

### Asset quality issues results in a bad quarter, but things should look better in FY22.

**Bandhan Bank has reported a weak performance in Q4'21. Its operating performance remained stable, supported by steady growth in advances and deposits. Asset quality showed deterioration.**

**Weak collection efficiency in Assam and West Bengal a cause of concern, but now that elections are over things should become better.**

- **NII came in at INR 17.5 Bn**, +5.0% YoY / (15%) QoQ vs our expectations of INR 27.5Bn due to interest reversal of INR 5.38 bn on account of NPA recognition and interest on interest.
- **Other Income came in at INR 7.8 Bn**, +57.0% YoY / +42.3% QoQ
- **PPOP came in at INR 17.2 Bn**, +14.0% YoY / (10%) QoQ vs our expectations of INR 24.1 Bn
- **Provisions came in at INR 15.94 Bn**, +92.7% YoY / +49.2% QoQ. Total additional provisions for covid impact as of March 31, 2021 stands at INR 14.2 Bn.
- **PAT came in at INR 1.03 Bn**, (80.0%) YoY / (83.7%) QoQ vs our expectations of INR 5 Bn on increased provisioning.
- **EPS stood at INR 0.64** vs INR 3.21 / INR 3.93 in YoY / QoQ respectively.

#### Financial Highlights

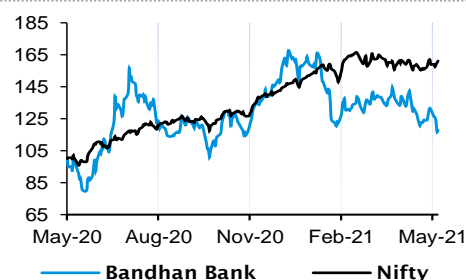
- Advances at INR 870.43 Bn (+21% YoY/+8.5% QoQ), strong growth was seen in Micro Finance now known as Emerging Entrepreneurs Business (26% YoY growth, 67% of advances), retail segment (+62.8% YoY growth, 1.4% of advances). Mortgages saw a slightly modest growth (9% YoY growth, 23.2% of advances) and SME segment saw a very strong growth (160% YoY growth, 8.4% of advances).
- On liabilities, Deposits grew by +37.0% YoY/+9.5% QoQ in Q4FY21 led by CASA growth of 60.9% YoY/10.8% QoQ taking CASA ratio to 43.4% (Vs 36.8% YoY). Strong growth in low cost deposits is primarily due to strong new origination which is a big positive. Bank's capital adequacy ratio stood at 23.5% (vs 27.4% YoY/ 26.2% QoQ), of which Tier I capital was 22.5% (vs 25.2% YoY/ 21.4% QoQ). The healthy growth rate of deposits, especially CASA is one of the strongest points of the bank.

Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>414</b>	<b>39</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>297</b>
Market Cap (Rs.Bn)	(Rs Bn)	478
Market Cap (US\$ Mn)	(US \$ Mn)	6526
Face Value	Rs	10
52 Weeks High/Low	Rs	430/195
Average Daily Volume	('000)	25246
BSE Code		541153
Bloomberg		BANDHAN:IN
Source: Bloomberg		

#### One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	39.99	40.00
Public	60.01	60.00
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

#### Financial Summary

Y/E Mar(Rs bn)	FY19	FY20	FY21	FY22E	FY23E
NII	45	63	75	99	130
Net Profit	20	33	22	42	58
Net Worth	112	151	174	212	263
EPS(Rs)	16	21	14	27	36
growth(%)	45.0	14.8	(33.0)	92.0	33.0
P/E(X)	18.6	14.5	21.3	11.2	8.3
P/BV(x)	3.2	3.2	2.7	2.3	1.8
P/Adj BV	3.2	3.2	2.8	2.3	1.9
ROA(%)	3.9	4.5	2.1	3.4	3.8
ROE(%)	19.0	25.1	13.5	22.2	24.6

Source: Dalal & Broacha Research

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- Out of INR 57.57 Bn GNPA INR 44.50 Bn comes from microfinance portfolio of which INR 3.3 Bn is comprised of ECLGS loans which is Govt guaranteed. Out of the remaining INR 41.20 Bn, 14% (5.9 Bn) are making full payments, 64% (26.26 Bn) are making part payments and 22% (9 Bn) are making no payments.
- Collection efficiency as on Mar'21 of Assam stands at 83% (15-16% exposure), West Bengal at 95% and Rest of India at 97%. Collection efficiencies should improve as elections are over in both the states. The bank has taken a write-off INR 19.3 Bn in the current quarter and the quality of the book has improved post the write-off.
- Operational efficiency deteriorated, with cost to income ratio stood at 32.0% (+170 bps YoY/+490bps QoQ)

**Reported Asset Quality deteriorated on a YoY basis and improved slightly on a QoQ basis with GNPA at 6.80% (+532 bps YoY/ -32bps QoQ) to INR 57.57 Bn and NNPA stood at 3.5% (+292 bps YoY/+114bps QoQ) to INR 28.61 Bn.**

**81% of newly added borrowers are in states other than West Bengal and Assam as the bank is looking at geographic diversification.**

## Valuation and Outlook

Bandhan Bank has reported a weak set of numbers, concerns are there regarding asset quality due to lower than expected collection efficiency in West Bengal and Assam. Bank has made sufficient provisioning and the write-off taken should help in making the book stronger. Major reason for poor asset quality were second wave of covid, loan waiver promises by politicians ahead of elections and misunderstanding of Assam Microfinance Bill. Now that elections are out of the way, we expect things to improve. Bank continues to report strong growth on both advances and deposits front. **At CMP the stock trades at 2.3x its FY22E ABV and 1.9x its FY23E ABV. We have maintained a 'Buy' rating on Bandhan Bank with a price target of INR 414 from earlier target of INR 456, valuing the stock at 3.2x FY22E P/ABV.**

## Highlights of the Conference Call

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### Covid 2<sup>nd</sup> wave

- Second wave of pandemic is more severe than 1<sup>st</sup> wave.
- People have learnt to live with the pandemic.
- Situation improving in Assam at ground level.

### Conservative Provisioning

- Very conservative provisioning of INR 1,594 crores taken in this quarter, coming quarters provisioning will depend on how the covid 2<sup>nd</sup> wave pans out

### Collection Efficiencies and Write offs

- Collection efficiency is improving on a QoQ basis.
- 72% of > 90dpd have made 72% of total payment but still in NPA category as all payments have not been recovered.
- Out of total write off of INR 1,930 crores, write off from Assam at INR 772 crores and West Bengal at INR 671 crores.

### Top up loans and restructuring

- Top up loans of INR 2.6Bn in microfinance segment this quarter down from INR 23.7Bn disbursed in Q3'20
- Restructuring done in housing loan segment to the tune of INR 6 Bn, 50% of those customers in self-employed category.

### Strong Deposit and Fee Income Growth

- Bank credits strong deposit and especially low cost deposit growth to origination and existing customers increasing their wallet share, Banks efforts have helped it to record a 57% YoY growth in fee and commission income.

### Election in West Bengal and Assam

- Now that the elections is over in Assam and West Bengal normalcy is returning.

### Growth Guidance

- Disbursals is back to 95% of pre-covid levels.
- New customer addition near to pre-covid levels.

## Financials

P&L Rs Bn	Q1FY 20	Q2FY 20	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21	Q4FY 21
Interest Earned	26.3	26.9	27.1	28.4	30.1	31.9	33.0	30.0
Interest Expended	10.5	11.6	11.7	11.6	12	12.7	12.3	12.4
<b>NII</b>	<b>15.7</b>	<b>15.2</b>	<b>15.4</b>	<b>16.8</b>	<b>18.1</b>	<b>19.2</b>	<b>20.7</b>	<b>17.5</b>
Other Income	3.3	3.6	3.6	5	3.8	3.8	5.5	7.8
<b>Net Income</b>	<b>29.6</b>	<b>30.5</b>	<b>30.7</b>	<b>33.4</b>	<b>34</b>	<b>35.7</b>	<b>38.6</b>	<b>37.8</b>
Opex	5.5	5.8	6.3	6.6	6.1	6.7	7.1	8.1
<b>PPOP</b>	<b>13.5</b>	<b>13</b>	<b>12.6</b>	<b>15.2</b>	<b>15.8</b>	<b>16.2</b>	<b>19.1</b>	<b>17.2</b>
Provisions	1.3	1.5	2.9	8.3	8.5	3.9	10.6	15.9
<b>PBT</b>	<b>12.3</b>	<b>11.6</b>	<b>9.7</b>	<b>6.9</b>	<b>7.3</b>	<b>12.3</b>	<b>8.4</b>	<b>1.3</b>
Tax	4.2	1.9	2.3	1.7	1.8	3.12	2.1	0.3
<b>PAT</b>	<b>8</b>	<b>9.7</b>	<b>7.3</b>	<b>5.2</b>	<b>5.5</b>	<b>9.2</b>	<b>6.3</b>	<b>1.03</b>
<b>Loan and Deposit Portfolio Growth % with CASA</b>								
Advances YoY Growth (%)	94	92	84	60	18	19	23	21
Deposits YoY Growth (%)	46	49	59	32	35	34	30	37
CASA	36.1	33	34.3	36.8	37	38.2	42.9	43.4
<b>Ratios (%)</b>								
GNPA	1.7	1.8	1.9	1.5	1.4	1.2	7.12	6.8
NNPA	0.6	0.6	0.8	0.6	0.5	0.4	2.36	3.5
CAR	26.5	25	24.6	27.4	26.4	25.7	26.2	23.5
Cost/Income	28.9	30.8	33.4	30.3	27.9	29.4	27.1	32.0
Portfolio Yield	14	14	14	13.8	13.6	13	13	11.6
Cost of Borrowing	7	7	7	6.7	6.4	6	6	5.7
Spread	7.5	7	6.8	7.1	7.2	7.1	7.3	5.9
NIM	8.6	8.2	7.9	8.1	8.2	8	8.3	6.8
ROAA	4.2	4.8	3.5	2.4	2.3	3.6	2.4	2.1
ROAE	24.3	28.3	20	13.7	14.1	22.5	14.6	13.2

Source: Dalal & Broacha Research, Company

## Exhibit 1:

P&L (Rs Bn)	FY20	FY21	FY22	FY23
Interest Earned	108.8	125.2	173.7	219.9
Interest Expended	45.6	49.6	74.5	88.9
<b>NII</b>	<b>63.2</b>	<b>75.6</b>	<b>99.1</b>	<b>135</b>
Other Income	15.5	21.0	24.2	29.0
<b>Total Income</b>	<b>78.7</b>	<b>96.6</b>	<b>123.3</b>	<b>164.1</b>
Opex	24.2	28.1	35.8	43.9
<b>PPOP</b>	<b>54.4</b>	<b>68.5</b>	<b>87.5</b>	<b>116.1</b>
Provisions	13.9	39.0	30.2	37.8
<b>PBT</b>	<b>40.5</b>	<b>29.4</b>	<b>57.2</b>	<b>78.3</b>
Tax	10.2	7.4	14.3	19.6
<b>PAT</b>	<b>30.3</b>	<b>22.1</b>	<b>42.9</b>	<b>58.7</b>

Source: Dalal & Broacha Research, Company

## Exhibit 2:

BS (Rs Bn)	FY20	FY21	FY22	FY23
Capital	16.1	16.1	16.1	16.1
Reserves	135.8	157.9	196.6	247.1
Deposits	570.8	779.7	894.4	1098.9
Borrowings	48.6	169.6	226	259.9
Other Liabilities	30.6	26.5	56.7	94.5
<b>Total</b>	<b>917.1</b>	<b>1149.9</b>	<b>1389.9</b>	<b>1716.6</b>
Cash & Bank	83.5	61.9	144.3	166.7
Investments	153.5	251.5	212.8	258.2
Advances	666.3	816.1	1007.9	1259.9
Fixed Assets	3.6	4.9	5.3	6.8
Other Assets	10.1	15.4	19.3	24.9
<b>Total</b>	<b>917.1</b>	<b>1149.9</b>	<b>1389.9</b>	<b>1716.6</b>

Source: Dalal & Broacha Research, Company

## Exhibit 3:

Ratios (%)	FY20	FY21	FY22	FY23
<b>Growth</b>				
NII	41	20	31	32
Operating profit	45	26	28	33
Net profit	69	-33.3	94	36
Advances	68	22	24	25
<b>Returns</b>				
ROA	4.5	2.1	3.4	3.8
ROE	25.1	13.5	22.2	24.6

Source: Dalal & Broacha Research, Company

## Exhibit 4:

Ratios (%)	FY20	FY21	FY22	FY23
<b>Asset quality</b>				
GNPA	1.5	6.8	2	1.8
NNPA	0.6	3.5	1.0	0.5
<b>Per share (Rs)</b>				
EPS	21	14	27	36
ABVPS	92	104	129	161
P/E	14.5	21.3	11.2	8.3
P/ABVPS	3.2	2.7	2.3	1.8

Source: Dalal & Broacha Research, Company

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