

Moratorium improves; provisioning provides cushion

Bandhan Bank reported a reasonable performance. Moratorium improved from 71% in April to 24% as of July 3, 2020 with micro finance portfolio down from 100% in April 2020 to 30%. Mortgage book witnessed marginal increase in moratorium at 15%; up 200 bps. MSME portfolio saw an improvement at ~18% of advances under moratorium (35% in April 2020) and NBFC-MFI revived to zero moratorium vs. ~59% in Q4FY20.

AUM growth decelerated to 17.7% YoY to ₹ 74331 crore (₹ 71846 crore in Q4FY20). Healthy traction continued in micro finance segment (~62% of AUM) at 21.2% YoY to ₹ 47478 crore while non-micro finance growth came lower at ~12% YoY. Disbursement saw a healthy revival across portfolio with micro finance seeing traction QoQ at ₹ 2859 crore, though down 30% YoY. Customer addition remained slowest at ~2.13 lakh in Q1FY21, taking total customer base to 2.03 crore. Deposit accretion continued to remain healthy at 35% YoY to ₹ 60610 crore with ~24 bps QoQ improvement in CASA ratio to 37.08%.

Absolute GNPA increased 1.4% QoQ to ₹ 1007 crore. Hence, GNPA ratio remained steady QoQ at 1.4%, while NNPA ratio improved ~10 bps to 0.48%. The bank parked ₹ 750 crore of contingent provision. Including earlier provision for Covid at ₹ 690 crore and standard asset provision on micro finance portfolio at ₹ 329 crore, total contingent provision was at ₹ 1769 crore i.e. 2.4% of advances.

Margins remained steady QoQ at 8.2%. Growth in NII moderated to 15% YoY to ₹ 1811 crore, led by slower traction in advances. Other income grew 17% YoY to ₹ 387 crore, including ₹ 474 crore from sale of PSLC, of which ₹ 118.5 crore has been recognised. Operational profit was at ₹ 1584 crore, up 16.8% YoY. However, higher provision at ₹ 849 crore, including ₹ 750 crore related to Covid, kept earnings at ₹ 550 crore, down 31.6% YoY.

Collection efficiency to normalise by September

Given unlocking of economy, the management expects collection efficiency to normalise by September 2020. Though clarity on asset quality will emerge post end of moratorium, the management has maintained guidance of credit cost at 2-2.2% in FY21E. As 80% of provision has been done with, further provisioning is expected at 1-1.25% ahead.

Valuation & Outlook

Given exposure to essential micro finance segment, gradual unlocking of economy remains positive to start business growth ahead. Provision buffer at 2.4% of advances provides comfort against volatility in asset quality. Management is evaluating merger with holding company to pare promoter stake, though clarity from RBI is awaited. We expect earnings to remain moderate in FY21E and shore up in FY22E with CAGR of 18% in FY21-22E to ₹ 4065 crore. Accordingly, we revise our target price to ₹ 400 per share, valuing the stock at ~15.8x FY22E EPS (3.1x FY22E BV). With the recent upswing in stock price, we downgrade our rating to **HOLD**.



Particulars

Particulars	Values
Market Capitalisation	₹56303 crore
Networth	₹15195 crore
52 week H/L (₹)	650 / 152
Equity Capital	₹1610 crore
Face Value (₹)	10.0
DII Holding (%)	8.0
FII Holding (%)	14.5

Key Highlights

- Substantial improvement in moratorium from 71% to 24% as of 3rd July 2020
- Additional provisioning of ₹ 750 crore for Covid-19. Outstanding provision at 2.4% of advances
- Target price revised upwards from ₹ 370 to ₹ 400. Downgrade from BUY to HOLD amid recent run up in price

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Yash Batra
yash.batra@icicisecurities.com

Key Financial Summary

	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
NII	4496	6324	7086	8212	22%
PPP	3748	5447	5416	6527	20%
PAT	1951	3024	2855	4065	28%
ABV (₹)	91.8	92.6	99.1	121.3	
P/E	21.4	19.3	19.7	13.9	
P/ABV	3.8	3.8	3.5	2.9	
RoE (%)	19.0	22.1	17.8	21.7	
RoA (%)	3.9	3.9	2.9	3.4	

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
NII	1,812	1,785	1,575	15.1	1,680	7.8	Moderation in advances kept NII growth slower
NIM (%)	8.2	8.1	10.5	-230 bps	8.1	2 bps	Decline in yield offset by improvement in cost of funds
Other Income	387	513	331	16.8	500	-22.7	
Net Total Income	2,198	2,298	1,906	15.4	2,180	0.8	
Staff cost	389	364	332	17.4	362	7.5	
Other Operating Expen:	225	293	219	2.7	297	-24.5	
PPP	1,584.2	1,641.1	1,355.1	16.9	1,520.7	4.2	Reasonable performance in the current situation
Provision	849.1	758.1	125.4	577.4	827.4	2.6	The bank has parked contingent provision of ₹750 crore for Covid-19. Outstanding provision at ₹1769 crore
PBT	735.1	883.0	1,229.7	-40.2	693.3	6.0	
Tax Outgo	185.3	229.6	426.1	-56.5	176.0	5.3	
PAT	549.8	653.4	803.6	-31.6	517.3	6.3	Higher provision kept earnings trajectory slower
Key Metrics							
GNPA	1,007	1,092	1,020	-1.3	993	1.4	GNPA steady amid moratorium
NNPA	336	421	347	-3.4	389	-13.8	NNPA ratio declined 10 bps to 0.48%
Advances	69,749	74,325	45,420	53.6	66,630	4.7	Healthy traction continued in micro finance segment (~62% of merged AUM) at 21.2% YoY
Deposits	60,602	60,602	43,701	38.7	57,082	6.2	Deposit accretion healthy across CASA

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	6,479	7,086	9.4	7,148	8,212	14.9
Pre Provision Profit	5,236	5,416	3.4	5,686	6,527	14.8
NIM (%)	7.2	7.7	51 bps	6.9	7.6	70 bps
PAT	3,027	2,855	-5.7	3,545	4,065	14.7
ABV (₹)	99.2	99.1	-0.1	118.0	121.3	2.8

Source: Company, ICICI Direct Research

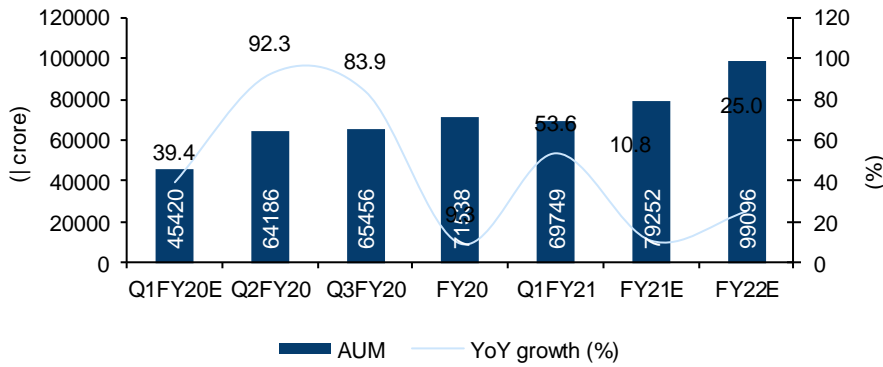
Exhibit 3: Assumption

	FY19	FY20	Current		Earlier	
			FY21E	FY22E	FY21E	FY22E
Credit growth (%)	33.4	68.1	10.1	25.0	4.4	25.0
Deposit Growth (%)	27.6	32.0	19.4	27.1	24.1	27.1
CASA ratio (%)	40.8	36.8	37.6	37.1	37.4	37.0
NIM Calculated (%)	9.4	9.1	7.7	7.6	7.2	6.9
Cost to income ratio (%)	32.6	32.2	34.6	33.5	35.3	36.6
GNPA (₹crore)	819.5	992.8	1,742.8	2,093.3	1,865.5	2,216.0
NNPA (₹crore)	251.7	285.7	877.3	1,120.9	1,041.2	1,298.9
Slippage ratio (%)	763.0	800.0	1,500.0	701.1	895.5	701.1
Credit cost (%)	1.9	2.3	2.1	1.2	1.6	1.1

Source: Company, ICICI Direct Research

Story in Charts

Exhibit 4: Credit growth to decelerate, going ahead



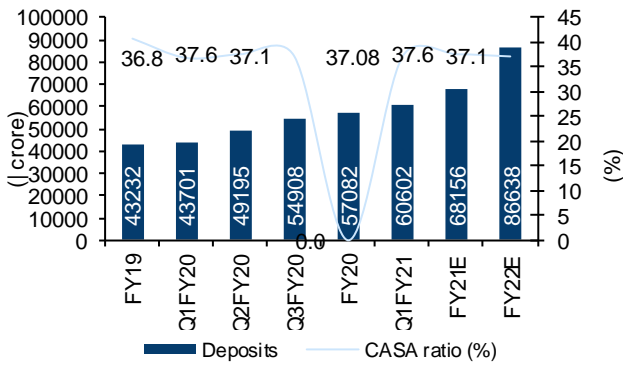
Source: Company, ICICI Direct Research

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

	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	FY21E	FY22E
Gross advances (AUM)	45420	64186	65456	66630	69749	79252	99096
Net advances (O/s Loan Book)	45420	64186	65456	66630	69749	73363	91734
Micro loans	39166	39197	40100	46189	47478	45322	56653
Non micro loans	6254	24989	25356	20441	22271	28040	35081

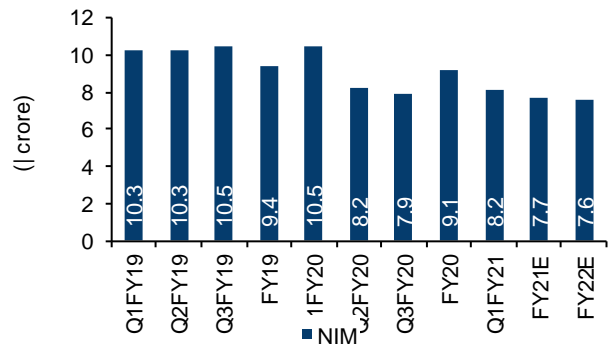
Source: Company, ICICI Direct Research

Exhibit 6: Continued focus on deposit accretion



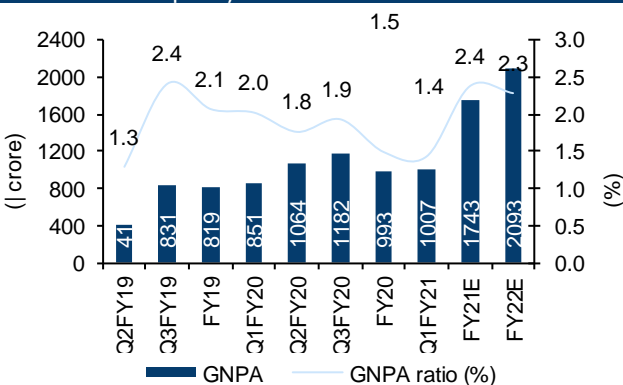
Source: Company, ICICI Direct Research

Exhibit 7: Moderation in margin at ~7.5% in FY20-22E



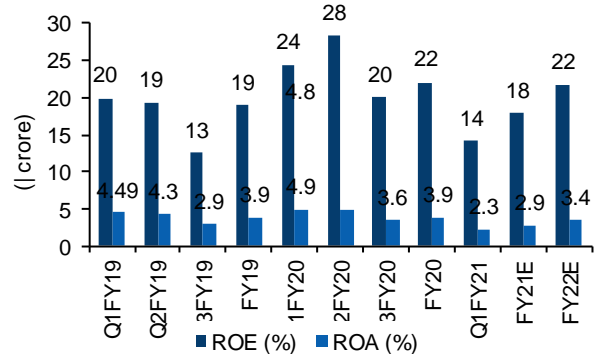
Source: Company, ICICI Direct Research

Exhibit 8: Asset quality to remain under watch



Source: Company, ICICI Direct Research

Exhibit 9: Return ratio to remain steady



Source: Company, ICICI Direct Research

Exhibit 10: CI ratio continues to remain better than peers

	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	FY21E	FY22E
Operating expenses	550.5	582.4	634.1	2537.2	614.1	2861.9	3287.9
YoY growth (%)	28.8	34.2	38.6	40.1	11.6	12.8	14.9
CI ratio (%)	29.9	30.8		32.2	27.9	34.6	33.5
Opex to AUM (%)	4.8	5.1	5.6	3.5	5.4	3.6	3.3
Employee cost to AUM (%)	2.8	2.1	2.1	1.9	2.1	2.0	1.7
Other opex to AUM (%)	1.7	1.6	1.6	1.6	1.6	1.6	1.6

Source: Company, ICICI Direct Research

Exhibit 11: Customer accretion impacted by Covid-19

Lakh	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Borrowers	96.5	100	110	117.3	201	203.1
Micro borrowers	95	98.4	101	105	154	112
Non micro borrowers	1.5	1.6	9.0	12.3	47.0	91.1

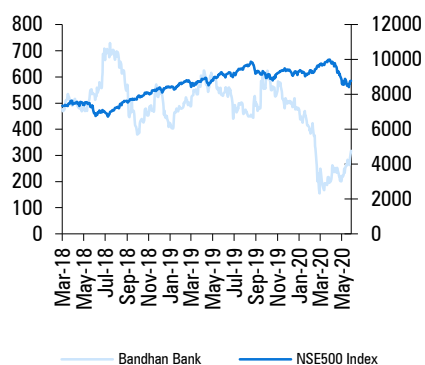
Source: Company, ICICI Direct Research

Exhibit 12: Shareholding pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	82.3	82.3	61.0	61.0	61.0
FII	6.3	6.9	13.9	13.1	14.5
DII	9.5	8.8	8.2	8.8	8.0
Others	1.9	2.0	17.0	17.2	16.6

Source: Company, BSE, ICICI Direct Research

Exhibit 13: Price Chart



Source: Company, Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(₹Crore)	FY19	FY20	FY21E	FY22E
Interest Earned	6644.1	10885.5	12104.4	14068.0
Interest Expended	2148.4	4561.6	5018.3	5856.4
Net Interest Income	4,495.7	6,323.9	7,086.1	8,211.6
growth (%)		40.7	12.1	15.9
Non Interest Income	1063.4	1549.2	1191.7	1603.2
Operating Income	5559.1	7873.1	8277.8	9814.8
Staff cost	1008.7	1367.0	1595.5	1693.5
Other Operating expense	802.2	1059.5	1266.4	1594.3
Operating profit	3748.1	5446.5	5415.9	6527.0
Provisions	735.1	1393.2	1583.3	1070.1
Exceptional items	0.0	0.0	0.0	0.0
PBT	3013.0	4053.4	3832.6	5456.9
Taxes	1061.6	1029.7	977.3	1391.5
Net Profit	1951.5	3023.7	2855.3	4065.4
EPS (₹)	16.4	18.1	17.7	25.2

Source: Company, ICICI Direct Research

Exhibit 15: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	119.3	161.0	161.0	161.0
EPS (₹)	16.4	18.1	17.7	25.2
BV (₹)	93.9	94.4	104.6	128.2
ABV (₹)	91.8	92.6	99.1	121.3
P/E	21.4	19.3	19.7	13.9
P/BV	3.7	3.7	3.3	2.7
P/ABV	3.8	3.8	3.5	2.9
Yields & Margins (%)				
Net Interest Margins	9.4	9.1	7.7	7.6
Yields on Loans	15.4	17.0	14.4	14.2
Cost of funds	5.5	5.8	5.5	5.5
Quality and Efficiency (%)				
Cost to income ratio	32.6	32.2	34.6	33.5
GNPA	2.07	1.49	2.38	2.28
NNPA	0.63	0.43	1.20	1.22
ROE	19.0	22.1	17.8	21.7
ROA	3.9	3.9	2.9	3.4

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
(₹Crore)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	1193	1610	1610	1610
Reserves and Surplus	10009	13585	15230	19037
Net worth	11202	15195	16840	20648
Deposits	43232	57082	68156	86638
Borrowings	521	16379	17706	17440
Other Liabilities & Provisions	1487	3062	3827	4784
Total	56442	91718	106529	129510
Applications of Funds				
Fixed Assets	331	369	443	531
Investments	10038	15352	18422	22106
Advances	39643	66630	73363	91734
Other Assets	6430	9367	14302	15139
Total	56442	91718	106529	129510

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets				
Total assets	27.4	62.5	16.1	21.6
Advances	33.4	68.1	10.1	25.0
Deposit	27.6	32.0	19.4	27.1
Total Income	97.5	41.6	5.1	18.6
Net interest income	87.0	40.7	12.1	15.9
Operating expenses	16.5	2.1	-3.4	0.0
Operating profit	219.7	45.3	-0.6	20.5
Net profit	296.9	54.9	-5.6	42.4
Net worth	19.4	35.7	10.8	22.6
EPS	61.1	10.6	(2.0)	42.4

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	48	58	Hold	21,994.0	1.2	2.3	6.9	NA	NA	NA	0.6	0.5	0.5	0.0	0.1	0.3	0.8	1.5	4.0
State Bank of India (STABAN)	184	215	Hold	164,078	16.2	10.8	21.3	12.3	18.4	9.3	1.0	1.1	1.0	0.4	0.3	0.5	6.8	4.8	9.1
Indian Bank (INDIBA)	61	50	Hold	6,832	12.4	14.2	22.8	5.3	4.6	2.9	0.2	0.2	0.2	0.3	0.3	0.4	3.6	3.8	5.9
Axis Bank (UTIBAN)	427	500	Buy	120,444	5.8	17.4	27.9	78.7	26.1	16.3	1.8	1.7	1.5	0.2	0.5	0.7	2.2	5.6	8.5
City Union Bank (CITUNI)	121	171	Buy	8,951	6.5	10.1	11.4	21.3	13.7	12.1	2.2	1.9	1.5	1.0	1.4	1.4	9.4	13.0	12.9
Development Credit Bank (DCB)	80	59	Hold	2,474	13.0	13.5	15.0	6.6	6.3	5.7	0.8	0.8	0.7	1.1	1.0	1.0	13.3	12.2	12.0
Federal Bank (FEDBAN)	50	47	Hold	9,931	7.7	6.1	7.0	7.1	9.0	7.9	0.8	0.7	0.7	0.9	0.6	0.7	11.1	8.1	8.7
HDFC Bank (HDFBAN)	1,052	1,100	Buy	577,691	47.9	57.1	69.6	23.5	19.7	16.2	3.7	3.4	2.8	1.9	1.9	2.0	16.4	17.1	18.4
Indusind Bank (INDBA)	504	400	Hold	34,921	63.7	61.5	68.7	8.7	9.1	8.1	1.2	1.0	0.8	1.5	1.4	1.4	13.5	11.7	11.7
Jammu & Kashmir Bank (JAMKAS)	17	12	Sell	1,220	-12.7	-0.1	-6.1	-1.6	NA	NA	0.3	0.3	0.4	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,290	1,600	Buy	255,315	31.1	30.4	34.9	44.0	45.0	39.2	5.2	4.2	3.8	1.8	1.5	1.5	12.9	10.7	10.4
Bandhan Bank (BANBAN)	350	400	Hold	56,303	18.1	17.7	25.2	19.3	19.7	13.9	3.7	3.4	2.8	3.9	2.9	3.4	22.1	17.8	21.7
IDFC First (IDFBAN)	25	30	Buy	14,294	-4.6	-1.1	1.2	NA	NA	23.8	0.9	1.0	1.0	-1.3	-0.4	0.4	-13.1	-3.8	3.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Narnolia, MBA and Yash Batra, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.