

Bandhan Bank

22 January 2021

Reuters: BANH.BO; Bloomberg: BANDHAN IN

Not as bad as it looks; expect election/waiver overhang in near term

What looked like a solid performance on the operating profit front on the back of strong balance sheet growth (micro loans book up 32.3% YoY), NIM expansion (+57bps YoY, +19bps QoQ), higher-than-expected non-interest revenue and cost control was more than offset by higher absolute provisions and pro-forma GNPA reported at 7.12% as of Dec'20. The management had guided for ~3.5% credit cost last time along with a generally improving outlook on the collections front. YTD, the bank has incurred total credit cost of 3.2% (un-annualised). During the quarter, the bank carried out Rs10bn worth of provisioning towards the impact anticipated due to Covid-19 and the adverse political situation in Assam. In the first fortnight of Jan'21, collection efficiency in Assam has dropped meaningfully to 78% (from 88% in Dec'20), but the management believes this is likely to improve going forward. On-ground data suggests collections (in Assam) haven't deteriorated further. Given the current situation in Assam, the credit cost is likely to inch up in FY21E by ~100bps, which roughly converts to ~Rs7bn as per our estimate. This converts into 8-10% loss on the Assam MFI portfolio. As far as the upcoming West Bengal elections are concerned, the bank has not taken out any provisions yet given that it does not anticipate any adverse impact on collections due to the same. However, given the history of loan waivers, we believe that providing for this would be a more prudent step. Out of the pro-forma GNPA (7.12%) pool, ~3.5% are not servicing any payments at all while the rest are paying in part. Over time, the customers paying in part are expected to turn regular. Nonetheless, we have increased our NPA/credit loss estimates for the bank given the situation in Assam, potential impact of WB elections and higher slippages during 9MFY21. Even though we expect the bank to deliver industry-leading ROE, we also take cognisance of the possibility that investors may not have the appetite for sharp earnings volatility. This, coupled with near-term asset quality uncertainty associated with WB elections/Assam bill, could keep the stock under pressure. We retain our BUY rating on the stock with a reduced target price (TP) of Rs468, based on 3.2x FY23E ABV (3.5x earlier). We have cut our multiple by 10% to account for the near-term headwinds. We would also remain watchful of the current developments in Assam/WB and their implications on Bandhan Bank's asset quality. Materially worse outcome than expected or guided for by the management would cause us to re-visit our rating on the stock.

Liability profile strong: Deposits continued to see strong traction, growing by 29.6%YoY and 7.7% QoQ. CASA deposits grew by 62% YoY, led by SA growth of 68.8% YoY while CA deposits grew by 23.3% YoY. As a result, CASA ratio improved to 42.9% from 38.2% in 2QFY21. Share of retail deposits increased to 81% from 76.9% in 2QFY21 on the back of 37.8% YoY growth. The bank is expected to continue to strengthen its deposit base by focusing on CASA deposits. About 67-68% of SA deposits is in accounts with less than Rs0.1mn balance.

Collection efficiency down in Jan'20: MFI (EEB) collection efficiency stands at 92% by customers and 90% by value for January'21 (up to 16-Jan-21) compared to 94% (by customers) and 92% (by value) in Dec'20. Value wise, the Assam portfolio has seen a substantial deterioration in collection efficiency, dropping from 88% in Dec'20 to 78% in Jan'21 while WB has seen collections drop from 90% to 89% during the same period. Collections for the rest of India have been steady at 94%. Commercial Banking and Housing Finance have also seen steady collections at 98% each. The management sounded optimistic with respect to overall collections going ahead.

Y/E March (Rsmn)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)
Interest Income	33,078	27,176	31,976	21.7	3.4
Interest Expense	12,361	11,774	12,745	5.0	-3.0
Net Interest Income	20,717	15,403	19,231	34.5	7.7
NIM (%)	8.1	7.5	7.9	57 bps	19 bps
Other income	5,533	3,577	3,818	54.7	44.9
Total Income	26,250	18,980	23,049	38.3	13.9
Staff Cost	4,348	3,405	4,148	27.7	4.8
Other Op Exp	2,762	2,936	2,626	-5.9	5.2
Total Operating Expenses	7,109	6,341	6,773	12.1	5.0
Cost to Income (%)	27.1	33.4	29.4	-633 bps	-230 bps
Pre-provisioning Operating Profit	19,141	12,639	16,275	51.4	17.6
Provisions	10,687	2,949	3,945	262.4	170.9
PBT	8,454	9,690	12,330	-12.8	-31.4
Tax	2,128	2,380	3,130	(10.6)	(32.0)
-effective tax rate	25.2	24.6	25.4	61 bps	-22 bps
PAT	6,326	7,310	9,200	-13.5	-31.2
EPS (Rs)	3.9	4.5	5.7	-13.5	-31.2
BV (Rs)	107	91	104	17.5	3.8
Deposits	7,11,880	5,49,080	6,61,277	29.6	7.7
Advances	7,67,750	6,06,010	7,33,067	26.7	4.7

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Banking

CMP: Rs341

Target Price:Rs468

Upside: 37%

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Key Data

Current Shares O/S (mn)	1,610.4
Mkt Cap (Rsbn/US\$bn)	548/77.5
52 Wk H / L (Rs)	488/152
Daily Vol. (3M NSE Avg.)	11,964,800

Price Performance (%)

	1 M	6 M	1 Yr
Bandhan Bank	(14.1)	(0.9)	(28.3)
Nifty Index	8.3	31.1	20.5

Source: Bloomberg

Credit growth to pick up further in 4QFY21: Overall net advances grew by 26.7% YoY. Micro-banking loans grew by 32.3% YoY while the housing portfolio was up 3.5% YoY. Credit pick-up is expected to be stronger in 4QFY21. Disbursements in the Housing Finance portfolio have seen a visible pick-up, increasing to Rs11.2bn in 3QFY21 compared to Rs8.1bn in 2QFY21. Growth in the Microfinance portfolio was driven largely by increasing average exposure as the growth in active MFI borrower base was sub-1% as against a QoQ growth of 6.5% in the MFI portfolio. We estimate average exposure per MFI borrower to have increased by 5.6% QoQ. Disbursements in Assam are likely to slow down given the management's cautious stance on account of the current tense situation. WB would continue to operate as normal.

Comprehensive Conference Call Takeaways

Asset Quality

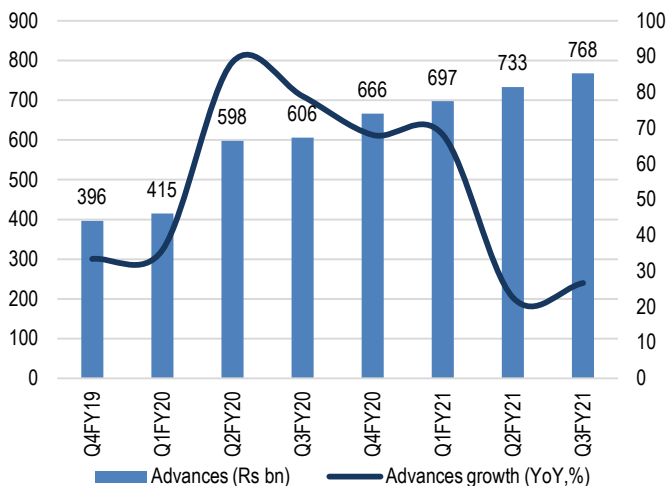
- Pro-forma NPAs have been estimated conservatively. 95% of the 7.12% pro-forma GNPA's (including 3-3.5% partly repaying customers) are from the MFI portfolio (EEB). As the partially paying customers repay over time, some of the accounts will normalize. 3-3.5% of the NPAs, which are not repaying at all, include customers affected by floods in Bihar/Assam, cyclone in West Bengal whose businesses have been impacted.
- Break-up of MFI assets in terms of dpd is as follows:
 - Regular repaying (0 dpd): 76.54%
 - 30-60dpd: ~10%
 - 60-90dpd: ~5%
- The bank has been conservative in making provisions and has taken into account the current situation. Given its past experience, the management is not worried about upcoming elections and hasn't made any provisions for the election impact so far. Credit cost guidance for FY21 has been revised to <500bps from 350bps earlier given the slower improvement in collection efficiency and Assam issues.
- As of date, restructuring has not been done in any account. The bank has time till 31st March, 2021 to restructure the accounts.
- Some handholding would be needed to help customers understand the implications of the loan waiver. Customers are concerned about deterioration in credit bureau scores in case of non-repayment and there is no dilution in intent/willingness to repay.
- There were nil write-offs during the quarter.
- Pre-covid CE stood at 98-99%. The management is optimistic about collection efficiencies picking up going forward. Partly paying customers have returned to disciplined repayment behavior and may take 1-2 months to regularize.
- **Assam:**
 - CE in Assam has been affected due to confusion among customers regarding the government's MFI bill. After 16th Jan, Assam MFI CE has stopped declining and is expected to return to being at par with other states. As per the MD's understanding, Assam bill is not applicable to banks.
 - The issue for Bandhan Bank is majorly from the political moral hazard. MFI NPAs are slightly higher for Assam and largely as per portfolio's state distribution for other states. Given the current situation, there may be 8-10% losses in the Assam portfolio. The bank's employees are in touch with customers in Assam.
- **West Bengal:**
 - CE generally drops in the first two weeks of the quarter and was also lower due to holidays.
 - West Bengal elections are not expected to affect CE.

Business and Loan Growth

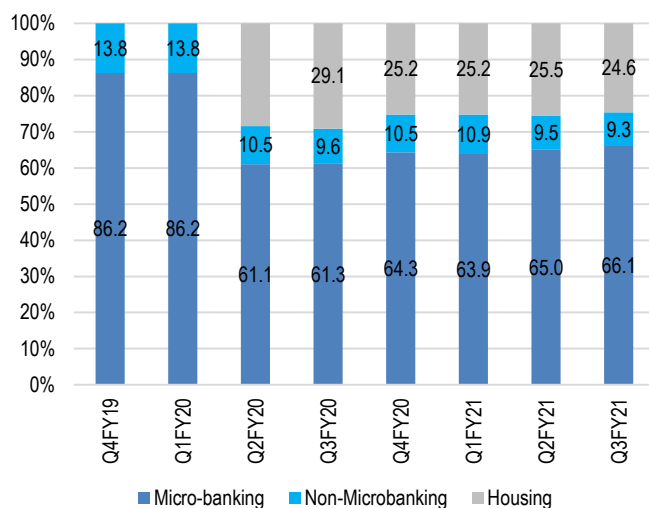
- Pick-up after Durga Puja has not been as good as expected and the management expects the situation to improve going forward. Demand is returning and NTC business has also picked up to pre-Covid levels. There are no restrictions in movement now for entering villages. Given the seasonality in the business, growth is expected to be higher in 4QFY21.
- Currently, Assam contributes ~14% to the MFI book. Disbursements have been slowed down in Assam given the environment, but the management believes that there is no reason to be cautious in West Bengal.
- 15-16% of the Housing Finance business during the quarter was from Bandhan Bank branches mobilized for housing loans. During 3QFY21, top-up loans constituted 6% of disbursements compared to ~25% in 2QFY21.

Margin, Liabilities and Liquidity

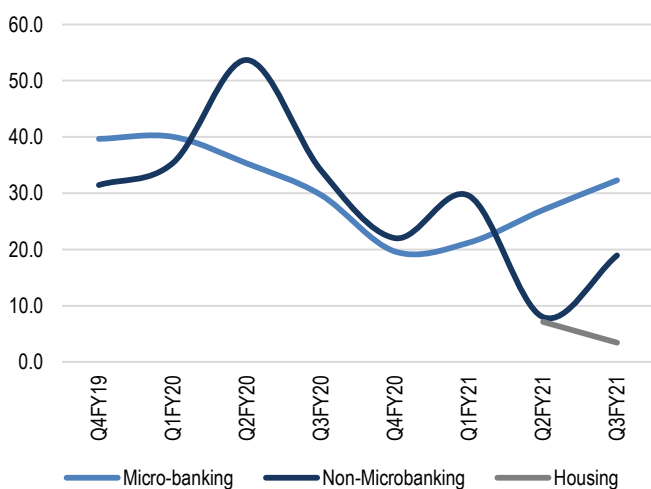
- Focus continues on retail deposits and CASA in addition to TPP sales.
- SA accounts are largely retail. 67-68% of SA balance is in accounts with <Rs0.1mn.

Exhibit 1: Advances growth


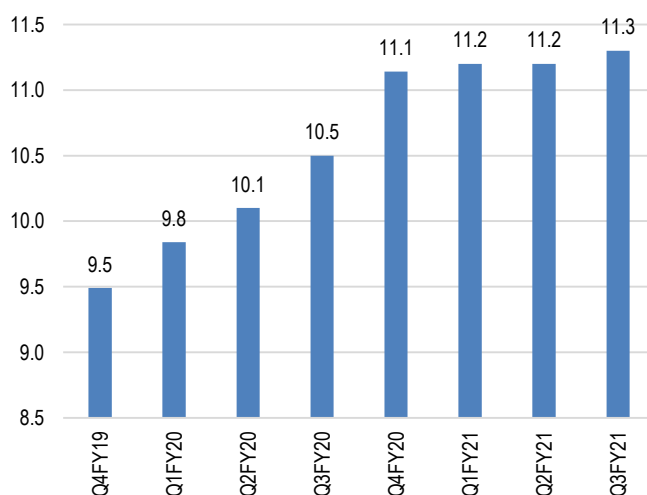
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment wise advances mix (%)


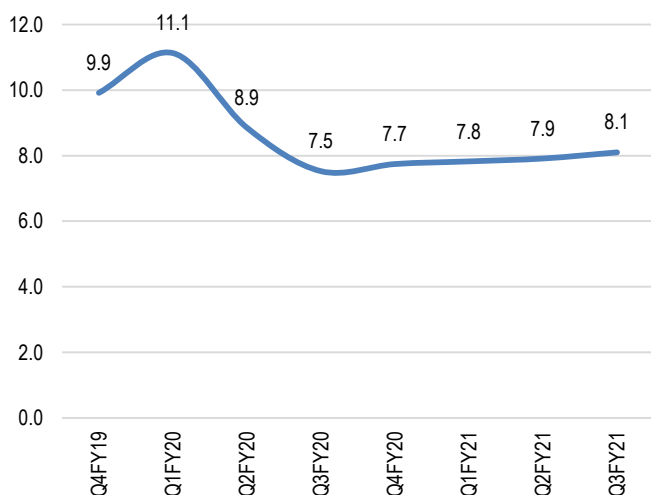
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Segment wise advances growth (YoY, %)


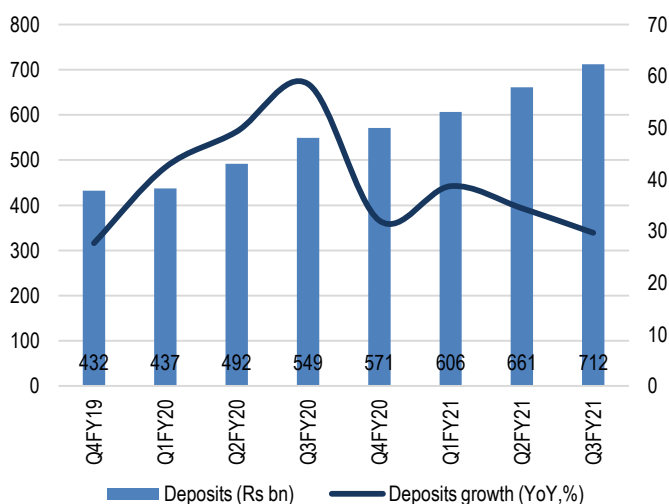
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Active MFI borrowers (mn)


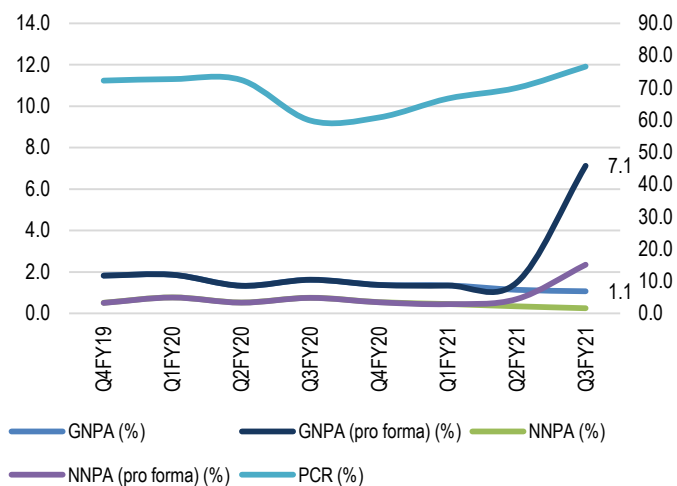
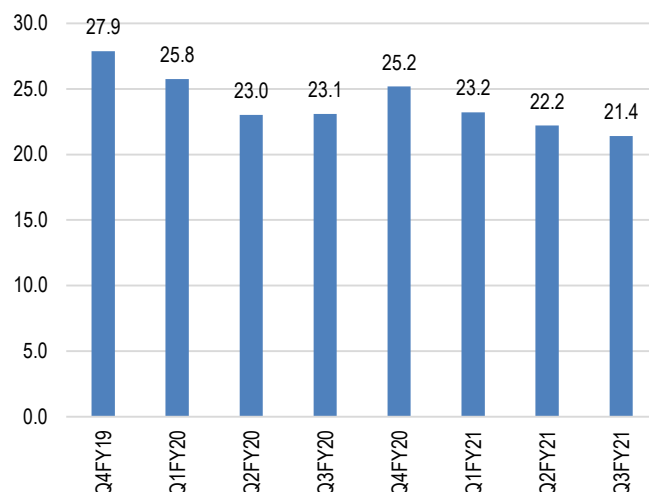
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: NIM (%)


Source: Company, Nirmal Bang Institutional Equities Research

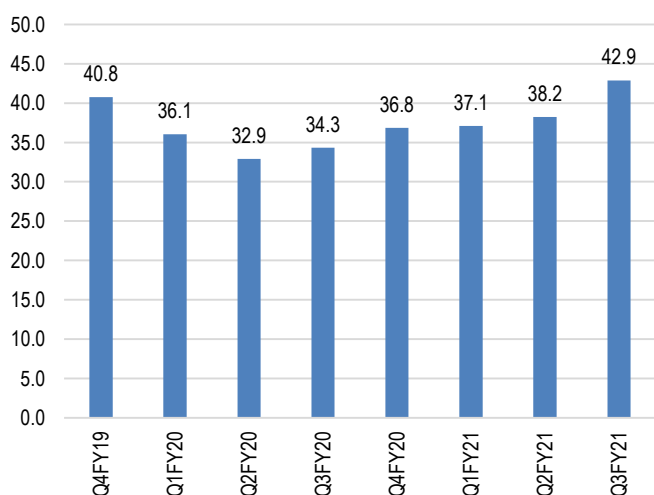
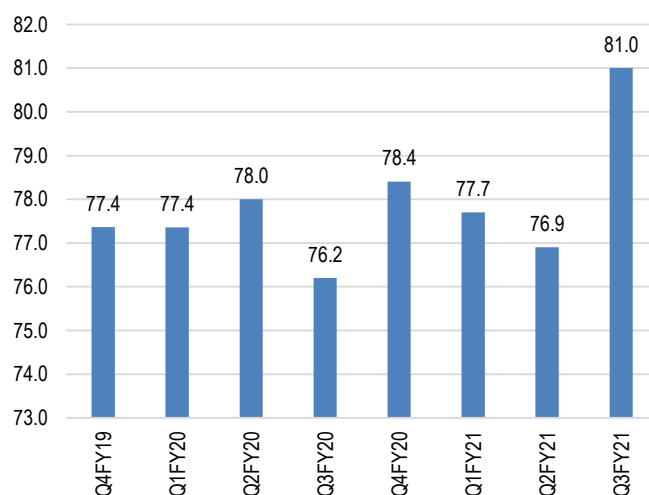
Exhibit 6: Deposits growth (% yoy)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Asset quality (%)

Exhibit 8: CET-1 capital ratio (%)


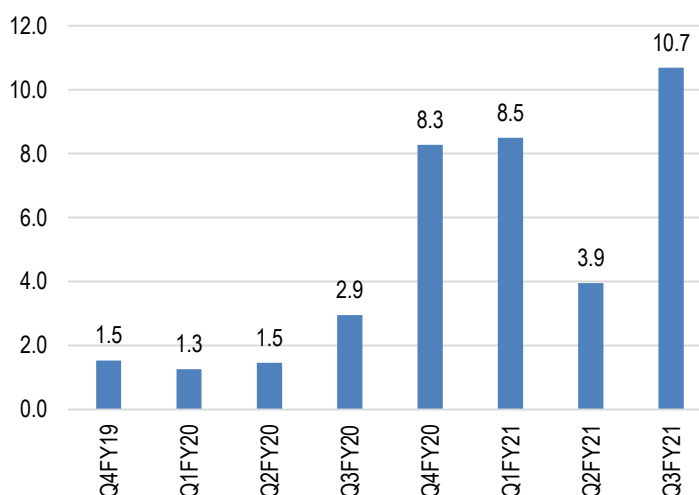
Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: CASA Ratio (%)

Exhibit 10: Share of retail deposits (%)


Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Provisions (Rsbn)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Financial summary

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	44,954	63,239	79,816	96,370	1,15,103
Pre-provisioning operating profit	37,482	54,466	72,364	81,077	95,680
PAT	19,515	30,237	29,497	43,225	54,547
EPS (Rs)	16.4	18.8	18.3	26.8	33.9
BV (Rs)	93.9	94.4	112.7	134.2	161.3
P/E (x)	20.8	18.2	18.6	12.7	10.1
P/BV (x)	3.6	3.6	3.0	2.5	2.1
GNPAs (%)	1.8	1.4	5.1	4.7	3.8
NNPAs (%)	0.5	0.5	2.3	2.0	1.6
RoA (%)	3.9	4.1	2.9	3.6	3.7
RoE (%)	19.0	22.9	17.7	21.7	22.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Actual performance versus our estimates

(Rsmn)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	Q3FY21E	Devi. (%)
Net interest income	20,717	15,403	19,231	34.5%	7.7%	19,942	3.9%
Pre-provisioning Operating Profit	19,141	12,639	16,275	51.4%	17.6%	16,592	15.4%
PAT	6,326	7,310	9,200	-13.5%	-31.2%	8,498	-25.6%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Change in our estimates

	Revised Estimate			Earlier Estimate			% Revision		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Interest Income (Rs mn)	79,816	96,370	1,15,103	79,523	96,526	1,15,023	0.4	(0.2)	0.1
NIM (%)	8.0	8.1	7.9	8.0	8.0	7.8	7 bps	9 bps	11 bps
Operating profit (Rs mn)	72,364	81,077	95,680	67,240	79,459	94,525	7.6	2.0	1.2
Profit after tax (Rs mn)	29,497	43,225	54,547	30,568	43,138	54,828	(3.5)	0.2	(0.5)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: One-year forward P/ABV


Source: Company, Nirmal Bang Institutional Equities Research

Financial statements
Exhibit 16: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	66,434	1,08,855	1,29,483	1,55,233	1,86,794
Interest expense	21,480	45,616	49,667	58,863	71,691
Net interest income	44,954	63,239	79,816	96,370	1,15,103
Non-interest income	10,630	15,492	20,411	22,860	25,603
Net Revenue	55,585	78,731	1,00,227	1,19,230	1,40,706
Operating Expense	18,103	24,265	27,863	38,154	45,026
Operating profit	37,482	54,466	72,364	81,077	95,680
Provisions	7,351	13,932	32,824	23,134	22,560
PBT	30,131	40,534	39,540	57,943	73,120
Taxes	10,616	10,297	10,043	14,717	18,572
PAT	19,515	30,237	29,497	43,225	54,547

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	11,931	16,102	16,104	16,104	16,104
Reserves & Surplus	1,00,087	1,35,852	1,65,349	1,99,929	2,43,567
Shareholder's Funds	1,12,017	1,51,955	1,81,452	2,16,033	2,59,671
Deposits	4,32,316	5,70,815	7,35,218	9,08,776	11,25,278
Borrowings	5,214	1,63,792	1,50,688	1,68,771	2,02,525
Other liabilities	14,870	30,617	28,974	28,731	31,944
Total liabilities	5,64,417	9,17,178	10,96,333	13,22,312	16,19,418
Cash/Equivalent	58,027	83,529	1,10,738	1,34,693	1,65,975
Advances	3,96,434	6,66,299	7,71,517	9,33,931	11,52,488
Investments	1,00,375	1,53,518	1,98,509	2,36,282	2,81,319
Fixed Assets	3,312	3,688	4,372	4,572	4,772
Other assets	6,270	10,144	11,196	12,833	14,863
Total assets	5,64,417	9,17,178	10,96,333	13,22,312	16,19,418

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Key ratios

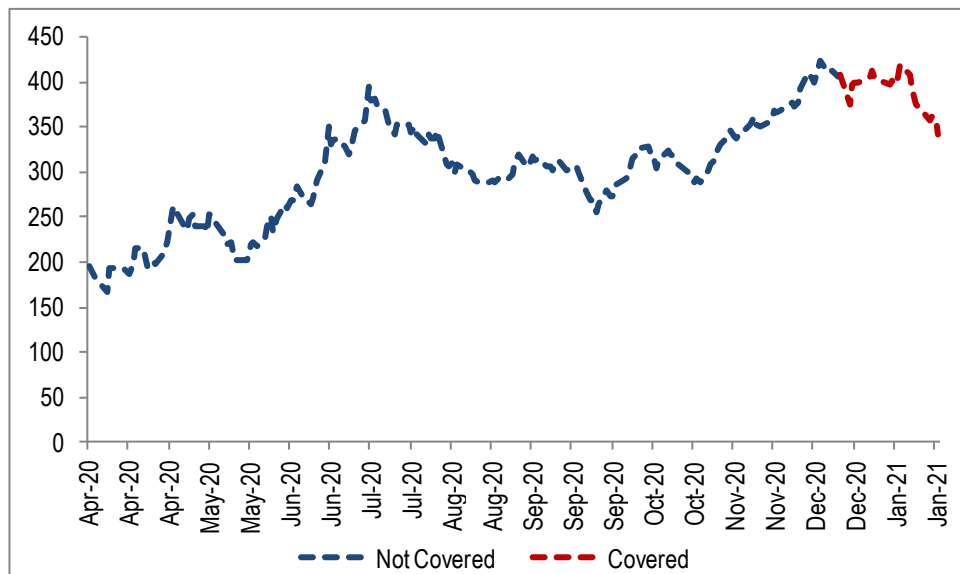
Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Growth (%)					
NII growth	48.3	40.7	26.2	20.7	19.4
Pre-provision profit growth	54.2	45.3	32.9	12.0	18.0
PAT growth	45.0	54.9	-2.4	46.5	26.2
Business (%)					
Deposit growth	27.6	32.0	28.8	23.6	23.8
Advance growth	33.4	68.1	15.8	21.1	23.4
CD ratio	90.0	105.9	110.1	103.7	102.6
CASA ratio	40.8	36.8	43.6	45.3	46.9
Operating efficiency (%)					
Cost-to-income	32.6	30.8	27.8	32.0	32.0
Cost-to-assets	3.6	3.3	2.8	3.2	3.1
Spreads (%)					
Yield on advances	16.5	17.9	15.7	15.8	15.5
Yield on investments	6.7	6.6	5.7	5.7	5.7
Cost of deposits	5.4	6.6	5.4	5.4	5.4
Yield on assets	13.4	14.9	13.1	13.0	12.9
Cost of funds	5.5	7.8	6.1	6.0	6.0
NIMs	9.1	8.7	8.0	8.1	7.9
Capital adequacy (%)					
Tier I	27.9	25.2	24.9	24.8	24.5
Tier II	1.3	2.2	3.5	3.5	3.5
Total CAR	29.2	27.4	28.4	28.3	28.0
Asset Quality (%)					
Gross NPA	1.8	1.4	5.1	4.7	3.8
Net NPA	0.5	0.5	2.3	2.0	1.6
Provision coverage	72.1	60.8	55.5	59.1	58.2
Slippage	2.6	2.6	5.9	2.5	1.8
Credit cost	2.1	2.6	4.6	2.7	2.2
Return (%)					
ROE	19.0	22.9	17.7	21.7	22.9
ROA	3.9	4.1	2.9	3.6	3.7
RORWA	5.7	6.2	4.5	5.5	5.7
Per share					
EPS	16.4	18.8	18.3	26.8	33.9
BV	93.9	94.4	112.7	134.2	161.3
ABV	92.0	91.9	100.6	121.8	148.5
Valuation					
P/E	20.8	18.2	18.6	12.7	10.1
P/BV	3.6	3.6	3.0	2.5	2.1
P/ABV	3.7	3.7	3.4	2.8	2.3

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
18 December 2020	Buy	407	490
8 January 2021	Buy	406	529
22 January 2021	Buy	341	468

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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