

PAT boosted by negligible credit cost; Growth improved

CMP: INR 317

Rating: Accumulate

Target Price: INR 363

Stock Info

BSE	541153
NSE	BANDHANBNK
Bloomberg	BANDHAN IN
Reuters	BANH.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	1,610
Mkt Cap (INR Cr)	51,126
52w H/L (INR)	354 / 230
Avg Yearly Vol (in 000')	7,856

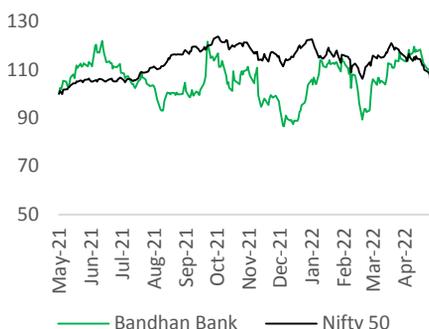
Shareholding Pattern %

(As on March, 2022)

Promoters	39.9
FII	34.7
DII	4.2
Public & Others	21.2

Stock Performance (%)	1m	3m	12m
Bandhan Bank	-2.7	-0.1	10.2
Nifty 50	-9.7	-8.9	7.5

Bandhan Bank Vs Nifty 50



Bandhan Bank has reported strong performance during Q4FY22 with 18.5x YoY increase in net profit at INR 1,902 cr was significantly higher than our estimate of INR 1,168 cr, driven by healthy growth and negligible provisions. Operating profit for the quarter grew strongly by 46% YoY/29% QoQ to INR 2,521 cr, driven by higher NII and other income growth. NII for the quarter increased by 45% YoY/20% QoQ to INR 2,540 cr, led by strong advances growth of 14% YoY/13% QoQ and 90bps sequential increase in margins at 8.7%. Deposits growth was robust at 14% QoQ led by non-retail term deposits. Asset quality of the bank saw sharp improvement as GNPA declined sharply from 10.8% to 6.5% QoQ and NNPA declined from 3% to 1.7% on QoQ basis. Collection efficiency (including NPA accounts) improved from 91% in Q3FY22 to 94% in Q4FY22.

Credit growth improved sequentially across the segment

Gross Advances for the quarter grew by 14% YoY/13% QoQ (vs. 7.8% QoQ in Q3FY22) to INR 99,340 cr. EEB portfolio of the bank increased by 7% YoY/8% QoQ to INR 62,400 cr, driven by 8.4% QoQ growth in EEB disbursements. Share of Individual EEB loans stands at 25% of EEB portfolio vs 11% Mar '21. Mortgage portfolio of the bank witnessed good traction with growth of 17% YoY/12.5% QoQ driven by 95% QoQ increase in disbursements. In line with management's target, Bandhan Bank continues to reduce the share of group EEB loans (~47% in Mar'22 vs. 59% in Mar'21). Bank wants to bring down the share of EEB group loans to 30% by FY25E. Deposit growth improved by 23.5% YoY/14% QoQ led by strong growth in term deposits. This has led to lower CASA ratio of 41.6% vs. 45.6% in the previous quarter.

Asset quality improved with improvement in DPD across the bucket

Gross slippages of the bank declined by 60% QoQ to INR 1,370 cr, of which INR 1,180 cr was from EEB pool. Bank has reported higher recovery and upgrades of INR 2,400 cr (+55% QoQ). This along with higher write-offs of INR 2,039 cr led to sharp reduction in GNPA ratio at 6.5% (-436 bps QoQ). EEB portfolio GNPA reduced from 13.7% to 7.8% sequentially. EEB pool's, 1-90 DPD loan movement declined from 11.1% to 6.5% QoQ. Overall, EEB stress pool declined from INR 170 bn to INR 119 bn QoQ. Collection witnessed a sign of strong recovery as collection of EEB (Emerging Entrepreneurs Business) portfolio (excluding NPA) for the quarter improved to 97% from 96% in Dec'21. With gradual rise in activity levels, CE improvement was broad-based: for Assam, it improved from 96% to 97% QoQ, West Bengal (WB) from 91% to 93%, and rest of India flat at 97%. Moreover, 93% of customers are paying full dues, 3.3% are paying partially and 3.7% are not paying at all.

Valuation & View: During Q4FY22, Bandhan Bank has reported strong turnaround in microfinance portfolio with strong growth and sharp improvement in asset quality. We increase our estimate by 14%/20% for FY23/24E to factor in higher loan growth and lower credit cost. We believe, microfinance portfolio stress to normalize further and to report good growth going forward across the portfolio. We revise our rating on the stock to Accumulate from Hold with a revised TP of INR 363 (earlier INR 323), based on 2.5x FY24E ABV.

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Q4FY22 result Snapshot

Particulars (Rs in Cr)	Q4FY22	Q4FY21	YoY	Q3FY22	QoQ
Interest Earned	3,872	3,001	29.0%	3,409	13.6%
Interest Expended	1,332	1,244	7.1%	1,284	3.7%
Net Interest Income	2,540	1,757	44.6%	2,125	19.5%
Other Income	964	787	22.5%	712	35.4%
Total income	3,504	2,544	37.7%	2,837	23.5%
Operating Expenses	983	815	20.6%	887	10.8%
<i>Cost-income-ratio</i>	28.0%	32.0%	-398bps	31.3%	-321bps
Operating Profits	2,521	1,729	45.8%	1,950	29.3%
Provisions & Contingencies	5	1,594	-99.7%	806	-99.4%
PBT	2,517	135	1761.8%	1,144	119.9%
Provisions for Tax	614	32	1811.4%	285	115.2%
<i>Effective Tax Rate (%)</i>	24%	24%		25%	
PAT (reported)	1,902	103	1746.4%	859	121.5%
GNPA	6,380	5,758	11%	9,442	-32%
NNPA	1,564	2,861	-45%	2,413	-35%
GNPA	6.5%	1.1%	535bps	10.8%	-436bps
NNPA (%)	1.7%	0.3%	140bps	3.0%	-138bps
Advances (On-Book + Off Book)	99,340	87,040	14.1%	87,998	12.9%
Deposits	96,330	77,970	23.5%	84,500	14.0%
NIM (%)	8.70	8.13	57bps	7.80	90bps
Total CAR (%)	20.1%	26.6%	-648bps	20.0%	10bps
Tier 1 (%)	18.9%	23.7%	-475bps	19.0%	-10bps
Tier 2 (%)	1.2%	2.9%	-173bps	1.0%	20bps

Concall Highlights:

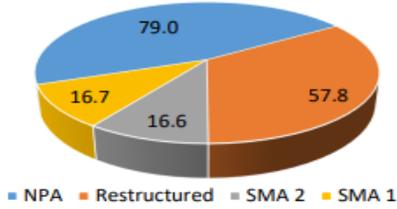
- Management expects loan growth to be in the range of ~25% in FY23E, with faster growth in housing and commercial banking segments.
- As per management's strategy, share of group MFI loans to reduce from 47% in FY22 to 30% by FY25, with share of retail loans (including mortgage) rising in total loans.
- Portfolio diversification target by FY25E:** 30% - EEB (group loans), 30% - Commercial banking, 30% - Housing book and 10% in retail assets. **Portfolio share as on FY22:** 47% - EEB group loan, 27% - Commercial banking, 24% - Housing and 2% in retail assets.
- Q4FY22 has seen higher growth in bulk deposits but retail deposits should see healthy growth in FY23.
- In mortgage portfolio, housing loan segment average ticket size on outstanding loans stood at 0.82 mn while on incremental basis ticket size is around INR 1.35 mn.
- Bandhan Bank's EEB overall collection efficiency (excl. NPA) stood at 97% vs. 88%/ 96% in Q2FY22/Q3FY22.
- Nearly ~50% of restructured book has come out of moratorium as on 1st Apr'22 and has started paying as customer cashflows are improving. Balance restructured book will come out of moratorium by 1st July. Repayment trends need to be monitored in this portfolio.
- EEB stress pool has reduced from INR 170 bn in Dec '21 to INR 119 bn as of Mar'22 driven by faster recovery. Management has guided for another INR 30 bn of recovery from these accounts by Sep'22.
- On a steady state basis, the management expects credit cost to be around 200-225 bps.

Exhibit 1: Microfinance portfolio stress pool coverage analysis

EEB stress pool coverage analysis



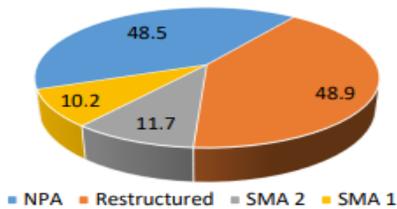
EEB Stress Pool - ₹ 170 Bn.



Dec'21

Coverage	Amount
Provision	91.7
Estimated recovery till 30 th June 2022 #	50
CGFMU recovery	25
Assam Relief Scheme*	Xx
Total	166.7

EEB Stress Pool - ₹ 119 Bn.



Mar'22

Coverage	Amount
Provision	69.7
Estimated recovery till 30 th Sep 2022 #	30
CGFMU recovery	25
Assam Relief Scheme*	Xx
Total	124.7

Exhibit 2: DPD Movement

EEB DPD movement

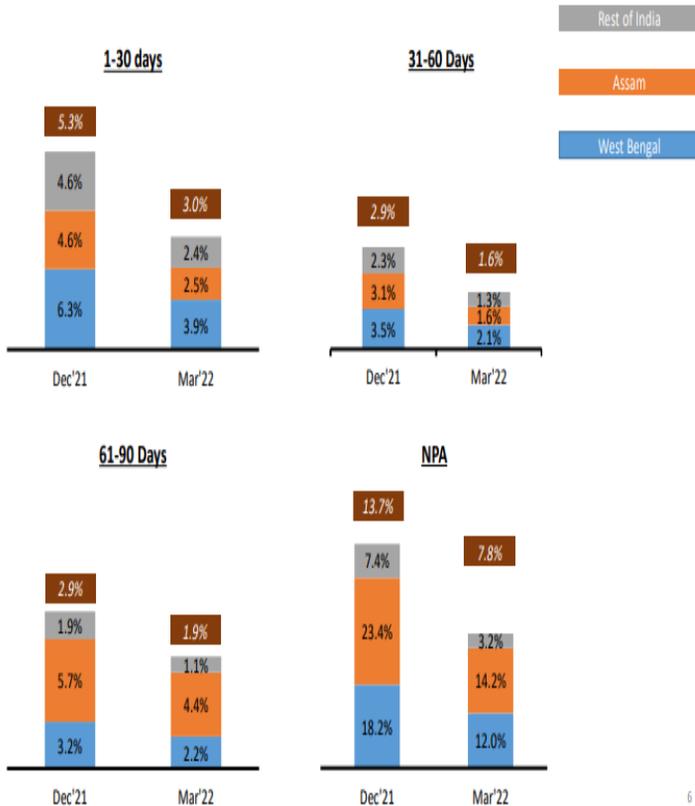
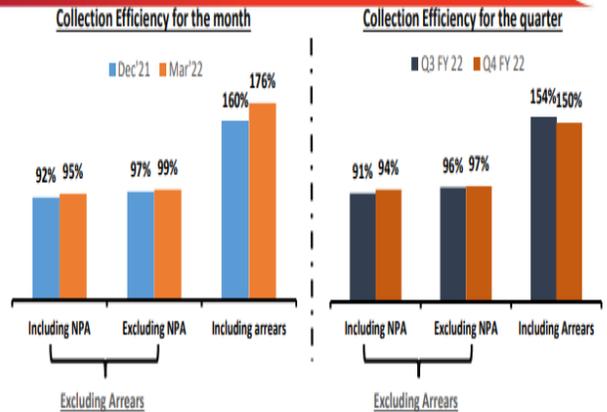


Exhibit 3: Collection efficiency trend

EEB Collection Efficiency



Collection Efficiency of top states

States	For the month of Dec'21	For the month of Mar'22	For Q3 FY 22	For Q4 FY 22
West Bengal	97%	99%	96%	97%
Assam	96%	98%	91%	93%
Rest of India	98%	99%	97%	97%
Total	97%	99%	96%	97%

Customer Paying Profile

Category	For the month of Dec'21		For the month of Mar'22	
	Share of customers	Share of Receivables	Share of customers	Share of Receivables
Full Paying	88.6%	93.2%	93.0%	97.0%
Partial Paying	7.4%	6.3%	3.3%	2.5%
Non Paying	4.0%	0.5%	3.7%	0.5%
Total	100%	100%	100%	100%

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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