

Bandhan Bank

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Q4FY21 update: Healthy business growth, but asset quality remains key monitorable given elections in Assam/WB

CMP	Target Price
Rs 328 as of (April 12, 2021)	Rs 500 (■) 12 months
Rating	Upside
BUY (■)	52.6 %

- Bandhan Bank has reported better-than-expected AUM growth of 21% yoy/8% qoq to Rs802bn (provisional) on a high base, primarily driven by better disbursement trends in MFI, small business loans and mortgages, in our view. Q4 is seasonally a strong quarter for lenders with a sizeable MFI portfolio. Creditaccess (18% yoy/14% qoq), Ujjivan (7% yoy/11% qoq) and Satin Creditcare (1% yoy/5% qoq) too have reported healthy growth, as per their business updates.
- Deposits growth remained strong at 37% yoy/10% qoq to Rs780bn (a phenomenon seen across banks), given the bank's strong liability franchise. CASA ratio improved by 50bps qoq/660bps yoy to 43.4%. Deposits are now 90% of AUM vs. 79% in Q4FY20, leading to lower CoF and thus being structurally long-term positive for NIMs.
- Amid concerns around the asset quality due to waiver announcements in Assam and elections in Assam/WB, the bank has reported slightly better overall collections at ~96% (EEB-Microfinance at 95% vs. 90% in Jan'20 – after slip down in Assam – and 92% in Dec'20 in value terms). We seek more clarity on collection efficiency specifically in Assam/WB. Collection efficiency in the non-EEB portfolio was robust at 98%.
- The bank has strategically created a strong provisioning buffer to absorb any asset quality shocks. The cumulative contingent buffer stands at Rs27.4bn, 3.1% of AUM. We expect the bank to largely absorb the Assam related asset quality pain upfront in Q4 through the provisioning buffer (Collection efficiency in Assam in Jan'21 was ~89%). With the second wave of Covid-19 surging, we expect the bank to make some additional provisions, which may result in moderate profitability in Q4.
- We like Bandhan's strategy to diversify the asset portfolio away from MFI (product as well as geography-wise) in the wake of rising adverse asset quality events while creating strong provisioning/capital buffers. After the recent correction, the stock is trading at reasonable valuations of 2x FY23 ABV. Currently, we have a Buy rating on the stock.

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

Exhibit 1: Gross loan/AUM reported across peers as per Business Update-4QFY21

Gross Loans/AUM (Rsmn)	Q4FY21	Q4FY20	YoY(%)	Q3FY21	QoQ(%)
Bandhan	870,540	718,460	21	802,550	8
Credit Access	116,370	98,960	18	102,030	14
Satin Credit	72,740	72,200	1	69,070	5
Equitas	178,960	153,670	16	173,730	3
Ujjivan	151,400	141,530	7	136,380	11

Source: Company, Emkay Research

Exhibit 2: Collection Efficiency reported as per Business Update-4QFY21

Collection Efficiency (%)	Dec-20	Jan-20	Mar-21
Bandhan (excl Arrear)			96
EEB	92	90	95
Non EEB	98		98
Credit Access (excl Arrear)	91	93	94
Satin Credit (Incl Arrear)	99	96	105

Source: Company, Emkay Research

Change in Estimates

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

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	15.6	25.4
Consensus	26.7	34.1
Mean Consensus TP (12M)	Rs 411	

Stock Details

Bloomberg Code	BANDHAN IN
Face Value (Rs)	10
Shares outstanding (mn)	1,611
52 Week H/L	431 / 174
M Cap (Rs bn/USD bn)	528 / 7.03
Daily Avg Volume (nos.)	11,604,250
Daily Avg Turnover (US\$ mn)	53.4

Shareholding Pattern Dec '20

Promoters	40.0%
FIIIs	35.2%
DIIIs	4.4%
Public and Others	20.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	(16)	-	70
Rel. to Nifty	(1)	(15)	(17)	8

Relative price chart



Source: Bloomberg

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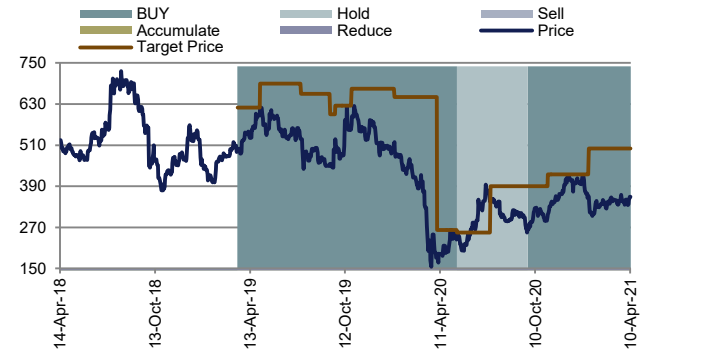
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RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
22-Jan-21	314	500	12m	Buy	Anand Dama
20-Jan-21	360	500	12m	Buy	Anand Dama
6-Jan-21	396	425	12m	Buy	Anand Dama
3-Nov-20	308	425	12m	Buy	Anand Dama
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	621	690	12m	Buy	Anand Dama
20-Mar-19	495	620	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

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

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