"Bandhan Bank Limited
Q1 FY '24 Earnings Conference Call"
July 14, 2023

MANAGEMENT: **MR. CHANDRA SHEKHAR GHOSH – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – BANDHAN BANK LIMITED**
MR. RATAN KUMAR KESH – EXECUTIVE DIRECTOR – BANDHAN BANK LIMITED
MR. SUNIL SAMDANI – CHIEF FINANCIAL OFFICER – BANDHAN BANK LIMITED
MR. SHANTANU SENGUPTA – HEAD RETAIL BANKING – BANDHAN BANK LIMITED
MR. VIKASH MUNDHRA – HEAD OF INVESTOR RELATIONS – BANDHAN BANK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Bandhan Bank Q1 FY24 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 this conference, please signal an operator by pressing star and 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, sir.

Vikash Mundhra: Thank you, Dorwin. 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 2023. We will take this opportunity to update you on the recent development in the industry as well as on Bandhan Bank during the quarter. To discuss all this in detail, we have with us our Managing Director and CEO - Mr. Chandra Shekhar Ghosh, Executive Director - Mr. Ratan Kumar Kesh, Chief Financial Officer - Mr. Sunil Samdani, Head Retail Banking - Mr. Shantanu Sengupta and myself Vikash Mundhra, Head of Investor Relations along with other senior management team of the bank.

We will be happy to provide you with any clarity if required on the current quarter numbers and the way forward. Now I would like to request our MD and CEO Mr. Chandra Shekhar Ghosh to brief you all about our bank's operation and financial performance along with developments for the quarter ending June 2023. Over to you, sir.

Chandra Shekhar Ghosh: Thank you, Vikash. Namaskar. Warm welcome to all of you. After the strong financial year 2023, I am pleased to state that April to June 23 quarter has also been a stable quarter for the bank. I will take you through some of the key figures. The macro backdrop continues to strengthen. India looks set to remain world's fastest growing large economy. India's GDP is expected to grow at about a strong 6.5% during financial year 23-24, with the prospects of strong private consumption and services sector growth.

Despite the late onset of monsoon weather disruption in few states and delayed showing during Q1 ‘24, the gradual improvement in rural demand may continue in the coming forecast of a near normal monsoon by IMD-II. Despite the policy, under uncertainties in advanced economies, India's inflation of 4.6% year-on-year during Q1, financial year 24, suggests the limited risk of further hike in interest rate in the near term. Prospects of decent GDP growth and stable interest rate environment should help the momentum in Indian BFSI sector in the coming quarter.

Having said that, one must note that the first quarter of the financial year is often seasonally a somewhat softer patch for several entities in the financial services industry. Thus, quarter on quarter figures, sorry, quarter on quarter figures should be analyzed and interpreted carefully. During Q1FY24, Bandhan Bank's overall advance have shown a 6.7% growth year on year and a marginal decline in quarter on quarter. The quarter on quarter decline in loan book is primarily because of two reasons.

We have seen a quarterly decline in the microfinance book around a 10% quarter on quarter. Primarily due to seasonal factors and because of weather disturbance in a few states. Historically, also, if you've seen, for the last two financial years, we have always shown a quarter one, quarter drop in a similar range in quarter one in our microfinance book. Second point, we also seen that, as indicated earlier, we had a short term loan against the fixed deposit of which a single large account of INR2,151 crores has been repaid in Q1FY24, which helped us to be grown of the book of advances. However, growth in case of retail asset and commercial banking continued to be impressive.

The retail loan book, other than the housing finance book, consisting of personal loan, gold loan, two wheeler loan and auto loan has grown by nearly 87% year on year. The commercial banking vertical consisting of financial institution group and SME registered a growth of 78% year on year and nearly 7% quarter on quarter. The housing finance book, sorry, the housing finance book, which faced issues last quarter has come back to normal and has registered a growth of about 9.5% year on year.

The share of secured assets as a part of our total loan book continues to increase. It crossed 44% in quarter one, financial year '24, as against 36% in financial year '22. We expect that approximately half of our book should be secured book by financial year '26. On the liability side, deposits at INR1,08,000 crores as at end of June 2023. Recorded a growth of 16.6% year-on-year, stronger than the industry growth rate of around 12%. Due to our focus on granular retail deposit, our retail term deposit book has grown by around 17% year on year.

The retail to total deposits ratio continues to hold above 71%. Customers continue to respond to their trust in the bank. Let me put forward a few data points in substantial the same. Our total number of liabilities customer increased by 11.5% year on year and 3.4% quarter on quarter. Volume of total customer transaction increased by more than 50% year on year, 9% quarter on quarter. Total value of transaction has also increased by 15% year on year, 5% quarter on quarter.

Our overall digital transaction have recorded an increase of 49% year on year with average digital transaction per account going up by 33%. All these parameters shows that the bank are performing the deposit, especially in the retail segment is very good and future it will be like to continue very good growth of this deposit. CASA deposit came in slightly lower on account of seasonal impact compared to the previous quarter, but still stands at a healthy 36% at INR39,077 crores.

This drop in the quarter has been seen across the industry, but we have the confidence on our customer and my team will be again come back on that which is projected 40% of our CASA growth, CASA percentage. I would like to specially highlight that microfinance customers contributed only less than 4% of our total deposit. We have seen good improvement in the overall collection efficiency for the bank. Overall collection efficiency, excluding NPA stood at 98% for the quarter end June 23, up from 96% from the quarter ending June 22.

The bank has registered a net profit of INR721 crores during the quarter 1 financial year '24 against a net profit of INR887 crores in quarter 1 financial year '23. Our net interest income in quarter 1 financial year '24 came in at INR2,491 crores, broadly similar to INR2,514 crores during Q1 FY23. However, sequentially it is also stable at INR2,472 crores in quarter 4 financial year '23. Our net interest margin stood at 7.3% in quarter 1 '24, same as that during quarter 4 '23. It is a very strong parameter for the bank on that.

The NIM has continued from the last quarter, also the same in this quarter. Total credit cost for quarter 1 '24 was 2.4% compared with the 2.9% quarter 4 '23. Our gross NPA in quarter 1 '24 stood at 6.76% compared to the first quarter of the last year, 7.25%. Our net NPA has come 2.19% and what was in a one year ago, 1.92%. The bank delivered an ROA of 1.9% and ROE 14.4% in quarter 1 '24. This quarter, we have added about 130 branches, over 70% of which are in northern, southern and western zone.

We have added about 7 lakhs new customers in this quarter. What is the future? We have made considerable investments in people, technology and infrastructure in recent years. We expect that from the current financial year, the bank will start yielding positive results of these investments. Of late, we have initiated several steps to boost cross-sale and branch-lead sales to grow the retail assets and liabilities portfolio and also to increase productivity for employees supported by our digital and analytical initiatives.

Financial year '24, we expected to grow our advances by nearly 20% plus and a little higher rate for deposits growth through '24. We expect credit cost to remain around the 2% with a variance of 20 basis points. Pooja is coming near future, which is this quarter, which is second quarter. We've seen that Pooja has been helped us to credit growth again, will be start for this year.

And whatever we have been declined, we'll be like to recover by the March, with our growth of the bank of advanced 20%. I wish you and your family all the very best. Thank you.

Vikash Mundhra: Thank you, sir. Now I would like to request Mr. Sunil Samdani to give you some more details on the financial parameters in the quarter. Over to you, sir.

Sunil Samdani: Good evening, ladies and gentlemen. I would want to take this opportunity to take you through some of the key highlights of the quarter in terms of financial numbers, starting with collection efficiency. The collection efficiency excluding NPA customers continues to be healthy at 98%. The full paying customer continues to be reasonably high at 96%.

Now moving to the DPD movement, you will witness that quarter on quarter, the movement in DPD has been stable with two major changes. One is 61 to 90 bucket and the NPA bucket. As far as the movement in 61 to 90 bucket, I would want to mention here that the ECLGS loans, which we have classified as NPA during the quarter, pursuant to change in IRAC norms by the regulator. These were earlier shown as stressed assets and were forming part of 61 to 90 day bucket.

And the NPA, as we discussed the slippages number, will make it amply clear as to how to view this NPA number. Now first, let me take you through this adjustment of ECLGS. As Bandhan, we have taken this guarantee under NCGTC two schemes. One is the ECLGS fund and the second is the CGFMU guarantee. As far as CGFMU guarantee goes, since it was in the nature of insurance, where we pay the insurance premium to get that guarantee, whenever the customer crossed 90 DPD, we used to mark it as NPA and accordingly take provisions against them.

As far as the ECLGS loan goes, these are 100% guaranteed by the NCGTC fund and since there is no insurance premium, there is no premium paid and it is not in the nature of insurance. As for the IRAC norms, then, since they are government guaranteed, we had not classified them as

NPA. However, looking at the nature and the repayment track record, we feel that these are stressed customers. Accordingly, we used to classify them in SMA-2 buckets, which is 61 to 90.

Now what changed? Starting 1st April, the new IRAC norm circular came in, which made it amply clear that all loans granted under the umbrella of NCGTC and the CGTMSE should be treated as NPA. Further, they said that banks are permitted not to make provisions against these exposures. So where do we stand against these new norms?

So as mentioned earlier, the ECLGS pool, which was part of our stress pool under SMA-2, we mark it down to NPA. As far as CGFMU pool goes, that pool always was marked as NPA and continues to remain NPA. While the circular clearly says that the banks are permitted not to make any provisions, as a prudent and conservative measure, we have a coverage of 86% in terms of provision over these loans of NCGTC under ECLGS and CGFMU.

So that's the material change for the quarter. How does it impact our stress pool? It has absolutely no impact on our stress pool because the ECLGS was earlier also classified as stress asset as part of SMA-2 and it continues to remain stress asset now under NPA. So what's our stress pool looking like in March 23, this amount was INR 55 billion, with a stress pool coverage of INR55 billion, with a provision of INR38 billion, and the CGFMU guarantee of INR17 billion.

In June 23, this amount goes up to INR62 billion and the coverage increases to INR103 billion with INR21 billion of guarantee cover and INR43 billion of provisioning in place. I would also want to take you through the slippages during the quarter. During the quarter, we had a slippage of INR13.6 billion. I'm talking here the gross slippages. And if I have to break this number of INR13.6 billion, about INR9.2 billion comes from the EEB. INR2.2 billion comes from housing and the rest from the other businesses.

How do we read these slippages and what's the status on the recovery or upgrades? As you are all aware, during the last six months, starting December 28, we had sold a substantial pool to ARC and have also got a guarantee repayment from the NCGTC of INR916 crores. So as a result of that, any recovery in those accounts, we have to first pay to the NCGTC, if it's an NCGTC customer recovery, or if it's an ARC customer recovery, we pay to ARC as per the terms of agreement, till their claims are satisfied.

Now let me first clarify on the slippages number. The INR2.2 billion or the INR220 crores of slippages that we saw in housing is more of the initial issues that we faced during the new system implementation. These customers flipped and we had an immediate upgrade out of which of INR1.6 billion or INR160 crores. So technically, the other way to look at the slippages of INR13.6 billion would be to reduce this ~ INR2 billion from that.

Secondly, since we have sold this portfolio, a large chunk of it, to ARC and we've received the claim from CGFMU in the month of December, the recoveries that we do from our customers are allocated towards repayments to these two entities. So while the recovery is an upgrade number, in our balance sheet looks at INR2.8 billion or INR280 crores, the real recovery from the customer stands at INR550 crores. The rest either goes to ARC or to CGFMU.

So this being the first quarter, after those material transactions, which happened at the end of Q3, which is 28th of December and in March, the real impact of recovery is felt in these quarters, wherein the bulk of the recovery go to the outside agencies.

Now where do we stand on the ARC pool that we have sold? How much more we need to pay to them? As you all know, we did this transaction in two tranches, one in December end and the other one in the March end. In the December end, the contribution from the ARC and the investor was INR414 crores. Of that, the total collections we have made is INR424 crores, which effectively means that by the end of this quarter, I mean the second quarter, we would completely repay our obligations towards the tranche we did in December '22, including the IRR.

This effectively means any further recovery towards this portfolio will start flowing into the bank's P&L, and that's where we will see these numbers improving in terms of recoveries and upgrades. As far as the other pool goes, which is the pool which we had done it in the month of March, the total receipt of those two pools between the write-off and the NPA portfolio was about INR362 crores, of which INR250 crores is something that we have already collected.

So clearly we see a scenario starting H2, this recovery of close to INR300 crores per quarter should start flowing into the bank's P&L. Thank you very much for your patient hearing. I'm sure you'll have few questions. Happy to take them. Thank you. Darwin, please start the Q&A part.

Moderator: Yes. Thank you very much. The first question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Hi, good evening. So over what time frame do the DCLGS, NCLs lead the book?

Sunil Samdani: Mahrukh, can you please repeat your question please?

Mahrukh Adajania: My question was that, these are covered by guarantees. So over what time frame do these ECLGS NPAs move out of the book, as in get resolved? You know, you can recover the guarantee and I mean, you can get the guarantee and resolve them, right?

Sunil Samdani: Sure, sure. So here, now, there is a difference between the processes of claim that we do between CGFMU and the ECLGS. Currently, under ECLGS, you have to upload a single case by case detail into their portal. And that's where they have a constraint in terms of the processing. And that's why this process of claiming is slightly slow because of the capacity constraints.

On the other hand, the CGFMU is a bulk upload that happens faster. What we are given to understand, a similar facility of uploading bulk, or through a confirmation through CIC is underway, and that should help speed up the processes of recovery, the ECLGS Guarantee Loan. And hopefully, in another three months, or max three to six months, we should be able to recover the entire ECLGS thing.

Mahrukh Adajania: Got it, that's helpful. And my next question is, just on the SME pool, right? So on an average, how much do you see would accrue to the SME pool every quarter from now on?

Sunil Samdani: No, before I take your next question, just to add to your first question, that of this ECLGS book of INR580 odd crores, this quarter we have received close to INR85 crores.

Sunil Samdani: Sorry, I interrupted you. Can you please repeat your next question?

Mahrukh Adajania: So on a normalized basis now how much what is the ballpark range of accretion to as 1 to 30 DPD? I mean any range you could suggest?

Sunil Samdani: So normally with 98% collection efficiency that accretion should not be more than 2%. We've always seen in our business there is an element of seasonality where the Q1 disbursements are lower. And because of the flood season, the monsoon season, the movement into the DPD bucket is slightly higher in the first two quarters, vis-à-vis the last two quarters. Particularly Q1, where the slippages are the highest and then keeps on reducing as the quarters go by. So we expect the slippages number to reduce starting second quarter onwards.

Mahrukh Adajania: Okay, makes sense. And my last question is, so what kind of recovery through the income statement could we expect from ARC sales in FY '24?

Sunil Samdani: So as I said, for this quarter between repayment of ARC and CGFMU, the total amount is INR270 odd crores, between 2.3 billion in the ARC pool and 42 million in the CGFMU pool. 420 million, I beg your pardon. So both put together, it's about INR270 odd crores in Q1. And as I said, Q1 is historically the weakest quarter. So that's the minimum we should look at.

Moderator: Thank you. We have the next question from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Yes, hi thanks for the opportunity. So firstly, if you can share a data point on the interest reversal that we had during the quarter. And how do you see, therefore, the margin because despite the reversals -- margins have still held up well. So how do you see that going ahead?

Sunil Samdani: So here again, Nitin, I'll break this portfolio into two parts. The ECLGS pool with FLIP, and the other than ECLGS pool. ECLGS, we had reversed the interest long back, as and when it became 90 plus, though it was never classified as NPA as per the extent RBI guidelines and we never accrued interest on that. So the reversal on that pool was not there. For the other businesses, that reversal number, I will just get that number and I'll tell you.

Nitin Aggarwal: Right. And Sunil, while on ECLGS, you mentioned that the money is expected in three months, maximum six months, but on CGFMU, like how that organization taking up to the big claims that you are facing with them, do you expect the money to come on time because there is one more tranche that is expected on FY '25. So can there be delays here?

Sunil Samdani: No, sir. We don't see a delay there other than the procedural delay. We expect that money to come in by July end or at best August first half and that's the expectation, we are working on.

Nitin Aggarwal: Right. Okay, sure. Thanks so much. If you can let on just with the reversal number.

Sunil Samdani: Thank you.

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

Jai Mundhra: Hi, good evening, sir. My first question is on provisions, so total provisions last quarter was some, what is the quantum of total provisions? We have given INR4,300 crores provisions for EEB, but what would be the total provisions, including all contingent, etcetera?

Sunil Samdani: The total provision as on June end stands at INR57.5 billion.

Jai Mundhra: And sir, it is largely unchanged from last quarter around INR50.8 billion, something?

Sunil Samdani: Yes. So it has gone up by INR7 billion odd.

Jai Mundhra: Sorry, you said INR57 billion.

Sunil Samdani: INR57.25.

Jai Mundhra: Okay, sure. So sir that suggests that, so what I am trying to calculate is the PCR on the non-MFI businesses also, while of course, they are more secured, they have housing and commercial, but still it looks like that the PCR on the non-MFI business is relatively lower. Maybe that is the, that the nature is secured, so maybe that is still okay, but is that the math roughly right?

Sunil Samdani: No, so I'll give you the broad break up. On the SME loans, we are covered around 58% in terms of PCR. The retail is about 45%, and the housing is about 40%.

Jai Mundhra: Okay. Sure. Great. Second question, Sunil is on SMA 0/1/2 number, right? So despite I can adjust the INR580 crores from which have gone out of SMA 2 pool. But if I look at SMA 1, 2 adjusted for this INR580 crores loan, that is fairly unchanged. Even the SMA 0 has actually gone up only. So while the collection efficiency has marginally lower from 98.5 to 98, the SMA pool is still unchanged. So, any thoughts there?

Sunil Samdani: So, in a scenario, where the collection efficiency has dropped by 50 basis points, and the SMA numbers have remained flat. one should look at it positively, because a steady state credit cost number, we are paying 2%, so which effectively means, the flow rate from current in NPA at some point of time has to be in that range of 1% to 2%.

Jai Mundhra: Okay. Right. And safe to say that all this, the entire ECLGS, linked loans have already been downgraded to NPA and nothing of such kind can reoccur, right? Because it would have done at the entire portfolio level across people who are, let's say, even... Okay, so mostly all these were the only, technically 90 DPD only?

Sunil Samdani: 90 DPD plus, yes. So if you recollect, my total ECLGS disbursements were close to INR4,000 crores, when we did it in 2021. The outstanding pool today is less than INR600 crores, which effectively means that, I have recovered close to 90% of that customers.

Jai Mundhra: Right. Understood, sir. Yes. Thank you so much and best wishes for future, sir.

Sunil Samdani: Thank you.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Sir, just two questions. One is you have got it for this 20% loan growth. So that means nearly 30% growth from your first quarter numbers. So how do you think about that, especially in the context of you said that, the diversification needs to be higher. So fair to say that, one should expect a very sharp pickup in GRUH, housing finance business going ahead? I'll come back to that.

Sunil Samdani: I should be glad. On the number side, let me tell you. We've always seen a de-growth in first quarter. So last year, when we ended at 10%, 11% growth, it was on the back of almost 11% either return off or sale to ARC. Adjusting for that, it was a close to 16-17% growth, with the same situation of close to 8% drop in first quarter. So that's on the number side and Mr. Chandra, do you want to add on the growth?

Chandra Shekhar Ghosh: No, what you say that, if you look on that in the last year, first quarter, there is also microcredit, INR5,000 crores have been down, declined. And this year also INR5,000 crores declined. And micro finance loan, we have disbursed in the last year INR8,200 crores. This year also first quarter, we are disbursing INR8,000 crores. So in that sense, if we see that there is a similarity of the last year first quarter and this year first quarter is the same point.

And the next point on that, this growth actually starts as coming from the one month before from Pooja. And it will be like to September, it will be in this year and come. Sometimes Pooja will be like to September, then it will be starting August. So this is the way, we have been seeing in a trend of the last 20 years. So, I have the confidence on that this year, it will be again, this quarter, it will be come to again.

Again, another point I feel that. So whatever we have seen that the decline in April and May, June we have been seeing that very much very minor INR200 crores is a difference between outstanding and the decline point on that. And whatever we see that in July, it is going on that such a way, I feel that the July will be also not going down further. For that reason I have the confidence on that the 20% plus growth, it will be happened in the bank, not any problem.

Saurabh Kumar: Sir, if I can just ask about this 20%, how much would you expect the microfinance business to grow by?

Chandra Shekhar Ghosh: Microfinance growth, we have been given the 17% of that.

Saurabh Kumar: Okay. And the second question, sir, is effectively, if your first quarter collection efficiency is 98%, so I just want to know if this 2% which slips into this SMA 0, what should be the expected credit loss now on this? Because this is just, on-time collection, right? So what should be the credit cost? Should it be around 1.6%, 1.8%?

Chandra Shekhar Ghosh: No, I have been looking in a different way on that. The one quarter, which is in my portfolio has come as a decline. That is also a little bit impacted to the collection efficiency. This is also a seasonality. That not means it will be continuing the full year and quarter on quarter basis in line, no. If you go to that, it will be improved again from the second quarter. And it will become on that, if you say that compared to the last year first quarter, it was a 96% collection efficiency. It has come to this, the 98% within a one year on that, 2% increase.

So we expected on that, that this financial year, when it will be like to next financial year, it will become better than that percentage. So in that sense, on the basis of quarter first, we cannot be count only the credit cost. Credit cost counts the total year performance.

Saurabh Kumar: No, I got that. But effectively, your collection efficiency is 98%. So 2% is slipping forward. I just want to know, typically, what is the loss rate on this, or the NPA rate on this 2%?

Chandra Shekhar Ghosh: I hope that, it will be that, we are thinking on that the 2% will become on the credit cost.

Sunil Samdani: Which is overall, not on this pool. So broadly, between the SMA buckets, right, we've seen that, 30% to 40% remains in the SMA, once it crosses the 60-day DPD and the rest flows, between 30 days and 60-day DPD. So that is how one should look at it.

Saurabh Kumar: Sir, my limited point is basically you are basically presenting to us that the SMA pool and the NPA pool is fully covered. So I just want to know from an incremental basis, if your collection efficiency remains at 98%, what should be the core microfinance credit cost? I mean from an incremental slippage basis. That's the limited point I'm trying to get at.

Sunil Samdani: So then on the incremental side, it should be around 2.5% on the EEP portfolio because there are two things. You look at 98% collection efficiency. The other number which is also important to look at, is the full paying customers. The full paying customers today stand at 96%, which means, there are 4% customers whose DPD is constantly going up. Right, they are paying half of their installments, which means that benefit is coming into the collection efficiency, but that benefit doesn't come to the DPD. That's why we say that.

Saurabh Kumar: Okay, got it, thank you.

Moderator: Thank you. We have the next question from the line of Prakhar Agarwal from Elara Capital. Please go ahead.

Prakhar Agarwal: Yes, hi, sir. Thanks for this opportunity. I have two questions. One is, you at the start of the call mentioned that, the credit cost guidance will be 2% with a variance of 20 business points. What makes you add this 20 business points? Because last quarter, we said, last time when we had this call, we said that credit cost will be around 2%. And with the type of confidence that we are showing in our improvement on asset quality, what makes you increase the guidance on this or on variance on this credit cost?

Sunil Samdani: No, I'm not confirming that, right? We would want to keep that something in our hand for future, which is unknown. Our endeavor is to keep it within 2%.

Prakhar Agarwal: Got. No, so the thought process of asking this is, we did not highlight this in the last quarter. So has there something changed in one quarter for us to add the variations or?

Sunil Samdani: No, nothing that one should read here. As we are talking about that 2% credit cost 20 basis point up and down.

Prakhar Agarwal: Got it. And second, is on the update, any update on the core banking transition that you probably asked that were to happen for other portfolio apart from housing. What is, when is going to happen and what is the sort of impact that probably see given what we are aspirationally targeting in terms of growth of 20% and the run rate that is required. Could there be some sort of impact on that front because of this core banking transition, if that's happens?

Sunil Samdani: So I request Ratan to take that question.

Ratan Kesh: Hi, Prakhar, like we meet last time, couple of weeks back, we said that we would definitely make an endeavor to make sure that in Q2, we do the migration. Given that it's a mega migration, we are actually deciding whether to go big bulk in one go or we would like to sort of go in maybe two phases. That decision that we will take internally depending on how things go. So Q2 definitely we will go live for a big chunk of it for sure.

Will there be some disruption for a period of two weeks to three weeks in such a migration? There could be. But the upside is significantly higher, and therefore, you may see some disturbance for maybe a couple of weeks or a little more than that. But it will come back with even more benefit in the next few weeks.

Prakhar Agarwal: So that is it from my side. Thanks a lot.

Ratan Kesh: Thank you.

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

M Mahesh: Hi Sunil, just one clarification. This INR920 crores of slippages from the EEB book, that has no one-off right?

Sunil Samdani: No that has no one-off.

M B Mahesh: That slippage is also quite high, right? Even if you just look at that slippage, just the INR920 crores coming from your core business, that itself is points to still a very high slippage number on the MFI book.

Sunil Samdani: I agree with your point that it's slightly higher than our liking. But that typically happens in Q1, which is, for lack of better words, I would say, a sluggish quarter for us. But incrementally, if you break it between April, May and June. The June month has been around little less than INR200 crores or around INR200 crores. Okay.

M B Mahesh: If I just kind of look back, 1Q, FY '23, there the slippages have been much lower in the MFI book, but this year has been worse off than even last year.

Sunil Samdani: No, Q1 is not comparable last year. Our book was under moratorium. Half of the book came out on 1, April and the other half came out in 1, July. So any which way, April and none of them would slip into NPA in Q1.

M B Mahesh: Okay. Just one other clarification. This notification had come off in April 1.

Sunil Samdani: Yes.

M B Mahesh: You could have flagged this in the previous quarter, right, in the quarterly results. Any reason why this was not kind of told at that time?

Sunil Samdani: No, but that doesn't change, Mahesh. These were anyway part of the stress pool and they continue to be part of the stress pool. We don't need to take any provision, but we continue to take provision the way we used to have it. So nothing changes as far as the risk on the bank goes.

M B Mahesh: No, sir, you do say that it's a material item for the quarter, but given that this notification had come on April 1, wouldn't it have been better if this was told in the previous quarterly results?

Sunil Samdani: I appreciate that. Whether we say it in the first quarter, then the question comes if you believe it is important, then why didn't you factor it in Q4 results? Which I would not have been able to factor it in Q4 results, because my auditors would not allow it. It is applicable from this financial year. So if I say that this is something which you need to factor in Q4 itself, then the other side, which is the auditors, will push me to -- will tell me that I won't allow you to factor it.

M B Mahesh: Okay. Perfect, sir. Just one question to Mr. Ghosh. These expenses continue to run quite sharply for a business which has completely slowed down. How should we see into this?

Chandra Shekhar Ghosh: No, if you see that the cost to income ratio, that's since if you see that my cost to on asset are remain that 3.5%. It is not change anything on that. Only that point, because of the seasonality, my income has come down. And the second thing is that I have been open the 130 branches in this quarter. And there is also a little bit cost has given. It is not the cost. It is an investment of the bank. So we are, which is predicted on that we would like to get back on that cost to income ratio.

M B Mahesh: Okay, thanks a lot.

Sunil Samdani: Thanks.

Moderator: Thank you. The next question is from the line of Darpin Shah from Haitong Securities. Please go ahead.

Darpin Shah: Yes, thanks for the opportunity. Just to continue on this migration or system upgradation part, when we are saying that most of the bulk will be done in 2Q, after that we are expecting a 20% growth in the overall book, is that right, Sunil?

Sunil Samdani: Yes, we'll go into it.

Darpin Shah: Okay. But just to again, last con call, in the 4Q con call, you had mentioned growth of around 22% to 25%. So why there is a dip of almost say 300 basis points or 500 basis points in the guidance?

Chandra Shekhar Ghosh: No, we are strict on that 20%. Always we are talking about the 20%.

Darpin Shah: Okay. Thank you.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Param Subramanian from Nomura. Please go ahead.

Param Subramanian: Yes, hi. Thanks for taking my question. I just wanted some clarity around this ECLGS exposure. So this INR580 crores, this is the gross exposure to all those borrowers, right? Not just the 20% part that is guaranteed by the government. Right, Sunil?

Sunil Samdani: No, so two things here. Firstly, this is the entire exposure. INR580 crores was at the beginning of the quarter. During the quarter, we've recovered INR85 crores. That's one. Two, ECLGS, there is nothing 25%, 75%, 100% of the loan is guaranteed.

Param Subramanian: Okay, so this entire INR580 crores is guaranteed.

Sunil Samdani: Yes.

Param Subramanian: And that is the gross exposure to all the borrowers to whom this INR580 crores has been given out, is that, that reading is correct, right?

Sunil Samdani: Yes. And outstanding today is a little less than INR500 crores.

Param Subramanian: Okay, got that. Just a bit of clarity around this again. So you're saying here that you have a coverage of 86% on this, and you had this previously also. So I just wanted to understand how you're attributing the PCR drop quarter-on-quarter to this ECLGS part. If you could just run us through that quarter-on-quarter PCR drop, how it's coming through because of the ECLGS? Yes.

Sunil Samdani: No, so what we are saying is between CGFMU and ECLGS together, we have a coverage of 86%. Since it's a 100% guaranteed loan, ideally the law requires, the regulator says that you don't need to make provision, but between the guaranteed portion of CGFMU and ECLGS together, we have 86%.

Now let me tell you one more point. If you look at my Q4 FY '23 presentation, we have mentioned there that 99% of my NPAs are government guarantees, if I may loosely, though it is strictly called the CGTMSE or the NCGTC guarantee, are covered under these guarantees. So that was the case in March '23 and it continues to be the case even in Q1.

Param Subramanian: Okay. Got it. Yes, just one more question. This is on the DPD movement. So the slide on, Assam portfolio is DPD. So, the quarter-on-quarter, doesn't seem to show any uptake across DPDs for Assam, despite the floods. So is there any impact that we could expect coming into Q2 or is this largely recognized? Yes, that's it for me. Thanks.

Sunil Samdani: So the Assam flood impact is not material. Even if it comes in Q2, we don't see it to be materially impacting our numbers because our collection efficiency there continues to be healthy.

Param Subramanian: Okay, fair enough. All the best. Thank you so much.

Sunil Samdani: Thank you.

Moderator: Thank you. We have the next question from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: Yes, good evening and thanks for taking my question. So the first question is around NIM and cost of deposits, right? So you said in your opening comment that loan growth would be around 20, deposit growth would be higher, LDRs would continue to go down. CASA ratios probably would end the year lower than 39.5 or your period end number for FY '23. And so incrementally, how do you see NIM sustaining at this level? You gave a guidance of I think, 7%-plus or something. So don't you think there should be NIM pressure going forward?

Sunil Samdani: Clearly, we've given a range of 7% to 7.5% and we absolutely not see any reason why should we change that range. Despite our CASA ratio dropping, and more importantly, the CA share dropping within CASA, we've still been able to maintain this. We believe, we will be able to reverse it, I'm talking about the CASA ratio, and if that happens, there is no reason to believe that we will not be in our guided range.

Abhishek Murarka: And Sunil, just to touch upon cost of funds or cost of deposits particularly, even if you start creating more CASA, incrementally the rate differential between a TD and SA, is still pretty high. So your incremental funding will still come from TDs, plus there's a bad book repricing. So your cost of deposits, which have gone up, I think 50 basis points, 60 basis points Q-o-Q, what kind of trajectory do you see that taking from here, let's say, over the next two, three quarters?

Sunil Samdani: Now see, so this cost of deposits, which has gone up is for two reasons. One is you're right, the TD repricing will happen. And that impact, if I have to take March '23 as a base, is about 68 basis points, if everything has to reprice at today's date. The large part of the impact in Q1 is because of the mix change, which we are confident that we will be able to bring back that mix.

Abhishek Murarka: We are seeing additionally around 60 basis points, 70 basis points of repricing is yet to be done or some part of it would have happened?

Sunil Samdani: Not on today's cost. I'm saying on March '23 base.

Abhishek Murarka: On today's cost, how much is left to be done? I guess that's the more important number.

Sunil Samdani: So I don't have that number handy. I will have to recalculate that. We had done that on the March '23 base. So we will do that and we can share with you offline. What is also important is the yield on advances which we have seen going up and will continue to grow up, as our assets on the advances get repriced.

Abhishek Murarka: Sure. Okay, thanks. And secondly, on your branch addition, last couple of quarters, we've added quite a bit of branches. Also, we are hiring to probably man those branches. So, what's the plan for the rest of the year?

Sunil Samdani: So, in all, we are looking at 1,600 branch counts by the end of this financial year. I would request Shantanu Sengupta to share -- answer this question.

Shantanu Sengupta: Yes, okay, so first of all, thank you for the question. So we are getting closer to about 1,700 odd branches as we move forward. And to your question in terms of how we are evaluating this, we are seeing good traction in each of these branches as we come up. So that is the plan. And we do believe that some of these incremental branches which will come outside of West Bengal will add value to our overall deposit growth. So that's the plan that we have on the new branches.

Abhishek Murarka: And Shantanu, if I look at your, let's say, employee per branch ratio, it was a north of 50. Now we've added a lot of branches, so that's gone to maybe 45, 46. So you'll probably get back to that 50 range or 50-plus range or do you see more structural, lower employee per branch kind of ratio?

Shantanu Sengupta: Yes, so basically if you look at the model, the way it works, the recruitment happens up front, so as we sort of move forward, we'll start seeing the results coming out of additional resources that we're taking in. So I think to your point, as we move forward, we need to have people on board to actually start generating business from these branches. So that's the background.

Sunil Samdani: So we have to recruit at least two, three months ahead of opening of a branch. So that's why that headcount cost and the number has already been factored in.

Shantanu Sengupta: Actually, Yes.

Abhishek Murarka: Understood. Got it. Thanks so much for answering my questions. Thank you, and all the best.

Shantanu Sengupta: Thank you.

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

Nitin Aggarwal: Yes, hi. Just a small question on collection efficiency, again. While Sunil, you mentioned that the drop is slightly due to seasonal factors and monsoon also, but Assam and West Bengal, both have still improved. Now that the other states are forming the majority of the EEB book, so any specific states which have contributed to this decline?

Chandra Shekhar Ghosh: If you see that businesses in Maharashtra and Madhya Pradesh and Delhi.

Nitin Aggarwal: Okay. And sir, will these be the three states in terms of the proportion of EEB book also in that ranking?

Sunil Samdani: No, so for us after West Bengal, it's Bihar followed by UP, then Assam and then MP and Maharashtra.

Nitin Aggarwal: Right, sure. Thanks so much, Sunil. Thank you so much.

Management: Thank you.

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

Prabal: Yes, hi. Thank you. Thanks for the opportunity. Sir, what is the outstanding restructured book for us.

Sunil Samdani: Zero. When I say, zero means none of my customers are currently under any restructuring benefits, whether it's moratorium or any change. That has come out long back since September '21.

Prabal: Okay. Thank you. The second question is sir, on the ECLGS loans. What is already into 90-plus DPD and because of the RBI circular, they were classifying it into 60 DPD to 90 DPD?

Sunil Samdani: So it's a government guaranteed loan. So as per the IRAC norms, the government guaranteed loan cannot be classified as NPA. But since they were DPD loans, so we thought that if we can't classify them as NPA, at least call them a stressful and we showed them as SMA2. And they were always part of our stress book for the last few years.

Prabal: And just one clarification, so in the beginning MD sir said that there was one account of INR2,200 crores which was repaid. So can you talk about that?

Sunil Samdani: No, it's a loan against term deposit account. So we had a large deposit from a government entity. So they had taken a loan against that term deposit for a short tenor of seven days and that got repaid in the first week of April.

Prabal: I'm just curious, why was the 2,000, INR2 crores account classified as a retail into the retail book?

Sunil Samdani: It was never classified into the retail book. These are time deposits and anything above INR2 crores as per our definition at a customer level is treated as bulk.

Prabal: Okay, got it. Thank you. All the best.

Sunil Samdani: Thank you.

Moderator: Thank you. The next question is from the line of Manish Shukla from Axis Capital. Please go ahead.

Manish Shukla: Good evening and thank you for the opportunity. Couple of questions, Sunil. What will be your average cost of term deposits on the book today?

Sunil Samdani: Just a sec. Just a minute. About 7.1%.

Manish Shukla: And the marginal TD rate that you are offering today would be in about what?

Sunil Samdani: About 7.7%. That's the gap.

Manish Shukla: Yes, so I'm assuming no further deposit rate increases from year on that is the extent of repricing on the TD side that one can expect.

Sunil Samdani: Yes. In fact the last action on the TD was a drop in the last time.

Manish Shukla: Sure. Second, going back to the ECLGS point, right, so ECLGS, my understanding is that government scheme said that if you lend 20% to an existing SME customer that 20% was guaranteed. So let's say, you had an exposure of 100, you give 20, the 20 becomes guaranteed and not the 120. So now when you label those assets as NPA, is it that the 20 has become NPA or the entire 120 has been labeled as NPA?

Sunil Samdani: No, in banks we don't have that option. You know, it has, NPAs are always at 90 dpd+ level.

Manish Shukla: Yes, so that's a clarity. So you label the entire 120 as an NPA, but the guaranteed portion will only be 20 out of that 120.

Sunil Samdani: So this is the total outstanding of those customers, guaranteed, non-guaranteed all put together.

Manish Shukla: Okay. Understood. Thank you very much. Those are all questions.

Moderator: Thank you. We have the next question from the line of Punit Bahlani from Macquarie. Please go ahead.

Punit Bahlani: Hi. On the total MFI pool, the stress pool at 62 billion, it looks like a bulk of the slippages are from SMA0 and other accounts. You were saying it's seasonal, but can you comment more on this? What is it exactly? Because the number appears quite big, right? The 9.2 billion on MFI book and overall increase in the -- from your forward pool.

Sunil Samdani: No. First thing, let's understand this concept of slippages, right. We have a large pool, which is part of NPA, and there is a reasonable amount of customers who continue to pay us, though they pay in part. There are instances where customers are NDPD, 20 DPD, but they are NPA since they've been marked as NPA, right? So on one hand, there is slippages, and on the other hand, there is recovery from slippages. So that's one piece.

If you purely talk about slippages, as I mentioned earlier, that my slippages, typically in Q1, after a strong Q4, and typically seasonality, Q1 is weak, is slightly higher, and that has been the case always. You know, if you compare it with the last year's first quarter, there itself we had a slippage of about INR950-odd crores, right? Of the total slippages of INR1,150 crores at a bank level. So this is not something unusual, that's the seasonality which always play out.

Punit Bahlani: Okay. Thank you. That's all from my side.

Moderator: Thank you. We have the next question from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Yes, thank you, sir. I just had a clarification. So basically, before April 2023, it was your call where to classify these loans and as a prudent measure, you classified them as SMA2. So it's fair to assume that probably in December 2022 also these were part of SMA2 only, correct?

Sunil Samdani: Yes.

Mahrukh Adajania: Okay, thanks. Thank you.

Sunil Samdani: Thank you.

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

Sunil Samdani: Thank you, ladies and gentlemen. Thank you for the patient hearing and participation. Appreciate. Thank you.

Management: Thank you.

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