



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Akshay Ashok 022 67141486

Result update@ Dalal & Broacha

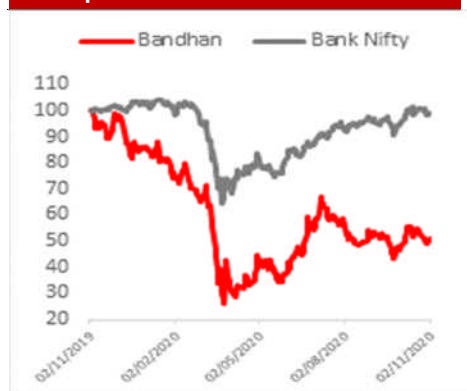
BUY

Current Price (Rs)	301
52 Week Range	152/626
Target Price (Rs)	456
Upside (%)	52%

Key Share Data

Market Cap (Rs.bn)	484
Market Cap (US\$ mn)	6499
No of o/s shares (mn)	1610
Face Value	10
Monthly Avg. vol(BSE/NSE)	
Nos'000	9915
BSE Code	541153
NSE Code	BANDHANBNK
Bloomberg	BANDHAN:IN

Price performance



% Shareholding	Sep-20	Jun-20
Promoters	40.00	60.95
Public	60.00	39.05
Others	0.00	0.00
Total	100.0	100.0

Bandhan Bank (Bandhan) has reported a very strong set of numbers in a challenging environment for the quarter ended September 30, 2020. It registered very strong advances growth (19% YoY to Rs 766.2bn) and strong deposit growth (34% YoY to Rs 661.3bn). The total COVID-19 related provisioning buffer stands at Rs20.9bn (2.7% of advances). Collection efficiencies have significantly improved and stands at 92% as on September'20 for Bandhan with microfinance collection efficiency at 89%(improved to 91% in October). **Stock price correction from the peak provides a very good opportunity to buy the stock at these levels**

Strong Operating Performance; PPOP up by 25% YoY

- Company's NII came at Rs 19.2 Bn, +26% YoY / +6% QoQ and above our estimate of Rs 18.8bn driven by very strong advances growth of (19% YoY to Rs 766.2bn and +3% QoQ). Disbursements have picked up and are close to pre covid levels.
- PPOP stood at Rs 16.28 Bn and above our estimate of Rs 16.08Bn up by 25% YoY/+3% QoQ.
- Net profit stood at Rs 9.2 Bn (-5% YoY/+67% QoQ) and above our estimate of Rs 7.6bn

Asset quality improves; GNPA at 1.2%; NNPA at +0.4%. Sufficient Provisioning for Covid(PCR at 70%).

- Asset quality improved during the quarter, with GNPA stood at 1.2% Vs 1.4% QoQ and vs 1.7% YoY, while NNPA was 0.4% Vs 0.5% QoQ and vs 0.6% YoY . Provisioning Coverage Ratio stood at 70%.
- Provisions came in at Rs 3.95 Bn, 171% YoY / -53% QoQ. .The total COVID-19 related provisioning buffer stands at Rs 20.9 bn (2.7% of loan portfolio). **Lower provisions on a QoQ basis as collection efficiency has improved across segments and management is comfortable with levels of provisions taken.**

Update on Moratorium and Collection Efficiencies.

- Moratorium @ 3.2% of advances at 30th September, 2020 at Rs 2.5bn**
- Strong bounce back in collection efficiencies across segments
- September overall efficiencies at 92% ;**
- 89% efficiency in MFI(improved to 91% in October),
- 96% of customers in microfinance segment are paying so provisions have reduced on a QoQ basis.
- Collection efficiency in Assam around 86-87%.**
- Management expects collection efficiency to reach pre-covid levels in the coming two quarters.**

Outlook

We continue like the company as it has consistently shown strong growth with stable asset quality. Bank has come out with vision 2025 where they have maintained that there will be geographical diversification from Eastern India removing concentration risk as well as diversifying their asset book. One of the few banks who are on a growth trajectory and have mentioned they will open 574 new banking outlets by end of the year. Thus, we have maintained a 'Buy' rating on Bandhan with a price target of Rs 456, valuing the stock at 3.5x FY22E P/ABV.

Key Financials

Year	NII Growth (%)	PPOP Growth (%)	PAT Growth (%)	EPS	ABVPS	P/ABV
FY20	41	45	55	19	92	3.2
FY21e	35	38	(14)	16	103	2.9



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FY22e	23	24	82	29	130	2.3
FY23e	28	29	31	38	163	1.8

Highlights of the Conference Call**Collection Efficiencies**

- Strong bounce back in collection efficiencies across segments, September overall efficiencies at 92% ; 89% in MFI(improved to 91% in October).
- 96% of customers in microfinance segment are paying so provisions have reduced on a QoQ basis.
- Collection efficiency in Assam around 86-87%.
- Starting of trains can improve collection efficiency by 5%.

Branch Openings

- 574 new banking outlets to be opened across the country by end of year in South, North and Western part of countries, around 100 of these will be branches.
- Employees have been hired and there will be re-allocation later, collection officers could be shifted to these new branches.

Mission 2025

- Converting Vintage EEB (Micro Finance now known as Emerging Entrepreneurs Business) borrowers to individual loan and helping them to graduate to MSMEs
- **Banking Units to focus on verticals for two wheeler, consumer, and micro housing loans as well and to provide deposit services to EEB customers.**
- Diversification of asset book by 2025, microfinance from 62% of book to reduce to 30%, mortgages to increase from 25% to 30%, commercial banking from 9% to 30%, retail from 1% to 10% and diversification of geographies.

Mortgages and top up loans

- Ticket sizes to rise in home loans, top up loans being given to customers to ease pressure in tough times, , bank wants to go to the next step and offer both affordable housing and prime property segment.
- % top up loans stands at 7.6% of book in terms of value, average ticket size of top up loan is Rs 35000 and credit profiling is done as though it is a first loan

Growth, Credit Cost and Others

- Bank expects next two quarters of good growth with collection efficiencies to touch pre covid levels and bank maintains credit cost guidance of 3.5%.
- Management is positive that collections have been better than what they expected.
- Board of Directors of the Bank have approved the reappointment of Mr. Chandra Shekhar Ghosh as the Managing Director & Chief Executive Officer ('MD&CEO') of the Bank for a period of five years with effect from July 10, 2021,

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Risks to Rating and Price Target

Second Wave of Covid: It does appear that the worst of Covid is behind us but there is a second wave starting in Europe and if it occurs in India and once again there is a lockdown, operations and collections can be adversely affected.

Political Interference: There are state elections in West Bengal, Tamil Nadu and Assam in 2021. Political interference like loan waiver can affect credit discipline of the borrowers.

Concentration in Eastern and North Eastern part of India: Loan book concentration with over 60% of total microfinance loan book from West Bengal and Assam, but the company is looking to diversify its operations and we expect concentration risk will come down



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P&L Rs Bn	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Interest Earned	16.5	18.3	26.3	26.9	27.1	28.4	30.1	31.9
Interest Expended	5.2	5.7	10.5	11.6	11.7	11.6	12.0	12.7
NII	11.2	12.5	15.7	15.2	15.4	16.8	18.1	19.2
Other Income	2.3	3.8	3.3	3.6	3.6	5	3.8	3.8
Net Income	18.8	22.2	29.6	30.5	30.7	33.4	34.0	35.7
Opex	4.5	4.9	5.5	5.8	6.3	6.6	6.1	6.7
PPOP	9	11.5	13.5	13.0	12.6	15.2	15.8	16.2
Provisions	3.8	1.5	1.3	1.5	2.9	8.3	8.5	3.9
PBT	5.2	10	12.3	11.6	9.7	6.9	7.3	12.3
Tax	1.9	3.5	4.2	1.9	2.3	1.7	1.8	3.12
PAT	3.3	6.5	8	9.7	7.3	5.2	5.5	9.2
Loan and Deposit Portfolio Growth % with CASA								
Advances YoY Growth (%)	46	38	94	92	84	60	18	19
Deposits YoY Growth (%)	37	28	46	49	59	32	35	34
CASA	41.4	40.8	36.1	33	34.3	36.8	37.0	38.2
Ratios (%)								
GNPA	2.4	2.0	1.7	1.8	1.9	1.5	1.4	1.2
NNPA	0.7	0.6	0.6	0.6	0.8	0.6	0.5	0.4
CAR	32.8	29.2	26.5	25	24.6	27.4	26.4	25.7
Cost/Income	35.7	31.9	35.2	35.4	39.8	34.8	36.6	31.0
Portfolio Yield	15	16	14	14	14	13.8	13.6	13
Cost of Borrowing	6	6	7	7	7	6.7	6.4	6
Spread	9.1	9.5	7.5	7.0	6.8	7.1	7.2	7.1
NIM	10.5	10.7	8.6	8.2	7.9	8.1	8.2	8
ROAA	2.9	5.2	4.2	4.8	3.5	2.4	2.3	3.6
ROAE	12.5	24.1	24.3	28.3	20.0	13.7	14.1	22.5



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<i>P&L (Rs Bn)</i>	FY20	FY21	FY22	FY23
Interest Earned	108.8	147.3	180.2	223.9
Interest Expended	45.6	61.7	74.5	88.9
NII	63.2	85.6	105.6	135.0
Other Income	15.5	18.9	23.4	29.0
Total Income	78.7	104.5	129.0	164.0
Opex	24.2	29.2	35.7	43.9
PPOP	54.4	75.4	93.4	120.1
Provisions	13.9	40.6	30.2	37.8
PBT	40.5	34.7	63.1	82.3
Tax	10.2	8.7	15.8	20.6
PAT	8.7	15.8	20.6	10.2

<i>BS (Rs Bn)</i>	FY20	FY21	FY22	FY23
Capital	16.1	16.1	16.1	16.1
Reserves	135.8	156.0	198.3	251.0
Deposits	570.8	728.5	894.4	1098.9
Borrowings	48.6	104.8	133.0	179.0
Other Liabilities	30.6	71.2	101.5	139.3
Total	917.1	1168.5	1436.4	1765.3
Cash & Bank	83.5	150.0	189.7	215.0
Investments	153.5	185.0	212.8	258.2
Advances	666.3	812.8	100.7	125.9
Fixed Assets	3.6	4.3	5.3	6.8
Other Assets	10.1	16.2	20.4	25.3
Total	917.1	1168.5	1436.4	1765.3

<i>Ratios (%)</i>	FY20	FY21	FY22	FY23
Growth				
NII	41	35	23	28
Operating profit	45	38	24	29
Net profit	55	(14)	82	31
Advances	68	22	24	25
Returns				
ROA	4.1	2.5	3.6	3.9
ROE	22.9	16.0	24.5	25.6

<i>Ratios (%)</i>	FY20	FY21	FY22	FY23
Asset quality				
GNPA	1.5	2.0	1.8	1.8
NNPA	0.6	0.7	0.4	0.3
Per share (Rs)				
EPS	18.8	16.2	29.4	38.3
ABVPS	92	103	130	163
P/E	16	18.5	10.2	7.8
P/ABVPS	3.2	2.9	2.3	1.8



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