

Substantially higher credit cost led to huge loss, stress pool increased sequentially

CMP: INR 291

Rating: Neutral

Target Price: INR 296

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)	46,952
52w H/L (INR)	430 / 259
Avg Yearly Vol (in 000')	11,010

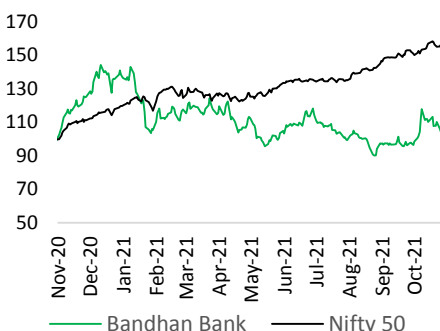
Shareholding Pattern %

(As on September, 2021)

Promoters	40.0
FII	33.6
DII	2.5
Public & Others	23.9

Stock Performance (%)	1m	3m	12m
Bandhan Bank	2.5	-0.4	-0.6
Nifty 50	-0.2	12.0	51.4

Bandhan Bank Vs Nifty



Bandhan Bank has posted another quarter of weak performance during Q2FY22 and reported higher net loss of INR 3,009 cr, due to sharp 14.1x YoY/4.1x QoQ jump in provision owing to higher stress in the portfolio. Operating performance of the bank was weak as NII growth was muted, operating profit registered a decline of 5% YoY and margin contracted by 90bps QoQ. During the quarter, Bank has taken accelerated additional provision of INR 4,630 cr, which includes INR 1,500 cr towards NPA accounts, INR 2,100 cr as an additional standard asset provision and INR 1,030 cr provision on restructured assets. Hence, PCR of the bank increased from 62% to 74% QoQ. GNPA of the bank increased sharply by 264bps QoQ at 10.8% while NNPA witnessed a decline of 25bps QoQ due to provisions buffer. Collection efficiency (Ex NPA) of MFI portfolio improved from 86% to 88% (Lower than pre-covid level). Collection efficiency in its key states still remained far below than pre-covid level. Restructured book of the bank increased quite sharply from 5.8% to 10.3% QoQ (9.2% for MFI and 1.1% in Housing).

Operating performance was weak

NII for the quarter grew marginally by 1% YoY and declined by 9% QoQ to INR 1,935 cr, due to decline in margin and lower credit growth. NIM of the bank decreased by 53bps YoY/90bps QoQ at 7.6% due to high interest reversal and lower yields. Operating profit for the quarter declined by 5% YoY/17% QoQ to INR 1,549 cr. Cost-income ratio of the bank increased from 29.3% to 36.2% QoQ largely due to lower operating income.

Credit growth moderated further

Bank has reported lowest ever AUM growth of 7% YoY/2% QoQ to INR 81,661 cr. Microfinance portfolio loan book growth was lowest at 9% YoY/2% QoQ at INR 54,040 cr. Disbursement in microfinance was high at 2x QoQ at INR 12,950 cr. Mortgage portfolio of the bank was flat at INR 19,490 cr. Disbursements in Housing book stood at INR 980 cr vs INR 510 cr QoQ. Deposits growth was strong at 24% YoY/6% QoQ to INR 81,898 cr. CASA ratio of the bank increased from 42.9% to 44.6% QoQ.

Stress pool (GNPA+ Restructured assets) rises from 14% to 21% QoQ :

Asset quality of the bank deteriorated further with GNPA ratio + restructured loans at 21% as on Sep'21 vs. 14% in Jun'21. Bulk of the stress continues to stem from microfinance portfolio with stressed assets at 37.2% vs. 29.4% QoQ, including SMA 1 & 2, NPA and restructured loans. GNPA in microfinance book increased from 9.3% to 13.6% QoQ. Bank has made accelerated provision and feel confident that they have provided enough for potential stress in the portfolio.

Valuation & View; Maintain Neutral: As highlighted in our last quarter update, stress in the bank continued to be higher. Bank has sharply increased its provisioning coverage which provides some comfort over incremental credit cost to be lower going ahead. To build in higher provisioning and NPA, we cut our FY22/23E earnings estimates sharply and expect bank to report loss for FY22E. While bank's liability franchise, healthy capital position are its key positives but near term challenges on asset quality remained higher which continue to restricts re-rating in the stock. We roll forward our estimate to FY24E and maintain our Neutral rating on the stock with a revised target price of INR 296 (INR 300 earlier), based on 2.5x FY24E ABV.

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Q2FY22 result Snapshot

Particulars (Rs in Cr)	Q2FY22	Q2FY21	YoY	Q1FY22	QoQ
Interest Earned	3,181	3,198	-0.5%	3,410	-6.7%
Interest Expended	1,245	1,275	-2.3%	1,296	-3.9%
Net Interest Income	1,935	1,923	0.6%	2,114	-8.5%
Other Income	492	382	28.8%	533	-7.8%
Total income	2,427	2,305	5.3%	2,647	-8.3%
Operating Expenses	878	677	29.6%	776	13.1%
Cost-income-ratio	36.2%	29.4%	678bps	29.3%	684bps
Operating Profits	1,549	1,628	-4.8%	1,871	-17.2%
Provisions & Contingencies	5,578	395	1313.9%	1,375	305.7%
PBT	-4,029	1,233	NA	496	NA
Provisions for Tax	-1,020	313	NA	123	NA
<i>Effective Tax Rate (%)</i>	<i>25%</i>	<i>25%</i>	<i>NA</i>	<i>25%</i>	<i>51bps</i>
PAT (reported)	-3,009	920	NA	373	NA
GNPA	8,764	874	903%	6,440	36%
NNPA	2,266	263	763%	2,458	-8%
GNPA	10.8%	1.2%	964bps	8.2%	264bps
NNPA (%)	3.0%	0.4%	268bps	3.3%	-25bps
Advances (On-Book + Off Book)	81,661	76,610	6.6%	80,357	1.6%
Deposits	81,898	66,130	23.8%	77,340	5.9%
NIM (%)	7.60	8.13	-53bps	8.50	-90bps
Total CAR (%)	20.4%	26.6%	-614bps	24.8%	-436bps
Tier 1 (%)	19.5%	23.7%	-417bps	23.8%	-432bps
Tier 2 (%)	1.0%	2.9%	-197bps	1.0%	-4bps

Concall Highlights:

- Collection efficiency (CE) improved on QoQ basis and credit growth are coming back to normalcy.
- Collection efficiency trend (Q1FY22 vs Q2FY22):
 - CE (Including NPA): 81% vs 81% QoQ
 - CE (Excluding NPA): 86% vs 88% QoQ
 - CE (including arrears): 98% vs 111% QoQ
- Bank has made accelerated provision on NPA account worth INR 1,500 cr resulting into PCR of 74%.
- Bank has restructured EEB (Microfinance) portfolio worth of INR 3,490 cr and Non-MFI portfolio of INR 268 cr during Q2FY22.
- Bank has added 0.8 mn customer in Q2FY22 with total customer base reaching to 24.3 million (EEB- 19 mn, Non EEB – 5.3 mn)
- There was no write offs during the quarter.
- Management said that the current provisioning buffer which bank had built will be sufficient to take care of any current asset quality issue. Going forward, provisioning will be on normalize basis.
- Management has guided for asset quality improvement in the coming quarter.
- Banking outlets as on September 30, 2021, stood at 5,618. The network consists of 1,168 branches, 4,450 banking units as against 1,045 branches and 3,656 banking units as on September 30, 2020.
- Total number of ATMs stood at 487 as on September 30, 2021 against 487 as on September 30, 2020.
- During the quarter, the number of employees of the bank has gone up from 51,054 to 52,976.

Exhibit 1: Microfinance portfolio stress pool coverage analysis

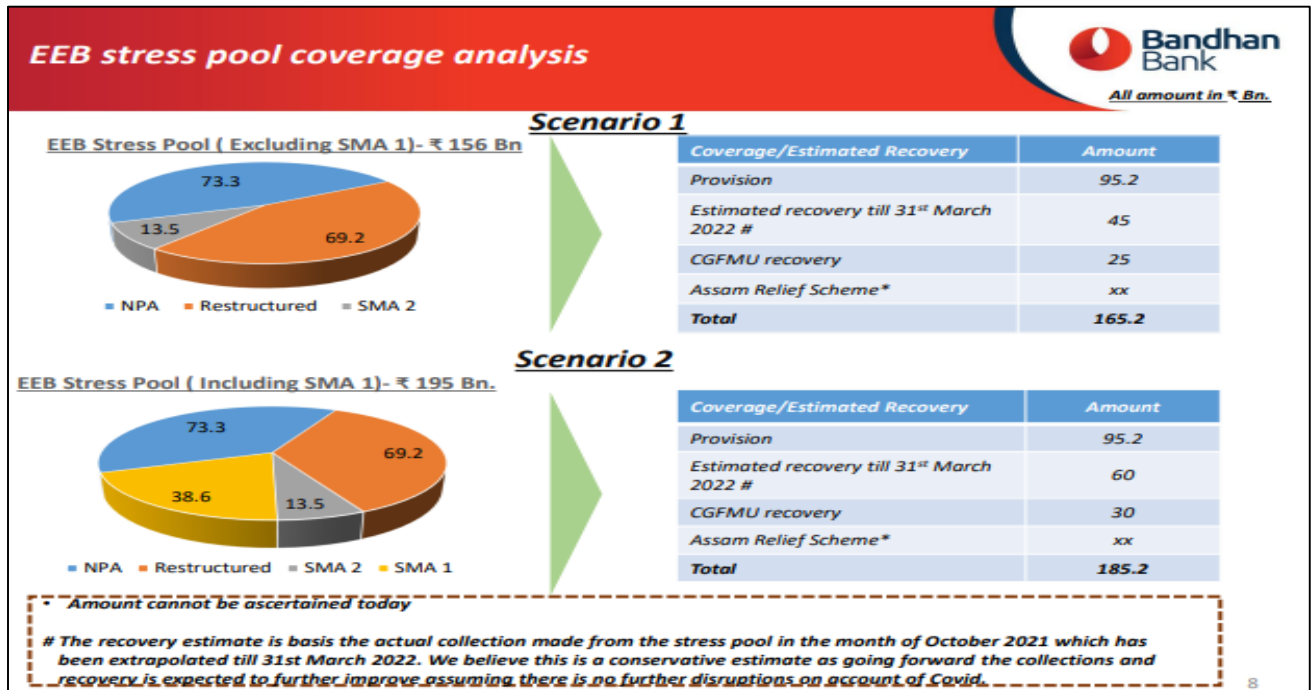
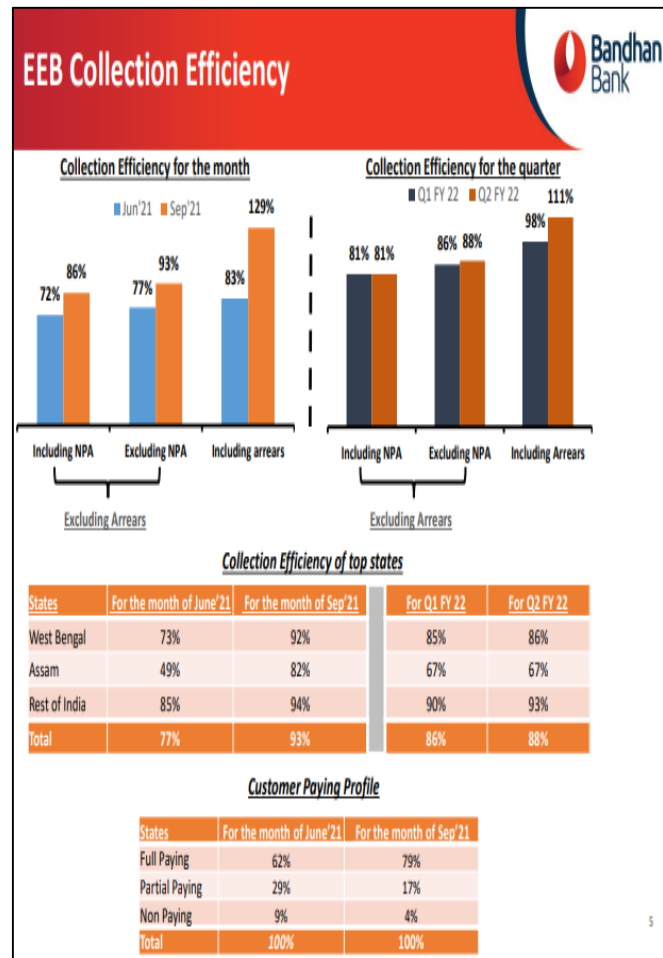


Exhibit 2: DPD Movement



Exhibit 3: Collection efficiency trend



Key Financials

Income Statement				
Particulars (Rs in Cr)	2021	2022E	2023E	2024E
Interest Income	12524	15108	17515	21163
(-) Interest Expense	-4961	-6289	-7620	-9580
Total Net Interest Income	7563	8818	9896	11582
Other Income	2109	2364	2789	3371
Total Income	9672	11182	12685	14954
Total Operating Expenses	2817	3242	3531	4012
Operating Profit	6855	7941	9154	10942
Provisions	3907	8271	4564	5215
Profit before Tax	2949	-330	4590	5726
Provision for Taxes	743	-83	1157	1443
PAT	2205	-247	3433	4283

Balance Sheet				
Particulars (Rs in Cr)	2021	2022E	2023E	2024E
Assets				
Cash and Balances with RBI	5235	7342	8769	10507
Money at call and short notice	958	3211	3211	3211
Investments	25155	22943	27402	32834
Advances	81613	91772	115087	140528
Fixed Assets	487	543	606	681
Other Assets	1545	1854	2225	2670
Total Assets	114993	127665	157300	190430
Liabilities				
Capital	1611	1611	1611	1611
Reserves and Surplus	15798	15101	17984	22267
Deposits	77972	91772	109607	131334
Borrowing from other banks	16960	17201	25713	32312
Other liabilities and provisions	2652	1981	2386	2906
Total Liabilities	114993	127665	157300	190430

Ratios				
Particulars (Rs in Cr)	2021	2022E	2023E	2024E
Basic Ratio				
EPS	13.7	-1.5	21.3	26.6
Book Value per share	108.1	103.8	121.7	148.3
Adjusted book value per share	90.3	88.7	95.5	118.6
Dividend per share	2.2	2.8	3.4	0.0
Asset Quality				
Gross NPAs	6.8%	9.8%	7.1%	6.6%
Net NPAs	3.5%	2.8%	3.9%	3.6%
PCR	48.5%	75.0%	50.0%	50.0%
Profitability Ratio				
RoAE	13.5%	-1.4%	18.9%	19.7%
RoAA	2.1%	-0.2%	2.4%	2.5%
NIMs (as calculated)	7.9%	7.8%	7.5%	7.2%
Valuation				
P/E (x)	21.3	-189.8	13.7	10.9
P/BV (x)	2.7	2.8	2.4	2.0
P/ABV (x)	3.2	3.3	3.0	2.5

Analysis				
Particulars (Rs in Cr)	2021	2022E	2023E	2024E
Spread Analysis				
Yield on advances	14.0%	14.9%	14.9%	14.7%
Yield on investments	5.8%	6.0%	6.0%	6.0%
Cost of deposits	4.6%	4.6%	4.6%	4.6%
Cost of funds	6.2%	6.0%	6.1%	6.3%
Spread	5.6%	6.5%	6.4%	6.1%
Growth (%)				
Advances growth	22.5%	12.4%	25.4%	22.1%
Deposit growth	36.6%	17.7%	19.4%	19.8%
Net Profit growth	-27.1%	-111.2%	1490.6%	24.8%
Liquidity				
Advances to deposit ratio	104.7%	100.0%	105.0%	107.0%
CASA	43.4%	44.0%	44.0%	36.7%
CET 1 Ratio	23.5%	19.0%	18.4%	18.4%
Efficiency				
Cost-to-income	29.1%	29.0%	27.8%	26.8%

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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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