"Bandhan Bank Limited Q3 FY25 Earnings Conference Call"

January 31, 2025

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Moderator: Ladies and gentlemen, good day and welcome to Bandhan Bank Limited Q3 FY25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then :0" on your touchtone phone. Please note that this conference is being recorded.

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

Vikash Mundhra: Thank you, Sejal. 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 December '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 details, we have with us our MD and CEO – Mr. Partha Pratim Sengupta; Executive Director and Chief Operating Officer – Mr. Ratan Kumar; Executive Director & Chief Business Officer – Mr. Rajinder Kumar Babbar; Chief Financial Officer – Mr. Rajeev Mantri and myself Vikash Mundra – 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 forward.

Now, I would like to request our MD and CEO – Mr. Partha Pratim Sengupta to brief you all on Bank's Performance. Over to you, sir.

Partha Pratim Sengupta: Thank you, Vikash. A very good evening to you all, and wish you and your families all the very best for 2025. At the outset, let me welcome you to the Q3 Earning Call of Bandhan Bank and I look forward to regular interaction with you in the near future.

First, let me apologize that I suddenly developed a bell's palsy on my face. So, my words may get a little bit jumbled. So, kindly excuse me for that. As you all are aware, owing to the approval of the RBI, the board had approved my appointment as MD and CEO of the Bank, with effect from 1st November 2024, for a period of 3 years. Bandhan was born as a microfinance institution about 24 years ago. It was an NGO at that time. Later it evolved to an MFI and then to a universal Bank, and now is transitioning to a rapidly growing digital universal Bank with a focus on enhancing customer experience.

At this stage let me acknowledge the contribution of my predecessor Mr. Chandra Shekar Ghosh to the formation and growth of this institution. I also acknowledge the efforts of my colleague Ratan Kumar Kesh, our Executive Director and Chief Operating Officer and Rajinder Babbar, Executive Director and Chief Business Officer in managing the bank during the months prior to my appointment. It is my privilege to lead Bandhan Bank, and I am confident that together with my team we will be committed to the execution of the Bandhan 2.0 Strategy

Let me start by giving a brief on my background:

I have been a probationary officer in State Bank of India and have been groomed in various fields both in retail and corporate and I rose up to the level of Deputy Managing Director and the Chief Credit Officer of the Bank. From there, I was appointed as the Managing Director and Chief Executive Officer of Indian Overseas Bank. And now I have been appointed as the MD and CEO of Bandhan Bank.

I'm proud of the team at Bandhan. We have the talent and the experience to deliver. As you may be aware, we have onboarded talent in the various verticals from the best institutions in banking, both private and public sector banks and together with them, I'm confident that we will achieve the goal we have set for ourselves. Needless to add, the success of any organization depends on its people and I'm proud to say that in my experience over the last three months, I have seen a team which has the passion, commitment and the zeal to deliver.

Since the time I have been here, I have undertaken some few strategic decisions and would like to highlight them and just want to apprise you all that the steps that has been taken to help the Bank for the strength in its rule.

The first one is the formation of a Transformation Management Team.

The dedicated transformation management team will be essential for driving innovation, improving operational efficiency, and ensuring the institution adapts the fast-paced changes in technology, regulations, and customer expectations.

The transformation management team will spearhead the integration of the digital tools and automation, streamline process to reduce costs and enhance customer experiences by implementing personalized services.

Additionally, the transformation team will be tasked to foster a culture of compliance, agility, and continuous improvement. By driving strategic change and aligning new technologies with business goals, the team would help the Bank future proof its operations and stay ahead of the industry trends.

We have appointed a senior advisor, a reputed senior banker to work with our team and share his wide experience of having driven transformation projects in a large commercial Bank. The Transformation Management Office comprises a cross-functional team which will report to the Transformation Apex Committee which will be chaired by me.

The second one is the formation of Digital and Transaction Excellence Unit (DTEU)

The Bank has created a digital and transaction excellence unit under the leadership of Executive Director and Chief Operating Officer to enhance focus, efficiency, and expertise in managing transactions in transaction banking, payment solutions, and digital customer journeys. It will also help in augmenting granular deposits and fee-based income through various transaction capabilities, payment products and digital solutions. DTEU team will build expertise, combining technical, functional, and commercial solutions catering to the corporate and consumer segment.

The third one is the setting up of a Market Intelligence Team

This team processes and synthesizes unstructured information in the public domain and outside on our commercial borrowers using generative artificial intelligence and large language models. This process helps in getting a holistic view of the new applicants, develops awareness in case of early warning signals about the existing portfolio and also facilitates taking appropriate risk mitigation steps, whenever necessary. It also helps to gauge the sentiment about our SME and corporate borrowers on a near real-time basis.

The next one is setting up of a Credit Administration Department

This is a strategic step to oversee and strengthen the Bank's credit processes and life cycle. This team will also handle areas like post disbursement monitoring, NPA monitoring, review and improvement of underwriting standards amongst others for the entire Bank's lending business across all verticals. This will help in the Bank's overall strategic alignment to enhance operational efficiency.

I also want to take this opportunity to outline some of the key areas of focus that will guide our strategy and ensure we continue to deliver sustainable value for our stakeholders:

Resilient Liability Franchise: The Bank will have a strong focus on garnering stable, granular retail deposits. As you will observe in Q3, our bulk deposits level have been marginally lower. This has been a conscious effort. We will be endeavoring to drive deposit growth higher than the advances growth to ensure long-term sustainability. We are confident of achieving this objective through leveraging our digital and branch network aided by cross-sell of deposits products across all asset teams.

Grow asset book with improved secure mix: The Bank is focusing on a more secular approach on asset growth with focus on the secured mix. We will focus on products like home loan, gold loan, auto and CV and CE i.e. commercial vehicle and commercial equipment, secure book of commercial banking segment. We are also looking to build a strong MSME book as it has a huge potential. We endeavored to achieve a secured mix of 55% plus by FY27. Growth in EEB book will also continue albeit at a relatively lower pace.

Risk, Governance and Compliance: As carrier bankers, we understand the importance of risk and compliance. We are committed to embedding risk management and compliance into every aspect of our business. This means enhancing internal frameworks, adopting advanced tools for real-time monitoring, and fostering a mindset across all levels of the organization where accountability and integrity take center stage. Our focus is on being proactive rather than reactive, ensuring we stay ahead of potential risks while maintaining the highest level of governance.

Enhancing Customer Experience: In today's world, the customer is at the heart of everything we do. Our focus is on creating seamless, personalized, and meaningful interactions at every touch point. We are leveraging customer insights, design products and services that meet evolving needs and expectations, ensuring a consistently superior experience. While digital expansion remains a priority, we are equally committed to optimizing and expanding our branch network to stay closer to our customers.

Improvement in Asset Quality: Asset quality continues to be a priority focus area. As we grow our loan book, we will continue to ensure that prudent underwriting standards and robust monitoring mechanisms guide every lending decisions. Relentless focus by frontline and dedicated collection teams will drive improvement in asset quality through lower slippages and improved collections. Enhanced usage and adoption of analytics along with the implementation of relevant technology tools will aid us in improving loan origination quality and boost collections.

Driving and improving Efficiency: Bandhan has a strong employee base. While we hire new talent, it is equally important to up-skill and re-skill the existing employee base to enhance productivity and efficiency for which the Bank is investing on training and development and also on cutting-edge technology and digital solutions. for enhanced customer service and operational efficiencies.

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

In recent times, the banking sector has faced tight liquidity conditions and an extremely competitive landscape for Bank deposits. Further, in the current year, the microfinance sector has been facing headwinds and witnessing elevated risks in the portfolio quality. We continue to focus on building the liability franchise and our growth in deposits exceeds the growth in advances. In this quarter, advances book was at Rs. 1.32 lakh crore with a Y-to-Y growth of 14%. On the deposits side, deposits stands at Rs. 1.41 lakh crore with a Y-to-Y growth of 20%, which is higher than the advances growth.

The degrowth over the last quarter in deposits is largely driven by the reduction in bulk deposits, which has been taken as a strategic decision. Our share of retail deposits, CASA plus retail term deposits is now 69%. CASA deposits grew 6% Y-to-Y with CASA share of nearly 32%.

We are making steady progress on our diversification agenda, whereby in this quarter, we have grown our secured books by 34% Y-o-Y improving the secured mix further to 49%. As we look ahead, we will continue with further diversification on the asset book, through faster growth in secured advances and moderate growth in EEB advances.

As a result, with an increased share of secured advances, we would expect the NIMs to moderate in future to reflect the underlying risk without losing focus on the need to achieve our return on assets. The deposit market continued to be competitive, resulting in slightly higher cost of funds. This along with a faster change in product mix in favor of secured assets impacted yields, and together with higher slippages led to the moderation of the yields to 6.9% in Q3FY25. However, on a 9MFY25 basis, NIM still remains healthy and stable at 7.3%.

Net total income in Q3FY25 was Rs. 3,926 crore, an increase of 28% Y-to-Y. This includes one-off gain of Rs. 538 crore on account of CGFMU payout and Rs. 52 crore received from Assam government. During the quarter, we also had few one-offs, which our CFO Rajeev will explain in detail.

We are committed to focus on asset quality. While currently, credit costs are a bit elevated, we stand by our endeavor to target lower credit costs over the next few quarters. So, if you look at the nine months performance, the credit cost has come to 2.6%. Net NPA level is at 1.3%. Gross NPA level is at 4.7% and we have technically written-off Rs. 1,266 crores during the quarter. The PCR, including the write-off, is at 85% versus 70% a year back.

In Q3FY25, the Bank reported a PAT of Rs. 426 crores and in 9MFY25, the PAT is at Rs. 2,427 crores, a growth of 12% Y-on-Y. On a 9MFY25 basis, we reported an annualized ROA of 1.8% and ROE of 14%, which we believe is comfortable considering the elevated stress in the microfinance segment.

In a nutshell, I would say we have had a tough quarter, rather I would say it's a more challenging quarter, but given the guardrails and efficiencies we have built into our operations, I am confident we will make significant strides in achieving the targets set in the Bandhan 2 strategy.

I now hand over to Rajeev Mantri – CFO, to take you through the details of the Q3 Financials. Thank you.

Rajeev Mantri: Thank you, Partha sir. And welcome everyone to the Earnings Call.

Before I deep dive into the business numbers, let me begin highlighting the few one-offs that we had during the quarter. In the non interest income we had two one offs which had a positive impact on our overall P&L. Firstly, we received the claim payout from CGFMU stands for credit guarantee funds for micro units and the total income booked on account of the same is Rs. 538 crores. Second, we received a net amount of Rs. 52 crores against microfinance loans from the Assam government under the Assam Relief Scheme.

In the provision line item, we had two one-offs. First, we did a technical write-off of Rs. 1,266 crores in the EEB portfolio, as a result of which an incremental provision of Rs. 336 crores was made during the quarter. Second, there is a provision of Rs. 30 crores relating to non-banking assets which also was done during the quarter.

The last one off was relating to the staff expenses wherein we had a one off of Rs. 166 crores on account of change in accounting policy with respect to ESOPs, Employee Stock Option Plans. We do not foresee any such material costs in the near future for the same.

With that, let us move to the business numbers for the quarter, starting with advances. As of December 2024, gross advances totaled Rs. 1.32 lakh crore, a growth of 14% year-on-year and 1% quarter-on-quarter. However, if we adjust for the Rs. 1,266 crores of write-off done during the quarter, growth in gross advances would have been higher at 15% year-on-year and 2% quarter-on-quarter respectively.

In line with the strategic plan of product diversification, the focus is on growing the share of secured book such as housing, commercial banking and secure retail products. During the quarter, growth in advances was primarily supported by growth in the secured asset books which grew by 34% year-on-year. Our secured book now constitutes nearly 49% of total advances.

During the quarter, EEB portfolio witnessed a decline of 3% year-on-year and 5% quarter-on-quarter at Rs. 56,118 crores as a result of portfolio controls in the wake of elevated risks in the industry. However, if we adjust for the write-off, EEB book would have been largely flat on a year-on-year basis.

Growth in the non-EEB book representing 58% of advances, was strong at 30% year-on-year and 6% sequentially. This was contributed by retail assets which grew at 95% year-on-year, commercial banking assets which grew 38% year-on-year and housing which grew at 19% year-on-year adjusting for the IBPC portfolio. Retail asset growth is driven largely by auto loans, commercial vehicle and equipment and gold loans.

From a business mix perspective, EEB group lending now constitutes 27% of the total advances, small business and agri loans at 15%, commercial banking 26%, housing 25% and retail assets 7% respectively.

The Bank has also made good progress on geographical diversification, whereby share of advances in the East and North East regions have reduced by 14% from around 53% in FY2022 to 39% by this quarter. And it has increased in North, West and South regions by 3%, 3% and 7% respectively over the same period. The top five states, namely West Bengal, Maharashtra, Bihar, Gujarat and Madhya Pradesh contributed 59% of the gross advances. West Bengal contributed 23% of advances versus 25% in Q3 FY24.

I will move over to liabilities:

As of December 31, 2024, total deposits stood at Rs. 1.41 lakh crore as against Rs. 1.17 lakh crore in the previous year, same quarter, a growth of 20% Y-o-Y, which is higher than our advance growth. The Bank continues to focus on granular and stable retail deposits. The total retail deposit, which is CASA, plus retail term deposits grew by 16% year-on-year of which the growth in the retail term deposits was higher at 26% year-on-year.

CASA deposit stood at Rs. 44,735 crore which increased by 6% year-on-year. The growth is on the softer side but it is largely in line with the industry trend we see on CASA. Within CASA, savings accounts have grown by 8% year-on-year and the Bank continues to focus on building relationships across its customer base, strengthen its value proposition and garner new customers. The CASA ratio stands at 32%.

Though the share of CASA has declined on sequential basis, we have witnessed strong growth of 6% quarter-on-quarter in the retail term deposits leading to increase in the share of overall retail deposits which stood at 69% versus 68% in the previous quarter. The top five states, namely West Bengal, Maharashtra, UP, Odisha and Delhi contributed 65% of total deposit. West Bengal contributed 40% of the deposits versus 42% a year ago reflecting the reduced geographic concentration.

I will move on to collections and asset quality:

The Bank's overall collection efficiency, excluding NPA, in Q3FY25 was marginally lower at 97.6% as compared to 98.2% in Q2FY25. For the EEB book, the collection efficiency (excluding NPA) in this quarter declined to 97.4% vs. 98.1% in the previous quarter reflecting the stress in MFI segment. Collection efficiency for the non-EEB book also declined to 98.3% in Q3FY25 vs. 98.7% in Q2FY25. I would however mention that the collection efficiency in West Bengal and Assam have largely remained stable at 98.8% and 99.2% respectively over the last couple of quarters. We have however seen some deterioration in the rest of India in the book from a collection efficiency perspective from 97.2% in Q2FY25 to 96.3% in Q3FY25.

On the asset quality front, the Bank has seen incremental stress this quarter higher than expectations. The gross slippages for this quarter was Rs.1,621 crores. The increase was primarily in the EEB book, where it increased to Rs.1,196 crores as compared to Rs.752 crores in the previous quarter. Upgradation in recovery was also lower at Rs. 282 crores vs. 304 crores in Q2FY25 resulting in further increase in net slippages.

The overall EEB DPD pool, which is SMA0, SMA1 and SMA2 was at Rs. 2,118 crores representing 3.8% vs. 3.3% of EEB advances in the last quarter and reflecting an absolute increase of Rs. 134 crores quarter-on-quarter. Within this, the SMA1 & SMA2 buckets witnessed upticks.

SMA-1 book increased by Rs. 98 crores from Rs. 563 crores representing 0.9% in Q2 FY25 to Rs. 661 crores representing 1.2%. And for SMA-2 book, it increased by Rs. 113 crores from Rs. 538 crores which is 0.9% in the last quarter to Rs.651 crores which is 1.2% in this quarter.

We have, however, seen positive traction on the SMA-0 bucket whereby the SMA-0 book has decreased by Rs.77 crores from Rs.883 crores 1.5% in last quarter to Rs.806 crores which represents 1.4% in this quarter. This is an early indication of the containment of movement from Standard Book to DPD book. While these are early days, we are working hard on the collection mechanism to enhance the overall portfolio quality of the EEB book and will be very watchful of the risk which is there in the industry. Given the higher gross slippages and lower recoveries and upgrades, credit cost for this quarter was higher at 4.1%. Excluding the impact of technical write-off, this would be at 3.1%.

For the nine months ended December 2024, the credit cost was at 2.6% and excluding the impact of the technical write-off it would be at 2.2%. Gross NPA ratio as at the end of December '24 was 4.7%, net NPA was 1.3% and PCR excluding write-off was 73.5% and including the write-off was 85.4%.

I will move to profitability:

Coming to the Quarterly P&L, NII at Rs. 2,830 crores grew by 12% year-on-year. Sequentially, there was a decline of 4% and that's primarily on account of the change in product mix towards higher secured and the impact of higher slippages. Our net interest margin (NIM) for the quarter was 6.9% compared to 7.4% in the previous quarter. The sequential decline of 50 basis points in NIM is primarily contributed by the impact of the change in advances mix towards more secured as well as the higher slippages, as I mentioned. On a nine month basis, NIM was stable at 7.3%, which is within our guided range of 7% to 7.5% for this financial year.

Our net total income in Q3FY25 was Rs. 3,926 crores, an increase of 28% year-on-year. This includes the one-off gain of Rs. 538 crores on account of CGFMU payout and net Rs. 52 crores received from the Assam government as we highlighted earlier. Operating expenses grew by 35% Y-o-Y. However, if we net out the impact of the ESOP accounting change of Rs. 166 crores, the year on year growth in expenses would be 23%. The increase in the expenses is a result of investment in technology as well as growth in the volume growth for other than the EEB business. During the quarter, the operating expenses to average asset ratio was at 4.2% and adjusted for the one-off this would stand at 3.8%. For nine months basis the OPEX to asset ratio was 3.9% adjusted for one-offs it will be 3.8%.

Provisions during the quarter was Rs.1,376 crores. As we mentioned earlier, this included one-offs relating to the technical right of impact, which was Rs.336 crores and Rs.30 crores pertaining to non-banking assets. We have been very prudent in making provisions on the EEB portfolio in view of the uncertainty and the stress we are seeing in the MFI sector. Overall, as a result, operating profit for the quarter was Rs.2,021 crore registering a growth of 22% year-on-year and a net profit was Rs. 426 crores in the quarter compared to Rs. 733 crores in the Q3 FY24. The lower profit is primarily on account of higher provisions due to the stress in the MFI portfolio and the impact of the technical write-offs that we are taking.

Quickly moving on to the 9 months profitability:

For the 9 months entry December '24, NII was Rs. 8,784 crores, a growth of 18% year on year, net total income as Rs 11,002 crore, a growth of 23% year-on-year and operating profit at Rs 5,817 crore, a growth of 21% year-on-year. The Bank reported a net profit of Rs. 2,427 crores in 9MFY25 compared to Rs. 2,175 crores in 9MFY24 which represented a 12% year-on-year growth. Return on asset was at 1.8% and return on equity was 13.8% for the 9 months on an annualized basis.

Lastly on capital adequacy, the CRAR was at 16.1% including the profit for these nine months and that increased from 15.6% in the last quarter.

On behalf of the Management Team, I would once again thank you all for participating in this call, and we can now open up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question is from the line of Hardik Shah from ICICI Securities. Please go ahead.

Hardik Shah: Hi, good evening and congratulations on your appointment and heading this Bank. I have a few questions. First, I think in your opening remarks you mentioned that secured share will rise from currently 49% to 55% plus. So, point well taken, sir. Just wanted to check how would you view the share of EEB? Because I think in your unsecured, you have some proportion of the retail unsecured also. So, just wanted to check by FY27 end or maybe FY26 end, how do you see the EEB share?

Partha Pratim Sengupta: So, let me tell you as a strategy, we are now going secular on all the areas. So, our, I would say the focus will be equally on the other segments, there is the housing loan segment, the retail segment, and especially on the gold loans, and also on the commercial loans and the MSMEs. So, EEB, one thing just I want to tell you, that EEB is always has been the asset of the Bank and will continue to be an asset. But if I grow say 1x in EEB, I will grow 3x in the other segments. So, that is our very clear cut strategy and accordingly we have framed it and today if you look at our figures also, we have already increased our secured percentage from 42% in FY24 to 49% in Q3FY25. So, if we continue with this trend only, it's 55%+ what we are focusing will be achieved by FY27.

Hardik Shah: Right. So, sir, I mean, 49% going to 55% plus, this is a straight away reduction in the EEB book, right? I mean, assuming the retail...

Partha Pratim Sengupta: No, again I'm just making it clear. It is not a reduction in the EEB book quantum-wise. It is a percentage growth in the other segment is higher than the EEB growth. So, that's what I say, if I grow 100 in EEB, I will grow 300 in the other segments.

Rajeev Mantri: Just to supplement, what we have seeing is that EEB book will also grow, but at a more moderate pace and our secured book will grow at a much faster pace and as a result of which the mix will increase for the secured book.

Hardik Shah: Right, okay. And sir, secondly on MFI disbursement, so usually the fourth quarter continues to be very strong in terms of disbursement. And this year, of course, the situation is very different. How would you look at the disbursement for the current quarter, I mean, Q4? Should it be, I mean, how would you look at that?

Partha Pratim Sengupta: No, so definitely it would not be as aggressive as we have done it in the past, it would be moderated. And we have already, because of the increase in the delinquencies, because of, I would say, the increase in the slippages, we have put in some guardrails. So, since the guardrails have already been implemented, this will obviously lead to some moderation. So, in the current year, the disbursements would be much more moderated, and definitely it would be not at the same level as we have done in the last year.

Rajeev Mantri: Just to add Hardik, having said that since EEB by and large quarter four is the largest quarter for us in terms of disbursement, we are expecting sizable amount of renewals. There also as we said, we will implement the guardrails, but the numbers will obviously be available for us on renewal for the good quality borrowers.

Partha Pratim Sengupta: We will be very calibrated in the strategy on how to grow on the EEB considering the risk in the segment.

Hardik Shah: Right. But sir, it should still be better versus 3Q, right, wherein we have done some Rs. 12,000 crores.

Rajinder Kumar Babbar: Yes, definitely because as the MD sir has said, we are going for a balanced growth as compared to the EEB, the secured sector moves faster, so definitely we will disburse in the EEB book in this quarter. And we are expecting a little growth, but not as compared with the last year.

Hardik Shah: Right. Sir, on MFI slippages, right, EEB slippages, so we have seen some improvement in SMA-0, but SMA-1 plus 2 is more or less stable. How should we look at the MFI slippages in Q4 and maybe Q1 when tighter guard rails come into picture? So, would it be fair to assume the, maybe the similar forward flow to SMA to NPA, until the time we get more comfortable in the external environment or you think we have reached to a level wherein SMA to NPA should start seeing some improvements?

Partha Pratim Sengupta: So, let me tell you that slippage still a matter of concern. So, maybe the level of slippage could not be 1,196 in EEB book, what we have witnessed in Q3, but it will be substantial. So, the thing is that not much improvement in the slippages. May not be Rs. 1200 crores, maybe close to Rs. 1000 or maybe like that. But slippages, we are seeing the trend, but at the same time as you are witnessing, you see that our SMA-0 book is improving. So, towards delinquency that percentage is coming down. But those which have already slipped to SMA-2 likely chance that most of them would be actually be slipping. Likely chance is that. Because we have also put some guardrails whereby these borrowers may not get an additional finance, at least from us. So, there are chances. So, we are taking that calculated risk. But the trend is reversing. That trend is also we are witnessing. So, we are expecting Q1 of next financial year would be probably a much, much, we will have a much, much lower slippage.

Rajeev Mantri: I think just to supplement as MD sir mentioned the SMA-0 bucket we have seen slight improvement, having said that, I think the risk in the industry does continue, so that will have an impact like we have seen this quarter, so I think that impact could come through and we will be continuously monitoring how the DPD buckets actually move.

Hardik Shah: The last question is on OPEX. So, if I adjust this ESOP adjustment, even then the OPEX growth will be around 22% roughly, which is clearly higher than the loan growth and maybe topline growth. Given the phase where we are in terms of capacity building and investment, this OPEX growth may continue to remain at maybe this adjusted level of 20%-22% and higher than loan growth, will that be a fair assumption?

Partha Pratim Sengupta: So, if you look at the OPEX growth, you'll find that already the growth on account of HR, that is the salary and other allowances on the account of employees, this is already almost stagnant, it's only a 12-15 crore growth compared to the previous quarter. Just if you remove that case of accounting. The main growth is due to that Rs. 166 crores one-time accounting. So, the growth is because you see one year back, we were creating the systems. So, we have to take new talents, take new people, and also we have to invest a lot on technology. So, these things will now give you the return. So, maybe say another two quarters or so, for that year you will get a much, much more return and then the percentage growth will be much, much lower. Investment with technology will continue to grow. So, that we cannot avoid because if we want to remain in the present banking scenario, we have to make a lot of investments in technology. That will continue to grow. In respect of other expenses, I think that will be moderated. That will definitely come in because productivity will also increase.

Moderator: We will move on to the next participant. The next question is from the line of Vatsal Shah from Knightstone Capital. Please go ahead.

Vatsal Shah: Hello, congratulations for your appointment. So, I wanted to know the average maturity of our EEB portfolio?

Rajeev Mantri: Maturity on?

Vatsal Shah: Of EEB portfolio.

Partha Pratim Sengupta: So, the product is mainly maximum is two years.

Partha Pratim Sengupta: And average is around 18 months.

Rajeev Mantri: Product tenure varies from one year to two years

Vatsal Shah: Okay and if we refer to the slide which is Bandhan **plus two and three,** so is it a percentage of borrowers or is it a percentage of our AUM?

Vikash Mundhra: Percentage of AUM.

Vatsal Shah: Okay. And lastly on the yield side, so what is our yield on the EEB book I mean what yields do we operate at?

Vikash Mundhra: Disbursement yield is 22.95%.

Vatsal Shah: Okay, and are we seeing any downward revisions in terms of the yield currently?

Rajeev Mantri: 22.95 at the time of the disbursement. On an average the yield for the quarter was about 20.3%.

Vatsal Shah: Okay, on a 2-3 year basis, so we are going to shift our portfolio from unsecured to secured. And along with that, the MFI yields also are going to get depressed due to the guardrail rule coming up. So, how are we looking at our NIMs shaping up in the next 2-3 years? Because most probably it will take a hit?

Partha Pratim Sengupta: Yes, so you see, none of the universal banks give such a high NIM. I think Bandhan, the current quarter NIM 7.3 is not for Universal Bank. So, we have to accept that, number one. Number two is that, as we go more secular and we do more secured business, this NIM is definitely going to be moderated. So, that trend is also visible right now also, 7.3%, so it has come down to 6.9% during the quarter. So, that will be a little bit more moderated in the coming quarters, no doubt on it. But again, having said so, our focus is to see that our ROA remains as close to 2%. That is our focus. So, that will be achieved through more quantum of business. So, we have to increase our liability size, and at the same time, we need to increase our asset size. So, that will only give us the, and also control the slippages. So, these three steps actually will give me an ROA of around 2%. So, that's what we are aiming. The NIM, if you look, I would say, as an individual item, yes, it is definitely going to be moderated in the future months.

Vatsal Shah: Got it. That was helpful. Thank you.

Moderator: Thank you. Next question is from the line of Roshni from CLSA. Please go ahead.

Roshini: Hello, team. Good evening. Thank you so much for the opportunity to let me ask a question. I just wanted to understand that you mentioned putting in some guardrails. I just wanted to check if we are currently aligned with the 2 plus 1 member rule in MFI or is that something that's going to come in for us from April 1st onwards?

Partha Pratim Sengupta: So, the industry is still doing 3 plus 1, but we are doing 2 plus 1. So, that is one. Ours is a little bit tougher than the industry. Number two is that, the industry is giving a DPD of 60 days whereas we are taking it as a 30-day. So, we are not giving any loan to a borrower who has a record of a 30-day DPD. So, these are some of the things. Apart from that, we are in-sync with the industry that the indebtedness of a borrower from all sources, including unsecured loans, should be 2 lakhs. So, the cap is kept at 2 lakhs. So, these are the guardrails already proposed, which will definitely moderate, and which will only give us good quality of advances. That much I can say.

Rajeev Mantri: And Roshni, if you look at page 21 of the investor deck, we have mentioned that based on the scrub of our portfolio, almost 92% of our portfolio of EEB is Bandhan Plus 2. Yes. As a policy, we always follow that, but after taking loan from us, some people can go to other lenders and take a loan, and that's what reflects what the other portion could be. But it is just less than about 8%, which is greater than Bandhan Plus 2.

Roshini: Understood. Thank you so much. If you could just mention what the interest reversal for this quarter has been like. Interest reversal, do you have any data?

Rajeev Mantri: Roshni, will come back on that point.

Rajeev Mantri: So, the interest reversal for the quarter was around Rs. 69 crores.

Roshini: Alright. Thank you so much.

Moderator: Thank you. The next question is from the line of Vinayak Agrawal from Jefferies. Please go ahead.

Vinayak Agrawal: Good evening. Thank you for the opportunity and congratulations on your appointment. I have two questions. So, the share of secured loans will continue to inch up from current levels of 49% to 55% and NIMs as a result will moderate, could you also comment on how this will impact credit cost in the FY25?

Partha Pratim Sengupta: Credit cost has very little to do with secured or unsecured advances. Credit cost is more, depend on two factors. One is your total advances and the loan loss provision. So, we are very clear that we want a growth in the asset portfolio. So, maybe it may be in the form of secured assets. But we want a growth in the asset portfolio. And number two, we want a reduction in the slippages. So, if we can achieve a reduction in slippages, our provisions for loan loss will also come down. So, that will definitely improve our credit cost. So, we have an internal target of achieving a credit cost of 2%. That's where we are now working at it.

Vinayak Agrawal: Secondly, sir, if you look at the collection efficiency, we have seen a dip for the month of December versus September. Could you please explain what is driving this and what's your outlook here? That would be my questions.

Vishal Wadhwa: The collection dip that happened in Quarter 3 compared to quarter two was marginal, specifically in certain geographies of UP, Tamil Nadu, Maharashtra, and Gujarat for us. what we have seen is in the month of January, the collection efficiencies have been better in comparison to December month. So, and you will see that that SMA-0 also came down in the month of December, and that traction is also happening in the month of January is what we see. So, like we said, there is what we see in terms of the go forward, the elevations will start slowly taping up and the bucket delinquencies will come down in due course of time.

Rajeev Mantri: Vinayak, just on your previous question, as we see the stabilizing of the microfinance industry, our credit cost expectation in the near future will be around 2% overall for the portfolio and by FY27 with the shift in secured, I think we expect it to be between 1.5% to 1.6%.

Vinayak Agrawal: Thank you so much.

Moderator: Thank you. The next question is from the line of Jayaprakash from L&T. Please go ahead.

Jayaprakash: Thank you so much. As per the current scenario, this Karnataka ordinance has to come out now. So, today and tomorrow, I think we will get the blueprint of that. But the scenario, what is happening is, so have you taken some precautions or have taken some steps towards that how to tackle this?

Partha Pratim Sengupta: So, if you just look at it, our Karnataka portfolio is only Rs. 740 crores out of total EEB portfolio of Rs. 56,000 crores, so which is very small and ~13% of which is now delinquent. So, it is more or less as we have been telling that what is happening in the rest of India apart from Bengal and Assam, the trend is almost in line with that. So, we do not perceive any major risk on account of the legislation that may come. We will wait for the legislation which is coming. But as of now, because our portfolio is very little, it is only Rs. 740 crores out of Rs. 56,000, and also the delinquency trend is more in line with whatever is happening in the rest of the country, we are not very much concerned about it. But nevertheless, we will definitely look what are the legislations, what are the terms of the legislations, what it is coming and how it is going to impact us.

Vishal Wadhwa: To supplement what I can add, that the legislation is mainly towards unregulated REs. And what we have done for the regulated REs, obviously we will adopt that. Our portfolio is much smaller then, and what we have done as a proactive measure is to prioritize ensuring that we work towards protecting our portfolio and looking at stalling the growth if need be so, but look at ensuring the portfolio is protected. And out of the Rs. 740 crores, the group lending piece is only Rs. 400 crores. Microfinance by definition is only Rs. 400 crores.

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

Puneet: Thanks for taking my question. Just wanted to know how much slippages are there from the EEB book? Like if you could give comparison between Q2 and Q3?

Rajeev Mantri: 1,196 is from the EEB book.

Rajeev Mantri: So, the slippages in the EEB which is Group plus SBAL (Small Business and Agri Loans) both is Rs. 1,196 crores in this quarter and in the last quarter, which is Q2 FY25 was Rs. 752 crores.

Puneet: Okay, also sir your SMA-0 has declined but your SMA-1,2 has increased. So, just wanted to get some colors like do we expect more forward flows into the Stage 3 book? Has the Stage 3 peaked? What are you seeing? The credit cost, I know you guided for FY26 is 2%, but just for a Q4 guidance, do we see incremental slippage is declining, especially from the EEB book? Any color on that?

Partha Pratim Sengupta: We are expecting decline in the incremental slippage, but as I've said that the greatest comfort is that the SMA-0 book is declining. That means the tendency towards delinquency is coming down. That is the greatest comfort. SMA-2 I think a majority of them would that we are already taken into account. But going forward again from Q1, we expect that the cycle would just be reversed, and the slippages would be much, much less.

Puneet: Got it, sir. That's it from my side.

Moderator: Thank you. There are no further questions from the participants. I would now like to hand the conference over to the management for closing comments.

Rajeev Mantri: Thank you. I'd like to thank all the investors and everyone to join this call and like MD sir to say something.

Partha Pratim Sengupta: Yes. So, this was my first Investors Call after taking over the charge of MD & CEO of Bandhan Bank. Thank you all for participating. And to all the investors, I can assure that Bandhan will continue to grow from strength-to-strength. Thank you all.

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