

Growth momentum steady; merger approval awaited

The operational performance continued to remain strong with NII growth of 36% YoY to ₹ 1410 crore, led by healthy credit growth of 39% YoY. Margins expanded ~18 bps YoY but sequentially declined 24 bps to 10.45%. Robust traction in other income continued at a healthy pace of 48% YoY to ₹ 312 crore, attributable to revenue from sale of PSLC. Post higher provisions in Q3FY19 in lieu of IL&FS, provision normalised with credit cost at ~28 bps. Steady credit cost coupled with strong operating profit of 47% YoY to ₹ 1208 crore continued to aid robust PAT growth of ~46% YoY to ₹ 701 crore. This was well above our estimate of ₹ 657 crore.

Bandhan Bank continued its growth traction with AUM growth of 39.4% YoY to ₹ 45420 crore, driven by both micro (40% YoY) as well as non-micro loans (36% YoY). Steady customer acquisition at ~7.1 lakh and healthy growth in average ticket size to ₹ 64000 led to AUM growth.

Deposit accretion continued to stay healthy at 29% YoY to ₹ 43701 crore. However, sequentially CASA saw de-growth while term deposit continued to gain traction. Accordingly, CASA moderated to 36.1%, down 465 bps QoQ.

Lower slippages led to steady asset quality with GNPA ratio at 2.02% (1.1% ex IL&FS). Absolute GNPA was at ₹ 851 crore vs. ₹ 820 crore in Q4FY19. With respect to the merger with Gruh Finance, the bank has received approval from the RBI, Sebi, CCI and awaits approval from NCLT.

Robust growth to continue in advances, deposits

Bandhan Bank has shown stellar advances growth at ~51% CAGR in last five years despite the AP crisis, demonetisation. As of June 30, 2019, AUM was at ₹ 45420 crore, with customer base at ~1.72 crore. The micro finance book growth momentum continued to remain robust led by new customer addition as well as increase in average ticket size. With the bank expanding in new geographies and subsequent increase in customer addition, we expect AUM, deposits growth at 35% CAGR in FY19-21E to ₹ 72384 crore, ₹ 79007 crore, respectively.

Valuation & Outlook

Robust pace of customer acquisition and increase in ticket size bodes well for future growth of micro loans. Robust growth, better margins and control on asset quality continue to remain strong attributes of the bank. With respect to merger with Gruh Finance, the bank is awaiting approval from NCLT. Post-merger basis, RoE of Bandhan Bank is expected to be ~23.5%, RoA at 3.6% on FY21E basis. We believe the merger is short-term negative due to high dilution but remains positive in the long run. However, given recent headwinds in home finance sector, balance sheet growth trajectory is seen getting impacted. Factoring in the risk, we lower our multiple to 26.5x FY21E EPS (₹ 24.5 per share). Subsequently, our target price is ₹ 650 (earlier ₹ 725). We maintain our **BUY** recommendation on the stock.



Particulars

Particulars	Values
Market Capitalisation	₹ 61384 crore
Networth	₹ 11202 crore
52 week H/L (₹)	741 / 369
Equity Capital	₹ 1193 crore
Face Value (₹)	10.0
DII Holding (%)	9.5
FII Holding (%)	6.3

Key Highlights

- Continued robust growth on both assets and liabilities led to traction in earnings
- Total customer base of ~1.7 crore led by accretion of customers
- Maintain **BUY** recommendation. Revise target price lower to ₹ 650 from ₹ 725 earlier

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Key Financial Summary

	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	2403	3032	4496	5941	7780	32%
PPP	1173	2430	3748	4841	6305	30%
PAT	492	1346	1951	2622	3473	33%
ABV (₹)	40.0	77.2	91.8	110.1	136.1	
P/E	53.7	48.3	33.3	24.8	18.7	
P/ABV	13.6	7.1	5.9	5.0	4.0	
RoE (%)	28.6	19.5	19.0	21.1	22.8	
RoA (%)	4.4	3.6	3.9	4.0	4.0	

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
NII	1,410	1,379	1,257	12.2	1,037	36.0	Robust growth in AUM at 39% YoY and healthy NIM led to NII growth
NIM (%)	10.5	10.5	10.7	-24 bps	10.3	18 bps	CASA marginally down but still continues to remain healthy
Other Income	312	295	388	-19.5	211	48.2	Income from PSLC was at ₹ 92.5 crore in Q1FY20
Net Total Income	1,723	1,674	1,645	4.7	1,248	38.0	
Staff cost	318	297	270	17.9	249	27.9	
Other Operating Expenses	197	235	222	-11.5	178	10.2	
PPP	1,207.6	1,141.2	1,153.2	4.7	820.5	47.2	
Provision	125.4	145.7	153.3	-18.2	80.0	56.7	
PBT	1,082.2	995.5	999.9	8.2	740.5	46.1	
Tax Outgo	381.0	338.5	349.1	9.2	258.8	47.2	
PAT	701.1	657.0	650.9	7.7	481.7	45.6	Lower provisioning coupled with higher operating profit aided PAT growth
Key Metrics							
GNPA	851	861	820	3.8	388	119.1	Post recognition of IL&FS exposure in Q3FY19, GNPA improved QoQ
NNPA	232	240	228	1.7	194	19.6	
Advances	45,420	41,626	39,643	14.6	30,533	48.8	Micro book growth continued to remain robust at ~40% YoY
Deposits	43,701	42,367	43,232	1.1	30,703	42.3	Faster accretion in term deposit and degrowth in CASA led to 460 bps decline in CASA ratio

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	5,941	5,941	0.0	7,780	7,780	0.0
Pre Provision Profit	4,841	4,841	0.0	6,305	6,305	0.0
NIM (%)	9.8	9.8	0 bps	9.5	9.5	0 bps
PAT	2,622	2,622	0.0	3,473	3,473	0.0
ABV (₹)	110.1	110.1	0.0	136.1	136.1	0.0

Source: Company, ICICI Direct Research

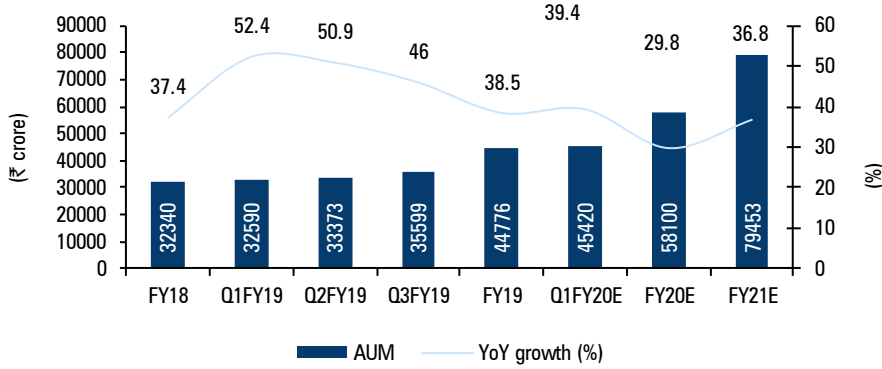
Exhibit 3: Assumption

	Current				Earlier	
	FY18	FY19	FY20E	FY21E	FY20E	FY21E
Credit growth (%)	76.5	33.4	33.0	37.2	33.0	37.2
Deposit Growth (%)	45.8	27.6	35.0	35.3	35.0	35.3
CASA ratio (%)	34.3	40.8	41.6	40.9	41.6	40.9
NIM Calculated (%)	8.4	9.4	9.8	9.5	9.8	9.5
Cost to income ratio (%)	35.0	32.6	32.7	31.6	32.7	31.6
GNPA (₹ crore)	373.1	819.5	1,125.1	1,375.8	1,125.1	1,375.8
NNPA (₹ crore)	172.9	251.7	476.5	631.0	476.5	631.0
Slippage ratio (%)	351.6	763.0	873.1	626.9	873.1	626.9
Credit cost (%)	1.2	1.9	1.6	1.4	1.6	1.4

Source: Company, ICICI Direct Research

Story in Charts

Exhibit 4: Robust credit growth to continue ahead



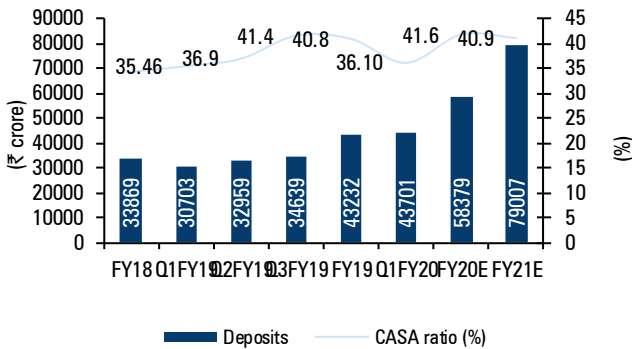
Source: Company, ICICI Direct Research

Exhibit 5: Focus on micro loan as well as non-micro loan

	FY18	Q1FY19	Q2FY19	Q3FY19	FY19	Q1FY20	FY20E	FY21E
Gross advances (AUM)	32340	32590	33373	35599	44776	45420	58100	79453
Net advances (O/s Loan Book)	29713	30533	31730	33873	39643	45420	52746	72384
Micro loans	25067	25953	27288	29193	33399	39166	42888	56612
Non micro loans	4646	4580	4442	4680	6244	6254	9858	15772

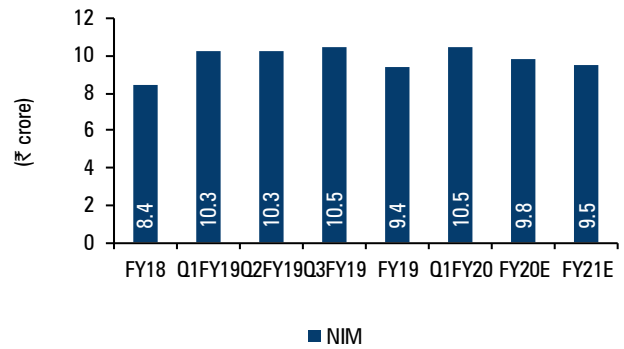
Source: Company, ICICI Direct Research

Exhibit 6: Deposit accretion remains healthy



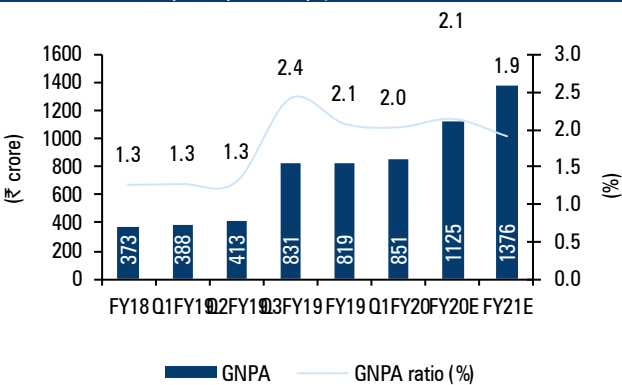
Source: Company, ICICI Direct Research

Exhibit 7: Steady margins seen ahead



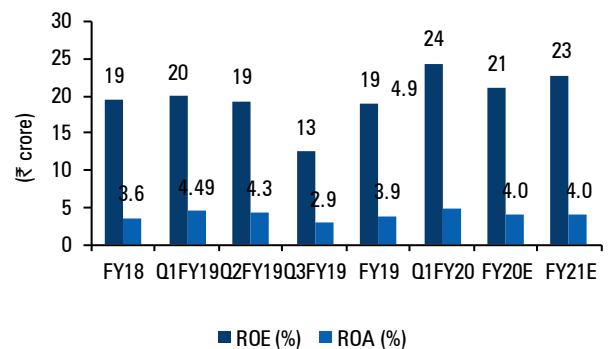
Source: Company, ICICI Direct Research

Exhibit 8: Asset quality steady post IL&FS



Source: Company, ICICI Direct Research

Exhibit 9: Return ratio to remain higher



Source: Company, ICICI Direct Research

Exhibit 10: Prudent asset quality

₹ crore	FY18	Q1FY19	Q2FY19	Q3FY19	FY19	11FY20	FY20E	FY21E
GNPA								
Micro loans	373.1	370.0			233.8		428.9	566.1
as a % of micro loans	1.5	1.3			0.7		1.0	1.0
Non-micro loans	0.0	18.0			585.7		696.2	809.7
as a % of non-micro loans	0.0	0.4			9.5		7.1	5.1
Total GNPA	373.1	388.3	413.3	831.0	819.5	851.0	1125.1	1375.8
GNPA (%)	1.3	1.3	1.3	2.4	2.1	2.0	2.1	1.9
NNPA	172.9	194.0	220.0	237.0	251.7	232.3	476.5	631.0
NNPA (%)	0.6	0.6	0.7	0.7	0.6	0.6	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 11: CI ratio continues to remain better than peers

	FY18	Q1FY19	Q2FY19	Q3FY19	FY19	Q1FY20	FY20E	FY21E
Operating expenses	1308.3	427.3	433.9	457.6	1810.9	515.0	2348.1	2917.5
YoY growth (%)	28.0	38.5	35.1	45.0	38.4	20.5	29.7	24.3
CI ratio (%)	35.0	34.2	33.2	33.7	32.6	29.9	32.7	31.6
Opex to AUM (%)	4.0	5.2	5.2	5.1	4.0	4.5	4.0	3.7
Employee cost to AUM (%)	2.1	3.1	2.8	2.6	2.3	2.8	2.3	2.0
Other opex to AUM (%)	1.9	2.1	2.4	2.2	1.8	1.7	1.8	1.7

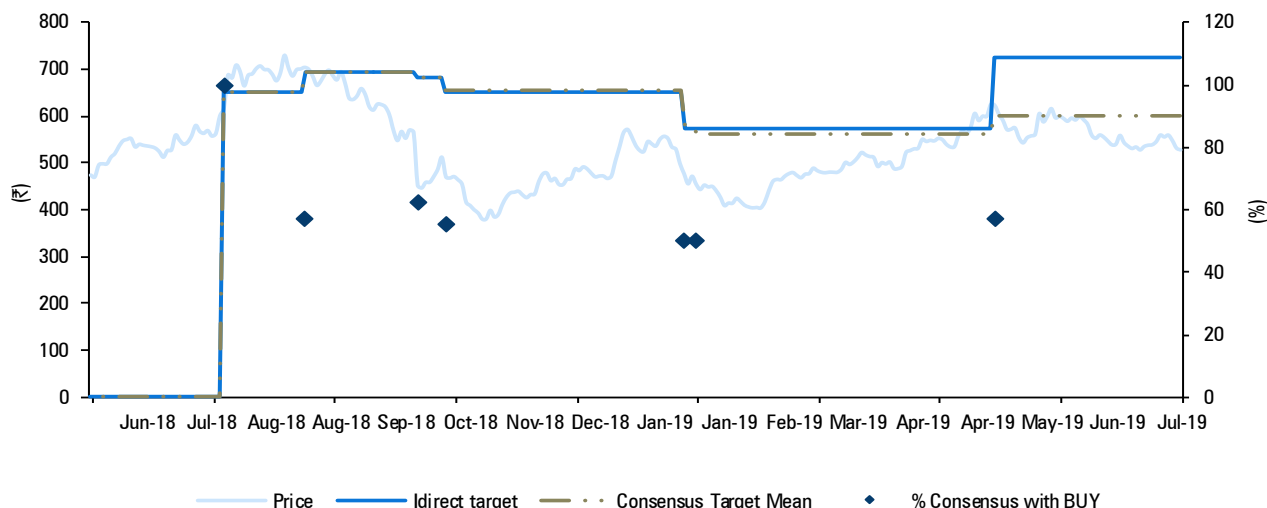
Source: Company, ICICI Direct Research

Exhibit 12: Customer accretion continues to remain healthy

Lakh	FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Borrowers	78	81	83	88	96.5	100
Micro borrowers	77	80	82	87	95	98.4
Non micro borrowers	1.0	1.3	1.4	1.4	1.5	1.6

Source: Company, ICICI Direct Research

Exhibit 13: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 14: Top 10 Shareholders

Rank	Name	est Filing Date	% O/S	ition (m)	nge (m)
1	Bandhan Financial Holdings Ltd	31-Mar-19	0.8	981.5	0.0
2	Caladium Investments Pte. Ltd.	31-Mar-19	0.0	54.6	0.0
3	Axis Asset Management Company Limited	31-Dec-18	0.0	23.4	0.5
4	IFC Asset Management Company	31-Mar-19	0.0	21.1	0.0
5	Nomura Asset Management Co., Ltd.	31-Mar-19	0.0	12.2	0.8
6	OppenheimerFunds, Inc.	31-May-19	0.0	7.4	0.0
7	Aberdeen Standard Investments (Asia) Limited	31-May-19	0.0	6.1	0.0
8	Aditya Birla Sun Life AMC Limited	31-May-19	0.0	5.4	-0.1
9	HSBC Global Asset Management (Hong Kong) Limite	31-Mar-19	0.0	4.2	0.0
10	The Vanguard Group, Inc.	31-May-19	0.0	4.1	0.0

Source: Reuters, ICICI Direct Research

Exhibit 15: Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
Ghosh (Chandra Sekhar)	10.3	1.5	FIL Investment Management (Singapore) Ltd.	-11.9	-1.5
Nomura Asset Management Co., Ltd.	6.4	0.8	Goldman Sachs Asset Management International	-6.5	-1.1
Axis Asset Management Company Limited	4.0	0.5	Tata Asset Management Limited	-7.1	-0.8
Matthews International Capital Management, L.L	1.6	0.2	Driehaus Capital Management, LLC	-3.2	-0.6
Invesco Capital Management LLC	1.3	0.2	J O Hambro Capital Management Limited	-3.0	-0.4

Source: Reuters, ICICI Direct Research

Exhibit 16: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	82.3	82.3	82.3	82.3	82.3
FII	12.6	5.5	5.1	5.6	6.3
DII	3.5	10.5	10.5	10.0	9.5
Others	1.7	1.8	2.1	2.2	2.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 17: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY18	FY19	FY20E	FY21E
Interest Earned	4802.3	6644.1	8831.2	11730.5
Interest Expended	1770.1	2148.4	2890.0	3950.0
Net Interest Income	3,032.2	4,495.7	5,941.1	7,780.5
growth (%)	26.2	48.3	32.2	31.0
Non Interest Income	706.4	1063.4	1248.0	1442.2
Operating Income	3738.7	5559.1	7189.1	9222.7
Staff cost	688.0	1008.7	1319.6	1597.9
Other Operating expense	620.3	802.2	1028.5	1319.6
Operating profit	2430.4	3748.1	4841.1	6305.2
Provisions	374.2	735.1	807.6	962.9
Exceptional items	0.0	0.0	0.0	0.0
PBT	2056.2	3013.0	4033.5	5342.3
Taxes	710.3	1061.6	1411.7	1869.8
Net Profit	1345.8	1951.5	2621.8	3472.5
EPS (₹)	11.3	16.4	22.0	29.1

Source: Company, ICICI Direct Research

Exhibit 18: Key Ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares	119.3	119.3	119.3	119.3
EPS (₹)	11.3	16.4	22.0	29.1
BV (₹)	78.7	93.9	114.1	141.4
ABV (₹)	77.2	91.8	110.1	136.1
P/E	48.3	33.3	24.8	18.7
P/BV	6.9	5.8	4.8	3.9
P/ABV	7.1	5.9	5.0	4.0
Yields & Margins (%)				
Net Interest Margins	8.4	9.4	9.8	9.5
Yields on Loans	14.9	15.4	15.5	15.6
Cost of funds	5.9	5.5	5.6	5.6
Quality and Efficiency (%)				
Cost to income ratio	35.0	32.6	32.7	31.6
GNPA	1.25	2.07	2.13	1.90
NNPA	0.58	0.63	0.90	0.87
ROE	19.5	19.0	21.1	22.8
ROA	3.6	3.9	4.0	4.0

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ crore			
(₹ Crore)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	1193	1193	1193	1193
Reserves and Surplus	8189	10009	12416	15673
Networth	9382	11202	13609	16867
Deposits	33869	43232	58379	79007
Borrowings	285	521	730	1095
Other Liabilities & Provisions	774	1487	1859	2323
Total	44310	56442	74577	99292
Applications of Funds				
Fixed Assets	238	331	397	477
Investments	8419	10038	12848	16445
Advances	29713	39643	52746	72384
Other Assets	5940	6430	8586	9986
Total	44310	56442	74577	99292

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
	%			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total assets	46.5	27.4	32.1	33.1
Advances	76.5	33.4	33.0	37.2
Deposit	45.8	27.6	35.0	35.3
Total Income	32.8	48.7	29.3	28.3
Net interest income	26.2	48.3	32.2	31.0
Operating expenses	6.1	6.7	0.9	0.0
Operating profit	107.3	54.2	29.2	30.2
Net profit	173.7	45.0	34.3	32.4
Net worth	111.0	19.4	21.5	23.9
EPS	11.1	45.0	34.3	32.4

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E
Bank of Baroda (BANBAR)	117	170	Buy	45,084	-9.2	7.7	18.5	-12.7	15.2	6.3	1.0	1.4	1.2	-0.3	0.4	0.6	-5.8		9.7
State Bank of India (STABAN)	351	400	Buy	313,075	-7.3	1.0	27.2	-48.1	362	12.9	2.9	2.5	1.9	-0.2	0.0	0.7	-3.0	0.5	12.3
Indian Bank (INDIBA)	217	300	Buy	10,642	26.2	6.7	25.2	8.3	32.3	8.6	0.9	1.0	0.8	0.5	0.1	0.4	7.1	1.7	6.1
Axis Bank (AXIBAN)	727	880	Buy	190,446	-1.0	22.2	37.5	-710.2	32.8	19.4	4.0	3.3	2.8	0.0	0.8	1.1	0.0	0.8	1.1
City Union Bank (CITUNI)	200	240	Buy	14,690	8.9	9.3	10.3	22.4	21.5	19.4	3.6	3.4	2.9	1.6	1.6	1.6	15.5	15.3	14.7
DCB Bank (DCB)	190	250	Buy	5,886	7.8	10.5	12.6	24.2	18.0	15.1	2.4	2.2	1.9	0.9	1.0	1.0	10.9	12.1	12.9
Federal Bank (FEDBAN)	96	125	Buy	18,966	4.5	6.3	7.7	21.4	15.2	12.4	1.8	1.6	1.5	0.7	0.8	0.9	8.2	9.8	11.1
HDFC Bank (HDFBAN)	2,293	2,400	Hold	626,525	67.4	77.4	93.7	34.0	29.6	24.5	5.7	4.3	3.8	1.8	1.8	1.9	17.9	16.5	16.0
IndusInd Bank (INDBA)	1,416	1,550	Hold	98,112	60.1	55.0	92.3	23.6	25.7	15.4	3.7	3.5	2.9	1.8	1.3	1.8	16.2	13.1	19.0
Jammu & Kashmir Bk(JAMKAS)	39	53	Hold	2,149	3.6	8.3	14.7	10.6	4.6	2.6	0.6	0.6	0.6	0.2	0.5	0.7	3.4	7.3	11.8
Kotak Mahindra Bank (KOTMAH)	1,463	1,500	Hold	279,281	21.4	25.5	30.4	68.2	57.4	48.1	7.8	6.8	6.0	1.7	1.7	1.7	12.5	12.1	12.7
Yes Bank (YESBAN)	87	UR	UR	20,256	18.3	6.4	5.8	4.8	13.6	15.1	0.8	0.9	1.0	1.7	0.4	0.4	17.6	5.6	5.5
Bandhan Bank (BANBAN)	513	650	Buy	61,158	11.3	16.4	22.0	7.7	5.3	4.0	1.1	1.0	0.8	3.6	3.9	4.0	19.5	19.0	21.1

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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