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Q3FY19 Result Update
11 Jan 2019

Bandhan Bank Ltd

Strong Quarter, But Gruh merger remains an overhang for near term

CMP : Rs 454

Rating : Hold

Target : Rs 505

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.)	56420
52w H/L (Rs)	741 / 369
Avg Monthly Vol (BSE+NSE)	1,191,500

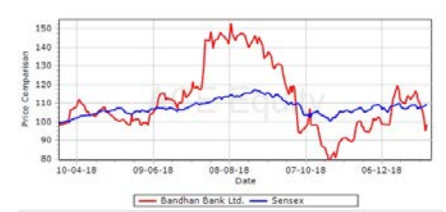
SHAREHOLDING PATTERN	**%**
(as on September, 2018)	
Promoters	82.3
FII	5.5
DII	10.4
Public & Others	1.8

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	**3m**	**6m**	**12m**
Bandhan Bank	-7.8	-18.7	-
SENSEX	5.9	-0.7	4.4

Source: ACE Equity, Arihant Research

Bandhan Bank v/s SENSEX



Source: ACE Equity, Arihant Research

Bandhan Bank reported strong set of numbers during the quarter despite 100% provision of Rs. 385 crore made on one large infra account. This drag down the profit growth to 10% YoY to Rs. 331 cr. but operating performance of the bank was strong. Net Interest Income came in at Rs 1124 cr for Q3FY19 as against Rs 732 cr in Q3FY18 registering a robust growth of 54%.

NIMs & Advances:

Loan book continued to grow at faster pace at 48% yoy driven by both micro and non-micro assets while margins surged to 10.5% vs. 10.3% qoq. Yield on advances stood at 15.4% vs 15.3% in Q2FY19. Net Advances mix as on Dec 31, 2018 stood at 87% (Micro banking) and 13% (Non-Micro banking). Its priority sector lending (PSL) ratio stood at 96%.

Deposits:

Deposits for the bank stood at Rs 34,639 cr registering robust growth of 37% YoY. The CASA portion for the bank stood at Rs 14,342 cr rising by 71% YoY. CASA ratio inched upto 41.4% vs 37% qoq. Retail term deposits stood at 85% as compared to 82% QoQ. The overall source of funding consists of 99.3% of deposits and 0.7% of borrowings. Cost of funds stood at 6.3% (vs 6.8% in the corresponding quarter of the previous year).

Asset quality:

Gross NPAs for the quarter rose by 74 bps YoY and 112 bps sequentially. GNPAs for the quarter stood at 2.41% while NNPAs stood at 0.70%. Capital Adequacy Ratio (CAR) was at 32.8% compared to 24.9% in the corresponding quarter of the previous year.

Credit cost (excluding single NBFC asset provision) stood at 1.1% for Q3FY19 (vs 1.6% for the corresponding quarter of the previous year). The credit cost for standard assets stood flat QoQ at 0.2% for Q3FY19.

Valuation:

At CMP of Rs 454, the stock is trading at 23.9 P/E(x) and 4.2 P/ABV(x) to its FY20E of Rs 19.0 EPS and Rs 107.4 ABV respectively.

We have reduced our RoA estimate to 3.7% from 4.0% earlier due to Gruh Finance merger which resulted to dilution of book-value. We have valued the stock at 4.7(x) to its FY20E ABV using a Dividend Discount Model and arrived at a fair value of Rs 505 per share which is an upside of 11%. We have "**Hold**" rating on the stock.

Financial Snapshot:

Particulars (Rs. in Cr.)	2018 A	2019 E	2020 E
Net Interest Income	**3032.2**	**4122.7**	**4810.5**
Operating Profit	2430.1	3361.4	4003.8
PAT	**1345.6**	**1884.1**	**2263.0**
NIMs (calculated)	9.4%	9.2%	8.6%
RoE	**19.5%**	**18.4%**	**18.7%**
P/E	40.2x	28.7x	23.9x
P/BV	5.85x	4.93x	4.15x
P/ABV	**6.0x**	**5.0x**	**4.2x**

Arihant Capital Markets Ltd

Arihant Capital Markets Limited | **Research Analyst SEBI Registration No:INH000002764**
1011, Solitaire Corporate Park, Bldg No.10, 1st Floor, Andheri Ghatkopar Link Rd, Chakala, Andheri (E), Mumbai 400 093.

Q3FY19 Result and Concall Highlights:

1. **On Gruh merger:** This Merger would reduce the Bandhan's promoter stake from 82.3% to 61%. It will give opportunity to both entities to expand their business into new areas with diversification of product mix and geographical distribution. There is no other comment by management for further dilution of stake upto 40%. Although the merger is strategically fit and gives fruitful results in a longer term, the higher price paid for the acquisition and book value dilution may put near term pressure on the stock.
2. Management continues to focus on retail business areas like Microfinance, Housing and MSMEs. Major MFI borrowers have saving account with Bandhan bank.
3. At present bandhan has 978 branches, 480 ATMs, 3014 DSCs and 15.33 mln customers.

Financial Snapshot:

Particulars (Rs in Cr)	Q3FY19	Q3FY18	YoY	Q2FY19	QoQ
Interest Earned	1,649.6	1,178.2	40%	1,605.7	3%
Interest Expended	525.5	446.5	18%	528.2	-1%
Net Interest Income	**1,124.1**	**731.7**	54%	1,077.5	4%
Other Income	234.1	158.2	48%	230.4	2%
Total income	**1,358.2**	**889.9**	53%	1,307.9	4%
Operating Expenses	**457.7**	**315.5**	45%	433.9	5%
Operating Profits	**900.5**	**574.4**	57%	874.0	3%
Provisions & Contingencies	377.7	122.5	208%	124.2	204%
PBT	**522.8**	**451.9**	16%	749.8	-30%
Provisions for Tax	191.6	151.9	26%	262.1	-27%
Effective Tax Rate (%)	*37%*	*34%*		35%	
PAT (reported)	**331.2**	**300.0**	10%	487.7	-32%
EPS Basic	2.78	2.74	1%	4.1	-32%
GNPA	831	386	115%	413.3	101%
NNPA	237	184	29%	220.4	7%
GNPA (%)	2.41%	1.67%	74 bps	1.29%	112 bps
NNPA (%)	0.70%	0.80%	-10 bps	0.69%	1 bps
Advances (On-Book)	33,873	22,931	48%	31,730	7%
Deposits	34,639	25,294	37%	32,959	5%
NIM (%)	10.50%	9.60%	90 bps	10.30%	20 bps
Total CAR (%)	32.80%	24.90%		32.60%	
Tier 1 (%)	31.70%	23.50%		31.50%	
Tier 2 (%)	1.10%	1.40%		1.10%	

Financial Highlights:

Income Statement			
Particulars (Rs in Cr)	**2018A**	**2019E**	**2020E**
Interest Income	4802.3	6507.0	7752.6
(-) Interest Expense	-1770.1	-2384.3	-2942.0
Total Net Interest Income	**3032.2**	**4122.7**	**4810.5**
Other Income			
Fee Income	404.5	532.3	654.7
Profit / (loss) on investments	46.3	46.2	64.6
Miscellaneous Income	255.3	306.4	367.7
Total Income	**3738.4**	**5007.7**	**5897.5**
Total Operating Expenses	1308.3	1646.3	1893.8
Provisions	374.2	462.8	522.3
Profit before Tax	**2055.9**	**2898.6**	**3481.5**
Provision for Taxes	710.3	1014.5	1218.5
PAT	**1345.6**	**1884.1**	**2263.0**

Ratios			
Particulars (Rs in Cr)	**2018A**	**2019E**	**2020E**
Basic Ratio			
EPS	11.3	15.8	19.0
Book Value per share	77.7	92.1	109.3
Adjusted book value per share	76.2	90.2	107.4
Dividend per share	1.7	2.9	3.8
Asset Quality			
Gross NPAs	1.25%	1.50%	1.20%
Net NPAs	0.58%	0.61%	0.48%
PCR	53.66%	60.00%	60.00%
Profitability Ratio			
RoAE	19.5%	18.4%	18.7%
RoAA	3.6%	3.9%	3.7%
NIMs (as calculated)	9.4%	9.2%	8.6%
Valuation			
P/E (x)	40.25	28.74	23.93
P/BV (x)	5.85	4.93	4.15
P/ABV (x)	5.96	5.03	4.23

Balance Sheet			
Particulars (Rs in Cr)	**2018A**	**2019E**	**2020E**
Assets			
Cash and Balances with RBI	2837.1	3125.9	4029.6
Money at call and short notice	2673.5	2673.5	2673.5
Investments	8371.9	9768.5	12592.5
Advances	29713.0	36338.7	47851.6
Fixed Assets	238.1	188.1	217.5
Other Assets	476.4	571.6	686.0
Total Assets	**44310.1**	**52666.5**	**68050.7**
Liabilities			
Capital	1192.8	1192.8	1192.8
Reserves and Surplus	8189.1	9906.2	11968.6
Deposits	33869.0	39073.9	50370.1
Borrowing from other banks	25.0	1673.4	3324.7
Subordinated Debt	260.0	86.6	230.6
Other liabilities and provisions	774.1	733.4	964.0
Total Liabilities	**44310.1**	**52666.5**	**68050.7**

Analysis			
Particulars (Rs in Cr)	**2018A**	**2019E**	**2020E**
Spread Analysis			
Yield on advances	16.4%	16.5%	15.6%
Yield on investments	7.1%	7.0%	7.0%
Cost of deposits	5.9%	6.1%	5.6%
Cost of funds	5.8%	6.2%	6.1%
Spread	7.3%	7.4%	6.9%
Growth (%)			
Advances growth	37.4%	13.4%	31.4%
Deposit growth	45.8%	15.4%	28.9%
Net Profit growth	21.0%	40.0%	20.1%
Liquidity			
Advances to deposit ratio	87.7%	93.0%	95.0%
CASA	34.3%	36.0%	37.0%
CET 1 Ratio	30.3%	29.9%	26.9%
Efficiency			
Cost-to-income	35.0%	32.9%	32.1%

Note: Financials for FY19 and FY20 estimates are Pre-merger as regulatory approval still awaiting.

Arihant Research Desk

Email: research@arihantcapital.com
Tel. : 022-42254800

Head Office	**Registered Office**
#1011, Solitaire Corporate Park ,	Arihant House
Building No. 10, 1st Floor,	E-5 Ratlam Kothi
Andheri Ghatkopar Link Road	Indore - 452003, (M.P.)
Chakala, Andheri (E).	Tel: (91-731) 3016100
Mumbai – 400093	Fax: (91-731) 3016199
Tel: (91-22) 42254800	
Fax: (91-22) 42254880	

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
INH000002764	**SMS: 'Arihant' to 56677**	**www.arihantcapital.com**

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