

Q3FY22 - Result Update 23rd January 2022

Bandhan Bank Ltd.

Stress pool moderated sequentially; However, slippages remained elevated

CMP: INR 296

Rating: Hold

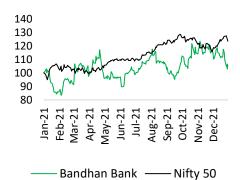
Target Price: INR 323

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)	47,524
52w H/L (INR)	430 / 259
Avg Yearly Vol (in 000')	8,158

Shareholding Pattern %				
(As on December, 2021)				
Promoters	39.9			
FII	34.6			
DII	2.0			
Public & Others	23.5			

Stock Performance (%)	1m	3m	12m
Bandhan Bank	20.0	(6.6)	(13.3)
Nifty 50	5.1	(3.1)	20.8

Bandhan Bank Vs Nifty 50



Raju Barnawal

raju.b@arihantcapital.com 022 67114870 After reporting whopping loss of INR 3,009 cr in Q2FY22, Bandhan Bank has posted PAT of INR 859 cr in Q3FY22 which was sharply higher then our estimate of INR 478 cr, driven by lower provisioning expenses. Operating performance was healthy as NII for the quarter increased by 3% YoY and operating profit grew by 2% YoY/26% QoQ. Collection efficiency improved across geography and restructuring pool is declining gradually. However, the slippages in the current quarter were higher and NPA ratio stood flat despite "Rs12bn write-offs and improved recoveries. Headline NPA ratio GNPA/NNPA stood at 10.8%/3% flat QoQ. NIMs improved by 20bps QoQ at 7.8%. Loan portfolio (on book + off book + TLTRO + PTC) for Q3FY22 grew by 7.8% QoQ.

Collection efficiency (CE) improves to 97%

Collection witnessed a sign of strong recovery as collection of EEB (Emerging Entrepreneurs Business) portfolio (excluding NPA) for the Dec'21 month improved to 97% from 93%/77% in Sep'21/Jun'21 (96% in Q3FY22 vs 88% in Q2FY22). With gradual rise in activity levels, CE improvement was broad-based: for Assam, it improved from 82% to 96% QoQ, West Bengal (WB) from 92% to 97%, and rest of India from 94% to 98%. Moreover, 89% of customers are paying full dues, 7% are paying partially and 4% are not paying at all. Around 2/3rd of NPA and restructuring customers are paying the dues. Management highlighted there is no disruption in business operations due to covid third wave and collection trends should improve further.

Credit growth improved sequentially

Advances for the quarter grew by 7.8% QoQ (vs. 1.6% QoQ in Q2FY22). EEB Group segment AUM declined in-line with management strategy to INR 454.5 bn (from INR 463 bn in Q2FY22) while EEB individual book grew strongly to INR 121 bn (from INR 77.7 bn in Q2FY22). Disbursements in EEB individual segment more than doubled QoQ to INR 62 bn (from INR 26.7 bn in Q2FY22). Mortgage portfolio of the bank witnessed good traction with housing assets disbursements stood at INR 22.2 bn vs. INR 9.8 bn in Q2FY22. After several quarters of consolidation, housing book grew 7% QoQ. Deposits growth moderated at 19% YoY (vs. 24% YoY in Q2FY22). CASA ratio of the bank increased from 44.6% to 45.6% QoQ.

Stress pool moderates; Slippages remained elevated: Gross slippages for the quarter remained elevated at INR 34 bn vs. INR 29 bn in the previous quarter. This was partially offset by recoveries and upgrades of INR 1548 cr and write-offs of INR 1200 cr. GNPAs, in absolute term, increased by INR 678 cr but in percentage term it was steady at 10.8%. EEB GNPA was steady at 13.7% vs. 13.6% QoQ. Restructured pool of the bank declined from INR 90.3 bn to INR 66 bn.

Valuation & View: Bandhan Bank has reported improved trend on collection front and healthy credit growth sequentially. Also, EEB stress pool moderated to INR 170 bn (vs INR 195 bn in Sep'21). However, there was no major movement in GNPA ratio. We believe, normalization of stress level will take couple of more quarter and behavior of restructured pool will be keenly watched, once it is out of moratorium. We revise our rating on the stock to Hold from Neutral with a revised TP of INR 323 (earlier INR 296), based on 2.6x FY24E ABV.

Q3FY22 result Snapshot

Particulars (Rs in Cr)	Q3FY22	Q3FY21	YoY	Q2FY22	QoQ
Interest Earned	3,409	3,308	3.0%	3,181	7.2%
Interest Expended	1,284	1,236	3.9%	1,245	3.1%
Net Interest Income	2,125	2,072	2.6%	1,935	9.8%
Other Income	712	553	28.7%	492	44.9%
Total income	2,837	2,625	8.1%	2,427	16.9%
Operating Expenses	887	711	24.7%	878	1.0%
Cost-income-ratio	31.3%	27.1%	418bps	36.2%	-491bps
Operating Profits	1,950	1,914	1.9%	1,549	25.9%
Provisions & Contingencies	806	1,069	-24.6%	5,578	-85.6%
PBT	1,144	845	35.4%	-4,029	NA
Provisions for Tax	285	213	34.2%	-1,020	NA
Effective Tax Rate (%)	25%	25%	NA	25%	-38bps
PAT (reported)	859	633	35.8%	-3,009	NA
GNPA	9,442	859	999%	8,764	8%
NNPA	2,413	201	1099%	2,266	7%
GNPA	10.8%	1.1%	970bps	10.8%	-1bps
NNPA (%)	3.0%	0.3%	275bps	3.0%	-3bps
Advances (On-Book + Off Book)	87,998	80,260	9.6%	81,661	7.8%
Deposits	84,500	71,188	18.7%	81,898	3.2%
NIM (%)	7.80	8.13	-33bps	7.60	20bps
Total CAR (%)	20.0%	26.6%	-658bps	20.4%	-44bps
Tier 1 (%)	19.0%	23.7%	-465bps	19.5%	-48bps
Tier 2 (%)	1.0%	2.9%	-193bps	1.0%	4bps

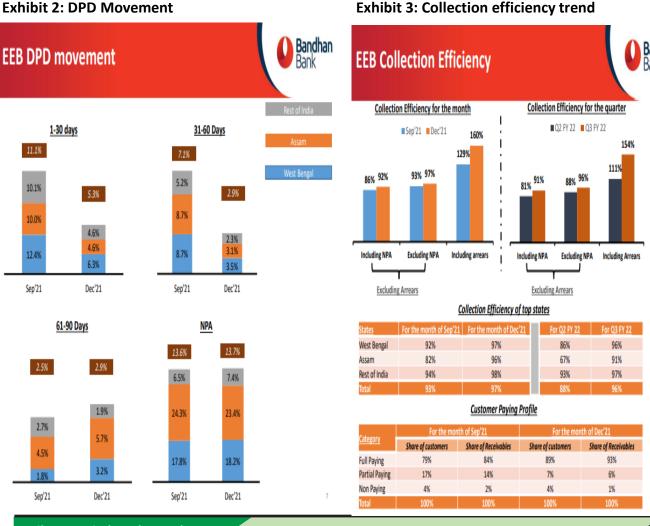
Concall Highlights:

- Bank has not seen any impact on its business operations till date due to Covid 3.0.
- Business activities returned to almost pre pandemic levels during Q3FY22. Collection efficiency trends have been encouraging during Q3FY22 as people's livelihood is coming back to normalcy.
- Overall collection efficiency (CE) stood at 93% from 90% QoQ and for EEB, it stood at 92% from 86% QoQ.
 Furthermore among NPA customers, CE at 97% from 93% QoQ and it will soon reach 99%.
- Assam CE stood at 96% from 82% QoQ. West Bengal CE stood at 97% from 92% QoQ.
- 66% of NPA customers are paying in Q3FY22 and 61% of restructured customers paid in Q3FY22.
- 1-30 dpd declined from 11% to 5.3% QoQ, 31-60 dpd from 7.1% to 2.9% QoQ and 61-90 dpd was around 2.9%.
- EEB NPA as well as restructuring is declining QoQ and this trend is likely to continue. Overall delinquent pool has reduced by 8% excluding write-offs.
- At a consolidated level it is carrying cumulative provisions of INR 102 bn vs INR 106 bn QoQ (total provisions towards the entire portfolio).
- Of the standard asset provisioning created of INR 21 bn, it has reversed INR 8 bn and continues to carry balance INR 13 bn.
- There is no restructuring done during the quarter.
- For zero DPD customers, Assam government has started paying back the money. So far, bank has received money for 39,600 customers amounting to INR 86 cr.

Exhibit 1: Microfinance portfolio stress pool coverage analysis

Bandhan Bank EEB stress pool coverage analysis All amount in ₹ Bn. Sep'21 EEB Stress Pool - ₹ 195 Bn. Provision 95.5 73.3 69.2 Estimated recovery till 31st March 60 2022 # 38.6 CGFMU recovery 30 Assam Relief Scheme* 185.5 NPA Restructured SMA 2 SMA 1 Dec'21 EEB Stress Pool - ₹ 170 Bn. 79.0 Provision 91.7 Estimated recovery till 30th June 50 2022# 57.8 CGFMU recovery 25 Assam Relief Scheme* Xx NPA - Restructured - SMA 2 *Amount cannot be ascertained today # The recovery estimate is conservatively based on the actual recovery made from the stress pool in Q3 FY 22. Historically Q4 has always been the best quarter of the year in terms of recovery.

Exhibit 2: DPD Movement



Key Financials

Income Statement					Balance Sheet			
Particulars (Rs in Cr)	2021	2022E	2023E	2024E	Particulars (Rs in Cr)	2021	2022E	
Interest Income	12524	15100	17508	21163	Assets			
(-) Interest Expense	-4961	-6278	-7611	-9559	Cash and Balances with RBI	5235	7303	
				4	Money at call and short			
Total Net Interest Income	7563	8822	9896	11605	notice	958	3010	_
Other Income	2109	2364	2790	3372	Investments	25155	22822	27
Total Income	9672	11186	12686	14977	Advances	81613	91286	115
Total Operating Expenses	2817	3243	3531	4018	Fixed Assets	487	543	_
Operating Profit	6855	7943	9155	10958	Other Assets	1545	1854	2
Provisions	3907	8756	4083	4618	Total Assets	114993	126818	157
Profit before Tax	2949	-813	5072	6340				
Provision for Taxes	743	-205	1278	1598	Liabilities			
PAT	2205	-608	3794	4743	Capital	1611	1611	16
					Reserves and Surplus	15798	14739	179
	5%	10%	4%	3%	Deposits	77972	91286	1099
					Borrowing from other	16060	17201	25/
					banks	16960	17201	256
D. C.					Other liabilities and	2652	4004	2.2
Ratios	2024	20225	20225	20245	provisions	2652	1981	23
Particulars (Rs in Cr)	2021	2022E	2023E	2024E	Total Liabilities	114993	126818	15/5
Basic Ratio EPS	13.7	-3.8	23.6	29.4	Analysis			
Book Value per share	108.1	101.5	121.7	151.1	Particulars (Rs in Cr)	2021	2022E	202
·								
Adjusted book value per share	90.3	89.5	97.8	124.2	Spread Analysis			
					Yield on advances	14.0%	15.0%	14.
					Yield on investments	5.8%	6.0%	6.
Asset Quality					Cost of deposits	4.6%	4.6%	4.
Gross NPAs	6.8%	9.8%	6.4%	6.0%	Cost of funds	6.2%	6.0%	6.
Net NPAs	3.5%	2.3%	3.5%	3.3%	Spread	5.6%	6.5%	6.
PCR	48.5%	80.0%	50.0%	50.0%	Growth (%)			
					Advances growth	22.5%	11.9%	26.
Profitability Ratio					Deposit growth	36.6%	17.1%	20.
RoAE	13.5%	-3.6%	21.1%	21.6%	Net Profit growth	-27.1%	-127.6%	
RoAA	2.1%	-0.5%	2.7%	2.7%	Liquidity	271270	227.075	, 20.
	7.9%	7.8%	7.5%	7.2%	Advances to deposit ratio	104.7%	100.0%	105
		7.070	7.570	7.270	CASA	43.4%	44.0%	44.
NIMs (as calculated)						73.70	TT.U/0	→→.
NIMs (as calculated)							18 7%	18
NIMs (as calculated) Valuation	21.6	-72 <i>1</i>	12.6	10 1	CET 1 Ratio	23.5%	18.7%	18.
NIMs (as calculated)	21.6 2.7	-78.4 2.9	12.6 2.4	10.1 2.0			18.7% 29.0%	18. 27.

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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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