

Another weak quarter, expect better performance in second half of FY22



Bandhan Bank has reported a weak set of numbers in Q2'22. Asset quality stress seen due to covid 2nd wave, large increase in provisioning adversely impacted profits, good growth in deposits and improvement in collection efficiency the positives.

- **NII came in at INR 19.3 Bn, +1.0% YoY / (8.5%) QoQ below our expectations of INR 22.0Bn**
- **Other Income came in at INR 4.9 Bn, +34.0% YoY / (18.0%) QoQ**
- **PPOP came in at INR 15.4 Bn, (4.0%) YoY / (20.0%) QoQ vs our expectations of INR 19.2 Bn**
- **Provisions came in at INR 55.7 Bn, +1369.4% YoY / 286.8% QoQ.**
- **Bank reported a loss which came in at INR 30 Bn, on increased provisioning.**
- **EPS stood at INR (18.68) vs INR 5.71 / INR 2.32 in YoY / QoQ respectively.**

Financial Highlights

- Advances at INR 816.6 Bn (+7.0% YoY/1.6% QoQ), modest growth was seen in all segments on a QoQ basis. Micro Finance now known as Emerging Entrepreneurs Business (+9.0% YoY growth, 1.6% QoQ growth, 66% of advances), retail segment (+39.7% YoY growth, (8.9%) QoQ de-growth, 1.4% of advances). Mortgages was flat (+0.1% YoY growth, 0.7% QoQ growth, 24.1% of advances) and SME segment (+8.2% YoY growth, 6.6% QoQ growth, 8.3% of advances)
- On liabilities, Deposits grew by (+24.0% YoY/+5.9%) QoQ in Q2FY22 to INR 819.0Bn, with CASA at INR 365 Bn(+44.6% YoY growth). CASA ratio stood at 44.6%.
- Reported Asset Quality deteriorated on a YoY and QoQ basis with GNPA at 10.8% (+960 bps YoY/ +260 bps QoQ) to INR 87.6 Bn and NNPA stood at 3.0% (+264 bps YoY/ (26)bps QoQ) to INR 22.65 Bn.

Financial Summary

Y/E Mar(Rs bn)	FY 19	FY 20	FY 21	FY 22E	FY 23E
NII	45	63	75	85	116
Net Profit	20	33	22	10	51
Net Worth	112	151	174	180	230
EPS(Rs)	16	19	14	7	32
growth(%)	45.0	14.8	(33.0)	(50.0)	357.0
P/E(X)	18.1	15.4	20.7	41.0	9.0
P/BV(x)	3.0	3.0	2.7	2.5	2.0
P/Adj BV	3.1	3.1	3.2	3.2	2.3
ROA(%)	3.9	4.1	2.1	0.8	3.3
ROE(%)	19.0	22.9	13.5	6.0	25.1

Source: Dalal & Broacha Research

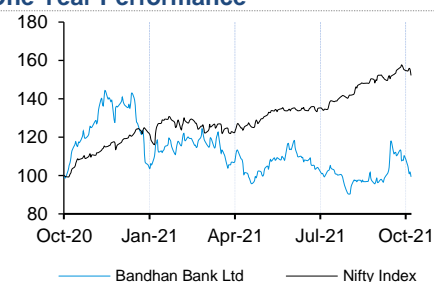
Rating	TP (Rs)	Up/Dn (%)
BUY	364	25

Market data

Current price	Rs	291
Market Cap (Rs.Bn)	(Rs Bn)	469
Market Cap (US\$ Mn)	(US\$ Mn)	6,266
Face Value	Rs	10
52 Weeks High/Low	Rs	431 / 259
Average Daily Volume	('000)	16,056
BSE Code		541153
Bloomberg		BANDHAN.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

(%) Shareholding	Sep-21	Jun-21
Promoter	39.99	39.99
Public	60.01	60.01
Total	100	100

Source: BSE

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- Out of INR 87.6 Bn GNPA INR 49.80 Bn comes from microfinance portfolio. Full paying customers have improved to 79% for Sep'21 from 62% in June'21 which is a positive. If one combines NPA and restructured customers payment pattern in microfinance portfolio, 66% of them are paying while 34% are not paying
- Collection efficiency as on Q2'22 of Assam stands at 67%, West Bengal at 86% and Rest of India at 93%. Collection efficiency not picking up in Q2 in Assam and Bengal a cause for concern, the bank has prudently increased the provisioning due to this although September month has seen a marked improvement in collection. Overall collection efficiency for Q2'22 came in at 88% up from 85% in Q1'22, we would have liked if at least it would have gone above 90%. No write-offs taken this quarter.
- EEB (microfinance dpd movement from June to September) - Although SMA0(1-30 days) and SMA1(30-60 days) dpd has come down from 24.6% and 10.1% to 11.1% and 7.1% respectively, SMA2(61-90 days) continues to be sticky at 2.5% in September compared to 2.4% in June.
- EEB stress pool coverage and expected recoveries - Including SMA1 total stress pool at INR 195 Bn, out of which 95 Bn has been provided for, bank based on payment patterns expect INR 60 Bn of recovery by March'22 , CGFMU guarantee recovery of INR 30 Bn plus recovery is expected from Assam Relief scheme.
- NIMs at 7.6% ((40)bps YoY/(90)bps QoQ)
- Operational efficiency deteriorated, with cost to income ratio stood at 36.2% (+660 bps YoY/+760bps QoQ)
- Strong Capital Adequacy with CRAR at 20.4%

Valuation and outlook

Bandhan Bank has reported a weak set of numbers, concerns are there regarding asset quality but things are improving with collection efficiencies inching up. Bank has made large provisioning and the relief to be provided by Assam Government will help in cleaning up Assam microfinance book. Growth in advances book on a QoQ book a positive after the de-growth seen in the last quarter. Disbursements for September month in the microfinance book has seen a strong growth and the bank believes that the provisioning done will insulate them from further stress and a good chunk of provisioning can be written back.

At CMP the stock trades at 3.2x its FY22E ABV and 2.2x its FY23E ABV. We have maintained a 'Buy' rating on Bandhan Bank as the numbers and disclosures provided by the company gives us confidence but we decrease our target price to INR 364 from INR 414 valuing the stock at 2.8x FY23 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.
- Situation improving in Assam and Bengal at ground level, Starting July lockdowns have been lifted.

Conservative Provisioning to handle any upcoming stress

- Bank have made accelerated provision on NPA accounts of INR 15 Bn resulting in PCR of 74% as against 62% in Q1FY22. In addition to this Bank also has also provided additional standard assets provision amounting to INR 21Bn and provision on restructured assets amounting to INR 10 Bn amounting to total of INR 46 Bn.
- Bank expects quite a big chunk of this provision to be written back as recoveries start flowing in.

Collection Efficiencies and Write offs

- Collection efficiency is improving on a QoQ basis has reached 129% with arrears.
- No write-offs taken in this quarter.

Top up loans and restructuring

- Negligible top-up loans given in Q2'22, focus was on collections.
- Restructuring done only for customers who are paying and had severe lockdown restrictions, moratorium given to these customers.

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, credit growth near to pre-covid levels.

Financials

Table 1

P&L (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Interest Earned	27.1	28.4	30.1	31.9	33.0	30.0	34.1	31.8
Interest Expended	11.7	11.6	12	12.7	12.3	12.4	12.9	12.4
NII	15.4	16.8	18.1	19.2	20.7	17.5	21.1	19.3
Other Income	3.6	5	3.8	3.7	5.5	7.8	6	4.9
Net Income	30.7	33.4	34	35.6	38.6	37.8	40.1	36.7
Opex	6.3	6.6	6.1	6.7	7.1	8.1	7.7	8.7
PPOP	12.6	15.2	15.8	16.1	19.1	17.2	19.3	15.4
Provisions	2.9	8.3	8.5	3.8	10.6	15.9	14.4	55.7
PBT	9.7	6.9	7.3	12.3	8.4	1.3	4.9	(40.2)
Tax	2.3	1.7	1.8	3.12	2.1	0.3	1.2	(10.2)
PAT	7.3	5.2	5.5	9.2	6.3	1.03	3.7	(30.0)
Loan and Deposit Portfolio Growth % with CASA								
Advances YoY Growth (%)	84	60	18	19	23	21	8	7
Deposits YoY Growth (%)	59	32	35	34	30	37	-7.7	24
CASA	34.3	36.8	37	38.2	42.9	43.4	42.9	44.6
Ratios (%)								
GNPA	1.9	1.5	1.4	1.2	7.12	6.8	8.2	10.8
NNPA	0.8	0.6	0.5	0.4	2.36	3.5	3.3	3
CAR	24.6	27.4	26.4	25.7	26.2	23.5	24.8	20.4
Cost/Income	33.4	30.3	27.9	29.4	27.1	32.0	29.3	36.2
Portfolio Yield	14	13.8	13.6	13	13	11.6	14	12
Cost of Borrowing	7	6.7	6.4	6	6	5.7	6	5
Spread	6.8	7.1	7.2	7.1	7.3	5.9	8	7
NIM	7.9	8.1	8.2	8	8.3	6.8	8.5	7.6

P&L (Rs Bn)	FY20	FY21	FY22	FY23
Interest Earned	108.8	125.2	161.8	206.8
Interest Expended	45.6	49.6	76.4	90.8
NII	63.2	75.6	85.4	116
Other Income	15.5	21.0	23.6	27.8
Total Income	78.7	96.6	109	143.8
Opex	24.2	28.1	34.9	42.9
PPOP	54.4	68.5	74.1	101
Provisions	13.9	39.0	59.9	32.1
PBT	40.5	29.4	14.2	68.9
Tax	10.2	7.4	3.6	17.3
PAT	30.3	22.1	10.6	51.6

BS (Rs Bn)	FY20	FY21	FY22	FY23
Capital	16.1	16.1	16.1	16.1
Reserves	135.8	157.9	164.3	213.9
Deposits	570.8	779.7	953.1	1166.3
Borrowings	163.7	169.6	195	224.3
Other Liabilities	30.6	26.5	86.5	118.6
Total	917.1	1149.9	1415.2	1739.4
Cash & Bank	83.5	61.9	316.1	373.7
Investments	153.5	251.5	218.1	264.2
Advances	666.3	816.1	856.9	1071.1
Fixed Assets	3.6	4.9	5.8	6.8
Other Assets	10.1	15.4	18.5	23.4
Total	917.1	1149.9	1415.2	1739.4

Ratios (%)	FY20	FY21	FY22	FY23
Growth				
NII	41	20	13	36
Operating profit	45	26	8	36
Net profit	55	(27.10)	(51.80)	385.6
Advances	68	22	5	25
Returns				
ROA	4.1	2.1	0.8	3.3
ROE	22.9	13.5	6	25.1

Ratios (%)	FY20	FY21	FY22	FY23
Asset quality				
GNPA	1.5	6.8	8	3
NNPA	0.6	3.5	3.0	1.5
Per share (Rs)				
EPS	19	13.7	6.6	32.1
ABVPS	92	90.4	89.7	130.4
P/E	15.4	20.7	41	9
P/ABVPS	3.1	3.2	3.2	2.3

Source: Dalal & Broacha Research

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