

**CMP: Rs 625**

**Rating: HOLD**

**Target Price: Rs 658**

(NR-Not Rated)

**Stock Info**

|                          |            |
|--------------------------|------------|
| INDEX                    |            |
| BSE                      | 541153     |
| NSE                      | BANDHANBNK |
| Bloomberg                | BANDHAN IN |
| Reuters                  | BANH.BO    |
| Sector                   | Banks      |
| Face Value (Rs)          | 10         |
| Equity Capital (Rs cr.)  | 1193       |
| Mkt Cap (Rs cr.)         | 74,282     |
| 52w H/L (Rs)             | 741 / 369  |
| Avg Weekly Vol (BSE+NSE) | 12,36,660  |

**Shareholding Pattern**

| Shareholding Pattern          | %    |
|-------------------------------|------|
| <b>(As on December, 2018)</b> |      |
| Promoters                     | 82.3 |
| FII                           | 5.6  |
| DII                           | 10.0 |
| Public & Others               | 2.1  |

Source: NSE, Arihant Research

**Stock Performance (%)**

|              | 3m   | 6m   | 12m  |
|--------------|------|------|------|
| Bandhan Bank | 52.9 | 45.9 | 20.7 |
| SENSEX       | 6.6  | 11.3 | 10.8 |

Source: ACE Equity, Arihant Research

**Bandhan Bank v/s SENSEX**



Source: ACE Equity, Arihant Research

**Bandhan Bank has delivered a stellar set of numbers in 4QFY19, ahead of our expectation. It has reported strong numbers on all fronts – asset quality, AUM growth, profitability and margin. PAT jumped substantially by 68% YoY to Rs 651 cr, supported by strong topline growth. Strong AUM growth of 33% YoY, led to 46% YoY growth in NII resulting into sharp uptick in NIM. Robust growth in other income and higher margin with normal credit costs enabled Bandhan to deliver +5% RoA during the quarter. Asset quality trend continued to improve as GNPA's declined by 37bps QoQ to 2% (Ex-IL&FS – 1%), and PCR was steady at 72%. Liability profile of the bank continue to improve with a deposit growth of 28% YoY. Retail deposits account for 77.4% of the total deposits. Cost-to-income ratio improved significantly largely due to strong income growth whereas OPEX growth was virtually at same rate. CI for the quarter stood at 29.9% vs 33.7% QoQ. We Maintain our 'Hold' rating with revised target price of Rs 658, giving an upside potential of 5%.**

**Broad based growth**

As on Q4FY19 Bandhan bank has total customer base of 16.56 mn (3.54 mn customers added during the quarter). Out of the total customers, 79% customers are in MFI business and rest are in non MFI business. Micro loan disbursement during the quarter grew by 65% QoQ to Rs 19,735 cr, whereas non-micro disbursements de-grew by 21% to Rs 1,218 cr. Bandhan Bank's exclusive customer base in MFI business has gone down to 60% from 72% as company follows onetime credit policy. Bank has very strong collection efficiency. GNPA in MFI portfolio stood at 0.7% vs 0.8% in Q3FY19. As Bandhan follow onetime credit policy for its microloans, we believe going forward there will be competition in new geographies and other NBFCs will try to intrude Bandhan's customers. More than 55% of its customers are banking with Bandhan for more than +4 loan cycle.

**Strong Business Momentum**

Net Advances mix as on Mar 31, 2019 stood flat YoY at 86% in Micro banking and 14% in Non-Micro banking. Its priority sector lending (PSL) ratio stood at 95%. Deposits for the bank stood at Rs 43,232 cr, registering a growth of 28% YoY. Strong traction seen on CASA front, which is 41% of the total deposits. Retail deposit to total deposit ratio stood at 77% as a result there is reduction seen in cost of funds which declined by 2bps QoQ to 6.1%.

**Valuation & View**

Bandhan Bank's Q4FY19 result was largely ahead of our estimate and shown great performance during the quarter. Strong NII growth led to improvement in margin. Higher other income growth, improvement in operating efficiency & best in class asset quality aids best return ratios. We expect growth momentum will continue and bank will outperform the industry going ahead. However, promoter stake reduction issue is likely to weigh on stock performance. We have a positive outlook on the stock. **By using DDM (ROA: 3.8%, Ke: 15.2% and Dividend payout ratio: 8.9%-12.5%), we arrived at P/ABV multiple of 5.1(x) and valued the stock to its FY21E ABV of Rs 129 which ascribed a fair value of Rs 658 per share. We have "Hold" rating on the stock.**

**Q4FY19 Result and Concall Highlights:**

- **Merger Update:** Bank has received RBI, SEBI and CCI approval and applied to NCLT for grup merger. NCLT approval process has been started and expected to receive soon.
- Slippages during the year were Rs 763 cr.
- **Branch Opening:** After the restriction by RBI on new branch opening, Bandhan bank has applied twice for 40 & 25 branches respectively and got permission whereas it has opened 48 branches.
- Improvement in cost-income ratio was related to higher income growth whereas OPEX growth virtually was at the same rate.
- On MFI credit front, banks exclusive customer base has gone down to 60% from 72% as company follows onetime credit policy which means it doesn't provide additional loan till the customer pay existing loan totally.
- Other Income for the quarter grew by 91% YoY to Rs 388 cr, out of which processing fee was Rs 197 cr, PSLC fee was Rs 105 cr and rest is other. In Q4FY18 processing fee was Rs 153 cr and PSLC income was Rs 4 cr.
- The average disbursement ticket during Q4FY19 was Rs 59007 vs Rs 51771 in Q4FY18. Bank has 55%, 4+ loan cycle customers and 60% customers have single loan.
- Company does not provide contingent provision as it provides standard asset provisioning. The bank has provided 1% provisioning against RBI guideline of 0.25%. IL&FS exposure amounting to Rs 385 cr is continued to be classified as NPA and 100% provisioning made in Q3FY19.
- Management does not expect any delinquencies in coming quarter due to cyclone effect.
- Savings interest rate for the quarter was 5.12%.
- At present Bandhan has 986 branches, 481 ATMs, 3014 DSCs and 32,342 employees.

**Q4FY19 Quarterly Snapshot:**

| Particulars (Rs in Cr)        | Q4FY19       | Q4FY18       | YoY          | Q3FY19       | QoQ          |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Interest Earned               | 1,833        | 1,351        | 35.7%        | 1,650        | 11.1%        |
| Interest Expended             | 575          | 487          | 18.1%        | 526          | 9.5%         |
| <b>Net Interest Income</b>    | <b>1,257</b> | <b>863</b>   | <b>45.6%</b> | <b>1,124</b> | <b>11.9%</b> |
| Other Income                  | 388          | 203          | 90.7%        | 234          | 65.7%        |
| <b>Total income</b>           | <b>1,645</b> | <b>1,067</b> | <b>54.2%</b> | <b>1,358</b> | <b>21.1%</b> |
| Operating Expenses            | 492          | 363          | 35.6%        | 458          | 7.5%         |
| <i>Cost-income-ratio</i>      | 29.9%        | 34.0%        |              | 33.7%        |              |
| <b>Operating Profits</b>      | <b>1,153</b> | <b>704</b>   | <b>63.9%</b> | <b>901</b>   | <b>28.1%</b> |
| Provisions & Contingencies    | 153          | 109          | 40.5%        | 378          | -59.4%       |
| <b>PBT</b>                    | <b>1,000</b> | <b>595</b>   | <b>68.1%</b> | <b>523</b>   | <b>91.3%</b> |
| Provisions for Tax            | 349          | 207          | 68.7%        | 192          | 82.2%        |
| <i>Effective Tax Rate (%)</i> | 35%          | 35%          |              | 37%          |              |
| <b>PAT (reported)</b>         | <b>651</b>   | <b>388</b>   | <b>67.8%</b> | <b>331.2</b> | <b>96.5%</b> |
| EPS Basic                     | 5.46         | 3.3          | 67.8%        | 2.8          | 96.5%        |
| GNPA                          | 820          | 373          | 120%         | 831          | -1%          |
| NNPA                          | 228          | 173          | 32%          | 237          | -4%          |
| GNPA                          | 2.0%         | 1.3%         | 79 bps       | 2.4%         | -37 bps      |
| NNPA (%)                      | 0.6%         | 0.6%         | -            | 0.7%         | -12 bps      |
| Advances (On-Book)            | 39,643       | 29,713       | 33.4%        | 33,873       | 17.0%        |
| Deposits                      | 43,232       | 33,869       | 27.6%        | 34,639       | 24.8%        |
| NIM (%)                       | 10.7         | 9.3          | 137 bps      | 10.5         | 20 bps       |
| Total CAR (%)                 | 29.20%       | 31.50%       |              | 32.8%        |              |
| Tier 1 (%)                    | 27.90%       | 30.30%       |              | 31.7%        |              |
| Tier 2 (%)                    | 1.30%        | 1.20%        |              | 1.1%         |              |

| Income Statement                 |               |               |               |
|----------------------------------|---------------|---------------|---------------|
| Particulars (Rs in Cr)           | 2019A         | 2020E         | 2021E         |
| Interest Income                  | 6644.1        | 8412.8        | 9952.2        |
| (-) Interest Expense             | -2148.0       | -2926.1       | -3512.7       |
| <b>Total Net Interest Income</b> | <b>4496.1</b> | <b>5486.8</b> | <b>6439.6</b> |
| <b>Other Income</b>              | 1063.0        | 1168.4        | 1385.7        |
| <b>Total Income</b>              | <b>5559.1</b> | <b>6655.1</b> | <b>7825.2</b> |
| Total Operating Expenses         | 1811.0        | 2395.9        | 2773.6        |
| Provisions                       | 735.1         | 620.3         | 630.1         |
| <b>Profit before Tax</b>         | <b>3013.0</b> | <b>3639.0</b> | <b>4421.5</b> |
| Provision for Taxes              | 1061.6        | 1273.6        | 1547.5        |
| <b>PAT</b>                       | <b>1951.5</b> | <b>2365.3</b> | <b>2874.0</b> |

| Ratios                        |        |        |        |
|-------------------------------|--------|--------|--------|
| Particulars (Rs in Cr)        | 2019A  | 2020E  | 2021E  |
| <b>Basic Ratio</b>            |        |        |        |
| EPS                           | 16.4   | 19.8   | 24.1   |
| Book Value per share          | 92.5   | 110.6  | 131.8  |
| Adjusted book value per share | 90.6   | 108.2  | 128.9  |
| Dividend per share            | 2.9    | 3.8    | 4.6    |
| <b>Asset Quality</b>          |        |        |        |
| Gross NPAs                    | 2.04%  | 1.46%  | 1.37%  |
| Net NPAs                      | 0.58%  | 0.59%  | 0.55%  |
| PCR                           | 72.14% | 60.00% | 60.00% |
| <b>Profitability Ratio</b>    |        |        |        |
| RoAE                          | 19.0%  | 19.3%  | 19.7%  |
| RoAA                          | 3.9%   | 3.7%   | 3.7%   |
| NIMs (as calculated)          | 9.7%   | 9.4%   | 8.9%   |
| <b>Valuation</b>              |        |        |        |
| P/E (x)                       | 38.21  | 31.52  | 25.94  |
| P/BV (x)                      | 6.75   | 5.65   | 4.74   |
| P/ABV (x)                     | 6.90   | 5.78   | 4.85   |

| Balance Sheet                    |                |                |                |
|----------------------------------|----------------|----------------|----------------|
| Particulars (Rs in Cr)           | 2019A          | 2020E          | 2021E          |
| <b>Assets</b>                    |                |                |                |
| Cash and Balances with RBI       | 3879.2         | 4284.2         | 5314.1         |
| Money at call and short notice   | 1923.5         | 1923.5         | 1923.5         |
| Investments                      | 10037.5        | 13388.3        | 16606.6        |
| Advances                         | 39643.4        | 49268.8        | 61112.2        |
| Fixed Assets                     | 331.2          | 364.5          | 403.6          |
| Other Assets                     | 627.0          | 752.4          | 902.9          |
| <b>Total Assets</b>              | <b>56441.9</b> | <b>69981.6</b> | <b>86262.8</b> |
| <b>Liabilities</b>               |                |                |                |
| Capital                          | 1193.1         | 1193.1         | 1193.1         |
| Reserves and Surplus             | 10008.7        | 12164.3        | 14688.3        |
| Deposits                         | 43231.6        | 53553.0        | 66426.3        |
| Borrowing from other banks       | 521.4          | 2077.2         | 2722.8         |
| Other liabilities and provisions | 1487.0         | 994.1          | 1232.4         |
| <b>Total Liabilities</b>         | <b>56441.9</b> | <b>69981.6</b> | <b>86262.8</b> |

| Analysis                  |       |       |       |
|---------------------------|-------|-------|-------|
| Particulars (Rs in Cr)    | 2019A | 2020E | 2021E |
| <b>Spread Analysis</b>    |       |       |       |
| Yield on advances         | 15.5% | 15.5% | 15.5% |
| Yield on investments      | 7.0%  | 7.0%  | 7.0%  |
| Cost of deposits          | 6.1%  | 5.6%  | 5.2%  |
| Cost of funds             | 5.4%  | 5.7%  | 5.5%  |
| Spread                    | 7.5%  | 7.3%  | 7.4%  |
| <b>Growth (%)</b>         |       |       |       |
| Advances growth           | 33.4% | 24.3% | 24.0% |
| Deposit growth            | 27.6% | 23.9% | 24.0% |
| Net Profit growth         | 45.0% | 21.2% | 21.5% |
| <b>Liquidity</b>          |       |       |       |
| Advances to deposit ratio | 91.7% | 92.0% | 92.0% |
| CASA                      | 40.8% | 41.0% | 41.0% |
| CET 1 Ratio               | 27.5% | 26.0% | 25.8% |
| <b>Efficiency</b>         |       |       |       |
| Cost-to-income            | 32.6% | 36.0% | 35.4% |

Note: Financials for FY20 and FY21 estimates are Pre-merger as regulatory approval still awaiting.

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

**Head Office**

#1011, Solitaire Corporate Park,  
Building No. 10, 1<sup>st</sup> Floor,  
Andheri Ghatkopar Link Road  
Chakala, Andheri (E).  
Mumbai – 400093  
Tel: (91-22) 42254800  
Fax: (91-22) 42254880

**Registered Office**

Arihant House  
E-5 Ratlam Kothi  
Indore - 452003, (M.P.)  
Tel: (91-731) 3016100  
Fax: (91-731) 3016199

**Stock Rating Scale**

|            | <b>Absolute Return</b> |
|------------|------------------------|
| BUY        | >20%                   |
| ACCUMULATE | 12% to 20%             |
| HOLD       | 5% to 12%              |
| NEUTRAL    | -5% to 5%              |
| REDUCE     | <-5%                   |

| <b>Research Analyst Registration No.</b> | <b>Contact</b>                 | <b>Website</b>   | <b>Email Id</b>  |
|--|--------------------------------|--|--|
| <b>INH000002764</b>                      | <b>SMS: 'Arihant' to 56677</b> | <a href="http://www.arihantcapital.com">www.arihantcapital.com</a> | <a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a> |

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

**Arihant Capital Markets Ltd.**

1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880