



“Bandhan Bank Limited Q2 FY 2021 Earnings Conference  
Call”

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**Moderator:** Ladies and gentlemen, good day. And welcome to Q2 FY 2021 Earnings Company Call of Bandhan Bank Limited. 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 like to hand the conference over to Mr. Hiren Shah – Head Investor Relations, Bandhan Bank Limited. Thank you and over to you, sir.

**Hiren Shah:** Thank you, Margret. Good evening, everyone. And thanks for joining this conference call. We are glad to welcome you all to discuss Bandhan Bank's business and financial performance for the quarter ending September 2020. We will also take the opportunity to update on the recent development in the industry and Bandhan Bank during this quarter.

To discuss all these in details, I have got with me our Founder, Managing Director and CEO, Mr. Chandra Shekhar Ghosh; our Housing Finance Head, Mr. Sudhin Choksey; our Chief Financial Officer, Mr. Sunil Samdani; and myself, Hiren Shah, Head of Investor Relations.

Now, I would like to request our Founder, MD & CEO, Mr. Chandra Shekhar Ghosh, to brief you all about the Bank's performance and developments during the quarter. Over to you, sir.

**Chandra Shekhar Ghosh:** Good afternoon. Welcome to all of you. This is a quarter two financial year 2021 results, we published in there today. It's my pleasure to talk to all of you in the time of COVID. We know that the lockdown has come to very easing and the economic activities improved significantly. The rural economy is on a much stronger footing, reflecting good monsoon, record kharif sowing, several government initiatives and the Pooja also going well. A number of our customers who are typically small entrepreneurs that depend only on local supply chain and cater to demand for essential goods and services, and they have bounced back strongly in this quarter, result shows that. Within this situation, Bank performed very strong growth which I would like to mention in here.

Disbursement post moratorium, we are close to pre-COVID level. Advance growth has come 19.5% year-on-year. Gross NPA has come down 1.22% from last year the same quarter 1.8%. And if we say that neat NPA 0.36% compared to the last year the same quarter 0.6%. And all are happening, the team performance of the collection efficiency and team performance collection efficiency month-on-month basis we saw that there improvement has come. And we have earlier mentioned about it that June collection efficiency and now September collection efficiency. September, overall, Bank collection efficiency has come 92% in the overall Bank, which was 76% in June quarter. And out of this 92% collection efficiency, 89% by micro banking, which is called the new name, Emerging Entrepreneurs Business vertical. And if I see that the September quarter in this, it is 89%. But in October month of closing, we find out on that collection efficiency in micro banking has come 91%.

Very good thing which we learned in last 20 years, microcredit borrower, normally they are very disciplined based and they are also running their business and they have built up their behavior to repay. Sometimes it is likely to be disturbed, but again they have taken some time and return back on that. And this time also they are showing very good. In October, the 95% of the microcredit customers started repaying, which is showing very good future. Next, we feel that within 90 days, the normal collection efficiency will come near to before COVID situation.

And we saw also that the deposit growth in the Bank, there is a 56% of the CASA growth in this quarter we have seen, which is the best quarter in the last couple of quarters we have seen. And our CASA ratio 38.2% of the total deposit. This has resulted in best ever quarterly profit before the tax Rs. 1,233 crores. Profit after tax Rs. 920 crores, which is 67.3% quarter-on-quarter growth. And profit, whatever has come, Rs. 920 crores after taking additional COVID provision of Rs. 300 crores. Now the total provision is Rs. 2,069 crores in the Bank.

Banking is focusing to expand more network with the building human capital and technology initiative. We have a plan on that, that in this financial year by March of 2021 we will open 574 new banking outlets across the country. And these outlet majorly are coming from south, north and west, and not in east and northeast. Because of the growth, strategically we will continue focusing in the area of EEB, which is our new name of microcredit called the Emerging Entrepreneur Business, Housing vertical, Commercial Banking vertical and the newly developed Retail Loan vertical, along with a deposit growth we are focusing. Because we are focusing from this the result how we can grow in the Bank in the future. I already mentioned about the 574 banking outlets will be open by March of 2021. I also again mentioned on that our another focus vertical decision housing loan will be expanding this year, another 500 banking outlets, that Gruh housing loan we will expanded on that.

Earlier I also mentioned in a different the forum, I would like to address it here also. The first two five years of the Bank was the build-up of the base, build-up of the team and merger of the team and together working on that. And suddenly we faced COVID, and COVID also two quarters we have covered, we spent out on that how is the trend of the customer in the business on that, that have been very positive feelings we got on that. Then we have taken a new five years focus plan. The first plan on that, we have that EEB, Emerging Entrepreneur Business which we fill that that within five years our ratio of this business will come 30%. We know that this is a vertical where the group loan is there, individual loan also is there. We have developed the individual loan product, under this we promoted from the group loan to the individual, mainly the Samruddhi and the micro housing loan. And we are developing on that model such way that how all of the 3,500 microcredit branches gradually will be focused on that all the products and services which is needed in the low income group and middle income group, including deposit and their housing loan, their gold loan, their consumer loan, all will be provide centering with this of the microcredit branches. And that will help us to grow the different types of the portfolio in the Bank.

And the second vertical is in housing loan, that also we are looking in there that within five years it will become, the ratio of the total advances is at 30%. And we are dividing on that the two types of housing loan, one type is a micro housing loan, another is the prime housing loan, which is affordable housing we called it on that. We will like to gradually increase the number of branches, where the branch customer in there, they will get the housing loans service facilities from us. And other than the branch, also from the market we will like to attract the customers to provide this housing loan.

And the third point, you know that we have the commercial banking, which we also feel that 30% will be the ratio in the next five years. And they are also promoting existing customers from microcredit, as I called the individual loan, they will come here as a MSME. And also we will like to source from the market and we will keeping our mind on that, we will be not go to the corporate lending in the Bank.

And the fourth vertical we have developed, we call it the retail loan, which we feel that the retail loan means the personal loan, two wheeler loan, gold loan and vehicle loan and consumer loan. And these all loans we will like to provide through the Bank branches, wherever we have the 1,071 Bank branches, this vertical would work through the Bank branches to provide this type of product. And this is a product altogether within a five year, the 10% of the total advances which can be liked to reach. And you know that we are recruited a good to head of this loan, and the building collection vertical separately to support this business. And also, we are developing on that using technology in source and accessing this customer level. So, this is a good vertical and we also saw that there is a good demand from the customer level existing and new customer level which can help the Bank to grow focus of the advance book.

Other than this, of course, we like to mention that we will be continuously building the human capital to provide the best services to our customer and technology we will to develop gradually time to time whenever needed on that. And the digital channel we are focusing, from this year we have recruited one of the senior most focusing on that, how the Bank also simultaneously with the present model how we can also provide the digital based products and services in the banking industry to the customer.

So, these are the five years plan also we are placed to you. So, we feel that India is a big country, focusing to the rural Indian till now is a very small number of opportunities already taken by the Banking industry. The big opportunities in future as Bandhan we would like to focus and grow the book size in the balance sheet, the liabilities and the assets pan-India basis, not concentrated only the eastern region. So, I would like to help all of you support on that to grow this in a perfect way.

Thank you to all of you. I hope that you have some questions, we will like to share on that thought.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Antariksha Banerjee from ICICI Prudential AMC. Please go ahead.

**Antariksha Banerjee:** Sir, I have three questions. First is, in the microfinance business if I look at your average SA deposit balance of the microfinance customers, while the deposit in the normal retail function has been excellent, this deposit balance of the microfinance customer is consistently coming down over the last two, three quarters. It was around 2,100 two quarters back, then it to Rs. 1,900, now it is 1,600. Now, in the overall deposit mix it is very small, but if you calculate this as a percentage of the repayments, these borrowers are making monthly or quarterly, this is a fairly large numbers. So any idea why this deposit balance is consistently coming down?

**Chandra Shekhar Ghosh:** Okay. If you see that this time is very much not a normal situation on that. So, in that time, we cannot like mobilize the deposit in this time. So, they have a need, they can withdraw, then confidence of the customer will be likely to build up more. So, in that sense, we feel that this is good, it is not in a long-term use, but in the short-term time they can withdraw, they can deposit, that has been happening on that.

**Antariksha Banerjee:** Okay. So they are withdrawing money to make the payments for their loans, is that a fair assessment to make, some of the borrowers who are probably having some stress?

**Sunil Samdani:** See, typically, the way we collect these deposits is, that along with the instalment they pay Rs. 30, Rs. 50 extra. These time, the focus is more on instalment rather than extra amount for the deposit. So, that's what we are saying.

**Antariksha Banerjee:** Sure, okay. And, I mean, you have acquired some 3 lakh customers in the microfinance business, you are starting disbursements again. I just wanted to ask, what are the changes operationally or logistically because of COVID and social distancing that you need to follow now? I am sure you cannot gather 20 people in a small room and conduct the meetings the way you were. So what are the changes that this business is undergoing operationally? May be temporary, but you are starting to grow again, so it matters.

**Chandra Shekhar Ghosh:** If you see that after the COVID situation the last quarter we have given extra one staff to every of the banking outlet, because we know that is the normal position, maybe 20 or 25 borrowers can come to one group meeting, it may not happen in this moment. So that they are split in a group on that, some house maybe 10 people or five people or three people, and they are split where they are going to collect on them.

**Antariksha Banerjee:** Okay. But the meeting is happening. It's not like that the center group leader collects everything on everyone's behalf and then gives it to the collection agent?

**Chandra Shekhar Ghosh:** No, that is not normal & this position is not we are expected of, we are not also insisting that.

**Antariksha Banerjee:** Sure. Okay. That's helpful. And the last question is actually on the mortgage portfolio to Mr. Choksey. Sir, so it's been a while since this portfolio has been stagnant, obviously, the segment itself has had its own issues. Now, I heard Mr. Ghosh in the opening comments talking about this portfolio now going on a growth path and becoming one-third of the book, say, five years later. What is your medium-term outlook on this entire mortgage portfolio? Would you like to grow it the way you did it and gruh where the mix would be some 85% housing and the 10%, 15% would be LAP and construction? I heard that you are splitting the book into normal affordable housing and micro finance, what could be the profile, would it mirror the way it was it gruh or it is going to be a more modest profile? Any medium-term thoughts on how you are going to build this business?

**Sudhin Choksey:** Yes, sure. See, if you look at it, micro housing would be undertaken by the EEB vertical, okay. Because we are more closer to those customers and therefore they would be handling the micro housing finance business there. As far as other housing finance vertical is concerned, we would continue to do affordable housing what we have been doing. Besides now that we would be using the Bank branch network across the country, as Mr. Ghosh mentioned. Obviously, therefore, we will look beyond affordable housing segment. So I think average ticket loan which has been so far steadily at a 9 lakh, 9.5 lakh, I think there you will see an increase in the average ticket loan size. And obviously, post our merger, our penetration and the contribution has started coming from the eastern states, West Bengal, Jharkhand, UP. So I think, over a period of time, I think we should be able to see quite a good growth coming in the medium-term. I cannot quantify the figure and tell you, but I think if you look at the existing network of 1,000 branches. And as Mr. Ghosh mentioned, I think we are looking at 500 retail outlets. And there are many states where erstwhile gruh had not penetrated. So I see there is a huge potential possible to achieve the good growth over a period of next five year period, as vision articulated by Mr. Ghosh.

**Antariksha Banerjee:** Sure. And sir, what would that imply for your profitability or return profile? Because you are going into prime segments, I am assuming the ROE would be lower because of the competition. So as an aspiration level, on a blended basis, how are you looking at the return profile?

**Sudhin Choksey:** I am sure I think there would be slight yield, obviously, which we have sustained today on our portfolio around close to 10.5% or 10.75%, as the mix will change I think yield will also accordingly change. Today, I am not in a position to tell you what portion of the prime housing would be component. But I think as we move forward, and as we start sourcing, I think we will know better as to how much yield gets compromised. The desire is to sustain the yield.

**Sunil Samdani:** And just to add, while the prime housing will come at a lower yield, we will also have a micro housing vertical which will come at a higher yield. So on the whole, we still hope to balance this.

**Moderator:** Thank you. Next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

**Karthik Chellappa:** Sir, I have three questions. Firstly, the collection efficiency of about 91% by value and 95% by volume, could you give us some colour on state-wise trends, specifically which are the states that are lagging, both in terms of customers not paying as well as by value?

**Chandra Shekhar Ghosh:** We can see on that, if you see state-wise, our West Bengal is the highest portfolio. The amount wise collection efficiency has come in October, 90% in West Bengal, but pan-India has come 91%. But if I come to the customer point of view, how many customers have paid, and percentage wise pan-India 95% customers will pay, but West Bengal has paid 96%. So, this is in one side. And if you have trend on that, we are finding it on that very good trend, 1% to 2% monthly is improving on that, the collection efficiency. That has been very good, I hope that we can reach in the next quarter a very good amount of collection efficiency, which is near to the before COVID.

**Sunil Samdani:** And just to add, last quarter also we had mentioned that one big factor which can change the collection efficiency is running of the train in a business as usual scenario. Today, the train services are not running the way we would have liked to. Once we see these train services running, whether it takes 15 days or a month, we see close to 5% increase in our collection efficiency on the overall basis. So that's what will be a big factor or a delta to move the collection.

**Chandra Shekhar Ghosh:** And the train that we are talking about, more is the local train, which the small entrepreneurs can like to come to the nearest city to sell their product on that, the demand is there but not availability of the local train.

**Karthik Chellappa:** Thank you very much for this color, sir. Can you share the similar figure for Assam, both the collection efficiency and the percentage of customers paying?

**Chandra Shekhar Ghosh:** Yes. We are seeing that a very good performance has come to Assam also, amount wise October has come 87% and the collection efficiency and the customer 88% customer also. And we also see that a very good trend we are we are looking at. And we have always mentioned many times, I can repeat on that, my last 20 years' experience, the customer behavior, customer discipline sometimes it breaks and again they are returning back after a couple of weeks or a couple of months, depends on what types of situation they face on there. So, we see that now a big crisis has come because of the COVID and also in flood or tornado, many things happen. But after that also the movement we are seeing that the customer has come to regularize on the repayment rate, that can be a big hope and we are aligned with my earlier experience on that.

**Karthik Chellappa:** Great. My second question sir is on the EEB disbursement this quarter of about Rs. 10,000-odd crores. What portion of that would be to your existing borrowers in the form of either an emergency loan or a top-up loan?

**Sunil Samdani:** See, just to clarify, we have not given any government guarantee loans, so to speak, right? Yes, we have changed our model from being a single loan policy and now we are allowing a top-up loan. This Top up loan is not pre-approved, WE evaluate the customers option for top up loan

as if it's a new loan. Now if you look at the number of new loans that we have given this quarter, that number stands at 2,147,261 loans, right. This if we compare it with the previous year same quarter, this was 2,127,817 loans. So, it is in line with what we used to disburse in this time of the year. The only difference now is, earlier we used to have a one loan policy where the customer used to close the earlier loan and take the fresh loan. Now we are allowing them to take a top-up loan, they need not close the old loan.

**Karthik Chellappa:**

Okay, got it. So, this quarter about 21 lakh has been the new loans, and the balance loans have actually been to existing borrowers, either in the form of a top-up loan or borrowers have completed their loan and taken a fresh loan.

**Sunil Samdani:**

Yes, so 21 lakhs is the overall loans, which includes new loans, top-up loans, everything, including the borrower who have closed the loan and taken a fresh loan. In terms of percentage, the percentage of top-up loan today stands at 7.6% of the total EEB book.

**Karthik Chellappa:**

Okay, got it. And my last question, sir, is, our total standard asset provisioning on the micro book, it stands at about Rs. 356 odd crores today, works to about 0.75% of our loans. Now, even given that in October the collection efficiency is 91%, even if this continues to improve, do you think that the standard asset provisioning that we have is sufficient? Or why have we not chosen to have a higher standard asset provisioning up front and write-back in subsequent quarters if the collection efficiency turns out to be much better?

**Sunil Samdani:**

See, there is always two thoughts, right, one will say that we take excess which we have always, in fact, we believe in up-fronting the right provisions but upfronted. So that's the policy we always believe in. Initially when the pandemic hit, we had estimated a credit cost of 3.5% for the pandemic. So, we are continuing to hold that guidance, though we are seeing a better than expected collection ratio, at a Bank level we are already ~93%. And more importantly, at a customer level we have already reached ~96%. So if ~96% of the customers who have started paying to us, if they continue to pay, then we are there as per our original guidance. We don't need to take any more provision. So, we clearly believe that things have improved and they have improved better than our expectation in terms of timing. And so for now we wish to continue. And if things continue to move this way, maybe there could be an option in Q4 to see whether we need that entire 3.5% or not.

**Moderator:**

Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

**Kunal Shah:**

Sir, sorry, coming back to this question of adequacy of provisioning and 3.5% credit cost. So, 3.5% is of the overall book, not the MFIs as what we were looking at in terms of the credit cost? Because when we look at the contingency buffer, as a proportion of MFI that is still at around about 4% odd, right?



**Sunil Samdani:** Right. So, what we are seeing is we took the pandemic cost, we are not saying this financial year's cost. So, part of it we have already booked in the last financial year, 3.5% is what we estimated as the total credit cost because of pandemic for all products put together. Against that, we already have additional provision than what is required by RBI on standard and NPA asset at 2.8% for now. And as we said that our collection efficiency has improved better than our expectation that what we had earlier envisaged. So for now, we are continuing with guidance. And as Mr. Ghosh mentioned in his opening remarks, in next 90 days, we expect to go back to the pre-COVID level collection efficiency level.

**Kunal Shah:** Sure, and secondly, in terms of the top-up loans, you mentioned 7.6% of the book. But in terms of the customer base, how much would that be in terms of the number of customers whom we would have given the top-up loans? Because that quantum would be still lower than the outstanding, so if I were to just look at it in terms of the number of customers?

**Sunil Samdani:** In terms of number of customers...

**Kunal Shah:** Sir, proportion of customers to whom we would have given top-up loans.

**Sunil Samdani:** Yes. So that is about ~12%

**Kunal Shah:** Okay. And if we have to look at it in terms of any sort of lower interest rates are customers seeking, or may be whatever is the EMI getting added or pushed back, they are still willing to continue with the existing interest rates?

**Chandra Shekhar Ghosh:** There we are continuing the existing interest rate.

**Kunal Shah:** Okay. So, there is no change in terms of the interest at all, maybe with this six months or what they would be further seeking an extension as such?

**Sunil Samdani:** I didn't get this question, could you please repeat, Kunal?

**Kunal Shah:** Sir, I am saying maybe since the interest rates are on the higher side, and the accumulation really hits them, so are customers, maybe when we are going in for the collections and when we are resetting the entire EMI, are the customers seeking for the lower interest rate or it continues at the way wherein the tenor was contracted for, maybe the rates that were contracted for?

**Sunil Samdani:** So, in EEB business, it is the erstwhile microfinance, we never compound the interest, right. So, we have never charged interest on interest. So, the question of resetting interest rate does not arise or the EMI does not arise. And even otherwise, we are the lowest cost lender, so we have not heard a single instance in the field where they are pushing for interest rates or any change.

**Kunal Shah:** Sure. Sir, it is a mere extension with the same EMI?

**Chandra Shekhar Ghosh:** Yes, same EMI we are collecting.

**Kunal Shah:** Sure. And one last question in terms of the addition to employees, so they were like 4,000-odd during the quarter, no doubt Mr. Ghosh also articulated that we are building up the human capacity. But the way in terms of the branches we have added on the employee side, are we more or less done or that will also continue at such a huge pace? And finally in terms of this addition, what is the kind of impact it can have on cost-to-income?

**Chandra Shekhar Ghosh:** If you see that there are two things in here, one thing is that we are going to open 574 new branches. So whenever we are opening on that, before the opening we would like to recruit the people and give them to existing branches to build up their skill and understand the culture and the working environment, everything on that. When they are feeding on that, and new branch opens, they will be transferred from this branch to that branch. Then automatically it will be absorbed by the new branches. So, this is the way we are making on that. So it will not matter on that cost ratio.

**Kunal Shah:** Okay. So on employees, it's more or less done, branches will be over the quarters?

**Chandra Shekhar Ghosh:** Yes. And whatever the number is needed, that is the gap, because we cannot like to open all branches stopping at a time, whatever we have open for the time being to collect the money from the splitted group, so there is a need on that, the extra staff support is needed. Some staff is going to the COVID affected, we can give staff there. So, this a different situation, we can give the staff support to them. And gradually, when the new branch will open, will be transferred on that extra staff from that.

**Kunal Shah:** Sure. And one last question in terms of the second half growth, normally what we see over last two, three years, are we confident of maintaining that, given that we have invested in the franchise, collection efficiency is great, so now should we get back to that kind of maybe quarter-on-quarter growth which we see every year in the last two quarters?

**Chandra Shekhar Ghosh:** Yes, we will be. Because you know that always the last two quarters business growth is coming better than first two quarters, and which will happen after Pooja, and Pooja is showing very good performance. So that I have very hope on that, the next two quarters business also will come on that in a good way.

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

**Nitin Agarwal:** So, first question is like, what are the key criteria's that we follow while extending top-up loans? And how does this differ versus the earlier practice? And secondly a clarification. Have we seen any change in MFI business operations to ongoing state elections in Bihar? I am asking this because next year we will have elections in West Bengal as well, so just following on this.

**Sunil Samdani:** To you first question on how we assess the top-up loans, as I said, it's just a facility that we have offered to our customer which is already prevalent in the industry, Bandhan was the only exception. And the reason we started it during this time, because we thought it's a good time to

start where we don't need to put more pressure on the customer to repay the entire amount to take the fresh loan. And two, we saw that competition used to take advantage of our policy of one loan and they used to give top-up on our behalf. So, these are the two primary reasons why we started it. In terms of the assessment, it is in the same line as if we were to give them a fresh loan. Because this is in lieu of a fresh loan. So, all those assessments that is required to give a customer a fresh loan is done for the purpose of top-up loan as well. The conditions like the customer has to be regular, he should not have missed the single instalment, the credit repayment capacity, overall indebtedness, so all those criteria are still considered at the time of top-up loans.

**Nitin Agarwal:** Okay. And secondly, on Bihar state elections, any change in operations that you see because of that?

**Sunil Samdani:** One of the state where we have seen an improvement in collection efficiency higher than the national average. In fact, post the floods, Bihar state has really come up very well. And in terms of number of customers, almost 99% of the customers have started paying their instalment in Bihar. And in value terms, it has touched 97%. We don't see a challenge there, and these are October numbers which is the election fever.

**Moderator:** Thank you. The next question is from the line of Arjun Bhatia from Makhrana Advisors LLP. Please go ahead.

**Arjun Bhatia:** For your micro book, what percentage of disbursements would be to existing customers for pre-closure of loans? And directionally, how has this pre-closure rate moved?

**Sudhin Choksey:** We never give loans to pre-close the loan. In fact, our policy is, the customer has to close the loan first and there is a cool off period of two days, and after that we give a fresh loan.

**Arjun Bhatia:** Got it. No, that's what I meant. So, after that cooling off period, what would be that number?

**Sudhin Choksey:** So, typically, if you see, we keep adding 15% to 18% new customer every year. But since it's a one-year loan, the entire loan gets recycled in one year. So, about 80% of the customer loan goes to the existing customer in a year's time.

**Arjun Bhatia:** Okay. And just on this new strategy of growing the commercial Banking or MSME piece, so, one, where do you feel the need for this? Is this more because you feel maybe MFI is reaching some saturation level or some ceiling level and you want to branch out into other areas?

**Sunil Samdani:** No, this is in line with the strategy that we have always spoken about, right. We always said that we want to move our high vintage micro banking customers to an MSME segment and migrate them to the next level. So, that is exactly what we are doing. Once we give an individual loan to these customers, the next stage is to migrate them to MSME. The idea was twofold. One, these are vintage customers, their business has grown beyond micro banking, these are the customers who have been with us for 10 years, why lose this business to competition. And in fact, we can

be a sole banker which will not only give us the entire business, but also a better control on credit and their leverage position.

**Chandra Shekhar Ghosh:** And gradually also we are strengthening to assess the risk of the customer, because we cannot like to continuously in the group loan with their group process system on that. So, when this customer is coming as a big, and they also have a need and a bigger support, they are going to the multiple of the lenders to take the loan and are not assisting properly on that. So better on that if we can process the assessment of this, the risk of this customer, and accordingly we will provide on that. And that is a big opportunity for us to grow the business and also mitigate the risk of the business.

**Arjun Bhatia:** Right. So one is, growing with your existing customers. But I think another part of the strategy would also be to acquire new MSME customers because, historically, we see on a very top-down level business growth, income growth or job growth in India has not been very, very strong. So I guess, another part of the strategy would be to acquire new customers. So on that part, what sort of advantages do you think Bandhan has, especially outside of your core stronghold of northeast to really grow this MSME piece versus other lenders in this space?

**Sunil Samdani:** Our presence has moved beyond East India almost 10 years back, right. And our strength is our deep distribution, which is where we believe that we have the opportunity to pick and choose customers. There is enough opportunity in rural India today for the MSME segment to pick and choose those customers. The key is to build a right process and system which is what we have done over the last two years when we were building this individual loan. These individual loans today, even in the COVID environment, our collection efficiency is at ~98% level. So that gives us the confidence that we can replicate this system and processes across India and tap this opportunity.

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

**Saurabh Kumar:** Sir, two questions. One is, this interest on interest, the Reserve Bank waiver, is it allowed for your microfinance customers? So, that clarification I wanted, and what is the amount right now. And the second is on Slide 25 where you outline your five-year loan book mix, I just want to know what it does to your return on assets. So, clearly as the micro banking mix comes down, would it be fair to assume that your the ROA also kind of compresses down? Thank you.

**Chandra Shekhar Ghosh:** If you see that ROA part I mentioned from my microcredit life and today, microcredit life also we are charged on that, that 22.4%, now we are charging 17.95%. Till now my ROA is very good way maintained on that, that is 3.5% to 4% on that. So, we see that when the Bank has been like to growing more, their efficiency of their employees has been increased and customer growth has been coming on that. That have been help to the Bank to get the good ROA on that and also the NPAs are minimized on that. So, we feel that whatever the new vertical we are going to expand in next five years, we are keeping in mind that if we face this type of issue we

will be aligned on that way, and accordingly we are making on that. Because you see that one kind of the banking service as a corporate, so the total that is coming and that is a very, very, very low ROA on that. But if you see that at the bottom of the pyramid, the microcredit and a little bit higher level, which is not in the corporate, mid-corporate, likely the small corporate, all together if you see that, that is a big opportunity on that to grow the Bank and to maintain this ratio. I feel that it can be possible.

**Saurabh Kumar:** Okay, thank you. And the interest on interest part, Sunil or Hiren, what is the total amount and is the waiver allowed?

**Sunil Samdani:** Firstly, interest on interest benefit is applicable to all customers, so that has been very clearly clarified by the government. Even we have to offer this benefit to customers where we are not compounding. So, even if the customer is not charged compounded interest, we still have to offer them this benefit. That's what the RBI circular and the FAQ clarify. So it is applicable to all across all segments. And it will be applicable to 99% of our customer base, which is less than 2 crores. And in terms of quantum, we are still working on the exact amount. But we believe at a Bank level that quantum will be around Rs. 110 crores odd.

**Moderator:** Thank you. Next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

**Sameer Bhise:** Just wanted to ask, what is the size of the individual micro loan book? I think it was around Rs. 22 billion last quarter, basically customers with larger vintage?

**Sunil Samdani:** This would be around 2700 crore

**Sameer Bhise:** Okay. And secondly, what was the write-off for the quarter in the microloan book?

**Sunil Samdani:** Rs. 109.21 crores.

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

**Nishant Shah:** I have like three or four questions. So, firstly, could you explain the difference between the erstwhile small enterprise loans, SEL which you used to classify, between that and the microfinance individual that you are now showing as a part of the EEB book, and the TDOD book which you are now showing under detail, what is like the characteristic difference between these three portfolios, either in terms of like ticket size or type of customer or something?

**Chandra Shekhar Ghosh:** The first point on that, you see that whatever the SEL, we called it in the vertical under the commercial banking, these all customers are coming from the market, not a microcredit promoted customer. And under the EEB and whatever the customer we are talking about, the individual loan, that is only the customer who are promoted from the group loan to the individual loan. And ticket size, if you see that the microcredit ticket size as a disbursement point of view, 1.65 lakhs to 1.75 lakhs. And if I come into this SEL, that is in 3.5 lakhs.

**Nishant Shah:** Okay, perfect. Second question on just a broader kind of diversification that you are talking about. In the south or in like west or some of these relatively newer geographies that you are planning to enter, sort of have like a last mover kind of a disadvantage in terms of like you are going to be competing against well entrenched players. So what does that do to your cost-to-income, to your cost outlook for the microfinance pool? Because all the advantages that we had in the core geographies, we will probably have those disadvantages heading into some of the newer geographies. So, could you talk about that a little bit?

**Chandra Shekhar Ghosh:** There is no geography where we are new, actually, we have a presence, but presence is not that much big like in Bengal or Assam or like that. So, we like to open the branches more in that areas. And we had a good plan earlier, so that we are gradually increasing the capacity of the people in those branches. When it will be open, so those old branch staff will be transferred to the new branch and the new staff will be joined in there. So that can help to maintain the cost-to-income ratio or cost-of-operation ratio in the bank on that. So we are practicing in such a way, where it cannot be like too big jump of the cost of operation will come on the bank.

**Nishant Shah:** Okay. And just one last data keeping question. Could you quantify what is the zero day par in Assam for this quarter and the last couple of quarters, please?

**Sunil Samdani:** Our collection efficiency in terms of, for Assam, particular state, we will have to come back to you. But overall, our second class had been in the range of around 20% to 23%.

**Nishant Shah:** Okay. And do you expect like, some bit of problems to occur over here, because the industry data seems to suggest that all these overdue accounts are progressively moving towards the 180 day plus kind of overdue buckets and likely to be written-off. So what are the kind of write-offs that you have done in Assam so far? And what do you expect to go in the future?

**Sunil Samdani:** See, as we mentioned earlier, our collection efficiency in Assam has reached 87%. And about 88-89% of the customers that started repaying. So we see a month-on-month improvement in Assam, and we don't see any reason to be panicking so much about Assam. Yes, it is below the national average and there are reasons to be below the national average, because this is one state which had CAA impact, it was coming out from the CAA impact and then immediately there was a big flood which hit the state of Assam. And this is also one of the state, , which had extended lockdown.. Now, clearly we are seeing a month-on-month improvement. rorer, once upon a time they were very big, regularized their portfolio. In times if some crisis has come, they will take some time on that, but I saw that the maximum number of borrower returned back and sometimes maybe the three months take the time or someone will be six months take the time. So, that is the one point which I learned from my past experience of the microcredit borrower. And these are the people, if you keep in mind on them, they do not get the access of credit other than the lenders. So that is very keen, they will like to return back to, again, start their business or running their business, go to the moneylenders to take the loan for 100% interest rate. So they know that matter, but there will be if some crisis has come that they will be take some time, but

gradually they are returning back and they are returning back very earlier compared to the other industry. So that is my confidence on this borrower, I honor this borrower on that.

**Moderator:** Thank you. The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

**Anand Dama:** Sir, the collection efficiency that we have seen in the month of September and now in the month of October, there is hardly any improvement, I mean, just about 1% that we are seeing in the whole month. So, why is that so slow, despite we had much of business normalization happening in the month of October?

**Sunil Samdani:** So, just to correct, the improvement is 2 percentage points and not 1. And as we mentioned at the beginning of the call that the one big factor which can impact the collection efficiency in a big way is starting of trains. So, the day we see the train services functioning in a business as usual scenario, we will see a big jump in the collection efficiency. Because there are a lot of businesses which are dependent in and around the movement of train, either for their supply chain or their businesses are in and around the train station

**Anand Dama:** So, when do you expect that to happen?

**Chandra Shekhar Ghosh:** So, this will depend on government, we expect it to start soon.

**Anand Dama:** Sir, if some locations would have happened or some sense that we have?

**Chandra Shekhar Ghosh:** We earlier expected in October, before Pooja they can be open, but they are a little bit scared about it, maybe the Pooja or Diwali more people will be gathered. So that they have not opened as per my knowledge. So, hope after the Diwali maybe they can be observed and they can be open.

**Anand Dama:** Sir, I mean, we will see some more improvement happening in the month of November, hopefully. And by the end of November and turning into December, I think is when we will have to mark these accounts for NPA, which you are not able to collect, right?

**Chandra Shekhar Ghosh:** I am coming on that point. We cannot be expecting that overnight everything will be changed and coming to this 5% or 7%, because in the beginning if you see in the September when they opened this COVID unlocked in the beginning of June, and 69% collection efficiency has come on that. And that is a very first growth has come. The second quarter it has come to 92%. And the next part, whichever another 8% or 7%, it will be a little bit not that fast will become on that, because it is will also depend on some circumstances of the area on that, in that train and city to state to state there is a no transport is making on that, if you see that Bengal is a hub of that, some of the small entrepreneurs they are produce a lot of garments items and selling to the Calcutta and Assam, Tripura and Bihar, Odisha, people will come to buy in a bulk and selling to their state, they are not also coming on that. So, a lot of circumstances will depend on that.

So, I feel that that will be not coming to this jump from that to 98%. I expect on that that in the next 90 days it will become as in very near to before COVID situation.

**Sunil Samdani:** See, what is also important to note here is that 95-96% of the borrowers have started repaying, right. And as Mr. Ghosh initially mentioned that it is the discipline based credit. The fact that they have shown that credit culture to come ahead and pay, we are confident that as these customers have already been activated, we would be able to recover the 95-96%. And so the better way to look at is, how many customers are paying.

**Anand Dama:** So basically, customer number is more important. And you believe that the part payment customers also would come up with....

**Chandra Shekhar Ghosh:** That is showing their interest to repay the money.

**Anand Dama:** Sure. And sir, the number of banking outlets like you said, that you want to open in Southern India, northern India and West, so these are the branches that you will have or it will be a smaller version of the branches that you will have, which will largely collect the liabilities and distribute some assets?

**Chandra Shekhar Ghosh:** It is a mix of both, some of the micro banking, which is called the banking unit and or some of the bank branch. Because with every three to four microcredit branches will need one Bank branch. So accordingly, it has been proportionating on that.

**Sunil Samdani:** If we look at last three years, we have been adding our distribution network by about 10% to 15% every year. So this is in line with the same strategy, we have been able to manage our costs despite adding those distributions every year-on-year 10-15%. So we don't see any reason why this year should be different.

**Anand Dama:** So how many branches that we will be opening up which are people led branches?

**Sunil Samdani:** So about 100-odd out of these will be the full-fledged branches and the rest will be the small branches or the micro banking units or the EEB branches.

**Anand Dama:** And now in terms of approvals from RBI, is there any restriction that is largely....

**Chandra Shekhar Ghosh:** All restrictions are withdrawn by RBI.

**Anand Dama:** Okay, that is helpful. And so is on your compensation as well, right?

**Sunil Samdani:** Yes.

**Moderator:** Thank you. The next question is from the line of Akruti Thakkar from Goldman Sachs. Please go ahead.



**Rahul Jain:** Good evening, everyone. This is Rahul here. Sunil, just to start with, I have actually got a couple of questions, so will keep it quick. So, can you just tell us the average ticket size of the top-up loans that we are giving, the last two quarters so?

**Chandra Shekhar Ghosh:** ~Rs. 35,000.

**Rahul Jain:** Okay. And this is lower than the normal average disbursal that we do in a quarter typically, which is about Rs. 50,000 to Rs. 60,000?

**Chandra Shekhar Ghosh:** Yes.

**Rahul Jain:** Got it. Sir, the other question was, since 95% of the customers are paying versus in terms of value it is 91%, does it indicate that some customers are making payments? Let's say, if they have got Rs. 500 of instalment due in a week, they are paying about Rs. 200, Rs. 300, whatever they are able to? Or it is that 95% customers are making full payment which equates to 91% in terms of value?

**Sunil Samdani:** No, there is a part payment element here.

**Rahul Jain:** Okay. Yes. So, basically the customer behavior is definitely there, just that as a purchasing or whatever, income improves, they actually will, that was the reason I was asking. The other question was with regards to restructuring, Sunil, any thoughts, what category of loans could restructure and what the amount could be, any rough sense? Even though I appreciate the point about the cost of risk or the provision that you have already taken, but just wanted to understand on the restructuring angle, would you be doing any or will microfinance customers be eligible for micro customers? I mean, I was curious, why you have changed the name, but, yeah.

**Chandra Shekhar Ghosh:** We have changed the name because under this, EEB will be like to go into this, because micro banking means people feel that it is a group loan. So, actually under the EEB not only the group loan, it is the individual loan, there is a micro housing loan, there is also deposit we are developing on that branch, so that is there. We can say that as a combo branch like on that, they will be catered low income and medium income level customers who are taking micro credit loans but not taking micro credit loan. They can like to get to the banking service from this unit. For that reason, we are mentioning it as emerging entrepreneurs, the banking unit of that, banking vertical. So, this is the objective.

**Rahul Jain:** Very useful, sir. But any thoughts around restructuring, sir, how would you think about it?

**Sunil Samdani:** As far as restructuring goes we have never done restructuring till date. The way we look at restructuring is, a customer who is paying part instalments needs 2-3 months more to close the loan more than the scheduled closure date, it is limited to that, not beyond that. And as far as other verticals go, we have hardly received request.

- Rahul Jain:** Okay. So just facing no major restructuring in emerging entrepreneur group, and so far in other segments we have not received any restructuring requests, particularly SMEs and NBFCs, etc. Okay, I just one final question or actually second last question, cost of deposits. Sunil, how you thinking about it, because your TD rates are now below 6%, the savings deposit rates are, I think, 3.5% and 6%. But the overall is still above 6.2% odd. So, would we see the changes reflect in the subsequent quarters from now on or how are you thinking about it?
- Sunil Samdani:** Yes, we will see the change. See, we had changed the saving bank rates from 4% to 3%, the minimum rate in mid-September. So the full benefit of that, the annualized impact will come only in the next quarter, the full annualized impact. Secondly, the term deposit rate for this to get repriced will take about a quarter or two more as between last six months, we have reduced the term deposit rate by almost 100 basis points.
- Rahul Jain:** And just one more small one, can you share the breakup between the customers in savings deposits who has less than Rs. 1 lakh and more than Rs. 1 lakh deposits?
- Sunil Samdani:** About 63% of the deposits, value wise, is more than Rs. 1 lakh.
- Rahul Jain:** Got it. Just one final question from me. What is the fee income number, the overall fee income this quarter that we have booked?
- Chandra Shekhar Ghosh:** My total fee income for the month is Rs. 382 crores.
- Moderator:** Thank you. The next question is from the line of Rohan Advant from Multi-Act Equity Consultancies. Please go ahead.
- Rohan Advant:** Just one question. Firstly, you said 7 DPD is 23%, can you clarify that?
- Sunil Samdani:** Lets understand the way DPD calculation works and reported, the moratorium got over on 31st of August. So let's say, on first week of September, only 70% of the customer paid immediately 30% of the customer will go on DPD. So in current scenario I don't think that's the right way to look at. But since there was a question, we have responded to it. Because clearly, in a scenario where the collections are picking up, the DPD will be higher, because some customers will pay but part, some customers have paid, some started after two weeks. So immediately the first week the entire amount will look like DPD till the time they pay the entire outstanding.
- Rohan Advant:** Okay. Sir, and collection efficiency that we are reporting, is it from 1st to 27th total? And would it be very different end of October versus beginning of October? That's the last question. Thank you.
- Sunil Samdani:** I mean, surely it will improve between the first week of October and the last week, because continuously more and more customers are coming up.

- Moderator:** Thank you. The next question is from the line of Jai Moondra from B&K Securities. Please go ahead.
- Jai Moondra:** Sir, most of the questions have been answered, just two questions. If you can give the AUM breakup for West Bengal, Assam, Bihar, and maybe Maharashtra, for MFI book?
- Sunil Samdani:** So, Bengal will be about 47%, Assam will be close to 16%, Bihar is close to 9%, and the fourth state you said was Maharashtra?
- Jai Moondra:** Right.
- Sunil Samdani:** Less than 5%.
- Jai Moondra:** Okay. And second question is on commercial banking. So, just to understand this, because this is a very wide spectrum, it is catered by PSU banks, regional banks and even large banks, as well as NBFC, and maybe probably FinTech also. So, what is your thought process here? Who would you be competing with, would it be like NBFC customer or PSU bank customer or private bank customer, any broad thought process here? At the same time, this team, would it be like external team or, I mean, how are you thinking on this team and who would be heading this? Thank you.
- Chandra Shekhar Ghosh:** We have a commercial banking head, he is working with us more or less since three years, and he's heading on that. This is one. And we are not recruiting a new person, he is very good capable on that.
- Sunil Samdani:** So, the earlier wholesale banking is now the commercial banking.
- Chandra Shekhar Ghosh:** Same vertical we have been changed the name, because wholesale people feel that is a corporate lending, so that's why we have changed the name on that. And next point on that is the big vertical called the SEL, small enterprise loan. It has been developed four, five years before, and that is a good amount of the portfolio. And here the ticket size is 3.5 lakhs on a disbursement basis and this is in one vertical and it is individually assessed and digitally also for taking the decision on that. And this has been one. And second is also, under this vertical there is a small SME portfolio also in here, which is not more than Rs. 50 crores on that, and major is Rs. 10 lakhs to Rs. 1 crores, Rs. 1 crores to Rs. 5 crores is like on that and we have a separate vertical and credit underwriting people who are assessing on that. And third is, we have some portion of the lending to the micro finance institution, so that is also under the commercial lending on that.
- Jai Moondra:** Sure, sir. And any thought process, this customer profile, would it be like, I mean, as of now these customers, your competition in this segment would be from PSU, NBFC, private banks?

**Sunil Samdani:** See, there are two broad verticals here under SME, one is the average ticket size of Rs. 2 crores where we compete with NBFC and bank, and one is the lower ticket size where we have the average ticket size of Rs. 3.5 lakhs.

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

**Sunil Samdani:** Thank you, ladies and gentlemen, for your time and patient hearing. We look forward for your continued support. Thank you.

**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.