

## Uncertain times warrant caution in near term

Bandhan Bank has posted decent results on the operating front however asset quality performance and outlook has raised some concerns that calls for cautious approach. With key states like Assam witnessing some stress due to Micro Finance bill the behaviour of customer profile in this region would be monitorable in coming months.

Collection efficiency in the Emerging enterprise i.e. SME segment has declined from 94% in end of December to 92% by Mid-January, however the management has indicated that it would improve by March 2021. State of Assam witnessed steep decline in collection, down by 10% to 78% from December to Mid-Jan 2021.

Head-line asset quality improved sequentially but which was a result of standstill asset classification norms, **on a proforma basis the GNPA ratio showed a steep rise from 1.54% to 7.12% QoQ. ~95% of proforma slippages came in from the EEB segment.** The proforma NPA includes part payments if not for that the NPA on that basis would have been ~3-3.5% which still is a meaningful rise. There has been no restructuring in loans and no write-offs as well

During the quarter the bank has made additional provisions to the tune of ₹1000 crore during the quarter for Covid-19 related impact, with this **the total additional provision held by the bank stands at ₹3120 crores (~4% of loans).** Sighting increased stress and thus provisioning requirement the bank has increased its credit cost guidance from 3.5% earlier to 5%.

On the flip side, the operating performance was healthy as NII grew 35% YoY to ₹2072 crore, this was on account of 30 bps rise in the NIMs sequentially and 40 bps YoY and healthy loan growth. Other income jumped by 54% YoY to ₹553 crore. Cost-to-income declined by 230 bps QoQ to 27.1%. Despite healthy top line performance Net profit for the quarter declined by 13% YoY to 632 crore as a result of steep ~2.6x YoY rise in provisions.

Loan growth for the quarter was healthy at 22.6% YoY to ₹80260 crore and was better than previous quarter growth, this was mainly driven by 32% YoY uptick in the micro loans. The company added 1.66 million customers during the quarter. Deposit accretion during the quarter was also strong at 29.6% YoY to ₹71183 crore, this was helped by 62% YoY rise in CASA deposits. As a result, CASA ratio increased from 34.3% to 42.9% YoY.

## Valuation & Outlook

We believe overall long term prospects and structural story remains intact for Bandhan Bank considering immense opportunities in the MFI segment, however near term uncertainties are likely to weigh in and could remain hangover on the stock for some time. Asset quality performance and developments in key states like Assam and West Bengal would call for a cautious approach for next quarter. We thus downgrade our rating from BUY to HOLD with a revised PT of ₹370 (from ₹460 earlier) by valuing the bank at 2.7x FY23E ABV



### Particulars

Particulars	Values
Market Capitalisation	₹ 54922 crore
Networth	₹ 17300 crore
52 week H/L (₹)	487 / 152
Equity Capital	₹ 1610 crore
Face Value (₹)	10.0
DII Holding (%)	4.4
FII Holding (%)	35.2

### Key Highlights

- Proforma GNPA spikes to 7.12% from 1.54% QoQ
- Provisions rise sequentially hurting profits
- Downgrade to HOLD with revised TP of 370

### Risk to our call

- Decline in collections in Assam region could increase stress
- Impact of MFI bill if contained we could see sharp recovery in overall performance

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### Key Financial Summary

	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
NII	4496	6324	7730	9182	11565	22%
PPP	3748	5447	6720	7775	9876	22%
PAT	1951	3024	2371	3983	5058	19%
ABV (₹)	92.0	91.9	86.6	109.5	139.1	
P/E	20.8	18.8	23.2	13.8	10.9	
P/ABV	3.7	3.7	3.9	3.1	2.5	
RoE (%)	19.0	22.1	15.0	21.9	22.5	
RoA (%)	3.9	3.9	2.3	3.2	3.3	

**Exhibit 1: Variance Analysis**

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
NII	2,072	1,984	1,540	34.5	1,923	7.7	Aided by Sequential rise in margins and decent loan growth
NIM (%)	8.3	8.1	7.9	40 bps	8.0	30 bps	Surge in CASA helps keeping funding cost low
Other Income	553	401	358	54.7	382	44.9	
Net Total Income	2,625	2,385	1,898	38.3	2,305	13.9	
Staff cost	435	440	340	27.7	415	4.8	Increase due to rising cost with business activity
Other Operating Expenses	276	307	294	-5.9	263	5.2	
PPP	1,914.1	1,637.9	1,263.9	51.4	1,627.5	17.6	
Provision	1,068.7	625.8	294.9	262.4	394.5	170.9	High proforma NPAs called for increased provisions
PBT	845.4	1,012.1	969.0	-12.8	1,233.0	-31.4	
Tax Outgo	212.8	257.1	238.0	-10.6	313.0	-32.0	
PAT	632.6	755.1	731.0	-13.5	920.0	-31.2	Impacted by higher credit costs
<b>Key Metrics</b>							
GNPA	874	856	1,182	-26.1	874	0.0	Headline NPA steady but on proforma basis stress has increased
NNPA	263	257	491	-46.6	263	0.0	
Advances	80,260	77,261	65,456	22.6	76,620	4.8	Loan growth healthy lead by micro loans
Deposits	71,183	71,420	54,908	29.6	66,130	7.6	CASA deposits fuel overall deposit growth

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

₹ Crore	FY21E			FY22E			FY23E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	7,086	7,730	9.1	8,212	9,182	11.8	11,565
Pre Provision Profit	5,416	6,720	24.1	6,527	7,775	19.1	9,876
NIM (%)	7.7	8.2	44 bps	7.6	7.9	36 bps	8.0
PAT	2,855	2,371	-16.9	4,065	3,983	-2.0	5,058
ABV (₹)	98.5	86.6	-12.1	120.6	109.5	-9.2	139.1

Source: Company, ICICI Direct Research

**Exhibit 3: Assumption**

	Current					Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Credit growth (%)	33.4	68.1	18.6	26.6	27.1	10.1	25.0
Deposit Growth (%)	27.6	32.0	28.9	27.1	27.2	19.4	27.1
CASA ratio (%)	40.8	36.8	43.7	43.3	42.9	37.6	37.1
NIM Calculated (%)	9.4	9.1	8.2	7.9	8.0	7.7	7.6
Cost to income ratio (%)	32.6	32.2	29.3	29.5	28.2	34.6	33.5
GNPA (₹ crore)	819.6	992.8	3,367.8	3,653.9	3,996.5	1,742.8	2,093.3
NNPA (₹ crore)	228.3	389.4	2,410.7	2,454.0	2,488.0	981.1	1,224.6
Slippage ratio (%)	763.9	1,040.5	2,500.0	572.3	685.2	1,500.0	701.1
Credit cost (%)	1.9	2.3	4.5	2.5	2.5	2.1	1.2

Source: Company, ICICI Direct Research

## Key conference call highlights

### Asset Quality

- Collection Efficiency in EBB segment has been steady at 94% from September to December 2020 but dropped to 92% by mid-January 2021.
- MFI collection efficiency fell substantially from 88% in December 2020 to 78% by Mid-January 2021.
- Credit cost Guidance has been increased from 3.5% to 5% considering developing situation in Assam
- There is no restructuring done till now.
- Collection in West Bengal and other states to improve by March 2021
- Post decline in January 2021, the collection efficiency has stabilized now in Assam, impact of farm and MFi waiver yet to be seen
- 76% of the customers are 0 DPD, 10% are 30-60 DPD and 5% 60-90 DPD
- 80% of the customers are paying full payment and 13% making part payments
- 7.12% proforma NPA is considering part payments if not for that the GNPA would have dropped to ~3.5%
- 95% of proforma slippages are from EEB segments

### Business

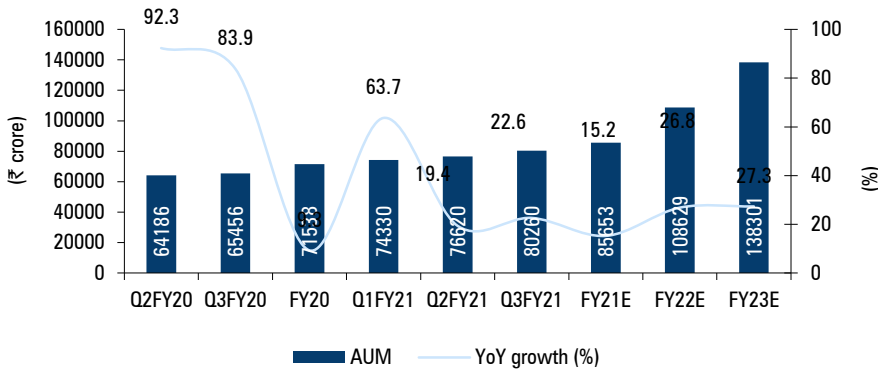
- Barring Assam loan growth in other states to remain healthy
- Disbursement in Assam would be made very cautiously
- 67% of Savings account balances are below ₹1 lakh
- Top up loan disbursement during Q3FY21 was ₹910 versus ₹ 2370 QoQ
- Growth is AUM not reflecting disbursement growth due to pre-payments
- Share of Assam MFI business has come down to 14% from 17% in last 2-3 years

### Others

- Interest reversal for the quarter stood at ₹350 crore
- No write-off have been done in the quarter

## Story in Charts

Exhibit 4: Credit growth to slowly pick up



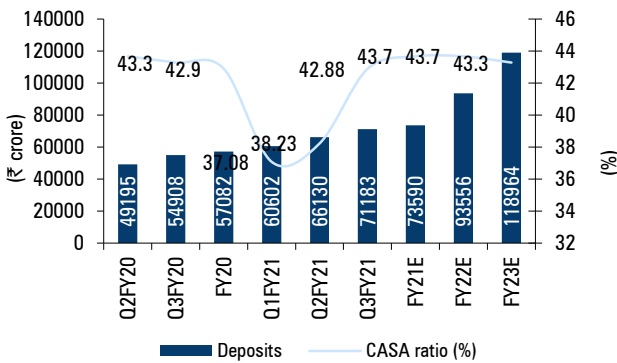
Source: Company, ICICI Direct Research

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

	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21	FY21E	FY22E	FY23E
Gross advances (AUM)	64186	65456	66630	74330	76620	80260	85653	108629	138301
Net advances (O/s Loan Book)	63160	65456	66630	74330	76620	80260	79028	100016	127104
Micro loans	39197	40100	46189	47478	49780	53050	50988	66284	86169
Non micro loans	23963	25356	20441	26852	26840	27210	28040	33732	40934

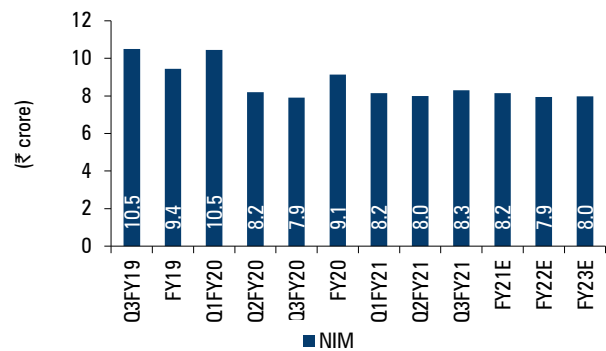
Source: Company, ICICI Direct Research

Exhibit 6: Continued focus on deposit accretion



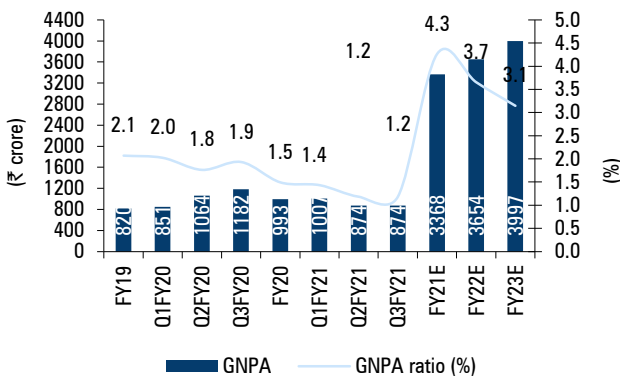
Source: Company, ICICI Direct Research

Exhibit 7: NIMs to be range bound



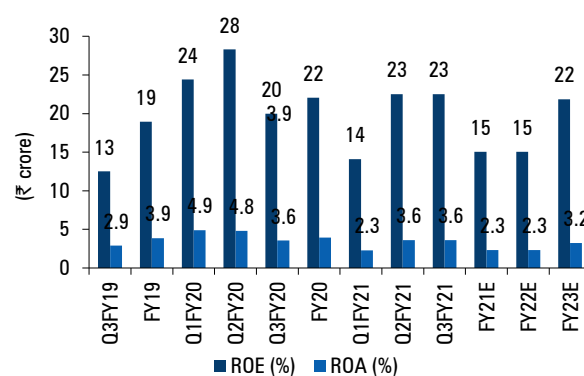
Source: Company, ICICI Direct Research

Exhibit 8: Asset quality profile



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios to improve



Source: Company, ICICI Direct Research

**Exhibit 10: Cost to income ratio**

	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21	FY21E	FY22E	FY23E
Operating expenses	634.1	2537.2	614.1	677.3	710.9	2782.5	3245.8	3873.8
YoY growth (%)	38.6	40.1	11.6	16.3	12.1	9.7	16.6	19.3
CI ratio (%)	32.6	32.2	29.3	29.5	28.2	29.3	29.5	28.2
Opex to AUM (%)	5.6	3.5	3.2	3.0	2.8	3.2	3.0	2.8
Employee cost to AUM (%)	2.3	1.9	1.8	1.6	1.5	1.8	1.6	1.5
Other opex to AUM (%)	1.8	1.6	1.5	1.4	1.3	1.5	1.4	1.3

Source: Company, ICICI Direct Research

**Exhibit 11: Customer accretion improving**

Lakh	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Borrowers	100	110	117.3	201	203.1	208.2	224.8
Micro borrowers	98.4	101	105	154	154.6	157.7	171.3
Non micro borrowers	1.6	9.0	12.3	47.0	48.5	50.5	53.5

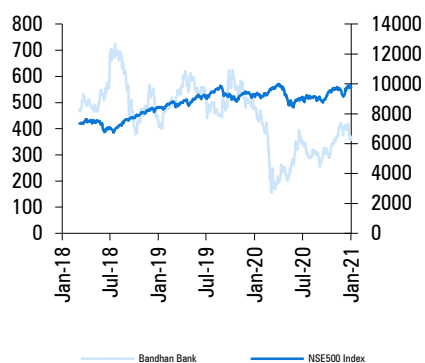
Source: Company, ICICI Direct Research

**Exhibit 12: Shareholding pattern**

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	61.0	61.0	61.0	40.0	40.0
FII	13.9	13.1	14.5	32.2	35.2
DII	8.2	8.8	8.0	4.9	4.4
Others	17.0	17.2	16.5	21.9	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	FY23E
Interest Earned	6644.1	10885.5	12789.6	15202.6	18789.2
Interest Expended	2148.4	4561.6	5059.4	6020.7	7224.3
Net Interest Income	4,495.7	6,323.9	7,730.2	9,181.9	11,564.9
growth (%)		40.7	22.2	18.8	26.0
Non Interest Income	1063.4	1549.2	1772.2	1839.0	2184.6
Operating Income	5559.1	7873.1	9502.4	11020.9	13749.5
Staff cost	1008.7	1367.0	1532.7	1719.9	2048.3
Other Operating expense	802.2	1059.5	1249.8	1525.9	1825.4
Operating profit	3748.1	5446.5	6719.9	7775.1	9875.7
Provisions	735.1	1393.2	3536.8	2428.5	3086.6
Exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	3013.0	4053.4	3183.1	5346.6	6789.1
Taxes	1061.6	1029.7	811.7	1363.4	1731.2
Net Profit	1951.5	3023.7	2371.4	3983.2	5057.9
EPS (₹)	16.4	18.1	14.7	24.7	31.4

Source: Company, ICICI Direct Research

**Exhibit 15: Key Ratios**

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
<b>Valuation</b>					
No. of Equity Shares (Crore)	119.3	161.0	161.0	161.0	161.0
EPS (₹)	16.4	18.1	14.7	24.7	31.4
BV (₹)	93.9	94.4	101.6	124.7	154.5
ABV (₹)	92.0	91.9	86.6	109.5	139.1
P/E	20.8	18.8	23.2	13.8	10.9
P/BV	3.6	3.6	3.4	2.7	2.2
P/ABV	3.7	3.7	3.9	3.1	2.5
<b>Yields &amp; Margins (%)</b>					
Net Interest Margins	9.4	9.1	8.2	7.9	8.0
Yields on Loans	15.4	17.0	14.8	14.3	13.8
Cost of funds	5.5	5.8	5.3	5.3	5.3
<b>Quality and Efficiency (%)</b>					
Cost to income ratio	32.6	32.2	29.3	29.5	28.2
GNPA	2.1	1.5	4.3	3.7	3.1
NNPA	0.6	0.6	3.1	2.5	2.0
ROE	19.0	22.1	15.0	21.9	22.5
ROA	3.9	3.9	2.3	3.2	3.3

Source: Company, ICICI Direct Research

**Exhibit 16: Balance sheet** ₹ crore

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E
<b>Sources of Funds</b>					
Capital	1193	1610	1610	1610	1610
Reserves and Surplus	10009	13585	14746	18471	23271
Networth	11202	15195	16356	20081	24882
Deposits	43232	57082	73590	93556	118964
Borrowings	521	16379	17706	17440	17179
Other Liabilities & Provisions	1487	3062	3827	4784	5980
Total	56442	91718	111479	135861	167005
<b>Applications of Funds</b>					
Fixed Assets	331	369	443	531	637
Investments	10038	15352	18422	22106	26528
Advances	39643	66630	79028	100016	127104
Other Assets	6430	9367	13587	13208	12736
Total	56442	91718	111479	135861	167005

Source: Company, ICICI Direct Research

**Exhibit 17: Key ratios** (%)

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Total assets	27.4	62.5	21.5	21.9	22.9
Advances	33.4	68.1	18.6	26.6	27.1
Deposit	27.6	32.0	28.9	27.1	27.2
Total Income	97.5	41.6	20.7	16.0	24.8
Net interest income	87.0	40.7	22.2	18.8	26.0
Operating expenses	16.5	2.1	-4.0	-0.2	2.8
Operating profit	219.7	45.3	23.4	15.7	27.0
Net profit	296.9	54.9	-21.6	68.0	27.0
Net worth	19.4	35.7	7.6	22.8	23.9
EPS	61.1	10.6	(18.6)	68.0	27.0

Source: Company, ICICI Direct Research

**Exhibit 18: ICICI Direct coverage universe (BFSI)**

Sector/Company	CMP		M Cap (₹ Bn)	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
BoB (BANBAR)	76	70	Hold	307	1.2	4.3	7.1	64.3	17.7	10.7	0.7	0.6	0.6	0.1	0.2	0.3	0.9	2.7	4.4
SBI (STABAN)	298	290	Hold	2571	16.3	19.1	28.9	18.3	16	10.3	1.5	1.4	1.2	0.4	0.4	0.6	6.4	7.1	9.9
Indian Bank (INDIBA)	90	88	Hold	99	22.6	33.7	33.2	4.0	2.7	2.7	0.4	0.3	0.3	0.4	0.5	0.4	5.5	7.8	7.3
Axis Bank (AXIBAN)	680	710	Buy	2058	5.8	10.6	25.6	118	64.0	26.6	2.5	2.5	2.4	0.2	0.3	0.7	2.1	3.5	8.0
City Union (CITUNI)	174	200	Buy	136	8.4	10.0	10.0	20.7	17.4	17.4	3.0	2.6	2.2	1.0	1.2	1.3	9.4	11.2	11.9
DCB Bank (DCB)	118	135	Buy	38	10.9	10.1	14.0	10.8	11.7	8.4	1.3	1.2	1.0	0.9	0.8	1.1	11.3	9.6	11.9
Federal Bank (FEDBAN)	78	90	Buy	154	6.3	7.7	7.9	12.4	10.1	9.9	1.3	1.2	1.1	0.8	0.9	0.8	9.8	11.1	10.4
HDFC Bank (HDFBAN)	1,466	1,700	Buy	8076	47.9	55.9	65.6	30.6	26.2	22.3	4.8	4.2	3.6	1.9	1.9	1.9	16.4	16.7	17.1
IndusInd Bank (INDBA)	940	1,050	Hold	728	63.7	32.5	50.9	14.8	28.9	18.5	2.0	1.9	1.8	1.5	0.8	1.1	14.4	6.6	9.3
J&K (JAMKAS)	29	25	Hold	19	-16.0	7.5	10.4	-1.8	3.9	2.8	0.5	0.4	0.3	-1.1	0.5	0.6	-17.5	8.1	10.6
Kotak Bank (KOTMAH)	1,869	1,950	Hold	3887	20.4	21.1	26.4	91.5	88.6	70.7	11.5	9.2	8.2	1.8	1.7	1.8	12.9	11.2	11.8
Bandhan (BANBAN)	341	370	Hold	549	18.1	14.7	24.7	18.8	23.2	13.8	3.7	3.9	3.1	3.9	2.3	3.2	22.1	15.0	21.9
IDFC First (IDFBAN)	50	45	Buy	254	-6.0	0.8	1.5	-8.4	63.7	33.0	1.7	1.7	1.6	-1.9	0.3	0.5	-18.7	2.7	4.7

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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