances for this year would be close to 20% in financial year 2024.

Talking about the businesses. Within that, the EEB vertical added about 9 lakh new borrowers during this quarter, as the EEB portfolio increased 10% year-on-year and 8% quarter-on-quarter. Commercial Banking grew 34% compared to the last year. Housing at about 11% higher than the last year. And retail book was flat year-on-year. However, if we adjust for the underlying growth rate -- if you look at the underlying growth rate adjusting for the short-term loan that happened last year, even retail banking has seen a healthy growth driven by various products within the retail assets portfolio. And that, if we adjust for it, is roughly around 65% year-on-year growth in the retail loans.

EEB, also known as emerging entrepreneur business, it comprises about 50% of the advances. Housing is 24%, commercial banking at 22% and retail at 4%, respectively, as at 31st March 2024. In terms of the geographical split, the top 5 states for our advances, which are West Bengal, Maharashtra, Bihar, Gujarat and MP, they contribute about 60% of the gross advances. And within this, West Bengal contributes to about 24% of the advances.

Now let me move over to liabilities. We have seen good growth in the liabilities for the bank through the year. As at 31 March 2024, the total deposits stood at INR135,202 crores as against INR108,069 crores in the previous financial year, which represents a growth of 25% and deposits grew on a quarter-on-quarter basis, 15%. Within this, if we focus on the retail deposits, which are the more granular deposits, the total retail deposit, which is the retail term deposit plus CASA grew by 22% year-on-year, of which the retail term deposit growth was 26% year-on-year.

CASA plus retail term deposits constitute 69% of the total deposits. The CASA deposits within this at the end of the year stood at INR50,151 crores and constituted 37.1% of the total deposits. This increased by about 1% compared to the previous quarter, which was at 36.1%. The healthy growth in customer deposits reflects a continued trust in the bank. And I must say that this has come in the context of a tight liquidity situation that was seen during the financial year. Despite that, the bank has been able to grow the deposit book in a very healthy manner.

The bank has added in this quarter about 10 lakh customers. And if we look at the geographical distribution of our deposits book, the top 5 states, which is West Bengal, Maharashtra, UP, Odisha and New Delhi contributed 64% of the total deposits. West Bengal, which has the largest share, contributed 40% of deposits, but in line with our focus on geographic diversification, this mix has come down. It used to be 43% a year back down to 40% now. EEB deposits contributed about 4% of total deposits so that continues to be a small portion of the total deposit portfolio.

After covering the balance sheet, let me move on to the collections and the asset quality. The bank's overall collection efficiency, excluding the NPA portfolio, was very stable at 99% quarter ended March 2024. On the asset quality front, the bank has seen a very good improvement in the quarter. There have been green shoots in several parameters, which I'll talk about.

Let me first start with the improvement, which is seen in the various dpd buckets, especially in the EEB portfolio. In the EEB business, the SMA 0 book, which represents 1 day to 30 days past due. In the previous quarter was around INR805 crores, representing 1.4% of the EEB book, which is now in this quarter at INR380 crores, representing 0.6% of the EEB book. So that's a substantial improvement that we've seen in SMA 0. Similarly, the EEB SMA 1 book, in the December 2023 quarter was INR570 crores, representing 1%, which has now reduced in this quarter to INR400 crores, which is 0.6%.

And EEB SMA 2 book in the last quarter was INR533 crores, which was 0.9%, and has now reduced to INR480 crores, which is 0.8%. Overall, if we add up across these three buckets, the reduction has been quite substantial going down from around INR1,900 crores to roughly around INR1,260 crores.

Let me move on to slippages. The gross slippages during the quarter 4 was INR1,017 crores, which was substantially down from the INR1,394 crores that we saw in the Q3 2024. Slippages in the EEB book also significantly came down to INR632 crores as compared to INR993 crores in the previous quarter. So we have seen good improvement coming through on the account of slippages at the total portfolio level as well as in EEB. We do expect the run rate of fresh slippages to stabilize in the coming quarters as we have been looking at strengthening the quality of the portfolio origination and also as we improve the collection and recovery efforts.

As you are aware, the bank faced asset quality issues on its EEB book during the COVID pandemic. And what the bank has done is in accordance with the regulatory norms, over the last few quarters, the bank has recognized these accounts as nonperforming assets and has made necessary provisions against them.

During the quarter 4, we have reviewed in the bank, the loans which existed within this particular portfolio, which were impacted by the COVID pandemic, these are primarily relating to the years -- financial years 2021 and before and looked at what levels of collection rates have happened on those. And based on the analysis in accordance with the bank's policy, we have taken a prudent stance and a conservative stance to do a technical write-off for a portion of this portfolio.

So during the quarter 4, the bank has done a technical write-off amounting to INR3,852 crores, which is largely in the micro banking portfolio, which is the EEB portfolio and which meets this criteria pertaining to the COVID period and which has had a long vintage and meets the bank's policies in this particular regard. And as a prudent measure, write-off -- the technical write-off has been taken.

Also, in order to be consistent with its conservative provisioning policy, the bank, overall, has made provisions of INR1,774 crores in this quarter. The credit cost, therefore, for this quarter was 5.8%. But if we adjust for the impact of the technical write-off, which has been done, the underlying credit cost for the quarter were 1.9%.

With the actions that have been done and the result of that we have seen that the gross NPA ratio improved at 3.8% as of the end of the quarter, as compared to 7% in Q3 FY 2024. And the net NPA levels also reduced substantially at 1.1% as of the end of the quarter, compared to 2.2% as of the end of December 2023.

The provision coverage ratio, also known as PCR, as of 31st March 2024, stood at 71.8%, so at a healthy level of coverage that we have got for our NPA portfolio. And for the full year, the credit costs were at 3.4%, which showed an improvement compared to the last year.

Let me now move on to the profitability and I'll walk you through the key numbers there. Starting with the top line. Our net interest income in quarter 4 was INR2,866 crores. Compared to last year, the same quarter was INR2,472 crores, which is registering a year-on-year growth of 16%. The net interest margin improved to 7.6% in Q4 2024 compared to 7.2% in Q3 FY 2024. This is aided by the good improvement we have seen in reduction in slippage rates our NPA levels as well as the business focus in terms of improving our margins.

Total net income in Q4 FY'24 was at INR3,560 crores, which represents an increase of 15% year-on-year. The growth in operating expenses was, however, 32% year-on-year. I would like to clarify that these expenses in the quarter included certain one-off expenses amounting to INR115 crores. And if we adjust for these one-off expenses, which will not repeat in the next quarter, the net growth in the expenses would be 23% year-on-year.

The broad details of these one-off expenses are as follows. Firstly, as you would all know, we had done a core banking implementation during the financial year. And there are certain costs, which are associated with the capital work in progress, which was in place, which got capitalized and led to an increase in depreciation by about INR50 crores out of this INR115 crores.

At the same time, during this quarter, there were certain initial teething issues, which were being tackled, which has been sufficiently taken care of. But during this period, we had to run certain parallel systems as well as the cost of maintaining the technology, which led to a INR30 crores increase in cost on the account.

At the same time, there were certain accounting related impact on the fair valuation of stock options under the ESOP team, which was resulting in about INR22 crores of the expenses, apart from some of the other expense increases that we saw. So these are the key one-off expenses that we saw during the quarter. On an underlying basis, the growth was about 23%, as I had mentioned.

As a result of the income and the expenses, we saw the operating profit in the quarter, registering a growth of 2.4% year-on-year and the operating profit stood at INR1,838 crores. As I had mentioned earlier, the provisions for the quarter were higher, largely due to the impact of the technical write-off and some of the additional prudent provisions that the bank has done. The provisions for the quarter stood at INR1,774 crores. And as a result of the same, the net profit, which is profit after tax, for the quarter was INR55 crores.

On a reported basis, therefore, the return on assets and the return on equity stood at 0.1% and 1%, respectively, for the quarter. However, if we were to gross up the impact of the write-offs, on a normalized basis, our return on assets for the quarter was at 2.2% and the return on equity was at 17%.

On the expenses, whilst we talked about the one-off, on an overall basis, our cost-to-income ratio for the quarter was 48%. If we normalize for these one-offs, the cost-to-income ratio comes to 45%, which is lower than the previous quarter. These were the financial -- the key financials for the quarter.

Now let me move to the financials for the full year FY 2024. Starting with the top line. Our net interest income for the year ended March 31, 2024, stood at INR10,326 crores compared to INR9,260 crores in the previous financial year, representing a growth of 12%. Net interest margin for the year was 7.3%, which was 10 basis points higher compared to the last year financial year 2023. Profit after tax for FY 2024 stood at INR2,229 crores, which was 2% higher compared to last year profit after tax of INR2,195 crores. As you know, that this profit has been impacted due to the technical write-off and increased provisions that we have taken during Q4 2024.

And if we normalize for that, our growth in PAT would be upwards of 30%. Liquidity coverage ratio as of 31st March was 172%, reflecting healthy liquidity position the bank had. And as I mentioned, despite a very tough liquidity situation in the market, the bank has done well in terms of keeping sufficient liquidity buffers. The return on assets for the full year was 1.4% and the return on equity at 11%, which, again, grossed up or adjusted for the write-off. The technical write-offs would have been at higher levels. Capital adequacy ratio stood at 18.3%, with Tier 1 capital of 17.2% with balance sheet remaining sufficiently capitalized.

The Board of Directors have recommended a dividend of INR1.50 per equity share of INR10 for the year ended March 31, 2024, which is at the same level as the previous year. This would be subject to the requisite approvals that would be sought in due course. That concludes broadly the financial update that I wanted to provide. I will hand over to Rajinder Babbar, who is our Executive Director and Chief Business Officer for a broad level updates on our business strategy going forward, and then I'll talk about the details of the strategy. Over to you, Rajinder.

Rajinder Babbar: Thank you. Thank you, Rajeev, and good evening, everyone. So this year, our approach will be the risk-calibrated digital customer-centric approach. As the Bandhan Bank, we have spent and have a great risk culture in our bank. We have more than 1,700 branches. In the last quarter, we have opened 53 branches. In total, we have added 289 branches. We have more than 3 lakh crores loyal customers. We have a strong processes and we have a great hold on to this and improve further.

So this year, our focus will remain on the risk management framework, we are targeting analytical-based data-driven sourcing. We'll focus -- keep on focus on the increasing the wallet share by the digital innovation. In the last 1 year, our 96% of the total retail transaction are digital. There is a growth in the digital registration, which is up by 26% Y-o-Y and our UPI transaction has increased to 48%. The bank expanded its government business also.

We have a close tie up with the various public sector undertaking including the Maharatna, Navratna and Miniratna. The Bandhan Bank was impanelled by the Goa State to conduct government business. Wherein Tamil Nadu, the bank received the mandate from the treasury for the integration of the public financial tracking system.

Additionally, we also received authorization for the tax and the nontax revenue selection in the state of West Bengal. So thank you, and I'm handing over to Rajeev Mantri for a detailed strategic presentation.

Rajeev Mantri: Let me talk about some of the key points within the broad strategy beyond what Rajinder has already covered, there are largely 5 points that we have focused in our strategy going forward for the next 2 to 3 financial years. Strengthening portfolio quality continues to be an important pillar, where we will be looking at investing in dedicated credit and collections vertical, leveraging data analytics and technology and utilizing early warning systems as well as leveraging our customer relationships to have continuous focus on improving the portfolio quality.

Driving liability resiliency with a liability first approach, where we would like to have liability grow faster than the assets and have good focus on liability quality, especially through improvement in our CASA portfolio and also looking at avenues to reduce liability concentration and creating diversified sources of funding.

At the same time, leveraging our branch network and strengthening the same, reenergizing the same to ensure that we can grow on liability portfolio. At the same time, looking at product and segment strategy through targeted customer value propositions and capabilities to be increased for the liability growth, especially through current accounts and savings account.

We will continue to grow our asset book with an improvement in the mix of the portfolio through greater improvement of the secured mix -- secure book in terms of the asset mix. Digitization, Rajinder has already talked about in terms of the various initiatives that we will be looking at.

And those will be the key pillars of the strategy that we have. With that, I would like to hand over to our Executive Director, Ratan Kesh, to talk briefly about the CGFMU Update. Ratan, over to you.

Ratan Kesh: Thanks, Rajeev. Good evening, everyone. As you are aware that out of the total claim of under CGFMU in December 2022, we received INR917 crores of tranche 1 claim. And in Q2 FY'24, we made a second tranche claim, which is pending with NCGTC implementing agency. Subsequent to a notice received from NCGTC and our engagement, a detailed audit was initiated. And the data collection was happening somewhere around end of December.

When we spoke to last quarter, we told you that the audit was in progress. And I want to give a little bit of colour to that audit process. You see the entire portfolio of 20 lakh -- 30 lakh borrowers is under audit. And even a 2% to 4% data consists of huge number of data to be collected for the completion of the audit process, and -- which means a huge amount of work. And therefore, the bank has provided all the details and documents.

In fact, as we speak today, as part of the audit process, the bank got an opportunity to explain to the audit firm about the bank's business model for EEB, how it has been consistently evolving and it continues. We have also been able to explain to them that even in the worst difficulties in COVID pandemic and the restriction that we're crippling the humanity at that stage, we have still been able to follow the consistent model, and we feel very, very confident about the practices and the processes that we have followed.

And I think we are almost at a stage of closure of the audit process. Management is extremely confident about the positive outcome of this. And as we receive that amount, as and when we get it, we will account it on receipt.

With this, I request the operator to start the Q&A.

Moderator: We'll take a first question from the line of Mahrukh Adajania from Nuvama.

Mahrukh Adajania: My first question is on the technical write-off. So basically, there is a notes to account which mentions a technical write-off of CGFMU as well. So of the total write-offs, how much was CGFMU and likewise, for the provision, right? You separated the BAU credit cost of 2.3% from the remaining.

And so how much of it was at all, if any, a portion to the CGFMU? And my second question relates again to the audit only that or the technical write-offs. So what really drove the overall technical write-offs as in that it was just a prudent measure or it was a regulatory notch given a lot of discussions, our unsecured loans in the sector as a whole. So which of the 2 was the overriding objective of doing write-off?

And my third question is on slippage. So if you see -- if you try to compare the current quarter slippage with the SMA data of the previous quarter then the slippage is usually much higher than SMA 2 and it maybe 70%, 80% of SMA 1 plus 2. So how do you think of -- how should we use slippages in the context of the SMA disclosures going ahead? That's my third question.

Chandra Ghosh: First, I will like to start and then CFO will add further. The first point on that the total of our portfolio, which is the write-off, it not specifically the CGFMU one. If I say that the up to this is a majorly is coming from micro credit. And micro credit, there is up to '22 financial year. That's mean, '19-'20, '20-'21 and '21-'22, we have at INR4,601 crores the portfolio, and we have that of the INR4,557 crores is NPA.

We are very old portfolio Out of that, we have been INR3,852 crores have been written off. So this is the way we are thinking about in that very -- because of this very old portfolio. Of course, some amount will be back to CGFMU. We have not considered as an CGFMU portfolio on that. It is a total portfolio, whatever the oldest we are written off in this quarter -- next quarter.

Rajeev Mantri: Rajeev here. So just to answer the 3 question that you've asked for. I think, MD sir has already talked about the context. If we look at the total technical write-off that was done during the quarter of INR3,852 crores. The CGFMU portfolio within that was INR3,053 crores and remaining was about INR800 crores.

The way the bank has actually gone about this is to look at on a prudent basis, on a conservative basis, shore up our provisioning as well as ensure portfolio quality improves. And therefore, this step has been done. The review has been done by taking a consideration of the entire portfolio within the EEB book, which is over particular vintage. And therefore, we have looked at the book, which was pertaining to years FY 2021 and thereabout and looking at what exactly has been the trend of recoveries and therefore, a review has been done in terms of taking a technical write-off.

Now naturally, when we look at that, a portion of the book will include the CGFMU, which I had mentioned. But we have taken a technical write-off for other than that as well. So this has been a broad review of the entire EEB portfolio. And as part of that, based on this assessment, the amount for the technical write-off has been proposed and discussed with our Board. In terms of what drove this?

As I had mentioned, this is primarily coming from the perspective of looking at what kind of collection has happened on this particular book and also looking at strengthening our portfolio quality.

So this is purely based on the bank's provocative on a conservative stance that this has been done. And that is the basis of driving this particular provision. I think your third question was relating to the slippage numbers. I think our slippages, as I'd mentioned, for the quarter 4 was INR1,017 crores, which is a significant improvement that we've seen compared to the last quarter of INR1,390 crores.

So we've seen a reduction over there. And within that, the EEB book also, we have seen a reduction, which has come through for the slippages, which, in the last quarter, we had seen a slippage of INR991 crores, which has come down to INR625 crores in this quarter. I hope that answers your question.

Ratan Kumar Kesh: So just to add to what Rajeev said, in the EEB segment. Mahrukh, in the EEB segment, if you see, our entire DPD pool is coming down from -- okay, overall at a slippages level, it has come from INR1,360, INR1,320, INR1,390 in last three quarters to INR1,000 crores in current quarter. As we speak today, the DPD pool has come down from INR2,800 crores in Q1 to INR 1,260 crores. So that's the overall DPD pool movement.

Moderator: Next question from the line of Jai Mundhra from ICICI Securities.

Jai Mundhra: First, I wanted to check on CGFMU, again, the entire CGFMU audit portfolio has already been written off, right? So there is no additional P&L impact irrespective -- negative impact, irrespective of the outcomes on the audit. Is that understanding right?

Rajeev Mantri: Correct. That's correct.

Jai Mundhra: Okay. And secondly, if you can highlight the outstanding provisions on the EEB GNPA that we have. So I think the GNPA in EEB book is around INR3,200 crores. What is the outstanding provision only for EEB's outstanding?

Rajeev Mantri: Sorry, could you repeat the question?

Jai Mundhra: Out of INR3,200 crores EEB book, what is the outstanding provision?

Chandra Ghosh: Just a minutes.

Vikash Mundhra: Jai, we have a PCR of 75% on our EEB portfolio.

Jai Mundhra: Sure. Understood. Okay. And third question is, sir, now if I look at, you can write off either in one quarter or maybe during the quarter, right? So if I look at your credit cost, and this full year, we had slippages of around -- or let's say, slippages are going to stabilize at similar levels, assuming, but last year, we had slippages of INR5,500 crores, which is roughly, let's say, 4.5% of the portfolio.

And we did a credit cost of around, let's say, 3.5%, right? So even if the slippages were to stabilize here, can the credit cost be settle at a higher level, not much from this level, but versus our previous understanding of 2% plus minus 20 basis points. So even if slippages were to stabilize at INR1,000 crores plus/minus on a quarterly basis. The credit cost -- how should one look at the credit cost?

Rajeev Mantri: Yes, let me take that question. So look, our credit cost for the year was 3.4%, right? And they still included some level of impact that has come through because of the technical write-off that we have done. What we believe on a stable state, if we continue to see the slippage trends that we are seeing now on the latest portfolio, which is already improved, this will definitely come down, should not go up. I think what we believe is our normalized credit cost should be more around 2.5% to 2.6%, and that is the level that we expect or it could be even lower than that.

Chandra Ghosh: I feel that as for the practical experience of this, the financial year '23, '24, comparative to the last few years in pandemic, I hope that there will be like to go to base the 1.8%-2.0% at credit cost in the financial year '24, '25.

Jai Mundhra: No, sorry, sir, I'm actually bit confused. So BAU is 2.5%, 2.6%, but you are saying that '25, why would it be lower -- so I mean, is there any recovery that we are expecting from CGFMU or any other side which can give the 80, 90 basis point delta or how to look at these 2 numbers, 1.8% and 2.5%.

Chandra Ghosh: No, I'm like to look on that other side on that. First, we'll be like 2 parts in this. One part is CGFMU. Another part is my normal portfolio are behaved. So I am talking about the normal portfolio behave showing on that, which I have been predicted 1.8%-2.0%. We don't any other consideration. If I consider from that the CGFMU money and it will become, it may be different extra.

Rajeev Mantri: So Jai, just to clarify, Rajeev here. We expect normalized 2.5% for the EEB book. But at the total portfolio level, it will be between 1.8% to 2%.

Jai Mundhra: Okay. Right. Understood. And on your fee income, right? So we have a positive fee of INR250 crores, INR260 crores from ARC and release of provisions on redemption of SR of INR80 crores and [INR260] crores and full year basis is around INR350-odd crores for full year FY'24. What kind of a sustainability could be there in this…

Vikash Mundhra: Jai, around INR60 crores to INR80 crores of income from the ARC recovery we could expect every quarter.

Jai Mundhra: This would include the provision release also, right, if we put together?

Vikash Mundhra: Yes.

Jai Mundhra: Understood. And lastly, sir, if you were to sort of steady-state growth after maybe the MFI issue is over or as the slippages are now stabilizing and if the SMA pool is also coming down. How should one look at steady state loan growth? Because I think in your opening remarks you also mentioned that you would like to drive deposit growth higher versus asset growth. So what could be the, let's say, FY'25 growth expectations on loan growth?

Chandra Ghosh: You see that the deposit growth is a differently, we will like to look on that the advance growth. Advanced growth is not only depend on deposit growth. Deposit growth is in opportunities for our bank, 1,700 bank branch we are now. Nearly 300 bank branches we opened in the last financial year, which is a very good amount of this, the branch can we drive for the deposit, which can be, of course, help to the business of the asset -- and also, it will be helpful to maintain the CD ratio is a better way on that. This is the part. If I go to today in the business, whatever the microcredit, it is our core business.

And we'll grow. And the portfolio quality have given the confidence of the bank. So this portfolio has a good opportunities to grow whatever we are growing in that -- if you see that as a year-on-year basis after the pandemic, it is improving good. And the 2024 is a very good improvement has come as near very much near to the pre-pandemic. So that it isn't we are expected. And also, we are very confident on that from today and the future, this book also grow as usual on that.

Jai Mundhra: Sorry, sir, I actually -- maybe I missed, what is the number you said on overall bank basis?

Chandra Ghosh: So I am saying that it will be like to gradually -- coming to this the growth, but if you see that this year, it has come to the year-on-year growth is 10%, including the INR 3,852 crores of a write-off. If it is not write-off, it will be much higher. For FY25, looks like 15% we will like to maintain on that year-on-year basis.

Rajeev Mantri: Jai, I think you're talking about the total advances growth?

Chandra Ghosh: No, the micro credit.

Jai Mundhra: Micro credit at a total bank level?

Chandra Ghosh: Total bank, we will -- 18% plus.

Rajeev Mantri: For the bank, we are looking at for the next 2 to 3 years, roughly around 17% to 18% to 20% growth. And we will definitely like to look at deposit growth higher than the advances growth.

Jai Mundhra: Last question, sir, if I may ask. If I look at your last 3, 4 quarters, our MFI slippages, MSA GNPA as a percentage had peaked at around 10%, 11%. It is now come down to 5% after write-off. But at 10%, 11% GNPA, did you see any difference between individual and group? Or it is more or less same behaviour? Or do you think...

Chandra Ghosh: It is same. There is no big difference.

Moderator: We'll take our next question from the line of Piran Engineer from CLSA.

Piran Engineer: Firstly, if you can just repeat what was the write-off of the CGFMU book and the non-CGFMU book? I missed it.

Rajeev Mantri: Roughly for the CGFMU book was around INR3,050 crores and about INR800 crores for the remainder.

Piran Engineer: Okay. Okay. But the claims under CGFMU was only about 1,300, right? So I'm missing something here.

Ratan Kumar Kesh: So there are certain colour to this. What happens is that the overall portfolio is INR20,000 crores. Of that, certain customers who will become NPA, remain NPA for 6 months are eligible to be claimed. Within that, there are certain scheme limitation, which say that you can claim 72.75%. So net claim was INR917, plus INR1,290-odd. That's how it works. So it's not really exactly the same number.

Piran Engineer: So INR2,200, that's what you had mentioned in the last call. So the total claim.

Ratan Kumar Kesh: Claimable amount, but the pool will be higher because you have to claim 70%.

Piran Engineer: Okay. Okay. So now the entire pool is written off. And we had 100% provision on this INR3,000 crores?

Ratan Kumar Kesh: Once you write off, we have to provide for 100%. We already had 89%. We have additionally provided 11%.

Piran Engineer: Additional. Okay. Fair enough. And sir, in the entire book, what are our standard asset provisions outstanding over and above the INR3,400 crores NPL provision?

Rajeev Mantri: Give you a second.

Rajeev Mantri: So as at 31st March 2024, if you look at our overall provisions, we are at INR4,448 crores, of which the NPA-related provision is INR3,437 and the standard asset provision, which basically is across 3 broad categories, where we have the normal standard asset provision at INR360 crores. As you know that we maintain a high standard asset provision for the EEB book, which is at INR443 crores. And in addition to that, we have an additional provision of INR126 crores. So in total, we have -- INR900 crores plus of standard asset provision that exist.

Piran Engineer: Got it. And the best case recovery from CGFMU will be this INR1,200 -- INR1,300 crores, correct?

Ratan Kumar Kesh: That's the second claim which is spending with the agency.

Piran Engineer: Yes, because the first INR900 crores we have received and it's in our in the accounts in a way.

Rajeev Mantri: That is correct.

Piran Engineer: And that 1,300 crores we will add to a proven buffer is it? Is that how we're thinking about it?

Ratan Kumar Kesh: We don't know what we will do at this stage as to income to be decision in consultation with the Board.

Piran Engineer: Got it. Got it. And just lastly, in terms of our slippages from MFIs will be I think INR625 crores slip -- but it's still a relative high number like 4% annualized. So any particular states where you're seeing this slippage? And how should we think about a run rate level here?

Rajeev Mantri: Sure. We'll ask Vishal, who is our business head for EEB to talk about the same.

Vishal Wadhwa: Vishal here. So we have got the slippages primarily coming in from states of Punjab. And also some of that is being carried forward from Manipur. And apart from that, Maharashtra, Gujarat was two states where in terms of the other states where we are present, the numbers are slightly higher. But otherwise, if you see the trend, it's coming down quarter-on-quarter and the last quarter was pretty nice at INR625-odd crores. Going forward, I think the trajectory would remain similar.

Rajeev Mantri: And to add to what Vishal said, we have augmented our collection and recovery efficiency. That's improving well. Second, DPD pool has dried down. Third, as Rajinder mentioned, we are using more analytics and databased disbursement, we should obviously ensure wherever we see stress coming, we would sure calibrate our growth accordingly.

Moderator: We'll take our next question from the line of Nitin Aggarwal from Motilal Oswal.

Nitin Aggarwal: Sir, just in your last results call with us. I would like to thank you, first of all, for founding this great distribution and building it through them on the very challenging periods and all the best to you for all the future endeavours. I have 3 questions. First is on the margin improvement that bank has reported in the fourth quarter. So how sustainable is this in? And was there any one-off interest reversal that really supported this performance?

Rajeev Mantri: Let me take that. What we have seen definitely for the year is the 10 basis point improvement in the NIM as you've seen from 7.2% to 7.3%. For the quarter, we've seen a higher NIM improvement of about 38 basis points.

If you see, during the quarter, we have also seen a reduction in our slippages, which has come up sharply. So as the slippages continue to perform better, we do see an improvement that will help us on the NIMs. However, as you know, we have also been saying that we will be diversifying our portfolio, and we are working toward improving the secured mix within our advances.

And as that portfolio increases, there is going to be some impact of reduction in the NIM in a contained manner. So I think, both of these will play out by itself. So whilst we do see a good business focus to happen in terms of maintaining and keeping our NIM intact, there would be a natural impact due to the change in the mix of the portfolio, which should come through.

Nitin Aggarwal: Okay. Sure. The second question is the audit and you said that the processes going get completed in the short term. So any specific time line, if you can share. And do you think that the outcome of this audit can have a bearing on the earlier claim also, that got passed and not just the pending one?

Ratan Kumar Kesh: So I think given the quantum of the audit the data documents and details that they have asked for, we are fully cooperating. And I think we believe, based on the conversation, it is at a fairly advanced stage. Putting a specific date would be inappropriate at this stage.

However, we believe that we should be able to get a resolution in the next -- which is this particular quarter, which is quarter 1. Will it have any bearing? As of now, as I said, that management and all of us are extremely confident. And as we have interacted with audit agency, we have been able to furnish detailed documents and explain to them the consistency of the project. Therefore, we do not believe at this stage of any impact of the tranche 1 claim.

Nitin Aggarwal: Okay. Sure, sir. And sir, lastly, if you can just share some colour about the overall, how the ticket size is trending in the individual loan segment versus the group loan and some colour on the asset quality differential between the 2 segments. Now that the asset quality is coming. How do you really keep those trends?

Vishal Wadhwa: On the EEB portfolio, group loan, we are at ticket size of INR 55,000-60,000. On the individual, we have the tickets that are INR 150,000 overall. And some of these group loans when they graduate after the serving customer cycle, they move on to individual.

In terms of the quality of portfolio, I think like I said, they've been improving quarter-on-quarter. And on similar terms between group and individual, the differences are very miniscule. Group would be a little below in compared to the performance of the individual loan book, but it's pretty much similar, and even the improvement is also on the similar line.

Nitin Aggarwal: I was asking on the interest rate also, if you can share some colour. How is the interest between the two segments?

Vishal Wadhwa: Interest rate also it is pretty much a difference of only...

Chandra Ghosh: Only 50 basis point lower in the individual loans compared to the group loans.

Moderator: We'll take the next question from the line of Saurabh Kumar from JPMorgan.

Saurabh Kumar: Just looking at your Slide 18 of your presentation, so 2 things. One is you said 2.5% credit cost for your micro finance business. So will that assume like a 3% slippage? And I ask this because if you look at your entire 0 plus overdue, 0, 1, 2 and NPA and then just the write-off, I mean, your stress pool is largely flat Q-o-Q, which means 0 plus movement wouldn't have happened, but your 2.5% would be then assuming that your underlying business will continue to run other 3% slippage. Is that or will that understanding you correct?

Rajeev Mantri: Yes, I think that would be a broadly correct assumption. We will be targeting to reach those levels of slippages with the collective effort from the business.

Saurabh Kumar: And the second is on opex. Could you quantify? I mean, I know there are one-offs this year, which you called out, but how would you think about your opex growth or opex to assets for next year, assuming your loan book grows at 18% on.

Rajeev Mantri: Sure. Let me take that. So look, I think the broad details of the one-offs we have already explained. But if I were to talk about the broad strategy of what the bank is intending to do, as part of the strategy, we will continue to make investments, especially in the important areas, which are part of the strategy, such as people, technology, branches, especially reenergizing of the branches as well as creating the key capabilities that are required, which are part of the business plan.

So that investment will continue. At the same time, what we are looking at is areas of operational efficiencies and improvement in productivity, which will be looked at in great detail to see how exactly those could be driven. But that, as you would agree would naturally take some bit of time. So we will be looking to continue with similar level of cost income that we have, at least for the next financial year, but gradually over the next 2 to 3 years, see an improvement in that through operational efficiencies and productivity. And that, I think, is a broad plan that the bank would have.

Saurabh Kumar: So cost income is flat?

Chandra Ghosh: I can add on that. This is totally, we cannot be like to -- though it is needed, it is not in the operational cost. It is an investment also. If we see that there is 300 branches we have been open in the financial year '23, '24 last year. And we have given that the nearly 2,000 employees. So their productivity will come to this year.

But that is the 1 side, we can say that. And also those branches as an infrastructure cost. So this is an investment part we are seeing. And I think that in the second part of that, which are developed is in separately credit, I'd say that as a recovery vertical. And that vertical also a huge number of people we have given, and we have been seeing that there is a good improvement if we started to come in on that.

And both will be like to see that some investment has come and some improvement also has come to this quality of the portfolio and the deposit growth. It will be very good for the financial year '24, '25 and onwards of that. So this is the way we are looking in that.

Moderator: We'll take our next question from the line of Mohit Jain from Tara Capital.

Mohit Jain: I just wanted to have 1 clarification regarding CGFMU SMA. You said, sir, we had a claim of almost 2,200. And I think if I'm crossing 3,000-odd exposure, which we have written off I guess the INR900 crores was already -- has already been received by us. So in that case, why have we again it compared for the write-off purpose?

Ratan Kumar Kesh: No. So it's the pool that you are talking about. INR900 crores is the claim amount we you have received. The pool is still there with us. That pool is CGFMU pool, along with some of the other pool is INR3,800 crores. That's a technical write-off. Now leave the CGFMU aside, CGFMU claim is -- as I said, a borrower has to be an NPA, stay NPA for 6 months, become eligible.

Of the eligible pool, we'll have to see how much is 72.75%. Of that, we have to minus how much you have recurred ourselves. That's amount that we can claim. So it's a bit of a computation. So the total claim was INR917 crores, plus 1,200-odd crores. INR917 crores we received INR1,200-odd crores is spent, which is where audit is going on. And as we said, we are hopefully closer to the audit process. The write-off is for the entire pool. So these 2 will not coincide and really exactly compute in that sense.

Rajeev Mantri: Yes. I think just to add, Mohit. As Ratan rightly mentioned, I think the right of decision is based on the bank's policy and that could what qualifies as part of it and not targeted towards the CGFMU portfolio. And therefore, this is on a prudent basis as per the bank's policy that we have taken the decision.

Mohit Jain: And sir, my second question is, I'm referring to Slide 18. I'm seeing that in respect of loans, which have been disbursed, let's say, 12 to 18 months back, we are seeing a higher rate of NPL like the 3.5% to 4%. Is it the normalized rate that we can expect for the future also? Is it because of, let's say, state specific issues we had in this portfolio that we had this higher rate?

Ratan Kesh: I would say that we will definitely improve from what was there 10 quarters back, quarter 1 FY'23 -- up to quarter 4 FY'23. If you see the latest last 3, 4 quarters from quarter 1 FY'24, the numbers have been not even touched 1%. So we are pretty confident of working towards and moving towards and moving towards 0.5% on the EEB side.

Moderator: We'll take our next question from the line of Manish Shukla from Axis Capital.

Manish Shukla: Firstly, on the write-offs done during the quarter, can you please tell us what is the vintage of these loans, both in terms of when they were originated and when they would have done the NPA?

Rajeev Mantri: Yes. I think as per the policy, what we have done is bulk of it is greater than 48 weeks beyond the NPA date. And I think that constitutes bulk of the portfolio, which has been considered for write-off.

Ratan Kumar Kesh: And it's originated largely FY19, FY20 and FY21, which is the COVID period and before.

Manish Shukla: So the coverage on this particular portfolio as of December would have been how much, 75%, 80%?

Ratan Kumar Kesh: Yeah. Around 80%. 89%. CGFMU was 89%, the rest the pool will by 70%. So I think cumulative will be about 80-85%.

Manish Shukla: So I mean, the write-off policy essentially still remains give or take 40 or 50 weeks. Or is there any change in that policy as well?

Ratan Kumar Kesh: That's the policy.

Manish Shukla: Okay. So incrementally, this is what one should expect from our right-off perspective.

Vishal Wadhwa: We haven't changed the policy. We have gone by the policy and then implemented.

Manish Shukla: Okay, fair. By when would you expect to send the names to RBI for the succession?

Chandra Ghosh: Name of?

Manish Shukla: The potential CEOs has that already been sent?

Chandra Ghosh: Very good question. So we'll be wait on that and will respond at appropriate time.

Manish Shukla: No. My question is did you send the name to RBI, that's all I'm asking.

Chandra Ghosh: No, that is -- that will take the time. Already, we have been set up a search committee. -- and search committee have been also appointed. And they are working on that. And when it will be like to finalize, then we would like to inform to all of you on that.

Manish Shukla: The only reason I ask Mr. Gosh that we have 50-odd days away from 10 of July. I'm just wondering what happens on 10 of July.

Chandra Ghosh: Give us some time on that in the next month, can we like to give something

Moderator: We'll take our next question from the line of Prakhar Agarwal from Elara.

Prakhar Agarwal: Three set of questions. First, on this project cost or, sorry, write-off that you said. 2 things in this. 1 is, what changed particularly in Q4? So you mentioned that you have not changed any write-off policy, and we have been maintaining that. So what changed in just 1 quarter for us to take such a material write-off -- and in addition to, that, if I were to just look at your historical write-offs, which has taken from 2020 to 2024 and gross it up as a percentage of lag gross book, it is more than 20%, which is higher than what industry has reported or peers have reported. So some light on that?

Rajeev Mantri: Yes. Maybe I can take this. So look, I think the bank has been reviewing the portfolio and how exactly the collections in this portfolio has been happening over the last few quarters. And this has been a continuous journey of assessment. Given we were at the financial year-end, and we wanted to ensure that we have done a good look at what the portfolio is and what do we need to do to strengthen our portfolio quality, we basically utilized and assess this portfolio as part of the policy that exists and then proposed this particular action.

I think it's a continuous assessment, but at the same time, it is important that we start the new year with a fresh view in terms of what the portfolio is. We've already started to see improvements in the slippages. And I think as you've seen this quarter is where we saw the maximum improvement come through in the slippages. So whilst we knew that we had taken actions in terms of improving the slippages, in this quarter, we actually saw the manifestation of that happening, whereby the slippage is indeed reduced.

And therefore, we thought it's a good opportunity for us to actually take this action in this quarter of doing a technical write-off and then ensuring that we continue to focus on improving the slippage rate even further going forward in the next financial year and start with the better clean slate.

Ratan Kumar Kesh: So I think as Rajeev said, we believe that decisively, we are out of the pandemic problem. In fact, all the parameters, as you see, you can clearly see that practically the slippages has come down significantly. Recovery rates have improved. DPD pool has dried down. So therefore, this was a great opportunity for us to really look at fresh and leap beyond the pandemic period.

Chandra Ghosh: Prakhar, I mentioned in a different way on that, no. Actually, this is in -- we have technically write-off, that not means we have come out from this customers. And we have a separate recovery vertical. They are looking those customers to recover. And my frontline staff are not know that who are these people are technically write up. They could not understand. So that there is no difference between this technical write-off and taking this customer in the board. In the same treatment, we are maintaining to recover all that. That is the way we are looking.

Prakhar Agarwal: Just to comment on this 20% number that I spoke of as a percentage of land book, if I were to just cumulate over the last 4, 3 years, the write-off that you have seen, that number seems to be reasonably higher than peers, much higher than peers.

Chandra Ghosh: You see that the -- how the situation we are impacted. How many people have lost their life in that nobody have been found in this type of situation. So that is the way. It is not in only the incident for one organization, it's an incident for a total world. So that is the part we are coming back from that and growing this to the book is a very pre-pandemic. That is the very hope on that bank. Future will be like to more way to grow in a good portfolio.

Moderator: We'll take our next question from the line of Prakhar Sharma from Jefferies.

Prakhar Sharma: And sir, my best wishes to you for your future endeavours. Thank you for being around. Sir, just 2 questions at a broad level to anybody, who wants to take this one. So first is on the slippages, the INR1,000-odd crores. Is the slippage number really low? Because generally, in the fourth quarter, your slippages are lower.

In 4Q FY'22, your slippages are about INR1,365 crores after being very high for two quarters. In 4Q FY'23, they were about INR1,100 crores after being high for a couple of quarters. And those numbers were actually coming on very high SMA book. So the opening SMA book for this quarter was much lower than those 2 years.

Still, we've had about INR1,000-odd crores. So is the slippage number really low, that's part one. And secondly, on the loan growth ambition, I just wanted to get a sense on what gives you the comfort of growing in high teens, when a lot of the growth might come from new to Bandhan Bank type of customers across some of the new segments. So do you think that sort of growth is manageable from an operations perspective? Those are my questions.

Chandra Ghosh: So first one, I mentioned on that. We have adapted the EEB book now this financial year '23, '24 we disbursed INR65,000 crores. And out of that, only INR160 crores is in NPA. So that is the one part. Whatever we have been seeing in this quarter, some is a INR1,000 crores. We have been seeing an EEB INR600 crores flat. And that amount actually is the older portfolio. Of course, there is in some portfolio is at '22%, '23. We have been seeing some slippage.

But after that also, we have been seeing, this is '23, '24 portfolio we have in the book in INR11,000 crores only. And this INR11,000 crores, whatever the contributed small amount. But today, if you see that the last quarter, in the last month of the last quarter, March and April onwards, whatever we've seen that is a very good way to moving on that.

So my feeling in that INR65,000 crores, which are disbursed in the last year, it was only INR165 crores and which is the 0.11% of the portfolio. If we see that in the last year, we saw that this portfolio was in a nearly 2% of that. So in that sense, we are seeing that the slippage is coming -- further coming down.

Ratan Kumar Kesh: With regards to your question on the operational capability to grow at 18%, I think that we don't see a challenge because we have just about completed our core banking migration. We have got state-of-the-art technology system. We have also upgraded some of the surround system. We are working aggressively on the digital lending platforms and digital sourcing. So the operational capability is improving from what it used to be, therefore, we have a far better compliment.

Rajeev Mantri: Ratan just to supplement...

Chandra Ghosh: Another point if you see that at the last -- our slippage was in 5.6% has come down -- SMA pool, sorry. And this SMA pool has come 2%. So that is a very good improvement has been happened.

Rajeev Mantri: And Prakhar, just on the second question to supplement what Ratan mentioned, the total asset book is where we expect, the total advances where we expect around 18% growth. Within that, the EEB book, we are looking at around 14% to 15%.

Moderator: Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to management for closing comments. Over to you, sir.

Rajeev Mantri: We would like to thank all the participants for joining and would request you to continue to have the faith and the confidence in the bank. And thank you so much for joining.

Chandra Ghosh: Thank you to all of you. This is my last call, and you have been helped me lots of. And I honour all of your support and the help. I hope that I have the confidence on myself, and that you will be continue this support. And I also trying my best way to play my better role. Thank you to all of you.

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