

# Bandhan Bank

Refer to important disclosures at the end of this report

## Higher provision buffer comforting; structural transformation underway

CMP: Rs 301  
as of (November 2, 2020)

TP: Rs 425 (▲)  
12 months

Rating: BUY (■)

Upside: 41.1 %

- Bandhan reported PAT of Rs9.2bn, significantly beating the estimate of Rs6.6bn, mainly due to lower opex and contained provisions as the heavy-lifting in terms of Covid-19-related provisions has largely been done. After additional Rs3bn Covid-19 provisions in Q2, the cumulative provisioning buffer stands strong at Rs17.4bn (2.3% of overall AUM/3.5% of MFI AUM).
- Overall collection efficiency (CE) in value terms improved to 91% in Oct'20 from 68% in Q1, and in customer terms to 95% vs. 67%, but improvement from Sep'20 levels has been relatively moderate due to some drag in Assam/WB. It expects CE to improve further in Nov/Dec'20 and believes that the current provisioning buffer should be largely sufficient to offset residual pain.
- The bank has unveiled a 5-year asset diversification plan, with the share of MFI at 30% (vs. 62% now) and SME/mortgages each at 30%, which may affect blended loan yields. However, the bank has built a strong CASA base and is expanding in non-eastern markets to tap low-cost retail deposits, which should help protect margins in the long run.

We like Bandhan Bank for its strong liability franchise, steady asset diversification strategy, recent moves to deepen management bandwidth and ability to manage asset quality disruptions across cycles with proactive provisioning strategy. Retain Buy/OW in EAP with a revised TP of Rs425 (based on 2.7x Dec'22 ABV).

**Strong deposit accretion continues; unveils 5-year asset diversification strategy:** AUM growth stood healthy at 19% yoy/3% qoq to Rs77bn, led by improvement in disbursements in the EEB segment (mainly MFI). Disbursement in EEB has improved qoq but was still moderate at Rs104bn vs. Rs132bn in Q2FY20. We believe that disbursement should accelerate in H2 and mainly Q4 typically being a strong quarter for disbursements in the MFI space. Deposit momentum remains strong at 34% yoy/9% qoq with CASA growth at 56% yoy/12% qoq and CASA ratio at 38% (33% in Q2FY20), moving closer to the record high of ~40%. The bank has unveiled its 5-year asset diversification strategy, whereby the share of MFI (EEB) portfolio will fall by FY25E to 30% from 62% now, while the share of SME/CB will rise to 30% from 9% now and mortgages to 30% from 25% now. This will be done primarily to de-risk/de-concentrate the loan portfolio away from the volatile MFI segment, while lower CoF should help protect margin impact, if any, due to the change in portfolio mix. Bandhan also plans to open 574 banking outlets (including 100 full-fledge branches) by the end of FY21 outside eastern states to geographically diversify its business.

**Collections improving as unlocking begins; builds strong provisioning buffer:** Headline GNPA ratio was down qoq by 25bps to 1.2%, but proforma GNPA ratio without SC stay on NPA tagging would have been slightly higher at 1.5% (vs. 1.4% in Q1). Specific PCR stands high at 70% and the bank has made additional Covid-19-related contingent provisions of Rs3bn in Q2, taking the cumulative provisions now to Rs17.4bn (2.3% of overall AUM/3.5% of MFI AUM). The bank had guided for pandemic-related credit cost of 3.5% and expects no material change in actual credit cost. Overall MFI collection efficiency (CE) in terms of customers is at 95% with severely Covid-19 affected states being at 93%, moderately at 94% and least affected at 98%. Improvement in MFI CE is relatively moderate in Oct'20 at 95% vs. 94% in Sep'20, given drag in Assam (back-to-back events starting from CAA/floods) and non-resumption of trains in WB, which is the life line for nearly 5% of the customers.

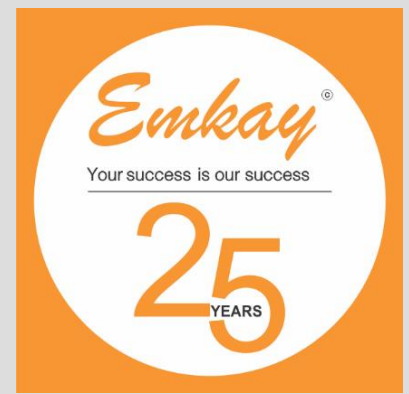
**Outlook and valuations:** The bank is gearing up for the next level of structural transformation toward a true universal bank like large private peers by re-organizing business verticals and leadership positions by either hiring laterally or up-skilling. It is also well provided to take on the Covid-19-induced asset quality stress in the MFI portfolio. We like Bandhan for its strong liability franchise, steady asset diversification strategy, recent moves to deepen management bandwidth and ability to manage asset quality disruption across cycles with a proactive provisioning strategy. Retain Buy/OW in EAP with a revised TP of Rs425 (based on 2.7x Dec'22 ABV). Key risks to our call are higher-than-anticipated NPA formation, slower growth and management attrition.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	55,591	78,731	93,309	110,291	134,918
Net profit	19,515	30,237	29,596	40,283	52,354
EPS (Rs)	16.4	18.8	18.4	25.0	32.5
ABV (Rs)	92.6	92.6	107.9	130.8	160.3
RoA (%)	3.9	4.1	3.0	3.4	3.6
RoE (%)	19.0	22.9	17.9	20.4	21.8
PE (x)	18.4	16.0	16.4	12.0	9.3
P/ABV	3.3	3.3	2.8	2.3	1.9

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	9.0
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	18.4	25.0
Consensus	17.9	24.7
Mean Consensus TP (12M)	Rs 400	

### Stock Details

Bloomberg Code	BANDHAN IN
Face Value (Rs)	10
Shares outstanding (mn)	1,610
52 Week H/L	605 / 152
M Cap (Rs bn/USD bn)	485 / 6.52
Daily Avg Volume (nos.)	21,530,950
Daily Avg Turnover (US\$ mn)	88.7

### Shareholding Pattern Sep '20

Promoters	40.0%
FIIs	32.2%
DIIIs	5.8%
Public and Others	21.9%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	5	(13)	15	(50)
Rel. to Nifty	3	(17)	(3)	(49)

### Relative price chart



Source: Bloomberg

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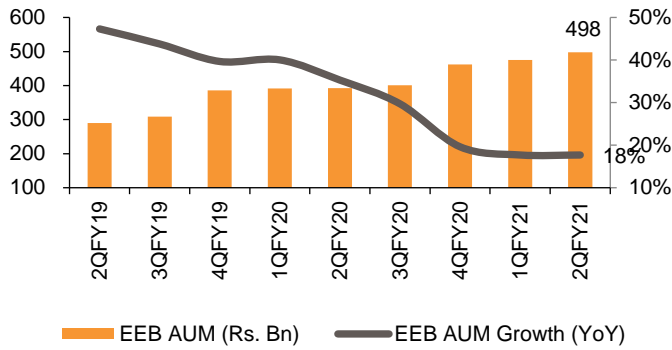
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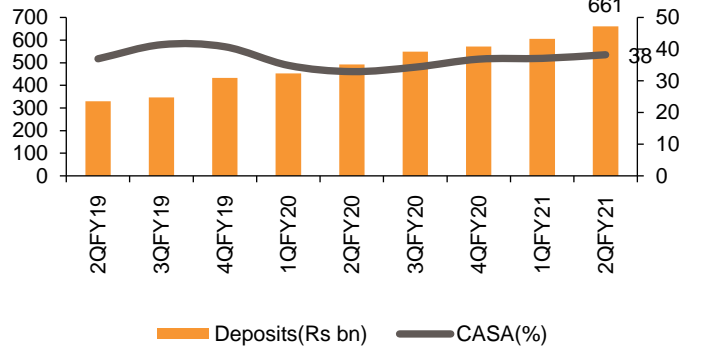
# Story in Charts

**Exhibit 1: Disbursement in EEB (mainly MFI) has improved qoq but is still moderate**



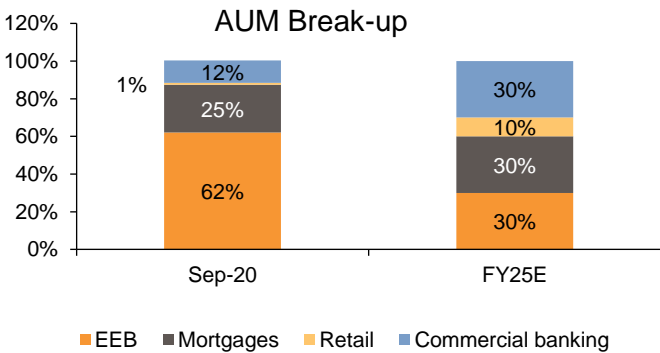
Source: Company, Emkay Research

**Exhibit 2: Deposit saw strong growth of 9%qoq with CASA growth of 12% qoq**



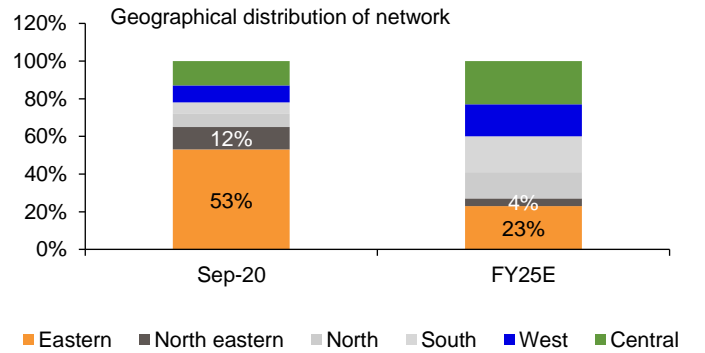
Source: Company, Emkay Research

**Exhibit 3: Lower MFI share in 5-year plan to de-risk loan portfolio**



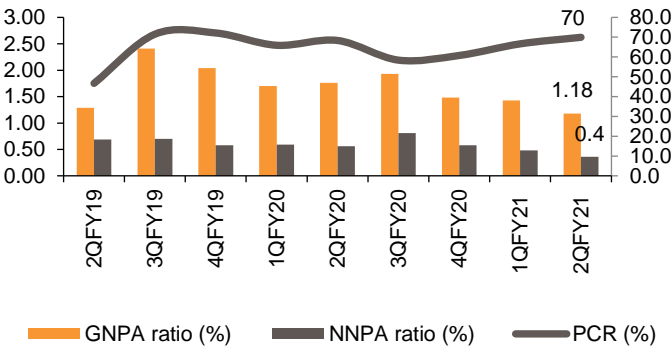
Source: Company, Emkay Research

**Exhibit 4: New banking outlets to be opened outside Eastern and North eastern states to diversify its business**



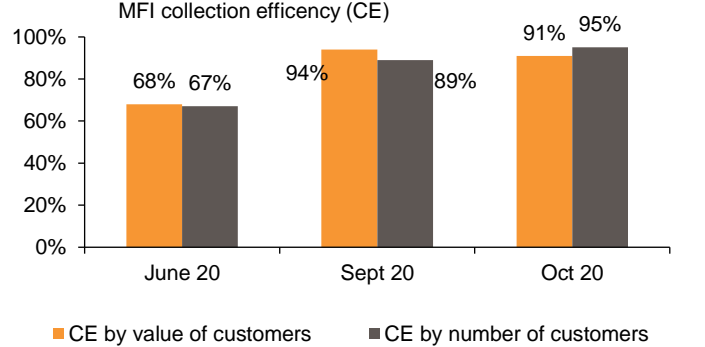
Source: Company, Emkay Research

**Exhibit 5: GNPA ratio improved by 25bps qoq due to SC stay, but proforma GNPA is 1.5%(higher than 1.4% GNPA in Q1)**



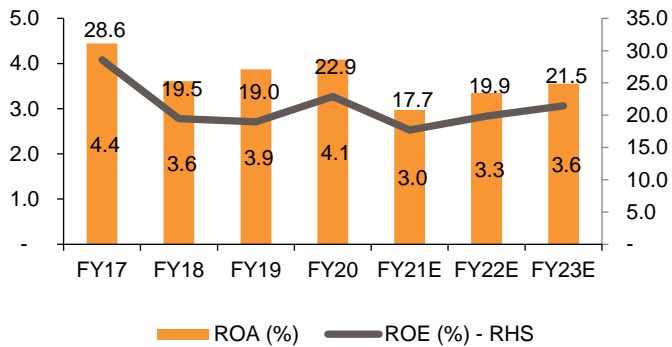
Source: Company, Emkay Research

**Exhibit 6: Collection efficiency improved and bank expects it to improve further in Nov/Dec**



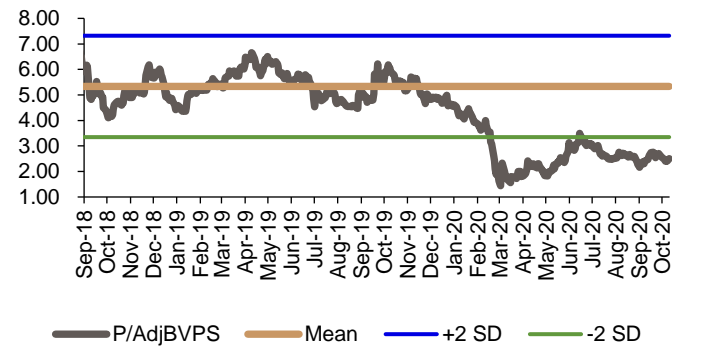
Source: Company, Emkay Research

**Exhibit 7: ROA/ROE trajectory set to moderate mainly due to lower growth/higher LLP, but still remain reasonably better v/s peers**



Source: Company, Emkay Research

**Exhibit 8: The stock trades at 2.5x -1 year forward ABV**



Source: Bloomberg, Emkay Research

**Exhibit 9: Actual vs Estimates (Q2FY21)**

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	23,049	22,629	21,615	2%	7%	Better loan growth led NII beat.
PPOP	16,275	15,516	15,875	5%	3%	Lower opex led and higher NII led PPOP beat.
PAT	9,200	6,557	7,976	40%	15%	Higher PPOP and contained provisions led PAT beat.

Source: Company, Emkay Research

**Exhibit 10: Quarterly summary**

Rs (mn)	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	26,903	27,176	28,462	30,181	31,976	19	6	108,855	125,202	15
Interest Exp	11,612	11,774	11,663	12,066	12,745	10	6	45,616	51,083	12
Net Interest Income	15,290	15,402	16,800	18,115	19,231	26	6	63,239	74,119	17
Global NIMs (reported)	8.15	7.90	8.13	8.15	8.00	-15bps	-15bps	8.67	7.81	-86bps
Non-interest Income	3,603	3,577	5,002	3,868	3,818	6	-1	15,492	17,011	10
Operating Expenses	5,824	6,341	6,595	6,141	6,773	16	10	24,265	27,902	15
Pre Provisioning Profit	13,069	12,638	15,206	15,842	16,275	25	3	54,466	63,228	16
Provision & Contingencies	1,455	2,949	8,274	8,491	3,945	171	-54	13,932	24,085	73
PBT	11,614	9,690	6,933	7,351	12,330	6	68	40,534	39,143	-3
Income Tax Expense (Gain)	1,896	2,380	1,760	1,853	3,130	65	69	10,297	9,864	-4
Net Profit/(Loss)	9,718	7,310	5,173	5,498	9,200	-5	67	30,237	29,279	-3
Gross NPA (%)	1.76	1.93	1.48	1.43	1.18	-58bps	-25bps	1.48	3.00	152bps
Net NPA (%)	0.56	0.81	0.58	0.48	0.36	-20bps	-12bps	0.58	1.01	43bps
Deposits (Rs in bn)	492	549	571	606	661	34	9	571	696	22
Net Advances (Rs in bn)	598	606	666	697	733	23	5	666	772	16

Source: Company, Emkay Research

**Exhibit 11: Revision in estimates**

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	91,129	91,129	0.0%	107,920	107,920	0.0%	132,701	132,701	0.0%
PPOP	63,228	63,228	0.0%	74,968	74,968	0.0%	93,065	93,065	0.0%
PAT	29,279	29,279	0.0%	39,118	39,118	0.0%	51,146	51,146	0.0%
EPS (Rs)	18.2	18.2	0.0%	24.3	24.3	0.0%	31.8	31.8	0.0%
BV (Rs)	111.1	111.1	0.0%	133.4	133.4	0.0%	162.7	162.7	0.0%

Source: Company, Emkay Research

**Exhibit 12: Key assumptions**

	FY20	FY21E	FY22E	FY23E
Loan Growth %	60.5	16.0	25.0	25.0
Deposit Growth %	32.0	21.9	28.8	29.4
NIM %	8.7	7.8	7.9	8.0
GNPA %	1.5	3.0	2.7	2.4
Credit Cost %	2.6	3.3	2.4	1.9

Source: Company, Emkay Research

**Exhibit 13: Key ratio and trends**

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
<b>Loans (Rs mn)</b>	<b>333,730</b>	<b>356,000</b>	<b>447,760</b>	<b>631,569</b>	<b>641,860</b>	<b>654,560</b>	<b>718,460</b>	<b>743,310</b>	<b>766,146</b>
<i>growth YoY %</i>	50.9	46.1	38.5	93.8	92.3	83.9	60.5	17.7	19.4
<i>Loans QoQ %</i>	2.4	6.7	25.8	41.1	1.6	2.0	9.8	3.5	3.1
<b>Composition %</b>									
Micro- Banking assets	86.0	87.0	86.0	62.0	61.1	61.3	64.3	63.9	65.0
Non - Micro banking assets	14.0	13.0	14.0	38.0	38.9	38.7	35.7	36.1	35.0
<b>Liability Profile</b>									
Deposits (Rs mn)	329,589	346,390	432,316	451,953	491,952	549,080	570,815	606,100	661,277
<i>growth YoY %</i>	29.5	36.9	27.6	47.2	49.3	58.5	32.0	34.1	34.4
<i>growth QoQ %</i>	7.3	5.1	24.8	4.5	8.9	11.6	4.0	6.2	9.1
CASA %	36.9	41.4	40.8	34.9	32.9	34.3	36.8	37.1	38.2
CA %	6.4	8.4	8.4	6.5	5.4	5.2	5.8	4.9	5.0
SA %	30.6	33.0	32.4	28.4	27.5	29.2	31.1	32.1	33.3
<b>Asset Quality (Rs mn)</b>									
Gross NPA	4,133	8,310	8,196	10,197	10,642	11,820	9,928	10,067	8,740
GNPA %	1.29	2.41	2.04	1.70	1.76	1.93	1.48	1.43	1.18
NPA	2,204	2,367	2,283	3,475	3,369	4,914	3,894	3,358	2,625
NNPA %	0.69	0.70	0.58	0.59	0.56	0.81	0.58	0.48	0.36
PCR % - Specific	46.7	71.5	72.1	65.9	68.3	58.4	60.8	66.6	70.0
<b>Capital Adequacy</b>									
CAR %	32.6	32.8	29.2	27.0	25.1	24.7	27.4	26.5	25.7
Tier I %	31.5	31.7	27.9	25.8	23.0	23.1	25.2	23.2	22.2
ROA	4.2	2.9	5.0	4.2	4.8	3.6	2.4	2.4	2.4
ROE	18.9	12.5	25.4	24.3	28.3	20.0	13.7	13.7	13.7

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>44,961</b>	<b>63,239</b>	<b>76,345</b>	<b>91,221</b>	<b>113,202</b>
<b>Other income</b>	<b>10,630</b>	<b>15,492</b>	<b>16,965</b>	<b>19,070</b>	<b>21,716</b>
Fee income	5,990	7,995	9,645	11,285	13,542
<b>Net income</b>	<b>55,591</b>	<b>78,731</b>	<b>93,309</b>	<b>110,291</b>	<b>134,918</b>
Operating expenses	18,110	24,265	27,874	33,026	39,946
<b>Pre provision profit</b>	<b>37,482</b>	<b>54,466</b>	<b>65,435</b>	<b>77,266</b>	<b>94,972</b>
<b>PPP excl treasury</b>	<b>37,104</b>	<b>53,332</b>	<b>64,880</b>	<b>76,683</b>	<b>94,360</b>
Provisions	7,351	13,932	25,869	23,411	24,980
<b>Profit before tax</b>	<b>30,131</b>	<b>40,534</b>	<b>39,566</b>	<b>53,854</b>	<b>69,992</b>
Tax	10,616	10,297	9,971	13,571	17,638
Tax rate	35	25	25	25	25
<b>Profit after tax</b>	<b>19,515</b>	<b>30,237</b>	<b>29,596</b>	<b>40,283</b>	<b>52,354</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	11,931	16,102	16,104	16,104	16,104
Reserves	100,087	135,852	163,080	200,140	248,306
<b>Net worth</b>	<b>112,017</b>	<b>151,955</b>	<b>179,184</b>	<b>216,244</b>	<b>264,410</b>
Deposits	432,316	570,815	717,492	924,073	1,195,836
Borrowings	3,614	162,192	147,997	142,241	129,596
<b>Total liabilities</b>	<b>564,417</b>	<b>917,178</b>	<b>1,071,032</b>	<b>1,316,417</b>	<b>1,627,787</b>
Cash and bank	38,792	63,449	76,139	91,367	109,640
Investments	100,375	153,518	176,013	210,968	261,632
Loans	396,434	666,299	784,443	990,846	1,238,692
Others	6,270	10,144	11,372	14,100	16,798
<b>Total assets</b>	<b>564,417</b>	<b>917,178</b>	<b>1,071,032</b>	<b>1,316,417</b>	<b>1,627,787</b>

**Key Ratios (%)**

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	9.1	8.7	7.8	7.8	7.8
Non-ll/avg assets	2.1	2.1	1.7	1.6	1.5
Fee income/avg assets	1.2	1.1	1.0	0.9	0.9
Opex/avg assets	3.6	3.3	2.8	2.8	2.7
Provisions/avg assets	1.5	1.9	2.6	2.0	1.7
PBT/avg assets	6.0	5.5	4.0	4.5	4.8
Tax/avg assets	2.1	1.4	1.0	1.1	1.2
RoA	3.9	4.1	3.0	3.4	3.6
RoAE	19.0	22.9	17.9	20.4	21.8
GNPA (%)	2.0	1.5	3.0	2.7	2.4
NNPA (%)	0.6	0.6	0.9	0.8	0.7

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	16.4	18.8	18.4	25.0	32.5
BVPS	93.9	94.4	111.3	134.3	164.2
ABVPS	92.6	92.6	107.9	130.8	160.3
DPS	2.1	0.0	1.5	2.0	2.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	18.4	16.0	16.4	12.0	9.3
P/BV	3.3	3.3	2.8	2.3	1.9
P/ABV	3.3	3.3	2.8	2.3	1.9
P/PPOP	9.6	9.0	7.5	6.3	5.1
Dividend Yield (%)	0.7	0.0	0.5	0.7	0.9

Source: Company, Emkay Research

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
NII	48.3	40.7	20.7	19.5	24.1
PPOP	54.2	45.3	20.1	18.1	22.9
PAT	45.0	54.9	(2.1)	36.1	30.0
Loans	33.4	68.1	17.7	26.3	25.0

<b>Quarterly (Rs mn)</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>
NII	15,290	15,402	15,402	15,402	15,402
NIM(%)	8.2	7.9	8.1	8.2	8.0
PPOP	13,069	12,638	13,809	13,129	12,447
PAT	9,718	7,310	3,775	2,785	5,372
EPS (Rs)	6.04	4.54	2.34	1.73	3.34

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Aug-20</b>	<b>Sep-20</b>
Promoters	61.0	61.0	61.0	40.0	40.0
FIIIs	13.9	13.1	14.5	27.3	32.2
DIIIs	4.1	3.6	2.4	4.9	5.8
Public and Others	21.0	22.4	22.1	27.8	21.9

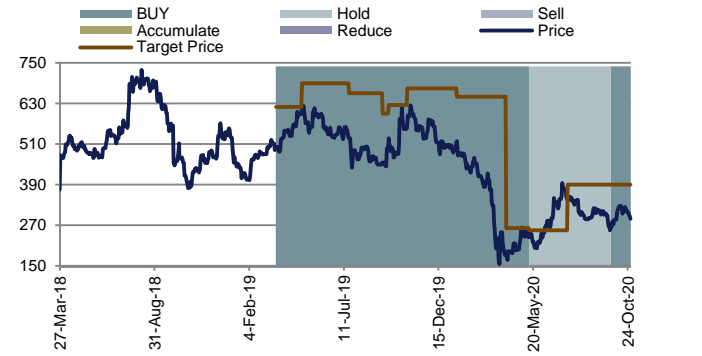
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
7-Oct-20	315	390	12m	Buy	Anand Dama
26-Sep-20	265	390	12m	Buy	Anand Dama
16-Jul-20	343	390	12m	Hold	Anand Dama
13-May-20	252	255	12m	Hold	Anand Dama
11-Apr-20	192	262	12m	Buy	Anand Dama
5-Apr-20	182	262	12m	Buy	Anand Dama
14-Jan-20	519	650	12m	Buy	Anand Dama
24-Oct-19	571	675	12m	Buy	Anand Dama
9-Oct-19	481	625	12m	Buy	Anand Dama
23-Sep-19	527	625	12m	Buy	Anand Dama
13-Sep-19	455	600	12m	Buy	Anand Dama
19-Jul-19	527	660	12m	Buy	Anand Dama
2-May-19	625	690	12m	Buy	Anand Dama
20-Mar-19	498	620	12m	Buy	Anand Dama

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



### Analyst: Anand Dama

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#### Sector

Banks

#### Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-Banks</b>	<b>19.75</b>	<b>19.75</b>	<b>0.0%</b>	<b>0</b>	<b>100.00</b>
Axis Bank	2.01	2.13	6%	11	10.78
AU Small Finance Bank	0.25	0.21	-16%	-4	1.06
Bandhan Bank	0.33	0.47	44%	14	2.38
Bank of Baroda	0.08	0.08	1%	0	0.43
Canara Bank	0.04	0.00	-100%	-4	0.00
City Union Bank	0.17	0.17	1%	0	0.86
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.16	0.16	1%	0	0.80
HDFC Bank	7.49	7.73	3%	25	39.16
ICICI Bank	4.21	4.36	4%	16	22.10
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.55	0.55	0%	0	2.78
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	3.14	2.53	-19%	-61	12.82
Punjab National Bank	0.05	0.00	-100%	-5	0.00
RBL Bank	0.12	0.14	19%	2	0.70
State Bank of India	1.13	1.21	7%	8	6.14
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

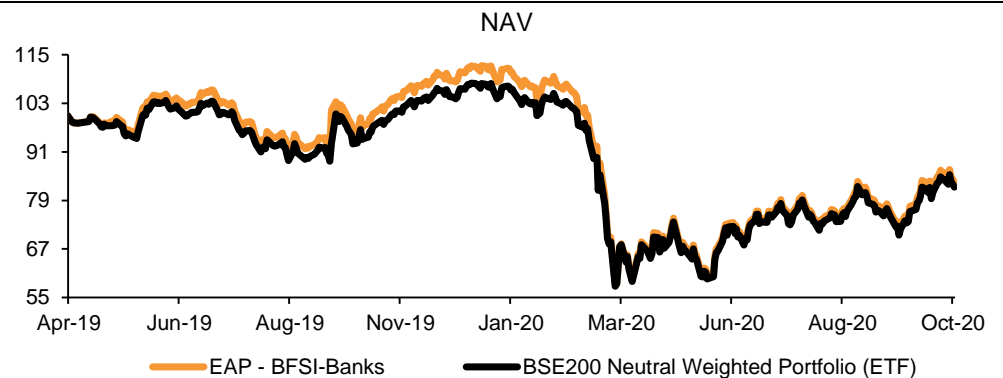
### Sector portfolio NAV

	Base					Latest
	1-Apr-19	31-Jan-20	30-Apr-20	31-Jul-20	30-Sep-20	30-Oct-20
EAP - BFSI-Banks	100.0	106.9	74.7	74.4	75.0	83.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	103.1	73.6	73.5	73.7	82.3

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”



## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 03 Nov 2020 05:37:36 (SGT)

Dissemination Date: 03 Nov 2020 05:38:36 (SGT)

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