

Bandhan Bank

Improvement across fronts

BANDHAN's earnings were ahead of estimates on account of lower-than-expected provisions (a recurring theme across banks this quarter). The bank fared exceptionally in terms of collection efficiency and deposit traction. We have increased our earnings estimates as we build lower provisions (although they remain elevated, given the inherent risks associated with microfinance—refer to our [recent report](#) on the Indian Microfinance sector) and higher growth. Maintain BUY with a target price of Rs 377.

- Asset quality and collection trends:** BANDHAN's collection efficiency improved significantly, reaching ~95% in October. The core microcredit portfolio saw collection efficiency rise to 91% (95% customers by value made payments, ~80% of customers repaid in full). These trends are heartening. And while the bank saw relatively lower collection efficiency in Assam (~87%), trends were improving MoM. Trends across other segments were not worrisome either. Despite the sharp increase in collection efficiency, we continue to build elevated GNPA's in FY21E at 3.9% (albeit lower vs. our earlier estimates) given the inherently risky nature of microfinance.
- Provisions** remained elevated YoY (2.7x) at Rs 3.95bn. BANDHAN has made generous COVID-19 related provisions, (Rs 17.4bn- 2.3% of loans and 3.5% of the microcredit portfolio, of which Rs 3bn were made in 2Q). The management continues to estimate the total credit impact of COVID-19 at 3.5% of overall loans. We like the bank's conservative approach towards provisioning. We build in LLPs of 2.3% over FY21-23E.
- AUMs** (including TLRO investments) grew 19.4/3.1%. Microcredit AUMs grew 27.1/4.8%, led by a 13.8% YoY growth in borrower count and a 12.6/4.8% growth in average outstanding. BANDHAN offers top-up loans to existing borrowers (several other microfinanciers do so too). Developments on this front will be keenly watched, given that BANDHAN's average outstanding per borrower is already highest in the industry.

Financial summary

(Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	19,231	15,290	25.8%	18,115	6.2%	63,239	73,547	87,608	108,875
PPOP	16,275	13,069	24.5%	15,842	2.7%	54,466	61,400	71,633	87,610
PAT	9,200	9,718	-5.3%	5,498	67.3%	30,237	29,552	36,749	49,685
EPS (Rs)	5.7	6.0	-5.3%	3.4	67.3%	18.8	18.4	22.8	30.9
ROAE (%)						22.9	17.7	18.5	20.8
ROAA (%)						4.08	2.96	3.11	3.50
ABVPS (Rs)						91.9	106.4	128.5	156.7
P/ABV (x)						3.27	2.83	2.34	1.92
P/E (x)						16.0	16.4	13.2	9.8

Changes in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	817	826	1.1%	995	1,007	1.2%	1,238	1,252	1.2%
NIM (%)	7.8	8.0	24 bps	7.7	8.0	28 bps	7.9	8.1	19 bps
NII	71.2	73.5	3.2%	84.1	87.6	4.2%	105.5	108.9	3.2%
PPOP	60.7	61.4	1.1%	69.9	71.6	2.4%	86.3	87.6	1.5%
PAT	28.3	29.6	4.3%	35.8	36.7	2.5%	48.2	49.7	3.1%
ABVPS (Rs)	102.6	106.4	3.7%	125.2	128.5	2.6%	151.7	156.7	3.3%

Source: Bank, HSIE Research

BUY

CMP (as on 2 Nov 2020)	Rs 301
Target Price	Rs 377
NIFTY	11,669

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 367	Rs 377
	FY21E	FY22E
EPS %	4.3%	2.5%

KEY STOCK DATA

Bloomberg code	BANDHAN IN
No. of Shares (mn)	1,610
MCap (Rs bn) / (\$ mn)	485/6,512
6m avg traded value (Rs mn)	5,757
52 Week high / low	Rs 605/152

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(12.8)	14.7	(49.8)
Relative (%)	(18.5)	(3.2)	(48.8)

SHAREHOLDING PATTERN (%)

	Jun-20	Sept-20
Promoters	61.0	40.0
FIs & Local MFs	12.3	20.1
FPIs	19.4	32.2
Public & Others	7.3	7.7

Pledged Shares

Source : BSE

Pledged shares as % of total shares

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