

CMP: Rs 501

Rating: Hold

Target Price: Rs 528

Stock Info

INDEX	
BSE	541153
NSE	BANDHANBNK
Bloomberg	BANDHAN IN
Reuters	BANH.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs cr.)	1193
Mkt Cap (Rs cr.)	59,577
52w H/L (Rs)	741 / 369
Avg Yearly Vol (BSE+NSE)	13,63,560

Shareholding Pattern

	%
(As on March, 2019)	
Promoters	82.3
FII	5.6
DII	10.0
Public & Others	2.1

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Bandhan Bank	-6.9	19.8	-14.7
SENSEX	-0.8	4.8	5.5

Source: ACE Equity, Arihant Research

Bandhan Bank v/s SENSEX



Source: ACE Equity, Arihant Research

Bandhan Bank started financial year FY20 with an impressive set of numbers surpassing our estimates on all fronts. PAT during Q1FY20 grew by 46% yoy to Rs 701 cr vs. our estimate of Rs 591 cr, led by strong credit growth, stable margins and controlled cost. Loans (on book + off book) surged by 39% yoy while micro loans grew by 40%. Non-micro assets growth was at 36% yoy. Liabilities of the bank are gaining more traction with a deposit growth of 42% YoY. CASA ratio increased to 36.1% from 35.5% YoY, retail deposits to total deposits stood at 76.1%. Margins improved further from 10.3% to 10.5% YoY led by improvement in yields. Asset quality of the bank was stable with a GNPA at 2% flat QoQ. Maintain Hold with a revised target price of Rs 528, giving an upside potential of 5%.

Operationally Strong Quarter

NII grew by 36% YoY to Rs 1410 cr while PPOP grew by 47% yoy led by healthy growth in AUMs (39.4% yoy) and high margins (+20 bps YoY to 10.5%). Over the quarter, total number of micro-loan borrowers has increased by 24% from 7.95 mn to 9.84 mn. Net Advances mix as on June 30, 2019 stood flat YoY at 86% in Micro banking and 14% in Non-Micro banking. The bank has also witnessed good traction on the liabilities side – CA & SA deposits grew by 41% & 46% respectively.

Broad based growth to be continue

As on Q1FY20 Bandhan bank has total customer base of 17.27 mn vs 16.56 mn in Q4FY19. Out of the total customers, 79% customers are in MFI business and rest are in non MFI business. Micro loan disbursements during the quarter grew by 28% YoY to Rs 123.2 bn. Bandhan Bank's exclusive customer base in MFI business continued to remain same at 60% QoQ.

Valuation & View

Bandhan Bank performance is gaining strength from the last two quarters across the parameters. Higher income growth, strong operating efficiency & best in class asset quality aids best return ratios. Gruh merger will give synergy to the bank to widen its geographical spread and tap into housing finance market. We are upbeat on the future performance of the bank and expect bank will continue to outperform. We expect PAT to grow at CAGR of 28.5% during FY19-21E backed by superior return ratios (ROE ~22% and ROA ~4%) and strong visibility of credit growth. However, the rich valuations (4.6x FY20E & 3.8x FY21E ABV) coupled with the overhang pertaining to the reduction of promoter holding offer limited room for upside at current level. We maintain our Hold rating with a revised TP of Rs 528 based on 4x P/ABV to its FY21E.

Key Financials

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
RoE	19.0%	19.8%	21.7%
P/E	30.6x	24.5x	18.5x
P/BV	5.40x	4.50x	3.70x
P/ABV	5.5x	4.6x	3.8x

Q1FY20 Result and Concall Highlights:

- **Merger Update:** Bank has received all majority approvals from RBI, SEBI and CCI. NCLT has issued order, for the meeting of the equity shareholders on July 30, 2019. After this merger process will start.
- **Branch Opening:** Bank is likely to open 187 branches and 340 DSCs during the year. Bank has received board approval and likely to apply with the RBI soon.
- In terms of customers profile, ~55% of its customers are banking with Bandhan for more than >3 loan cycle and rest are in 1-3 cycle. Bank will be more conservative while providing loans to the customer who has been in 1-3 cycle phase.
- Gross Slippages during the quarter were ~Rs 137 cr.
- At present Bandhan has 999 branches, 481 ATMs, 3014 DSCs and 32,774 employees.

Q1FY20 Quarterly Snapshot:

Particulars (Rs in Cr)	Q1FY20	Q1FY19	YoY	Q4FY19	QoQ
Interest Earned	2,121	1,556	36.3%	1,833	15.7%
Interest Expended	710	519	36.8%	575	23.5%
Net Interest Income	1,410	1,037	36.0%	1,257	12.2%
Other Income	312	211	48.2%	388	-19.5%
Total income	1,723	1,248	38.0%	1,645	4.7%
Operating Expenses	515	427	20.5%	492	4.7%
<i>Cost-income-ratio</i>	29.9%	34.2%		29.9%	
Operating Profits	1,208	821	47.2%	1,153	4.7%
Provisions & Contingencies	125	80	56.8%	153	-18.2%
PBT	1,082	741	46.1%	1,000	8.2%
Provisions for Tax	381	259	47.2%	349	9.2%
<i>Effective Tax Rate (%)</i>	35%	35%		35%	
PAT (reported)	701	482	45.5%	650.9	7.7%
EPS Basic	5.88	4.0	45.5%	5.5	7.7%
GNPA	851	388	119%	820	4%
NNPA	232	194	20%	228	2%
GNPA	2.0%	1.3%		2.0%	
NNPA (%)	0.6%	0.6%		0.6%	
Advances (On-Book+Off Book)	45,420	32,590	39.4%	44,780	1.4%
Deposits	43,701	30,703	42.3%	43,232	1.1%
NIM (%)	10.5	10.3		10.50	
Total CAR (%)	27.03%	32.61%		29.2%	
Tier 1 (%)	25.75%	31.43%		27.9%	
Tier 2 (%)	1.28%	1.18%		1.3%	

Income Statement			
Particulars (Rs in Cr)	2019A	2020E	2021E
Interest Income	6644.1	8726.7	11069.5
(-) Interest Expense	-2148.0	-3101.2	-3842.8
Total Net Interest Income	4496.1	5625.5	7226.7
Other Income	1063.0	1249.8	1534.7
Total Income	5559.1	6875.3	8761.4
Total Operating Expenses	1811.0	2475.1	3105.4
Provisions	735.1	657.1	702.0
Profit before Tax	3013.0	3743.1	4954.0
Provision for Taxes	1061.6	1310.1	1733.9
PAT	1951.5	2433.0	3220.1

Ratios			
Particulars (Rs in Cr)	2019A	2020E	2021E
Basic Ratio			
EPS	16.4	20.4	27.0
Book Value per share	92.5	111.1	135.2
Adjusted book value per share	90.6	108.6	132.0
Dividend per share	2.9	3.8	4.6
Asset Quality			
Gross NPAs	2.04%	1.42%	1.37%
Net NPAs	0.58%	0.57%	0.55%
PCR	72.14%	60.00%	60.00%
Profitability Ratio			
RoAE	19.0%	19.8%	21.7%
RoAA	3.9%	3.7%	3.8%
NIMs (as calculated)	9.7%	9.3%	9.2%
Valuation			
P/E (x)	30.57	24.52	18.52
P/BV (x)	5.40	4.50	3.70
P/ABV (x)	5.52	4.60	3.79

Balance Sheet			
Particulars (Rs in Cr)	2019A	2020E	2021E
Assets			
Cash and Balances with RBI	3879.2	4591.8	5893.7
Money at call and short notice	1923.5	1923.5	1923.5
Investments	10037.5	14349.3	18417.7
Advances	39643.4	52805.5	67777.3
Fixed Assets	331.2	365.6	409.4
Other Assets	627.0	752.4	902.9
Total Assets	56441.9	74788.0	95324.5
Liabilities			
Capital	1193.1	1193.1	1193.1
Reserves and Surplus	10008.7	12226.0	15096.1
Deposits	43231.6	57397.2	73671.0
Borrowing from other banks	521.4	2906.5	3997.5
Other liabilities and provisions	1487.0	1065.2	1366.8
Total Liabilities	56441.9	74788.0	95324.5

Analysis			
Particulars (Rs in Cr)	2019A	2020E	2021E
Spread Analysis			
Yield on advances	15.5%	15.5%	15.9%
Yield on investments	7.0%	7.0%	7.0%
Cost of deposits	6.1%	5.6%	5.0%
Cost of funds	5.4%	5.8%	5.5%
Spread	7.5%	7.2%	7.7%
Growth (%)			
Advances growth	33.4%	33.2%	28.4%
Deposit growth	27.6%	32.8%	28.4%
Net Profit growth	45.0%	24.7%	32.4%
Liquidity			
Advances to deposit ratio	91.7%	92.0%	92.0%
CASA	40.8%	41.0%	41.0%
CET 1 Ratio	27.5%	24.3%	23.3%
Efficiency			
Cost-to-income	32.6%	36.0%	35.4%

Note: Financials for FY20 and FY21 estimates are Pre-merger.

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

Research Analyst Registration No.	Contact	Website	Email Id
INH00000276 4	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880