

Things on the ground improving, expect strong performance in second half of FY22



Bandhan Bank has reported a stable performance in Q1'22. Its operating performance remained strong. Asset quality stress seen due to covid 2nd wave, but collection efficiency including arrears has improved to 98% which is a positive.

Relief to be provided by Assam Government will help in cleaning up Assam microfinance book, this is the biggest positive development.

- NII came in at INR 21.1 Bn, +17.0% YoY / +20.3% QoQ above our expectations of INR 20.0Bn
- Other Income came in at INR 5.3 Bn, +38.0% YoY / (32.0%) QoQ
- PPOP came in at INR 18.7 Bn, +18.0% YoY / +8.0% QoQ vs our expectations of INR 18.0 Bn
- Provisions came in at INR 13.7 Bn, +61.9% YoY / (13.8%) QoQ.
- PAT came in at INR 3.73 Bn, (32.0%) YoY/ +262.1% QoQ vs our expectations of INR 4.0 Bn on increased provisioning.
- EPS stood at INR 2.32 vs INR 3.41 / INR 0.64 in YoY / QoQ respectively.

Financial Highlights

- Advances at INR 803.57 Bn (+8.0% YoY/(7.7%) QoQ), de-growth was seen in all segments on a QoQ basis due to lockdowns. Micro Finance now known as Emerging Entrepreneurs Business (+12.0% YoY growth,(8.8%) QoQ de-growth, 66% of advances), retail segment (+69.2% YoY growth, (5.9%) QoQ de-growth,1.4% of advances). Mortgages too saw de-growth ((1%) YoY de-growth,(4.2%) QoQ de-growth, 24.1% of advances) and SME segment (+111.7% YoY growth,(8.5%) QoQ de-growth, 8.3% of advances)
- On liabilities, Deposits grew by (+28.0% YoY/(0.8%) QoQ in Q1FY22 to INR 773.35Bn, with CASA at INR 332 Bn(+47.7% YoY growth). CASA ratio stood at 42.9%.
- Reported Asset Quality deteriorated slightly on a YoY and QoQ basis with GNPA at 8.20% (+677 bps YoY/ +140 bps QoQ) to INR 64.4 Bn and NNPA stood at 3.3% (+282 bps YoY/ (20)bps QoQ) to INR 24.57 Bn.

Y/E Mar(Rs bn)	FY19	FY20	FY21	FY22E	FY23E
NII	45	63	75	99	131
Net Profit	20	33	22	43	60
Net Worth	112	151	174	213	265
EPS(Rs)	16	21	14	27	37
growth(%)	45.0	14.8	(33.0)	92.0	37.0
P/E(X)	18.1	14.1	20.7	10.9	7.8
P/BV(x)	3.0	3.0	2.7	2.2	1.7
P/Adj BV	3.1	3.1	2.8	2.3	1.8
ROA(%)	3.9	4.5	2.1	3.4	3.8
ROE(%)	19.0	25.1	13.5	22.4	25.3

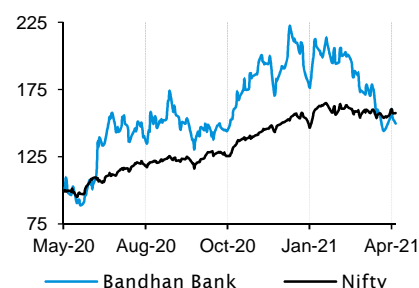
Source: Dalal & Broacha Research

Rating	TP (Rs)	Up/Dn (%)
BUY	414	42

Market data

Current price	Rs	291
Market Cap (Rs.Bn)	(Rs Bn)	469
Market Cap (US\$ Mn)	(US\$ Mn)	6305
Face Value	Rs	10
52 Weeks High/Low	Rs	430/251
Average Daily Volume	('000)	5065
BSE Code		541153
Bloomberg		BANDHAN:IN
Source: Bloomberg		

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	39.99	39.99
Public	60.01	60.01
Others	0.00	0.00
Total	100	100

Source: BSE

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- Out of INR 64.4 Bn GNPA INR 49.80 Bn comes from microfinance portfolio. Large part of NPA is contributed by part paying customers, 74% of NPA customers are part paying while only 26% are non-paying.
- If one combines NPA and restructured customers payment pattern, 79% of them are paying while only 21% are not paying. Although SMA1 of microfinance portfolio has gone up from 2.8% to 10.1% (Mar'21 to June'21), SMA2 has come down from 2.5% to 2.4% which is a positive.
- Collection efficiency as on Q1 '22 of Assam stands at 67%, West Bengal at 85% and Rest of India at 90%. In West Bengal and Assam, Covid restrictions were imposed starting mid-May'21 and continued till mid-July'21 which impacted the collection efficiency of these states as against rest of India where withdrawal of restrictions happened post May'21.
- Assam Portfolio Analysis and Impact of pact linked with Assam Government for compensating bank where there are defaults in microfinance portfolio. Out of total portfolio of INR 63.50 Bn in Assam as on June'21, INR 35.80 Bn is eligible for resolution under Assam Govt plan, remaining INR 27.70 Bn is not eligible as the Government only considers loans taken before December 31, 2020 and loan outstanding of borrower should be less than INR 1.25 lakhs. In the INR 27.70 Bn portfolio 76% of customers are paying. Although timeline and quantum of funds that Bandhan will receive from Assam Government is not clear, this will clean up the bank's book in Assam and is a big positive, almost INR 3 Bn worth written off loans can also be recovered
- NIMs at 8.5% (+30bps YoY/+170bps QoQ)
- Operational efficiency improved on a QoQ basis, with cost to income ratio stood at +29.3% (+140 bps YoY/(270)bps QoQ)
- Strong Capital Adequacy with CRAR at 4.8%

Valuation and outlook

Bandhan Bank has reported a stable set of numbers, concerns are there regarding asset quality but things are improving with collection efficiencies inching up. Bank has made sufficient provisioning and the relief to be provided by Assam Government will help in cleaning up Assam microfinance book. Management is confident that growth will pick up and have a clear goal of asset diversification as well as geographical diversification.

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 as the numbers and disclosures provided by the company gives us confidence with a price target of INR 414 valuing the stock at 3.2x FY22E P/ABV.

Highlights of the Conference Call

Covid 2nd wave

- Second wave of pandemic is more severe than 1st wave has also affected rural and semi-urban areas.
- People have learnt to live with the pandemic.
- Situation improving in Assam and Bengal at ground level, Starting July lockdowns have been lifted.

Conservative Provisioning

- Very conservative provisioning of INR 1,370 crores taken in this quarter.

Collection Efficiencies and Write offs

- Collection efficiency is improving on a QoQ basis has reached 98% with arrears.
- In West Bengal and Assam, Covid restrictions were imposed starting mid-May'21 and continued till mid-July'21 which impacted the collection efficiency of these states as against rest of India where withdrawal of restrictions happened post May'21.
- No write-offs taken in this quarter.

Top up loans and restructuring

- Negligible top-up loans given in Q1'22, focus was on collections.
- Restructuring done only for customers who are paying and had severe lockdown restrictions, moratorium given to these customers.

Credit Guarantee Fund for Micro Units

- Bank has availed CGFMU guarantee which is a central government guarantee given to lenders against payment of guarantee premium
- Non Agri portfolio gets covered under the scheme
- First 3% of the loss of the pool where the guarantee is availed has to be borne by the lender, incremental loss above 3%, 75% of it will be borne by the guarantee provider and 25% has to be borne by the lender.
- Till March'21 INR 14,300 crores is covered by this scheme which is a welcome step taken by the bank, protects them if there are massive defaults

Digital Transformation

- Trying to transform into fully digital bank, 87% of current transactions are digital, aim to take it to 90% by end of year

Growth Guidance

- Disbursals picking up across segments.
- New customer addition near to pre-covid levels.

Financials

P&L Rs Bn	Q2FY 20	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21	Q4FY 21	Q1FY 22
Interest Earned	26.9	27.1	28.4	30.1	31.9	33.0	30.0	34.1
Interest Expended	11.6	11.7	11.6	12	12.7	12.3	12.4	12.9
NII	15.2	15.4	16.8	18.1	19.2	20.7	17.5	21.1
Other Income	3.6	3.6	5	3.8	3.8	5.5	7.8	5.3
Net Income	30.5	30.7	33.4	34	35.7	38.6	37.8	39.4
Opex	5.8	6.3	6.6	6.1	6.7	7.1	8.1	7.7
PPOP	13	12.6	15.2	15.8	16.2	19.1	17.2	18.7
Provisions	1.5	2.9	8.3	8.5	3.9	10.6	15.9	13.7
PBT	11.6	9.7	6.9	7.3	12.3	8.4	1.3	4.9
Tax	1.9	2.3	1.7	1.8	3.12	2.1	0.3	1.2
PAT	9.7	7.3	5.2	5.5	9.2	6.3	1.03	3.7
Loan and Deposit Portfolio Growth % with CASA								
Advances YoY Growth (%)	92	84	60	18	19	23	21	8
Deposits YoY Growth (%)	49	59	32	35	34	30	37	-7.7
CASA	33	34.3	36.8	37	38.2	42.9	43.4	42.9
Ratios (%)								
GNPA	1.8	1.9	1.5	1.4	1.2	7.12	6.8	8.2
NNPA	0.6	0.8	0.6	0.5	0.4	2.36	3.5	3.3
CAR	25	24.6	27.4	26.4	25.7	26.2	23.5	24.8
Cost/Income	30.8	33.4	30.3	27.9	29.4	27.1	32.0	29.3
Portfolio Yield	14	14	13.8	13.6	13	13	11.6	14
Cost of Borrowing	7	7	6.7	6.4	6	6	5.7	6
Spread	7	6.8	7.1	7.2	7.1	7.3	5.9	8
NIM	8.2	7.9	8.1	8.2	8	8.3	6.8	8.5
ROAA	4.8	3.5	2.4	2.3	3.6	2.4	2.1	1.3
ROAE	28.3	20	13.7	14.1	22.5	14.6	13.2	8.5

Source: Dalal & Broacha Research, Company

Exhibit 1:

P&L (Rs Bn)	FY 20	FY 21	FY 22	FY 23
Interest Earned	108.8	125.2	175	222.6
Interest Expended	45.6	49.6	76.4	90.8
NII	63.2	75.6	98.6	131.8
Other Income	15.5	21.0	24.6	29.9
Total Income	78.7	96.6	123.2	161.7
Opex	24.2	28.1	34.9	42.9
PPOP	54.4	68.5	88.3	118.9
Provisions	13.9	39.0	30.2	38
PBT	40.5	29.4	57.9	80.9
Tax	10.2	7.4	14.5	20.3
PAT	30.3	22.1	43.4	60.6

Source: Dalal & Broacha Research, Company

Exhibit 2:

BS (Rs Bn)	FY 20	FY 21	FY 22	FY 23
Capital	16.1	16.1	16.1	16.1
Reserves	135.8	157.9	197.1	249.5
Deposits	570.8	779.7	953.1	1166.3
Borrowings	48.6	169.6	195	224.3
Other Liabilities	30.6	26.5	56.8	94.8
Total	917.1	1149.9	1418.3	1751.1
Cash & Bank	83.5	61.9	162.7	189.1
Investments	153.5	251.5	218.1	264.2
Advances	666.3	816.1	1012	1265
Fixed Assets	3.6	4.9	5.8	7.3
Other Assets	10.1	15.4	19.6	25.3
Total	917.1	1149.9	1418.3	1751.1

Source: Dalal & Broacha Research, Company

Exhibit 3:

Ratios (%)	FY 20	FY 21	FY 22	FY 23
Growth				
NII	41	20	30	34
Operating profit	45	26	29	35
Net profit	55	-27.1	97	40
Advances	68	22	24	25
Returns				
ROA	4.5	2.1	3.4	3.8
ROE	25.1	13.5	22.4	25.3

Source: Dalal & Broacha Research, Company

Exhibit 4:

Ratios (%)	FY 20	FY 21	FY 22	FY 23
Asset quality				
GNPA	1.5	6.8	5	3
NNPA	0.6	3.5	3.0	1.5
Per share (Rs)				
EPS	19	14	27	38
ABVPS	92	104	129	162
P/E	14.1	20.7	10.9	7.8
P/ABVPS	3.1	2.8	2.3	1.8

Source: Dalal & Broacha Research, Company

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