

Bandhan Bank Ltd



**Largest MFI Player has unique business
Model**

Journey from MFI to Bank

2001

Bandhan conceptualised; commenced microfinance activities as an NGO in rural Bengal

2009

Microfinance portfolio transferred from NGO to NBFC

2015

Bandhan received the universal banking licence from the RBI on June 17

2018

Emerged as the 8th most valued bank on the day of listing itself, basis market

2006

Acquired an NBFC to carry on microfinance activities

2010

Bandhan recognized as the largest MFI in the country

2016

Bandhan Bank started operations on August 23

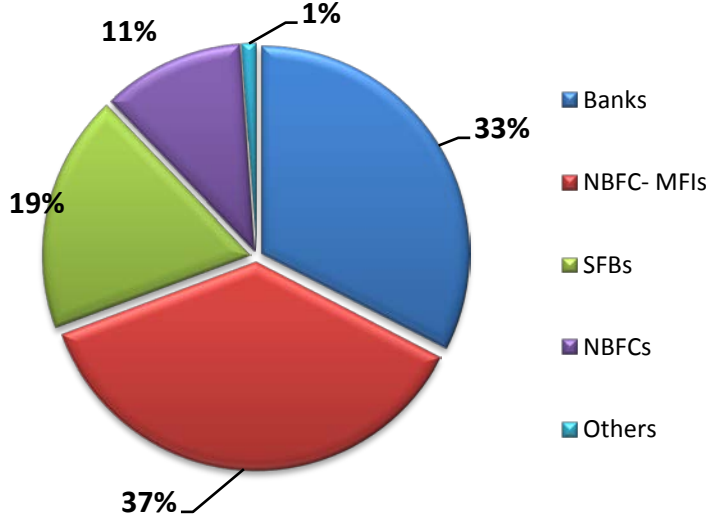
2019

Bandhan Bank initiated acquisition of Gruh Finance, HDF C Ltd's Subsidiary

About the Industry

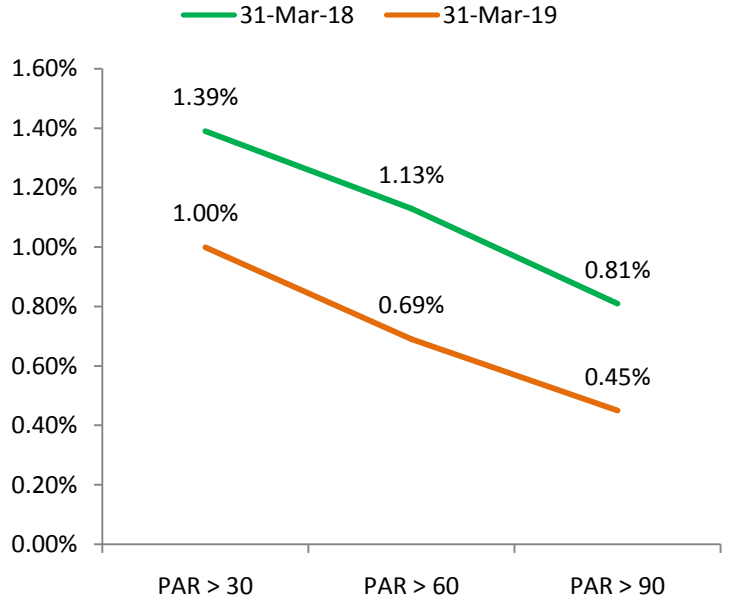
- As per MFIN as on 31 March 2019, the microfinance industry has a total loan portfolio of INR 1.87tn, representing a YoY growth of 38%. The share of portfolio outstanding of the various players indicate that the bank share was INR 61,046 cr (33%), NBFC- MFIs INR 68,868 cr (37%) and Small Finance Banks INR 34,679 cr (18%). NBFC INR 20,681 cr (11%) and others INR 2,112 cr (1.13%). In FY19 the YoY growth was NBFC MFIs (42%), Banks (36%), SFBs (25%), NBFC (59%) and Others (30%).
- The portfolio quality of the industry is good, has remained stable and witnessed an improvement during this period as depicted by PAR > 30 of 1.00% as on 31st Mar 2019 in comparison to 1.39% as on 31st Mar 2018.

Microfinance Loans market share (%) – Mar 2019



Bandhan Bank's market share in the total microfinance industry stood at ~20-21% as on FY19

Portfolio quality of the MFI industry



About the Bank

Bandhan Bank is a commercial bank promoted by Mr. Ghosh, which focused on serving underbanked and underpenetrated markets in India. It was incorporated as a Microfinance player and subsequently it obtained a banking license. The bank offers regular banking services, microfinance, MSME, and affordable housing finance to urban, semi-urban and rural customers. Presently, Bandhan Bank has 4,013 touch points pan India consisting of 999 bank branches, 3,014 door step services centres and 481 ATMs serving more than 17.27 mn customers. Its distribution network is particularly strong in East and Northeast India, with West Bengal, Assam and Bihar together accounting for ~53% of its branches as on FY19.

As on Q1FY20, the bank has a total portfolio of INR 454 bn, Out of which INR 415 bn (On book) and INR 39 bn (Off book) while total deposit base is INR 437 bn.

Product Details (As on FY19)

Product	% Mix	Product Type	Yield
MFI			
Microfinance	86.2%	Unsecured micro loan in JLG format - tenure up to 2 years - Ticket size ranges from Rs 25,000 to Rs 150,000	17.95%
Non-MFI			
Small Enterprises loans (SEL)	3.3%	Working capital and term loans, Loan to small businesses. Loan tenure 1-3 year - Ticket size ranges from Rs 1 Lac -10 Lac	16%-18%
SME	6.2%	These loans include business loans, commercial vehicle loans, term loans, equipment loans and working capital loans. Loan size range from Rs 1-50 mn	12.5%-18%
Retail	4.2%	affordable housing loan, LAP and personal loans	12.5%-13.5%

Deposit Mix (FY19)

Product (In cr.)	Total Deposits	% Share	Interest Rates
Term Deposits	25,614	59.2	
- Retail TD	15,827		3.5%-8.0%
- Bulk TD	9,787		4%-7%
SA	14,008	32.4	4%-7%
CA	3610	8.4	-
Total Deposits	43,232	100.0	

Bandhan Bank's Story in Charts

Exhibit 1: AUM to grow at CAGR of 31% over FY19-21E

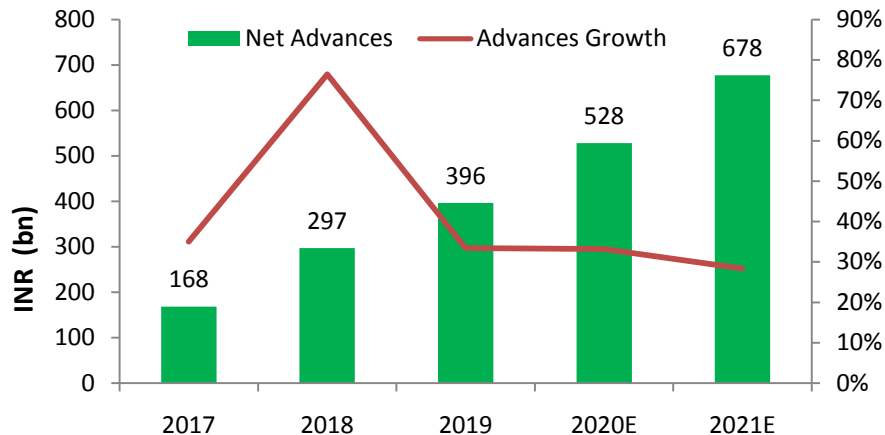


Exhibit 2: PAT to grow at CAGR of 28% over FY19-21E

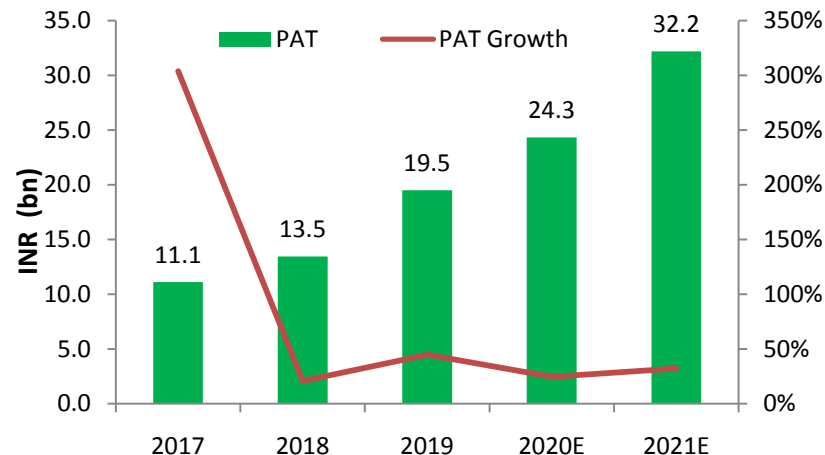


Exhibit 3: Highest margin in the industry due to high yields

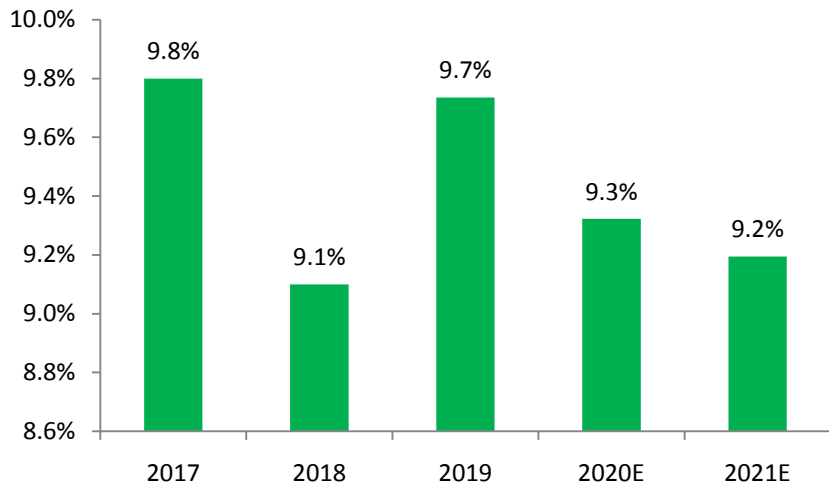
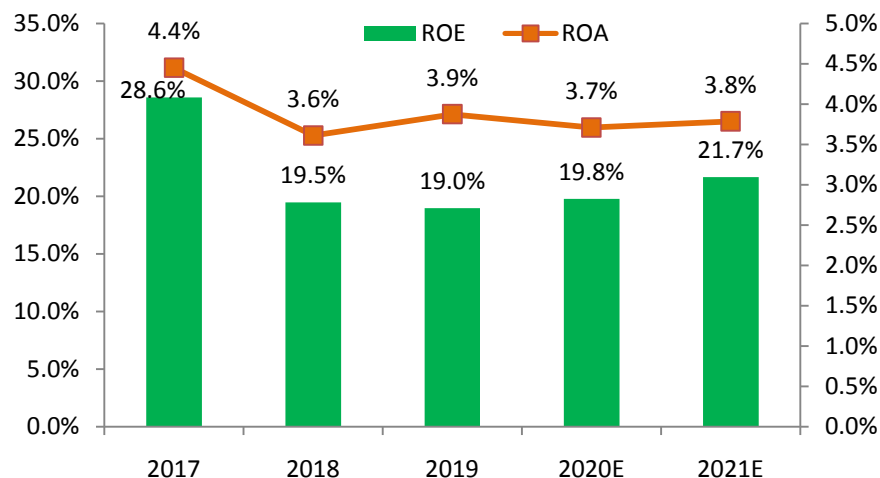


Exhibit 4: Better positioned in terms of return ratios



Bandhan Bank's Story in Charts

Exhibit 5: Asset quality well in control

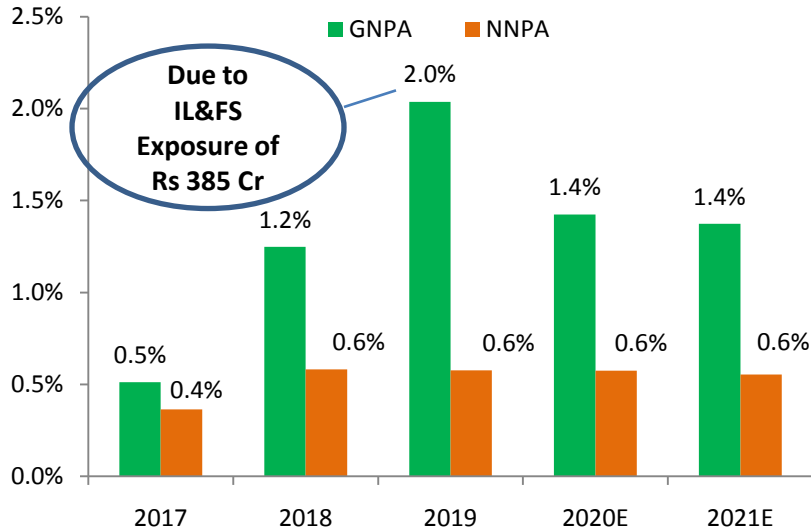


Exhibit 6: Banking Outlets

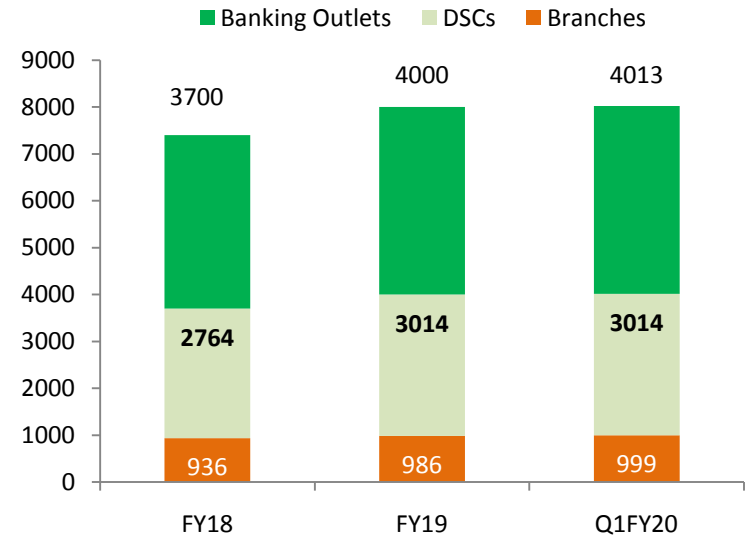


Exhibit 7: Presence in under- penetrated East and North East India

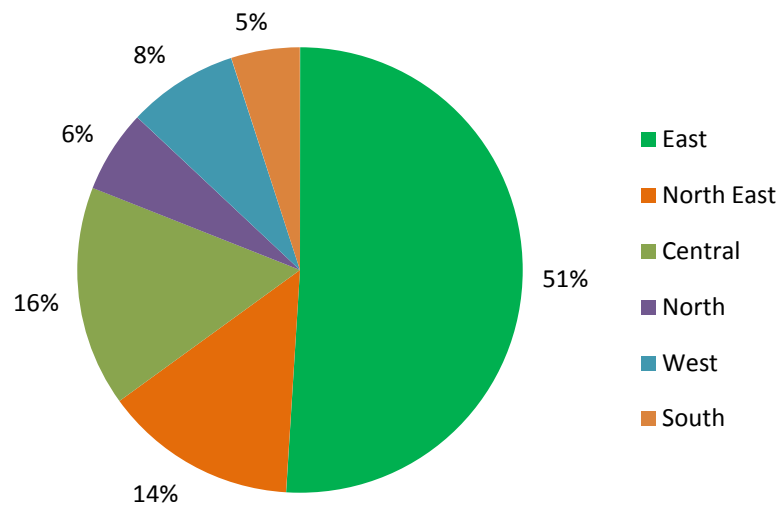
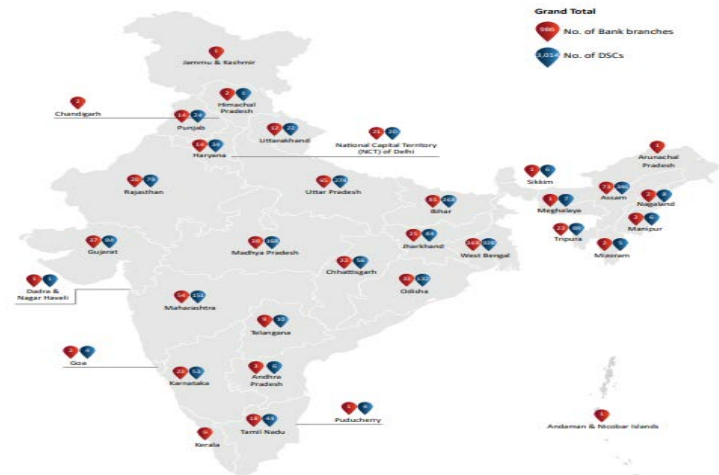


Exhibit 8: State-wise Branch Presence



What makes us bullish on Bandhan Bank ??

- ❑ **Uniquely positioned** : The bank enjoys opportunities of low cost deposits, fee income, high yielding microfinance segment.
- ❑ **Superior cost efficiencies**: Its distribution network is relatively low cost, which in particular is a result of its “hub and spoke” model of using Doorstep Service Centres (DSCs) and associated bank branches. This low-cost model is demonstrated by its operating cost-to-income ratio of 35% and 33% in FY18 and FY19 respectively.
- ❑ **Strong liability franchise in short span, high CASA offers low cost of funds**: Higher CASA ratio of 36%, provides low-cost funding with CoF at 6.6% as on Q1FY20.
- ❑ **Micro finance – An underserved and untapped market**: There is huge opportunity for microfinance players to expand business in rural areas that don't have formal access of banking facilities. As per Muhammad Yunus (Founder of Grameen Bank), The microfinance industry in India will double its lending in the next five years. Bandhan, predominately a micro finance lender, is strong in this segment with huge network and 14.85 mn micro loan customers.
- ❑ **Consistent track record of quality growth**: Despite difficult conditions in MFI and banking industry like AP crisis, demonetisation etc. Bandhan Bank is one institution to sail through from all this and continue with its growth path.. Over a period of FY16-19, the banks gross advances grew at 42% CAGR. Asset quality of the bank remained strong
- ❑ **High NIMs, low cost-to-income ratio leading to strong return ratios**: With low cost funds and higher yielding MFI loans (avg. 15.7%) Bandhan enjoys higher NIMs at 10.5% as on Q1FY20. Along with higher NIM, and low cost income ratio at ~33% which is key differentiator and it remain driver for high RoA and RoE.
- ❑ **Capital Adequacy ratio** of the bank continues to remain strong. As on Q1FY20, its CAR ratio stood at 27.03% well above the regulatory requirements.

Valuation and Outlook (Standalone)

OUTLOOK: Considering the strong track record of growth path, improving the mix of its non- micro lending business (except Gruh) and strong liability franchise we remain fairly positive on Bandhan Bank from longer term perspective. It has unique business model in banking space which focus on high yielding micro finance loans and gathering the low cost retail deposits. Granularity in its book both on Asset and Liability side is one of its key strength. The Bank has been able to generate Superior return ratio with RoE at 19% and RoA at ~4% as on FY19.

We have valued the bank at 4x P/ABV to its FY21E on standalone basis.

Key Risks

- Overhang of promoter stake reduction,
- Geographical risk due to its microfinance exposure in select Eastern and North Eastern states
- Political risk weigh on MFI business

Particulars (Rs. in Cr.)	2019 A	2020 E	2021 E
Net Interest Income	4496.1	5625.5	7226.7
Operating Profit	3748.1	4400.2	5656.0
PAT	1951.5	2433.0	3220.1
EPS	16.4	20.4	27.0
EPS Growth	45.0%	24.7%	32.4%
NIMs (calculated)	9.7%	9.3%	9.2%
RoE	19.0%	19.8%	21.7%
P/E	29.6x	23.7x	17.9x
P/BV	5.23x	4.36x	3.58x
P/ABV	5.3x	4.5x	3.7x

Peer Group Comparison

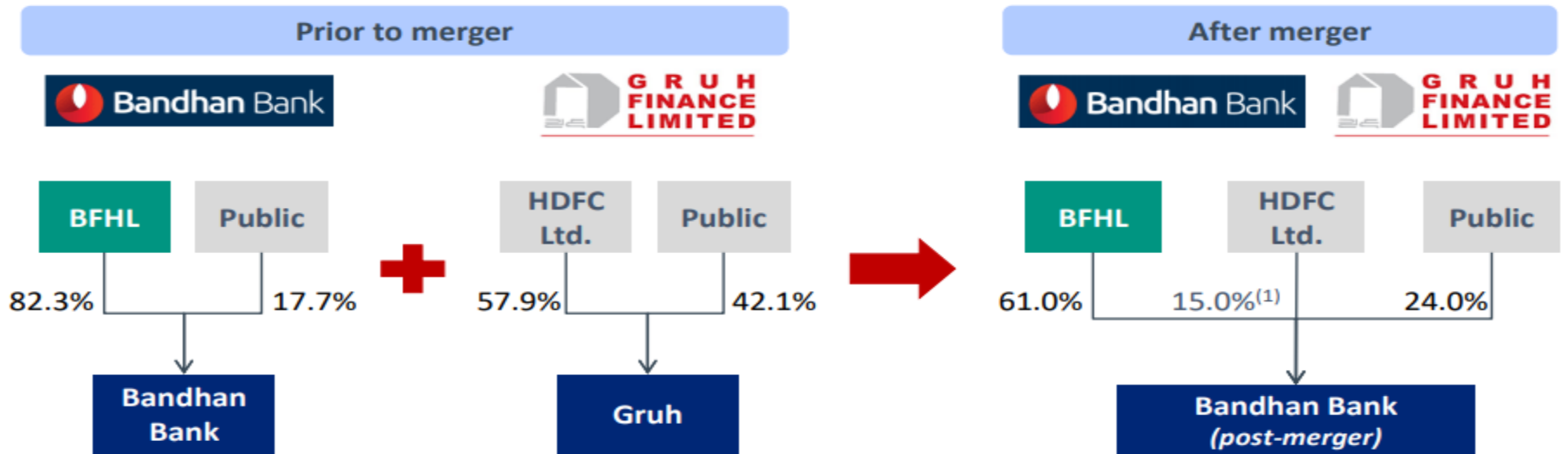
	CMP (Rs.)	Mcap (Cr.)	GNPA (%)	ROA (%)	ROE (%)	NIM	P/BV (x)
			FY19	FY19	FY19	FY19	FY21E
BANDHANBNK#	481	57,335	2.0	3.9	19.0	9.7	3.6
HDFCBANK	1,228	672,083	1.4	1.8	16.5	4.3	3.5
KOTAKBANK*	1,612	307,190	2.1	1.7	12.2	4.3	5.6
CREDITACC*	671	9,594	0.6	5.0	16.3	9.7	2.9

* Bloomberg Consensus Estimates

As per Standalone numbers (ex Gruh)

Bandhan Bank + Gruh Finance

On 7th Jan 2019, the Board of Directors of Bandhan Bank and Gruh Finance approved the merger of Gruh with Bandhan Bank, subject to regulatory and shareholder approvals



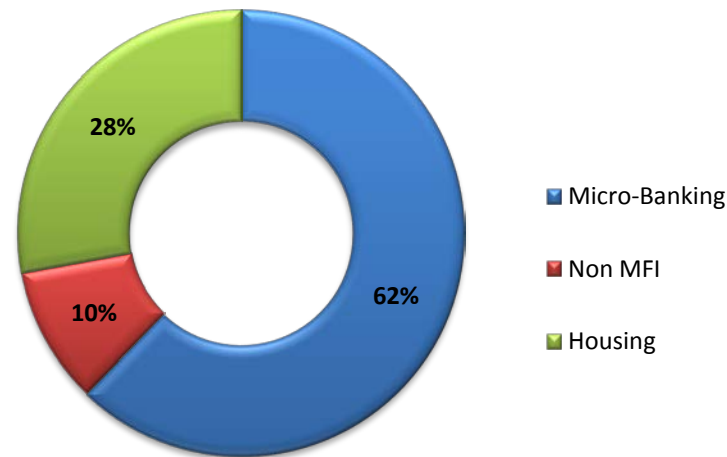
Share exchange ratio: 0.568 : 1 (568 shares of Bandhan Bank for every 1,000 shares of GRUH)

Regulatory approvals required: The bank has received all majority approvals required and Set 17th October 2019 as record date.

Merger will provide Diversification

Key Metrics	Gruh Finance	Bandhan Bank	Merged Entity
Rs Cr	FY19	FY19	FY19
P&L Metrics			
Profit	447	1,952	2,399
EPS (Rs.)	6.1	16.4	14.9
Balance Sheet Matrix			
Net Worth	1,891	11,202	13,093
Advances	17,332	44,780	62,112
Total Assets	18,786	56,442	75,227
Branches	195	986	1,181
Key Ratios (%)			
Yield on advances	11.4	15.6	
Cost of funds	8.5	5.4	
RoA	2.6	3.9	3.5
RoE	25.9	19.0	20.0
NIM	4.0	9.7	
Tier - 1	19.2	27.9	
Gross NPAs	0.7	2.0	

Loan Book break-up = Rs 62,112 Cr



Merger Synergies

- Merged entity to complement on geographical mix
- Having higher mix of secured and long tenure assets
- Merger to provide much needed product diversification into Non-MFI business

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