

**CMP: Rs 475**

**Rating: Accumulate**

**Target Price: Rs 564**

**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)          | 76,478     |
| 52w H/L (Rs)             | 650 / 383  |
| Avg Yearly Vol (in 000') | 1,655.46   |

**Shareholding Pattern %**

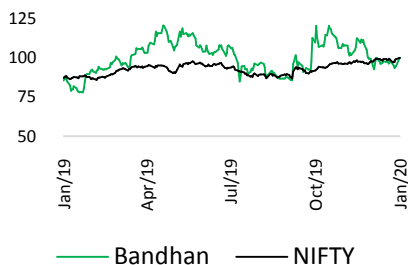
(As on September, 2019)

|                 |      |
|-----------------|------|
| Promoters       | 82.3 |
| FII             | 6.9  |
| DII             | 8.9  |
| Public & Others | 1.9  |

**Stock Performance (%)**

|              | 3m    | 6m    | 12m  |
|--------------|-------|-------|------|
| Bandhan Bank | -21.3 | -10.5 | 8.9  |
| Nifty 50     | 9.0   | 6.7   | 15.1 |

**Bandhan Vs Nifty**



Anmol Das

[anmol.das@arihantcapital.com](mailto:anmol.das@arihantcapital.com)

022 67114865

Raju Barnawal

[raju.b@arihantcapital.com](mailto:raju.b@arihantcapital.com)

022 67114870

*Bandhan bank's Q3FY20 core performance was modest due to softer trend in MFI business, while asset quality deteriorated marginally. Q3FY20 numbers are for merged entity (Bandhan + Gruh) hence, YoY numbers are not comparable. Profit for the quarter came in at Rs 731 cr vs. our estimate of Rs 722 cr. NII for the quarter came in at Rs 1540 cr, below our estimate of Rs 1662 cr. NIM contracted by 30bps QoQ to 7.9% due to interest income de-recognition. GNPA's of the bank rose by 17bps QoQ to 1.93%, led by increase in slippages in Gruh's portfolio. Management stated that ~50% of the slippages were due to the shift to RBI norms from NHB norms for Gruh's assets. Loan book of the bank grew by 2% QoQ to Rs 65,456 cr while robust growth seen on deposit front at 11.6% QoQ for merged entity.*

**Key Result Highlights:**

- The bank has added 0.73 mn customers during the quarter with total customer base reaching to 19 mn (Micro Banking- 14.56 mn, Non Micro- 4.17 mn and Gruh Finance – 0.27 mn). Exclusive borrowship remained flat at 55% QoQ.
- Portfolio diversification between MFI and Non-MFI stood at 61% and 39% respectively. From Non-MFI portfolio, 29% portfolio is in mortgage segment i.e. for Gruh.
- Operating profit for the quarter de-grew by 3% QoQ to Rs 1264 cr vs. our estimate of Rs 1275 cr, largely due to increase in operating cost. Cost-to-income ratio was ~250 bps higher qoq at 33% led by strong employee addition and merger related expenses.
- Bandhan Bank has recorded robust deposit growth of 12% QoQ (ex-Gruh deposit growth at 44.4% YoY) to Rs 54908 cr. CASA ratio for the quarter stood at 34.3% vs 33% QoQ.
- Headline asset quality numbers deteriorated marginally with GNPA/NNPA ratio at 1.9%/ 0.8% vs. 1.8%/0.6% respectively. Micro credit NPA broadly remained stable at 0.47% vs. 0.42% QoQ while Gruh's NPA inched up by 15bps QoQ at 0.49%.

**Valuation & View**

Bandhan Bank's reported earnings were in-line with our estimates. However, NPAs have risen because of increase in Gruh's NPA, contributed 15bps in overall GNPA's and some stress in Assam's MFI portfolio but asset quality ex-Assam remains healthy with On time repayment rate on overall portfolio maintained at 98.8%. In the context of Citizenship Amendment Act protest mainly in Assam district, Bandhan Bank's business performance was impacted. However, the situation has improved by December quarter end (shown in Exhibit:3). The benefit of the diversification would take time to pick up the growth. The bank is well poised to deliver strong RoE led by superior margins, high RoAs and lowest credit costs. We believe Bandhan's long track record in the region, strong risk based team and superior franchise like High touch business model and customer vintage should help Bandhan to come out of the current environment without any significant challenge. However, the recent situation in eastern states with Bandhan's high exposure, contributing nearly 65-66% of the total portfolio, including WB/Assam at 62% and integration of Gruh Finance will keep the growth trajectory moderate in the near term. We rollover our estimate to FY22E and change our call to Accumulate from Hold while valuing the stock at P/adj. BVx of 3.9x to its FY22E to arrive at a target price of Rs 564.

**Key Risk to Our Call:**

- \* Increase in delinquencies, particularly in MFI portfolio

### Q3FY20 result Snapshot

| Particulars (Rs in Cr)               | Q3FY20*       | Q3FY19        | YoY           | Q2FY20*       | QoQ           |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Interest Earned                      | 2,718         | 1,650         | 64.7%         | 2,690         | 1.0%          |
| Interest Expended                    | 1,177         | 526           | 124.0%        | 1,161         | 1.4%          |
| <b>Net Interest Income</b>           | <b>1,540</b>  | <b>1,124</b>  | <b>37.0%</b>  | <b>1,529</b>  | <b>0.7%</b>   |
| Other Income                         | 358           | 234           | 52.8%         | 360           | -0.7%         |
| <b>Total income</b>                  | <b>1,898</b>  | <b>1,358</b>  | <b>39.7%</b>  | <b>1,889</b>  | <b>0.5%</b>   |
| Operating Expenses                   | 634           | 458           | 38.5%         | 582           | 8.9%          |
| <i>Cost-income-ratio</i>             | 33.4%         | 33.7%         |               | 30.8%         |               |
| <b>Operating Profits</b>             | <b>1,264</b>  | <b>901</b>    | <b>40.4%</b>  | <b>1,307</b>  | <b>-3.3%</b>  |
| Provisions & Contingencies           | 295           | 378           | -21.9%        | 146           | 102.6%        |
| <b>PBT</b>                           | <b>969</b>    | <b>523</b>    | <b>85.3%</b>  | <b>1,161</b>  | <b>-16.6%</b> |
| Provisions for Tax                   | 238           | 192           | 24.2%         | 190           | 25.5%         |
| <i>Effective Tax Rate (%)</i>        | 25%           | 37%           |               | 16%           |               |
| <b>PAT (reported)</b>                | <b>731</b>    | <b>331</b>    | <b>120.7%</b> | <b>972</b>    | <b>-24.8%</b> |
| GNPA                                 | 1,182         | 831           | 42%           | 1,064         | 11%           |
| NNPA                                 | 491           | 237           | 108%          | 337           | 46%           |
| GNPA                                 | 1.9%          | 1.3%          |               | 1.8%          |               |
| NNPA (%)                             | 0.8%          | 0.6%          |               | 0.6%          |               |
| <b>Advances (On-Book + Off Book)</b> | <b>65,456</b> | <b>32,590</b> |               | <b>64,186</b> |               |
| <b>Deposits</b>                      | <b>54,908</b> | <b>32,959</b> |               | <b>49,195</b> |               |
| NIM (%)                              | 7.9           | 10.3          |               | 8.2           |               |
| Total CAR (%)                        | 24.69%        | 32.61%        |               | 25.1%         |               |
| Tier 1 (%)                           | 23.09%        | 31.43%        |               | 23.0%         |               |
| Tier 2 (%)                           | 1.60%         | 1.18%         |               | 2.1%          |               |

\* Merged financials with Gruh Finance

Source: Arianth Research, Company Filings

Exhibit : 1 Advances Break-up

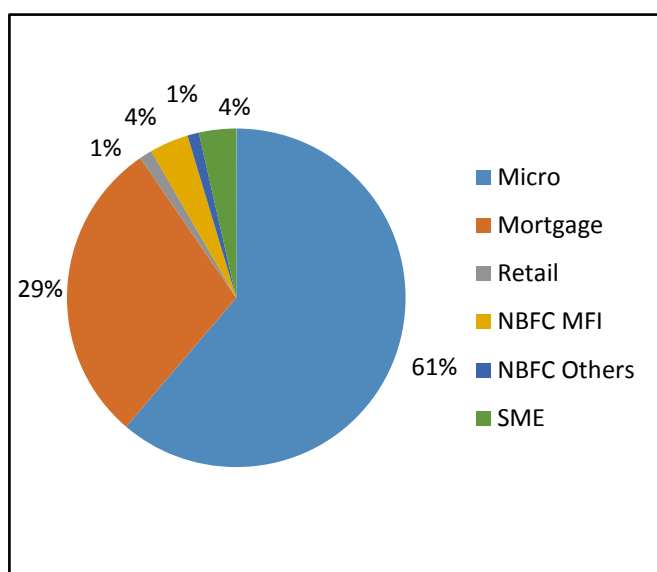
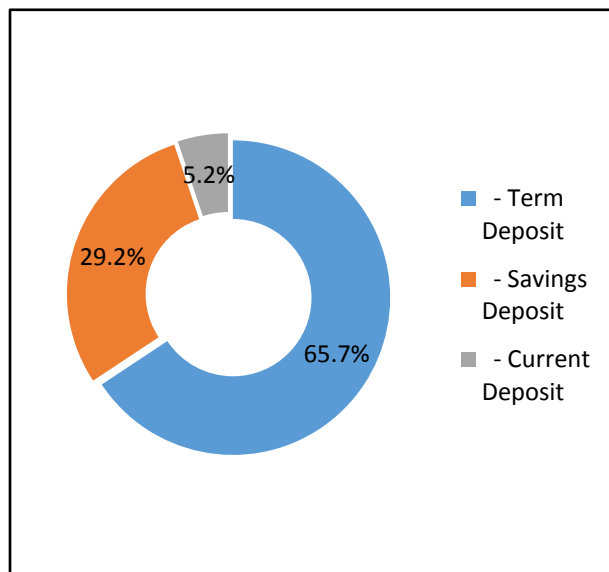


Exhibit: 2 Liability Profile

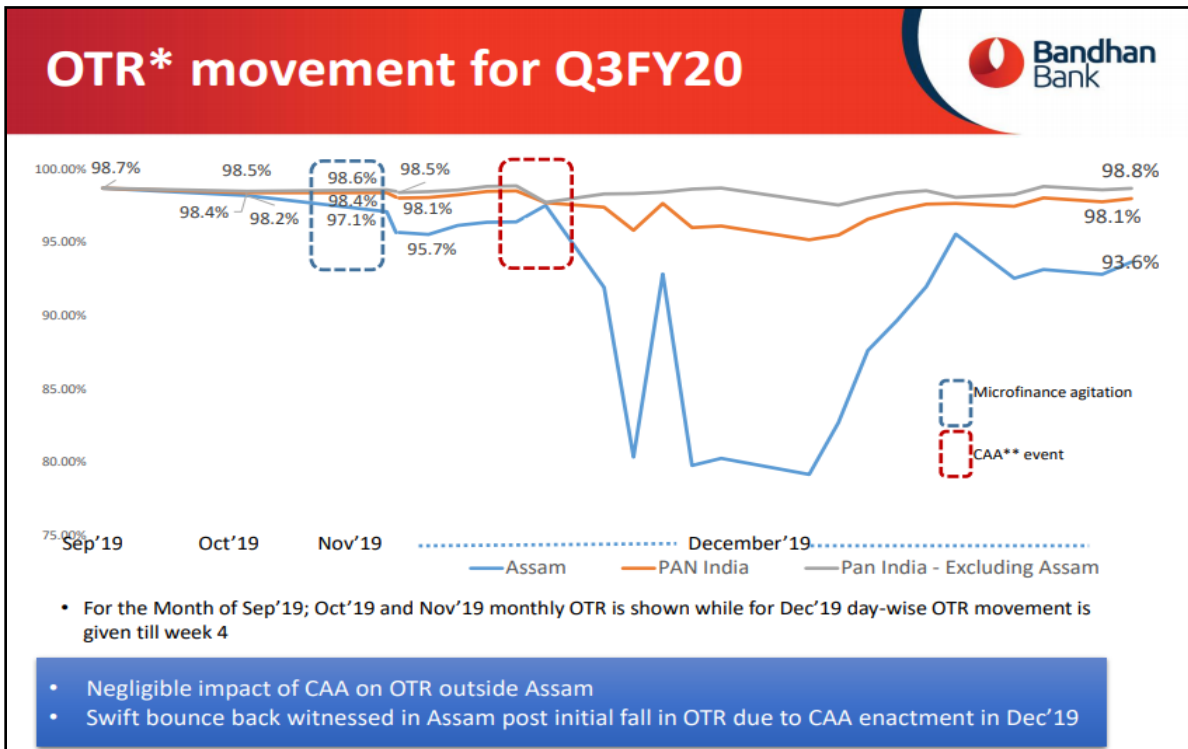


## Concall Highlights

### Key Takeaways from Conference Call:

- The bank has made additional provision of Rs 200 cr on standard advances in microfinance portfolio of Assam district. The OTR (On time repayment rate) movement had fallen in Assam in the beginning of December month due to CAA protest but it has improved at the end of December. Management highlighted that if the current situation prevails then there is no need to make any additional provisioning in Q4FY20.
- 30 DPD+ portfolio as of Q3FY20 is Rs 556 cr vs. Rs 384 cr in Q2FY20, an increase of Rs 172 cr out of which Rs 162 cr is from Assam district.
- Management said that they are not seeing any challenge in West bengal in terms of Over-leveraging or repayment rate. Current repayment rate of West bengal is 98%.
- Gruh's portfolio growth was affected on account of merger integration. It will take 3-6 month time to turn to normal level.
- The growth outside East India in terms of customer acquisition is faster.
- Loan portfolio in state of Bihar is Rs 4053 cr vs Rs 3120 cr last year while Orissa exposure is Rs 945 cr vs. Rs 659 cr YoY.

Exhibit: 3 OTR (On time repayment rate) had shown improvement from its low in mid December month



Source: Company Filings

## Key Financials

| Income Statement                 |             |             |             |              |
|----------------------------------|-------------|-------------|-------------|--------------|
| Particulars (Rs in Cr)           | 2019A       | 2020E       | 2021E       | 2022E        |
| Interest Income                  | 6644        | 10721       | 13642       | 17232        |
| (-) Interest Expense             | -2148       | -4289       | -6381       | -7958        |
| <b>Total Net Interest Income</b> | <b>4496</b> | <b>6432</b> | <b>7261</b> | <b>9274</b>  |
| <b>Other Income</b>              | <b>1063</b> | <b>1410</b> | <b>1894</b> | <b>2359</b>  |
| <b>Total Income</b>              | <b>5559</b> | <b>7842</b> | <b>9155</b> | <b>11633</b> |
| Total Operating Expenses         | 1811        | 2549        | 2899        | 3684         |
| Provisions                       | 735         | 901         | 994         | 1383         |
| <b>Profit before Tax</b>         | <b>3013</b> | <b>4392</b> | <b>5263</b> | <b>6567</b>  |
| Provision for Taxes              | 1062        | 1107        | 1326        | 1655         |
| <b>PAT</b>                       | <b>1951</b> | <b>3286</b> | <b>3936</b> | <b>4912</b>  |

| Ratios                        |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|
| Particulars (Rs in Cr)        | 2019A | 2020E | 2021E | 2022E |
| <b>Basic Ratio</b>            |       |       |       |       |
| EPS                           | 16.4  | 20.4  | 24.4  | 30.5  |
| Book Value per share          | 93.9  | 101.6 | 122.9 | 149.4 |
| Adjusted book value per share | 92.0  | 98.7  | 119.2 | 144.7 |
| Dividend per share            | 3.2   | 2.6   | 3.2   | 4.0   |
| <b>Asset Quality</b>          |       |       |       |       |
| Gross NPAs                    | 2.0%  | 1.6%  | 1.5%  | 1.6%  |
| Net NPAs                      | 0.6%  | 0.7%  | 0.6%  | 0.7%  |
| PCR                           | 72.1% | 58.0% | 58.0% | 58.0% |
| <b>Profitability Ratio</b>    |       |       |       |       |
| RoAE                          | 19.0% | 23.8% | 21.8% | 22.4% |
| RoAA                          | 3.9%  | 4.4%  | 3.7%  | 3.6%  |
| NIMs (as calculated)          | 9.7%  | 9.2%  | 7.2%  | 7.3%  |
| <b>Valuation</b>              |       |       |       |       |
| P/E (x)                       | 29.0  | 23.3  | 19.4  | 15.6  |
| P/BV (x)                      | 5.1   | 4.7   | 3.9   | 3.2   |
| P/ABV (x)                     | 5.2   | 4.8   | 4.0   | 3.3   |

| Balance Sheet              |              |              |               |               |
|----------------------------|--------------|--------------|---------------|---------------|
| Particulars (Rs in Cr)     | 2019A        | 2020E        | 2021E         | 2022E         |
| <b>Assets</b>              |              |              |               |               |
| Cash and Balances with RBI | 3879         | 4783         | 6353          | 7918          |
| Money at call              | 1924         | 1924         | 1924          | 1924          |
| Investments                | 10037        | 14948        | 19854         | 24744         |
| Advances                   | 39643        | 71751        | 91327         | 113824        |
| Fixed Assets               | 331          | 370          | 416           | 184           |
| Other Assets               | 627          | 752          | 903           | 1083          |
| <b>Total Assets</b>        | <b>56442</b> | <b>94528</b> | <b>120776</b> | <b>149677</b> |
| <b>Liabilities</b>         |              |              |               |               |
| Capital                    | 1193         | 1610         | 1610          | 1610          |
| Reserves and Surplus       | 10009        | 14747        | 18172         | 22445         |
| Deposits                   | 43232        | 59792        | 79414         | 98977         |
| Borrowings                 | 521          | 16931        | 19737         | 24347         |
| Other liabilities          | 1487         | 1448         | 1843          | 2297          |
| <b>Total Liabilities</b>   | <b>56442</b> | <b>94528</b> | <b>120776</b> | <b>149677</b> |

| Analysis               |       |       |       |       |
|------------------------|-------|-------|-------|-------|
| Particulars (Rs in Cr) | 2019A | 2020E | 2021E | 2022E |
| <b>Spread Analysis</b> |       |       |       |       |
| Yield on advances      | 15.5% | 16.3% | 14.8% | 14.9% |
| 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%  | 7.0%  | 7.1%  | 7.0%  |
| Spread                 | 7.5%  | 7.0%  | 5.7%  | 5.8%  |
| <b>Growth (%)</b>      |       |       |       |       |
| Advances growth        | 33.4% | 81.0% | 27.3% | 24.6% |
| Deposit growth         | 27.6% | 38.3% | 32.8% | 24.6% |
| Net Profit growth      | 45.0% | 68.4% | 19.8% | 24.8% |
| <b>Liquidity</b>       |       |       |       |       |
| CASA                   | 40.8% | 33.0% | 33.0% | 26.5% |
| CET 1 Ratio            | 27.8% | 23.1% | 22.0% | 21.7% |
| <b>Efficiency</b>      |       |       |       |       |
| Cost-to-income         | 32.6% | 32.5% | 31.7% | 31.7% |

Note: Financials from FY20E onward are for merged entity.

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

**Head Office**

#1011, Solitaire Corporate Park  
 Building No. 10, 1<sup>st</sup> Floor  
 Andheri Ghatkopar Link Road  
 Chakala, Andheri (E)  
 Mumbai – 400093  
 Tel: (91-22) 42254800  
 Fax: (91-22) 42254880

**Registered Office**

Arihant House  
 E-5 Ratlam Kothi  
 Indore - 452003, (M.P.)  
 Tel: (91-731) 3016100  
 Fax: (91-731) 3016199

**Stock Rating Scale**

|            |             |
|------------|-------------|
| BUY        | >20%        |
| ACCUMULATE | 12% to 20%  |
| HOLD       | 5% to 12%   |
| NEUTRAL    | -5% to 5%   |
| REDUCE     | -5% to -12% |
| SELL       | <-12%       |

**Absolute Return****Research Analyst  
Registration No.**

INH000002764

**Contact**

SMS: 'Arihant' to 56677

**Website**[www.arihantcapital.com](http://www.arihantcapital.com)**Email Id**[research@arihantcapital.com](mailto:research@arihantcapital.com)

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Arihant Capital Markets Ltd.  
 1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
 Tel. 022-42254800 Fax. 022-42254880