

Higher provision dent earnings, asset quality risk to remain high in the near term

**CMP: INR 296**

**Rating: Hold**

**Target Price: INR 328**

**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)	47,666
52w H/L (INR)	431 / 195
Avg Yearly Vol (in 000')	13,076

**Shareholding Pattern %**

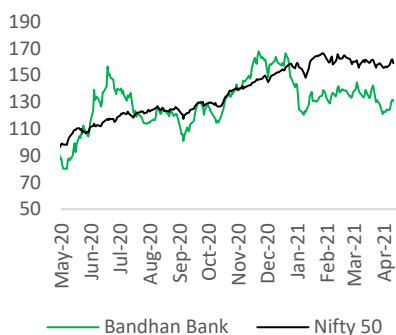
(As on March, 2021)

Promoters	40.0
FII	34.9
DII	1.9
Public & Others	23.2

**Stock Performance (%)**

	3m	6m	12m
Bandhan Bank	-10.6	-14.2	23.3
Nifty 50	-1.1	18.3	61.5

**Bandhan Vs Nifty**



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**Bandhan Bank's 4QFY21 performance was disappointing. Despite strong business growth, Bandhan Bank has reported 80% decline in its net profit at INR 103 cr as provisions for the quarter increased by 93% YoY. Despite higher write-off of INR 1930 cr, GNPA ratio remained elevated at 6.8%. Including write-offs, GNPLs would have risen by 39% QoQ with GNPL ratio of 9.4% versus reported GNPA of 6.8% and 7.1% in Q3FY21. Collection efficiency in Assam dipped further to 83% (vs. 88% in Q3FY21), while West Bengal saw improvement to 95%. Management highlighted that collection efficiency in Apr'21 has dipped further by 3-4% which poses a near term risk on asset quality.**

**PPOP impacted due to NII reversal and higher provision dents earnings**

Despite higher advances growth of 21% YoY, NII for the quarter came in lower at INR 1,757 cr (+5% YoY/-15% QoQ) as there was interest reversal of INR 525 cr on account of NPA recognition. Operating profit for the quarter grew by 14% YoY to INR 1,729 cr. Profit for the quarter declined by 80% YoY/84% QoQ to INR 103 cr as provisions increased by 93% YoY/49% QoQ. NIM for the quarter declined by 150bps QoQ at 6.8% due to interest reversals on NPA recognition.

**Business momentum remains strong**

Bank has reported healthy AUM growth of 21% YoY/9% QoQ to INR 87,043 cr, primarily driven by 26% YoY/10% QoQ growth in microfinance portfolio. MFI disbursements grew by 34% YoY/61% QoQ. Share of Assam/WB MFI portfolio stands at 45%/12% vs. 47%/15% a year ago. Mortgage book of the bank grew by 9% YoY/2% QoQ. Liability franchise of the bank continued to remain strong as total deposits of the bank grew by 37% YoY/10% QoQ to INR 77,972 cr, supported by strong growth in CASA deposit at 61% YoY/11% QoQ. CASA ratio of the bank improved from 42.9% to 43.4% QoQ.

**Asset quality risk is higher in the portfolio:**

GNPA ratio of the bank declined to 6.8% vs 7.1% QoQ. NNPA of the bank increased to 3.5% from 2.4% in the previous quarter. Overdue/SMA loans (8-90 days) remain high at 8.6% of the micro book lower than 17% QoQ. The bank has disclosed that of the overall MFI NPA book, ~64% are paying part EMIs, ~14% making full payments and ~20% have not paid at all. The bank has restructured home loans of INR 6bn accounting for 3% of the home loan book and 70bps of total AUM. With the second Covid wave induced lockdowns which is impacting collection efficiency of the bank, probability of slippage of SMA loans to NPAs remains high. Thus, we build higher credit cost and higher NPA in FY22/23E, leading to 17%/13% cut in our earnings estimates.

**Valuation & View**

Given the near term asset quality risk, we have cut our FY22/23E earnings estimates by 17%/13% 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 in its key geographies of Assam and West Bengal will put pressure on asset quality which will restrict re-rating in the stock. We downgrade our rating to Hold from Accumulate with a revised target price of INR 328 (INR 355 earlier), based on 2.6x FY23E ABV.

## Q4FY21 result Snapshot

Particulars (INR Cr)	Q4FY21	Q4FY20	YoY	Q3FY21	QoQ
Interest Earned	3,001	2,846	5.4%	3,308	-9.3%
Interest Expended	1,244	1,166	6.6%	1,236	0.6%
<b>Net Interest Income</b>	<b>1,757</b>	<b>1,680</b>	<b>4.6%</b>	<b>2,072</b>	<b>-15.2%</b>
Other Income	787	500	57.4%	553	42.3%
<b>Total income</b>	<b>2,544</b>	<b>2,180</b>	<b>16.7%</b>	<b>2,625</b>	<b>-3.1%</b>
Operating Expenses	815	660	23.5%	711	14.6%
<i>Cost-income-ratio</i>	32.0%	30.3%	177bps	27.1%	494bps
<b>Operating Profits</b>	<b>1,729</b>	<b>1,521</b>	<b>13.7%</b>	<b>1,914</b>	<b>-9.6%</b>
Provisions & Contingencies	1,594	827	92.7%	1,069	49.2%
<b>PBT</b>	<b>135</b>	<b>693</b>	<b>-80.5%</b>	<b>845</b>	<b>-84.0%</b>
Provisions for Tax	32	176	-81.7%	213	-84.9%
<i>Effective Tax Rate (%)</i>	24%	25%	-161bps	25%	-139bps
<b>PAT (reported)</b>	<b>103</b>	<b>517</b>	<b>-80.1%</b>	<b>633</b>	<b>-83.7%</b>
GNPA	5,758	993	480%	859	570%
NNPA	2,861	389	635%	201	1321%
GNPA	6.8%	1.5%	533bps	1.1%	570bps
NNPA (%)	3.5%	0.6%	293bps	0.3%	325bps
<b>Advances (On-Book + Off Book)</b>	<b>87,043</b>	<b>71,850</b>	<b>21.1%</b>	<b>80,260</b>	<b>8.5%</b>
<b>Deposits</b>	<b>77,972</b>	<b>57,080</b>	<b>36.6%</b>	<b>71,190</b>	<b>9.5%</b>
NIM (%)	6.80	8.13	-133bps	8.30	-150bps
Total CAR (%)	23.5%	26.6%	-308bps	26.2%	-270bps
Tier 1 (%)	22.5%	23.7%	-115bps	21.4%	110bps
Tier 2 (%)	1.0%	2.9%	-193bps	4.8%	-380bps

**Concall Highlights:**

- West Bengal collection efficiency improved to 95% (including written off a/cs and NPA) from 90% in Dec'20. Collection efficiency in Assam dipped to 83% from 88% QoQ.
- Collection efficiency in Apr'21 was lower by 3-4%.
- Total write-offs stood at INR 19.3 bn in Q4FY21. Assam accounted for INR 7.7 bn of the total write-offs and West Bengal for INR 6.7 bn and rest was spread across the states.
- The bank has not done any restructuring in the MFI portfolio.
- The bank has restructured home loans of INR 6bn.
- From the MFI NPA pool of INR 44.5 bn, 78% of customers was able to pay some installments in Mar'21.
- Total Covid led provisions stands at INR 52 bn – Provisions toward NPAs of INR 29 bn, write-offs of INR 19.3 bn and standard asset provisions of INR 3.9 bn.
- Disbursement trends reached 99% of pre-covid levels.
- Total ECLGS disbursements stand at INR 18 bn in the MFI portfolio and another INR 1 bn in Small Enterprise Loans. These disbursements were made in 3QFY21; nil disbursements were reported in 4QFY21. ~53% of ECLGS disbursements was made in West Bengal and 20% in Assam.

## Key Financials

## Income Statement

Particulars (Rs in Cr)	2020A	2021E	2022E	2023E
Interest Income	10885	12524	15706	18977
(-) Interest Expense	-4562	-4961	-6609	-7995
<b>Total Net Interest Income</b>	<b>6324</b>	<b>7563</b>	<b>9097</b>	<b>10982</b>
<b>Other Income</b>	<b>1549</b>	<b>2109</b>	<b>2445</b>	<b>2981</b>
<b>Total Income</b>	<b>7873</b>	<b>9672</b>	<b>11542</b>	<b>13964</b>
Total Operating Expenses	2427	2817	3346	3887
<b>Operating Profit</b>	<b>5447</b>	<b>6855</b>	<b>8196</b>	<b>10077</b>
Provisions	1393	4945	3770	4061
<b>Profit before Tax</b>	<b>4053</b>	<b>2949</b>	<b>4426</b>	<b>6015</b>
Provision for Taxes	1030	743	1115	1516
<b>PAT</b>	<b>3024</b>	<b>2205</b>	<b>3311</b>	<b>4499</b>

## Balance Sheet

Particulars (Rs in Cr)	2020A	2021E	2022E	2023E
<b>Assets</b>				
Cash and Balances with RBI	6345	5235	7694	9663
Money at call and short notice	2008	958	958	958
Investments	15352	25155	24043	30197
Advances	66630	81613	103865	126826
Fixed Assets	369	487	544	614
Other Assets	1014	1545	1854	2225
<b>Total Assets</b>	<b>91718</b>	<b>114993</b>	<b>138958</b>	<b>170483</b>
<b>Liabilities</b>				
Capital	1610	1611	1611	1611
Reserves and Surplus	13585	15798	18658	22608
Deposits	57082	77972	96171	120787
Borrowing from other banks	16379	16960	20373	22867
Other liabilities and provisions	3062	2652	2144	2610
<b>Total Liabilities</b>	<b>91718</b>	<b>114993</b>	<b>138958</b>	<b>170483</b>

## Ratios

Particulars (Rs in Cr)	2020A	2021E	2022E	2023E
<b>Basic Ratio</b>				
EPS	18.8	13.7	20.6	27.9
Book Value per share	94.3	108.1	125.8	150.4
Adjusted book value per share	91.9	90.3	103.8	126.2
Dividend per share	0.0	2.2	2.8	3.4
<b>Asset Quality</b>				
Gross NPAs	1.5%	6.8%	6.4%	5.8%
Net NPAs	0.6%	3.5%	3.6%	3.3%
PCR	60.8%	48.5%	48.5%	48.5%
<b>Profitability Ratio</b>				
RoAE	22.9%	13.5%	17.6%	20.2%
RoAA	4.1%	2.1%	2.6%	2.9%
NIMs (as calculated)	8.1%	7.9%	7.7%	7.7%
<b>Valuation</b>				
P/E (x)	15.8	21.6	14.4	10.6
P/BV (x)	3.1	2.7	2.4	2.0
P/ABV (x)	3.2	3.3	2.9	2.3

## Analysis

Particulars (Rs in Cr)	2020A	2021E	2022E	2023E
<b>Spread Analysis</b>				
Yield on advances	16.4%	14.0%	14.6%	14.6%
Yield on investments	6.6%	5.8%	6.0%	6.0%
Cost of deposits	5.5%	4.6%	4.6%	4.6%
Cost of funds	6.9%	6.2%	6.1%	6.0%
Spread	7.2%	5.6%	6.3%	6.4%
<b>Growth (%)</b>				
Advances growth	68.1%	22.5%	19.4%	22.1%
Deposit growth	32.0%	36.6%	23.3%	25.6%
Net Profit growth	54.9%	-27.1%	50.1%	35.9%
<b>Liquidity</b>				
CD ratio	116.7%	104.7%	108.0%	105.0%
CASA	36.8%	43.4%	44.0%	44.0%
CRAR	27.4%	23.5%	21.7%	21.5%
<b>Efficiency</b>				
Cost-to-income	30.8%	29.1%	29.0%	27.8%

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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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