

CMP: Rs 624

Rating: Hold

Target Price: Rs 667

Stock Info

INDEX	541153
BSE	BANDHANBNK
NSE	BANDHAN IN
Bloomberg	BANDHAN IN
Reuters	BANH.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs cr)	1610
Mkt Cap (Rs cr)	97,030
52w H/L (Rs)	650 / 383
Avg Yearly Vol (BSE+NSE)	25,98,410

Shareholding Pattern

	%
(As on September, 2019)	
Promoters	82.3
FII	6.9
DII	8.9
Public & Others	1.9

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Bandhan Bank	26.7	4.1	56.4
SENSEX	5.7	2.1	16.9

Source: ACE Equity, Arihant Research

Bandhan Bank v/s SENSEX



Source: ACE Equity, Arihant Research

Bandhan bank reported good set of numbers with improved asset quality matrix. Q2FY20 numbers are for merged entity (Bandhan + Gruh) hence, YoY numbers are not comparable. Ex-Gruh, Bandhan's profitability grew by 76% YoY, largely due to reduction in tax rate. Due to seasonal impact, standalone business performance was little softer than normalized trend as the bank kept additional liquidity ahead of the merger. Loan growth was at +1% QoQ, while Cost-to-income ratio increased by 193 bps QoQ to 30.8% (merged entity), due to rise in other operating expenses. Bank had robust deposit growth at 49.3% YoY (ex-Gruh deposit growth at 44.4%), with CASA ratio at 33%. Asset quality was largely stable for the merged entity with GNPA/NNPA at 1.76%/0.56% of the total loans. The Bank has reported NIM of 8.2% for merged entity. We maintain our Hold rating with revised target price of Rs 667.

Key Result Highlights:

- Net profit of the bank grew sharply by 99% YoY to Rs 972 cr (+76% YoY on Standalone basis). NII for the quarter grew by 42% YoY to Rs 1529 cr while operating profit grew by 50% YoY to Rs 1307 cr.
- GNPA ratio of the bank for standalone i.e. for Bandhan has improved by 26bps QoQ at 1.76% while NNPA stood flat at 0.56% QoQ.
- The bank has added 1 mn customers during the quarter with total customer base reaching to 18.27 mn (Micro Banking- 14.07 mn, Non Micro- 3.93 mn and Gruh Finance – 0.27 mn).
- On the back of high priority sector lending profile at 91%, the bank enjoys a high income from PSLC. Income from PSLC stood at Rs 374 cr, which will be recognized over 4 quarters, out of which Rs 94 cr booked during the quarter.
- After the merger with Gruh, Bandhan bank's book is now diversified with total portfolio at Rs 64186 cr. Micro finance share in the total advances reduced to 61% from 86% earlier and Gruh's portfolio stood at 28% and rest is in non-micro credit.
- Bandhan Bank had robust deposits growth at 49.3% YoY (ex-Gruh deposit growth at 44.4%) at Rs 49195 cr.
- CASA ratio stood at 33% of total deposit (excluding GRUH deposits at 35%), compared to 36.90% in the corresponding period last year.

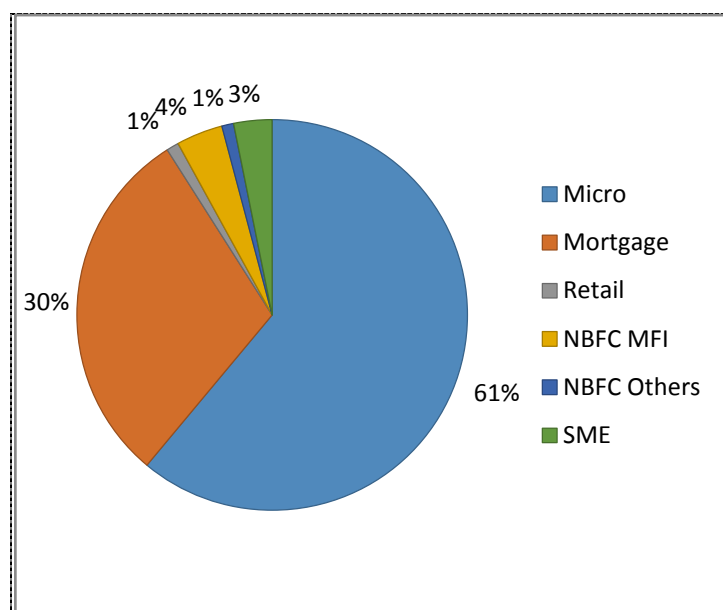
Valuation & View

After the Gruh merger, Bandhan's book is now well diversified with geographical spread and different credit segments like MFI (61% of loans) and housing (30% of the total loans) and micro-credit. Q2FY20 performance of the bank was little softer due to seasonality effect and also Gruh's merger was in place. We expect H2FY20 performance of the bank to be relatively better than H1FY20 as Bandhan has replaced ~50% of high cost liabilities of Gruh Finance benefit of which will be visible in H2FY20. Since Gruh has relatively low yielding profile than Bandhan, it will impact margins of the bank going forward. Sustainable earnings growth momentum with strong operating efficiency, best in class asset quality and strong return ratios trajectory are some of key positives of the bank. We maintain our positive outlook on the stock and expect Bandhan bank to continue its outperformance going forward. We acknowledge that the recent rally in the stock offer limited room for upside and maintain our hold rating with a revised TP of Rs 667 based on 6.4x P/ABV to its FY21E.

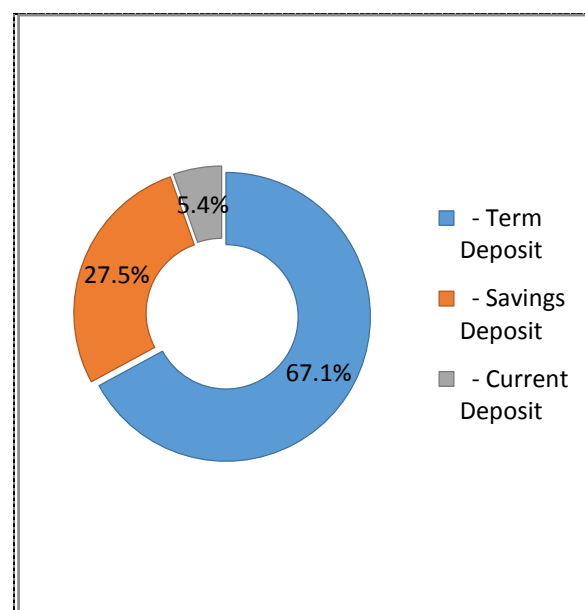
Analyst Meet Key Takeaways:

- **Industry Overview:** There is a huge untapped opportunity in MFI industry. It has potential to grow by 7-8 times in next 5 years. Current microfinance industry portfolio size is Rs 191,500 cr. This industry growth rate forecast is as per Bandhan's research team based on various assumptions.
- **Bandhan's Strategy behind high market Share in West Bengal (WB):**
 1. Bandhan has a market share of ~45% of the total AUM in West Bengal.
 2. MFI penetration in WB is lower at 5.88% as compared to other states like Tamil Nadu (9.50%), Odisha (7.65%) and Karnataka (7.05%). WB state is least leveraged in terms of numbers of borrowers as compared to other top states like Tamil Nadu and Karnataka.
 3. Out of the top states, WB has the lowest number of borrowers with 4 or more lenders at 1.16% as compared to Tamil Nadu and Karnataka have higher share of borrowers at 6.27% and 2.98% respectively.
 4. According, to the industry data of top 30 districts with high PAR 90+ pan-India, no one is from West Bengal where Bandhan has strong presence.
- Bandhan follows one time one credit policy. Its ticket size per loan is higher than that of MFI industry. Its Average ticket size per loan is Rs 63.4K vs. Rs 29.4K for the rest of microfinance industry.
- Bandhan Bank's exclusive customer base in MFI remained flat at 55% QoQ. In terms of loan cycle, 54% of the borrowers are from more than 4 cycle. On an Average, Bandhan's loans per borrower stood at 1.01x vs. 1.88x for rest of the industry.
- As on Q2FY20 Bandhan bank has total customer base of 18.27 mn vs 17.27 mn in Q1FY20. Out of the total customers, 77% customers are in MFI business, 1.47% from Gruh business and rest are in non MFI business.
- As per Management's experiences, generally 1st and 2nd quarter is little bit slow. Management is seeing more demand in H2 of the year.
- At present Bandhan has 1000 branches, 485 ATMs, 3025 DSCs and 35,468 employees with 195 Gruh Centers. Out of the total employees ~22,000 employees are in microloan segment (~16,000 are loan officers). 106 Bandhan branches has been enabled with Gruh loans under Gruh's existing business model.
- Management aims to scale up housing finance business from its existing bank branches customers. The Management has indicated that the customer profile is not too different between the two and the ability to scale the existing business model of Gruh to its customers.
- Bandhan Bank follows Weekly Collection model.
- It has 11 training centers.

Advances Break-up



Liability Break-up



Q2FY20 Quarterly Snapshot:

Particulars (Rs in Cr)	Q2FY20 (Merged)	Q2FY19 (Standalone)	YoY	Q1FY20 (Merged)	QoQ
Interest Earned	2,690	1,606	67.5%	2,631	2.2%
Interest Expended	1,161	528	119.8%	1,057	9.9%
Net Interest Income	1,529	1,078	41.9%	1,575	-2.9%
Other Income	360	230	56.4%	331	8.8%
Total income	1,889	1,308	44.5%	1,906	-0.9%
Operating Expenses	582	434	34.2%	551	5.8%
<i>Cost-income-ratio</i>	30.8%	33.2%		28.9%	
Operating Profits	1,307	874	49.5%	1,355	-3.6%
Provisions & Contingencies	146	124	17.2%	125	16.1%
PBT	1,161	750	54.9%	1,230	-5.6%
Provisions for Tax	190	262	-27.7%	426	-55.5%
<i>Effective Tax Rate (%)</i>	16%	35%		35%	
PAT (reported)	972	488	99.3%	804	20.9%
GNPA	1,064	413	157%	1,020	4%
NNPA	337	220	53%	347	-3%
GNPA (%)	1.8%	1.3%		1.7%	
NNPA (%)	0.6%	0.6%		0.6%	
Advances (On-Book + Off Book)	64,186	32,590	96.9%	45,420*	41.3%
Deposits	49,195	30,703	60.2%	43,701*	12.6%
NIM (%)	8.2	10.3		10.5	
Total CAR (%)	25.09%	32.61%		27.03%	
Tier 1 (%)	23.01%	31.43%		25.75%	
Tier 2 (%)	2.08%	1.18%		1.28%	

*For Standalone

Income Statement			
Particulars (Rs in Cr)	2019A	2020E	2021E
Interest Income	6644	10721	13643
(-) Interest Expense	-2148	-4293	-6383
Net Interest Income	4496	6428	7260
Other Income	1063	1410	1894
Total Income	5559	7838	9154
Total Operating Expenses	1811	2626	2990
Provisions	735	908	1003
Profit before Tax	3013	4304	5161
Provision for Taxes	1062	1085	1300
PAT	1951	3220	3860

Ratios			
Particulars (Rs in Cr)	2019A	2020E	2021E
Basic Ratio			
EPS	16.4	20.0	24.0
Book Value per share	92.5	85.8	107.6
Adjusted book value per share	90.6	83.2	104.3
Dividend per share	2.9	2.8	3.4
Asset Quality			
Gross NPAs	2.0%	1.5%	1.4%
Net NPAs	0.6%	0.6%	0.6%
PCR	72.1%	60.0%	60.0%
Profitability Ratio			
RoAE	19.0%	23.4%	21.4%
RoAA	3.9%	4.3%	3.6%
NIMs (as calculated)	9.7%	9.2%	7.2%
Valuation			
P/E (x)	48.8	29.6	24.7
P/BV (x)	8.7	6.9	5.5
P/ABV (x)	8.9	7.1	5.7

Balance Sheet			
Particulars (Rs in Cr)	2019A	2020E	2021E
Assets			
Cash and Balances with RBI	3879	4784	6354
Money at call and short notice	1924	1924	1924
Investments	10037	14951	19858
Advances	39643	71765	91345
Fixed Assets	331	370	416
Other Assets	627	752	903
Total Assets	56442	94547	120799
Liabilities			
Capital	1193	1610	1610
Reserves and Surplus	10009	14707	18217
Deposits	43232	59805	79430
Borrowing from other banks	521	16978	19699
Other liabilities and provisions	1487	1448	1843
Total Liabilities	56442	94547	120799

Analysis			
Particulars (Rs in Cr)	2019A	2020E	2021E
Spread Analysis			
Yield on advances	15.5%	16.3%	14.8%
Yield on investments	7.0%	7.0%	7.0%
Cost of deposits	6.1%	5.5%	5.0%
Cost of funds	5.4%	7.0%	7.1%
Spread	7.5%	7.0%	5.7%
Growth (%)			
Advances growth	33.4%	81.0%	27.3%
Deposit growth	27.6%	38.3%	32.8%
Net Profit growth	45.0%	65.0%	19.9%
Liquidity			
Advances to deposit ratio	91.7%	120.0%	115.0%
CASA	40.8%	33.0%	33.0%
CET 1 Ratio	27.5%	19.2%	18.4%
Efficiency			
Cost-to-income	32.6%	33.5%	32.7%

* Financials for FY20E and FY21E are for merged entity.

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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%

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