

CMP: Rs 234

Rating: Buy

Target Price: Rs 281

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)	37,676
52w H/L (Rs)	650 / 152
Avg Yearly Vol (in 000')	4,383.69

Shareholding Pattern %

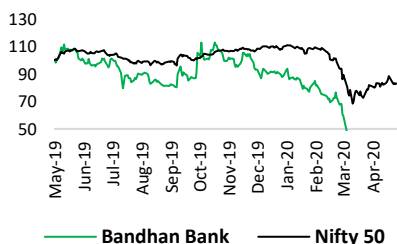
(As on March, 2020)

Promoters	61.0
FII	13.0
DII	8.9
Public & Others	17.1

Stock Performance (%)

	3m	6m	12m
Bandhan Bank	-46.2	-55.2	-54.3
Nifty 50	-22.4	-20.9	-15.7

Bandhan Vs Nifty



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Bandhan bank's Q4FY20 operating performance was strong in terms of NII growth, improvement in cost to income ratio and better asset quality. Bank missed its earnings as provisions were up sharply. Q4FY20 numbers are for merged entity (Bandhan + Gruh) hence, YoY numbers are not comparable. The bank has made provision buffer of Rs 690 cr on Covid-19 related crisis, well beyond the RBI's prescribed limit. With this the bank now holds total additional provision of Rs 1000 cr (Rs 310 cr additional for standard asset). The bank has witnessed healthy business growth with advances growth at 10% QoQ and deposit growth at 4% QoQ. Management indicated that 76% of the bank's portfolio remains under the green zone & Orange zone. We retain our Buy rating with a revised TP of Rs 281 (from Rs 270 earlier).

Strong Operating Performance

NII came in at Rs 1,680 cr (vs. our est. of Rs 1,760 cr.) up 9% QoQ as NIM improved by 23bps at 8.1% sequentially. The improvement in margin was mainly because of fall in cost of funds by 50bps QoQ at 6.7%. PPOP came in at Rs 1,521 cr (vs. our est. of Rs 1,440 cr), up 20% QoQ. The higher operating profit growth was supported by 320bps QoQ improvement in cost-income ratio and also strong growth in other income. Bottom line of the bank was impacted due to higher provision. Profit for the quarter stood at Rs 517 cr vs. Rs 731 cr QoQ.

Headline asset quality improved

GNPA/NNPA ratio improved by 45bps/23bps QoQ at 1.48%/0.58%. PCR ratio further improved to 61% vs. 58% QoQ. The bank has offered moratorium to the borrowers as per RBI guidelines. As of April, 2020, 100% of Microfinance loan, 13% of the mortgages, ~35% of SME loans and 59% of the loans to NBFC-MFI is under moratorium.

Healthy Traction Seen on business front

Bandhan Bank reported healthy growth in AUM at 10% QoQ, led by high growth in microfinance loan. Sequentially MFI loan grew by 15%, while non-MFI loans were at 1% while mortgage book down by 3% QoQ. The share of microloans in the overall portfolio increased to 64% from 62% QoQ. Deposit growth was strong at 4% QoQ on the back of 12% growth in CASA deposit. CASA ratio improved to 36.8% v/s 34.3% in 3QFY20. Deposits held up relatively better compared to other private banks that have seen outflows post the Yes Bank moratorium event.

Valuation & View

The bank has reported strong operating performance aided by improvement in margins and cost-income ratio, with high share of retail deposits. Despite the challenging environment, the bank has recorded healthy business growth. Since, 100% of the MFI portfolio of the bank is under moratorium, collection to remain impacted for the near term. Provision buffer that the bank has made and Bandhan's historical record of handling the situation during various crisis, we believe, the business can rebound quickly once the lockdown is lifted and collection starts normalizing over the near term. Moreover, ~70% of the bank's customers are under essential services. However, the asset quality of the bank continue to remain under watch. Thus, we are building higher GNPA for FY21 due to its high share of unsecured lending. We expect, the bank would deliver 20% RoE by FY22E. High profitability business, strong liability franchise, better cost structure are the key drivers for RoE growth. Capital position of the bank continued to remain strong with CAR at 27.4%. We maintain our Buy rating on the stock with a revised target price of Rs 281 (Rs 270 earlier), valuing the bank at P/adj. BV of 2.2x (from 2.0x earlier) to its FY22E ABV.

Q4FY20 result Snapshot

Particulars (Rs in Cr)	Q4FY20*	Q4FY19	YoY	Q3FY20*	QoQ
Interest Earned	2,846	1,833	55.3%	2,718	4.7%
Interest Expended	1,166	575	102.8%	1,177	-0.9%
Net Interest Income	1,680	1,257	33.6%	1,540	9.1%
Other Income	500	388	29.0%	358	39.8%
Total income	2,180	1,645	32.5%	1,898	14.9%
Operating Expenses	660	492	34.0%	634	4.0%
<i>Cost-income-ratio</i>	30.3%	29.9%		33.4%	
Operating Profits	1,521	1,153	31.9%	1,264	20.3%
Provisions & Contingencies	827	153	439.8%	295	180.6%
PBT	693	1,000	-30.7%	969	-28.4%
Provisions for Tax	176	349	-49.6%	238	-26.0%
<i>Effective Tax Rate (%)</i>	25%	35%		25%	
PAT (reported)	517	651	-20.5%	731	-29.2%
GNPA	993	820	21%	1,182	-16%
NNPA	389	228	71%	491	-21%
GNPA	1.5%	2.0%	-56 bps	1.9%	-45 bps
NNPA (%)	0.6%	0.6%	0 bps	0.8%	-23 bps
Advances (On-Book + Off Book)	71,846	44,776	60.5%	65,456	9.8%
Deposits	57,082	43,232	32.0%	54,908	4.0%
NIM (%)	8.1	10.3		7.9	
Total CAR (%)	27.43%	32.61%		24.7%	
Tier 1 (%)	25.19%	31.43%		23.1%	
Tier 2 (%)	2.24%	1.18%		1.6%	

* Merged financials with Gruh Finance

Concall Highlights:

1. Bank is contacting to ~95-97% customers on a regular basis. The people are not able to come out due to lockdown which is a big challenge.
2. Management believes the MFI book will normalize ~4-6 weeks after the lockdown gets lifted and intends to support borrowers with top-up loans (of ticket size Rs10,000-15,000) where required.
3. 50% of the customers are engaged into Agri & allied activities and another 20% related to food processing. In total, 70% of the customers activity comes under essential services.
4. Around 54% of microfinance customer in 4 and above loan cycle.
5. 76% of the total loan portfolio is under Green and Orange zone and rest is in red zone. However, 78% of customer businesses are in green zone.
6. 79% of the MFI borrowers have an average deposit balance of Rs 3,070 which is equivalent to 4 week installments.
7. Moratorium impact on GNPA levels would have been 20-25 bps.
8. Liquidity position of the NBFC to those the bank has given moratorium is fairly stable but they are looking to conserve cash till the time they start collection.
9. Portfolio Break-up: Microfinance - 64%, Mortgage – 26%, NBFC- MFI – 3%, SME – 4%, Retail – 1% and NBFC - Others at 1%.

Key Financials

Income Statement

Particulars (Rs in Cr)	2019A	2020A	2021E	2022E
Interest Income	6644	10885	13254	15699
(-) Interest Expense	-2148	-4562	-6038	-7232
Total Net Interest Income	4496	6324	7216	8467
	1063	1549	1824	2182
Total Income	5559	7873	9040	10650
Total Operating Expenses	1811	2427	2863	3372
Provisions	735	1641	1840	2096
Profit before Tax	3013	4053	4337	5181
Provision for Taxes	1062	1030	1093	1306
PAT	1951	3024	3244	3876

Balance Sheet

Particulars (Rs in Cr)	2019A	2020A	2021E	2022E
Assets				
Cash and Balances with RBI	3879	6345	5807	6982
Money at call and short notice	1924	2008	2008	2008
Investments	10037	15352	18147	21820
Advances	39643	66630	83477	100372
Fixed Assets	331	369	414	201
Other Assets	627	1014	1217	1461
Total Assets	56442	91718	111070	132845
Liabilities				
Capital	1193	1610	1610	1610
Reserves and Surplus	10009	13585	16479	19905
Deposits	43232	57082	72589	87280
Borrowing from other banks	521	16379	18689	22006
Other liabilities and provisions	1487	3062	1703	2043
Total Liabilities	56442	91718	111070	132845

Ratios

Particulars (Rs in Cr)	2019A	2020A	2021E	2022E
Basic Ratio				
EPS	12.1	18.8	20.1	24.1
Book Value per share	93.9	94.4	112.4	133.6
Adjusted book value per share	92.0	92.0	106.7	127.6
Dividend per share	2.2	2.2	2.2	2.8
Asset Quality				
Gross NPAs	2.0%	1.5%	3.0%	2.7%
Net NPAs	0.6%	0.6%	1.2%	1.0%
PCR	72.1%	60.8%	65.0%	65.0%
Profitability Ratio				
RoAE	19.0%	22.9%	19.5%	19.6%
RoAA	3.9%	4.1%	3.2%	3.2%
NIMs (as calculated)	9.7%	8.1%	7.7%	7.4%
Valuation				
P/E (x)	19.3	12.5	11.6	9.7
P/BV (x)	2.5	2.5	2.1	1.8
P/ABV (x)	2.5	2.5	2.2	1.8

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%	5.0%	5.0%
Cost of funds	5.4%	6.9%	7.1%	7.1%
Spread	7.5%	7.2%	5.8%	6.0%
Growth (%)				
Advances growth	33.4%	68.1%	16.3%	20.3%
Deposit growth	27.6%	32.0%	27.2%	20.2%
Net Profit growth	45.0%	54.9%	7.3%	19.5%
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%	23.6%	22.3%
Efficiency				
Cost-to-income	32.6%	30.8%	31.7%	31.7%

Note: Financials from FY20E onward 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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