

Asset quality risk continue to be higher



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CMP: INR 291

Rating: Neutral

Target Price: INR 300

Stock Info

BSE	541153
NSE	BANDHANBNK
Bloomberg	BANDHAN IN
Reuters	BANH.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	1,610
Mkt Cap (INR Cr)	46,919
52w H/L (INR)	430 / 251
Avg Yearly Vol (in 000')	11,010

Shareholding Pattern %

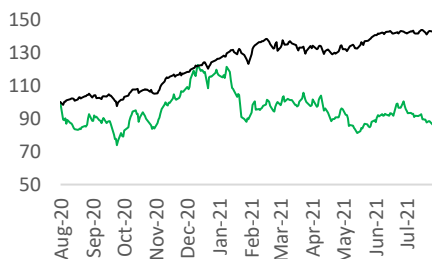
(As on June, 2021)

Promoters	40.0
FII	35.4
DII	2.0
Public & Others	22.6

Stock Performance (%)

	1m	3m	12m
Bandhan Bank	-11.8	-11.7	-13.9
Nifty 50	0.3	7.7	42.0

Bandhan Bank Vs Nifty



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Bandhan Bank has reported in-line operating performance for the quarter Q1FY22 while asset quality of the bank deteriorated further. Profit for the quarter de-grew by 32% YoY to INR 373 cr vs. our estimate of INR 414 cr, largely due to elevated credit cost. Collection efficiency (Ex NPA) of MFI portfolio declined from 98% in Mar'21 to 86% for Q1FY22 due to covid related lockdown. Collection efficiency in Assam stood at 67%, West Bengal at 85% and 90% for rest of India during Q1FY22. GNPA ratio of the bank increased further by 137 bps QoQ at 8.2% while NNPA declined by 22bps QoQ at 3.3%. Restructured book of the bank stood at 5.8% of total advances (5.0% for MFI and 0.8% in Housing) vs Nil in the previous quarter (for MFI portfolio).

Operating performance of the bank was strong

NII for the quarter grew strongly by 17% YoY/20% QoQ to INR 2,114 cr, driven by sharp sequential jump in margins. NIM of the bank increased by 170bps QoQ at 8.5% driven by higher yields at 13.7% vs. 11.6% QoQ. Operating profit for the quarter grew by 18% YoY/8% QoQ to INR 1,871 cr vs our estimate of INR 1,844 cr. Cost-income ratio of the bank decreased to 29.3% vs. 32% QoQ largely due to strong operating income.

Sequentially loan growth was down by 8%

Bank has reported lowest ever AUM growth of 8% YoY/-8% QoQ to INR 80,357 cr. Microfinance portfolio loan book growth was lowest at 12% YoY/-9% QoQ at INR 53,210 cr. Despite ~2x disbursement in Q1FY22 vs Q1FY21, the portfolio declined on account of higher collection in Q1FY22 vs Q1FY21 (Portfolio under moratorium). Disbursements in Housing book stood at INR 510 cr vs INR 1,420 cr QoQ. Mortgage book of the bank de-grew by 1% YoY/4% QoQ. Deposits growth of the bank moderated as compared to previous quarter but it remained strong at 28% YoY to INR 77,340 cr. CASA ratio of the bank decreased marginally from 43.4% to 42.9% QoQ.

Asset quality risk continued to be higher in the MFI portfolio: Asset quality of the bank deteriorated further with GNPA ratio + restructured loans at 14% as on Jun'21 vs. 7.5% in Mar'21. Risk in microfinance portfolio stood higher at 29.4% of stressed assets, including SMA 1 & 2, NPA and restructured loans vs. 12.9% in Mar'21. GNPA in microfinance book stood at 9.3% vs. 7.6% QoQ. Of the total MFI NPA and restructured portfolio, 79% are paying customers and 21% are non-paying customers. Of the total assam portfolio of INR 63.5 bn, INR 35.8 bn worth of portfolio is eligible under the recently announced Assam microfinance bill. Management sounded confident of recovery from most of the stressed loans under Assam MFI bill and credit guarantee fund.

Valuation & View; Downgrade to Neutral

Given the higher asset quality risk, we have cut our FY22/23E earnings estimates by 26%/11% respectively, to build higher provisioning/NPA. While bank's liability franchise, strong operating profit, adequate capital position are its key positives but near term challenges on asset quality front remained higher which restricts re-rating in the stock. We downgrade our rating on the stock to Neutral from Hold with a revised target price of INR 300 (INR 328 earlier), based on 2.6x FY23E ABV.

Q1FY22 result Snapshot

Particulars (Rs in Cr)	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ
Interest Earned	3,410	3,018	13.0%	3,001	13.6%
Interest Expended	1,296	1,207	7.4%	1,244	4.2%
Net Interest Income	2,114	1,812	16.7%	1,757	20.3%
Other Income	533	387	37.9%	787	-32.3%
Total income	2,647	2,198	20.4%	2,544	4.1%
Operating Expenses	776	614	26.4%	815	-4.7%
<i>Cost-income-ratio</i>	29.3%	27.9%	139bps	32.0%	-270bps
Operating Profits	1,871	1,584	18.1%	1,729	8.2%
Provisions & Contingencies	1,375	849	61.9%	1,594	-13.8%
PBT	496	735	-32.5%	135	267.1%
Provisions for Tax	123	185	-33.6%	32	283.1%
<i>Effective Tax Rate (%)</i>	25%	25%	-39bps	24%	104bps
PAT (reported)	373	550	-32.1%	103	262.1%
GNPA	6,440	1,007	540%	5,758	12%
NNPA	2,458	336	632%	2,861	-14%
GNPA (%)	8.2%	1.4%	675bps	6.8%	137bps
NNPA (%)	3.3%	0.5%	281bps	3.5%	-22bps
Advances (On-Book + Off Book)	80,357	74,330	8.1%	87,043	-7.7%
Deposits	77,340	60,610	27.6%	77,972	-0.8%
NIM (%)	8.50	8.13	37bps	6.80	170bps
Total CAR (%)	24.8%	26.6%	-178bps	23.5%	130bps
Tier 1 (%)	23.8%	23.7%	15bps	22.5%	130bps
Tier 2 (%)	1.0%	2.9%	-193bps	1.0%	0bps

Concall Highlights:

- Total restructured book stood at INR 4,661 cr, INR 4,057 cr in Microfinance portfolio and INR 604 cr worth of housing portfolio.
- Bank have made accelerated provision on NPA accounts of INR 751 cr resulting in PCR of 62% as against 50% in Q4FY21. In addition to this Bank also carrying additional standard assets provision amounting to INR 323 cr and provision on restructured assets amounting to INR 529 cr.
- West Bengal and Assam portfolio collection efficiency for the month of Jun'21 was at 73% and 49% as Covid restrictions were imposed starting mid-May'21 and continued till mid- July'21 which impacted the collection efficiency of these states as against rest of India.
- Pan Bank collection efficiency for the month of Jun'21 was at 84% (excluding NPA).
- Of the total Assam MFI portfolio of INR 63.5 bn, INR 35.8 bn worth of portfolio are eligible under assam government plan and from the rest INR 27.7 bn portfolio, 76% customer are paying customers.
- Microfinance book SMA 1 book has increased from 2.8% to 10.1% QoQ. West Bengal (45% of the MFI portfolio) SMA 1 pool increased from 3.5% to 12.1% and Assam portfolio (12% of the MFI portfolio) SMA 1 pool increased from 5.6% to 19.5% QoQ.
- From the MFI NPA pool of INR 49.8 bn, 74% of customers are paying customers. And from the non-paying customers, ~34% are from Assam.
- Bank has not done any ECLGS disbursements during the quarter.
- Bank has availed credit guarantee fund for micro units (CGFMU) guarantee which is a central government guarantee given to lenders against payment of guarantee premium. Portfolio eligible under this scheme stood at 143 bn out of the total portfolio of INR 478 bn. (Features: a. First 3% of the loss of the pool has to be borne by the lender b. Incremental loss above 3%, 75% of it will be borne by the guarantee provider and 25% has to be borne by the lender.

Key Financials

Income Statement					Balance Sheet				
Particulars (Rs in Cr)	2020A	2021	2022E	2023E	Particulars (Rs in Cr)	2020A	2021	2022E	2023E
Interest Income	10885	12524	15697	18963	Assets				
(-) Interest Expense	-4562	-4961	-6614	-8067	Cash and Balances with RBI	6345	5235	7610	9618
Total Net Interest Income	6324	7563	9083	10896	Money at call and short notice	2008	958	958	958
Other Income	1549	2109	2443	2981	Investments	15352	25155	23780	30057
Total Income	7873	9672	11526	13877	Advances	66630	81613	102728	126238
Total Operating Expenses	2427	2817	3341	3863	Fixed Assets	369	487	544	614
Operating Profit	5447	6855	8185	10014	Other Assets	1014	1545	1854	2225
Provisions	1393	3907	4477	4258	Total Assets	91718	114993	137474	169709
Profit before Tax	4053	2949	3278	5364	Liabilities				
Provision for Taxes	1030	743	826	1352	Capital	1610	1611	1611	1611
PAT	3024	2205	2452	4012	Reserves and Surplus	13585	15798	17800	21262
					Deposits	57082	77972	95119	120227
					Borrowing from other banks	16379	16960	20800	24000
					Other liabilities and provisions	3062	2652	2144	2610
					Total Liabilities	91718	114993	137474	169709
Ratios					Analysis				
Particulars (Rs in Cr)	2020A	2021	2022E	2023E	Particulars (Rs in Cr)	2020A	2021	2022E	2023E
Basic Ratio					Spread Analysis				
EPS	18.8	13.7	15.2	24.9	Yield on advances	16.4%	14.0%	14.7%	14.7%
Book Value per share	94.3	108.1	120.5	142.0	Yield on investments	6.6%	5.8%	6.0%	6.0%
Adjusted book value per share	91.9	90.3	92.7	115.6	Cost of deposits	5.5%	4.6%	4.6%	4.6%
Dividend per share	0.0	2.2	2.8	3.4	Cost of funds	6.9%	6.2%	6.1%	6.1%
					Spread	7.2%	5.6%	6.4%	6.5%
Asset Quality					Growth (%)				
Gross NPAs	1.5%	6.8%	8.4%	6.5%	Advances growth	68.1%	22.5%	18.0%	23.0%
Net NPAs	0.6%	3.5%	4.6%	3.6%	Deposit growth	32.0%	36.6%	22.0%	26.4%
PCR	60.8%	48.5%	50.0%	50.0%	Net Profit growth	54.9%	-27.1%	11.2%	63.6%
					Liquidity				
Profitability Ratio					Advances to deposit ratio	116.7%	104.7%	108.0%	105.0%
RoAE	22.9%	13.5%	13.3%	19.0%	CASA	36.8%	43.4%	44.0%	44.0%
RoAA	4.1%	2.1%	1.9%	2.6%	CET 1 Ratio	27.4%	23.5%	20.9%	20.2%
NIMs (as calculated)	8.1%	7.9%	7.7%	7.7%	Efficiency				
					Cost-to-income	30.8%	29.1%	29.0%	27.8%
Valuation									
P/E (x)	15.5	21.3	19.1	11.7					
P/BV (x)	3.1	2.7	2.4	2.0					
P/ABV (x)	3.2	3.2	3.1	2.5					

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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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