

CMP: Rs 349

Rating: Hold

Target Price: Rs 383

Stock Info

BSE	541153
NSE	BANDHANBNK
Bloomberg	BANDHAN IN
Reuters	BANH.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs Cr)	1,610
Mkt Cap (Rs Cr)	56,304
52w H/L (Rs)	650 / 152
Avg Yearly Vol (in 000')	7517

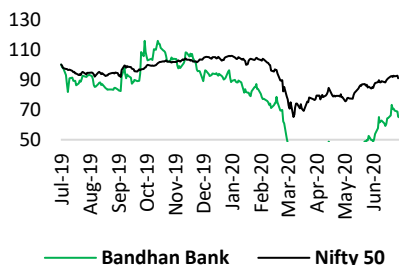
Shareholding Pattern %

(As on June, 2020)

Promoters	61.0
FII	14.5
DII	8.0
Public & Others	16.6

Stock Performance (%)	3m	6m	12m
Bandhan Bank	61.5	-27.8	-36.4
Nifty 50	14.6	-13.1	-8.4

Bandhan Vs Nifty



Anmol Das
anmol.das@arihantcapital.com
022 67114865

Raju Barnawal
raju.b@arihantcapital.com
022 67114870

Bandhan bank reported good operating performance during Q1FY21 with improvement in collection efficiency. Bottomline of the bank was impacted because the bank has accelerated additional provisioning on standard advances at Rs 750 cr in order to strengthen the balance sheet. With this additional provision buffer, the bank now holds total additional provision of Rs 1,769 cr, well beyond the RBI's prescribed limit. The bank has witnessed healthy business growth with advances growth at 18% YoY and deposit growth at 35% YoY. Marginal improvement seen on asset quality front as GNPA ratio fell by 5bps QoQ to 1.43% while NNPA improved by 10bps QoQ to 0.48%. We change our rating to Hold from Buy with a revised TP of Rs 383 (from Rs 281 earlier).

Strong Operating Performance

NII for the quarter grew by 15% YoY /8% QoQ to Rs 1,812 cr led by healthy growth in advances. Strong NII growth and improvement in cost-income ratio resulted into operating profit growth of 17% YoY to Rs 1,584 cr. Cost-income ratio improved by 95bps YoY/232bps QoQ to 27.9%. Profit for the quarter de-grew by 32% YoY to Rs 550 cr while on a sequential basis it has increased by 6%. NIM of the bank improved marginally by 5bps QoQ to 8.1% as spread during the quarter increased by 2bps QoQ to 7.2%. Yield on advances stood at 13.6% vs. 13.8% QoQ.

Asset quality remained largely stable

GNPA/NNPA ratio improved by 5bps/10bps QoQ at 1.43%/0.48%. PCR ratio further improved to 66% vs. 61% QoQ. Credit cost of the bank remained higher at 4.92% vs. 5.07% QoQ primarily due to additional provisioning. Subsequent to Unlock 1 phase, collection efficiency of the bank improved to 76% by the end of Q1FY21 from 29% in April 2020. Subsequently, Microfinance moratorium book of the bank came down substantially to ~30% from ~100% QoQ.

Liability profile Shapes up well

Total advances of the bank grew by 18% YoY to Rs 74,331 cr, relatively lower than its historical growth rate due to seasonality effect. However, MFI advances growth on a QoQ basis remained higher than its historical run rate. Micro lending business of the bank grew by 21% YoY/3% QoQ to Rs 47,478 cr. Mortgage book grew by 5% QoQ to Rs 19,561 cr. Share of microlans in the overall portfolio stood flat at 64% QoQ. Liability franchise of the bank remained strong as total deposits of the bank grew by 35% YoY/6% QoQ to Rs 60,610 cr. This was supported by strong growth in CASA deposit at 47% YoY/7% QoQ. CASA ratio of the bank improved to 37.1% from 36.8% QoQ.

Valuation & View

Despite a challenging environment, Bandhan bank has reported better operating performance in terms of NII growth, stable margins and improvement in cost efficiency. The bank has built significant Covid-19 & standard asset provision (>2% of AUM), we believe Bandhan bank is better placed to absorb any potential spike in NPL. Liability franchise of the bank continues to remain strong with healthy deposit accretion & CASA at 37.1%. With Bandhan's long track record, high customer vintage coupled with high CAR ratio (~26.5%) and strong liability franchise, business of the bank will rebound quickly and collection efficiency will reach to the normal level over the medium term. However, the asset quality of the bank continue to remain under watch. Strong uptick in collection efficiency is a key positive. We value the bank at P/adj. BV 3.0x to its FY22E ABV and arrived at a target price of Rs 383 while maintaining our estimates. Recent run up in the stock performance (>60% in 3 month) offers limited room for upside. We change our rating to Hold from Buy while maintain our positive outlook on the stock.

Higher than anticipated NPA formation and lower advances growth will be a key risk to our call.

Q1FY21 result Snapshot

Particulars (Rs in Cr)	Q1FY21	Q1FY20	YoY	Q4FY20	QoQ
Interest Earned	3,018	2,631	14.7%	2,846	6.0%
Interest Expended	1,207	1,057	14.2%	1,166	3.5%
Net Interest Income	1,812	1,575	15.0%	1,680	7.8%
Other Income	387	331	16.8%	500	-22.7%
Total income	2,198	1,906	15.4%	2,180	0.8%
Operating Expenses	614	551	11.6%	660	-6.9%
<i>Cost-income-ratio</i>	27.9%	28.9%	-95bps	30.3%	-232bps
Operating Profits	1,584	1,355	16.9%	1,521	4.2%
Provisions & Contingencies	849	125	577.3%	827	2.6%
PBT	735	1,230	-40.2%	693	6.0%
Provisions for Tax	185	426	-56.5%	176	5.3%
<i>Effective Tax Rate (%)</i>	25%	35%	-944bps	25%	-18bps
PAT (reported)	550	804	-31.6%	517	6.3%
GNPA	1,007	1,020	-1%	993	1%
NNPA	336	347	-3%	389	-14%
GNPA	1.4%	2.0%	-61bps	1.5%	-5bps
NNPA (%)	0.5%	0.6%	-10bps	0.6%	-10bps
Advances (On-Book + Off Book)	74,331	63,164	17.7%	71,846	3.5%
Deposits	60,610	44,796	35.3%	57,082	6.2%
NIM (%)	8.15	8.60	-45bps	8.10	5bps
Total CAR (%)	26.5%	26.6%	-13bps	27.4%	-98bps
Tier 1 (%)	23.2%	23.7%	-43bps	25.2%	-197bps
Tier 2 (%)	3.2%	2.9%	30bps	2.2%	99bps

Concall Highlights:

1. Management believes collection efficiency will improve going forward and reach to normal level by September given that there is no further complete lockdown. Currently, collection efficiency in microfinance business stood at 73%.
2. Collection efficiency in Andhra Pradesh, Telangana and Bihar is the highest while lowest efficiency is in Maharashtra and Tamil Nadu.
3. Deposit growth was higher as new customer acquisition has improved as well as average saving accounts balance of the customers has increased.
4. PSLC income for the quarter stood at Rs 119 cr.
5. 58% of the borrowers are exclusive for Bandhan as they have a single loan with Bandhan only.
6. 75% of the bank's loan portfolio situated at West Bengal, Tripura and Assam are less impacted from Covid-19.
7. Bank has disbursed additional loans to 5% of the existing borrowers in micro lending.
8. Management stated that they will continue with the same business model. There is no any changes in business model post Covid-19. Only, the bank has just reduced the number of centre meetings and focusses more on door to door collection.

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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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