

CMP: Rs 308

Rating: Buy

Target Price: Rs 376

Stock Info

BSE	541153
NSE	BANDHANBNK
Bloomberg	BANDHAN IN
Reuters	BANH.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs Cr)	1,610
Mkt Cap (Rs Cr)	49,648
52w H/L (Rs)	650 / 152
Avg Yearly Vol (in 000')	11,249

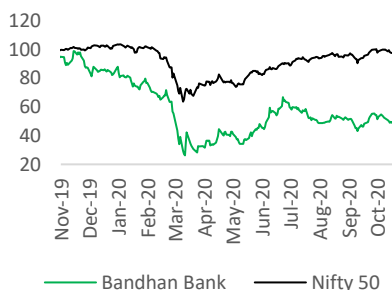
Shareholding Pattern %

(As on September, 2020)

Promoters	40.0
FII	32.2
DII	5.8
Public & Others	22.0

Stock Performance (%)	3m	6m	12m
Bandhan Bank	2.8	28.5	-47.8
Nifty 50	5.5	27.7	-1.1

Bandhan Vs Nifty



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Bandhan bank has reported strong performance during Q2FY21 with improvement in collection efficiency. Q2FY21 earnings of the bank were ahead of our estimates, as profit for the quarter grew by 67% QoQ to Rs 920 cr vs. our estimate of Rs 809 cr. Operating performance of the bank was healthy as NII grew by 26% YoY with a operating profit growth of 25% YoY. MFI segment's collection efficiency has gradually improved to 91% by value in Oct'20 (95% by customers). Management expects collection efficiency to reach to the pre-covid level by Q3FY21. Cumulatively, bank has made Rs 21 bn provision (Rs 17.4 bn Covid provisions) i.e. 2.9% of the total loans. Bank expects credit cost to be in the range of 3.5% for FY21E. The bank has witnessed healthy business growth with advances growth at 19% YoY and deposit growth at 34% YoY. We upgrade our rating to Buy from Hold with a revised TP of Rs 376.

Strong Operating Performance

NII for the quarter grew by 26% YoY /6% QoQ to Rs 1,923 cr, led by healthy growth in advances. Strong NII growth and YoY improvement in cost-income ratio resulted into operating profit growth of 25% YoY/3% QoQ to Rs 1,628 cr. Profit for the quarter de-grew by 5% YoY to Rs 920 cr, while on a sequential basis it has increased by 67% due to 54% QoQ decline in provisions. NIM for the quarter declined by 15bps QoQ to 8% as spread during the quarter decreased by 10bps QoQ to 7.1%. Yield on advances stood at 13.3% vs. 13.6% QoQ.

Asset quality improved; collection efficiency inched up gradually

Due to standstill asset classification benefit, GNPA/NNPA ratio of the bank declined by 25bps/12bps QoQ to 1.18%/0.36%. However, Proforma GNPA/NNPA ratio was higher at 1.5% and 0.7% respectively. MFI segment's collection efficiency has gradually inched up to 91% from 89% in Sep' 20 and 67% in Jun'20. Collection efficiency in West Bengal was at 90%, Assam collection efficiency at 87% and Bihar at 97%. Collection efficiency in Non-MFI segment has also improved (Housing: 98%, SME: 96%, NBFC: 100%). Despite improving collection efficiency, we continue to build higher GNPA's at 3.2% for FY21E due to its unsecured microfinance lending business.

Liability profile continuously progressing well

Liability franchise of the bank continued to remain strong as total deposits of the bank grew by 34% YoY/9% QoQ to Rs 66,128 cr, supported by strong growth in CASA deposit at 56% YoY/13% QoQ. CASA ratio of the bank improved to 38.2% from 37.1% QoQ. Total advances of the bank grew by 19% YoY to Rs 76,615 cr with MFI loan growth of 27% YoY/5% QoQ. Bank has started offering top-up loans to existing borrower to restart their business. Mortgage loan book declined marginally by 0.2% QoQ due to lower disbursement.

Plan to diversify portfolio – Vision 2025

Bank has provided the long term guidance to diversify its portfolio by 2025. 1) Rapid diversification in non-MFI segments with target to reduce MFI share to 30% by FY25E. 2. Mortgage portfolio expected be at 30%. 3. Commercial banking (SME + individual loans + NBFC) at 30% and Retail loan portfolio at 10%. Branch network is expected to increase by 3x in non-core geography.

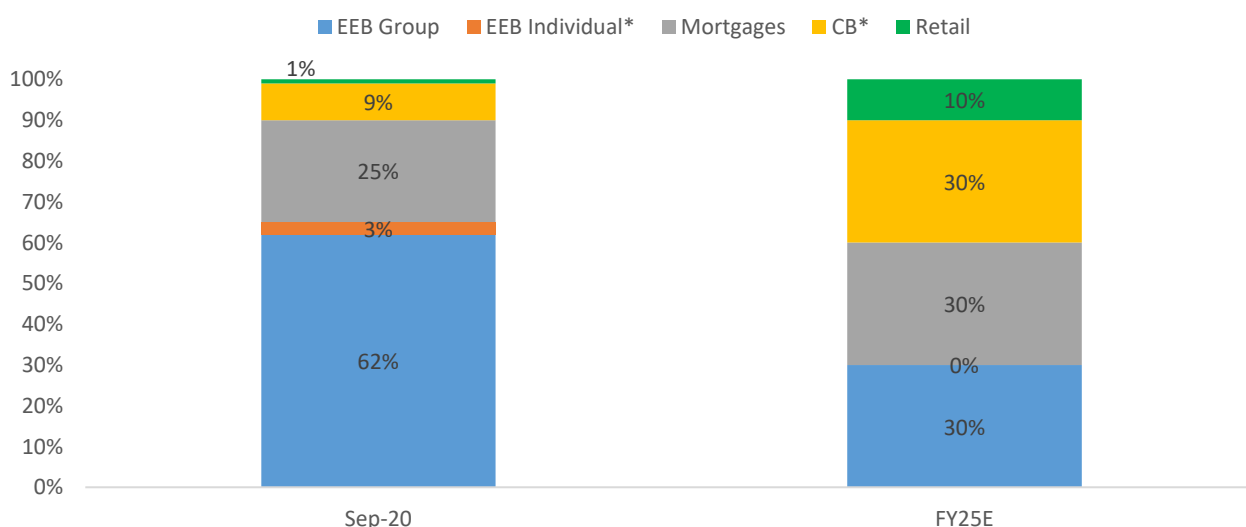
Valuation & View

We continue to maintain our positive outlook on Bandhan bank, due to its strong liability profile, comfortable capital position (CAR at 25.7%), long track record and improving collection efficiency. However, the asset quality of the bank will remain under watch. Bank has built significant provision buffer to absorb any potential spike in NPL. The bank has outlined its 5 year plan to diversify the book which we believe is a right step. However, development and execution on this front will be keenly watched as it is a relatively newer segment for the bank. We continue to value the bank at P/adj. BV 3.0x to its FY22E ABV and arrive at a target price of Rs 376. We upgrade our rating to Buy from Hold.

Q2FY21 result Snapshot

Particulars (Rs in Cr)	Q2FY21	Q2FY20	YoY	Q1FY21	QoQ
Interest Earned	3,198	2,690	18.9%	3,018	5.9%
Interest Expended	1,275	1,161	9.8%	1,207	5.6%
Net Interest Income	1,923	1,529	25.8%	1,812	6.2%
Other Income	382	360	6.0%	387	-1.3%
Total income	2,305	1,889	22.0%	2,198	4.8%
Operating Expenses	677	582	16.3%	614	10.3%
<i>Cost-income-ratio</i>	29.4%	30.8%	-144bps	27.9%	145bps
Operating Profits	1,628	1,307	24.5%	1,584	2.7%
Provisions & Contingencies	395	146	171.0%	849	-53.5%
PBT	1,233	1,161	6.2%	735	67.7%
Provisions for Tax	313	190	65.1%	185	68.9%
<i>Effective Tax Rate (%)</i>	25%	16%	906bps	25%	18bps
PAT (reported)	920	972	-5.3%	550	67.3%
GNPA	874	1,064	-18%	1,007	-13%
NNPA	263	337	-22%	336	-22%
GNPA	1.2%	2.0%	-86bps	1.4%	-25bps
NNPA (%)	0.4%	0.6%	-22bps	0.5%	-12bps
Advances (On-Book + Off Book)	76,615	64,186	19.4%	74,331	3.1%
Deposits	66,128	49,200	34.4%	60,610	9.1%
NIM (%)	8.00	8.60	-60bps	8.15	-15bps
Total CAR (%)	25.7%	26.6%	-88bps	26.5%	-75bps
Tier 1 (%)	22.2%	23.7%	-145bps	23.2%	-102bps
Tier 2 (%)	3.5%	2.9%	57bps	3.2%	27bps

Bandhan Bank's aim to diversify asset book by 2025



EEB: Emerging Entrepreneurs Business – Erstwhile Microfinance segment.

CB: Commercial Banking.

EEB Individual which is currently part of MFI segment will become part of CB in FY2025E.

Key Financials

Income Statement				
Particulars (Rs in Cr)	2019A	2020A	2021E	2022E
Interest Income	6644	10885	13253	15696
(-) Interest Expense	-2148	-4562	-5914	-7107
Total Net Interest Income	4496	6324	7339	8589
Other Income	1063	1549	1824	2182
Total Income	5559	7873	9163	10771
Total Operating Expenses	1811	2427	2901	3411
Operating Profit	3748	5447	6261	7360
Provisions	735	1393	2123	2300
Profit before Tax	3013	4053	4138	5061
Provision for Taxes	1062	1030	1043	1275
PAT	1951	3024	3095	3785

Balance Sheet				
Particulars (Rs in Cr)	2019A	2020A	2021E	2022E
Assets				
Cash and Balances with RBI	3879	6345	5799	6968
Money at call and short notice	1924	2008	2008	2008
Investments	10037	15352	18123	21776
Advances	39643	66630	83364	100169
Fixed Assets	331	369	415	468
Other Assets	627	1014	1217	1461
Total Assets	56442	91718	110926	132850
Liabilities				
Capital	1193	1610	1610	1610
Reserves and Surplus	10009	13585	16330	19666
Deposits	43232	57082	72491	87103
Borrowing from other banks	521	16379	18792	22427
Other liabilities and provisions	1487	3062	1703	2043
Total Liabilities	56442	91718	110926	132850

Ratios				
Particulars (Rs in Cr)	2019A	2020A	2021E	2022E
Basic Ratio				
EPS	12.1	18.8	19.2	23.5
Book Value per share	93.9	94.4	111.4	132.1
Adjusted book value per share	92.0	92.0	105.4	125.5
Dividend per share	2.2	0.0	2.2	2.8
Asset Quality				
Gross NPAs	2.0%	1.5%	3.2%	3.0%
Net NPAs	0.6%	0.6%	1.2%	1.2%
PCR	72.1%	60.8%	65.0%	65.0%
Profitability Ratio				
RoAE	19.0%	22.9%	18.7%	19.3%
RoAA	3.9%	4.1%	3.1%	3.1%
NIMs (as calculated)	9.7%	8.1%	7.8%	7.6%
Valuation				
P/E (x)	25.4	16.4	16.0	13.1
P/BV (x)	3.3	3.3	2.8	2.3
P/ABV (x)	3.3	3.3	2.9	2.5

Analysis				
Particulars (Rs in Cr)	2019A	2020A	2021E	2022E
Spread Analysis				
Yield on advances	15.5%	16.4%	14.9%	15.0%
Yield on investments	7.0%	7.0%	7.0%	7.0%
Cost of deposits	6.1%	5.5%	4.8%	4.8%
Cost of funds	5.4%	6.9%	7.0%	6.9%
Spread	7.5%	7.2%	6.0%	6.1%
Growth (%)				
Advances growth	33.4%	68.1%	16.2%	20.2%
Deposit growth	27.6%	32.0%	27.0%	20.2%
Net Profit growth	45.0%	54.9%	2.4%	22.3%
Liquidity				
Advances to deposit ratio	91.7%	116.7%	115.0%	115.0%
CASA	40.8%	36.8%	33.0%	33.0%
CET 1 Ratio	27.5%	25.2%	23.7%	22.3%
Efficiency				
Cost-to-income	32.6%	30.8%	31.7%	31.7%

Note: Financials from FY20 onwards 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% to -12%
SELL	<-12%

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