

Operating performance remains strong but asset quality deteriorated due to Assam issue

**CMP: Rs 314**

**Rating: Accumulate**

**Target Price: Rs 355**

**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)	50,585
52w H/L (Rs)	488 / 152
Avg Yearly Vol (in 000')	13,082

**Shareholding Pattern %**

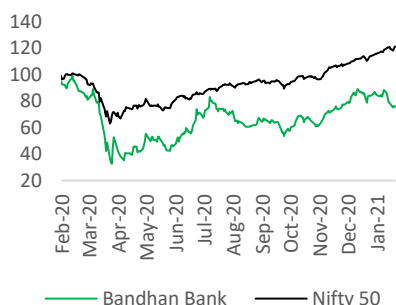
(As on December, 2020)

Promoters	40.0
FII	35.2
DII	4.4
Public & Others	20.4

**Stock Performance (%)**

	3m	6m	12m
Bandhan Bank	1.2	-8.7	-33.9
Nifty 50	20.8	29.1	18.7

**Bandhan Vs Nifty**



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*Despite strong operating profit growth of 51% YoY, Bandhan bank has reported 14% decline in net profit largely on account of accelerated provisions of Rs 1069 cr (~3.6x YoY). The bank has made additional standard asset provision of Rs 1000 cr during the quarter, primarily due to rising asset quality concern in Assam portfolio. With this additional provision, the cumulative provisioning buffer is strong at Rs 3119 cr i.e. 3.9% of the total loans. Asset quality on proforma basis, deteriorated sharply with GNPA increasing to 7.1%, which adjusted for part payment customers would be around ~3.5%. Collection efficiency in MFI book declined to 90% (by value) in the first half of Jan'21 (vs 92% in Dec'20) largely on account of weak collections in Assam. Assam collection efficiency dipped sharply from 88% in Dec'20 to 78% as on first half of Jan'21. Management has stated that fall in Assam collection efficiency is due to speculations regarding the Assam MFI Bill and proposed MFI loan waiver in the state which is not applicable for Bandhan bank. Management has increased their credit cost guidance to 5% from 3.5% earlier due to issues emerged in the state of Assam. We downgrade our rating to Accumulate from Buy with a revised TP of Rs 355.*

**Operationally strong performance but higher provision dents earnings**

NII for the quarter grew by strongly 35% YoY /8% QoQ to Rs 2,072 cr, led by healthy growth in advances at 23% YoY. Operating profit for the quarter increased by 51% YoY to Rs 1,914 cr driven by healthy NII growth and other income growth of 55% YoY. Profit for the quarter declined by 14% YoY to Rs 633 cr, largely due to 3.5x YoY increase in provision. NIM for the quarter improved by 30bps QoQ to 8.3% as cost of funds declined by 20bps QoQ to 6%. Yield on advances stood flat at 13.3% QoQ.

**Liability profile continuously progressing well; CASA ratio improved sharply**

Liability franchise of the bank continued to remain strong as total deposits of the bank grew by 30% YoY/8% QoQ to Rs 71,190 cr, supported by strong growth in CASA deposit at 62% YoY/21% QoQ. CASA ratio of the bank improved sharply to 42.9% from 38.2% QoQ. Total advances of the bank grew by 23% YoY/5% QoQ to Rs 80,260 cr, led by improvement in disbursements in the MFI segment, up 60% QoQ/14% YoY at Rs 16,580 cr.

**Asset quality deteriorated**

Due to SC's interim order, GNPA/NNPA ratio of the bank declined to 1.1%/0.3% from 1.2%/0.4% QoQ but proforma GNPA without SC order would have been higher at 7.1%. However, considering part payment, proforma GNPA could be lower at 3.5%. The bank has not done any restructuring till now. While EEB (micro-credit) collection efficiencies stood at ~92% as of Q3FY21, it has declined significantly as of first half of Jan'21 at 90% due to sharp drop in collection of Assam portfolio. Collection efficiency in West Bengal was at 89%, Assam collection efficiency at 78% and rest of India at 94% as of first half of Jan'21. Collection efficiency in Non-MFI segment stood stable (Housing: 98%, Commercial banking: 98%). With rising concern over Assam portfolio and drop in collection efficiency, we have raised our FY21E GNPA estimates to 4.9%.

**Valuation & View**

We remain watchful on asset quality of the bank given the current situation in Assam and upcoming West Bengal/Assam elections in Apr-May'21. Given the near term risk in the bank's business, we have reduced our FY21E EPS estimate by 24%, factoring in higher provisioning. Bank has built significant provision buffer to absorb the potential spike in NPL. Long term outlook of the bank looks positive as it has strong liability franchise, adequate capital position and long track record. Also, bank has adopted a strategy to diversify its book and venture into other products which will take time. We downgrade our rating to Accumulate from Buy with a revised TP of Rs 355, valuing it at 2.4x FY23E ABV on a conservative basis (based on FY21-23E multiple avg of 2.7x). Any meaningful correction in the stock offers better entry point for long term investors.

## Q3FY21 result Snapshot

Particulars (Rs in Cr)	Q3FY21	Q3FY20	YoY	Q2FY21	QoQ
Interest Earned	3,308	2,718	21.7%	3,198	3.4%
Interest Expended	1,236	1,177	5.0%	1,275	-3.0%
<b>Net Interest Income</b>	<b>2,072</b>	<b>1,540</b>	<b>34.5%</b>	<b>1,923</b>	<b>7.7%</b>
Other Income	553	358	54.7%	382	44.9%
<b>Total income</b>	<b>2,625</b>	<b>1,898</b>	<b>38.3%</b>	<b>2,305</b>	<b>13.9%</b>
Operating Expenses	711	634	12.1%	677	5.0%
<i>Cost-income-ratio</i>	27.1%	33.4%	-633bps	29.4%	-230bps
<b>Operating Profits</b>	<b>1,914</b>	<b>1,264</b>	<b>51.4%</b>	<b>1,628</b>	<b>17.6%</b>
Provisions & Contingencies	1,069	295	262.4%	395	170.9%
<b>PBT</b>	<b>845</b>	<b>969</b>	<b>-12.8%</b>	<b>1,233</b>	<b>-31.4%</b>
Provisions for Tax	213	238	-10.6%	313	-32.0%
<i>Effective Tax Rate (%)</i>	25%	25%	61bps	25%	-22bps
<b>PAT (reported)</b>	<b>633</b>	<b>731</b>	<b>-13.5%</b>	<b>920</b>	<b>-31.2%</b>
GNPA	859	1,182	-27%	874	-2%
NNPA	201	491	-59%	263	-23%
GNPA	1.1%	2.0%	-93bps	1.2%	-7bps
NNPA (%)	0.3%	0.6%	-32bps	0.4%	-10bps
<b>Advances (On-Book + Off Book)</b>	<b>80,260</b>	<b>65,460</b>	<b>22.6%</b>	<b>76,615</b>	<b>4.8%</b>
<b>Deposits</b>	<b>71,190</b>	<b>54,910</b>	<b>29.6%</b>	<b>66,128</b>	<b>7.7%</b>
NIM (%)	8.30	7.90	40bps	8.00	30bps
Total CAR (%)	26.2%	26.6%	-38bps	25.7%	50bps
Tier 1 (%)	21.4%	23.7%	-225bps	22.2%	-80bps
Tier 2 (%)	4.8%	2.9%	187bps	3.5%	130bps

**Concall Highlights:**

- Proforma GNPA of the bank stood higher at 7.12% due to bank's conservative stance (95% are from MFI portfolio). This number also includes partial payment doing by customers taken as NPA. Excluding part payment accounts, GNPA numbers would have been in the range of 3-3.5%. Current DPD status of the bank are as follows: 0 DPD (Days payment dues) at 76.5%, 0-30 DPD at 2%, 30-60 DPD at 10%, 5% customers fall in 60-90 DPD and rest ~7% is under NPA category.
- Bank have not done any restructuring till date. The bank have a option to do restructuring till March' 2021.
- Microfinance business collection efficiency of the bank stood at 92% (by value) and 94% (by customer) as of Dec'20, which has further reduced to 90% (by value) as of 16th Jan 2021. Collection efficiency in Commercial banking and Affordable housing is at 98% as of Dec'20. Collection efficiency in West Bengal has dipped from 90% in Dec'20 to 89% as on 16th Jan 21 which is temporary and it is expected to go up. There is no political issue in West Bengal. Assam collection efficiency has dipped sharply from 88% in Dec'20 to 78% as of 16th Jan 21, mainly because the customers think that new Assam bill (related to microfinance) is applicable for the loans taken from banks which is not applicable.
- Bank has taken cautious stance on growing the microfinance portfolio in the state of Assam.
- Deposit growth momentum of the bank remains strong, primarily low cost deposit share.
- Other income growth of 55% YoY was supported by cross sell opportunities and PSLC fees income.



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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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