"Bandhan Bank Q1FY25 Earnings Call"

July 26, 2024

MANAGEMENT: **MR. RATAN KUMAR KESH – MD & CEO, BANDHAN BANK**
MR. RAJINDER KUMAR BABBAR – EXECUTIVE DIRECTOR & CHIEF BUSINESS OFFICER, BANDHAN BANK
MR. RAJEEV MANTRI – CHIEF FINANCIAL OFFICER, BANDHAN BANK
MR. VIKASH MUNDHRA – HEAD (INVESTOR RELATIONS), BANDHAN BANK

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY25 Earnings Call for Bandhan Bank.

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 Mundra – Head, Investor Relations, Bandhan Bank. Thank you and over to you, sir.

Vikash Mundhra: Thank you, Siddhanth. 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 June'24. 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 detail, we have with us our MD and CEO – 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 if required from the current quarter numbers and the way ahead.

Now I would like to request our MD and CEO – Mr. Ratan Kumar Kesh to brief you all on Bank's quarter performance. Over to you sir.

Ratan Kumar Kesh: Thank you, Vikash. Namaskar, good evening, a warm welcome to all of you. As you all are aware, as announced by Mr. Chandra Shekhar Ghosh, on April 5th, 2024, he has retired as MD & CEO of the Bank on completion of his tenure on 9th July, 2024.

Mr. Ghosh played a very vital role in taking the Bank on such a phenomenal growth path. On behalf of the board and the management, I would like to place on record the outstanding contribution of Mr. Ghosh – Founder and MD & CEO of the Bank since inception till 9 July 2024. His contribution to the banking sector, particularly to the MFI sector, is unparalleled. We wish Mr. Ghosh all the very best for all his future endeavors.

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 3 months or till the new MD & CEO takes charge, whichever is earlier.

As informed earlier, the board has appointed a search firm to assist in identifying potential candidates to take on the role of MD & CEO. Due process is being followed by the board in this regard, and the same is on track. We will keep you updated on any major developments in due course.

Coming back to the quarter, let me begin by talking about the macroeconomic scenario:

Despite various global uncertainties, India's macro parameters remain strong. Real GDP witnessed a growth of 8.2% in FY24. RBI expects real GDP growth of 7.2% and CPI inflation of around 4.5% during FY25. While the RBI stays cautious and is in no hurry to cut the repo rate, banking system liquidity has eased a bit and turned into modest surplus recently. The Union Budget announced earlier this week was a fine balance between fiscal prudence and support for sustainable and inclusive growth. In line with the long-term goal of 'Viksit Bharat', the budget revolved around themes of employment, skilling, rural development, MSME, middle class and women empowerment. The budget strongly reiterated support for agriculture sector and rural India in general continued focus on affordable housing, and removing the bottlenecks of the MSME sector. These initiatives will go a long way to drive India's economic growth and sustainable development story over the next several years.

Some of the announcement will give our Bank an opportunity to create greater impact by participating in the government's drive and thereby reap huge business benefits. Indian banking sector continued to witness decent credit growth and further improvement in asset quality. Overall, the favorable macro backdrop should continue to help the momentum in the Indian BFSI sector in the coming years.

Let me now move to the quarterly performance of the Bank:

Typically, Q1 in Bandhan Bank has always remained a soft quarter in previous years; however, this Q1, we have seen all-round improvement across the major parameters. We have witnessed robust financial results driven by pickup in the business momentum, stable margins, good control over operating expenses, and improving asset quality performance.

In terms of balance sheet parameters, the Bank has witnessed a strong pick up in both advances and deposits in line with our guidance. Over the last few years, we have seen sequential decline in advances in Q1 compared to Q4 of the previous financial year. However, in this quarter, we have seen sequentially stable advances at Rs. 1.26 lakh crore with a YoY growth of around 22%. On the deposits front, the deposit stands at Rs. 1.33 lakh crore with YoY growth of about 23%, which remained higher than the advances growth with sequential stable share of retail deposits (CASA + retail TD) at 69%. This is in line with our strategy.

Deposit market remained competitive, resulting in slightly higher cost of funds, we were able to protect our margin during the quarter. NIM stands at 7.6% in Q1FY25.

Cost metrics improved on a sequential basis, and we are committed to invest in people, products, and technology over the next few quarters.

Additionally, our focus on credit quality and the guardrails adopted over the last couple of years are further evolved. Specifically, the steps taken since April 2023 are showing many fold improvements in our portfolio quality. This is reflected in control over fresh slippages at Rs. 891 crores in Q1FY25 compared to Rs. 1,017 crores in Q4FY24. Our continued focus on recoveries led to a steady performance in asset quality. Gross NPA is at 4.2% and net NPA is at 1.1% versus 3.8% and 1.1 respectively in Q4FY24.

In Q1FY25, the Bank reported a profit after tax of Rs. 1,063 crores, up 47.4% YoY, with an ROA and ROE of 2.5% and 18.8% on annualized basis. I'm happy to say that the Bank has very strong and committed team with shared values, which will work in collaboration to meet the expectation of all the stakeholders.

I would like to take an opportunity to update you on the CGFMU audit. When we spoke in the last quarter, we told you that the audit was in progress, and we were expecting a closer of the audit soon. The audit has further progressed very well, and the Bank has provided all the support to the auditors in the process. The audit process is nearing a closure. The management is confident of having a positive closure soon.

One important and last point I would like to touch upon, before handing over the call to my colleague and CBO Rajinder Babbar is the increase in risk weights in the EEB loan portfolio. As you are all aware, in November 2023, Reserve Bank of India had mandated higher risk weights for consumer credit from 100% to 125% with certain specific exemptions. The Bank immediately complied with the same for all our consumer credit portfolio. The EEB portfolio of our Bank was treated as regulatory retail for risk weight computation at 75% since beginning of the Bank as per external guidelines.

The circular clearly mentioned that microfinance loans were exempted for NBFCs from the increase in risk weight. However, there was no such explicit mention of such exemption available for scheduled commercial banks. Hence, the Bank held various levels of discussions and sought clarification. Thereafter, in consultation and approval from the board, the management has taken a conservative approach to increase and apportion a higher risk weightage of 125% to our EEB portfolio from earlier 75%. This increase in risk weightage of our EEB portfolio has an impact of about 362 bps on our overall capital adequacy ratio. Consequently, our CRAR stands at 15% and including profit of Q1FY25, it is at 15.7%. We are well capitalized to support our future growth plan.

Let me now hand it over the call to, my colleague, Rajinder Babbar to discuss on some of the important business updates.

Rajinder Kumar Babbar: Thank you, Ratan and warm welcome to all of you.

The Bank's Q1 Performance clearly reflects that our growth momentum is robust and improving. It has been 4 months since I joined Bandhan Bank; I have visited many branches and interacted with the colleagues across the country. I feel more excited to share that I have found them focused, energetic, self-motivated and eager to deliver. Our Bank will continue to emphasize on Four Key focus areas:

The first and the foremost is building a risk-focused culture. The Bank is devoted to build a culture of compliance where quality and customer service supersede everything else. The Bank is putting forth a robust risk framework to ensure that we have the best in the industry practices. Our focus will be risk-calibrated customer-centric digital and analytical approach

The second focus is the geographical diversification. We have a strong presence in 35 out of 36 states and the union territory of the country. Over the last 2 years, the Bank has also added nearly 500 new branches. So, with our extensive network base of around 6,300 banking outlets, we are serving the financial needs of more than 3.44 crore customers. We are also diversifying our portfolio geographically to touch and change more lives across the country.

The third is clearly a customer-centric approach. The Bank is committed to offer an array of financial products and services especially tailored to fulfil the various needs and aspirations of customers belonging to all strata of our society. In this regard, we have recently launched products such as LCs, Forex, Bank Guarantees, Bill Invoicing and remittances in our transaction banking space. We have also launched **Bharat QR** for our Current account and Savings account customers. In addition to adding many new products in our offerings, we have recently launched the facility to collect direct taxes, online from both, our customers as well as non-customers. The Bank is now live for the collection of Direct Taxes through TIN 2.0 platform of Income Tax. We are balancing right mix of secured and unsecured portfolio as per our long term strategy, and our product expansion shall continue in accordance with it.

And last but not the least, will be the data analytical and the digital approach. We are also leveraging data analytics to study consumer behavior in order to customize and enhance customer experience. Digital Banking penetration has increased and will continue to improve further. Cross-sell, branch led sales coupled with analytics will be a key area for growth to enhance the wallet share of customers

Overall, we have seen good growth across assets and liabilities and expect the momentum to continue across business verticals for the rest of the financial year prioritizing asset quality at the top. And while we are at it, we will also increase our digital penetration to make banking easier and accessible for all.

Now I would like to hand over to my colleague, Rajeev Mantri, CFO of the bank, who will run you through 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-ended June 30th, 2024, at its meeting held earlier today.

Let me begin with the business numbers for the quarter

Advances: As of June 2024, gross advances for the Bank stood at Rs. 1.26 lakh crores, which represent a growth of about 22% year-on-year and around 1% quarter-on-quarter, supported by all round growth across business verticals. Just to put this growth in context, if you see our sequential advances growth from Q4 to Q1 over the previous 3 years, we have seen a cyclicality whereby there is a decline between Q4 to Q1 in each of the previous 3 years. In the last year, which is Q1FY24, there was a decline of 5%, in Q1FY23, we've seen a decline of 3% versus the previous quarter, and in Q1FY22, there was a decline of 7% versus the previous quarter. However, this year, instead of a decline, we have seen a 1% sequential growth in advances, so thereby reversing the trend that has been seen in the previous years.

During the quarter, retail book excluding housing grew at 84% year-on-year. Within that, there has been a focus on the secured portion of the retail book in terms of growth. Commercial banking grew 30% year-on-year and housing book excluding IBPCs grew at about 13% year-on-year. During the quarter, the EEB portfolio also increased by 21.6% year-on-year and on a quarter on quarter basis it was largely flat at about Rs. 61,910 crores.

From a business mix perspective, EEB group lending comprised 32% of the total advances. Small business and agri loans were at about 17%, housing 24%, commercial banking 22%, and retail assets at 5% of the total advances.

Going ahead, the key elements of our strategy is to have product diversification and geographic diversification. And as part of product diversification, the focus is on growing the share of secured book, such as housing, the secured portion of commercial banking and secured retail products. Growth in EEB book will continue, albeit lower than the growth in the secured assets portfolio.

In terms of geographic split of the advances, the top five states which are West Bengal, Maharashtra, Bihar, Gujarat, and Madhya Pradesh contributed 59% of the gross advances. Within this, West Bengal contributed 24% of the advances in this quarter versus 25% in the previous year same quarter. This represents the focus on geographic diversification as well.

Liabilities: As at June 30, 2024, the total deposits stood at Rs. 1.33 lakh crores as against Rs. 1.08 lakh crores in the previous year, June quarter. This represents a growth of about 23%, which is higher than the year-on-year growth that we have seen in our advances. Due to our continued focus on granular retail deposits, our total retail deposit which basically means CASA plus retail term deposits, grew by 19% year-on-year, of which the growth in retail term deposit was 25%

year-on-year. Retail deposits, which is CASA plus retail TD, to total deposit ratio continues to remain stable at around 69% of the total deposits.

CASA deposits were at Rs. 44,456 crores and that constituted 33.4% of total deposits. The year-on-year growth in CASA was 13.8%. However, sequentially on a quarter-on-quarter basis we did see some reduction in the CASA growth and that was due to some of the balances that came through towards the end of last quarter which we saw reducing. But on a year-on-year basis, we still saw very healthy growth in the CASA at 13.8%.

In terms of geographical split, the top 5 states for deposits, namely West Bengal, Maharashtra, Uttar Pradesh, National Capital Territory of Delhi and Odisha contributed about 64% of total deposits. West Bengal contributed 39% of total deposits versus 43% a year back, representing reduced geographic concentration and diversification.

Collections and Asset Quality: The Bank's overall collection efficiency (excluding NPA) for the month of June’24 was marginally lower at 98.5% as compared to 98.8% for the month of March’24. Within this, for the EEB book, collection efficiency (excluding NPA) for the month of June’24 declined to 98.5% versus 99.1% in the month of March’24. However, on a quarterly basis, the collection efficiency for the Q1FY25 was largely stable at 98.7%.

On the asset quality front, the Bank has seen an improved quarter. Gross slippages during Q1FY25 were around Rs. 891 crores, down from Rs. 1,017 crores in Q4 FY24. This represents a steady decline compared to the slippage levels of more than Rs. 1,300 crores in each of the first three quarters of FY24 that we had seen. So, from the levels of Rs. 1,300 plus crores in the first three quarters of last year to Rs. 1,017 crores in the last quarter to Rs. 891 crores in the immediate quarter which is June’24, we have seen a steady decline in the slippages. Within this, the slippages in the EEB book in the current quarter also reduced to Rs. 543 crores as compared to Rs. 610 crores in the previous quarter.

Upgradation and recovery efforts continue and the upgradation recovery amounts increased to Rs. 371 crores for this quarter compared to Rs. 284 crores in Q1FY24. In addition to the Rs. 371 crores, we had also a bad debt recovery of Rs. 46 crores from the written-off portfolio which gets booked under other income. If you add the two, it is a total of about Rs. 417 crores of total recovery between these two lines.

On the DPD book for the EEB portfolio, we have witnessed improvement in the SMA-2 book from the levels of Rs. 480 crores in Q4FY24 representing 0.8% to Rs. 436 crores representing 0.7% in this quarter. We've seen stability in the SMA1 book at the levels of Rs. 420 crores representing 0.7% of the book in this quarter. However, in the SMA-0 book, we have seen an increase of 30 basis points quarter-on-quarter to 0.9% at the levels of Rs. 580 crores. And this is primarily on account of some slowdown in collections due to the heat wave and floods that we have seen in certain geographical areas within the country.

As a result of all of this, the credit cost for the quarter moderated to 1.6%, representing a healthy reduction that we've seen in the credit cost. However, for FY25, we continue to expect the credit cost to be in the range of 1.8% to 2% in line with our previous guidance, as we have seen some of the risks in the SMA-0 book that we've talked about.

Gross NPA ratio was at 4.2% in Q1FY25, as compared to 3.8% in Q4FY24. Net NPA was sequentially stable at 1.1%. So, provision coverage ratio or PCR, as of June 30, 2024, was 73.7%, higher than the 71.8% that we had in the last quarter.

With this, I will move to the last section of the financials update on profitability: Net interest income was at Rs. 3005 crores which grew by 20.7% year-on-year and a growth of 4.8% quarter-on-quarter supported by NIM expansion. On a year-on-year basis, we had 22 basis points NIM expansion to 7.6%. We had healthy advances growth and also the impact of lower slippages on our net interest income. Our net interest margin or NIM was 7.6% in Q1FY25, as compared to 7.3% in the same quarter previous year. It is important to note that despite some pressure on cost of funds, we have been able to sustain and protect our margins sequentially.

Net total income in Q1FY25 was Rs. 3,533 crores representing an increase of 23% year-on-year. This was a result as we mentioned increase in net interest margin, net interest income but also aided and supplemented by year-on-year growth in the other income which grew year-on-year by 37% representing a healthy growth in the other income.

Operating expenses reduced by 7.5% versus last quarter. As we had mentioned in the last quarterly update, there have been some one-timers that we had seen in the expenses, but even adjusting for the same on an underlying basis, we have seen costs improving quarter-on-quarter by a reduction of almost about 1%. On a year-on-year basis, operating expenses grew by 21.2%. This was a result of the investments that we had done in people, in our information technology and the branches. We would continue to invest in people, technology, and building key capabilities, as also mentioned by Ratan and Rajinder, in terms of driving the strategic growth targets that we have for the Bank.

As a result of all this, the operating profit in Q1FY25 was Rs. 1,941 crores, registering a growth of 24% year-on-year. And we've also seen an improvement in the credit costs on a year-on-year basis. As a result of which, due to the strong operating performance, improvement in credit costs, the Bank registered a net profit of Rs. 1,063 crores in the quarter of June 2024, compared to Rs. 721 crores in Q1FY24. This represented a 47% year-on-year growth in the profit after tax. The return ratios have been healthy. Return on assets was at 2.5% and return on equity at 18.8% for this quarter on an annualized basis.

On behalf of the Management Team, I would like to once again thank you all for participating in this call. And we will now take questions.

Moderator: We will now begin the question and answer session. The first question is from the line of Aditi Nawal from RSPN Ventures. Please go ahead.

Aditi Nawal: Sir, I just have one very small data-keeping question. So, in your results, this time you have not mentioned the net worth amount. So, if you could just let me know what the amount is.

Rajeev Mantri: The total net worth as of 30th June 2024 was Rs. 21,883 crores.

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

Prabal: So, my first question was on margins. Was there any one-off in other interest income?

Rajeev Mantri: No, there were no one-offs in the other income. This represents the underlying growth that we've seen in the business, buoyed by increase in processing fee as well as the other elements of other income.

Prabal: No one-offs in other interest income that sort of QoQ.

Rajeev Mantri: Yes, no one-offs.

Prabal: And since our CASA ratio has dropped by 400 basis points, how do you think about cost of funds going ahead?

Rajeev Mantri: So, yes, I think as we had mentioned, while the CASA ratio we saw on a quarter-on-quarter basis a decline. On a year-on-year basis, it still represented a good growth. But as we have mentioned, the retail deposits overall, which is retail term deposits plus CASA, remains stable at about 69%. So, that represents overall sort of the focus on deposits. But on question on the cost of funds, as we have seen, I think in the market, there is some pressure building on the cost of funds. So, we will continue to ensure that why is the focus on the deposits happen. We will have to be cognizant of the pressures on cost of funds building in the market and accordingly calibrate our strategy.

Prabal: Any context of that, how to think about margin going ahead?

Rajeev Mantri: So, as guided before, we will continue to maintain our NIM in the range of 7% to 7.5% depending on how the overall interest rate looks like.

Prabal: Sir on this diversification, so how to think about our exposure to the MFI segment, because on one side, we are reducing our share of direct lending. But at the same time, we are also increasing our lending to NBFC MFIs. So, last 4 or 5 quarters, our cumulative share has not changed. So, how are you thinking about diversification away from MFI segment?

Rajeev Mantri: Yes, so I think as we had mentioned briefly, there is a clear focus in terms of driving product diversification as well as geographic diversification Within the products, we are looking to improve the share of our secured assets portfolio And that will be the direction where we are trying to increase that which would mean that whilst the asset growth will happen both in the microfinance book as well as the secured book, the growth percentage for the secured book will be faster compared to the microfinance. And that will drive the change in the share of the secured assets compared to the total assets. That is the strategic focus.

Prabal: And we are okay with giving loans to NBFCs, MFI because our exposure to MFI segment will continue to stay high even though that could be a secured or secured by percentage?

Ratan Kumar Kesh: As a strategic lever, our focus on secured percentage will go up, we will continue to balance our NIM at 7% and 7.5%. So, there is no embargo or a strategic limitation that we will not lend to a particular segment. We will continue to focus on overall diversification as a subject. That's the area. So, we don't have any specific limitation that we will not lend to MFI sector. How much we will grow into that particular sector will depend on the overall guardrails of how much secured that we want to do. That guidance we have already given. We will continue to grow our secured book. I will request my colleague, Satish who heads Wholesale Banking to also share in with a few points.

Satish Kumar: Yes, good afternoon. Satish Kumar here. I take care of the Wholesale Banking Business. So, as the MD said, I think the overall guiding factor is to increase the secured book. To that extent, I think we will maintain a stable outlook on NBFC MFI. So, the growth there would be like a muted kind of thing and not an aggressive growth. So, as of now, that is the strategy.

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

Jay Mundra: Couple of questions, sir. In the opening remarks, you mentioned that we have managed to reduce the cyclicality that we usually have in the first quarter in terms of QoQ decline in the AUM. So, if you can elaborate, is this a new normal wherein you have been managed to curb the seasonality or it could be just one quarter phenomena wherein you would have opportunity to disburse a little bit higher or how did you manage to change this seasonality?

Rajinder Babbar: Yes, Rajinder Babbar here. Basically as informed to all, we are working on a particular strategy. So, as part of this strategy, our main focus is how we can grow on this secured book as compared to the other book by keeping a proper product mix. So, as part of that strategy, this is the normal growth and we have taken because you will see our book, if you see the portfolio, the housing finance, the retail asset basically has grown steadily as compared to the EEB book. Simultaneously, we are keeping a close watch. So, it will be a regular growth, not a one-time activity.

Ratan Kumar Kesh: I will just add a little more color to this. If you remember, we communicated in the last year similar quarter that we had adopted certain specific guardrails on credit quality improvement. Some of those, it took a little bit of time for the overall distribution channel to really understand

and get adjusted to this. Given the fact that they now got adjusted and over the last 4 to 5 quarters we are seeing steady improvement, we would believe that this is a new normal. We won't say that we have beaten the cyclicality. It has not grown. Our Q3, Q4 will still be much better than Q1 and Q2. But yes, degrowth as a subject, I think we should be able to protect.

Jay Mundra: Usually, we had a very deep cyclicality in the sense that 5% to 10% or even very high single digit degrowth would have happened in the microloans or EEB book, which is very stable this quarter. In the past, we have said that the underlying business has a seasonality, they draw down during the fourth quarter and then there is a monsoon, there is a rainy season, not too much activity and hence there is a drawdown. But that you have managed to address that, right? That is what the message is?

Ratan Kumar Kesh: Right.

Jay Mundra: Secondly, sir, on this CET tier 1 reduction, is that the final decision by the Bank? Of course, in the sense that is there any chance that you still are having discussion with the regulator or any final authority here and in the later quarters you may have an opportunity to change the risk weight again to 75% or this is now done as of now?

Ratan Kumar Kesh: As we mentioned, we looked at the circular and we found certain specific exemptions and then we looked at saying that there are certain specific exemptions which are not available for the scheduled commercial banks and therefore we have deliberated and interpreted it to guidance of the board and the management and gone ahead and done that. How we go ahead and look at some of our product programs and internally look at all of those will be matter of future. But as of now, this is the finality to our decision and this is what we have done and moved ahead.

Jay Mundra: Right, so you're not disputing or you're not, let's say, discussing this any further, right? I mean, that is how the message is.

Ratan Kumar Kesh: That's how the message is.

Jay Mundra: Okay, and because your risk weights have changed, so your risk adjusted profitability on capital employed would have deteriorated notionally. And you also seem to be one of the lowest rate banks in the MFI segment. Are you thinking of changing the rates to adjust for the risk-weighted capital yield?

Ratan Kumar Kesh: Not as of now.

Jay Mundra: And lastly sir on SMA-0 1 plus 2 book and you had mentioned that credit cost of this quarter may not be an indicator of the full year credit cost and that is you are maintaining that guidance. But if I look at SMA-0 plus SMA-1 plus SMA-2, that the number in absolute amount was declining for the last several quarters because we were seeing that trends were improving; however, in this quarter that 12.6 billion number has gone up to 14.4 billion. If you look at the bigger context, the lot of states, geographies have had some disruption/a tough weather. Would you believe that this number of SMA-0 plus SMA-1 plus SMA-2 in absolute amount should start reducing or you think that there is still some uncertainty with respect to the micro?

Ratan Kumar Kesh: As you rightly said that our DPD pool SMA-0, SMA-1, SMA-2 put together has been coming down consistently over the last 4 quarters and as we stand today even on YoY basis, we are almost 50% of what it used to be one year back. That's a good news. Having said that, Q1 has been marred with some heat waves and of course the general election has little bit of an impact in general. But we are optimistic of the fact that our recovery efficiency and the guardrails that we put in place, it should hold good for us going forward. We have work in hand for sure, and that I think management is fully conscious about, and teams are completely focused around it. Our recovery efficiencies are also overall improving. So, we will continue to focus on this area. Industry is seeing some bit of stress in some pockets, and we are extremely careful on some of these areas, and we will continue to focus in a very calibrated manner, as also spelled out by my colleague Rajinder.

Jay Mundra: That is right sir, but what I was trying to understand is if Rs. 890 crores of slippages as the SMA pool is also reducing, this should ideally stabilize or actually improve. Is that the understanding right?

Ratan Kumar Kesh: Yes, it will improve. We have work in hand and we will continue to focus on improving that.

Rajeev Mantri: If I can just add further to that, I think the slippage reduction that has happened, our endeavor would be to make sure that it remains stable and improves from here, but we have to be cognizant of some of the increases in the DPD pool and how exactly the flow of that could happen to the slippages. So, that would be an inherent risk or underlying risk that we need to continuously manage, and therefore there will be efforts in that regard, which is a space that we will continue to watch. And that's why the credit cost guidance we have given is a 1.8% to 2%, which is slightly higher than what we have seen in this quarter.

Jay Mundra: Right. And sir, your comment on capital now post the adjustments that we have done. Of course, this is much higher than the regulatory floor. But how do you look at the capital position from a 12-month perspective?

Rajeev Mantri: Yes, so I think we are at about 15% excluding profit and about 15.7% if we include the profit for the quarter, which still has sufficient headroom above the regulatory minimum and allows us to continue to grow the asset book. We will of course continue to look at how the asset book growth forecast and projections are there and across which particular segments and capital monitoring will happen on a continuous basis. This is a significant change and that is how we have called it out. But where we stand right now, as Ratan had mentioned earlier, we remain well capitalized to be able to help foster our asset growth.

Moderator: The next question is from the line of M. B. Mahesh from Kotak. Please go ahead.

M. B. Mahesh: Sir, just this question again on this capital adequacy front. Given that you have a nomination from RBI right now at the board, has there been any conversation on this topic, on this issue? Because this instance of an increase in risk weight seems to be fairly isolated to the Bank. And we don't see a similar conversation across other lenders?

Ratan Kumar Kesh: The decision was taken before the decision of RBI to put an Independent Director. Our decision is independent of that, number one. Number two, we wouldn't know exactly what has been the treatment taken by other banks. Maybe you have, we don't have that visibility.

M. B. Mahesh: But what is it that makes it that you need to make this under the 125% risk weights?

Ratan Kumar Kesh: I will clarify one more time. The November circular was meant for consumer credit and we implemented that for the consumer credit portfolio. Then we looked at and we found that there is a specific exemption of MFI portfolio for NBFCs. It did not mention SCBs. So, we looked at saying that as a scheduled commercial Bank, if that exemption is not mentioned specifically, we might as well deliver it and discuss it internally. And that's what we have done. And then with approval of the management and in consultation with the board, we have taken a prudent and conservative approach. That's where it stands. And that's the decision. And our internal stress testing clearly says next three years we are pretty well protected in terms of capital.

M. B. Mahesh: I agree to that. I'm just kind of belaboring this point again, is that you could have had a conversation with the regulator on this topic as well, right? Because it seems to be a little bit different in the way you seem to be looking at that circular as compared to every other player in the industry.

Ratan Kumar Kesh: So, my conversation with regulator on multiple parameters is part and parcel of daily life, which we continue to do. As I said, this is a decision almost in line with the Bank's philosophy of being conservative and following the spirit rather than going by the latter. And that is something that we thought we will take a call internally.

M. B. Mahesh: Just two other questions. One is just to answer the previous question, who was also asking on growth. In this year, is there any revisit to the loan growth assumptions given the changes that you've seen in the RWA or CT1?

Ratan Kumar Kesh: No, not required to be done that way. Our stated strategy of growing secured book and a guidance of loan book growth of around 18% to 20% and a deposit growth of higher than that will continue.

M. B. Mahesh: And you sorted the housing related issue because that growth in that book continues to remain a bit weaker?

Ratan Kumar Kesh: It is slightly weaker as Q1, but if you look at Q1 of the last financial year, it is significant growth from a YoY perspective. We had a great growth in Q4, but that's cyclical. We have sorted the problems in housing.

Moderator: Thank you. The next question is from the line of Puneet from Macquarie. Please go ahead.

Puneet: Just on this capital question, like not seeing any other Bank do this or put it like there is another Bank which has a MFI exposure, particularly smaller than you. But a) are there discussions with other banks as well? Or is there something specific to Bandhan because it seems pretty harsh. So, just on that part?

Ratan Kumar Kesh: We expect some conversation to happen from tomorrow onwards. As of now, we haven't had.

Puneet: And another point, and I don't know if you said this earlier, but in the near term, we are not looking at any capital raise, right? Just asking this because our unsecured book is higher than other banks. So, and the Tier-1 has decreased substantially on the capital growth front.

Ratan Kumar Kesh: So, Puneet, on a decision of this nature, obviously requires us to also go back and do stress testing and look at our internal models. And we have tested that. As I said, we are pretty comfortable for the next 3 years. As my colleague, Rajeev, said, we will continue to have capital monitoring to support the growth. As of now, we don't feel the need for it.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal: Sir, couple of questions. Firstly, like any update on the CEO succession, has the board submitted the names to the RBI?

Ratan Kumar Kesh: As I mentioned in my opening remarks, the process is very much on and it is on track as expected. We will continue to update you on any fresh development that comes on this. As of now, I am not in a position to communicate whether we have sent any names to RBI. It's being handled by the Board and the Search Committee.

Nitin Agarwal: And secondly, sir, like in this quarter, the CD ratio, which is like seemingly a weak quarter and it inches up, but now we are watching CD ratio very closely and we are around 90% plus. So, any particular level you would like to operate at, any engagement with RBI on this?

Rajeev Mantri: Yes, so maybe I can take that. So, CD ratio on a year-on-year basis has still seen an improvement from 95% to almost 94%. Yes, on a sequential basis, it's been a bit of an increase. But this is a key focus area. I think from a Bank's perspective; we have been reducing it. If you look at the last many years or so, we have been bringing it down from circa 120% down to 100% down to almost 92% as at the end of March this financial year. And then that's the direction of travel in terms of ensuring that we continue to operate within this range and even improve it further from here. So, that's the endeavor that we are working on. And as you have seen, our deposit growth has been generally higher year-on-year basis compared to the advances growth. So, the liability first approach or the strategic prerogative that we have is an important one and the entire team is clearly aligned to making sure that that happens.

Nitin Agarwal: Right, and lastly, any thoughts on how do we plan to use the audit claim as and when it gets passed now that the capitalization levels are also low after this change that we have taken and earlier we had thoughts to make some additional provisions, so what will our approach be now?

Ratan Kumar Kesh: So, first of all, we will wait for the audit outcome to come through, and we will as eagerly wait as all of you as to how soon it comes. We are confident that we will get an outcome. When it comes, we will take a decision how we should account for it.

Moderator: Thank you. The next question is from the line of Ayushi, who's an individual analyst. Please go ahead.

Ayushi: So, I wanted to ask, how are we doing with the hiring front? Are our employee numbers increasing right now? Are we actively hiring?

Ratan Kumar Kesh: Our employee numbers have been going up. However, given the fact that the Bank has finished its core migration and is focused around digitization and technology upgrade, going forward the incremental addition of employees will depend on the technology and digitization drive and therefore it may be slightly lesser in percentage terms compared to the previous 3 years. Our hiring continues to support the growth across multiple products and geographies.

Ayushi: Does this mean our branches will also be moderated going forward?

Ratan Kumar Kesh: We mentioned that in the past that over the last 18 months we have added up to around 500 odd branches. Going forward, number of new additional branches will be much lesser.

Moderator: Thank you. The next question is from the line of Yuvraj Choudhary from Anand Rati. Please go ahead.

Yuvraj Choudhary: Sir, we have increased risk weights for EEB book as we were being conservative. Sir, just one question. Why have we taken a risk weight route? And why have we not made provision buffers since we had a good quarter? Some color on it would be helpful.

Ratan Kumar Kesh: So, it's not about provision cover either or. We looked at the regulatory guideline, we interpreted and we wanted to go by the spirit of it and therefore we took a conservative approach. Provision cover again we have already guided that we will continue to increase our PCR over a period of time and then take it to a higher number and that grows. If you see this quarter itself, our PCR has gone up, even though our portfolio quality has been significantly better.

Rajeev Mantri: Yes, Yuvraj, if you see the numbers, our PCR increased from 71.8% in March quarter to 73.7% in this quarter. We have already increased our provision coverage ratio, and the numbers that you see is after that increase.

Moderator: Thank you. The next question is from the line of Vatsal Shah from Knightstone Capital. Please go ahead.

Vatsal Shah: Most of my questions have been answered. Just wanted to understand that in the SMA-0 and SMA-1 book, you mentioned that there have been some pockets of stress. Can you just mention which are those areas which are experiencing less stress?

Vishal Wadhwa: Okay see, in the last quarter the stress is coming from Punjab and Maharashtra primarily though there have been talks of Bihar as well, but Bihar has been doing well across thus far. But definitely Punjab and Maharashtra are two states which are giving little bit of a stress. Though in our portfolio, we don't see that stress in the last quarter, there has been a little bit of an uptick only in the recent last couple of weeks itself. But that's manageable because the portfolio is not so big in both these states.

Vatsal Shah: And just a last question on the CASA rate. So, you mentioned that the retail portion of the liability side is growing on a year-on-year basis. But on quarter-on-quarter, the CASA was shifted down from 36 to 33. So, can you just mention what was the reason for this CASA de-growth not on the retail term deposits, but just the CASA?

Ratan Kumar Kesh: Sujoy Roy, our colleague who heads our Liability and Branch Banking.

Sujoy Roy: For CASA degrowth on a quarter-on-quarter basis was on the counter, anyway cyclical reasons. The March year end, there were large inflows in the last 10-11 days. And since then like the industry, that growth is evidence even in the last quarter for the industry as well. So, the decline per se is on account of the current account flows, some current account flows moving on. But on a stable CA, if I look at the individual components of CASA, savings and all that, there we have seen a reasonable increase. And most of the monies that have moved on have moved on to retail term deposits, where we have seen significant growth of 25%.

Ratan Kumar Kesh: So, in summary, some money has moved from the savings/current deposit to retail term deposit. Number two, the stable CA and stable SA both have grown YoY.

Vatsal Shah: So, is there any numbers for the CASA range like around 35% or something like that?

Rajeev Mantri: I think our endeavor is to look at growth of the CASA ratio. I think from the current level what we are trying to do is build some further capabilities within the Bank which will help us in terms of further generation of the current accounts, such as cash management capabilities. We are also looking at targeted customer value propositions for our savings book portfolio in terms of looking at how do we create unique customer value proposition for different segments of the depositors, salary class, senior citizens, etc., and also for women. As a result of all of these capabilities being looked at, customer value proposition being looked at, and also the emphasis on the digital channels like Rajinder mentioned, and also in terms of growth of improvement or some reenergizing of our branches, we will see focus on the mobilization of the current account and savings account as a result of all of this. So, we don't have a particular percentage or a number in place, but we will certainly continue to look at the increase of the CASA ratios from this level based on all these initiatives.

Rajinder Kumar Babbar: So, Rajinder here, we have a clear-cut strategy on the CASA because the main, the regular contributor to the CASA is the more and more savings and the retail current accounts. And you see when I said the Bharat QR Code, this is one of the steps. So, accordingly we are taking a step to ensure that month-on-month basis, our CASA number, the fresh acquisition is improving as compared to the previous month. And that is our clear focus. We are now sourcing the CASA through our digital channel, and we are able to see a growth of 20% to 30% in the CASA number. So, definitely all the steps will result into a better CASA ratio.

Vatsal Shah: Got it. And just the last question, I don't know if you would have the data handy or not. If you can give me the percentage like breakup of the fixed versus variable loans, if that's possible.

Rajeev Mantri: Sorry, we don't have that handy.

Moderator: Thank you. The next question is from the line of Pranuj Shah from J.P. Morgan. Please go ahead.

Pramit Shah: Thank you for the presentation. Just a couple of questions. One on your non-interest income, you have a release of provision on redemption of SR of Rs. 60 crores and also bad debt recovery of Rs. 46 crores. So, what is the full year guidance on the trend that you can give out over here? And second question was a 10 basis point increase in yield on advances for this quarter sequentially, how’s that?

Rajeev Mantri: So, let me take that. I think within the other income, as you rightly said, that there is an redemption of the security receipts for the ARC of about Rs. 60 crores. We are expecting on a quarterly basis a range of Rs. 60 to Rs. 70 crores of steady numbers to come through on this particular line. So, I think that will continue to happen. I think your second part.

Pramit Shah: How many quarters?

Rajeev Mantri: At least for this year, for this financial year, we expect that number to continue. I think your second part of the question was on yield on advances. So, on yield on advances, we are at around 16% on yield on advances and we expect the yields to be impacted in the following manner. So, whilst there is growth, as we have said, there is going to be a shift towards a higher mix of the secured assets. As a result of which, there would be some pressure naturally on the yields on advances. But we are expecting that to be offset in some portion through continued focus on reducing our slippages, which will help in terms of offsetting some of this decline that may happen. And I think overall, whilst we expect some stabilization or some impact coming through, it will be range bound. So, we do expect the yields to be between overall around 15% to 16%, that kind of a range.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

Ratan Kumar Kesh: I want to thank everyone of you for participating on this call. Look forward to communicating any future developments and engaging with you in the future. Thank you so much.

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