

Every journey that is successful has cul-de-sac and speed bumps



Bandhan Bank has reported a steady performance in a challenging macro environment. Its operating performance remained strong, supported by steady growth. Asset quality showed deterioration.

Dip in collection efficiency in Assam and West Bengal a cause of concern, but adequate coverage and strong capital position makes the bank resilient to any major event.

- **NII came in at INR 20.7 Bn, +8.0% QoQ / +35.0% YoY and 3.5% above our est.**
- **Other Income came in at INR 5.5 Bn, 44.9% QoQ / 54.7% YoY**
- **PPOP came in at INR 19.14 Bn, 18.0% QoQ / 51.0% YoY and 12.5% above our est.**
- **Provisions came in at INR 10.69 Bn, +170.9% QoQ / +262.4% YoY**
- **PAT came in at INR 6.33 Bn, (31.2%) QoQ/ (13.0%) YoY and 25.5% below our est.**
- **EPS stood at INR 3.93 vs INR 5.71 / INR 4.54 in QoQ / YoY respectively.**

Financial Highlights

- Despite the macro headwinds driven by COVID-19, Bandhan has shown healthy advances growth of 23.0% YoY in Q3FY21, mainly driven by microfinance loan growth of 25.5% YoY, while mortgages and book grew by 3.0% YoY. Management highlighted that disbursements are back to pre-covid levels and Q4 historically has seen the highest growth.
- On liabilities, Deposits grew by 30.0% YoY/7.6% QoQ in Q3FY21 led by CASA growth of 62.0% YoY/20.7% QoQ taking CASA ratio to 42.9% (Vs 34.3% 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 26.2% (vs 24.6% YoY/ 25.7% QoQ), of which Tier I capital was 21.4% (vs 23.1% YoY/ 22.2% QoQ). The healthy growth rate of deposits, especially CASA is one of the strongest points of the bank.
- Reported Asset Quality improved with GNPA at 1.11% (-82 bps YoY/ -9bps QoQ) to INR 859 crores and NNPA stood at 0.2% (-57 bps YoY/ -14bps QoQ) to INR 201 crores. However, if the Bank had classified borrower accounts as NPA after August 31, 2020, the Bank's proforma Gross NPA ratio would have been 7.12 % and Net NPA ratio would have been 2.36%. Higher proforma GNPA number because even customers who are doing part payments taken as NPA accounts, number would have been down to 3.5% if conservative stance was not taken. Most of the stress coming from microfinance book.

Financial Summary

| Y/E Mar(Rs bn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|----------------|------|------|--------|-------|-------|
| NII | 45 | 63 | 86 | 106 | 135 |
| Net Profit | 20 | 30 | 26 | 47 | 61 |
| Net Worth | 112 | 151 | 172 | 214 | 267 |
| EPS(Rs) | 16 | 19 | 16 | 29 | 38 |
| growth(%) | 45.0 | 14.8 | (14.0) | 82.0 | 30.0 |
| P/E(X) | 21.5 | 18.1 | 21.5 | 11.8 | 9.0 |
| P/BV(x) | 3.7 | 3.6 | 3.2 | 2.6 | 2.0 |
| P/Adj BV | 3.8 | 3.8 | 3.3 | 2.6 | 2.1 |
| ROA(%) | 3.9 | 4.1 | 2.5 | 3.6 | 3.9 |
| ROE(%) | 19.0 | 22.9 | 16.0 | 24.5 | 25.6 |

Source: Dalal & Broacha Research

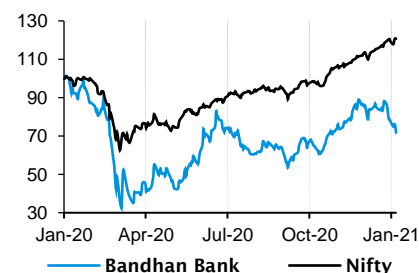
| Rating | TP (Rs) | Up/Dn (%) |
|------------|------------|-----------|
| BUY | 456 | 32 |

Market data

| | | |
|----------------------|-----------|------------|
| Current price | Rs | 345 |
| Market Cap (Rs.Bn) | (Rs Bn) | 549 |
| Market Cap (US\$ Mn) | (US\$ Mn) | 7523 |
| Face Value | Rs | 10 |
| 52 Weeks High/Low | Rs | 487/152 |
| Average Daily Volume | ('000) | 15651 |
| BSE Code | | 541153 |
| Bloomberg | | BANDHAN:IN |

Source: Bloomberg

One Year Performance



Source: Bloomberg

| % Shareholding | Dec-20 | Sep-20 |
|----------------|------------|------------|
| Promoters | 40.00 | 40.00 |
| Public | 60.00 | 60.00 |
| Others | 0.00 | 0.00 |
| Total | 100 | 100 |

Source: BSE

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- The bank's operational efficiency remained strong, with cost to income ratio falling by 630 bps YoY to 27.1%, backed by higher net income (NII + other income) growth of 38.3% vs opex growth of 12.1% in Q3FY21.
- Collection efficiencies across segments above 90% (EEB or Microfinance Book collection efficiency for December'20 quarter at 92%, commercial banking and affordable housing collection efficiency at 98%). 80% of customers are paying in full currently.

Valuation and outlook

With better capital adequacy and healthy provisioning buffer, Bandhan Bank is in better position to withstand any upcoming stress in West Bengal and Assam. It is one of the few large banks to show >20% advances growth and such a strong deposit growth. On the asset quality front, slippages are likely to come from microfinance book especially from Assam and West Bengal where there is state election also in near term, which could keep credit costs elevated. Bandhan bank has weathered many a storm like demonetization, the recent NRC issue and has always come out stronger. But we will keep a close eye on the happenings in Assam and West Bengal and wait for collection efficiencies to bounce back. **At CMP the stock trades at 2.6x its FY22E ABV and 2.1x its FY23E ABV. We have maintained a 'Buy' rating on Bandhan Bank with a price target of Rs 456, valuing the stock at 3.5x FY22E P/ABV.**

Highlights of the Conference Call

Collection efficiency lagging behind in Assam and West Bengal but expected to revive

- Collection efficiencies across segments above 90% (EEB or Microfinance Book collection efficiency for December'20 quarter at 92%, commercial banking and affordable housing collection efficiency at 98%).
- Dip in collection efficiency in West Bengal and Assam in December (90% and 88%) and first 2 weeks of January (89% and 78%) temporary and will bounce back, Assam collection efficiency dropping because customers think that the new microfinance bill is applicable to loan taken from banks and it is not and they are being educated.
- Dip in collection efficiency has stopped in Assam.

Conservative Provisioning

- Very conservative provisioning of INR 1,069 crores taken in this quarter, coming quarters provisioning will depend on how the situation pans out in Assam and West Bengal.

Proforma GNPA of 7.1%

- Higher proforma GNPA number because even customers who are doing part payments taken as NPA accounts, number would have been down to 3.5% if conservative stance was not taken.
- Current dpd (days past due) situation -76.5% customers are 0 dpd, 2% customers fall in 0-30 dpd, 10% customers fall in 30-60 dpd and 5% fall in 60-90 dpd.

Top up loans and restructuring

- No top up loans given this quarter, total amount of restructuring done is zero, bank has option to do restructuring of accounts till March which can help in reduction of NPA's.
- Zero write-off taken by the bank in this quarter.

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 55% YoY growth in fee and commission income.

Election in West Bengal and Assam

- Bank does not expect any impact due to elections in the state of West Bengal and Assam. In their long history of functioning waivers has not affected them till now and bank does not anticipate any such waiver in the coming months.

Growth Guidance

- 4th quarter of every year is always the best quarter in terms of growth and the bank hopes that this year is the same.
- Credit Cost guidance increased by 100 bps but should be lower than 5%.

Financials

| P&L Rs Bn | Q4FY 19 | Q1FY 20 | Q2FY 20 | Q3FY 20 | Q4FY 20 | Q1FY 21 | Q2FY 21 | Q3FY 21 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Interest Earned | 18.3 | 26.3 | 26.9 | 27.1 | 28.4 | 30.1 | 31.9 | 33.0 |
| Interest Expended | 5.7 | 10.5 | 11.6 | 11.7 | 11.6 | 12 | 12.7 | 12.3 |
| NII | 12.5 | 15.7 | 15.2 | 15.4 | 16.8 | 18.1 | 19.2 | 20.7 |
| Other Income | 3.8 | 3.3 | 3.6 | 3.6 | 5 | 3.8 | 3.8 | 5.5 |
| Net Income | 22.2 | 29.6 | 30.5 | 30.7 | 33.4 | 34 | 35.7 | 38.6 |
| Opex | 4.9 | 5.5 | 5.8 | 6.3 | 6.6 | 6.1 | 6.7 | 7.1 |
| PPOP | 11.5 | 13.5 | 13 | 12.6 | 15.2 | 15.8 | 16.2 | 19.1 |
| Provisions | 1.5 | 1.3 | 1.5 | 2.9 | 8.3 | 8.5 | 3.9 | 10.6 |
| PBT | 10 | 12.3 | 11.6 | 9.7 | 6.9 | 7.3 | 12.3 | 8.4 |
| Tax | 3.5 | 4.2 | 1.9 | 2.3 | 1.7 | 1.8 | 3.12 | 2.1 |
| PAT | 6.5 | 8 | 9.7 | 7.3 | 5.2 | 5.5 | 9.2 | 6.3 |
| Loan and Deposit Portfolio Growth % with CASA | | | | | | | | |
| Advances YoY Growth (%) | 38 | 94 | 92 | 84 | 60 | 18 | 19 | 23 |
| Deposits YoY Growth (%) | 28 | 46 | 49 | 59 | 32 | 35 | 34 | 30 |
| CASA | 40.8 | 36.1 | 33 | 34.3 | 36.8 | 37 | 38.2 | 42.9 |
| Ratios (%) | | | | | | | | |
| GNPA | 2 | 1.7 | 1.8 | 1.9 | 1.5 | 1.4 | 1.2 | 1.1 |
| NNPA | 0.6 | 0.6 | 0.6 | 0.8 | 0.6 | 0.5 | 0.4 | 0.3 |
| CAR | 29.2 | 26.5 | 25 | 24.6 | 27.4 | 26.4 | 25.7 | 26.2 |
| Cost/Income | 29.9 | 28.9 | 30.8 | 33.4 | 30.3 | 27.9 | 29.4 | 27.1 |
| Portfolio Yield | 16 | 14 | 14 | 14 | 13.8 | 13.6 | 13 | 13 |
| Cost of Borrowing | 6 | 7 | 7 | 7 | 6.7 | 6.4 | 6 | 6 |
| Spread | 9.5 | 7.5 | 7 | 6.8 | 7.1 | 7.2 | 7.1 | 7.3 |
| NIM | 10.7 | 8.6 | 8.2 | 7.9 | 8.1 | 8.2 | 8 | 8.3 |
| ROAA | 5.2 | 4.2 | 4.8 | 3.5 | 2.4 | 2.3 | 3.6 | 2.4 |
| ROAE | 24.1 | 24.3 | 28.3 | 20 | 13.7 | 14.1 | 22.5 | 14.6 |

Source: Dalal & Broacha Research, Company

Exhibit 1:

| P&L (Rs Bn) | 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 |
| Other Income | 15.5 | 18.9 | 23.4 | 29 |
| Total Income | 78.7 | 104.5 | 129 | 164 |
| 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 | 30.3 | 26 | 47.3 | 61.7 |

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 | 156 | 198.3 | 251 |
| Deposits | 570.8 | 728.5 | 894.4 | 1098.9 |
| Borrowings | 48.6 | 104.8 | 133 | 179 |
| Other Liabilities | 30.6 | 71.2 | 101.5 | 139.3 |
| Total | 917.1 | 1168.5 | 1436.4 | 1765.3 |
| Cash & Bank | 83.5 | 150 | 189.7 | 215 |
| Investments | 153.5 | 185 | 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 |

Source: Dalal & Broacha Research, Company

Exhibit 3:

| Ratios (%) | 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 | 24.5 | 25.6 |

Source: Dalal & Broacha Research, Company

Exhibit 4:

| Ratios (%) | FY20 | FY21 | FY22 | FY23 |
|-----------------------|------|------|------|------|
| Asset quality | | | | |
| GNPA | 1.5 | 2 | 1.8 | 1.8 |
| NNPA | 0.6 | 0.7 | 0.4 | 0.3 |
| Per share (Rs) | | | | |
| EPS | 19 | 16 | 29 | 38 |
| ABVPS | 92 | 103 | 130 | 163 |
| P/E | 18.1 | 21.5 | 11.8 | 9 |
| P/ABVPS | 3.8 | 3.3 | 2.6 | 2.1 |

Source: Dalal & Broacha Research, Company

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