

Bandhan Bank

Prudently cushioning for potential event risk

BANDHAN's 3QFY21E PAT disappointed on account of higher-than-anticipated provisions as it sought to insulate the balance sheet from stress emanating from its Assam portfolio. We will continue to closely track progress on this front, and we have reduced our earnings estimates to account for this. Low-cost deposit traction remains impressive in its granularity- this along with BANDHAN's strong RoAE potential underpin our stance. Maintain BUY with a target price of Rs 406.

- Worrisome trends surface:** While EEB (micro-credit) collection efficiencies (CE) remained stable until December at ~92%, they have deteriorated significantly since. This trend has been led by BANDHAN's Assam portfolio, in the case of which, below average CE (88% in December) plummeted to 78% in the first fortnight of January. Pro forma NPAs jumped to ~7.2%, however, in this calculation, the bank appears to have included part payment cases. Unsurprisingly, ~95% of the incremental stress is emanating from the bank's Assam portfolio. BANDHAN's prospects are now, more than ever, hinged upon its eastern/ north-eastern portfolio. We have raised our FY21E GNPA estimates to 5.8%.
- Prudent provisioning build-up for potential event risk:** BANDHAN stepped up the balance sheet insulation process, in anticipation of stress, building an additional ~Rs 10bn of provisions. This takes aggregate stock of COVID-19 related provisions to Rs 31.2bn (~4.1% of total advances). Further, pro forma net NPAs stood at ~2.4%. The management raised its credit cost guidance to ~4.5% for FY21E. We conservatively build in ~5% (vs. 3.2% earlier) and we have raised our cumulative credit costs over FY22-23E by 106bps to 2.1% ann..
- Individual loans lead EEB growth:** The EEB segment continued to see strong growth at 32.3/6.6% and constitutes 66.1% of overall AUMs. Growth within this space, in turn, was led by a ~8x growth in individual loans, which now form ~10% of overall EEB loans.

Financial summary

(Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	20,717	15,402	34.5%	19,231	7.7%	63,239	75,669	90,402	1,07,713
PPOP	19,141	12,638	51.5%	16,275	17.6%	54,466	66,550	77,630	90,510
PAT	6,326	7,309	-13.5%	9,200	-31.2%	30,237	21,296	39,153	52,615
EPS (Rs)	3.9	4.5	-13.5%	5.7	-31.2%	18.8	13.2	24.3	32.7
ROAE (%)						22.9	13.1	20.4	22.5
ROAA (%)						4.08	2.14	3.32	3.73
ABVPS (Rs)						91.9	101.0	122.9	150.7
P/ABV (x)						3.71	3.38	2.77	2.26
P/E (x)						18.2	25.8	14.0	10.4

Changes in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	836	840	0.5%	995	1,014	1.9%	1,239	1,246	0.5%
NIM (%)	7.9	8.0	12 bps	7.9	7.9	4 bps	8.1	7.9	-25 bps
NII	73.7	75.7	2.6%	87.8	90.4	3.0%	108.5	107.7	-0.7%
PPOP	62.9	66.5	5.7%	74.2	77.6	4.6%	90.3	90.5	0.3%
PAT	28.6	21.3	-25.6%	42.2	39.2	-7.1%	55.7	52.6	-5.6%
ABVPS (Rs)	106.4	101.0	-5.1%	128.4	122.9	-4.2%	159.1	150.7	-5.3%

Source: Bank, HSIE Research

BUY

CMP (as on 21 Jan 2021)	Rs 341
Target Price	Rs 406
NIFTY	14,590

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 443	Rs 406
EPS %	FY21E	FY22E
	-25.6%	-7.1%

KEY STOCK DATA

Bloomberg code	BANDHAN IN
No. of Shares (mn)	1,610
MCap (Rs bn) / (\$ mn)	549/7,516
6m avg traded value (Rs mn)	5,566
52 Week high / low	Rs 488/152

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.8	(0.9)	(28.3)
Relative (%)	(12.1)	(31.8)	(48.4)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	40.0	40.0
FIs & Local MFs	20.1	16.4
FPIs	32.2	35.2
Public & Others	7.7	8.4
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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