

Risk return turning favourable...

Bandhan Bank posted reasonable results with NII increasing 25.8% YoY and 6.2% QoQ to ₹ 1923 crore, helped by 22.6% YoY growth in net advances. NIM for the quarter contracted ~20 bps YoY to 8.0% as a result of faster decline in yields that fell 30 bps QoQ to 13.3% compared to cost of funds (CoF), which were down 20 bps QoQ to 6.2%. C/I ratio increased QoQ 15 bps to 29.4% on account of newer employee and branch addition along with increased business activity. PBT grew 6% YoY while net profit optically declines at 5.3% to ₹ 920 crore, led by implementation of new tax regime in last year.

Overall collection efficiency for the bank was at 92% in September 2020 in which collection efficiency for emerging enterprise business (micro banking) has improved to 89% for September 2020 and 91% in October 2020. Collection in housing segment has touched 98% level in September 2020.

Asset quality improved QoQ as GNPA, NNPA for Q2FY21 declined ~25 bps, ~12 bps to 1.18%, 0.36%, respectively. However, asset quality benefited from Supreme Court's order. On standstill asset classification basis, GNPA, NNPA would have increased ~11 bps, ~36 bps to 1.54%, 0.72%, respectively. In Q2FY21, the bank wrote off ₹ 109 crore of micro book. However, the bank has not quantified on the restructuring part but has indicated that there have been very less requests for the same.

The bank has made provisions worth ₹ 394 crore of which ₹ 300 crore pertains to Covid-19, taking outstanding provisions at ₹ 2096 crore, of which ₹ 2010 crore is prudent provisions over and above regulatory requirement while ₹ 85 crore are for loans under moratorium. Net profit posted a decline of 5.3% to ₹ 920 crore, led by lower tax rate in the same quarter last year. Tax rate for Q2FY21 at 25.4% vs. 16.3% YoY.

Advances growth including TLTRO book grew 19.4% YoY to ₹ 76614 crore. Growth in loans was driven by 27% YoY rise in EEB segment (micro finance) while mortgages growth was flat YoY. Deposits increased 34.4% YoY in which CASA deposits jumped 56.2% YoY. CASA ratio increased 11 bps QoQ to 38.2%. The bank plans to open 574 new banking outlets by March 2021 and focus on housing loan segment to expand beyond affordable and micro housing segment. As a result, ticket size could see some increase. The bank has started top-up loans for existing customers. Volume wise, these customers are 12.3% of total.

Valuation & Outlook

Prudent management, lower restructuring pipeline and improving collection efficiency bode well for a high margin/ RoA generating bank. Provision buffer at 2.8% of advances provides comfort. Focus on expanding in housing segment to reduce balance sheet risk while improving business parameters will aid earnings profile and return ratios to return to >3% RoA and >20% RoE. We maintain our target price to ₹ 400/share, valuing the stock at 3x FY22E ABV (~13x FY22E EPS). We upgrade from HOLD to **BUY** as stock price moderated from highs and valuations look reasonable now.



Particulars

Particulars	Values
Market Capitalisation	₹48448 crore
Networth	₹16667 crore
52 week H/L (₹)	619 / 152
Equity Capital	₹1610 crore
Face Value (₹)	10.0
DII Holding (%)	4.9
FII Holding (%)	32.2

Key Highlights

- Collection efficiency improved to 91% for September 2020 from 76% in June 2020
- Additional provisioning of ₹ 300 crore for Covid-19. Outstanding provision at 2.8% of advances
- Target price maintained at ₹ 400. Upgrade from HOLD to BUY

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Key Financial Summary

	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
NII	4496	6324	7823	10034	31%
PPP	3748	5447	6423	8318	30%
PAT	1951	3024	3263	4813	35%
ABV (₹)	92.0	91.9	105.1	132.8	
P/E	18.4	16.6	14.9	10.1	
P/ABV	3.3	3.3	2.9	2.3	
RoE (%)	19.0	22.1	20.1	24.6	
RoA (%)	3.9	3.9	3.3	4.1	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
NII	1,923	1,842	1,529	25.8	1,812	6.2	Healthy growth aided by 19.4% growth in advances (including TLTRO)
NIM (%)	8.0	8.1	8.2	-20 bps	8.2	-15 bps	Faster decline in yields than cost of funds leading to margin contraction
Other Income	382	396	360	6.0	387	-1.3	
Net Total Income	2,305	2,238	1,889	22.0	2,198	4.8	
Staff cost	415	397	333	24.7	389	6.5	
Other Operating Expense	263	225	250	5.2	225	16.8	
PPP	1,627.5	1,616.5	1,306.9	24.5	1,584.2	2.7	
Provision	394.5	733.8	145.5	171.1	849.1	-53.5	Decline due to relatively lower Covid provisions as compared to previous quarter
PBT	1,233.0	882.7	1,161.4	6.2	735.1	67.7	
Tax Outgo	313.0	229.5	189.6	65.1	185.3	68.9	
PAT	920.0	653.2	971.8	-5.3	549.8	67.3	Growth impacted due to lower tax rate in last year quarter
Key Metrics							
GNPA	874	1,047	1,064	-17.9	1,007	-13.2	Improved sequentially but on standstill asset classification basis GNPA and NNPA inched up slightly
NNPA	263	346	337	-22.1	336	-21.8	
Advances	76,620	73,380	63,160	21.3	74,330	3.1	Growth largely lead by EEB segment
Deposits	66,130	63,632	49,195	34.4	60,602	9.1	Driven by strong 56.2% YoY CASA growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E		
(₹Crore)	Old	New	% Change	Old	New	% Change
Net Interest Income	7,086	7,823	10.4	8,212	10,034	22.2
Pre Provision Profit	5,416	6,423	18.6	6,527	8,318	27.4
NIM (%)	7.7	8.2	54 bps	7.6	8.6	105 bps
PAT	2,855	3,263	14.3	4,065	4,813	18.4
ABV (₹)	98.5	105.1	6.7	120.6	132.8	10.1

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

			Current		Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	33.4	68.1	18.6	28.3	10.1	25.0
Deposit Growth (%)	27.6	32.0	19.4	27.1	19.4	27.1
CASA ratio (%)	40.8	36.8	37.6	37.1	37.6	37.1
NIM Calculated (%)	9.4	9.1	8.2	8.6	7.7	7.6
Cost to income ratio (%)	32.6	32.2	30.2	27.3	34.6	33.5
GNPA (₹crore)	819.5	992.8	1,132.8	1,419.0	1,742.8	2,093.3
NNPA (₹crore)	228.3	389.4	325.1	425.4	981.1	1,224.6
Slippage ratio (%)	763.0	800.0	700.0	572.3	1,500.0	701.1
Credit cost (%)	1.9	2.3	2.6	1.9	2.1	1.2

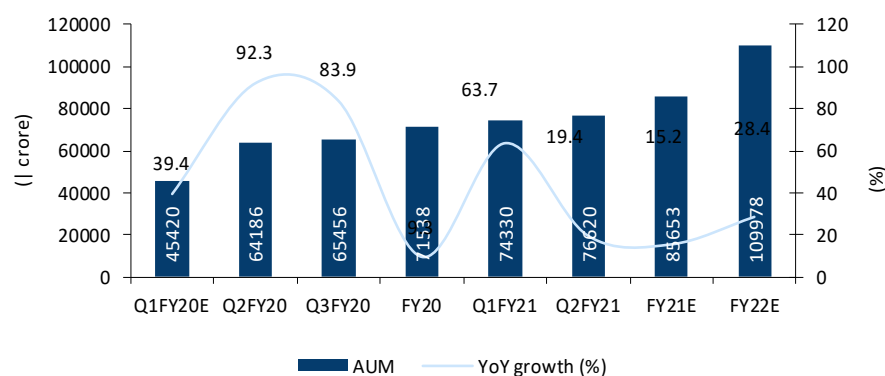
Source: Company, ICICI Direct Research

Key conference call highlights

- Overall collection efficiency for bank as on September 2020 was at 91%
- MFI collection efficiency was at 89% and has reached 91% by October 2020
- Total 95% of MFI customers have started paying
- We may see a big jump in collection efficiency if train services start regularly
- Total 76% of customers are paying full EMI as on September 2020 while this figure has reached above 80% for October 2020
- The bank intends to extend its housing loan offering beyond affordable housing
- Expect average ticket size in housing loans to increase from current levels of ₹ 9 lakh to 9.5 lakh
- By March 2021 the bank plans to open 574 banking outlets mostly in south, west and north India region. Of these, 100 would be full fledged branches while the rest would be micro
- The bank expects very less restructuring to happen as they have received very few requests for the same
- Total 63% of savings account customers are of less than ₹ 1 lakh
- Top-up loans form 12.8% of total customer base
- Emerging enterprise business contribute 7.6% to top up book
- Benefit of savings and TD rate reduction is expected to be seen in the next two quarters
- Average ticket size in top up loans is ~₹ 35000
- Amount worth ₹ 109.2 crore were written-off from micro loan book
- Post moratorium disbursement are reaching pre-Covid levels

Story in Charts

Exhibit 4: Credit growth to slowly pick up



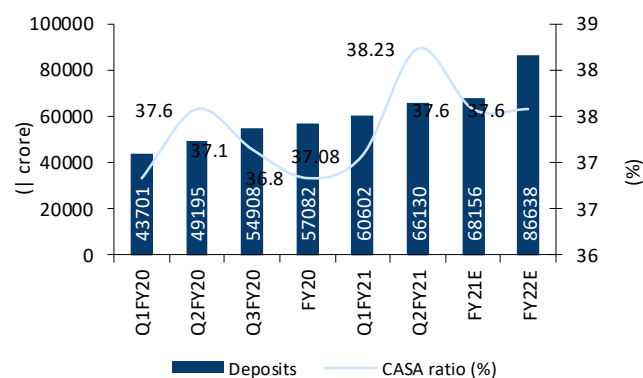
Source: Company, ICICI Direct Research

Exhibit 5: Loan mix – Micro and Non-micro loans

	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	FY21E	FY22E
Gross advances (AUM)	64186	65456	66630	74330	76620	85653	109978
Net advances (O/s Loan Book)	63160	65456	66630	74330	76620	79028	101365
Micro loans	39197	40100	46189	47478	49780	50988	66284
Non micro loans	23963	25356	20441	26852	26840	28040	35081

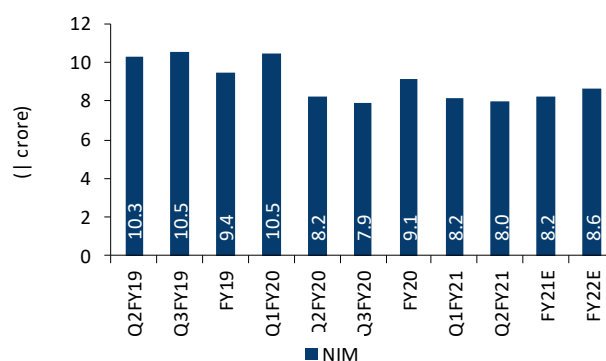
Source: Company, ICICI Direct Research

Exhibit 6: Continued focus on deposit accretion



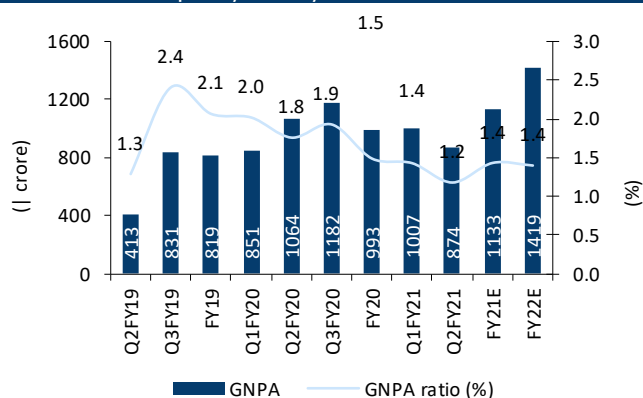
Source: Company, ICICI Direct Research

Exhibit 7: NIMs to improve gradually



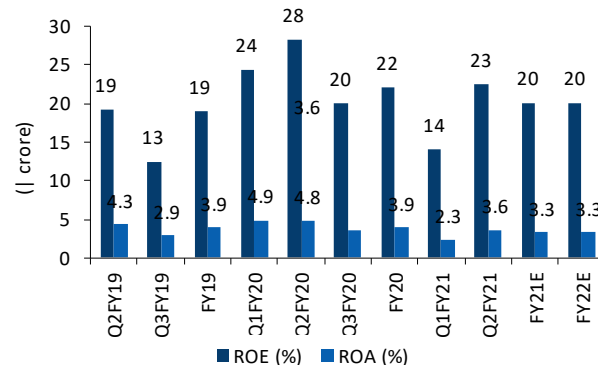
Source: Company, ICICI Direct Research

Exhibit 8: Asset quality steady



Source: Company, ICICI Direct Research

Exhibit 9: Healthy return ratios



Source: Company, ICICI Direct Research

Exhibit 10: Cost to income ratio

	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	FY21E	FY22E
Operating expenses	550.5	582.4	634.1	2537.2	614.1	677.3	2782.5	3118.2
YoY growth (%)	28.8	34.2	38.6	40.1	11.6	16.3	9.7	12.1
CI ratio (%)	36.3	35.0	32.6	32.2	30.2	27.3	30.2	27.3
Opex to AUM (%)	4.8	5.1	5.6	3.5	3.2	2.8	3.2	2.8
Employee cost to AUM (%)	2.3	2.1	2.3	1.9	1.8	1.5	1.8	1.5
Other opex to AUM (%)	2.0	1.9	1.8	1.6	1.5	1.4	1.5	1.4

Source: Company, ICICI Direct Research

Exhibit 11: Customer accretion improving

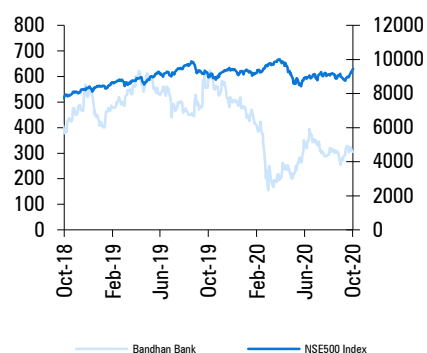
Lakh	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Borrowers	100	110	117.3	201	203.1	208.2
Micro borrowers	98.4	101	105	154	154.6	157.7
Non micro borrowers	1.6	9.0	12.3	47.0	48.5	50.5

Source: Company, ICICI Direct Research

Exhibit 12: Shareholding pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	82.3	61.0	61.0	61.0	40.0
FII	6.9	13.9	13.1	14.5	32.2
DII	8.8	8.2	8.8	8.0	4.9
Others	2.0	17.0	17.2	16.5	21.9

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	12789.6	15782.0
Interest Expended	2148.4	4561.6	4966.3	5747.5
Net Interest Income	4,495.7	6,323.9	7,823.3	10,034.5
growth (%)		40.7	23.7	28.3
Non Interest Income	1063.4	1549.2	1382.7	1402.1
Operating Income	5559.1	7873.1	9205.9	11436.5
Staff cost	1008.7	1367.0	1532.7	1616.7
Other Operating expense	802.2	1059.5	1249.8	1501.5
Operating profit	3748.1	5446.5	6423.4	8318.3
Provisions	735.1	1393.2	2043.5	1858.5
Exceptional items	0.0	0.0	0.0	0.0
PBT	3013.0	4053.4	4379.9	6459.9
Taxes	1061.6	1029.7	1116.9	1647.3
Net Profit	1951.5	3023.7	3263.0	4812.6
EPS (₹)	16.4	18.1	20.3	29.9

Source: Company, ICICI Direct Research

Exhibit 15: Key Ratios				
	FY19 FY20 FY21E FY22E			
(Year-end March)				
Valuation				
No. of Equity Shares (Crore)	119.3	161.0	161.0	161.0
EPS (₹)	16.4	18.1	20.3	29.9
BV (₹)	93.9	94.4	107.1	135.4
ABV (₹)	92.0	91.9	105.1	132.8
P/E	18.4	16.6	14.9	10.1
P/BV	3.2	3.2	2.8	2.2
P/ABV	3.3	3.3	2.9	2.3
Yields & Margins (%)				
Net Interest Margins	9.4	9.1	8.2	8.6
Yields on Loans	15.4	17.0	14.8	14.7
Cost of funds	5.5	5.8	5.4	5.4
Quality and Efficiency (%)				
Cost to income ratio	32.6	32.2	30.2	27.3
GMPA	2.1	1.5	1.4	1.4
NNPA	0.6	0.6	0.4	0.4
ROE	19.0	22.1	20.1	24.6
ROA	3.9	3.9	3.3	4.1

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	15637	20192
Networth	11202	15195	17248	21802
Deposits	43232	57082	68156	86638
Borrowings	521	16379	17706	17440
Other Liabilities & Provisions	1487	3062	3827	4784
Total	56442	91718	106936	130665
Applications of Funds				
Fixed Assets	331	369	443	531
Investments	10038	15352	18422	22106
Advances	39643	66630	79028	101365
Other Assets	6430	9367	9044	6663
Total	56442	91718	106936	130665

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
	FY19 FY20 FY21E FY22E			
(Year-end March)				
Total assets	27.4	62.5	16.6	22.2
Advances	33.4	68.1	18.6	28.3
Deposit	27.6	32.0	19.4	27.1
Total Income	97.5	41.6	16.9	24.2
Net interest income	87.0	40.7	23.7	28.3
Operating expenses	16.5	2.1	-4.0	-1.0
Operating profit	219.7	45.3	17.9	29.5
Net profit	296.9	54.9	7.9	47.5
Net worth	19.4	35.7	13.5	26.4
EPS	61.1	10.6	12.0	47.5

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)	43	48	Hold	19,429.0	1.2	4.9	7.3	36.4	8.8	5.9	0.3	0.4	0.4	0.1	0.2	0.3	0.9	3.1	4.7
State Bank of India (STABAN)	190	215	Hold	170,013	16.2	15.3	26.1	11.7	12.4	7.3	0.9	0.9	0.8	0.4	0.3	0.5	6.8	5.7	9.1
Indian Bank (INDIBA)	59	70	Hold	6,697	-27.2	8.5	13.0	-2.2	6.9	4.5	0.4	0.4	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	510	600	Buy	154,492	5.8	20.8	34.0	88.4	24.5	15.0	1.9	1.5	1.4	0.2	0.6	0.9	2.1	6.4	8.8
City Union Bank (CITUNI)	153	130	Hold	11,330	6.5	7.5	9.7	23.7	20.3	15.7	2.5	2.3	2.0	1.0	1.1	1.3	9.4	10.2	11.8
DCB Bank (DCB)	78	90	Hold	2,413	10.9	9.8	13.5	7.2	8.0	5.8	0.8	0.8	0.7	0.9	0.8	1.0	11.3	9.1	11.2
Federal Bank (FEDBAN)	52	60	Buy	10,406	7.7	7.0	9.0	6.7	7.4	5.8	0.8	0.8	0.7	0.9	0.7	0.8	11.1	9.3	10.9
HDFC Bank (HDFBAN)	1,205	1,450	Buy	663,388	47.9	52.3	63.3	25.2	23.0	19.0	3.9	3.5	3.2	1.9	1.8	1.9	16.4	15.7	17.0
Indusind Bank (INDBA)	586	625	Hold	44,298	63.7	33.7	52.2	9.2	17.4	11.2	1.2	1.2	1.1	1.5	0.8	1.1	13.5	6.8	9.4
Jammu & Kashmir Bank (JAMKAS)	15	18	Hold	1,053	-11.3	2.5	4.6	-1.3	NA	NA	0.2	0.2	0.2	-0.6	0.2	0.3	-8.9	2.5	4.5
Kotak Mahindra Bank (KOTMAH)	1,552	1,634	Buy	307,241	31.1	26.0	32.1	49.9	59.6	48.3	6.2	5.1	4.7	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	301	400	Buy	48,448	18.1	20.3	29.9	16.6	14.9	10.1	3.3	2.9	2.3	3.9	3.3	4.1	22.1	20.1	24.6
IDFC First (IDFBAN)	31	36	Buy	17,385	-6.0	0.8	1.5	NA	39.5	20.5	1.0	1.0	1.0	-1.9	0.3	0.5	-18.7	2.7	4.7

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

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