

Bandhan Bank

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Biz update – Growth, collection efficiency slip amid pandemic

CMP	Target Price
Rs 320 as of (July 15, 2021)	Rs 390 (■) 12 months
Rating	Upside
BUY (■)	22.0 %

Business Update – Q1FY22

- Bandhan Bank's AUM grew at a lower-than-expected rate of 8% yoy (down 8% qoq) to Rs801bn. We believe that this could be primarily due to lower disbursements in the MFI and small business loan segment on account of Covid-led disruptions in Eastern India, which is still reeling under extended lockdowns. Ujjivan, a relatively close peer, has also reported 2% yoy/7% qoq decline in AUM, while the impact on growth was relatively moderate for Equitas SFB, with its AUM up 15% yoy/down 0.5% qoq on lower dependence on the MFI book.
- Deposit growth has also been relatively muted (up 28% yoy/down 1% qoq to Rs773bn) as the bank shed bulk deposits amid weak credit demand. The CASA ratio saw a marginal decline qoq but remains high and healthy at ~43%. Deposits are now 96% of AUM vs. 82% in Q1FY21, leading to lower CoF, and thus should be structurally a long-term positive for NIMs.
- The bank has reported weak collection efficiency for Jun'21, with overall collections standing at ~80% (EEB-Micro at 72% vs. 95% in Mar'21/68% in Jun'20), mainly due to extended lockdowns in the North East (NE), preceded by election/waiver-related disruption. Lockdowns are expected to ease in the NE within a month or so, which coupled with clarity on the Assam loan relief scheme, should gradually lead to better collection efficiency. Overall, non-EEB portfolio collection efficiency remains healthy at 96%.
- In our view, the announcement of loan relief scheme for MFI borrowers in Assam which incentivizes credit discipline/repayment rather than a blanket waiver should be largely positive for Bandhan, followed by Ujjivan, once it is cleared in the upcoming budget session this month. That said, we believe asset-quality risk still persists given the pandemic-led disruptions (SMA pool at 8.6% of loans in Q4) and a lower contingent provision buffer (0.5% of AUM), which would call for a higher LLP/depressed earnings in H1.
- Notwithstanding near-term asset-quality risk, we have a Buy rating (TP: Rs390) on the stock, given its strategy of diversifying asset portfolio away from MFI in terms of both products and geography, enviable liability profile, superior return ratios (RoA/RoE of 2.5-3.4%/17-25% over FY22-24E) and reasonable valuations (2.2x FY23E ABV/1.7x FY24E ABV).

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

Exhibit 1: Collection Efficiency (%)

Particulars	Bandhan		Equitas SFB	
	Jun'21	Mar'21	Jun'21	Mar'21
EEB (Micro)	72%	95%	67%	93%
Overall	80%	96%	83%	109%

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY22E/FY23E (%)	-/
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	19.9	30.0
Consensus	21.6	32.0
Mean Consensus TP (12M)	Rs 367	

Stock Details

Bloomberg Code	BANDHAN IN
Face Value (Rs)	10
Shares outstanding (mn)	1,611
52 Week H/L	431 / 251
M Cap (Rs bn/USD bn)	515 / 6.91
Daily Avg Volume (nos.)	8,241,254
Daily Avg Turnover (US\$ mn)	34.4

Shareholding Pattern Mar '21

Promoters	40.0%
FIIIs	34.9%
DIIIs	1.9%
Public and Others	23.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(2)	(13)	(9)
Rel. to Nifty	(1)	(10)	(21)	(39)

Relative price chart



Source: Bloomberg

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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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