

# Bandhan Bank

Refer to important disclosures at the end of this report

## Near-term asset quality risk persists

- Despite healthy business growth, Bandhan reported lower PAT at Rs1bn (est: Rs4.1bn) in Q4FY21 mainly due to lower NIM (6.8% vs. 8.1% yoy). NIM was affected by higher interest reversals and higher loan loss provisions due to higher NPAs in Assam – MFI portfolio post announcement of waiver.
- Overall GNPA stood high at 6.9% mainly due to stress in EEB/MFI (7.6%), while SMA pool (8-90DPD) remained elevated at 8.6%. Collection efficiency in the EEB portfolio (ex-arrears) was moderate at 95% in Q4 and slipped 3-4% in Apr'21 due to Covid-19-induced lockdowns, thereby posing a near-term asset quality risk.
- The impact of elections on Assam/WB portfolios should wean off gradually, but the second wave of Covid-19 may delay recovery and may elevate fresh delinquencies. This coupled with low specific PCR (50%) and low contingent provision buffer (0.5% of AUM) would call for higher LLP. Thus, we reduce our earnings estimates for FY22/FY23 by 21%/13%.
- We cut our TP by 22% to Rs390 from Rs500 to factor 10% lower ABV of FY23E (driven by lower earnings) and TP multiple (2.7x vs. 3.1x FY23E ABV). However, we retain long-term Buy rating on the stock, given strong liability build-up, asset diversification strategy away from MFI, superior return profile (RoA/RoE of 2.5-3.4%/17-25% over FY22-24E) and reasonable valuations.

**Strong business momentum, but higher NPAs weigh on margins:** Bandhan Bank has reported healthy AUM growth of 21% yoy/8% qoq to Rs802bn, primarily driven by better disbursement trends in MFI loans (27% yoy). Share of MFI portfolio is now low at 59% with the rising share of non-East portfolio as a part of the bank's long-term strategy to diversify product-wise and geographically. Share of Assam/WB stands at 45%/12% vs. 47%/15% a year ago. Deposit growth remained strong at 37% yoy/10% qoq to Rs780bn, while CASA ratio improved by 50bps qoq/660bps yoy to 43.4%, depicting the bank's strong liability profile. However, NIM was lower at 6.8% (8.3% in Q3) due to interest reversal of Rs5.4bn on NPAs. It has guided for NIM to remain in the range of 7.8%-8%.

**Second Covid-19 wave could delay recovery from election impact in Assam/WB:** Bandhan reported higher gross slippages of Rs22bn in Q4 and Rs69bn in FY21 (6.5% of loans) due to the twin effect of elections in Assam/WB and the first Covid-19 wave. However, similar to other banks, Bandhan too took a massive write-off of Rs19bn (2.2% of AUM), leading to some moderation in NPA to 6.8% (7.1% pro forma GNPA in Q3). Of the NPA accounts, 64% are partly paying and 14% are fully paying, indicating that these customers intend to pay and thus improve recovery. However, we believe that the second Covid wave induced lockdowns could not only delay recovery in NPAs (6.9%), but also in EEB - SMA pool which is now 8.6% of loans and potentially lead to fresh delinquencies. Thus, we build in higher NPAs/LLP in FY22/FY23, leading to 22%/13% cut in earnings estimates.

**Outlook and valuations:** We believe that the MFI business is inherently prone to disruptions, be it political or natural adverse events. Thus, the bank needs to accelerate its asset diversification strategy. We cut our TP to Rs390 from Rs500 to factor in lower earnings/TP multiple (2.7x vs. 3.1x FY23E ABV), but retain Buy. Key risks to our estimates/call: Higher-than-expected NPA formation and derailment of growth momentum due to the raging second Covid-19 wave.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	78,731	96,724	117,954	144,325	178,541
Net profit	30,237	22,054	32,119	48,284	69,596
EPS (Rs)	18.8	13.7	19.9	30.0	43.2
ABV (Rs)	92.6	94.8	113.8	145.2	185.9
RoA (%)	4.1	2.1	2.5	3.0	3.4
RoE (%)	22.9	13.5	17.0	21.4	24.8
PE (x)	15.8	21.7	14.9	9.9	6.9
P/ABV	3.2	3.1	2.6	2.0	1.6

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
Rs 297 as of (May 9, 2021)	Rs 390 (▼) 12 months
<b>Rating</b>	<b>Upside</b>
BUY (■)	31.2 %

### Change in Estimates

EPS Chg FY22E/FY23E (%)	(22)/(13)
Target Price change (%)	(22.0)
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	19.9	30.0
Consensus	26.2	33.9
Mean Consensus TP (12M)	Rs 408	

### Stock Details

Bloomberg Code	BANDHAN IN
Face Value (Rs)	10
Shares outstanding (mn)	1,611
52 Week H/L	431 / 195
M Cap (Rs bn/USD bn)	479 / 6.51
Daily Avg Volume (nos.)	8,728,355
Daily Avg Turnover (US\$ mn)	39.9

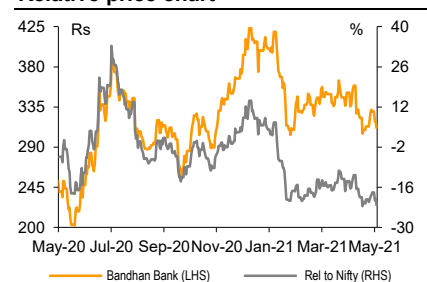
### Shareholding Pattern Mar '21

Promoters	40.0%
FIIs	34.9%
DIIIs	1.9%
Public and Others	23.2%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(15)	(10)	(10)	18
<b>Rel. to Nifty</b>	(15)	(8)	(23)	(26)

### Relative price chart



Source: Bloomberg

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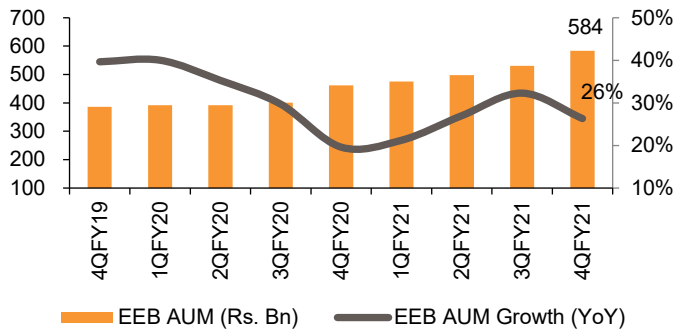
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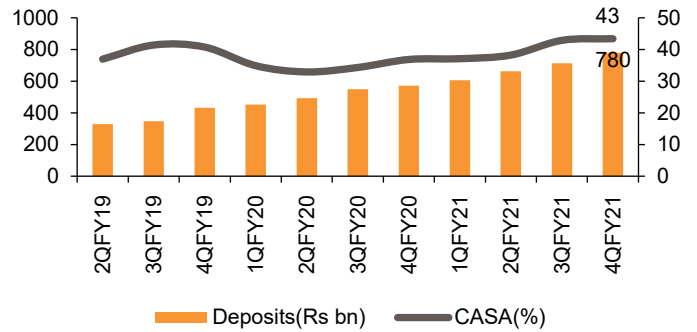
# Story in Charts

**Exhibit 1: Higher disbursement in EEB led to healthy growth**



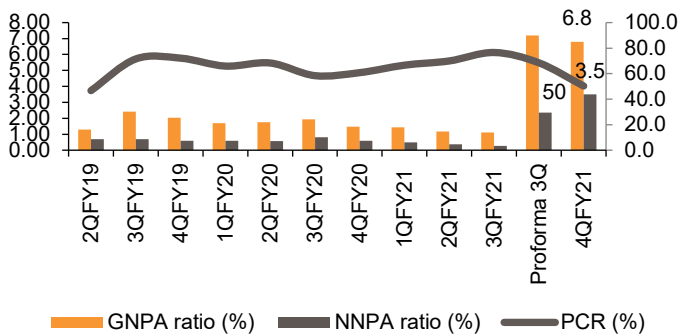
Source: Company, Emkay Research

**Exhibit 2: Healthy growth in deposits too with its share now at 96% of AUM and CASA ratio at 43%**



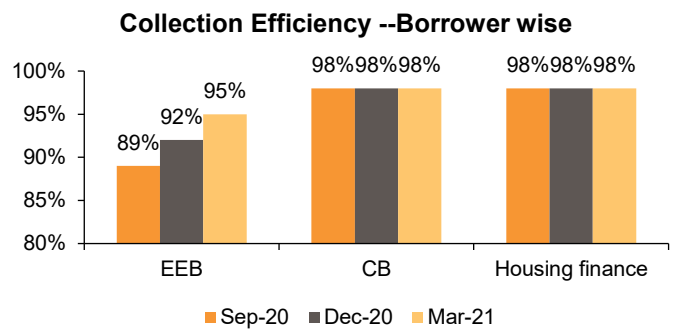
Source: Company, Emkay Research

**Exhibit 3: Despite higher slippages of Rs22bn GNPA improved by 30bps qoq due to write-off of Rs19bn**



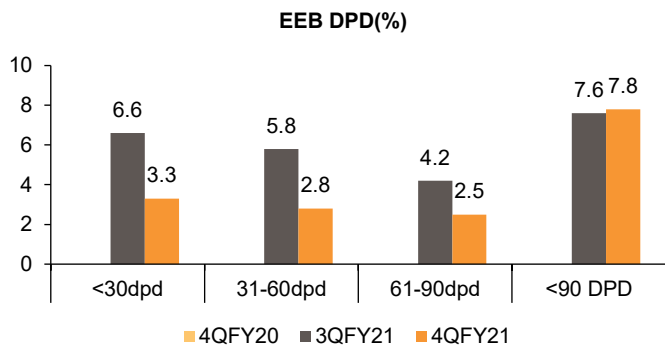
Source: Company, Emkay Research

**Exhibit 4: Collection efficiency improves in Mar'21, with 95% EEB customers paying fully and 4% paying partly**



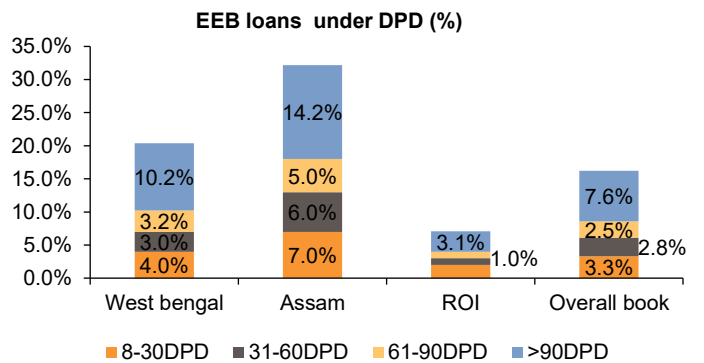
Source: Company, Emkay Research

**Exhibit 5: SMA pool has declined from 15.6% to 8.6% qoq**



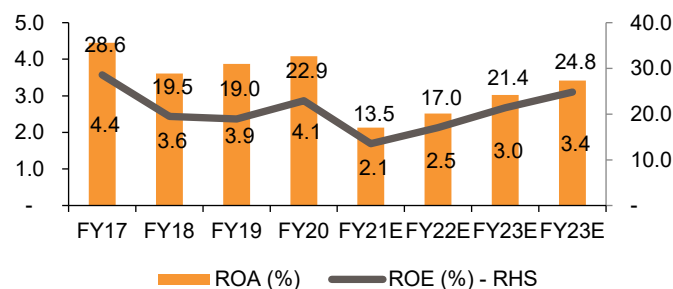
Source: Emkay Research, Company

**Exhibit 6: 18% of EEB portfolio in Assam and 10% in WB remains in 8-90DPD bucket, posing incremental NPA risk**



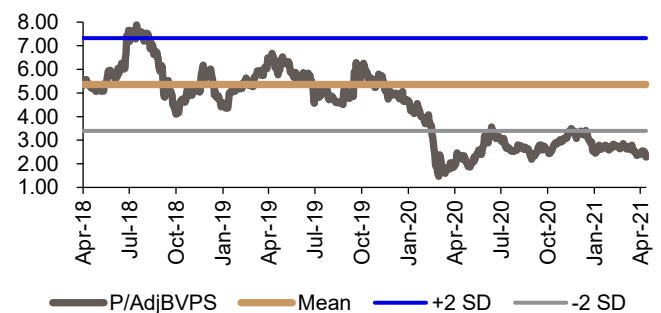
Source: Emkay Research, Company

**Exhibit 7: RoA/RoE trajectory to remain low in FY22E mainly due to higher LLP, but to improve from FY23E**



Source: Company, Emkay Research

**Exhibit 8: The stock currently trades at 2.4x 1-year forward ABV**



Source: Bloomberg, Emkay Research

**Exhibit 9: Actual vs Estimates (Q4FY21)**

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	25,442	25,682	26,102	-1%	-3%	Higher interest reversals drag down Net income
PPOP	17,294	18,522	19,432	-7%	-11%	Higher opex and lower net income affect PPOP
PAT	1,030	4,139	4,814	-75%	-79%	Lower PPOP and higher provisions hit earnings

Source: Company, Emkay Research

**Exhibit 10: Quarterly summary**

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	28,462	30,181	31,976	33,078	30,006	5	-9	125,242	156,757	25
Interest Exp	11,663	12,066	12,745	12,361	12,437	7	1	49,609	62,341	26
Net Interest Income	16,800	18,115	19,231	20,717	17,570	5	-15	75,633	94,416	25
Global NIMs (reported)	8.13	8.15	8.00	8.30	6.80	-133bps	-150bps	7.50	7.56	6bps
Non-interest Income	5,002	3,868	3,818	5,533	7,873	57	42	21,091	23,539	12
Operating Expenses	6,595	6,141	6,773	7,109	8,148	24	15	28,171	33,543	19
Pre Provisioning Profit	15,206	15,842	16,275	19,141	17,294	14	-10	68,552	84,411	23
Provision & Contingencies	8,274	8,491	3,945	10,687	15,943	93	49	39,066	41,471	6
PBT	6,933	7,351	12,330	8,454	1,351	-81	-84	29,486	42,940	46
Income Tax Expense (Gain)	1,760	1,853	3,130	2,128	321	-82	-85	7,432	10,821	46
Net Profit/(Loss)	5,173	5,498	9,200	6,326	1,030	-80	-84	22,054	32,119	46
Gross NPA (%)	1.48	1.43	1.18	1.11	6.80	532bps	569bps	6.81	6.52	-29bps
Net NPA (%)	0.58	0.48	0.36	0.26	3.51	293bps	325bps	3.51	2.71	-79bps
Deposits (Rs in bn)	571	606	661	712	780	37	10	780	1,002	29
Net Advances (Rs in bn)	666	697	733	768	816	22	6	816	1,005	23

Source: Company, Emkay Research

**Exhibit 11: Revision in estimates**

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	115,158	117,954	2.4%	142,414	144,325	1.3%	144,325
PPOP	83,428	84,411	1.2%	104,076	103,929	-0.1%	103,929
PAT	40,833	32,119	-21.3%	55,439	48,284	-12.9%	48,284
EPS (Rs)	25.4	19.9	-21.3%	34.4	30.0	-12.9%	30.0
BV (Rs)	132.1	126.4	-4.3%	163.7	154.0	-5.9%	154.0

Source: Emkay Research

We have cut our earnings estimates by 21%/12% for FY22/23, factoring in delay in recovery as well as elevated fresh delinquencies due to the risk posed by the second Covid-19 wave.

**Exhibit 12: Key Assumptions**

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	21.1	21.5	30.0	30.0
Deposit Growth %	36.6	28.5	34.0	34.0
NIM %	7.5	7.6	7.6	7.6
GNPA %	6.8	6.5	4.7	4.7
Credit Cost %	4.7	4.3	2.8	2.8

Source: Company, Emkay Research

**Exhibit 13: Key ratio and trends**

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans (Rs mn)	447,760	631,569	641,860	654,560	718,460	743,310	766,146	802,550	870,400
growth YoY %	38.5	93.8	92.3	83.9	60.5	17.7	19.4	22.6	21.1
Loans QoQ %	25.8	41.1	1.6	2.0	9.8	3.5	3.1	4.8	8.5
Composition %									
Micro- Banking assets	86.0	62.0	61.1	61.3	64.3	63.9	65.0	66.1	67.0
Non - Micro banking assets	14.0	38.0	38.9	38.7	35.7	36.1	35.0	33.9	33.0
Liability Profile									
Deposits (Rs mn)	432,316	451,953	491,952	549,080	570,815	606,100	661,277	711,880	779,722
growth YoY %	27.6	47.2	49.3	58.5	32.0	34.1	34.4	29.6	36.6
growth QoQ %	24.8	4.5	8.9	11.6	4.0	6.2	9.1	7.7	9.5
CASA %	40.8	34.9	32.9	34.3	36.8	37.1	38.2	42.9	43.4
CA %	8.4	6.5	5.4	5.2	5.8	4.9	5.0	4.9	5.9
SA %	32.4	28.4	27.5	29.2	31.1	32.1	33.3	38.0	37.5
Asset Quality (Rs mn)									
Gross NPA	8,196	10,197	10,642	11,820	9,928	10,067	8,740	8,592	57,578
GNPA %	2.04	1.70	1.76	1.93	1.48	1.43	1.18	1.11	6.80
NPA	2,283	3,475	3,369	4,914	3,894	3,358	2,625	2,013	28,610
NNPA %	0.58	0.59	0.56	0.81	0.58	0.48	0.36	0.26	3.51
PCR % - Specific	72.1	65.9	68.3	58.4	60.8	66.6	70.0	76.6	50.3
Capital Adequacy									
CAR %	29.2	27.0	25.1	24.7	27.4	26.5	25.7	26.2	23.5
Tier I %	27.9	25.8	23.0	23.1	25.2	23.2	22.2	21.4	22.5
ROA	5.0	4.2	4.8	3.6	2.4	2.4	2.4	2.4	2.4
ROE	25.4	24.3	28.3	20.0	13.7	13.7	13.7	13.7	13.7

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net interest income</b>	<b>63,239</b>	<b>75,633</b>	<b>94,416</b>	<b>118,555</b>	<b>149,779</b>
<b>Other income</b>	<b>15,492</b>	<b>21,091</b>	<b>23,539</b>	<b>25,770</b>	<b>28,762</b>
Fee income	7,995	10,000	11,700	13,689	16,427
<b>Net income</b>	<b>78,731</b>	<b>96,724</b>	<b>117,954</b>	<b>144,325</b>	<b>178,541</b>
Operating expenses	24,265	28,171	33,543	40,395	48,802
<b>Pre provision profit</b>	<b>54,466</b>	<b>68,552</b>	<b>84,411</b>	<b>103,929</b>	<b>129,739</b>
<b>PPP excl treasury</b>	<b>53,332</b>	<b>67,997</b>	<b>83,828</b>	<b>103,317</b>	<b>129,097</b>
Provisions	13,932	39,066	41,471	39,378	36,696
<b>Profit before tax</b>	<b>40,534</b>	<b>29,486</b>	<b>42,940</b>	<b>64,551</b>	<b>93,043</b>
Tax	10,297	7,432	10,821	16,267	23,447
Tax rate	25	25	25	25	25
<b>Profit after tax</b>	<b>30,237</b>	<b>22,054</b>	<b>32,119</b>	<b>48,284</b>	<b>69,596</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	16,102	16,106	16,106	16,106	16,106
Reserves	135,852	157,976	187,525	231,947	295,975
<b>Net worth</b>	<b>151,955</b>	<b>174,082</b>	<b>203,631</b>	<b>248,053</b>	<b>312,081</b>
Deposits	570,815	779,722	1,002,214	1,343,391	1,779,301
Borrowings	162,192	168,003	161,247	146,701	133,767
<b>Total liabilities</b>	<b>917,178</b>	<b>1,149,930</b>	<b>1,404,334</b>	<b>1,790,005</b>	<b>2,283,365</b>
Cash and bank	63,449	52,354	62,825	75,390	90,467
Investments	153,518	251,554	272,024	337,959	422,794
Loans	666,299	816,129	1,004,659	1,306,442	1,632,914
Others	10,144	15,451	17,926	21,281	30,612
<b>Total assets</b>	<b>917,178</b>	<b>1,149,930</b>	<b>1,404,334</b>	<b>1,790,005</b>	<b>2,283,365</b>

**Key Ratios (%)**

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	8.7	7.6	7.7	7.7	7.5
Non-ll/avg assets	2.1	2.0	1.8	1.6	1.4
Fee income/avg assets	1.1	1.0	0.9	0.9	0.8
Opex/avg assets	3.3	2.7	2.6	2.5	2.4
Provisions/avg assets	1.9	3.8	3.2	2.5	1.8
PBT/avg assets	5.5	2.9	3.4	4.0	4.6
Tax/avg assets	1.4	0.7	0.8	1.0	1.2
RoA	4.1	2.1	2.5	3.0	3.4
RoAE	22.9	13.5	17.0	21.4	24.8
GNPA (%)	1.5	6.8	6.5	4.7	3.4
NNPA (%)	0.6	3.5	2.7	1.4	1.0

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	18.8	13.7	19.9	30.0	43.2
BVPS	94.4	108.1	126.4	154.0	193.8
ABVPS	92.6	94.8	113.8	145.2	185.9
DPS	0.0	1.1	1.6	2.4	3.5

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	15.8	21.7	14.9	9.9	6.9
P/BV	3.2	3.1	2.6	2.0	1.6
P/ABV	3.2	3.1	2.6	2.0	1.6
P/PPOP	8.8	7.0	5.7	4.6	3.7
Dividend Yield (%)	0.0	0.4	0.5	0.8	1.2

Source: Company, Emkay Research

<b>Growth (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
NII	40.7	19.6	24.8	25.6	26.3
PPOP	45.3	25.9	23.1	23.1	24.8
PAT	54.9	(27.1)	45.6	50.3	44.1
Loans	68.1	22.5	23.1	30.0	25.0

<b>Quarterly (Rs mn)</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>	<b>Q3FY21</b>	<b>Q4FY21</b>
NII	16,800	18,115	19,231	20,717	17,570
NIM(%)	8.1	8.2	8.0	8.3	6.8
PPOP	15,206	15,842	16,275	19,141	17,294
PAT	5,173	5,498	9,200	6,326	1,030
EPS (Rs)	3.21	3.42	5.71	3.93	0.64

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Jun-20</b>	<b>Aug-20</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Mar-21</b>
Promoters	61.0	40.0	40.0	40.0	40.0
FIIIs	14.5	27.3	32.2	35.2	34.9
DIIIs	2.4	4.9	5.8	4.4	1.9
Public and Others	22.1	27.8	21.9	20.4	23.2

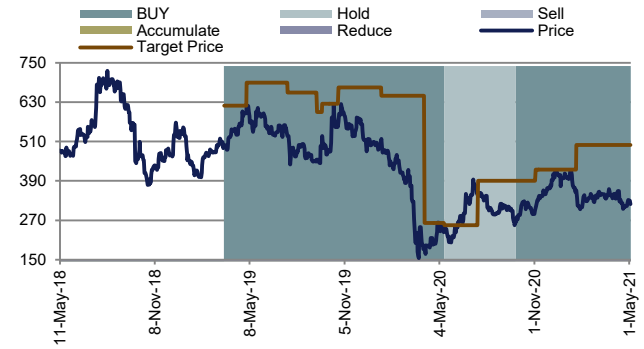
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
13-Apr-21	332	500	12m	Buy	Anand Dama
22-Jan-21	314	500	12m	Buy	Anand Dama
20-Jan-21	360	500	12m	Buy	Anand Dama
6-Jan-21	396	425	12m	Buy	Anand Dama
3-Nov-20	308	425	12m	Buy	Anand Dama
7-Oct-20	315	390	12m	Buy	Anand Dama
26-Sep-20	265	390	12m	Buy	Anand Dama
16-Jul-20	343	390	12m	Hold	Anand Dama
13-May-20	252	255	12m	Hold	Anand Dama
11-Apr-20	192	262	12m	Buy	Anand Dama
5-Apr-20	182	262	12m	Buy	Anand Dama
14-Jan-20	519	650	12m	Buy	Anand Dama
24-Oct-19	571	675	12m	Buy	Anand Dama
9-Oct-19	481	625	12m	Buy	Anand Dama
23-Sep-19	527	625	12m	Buy	Anand Dama
13-Sep-19	455	600	12m	Buy	Anand Dama
19-Jul-19	527	660	12m	Buy	Anand Dama
2-May-19	621	690	12m	Buy	Anand Dama
20-Mar-19	495	620	12m	Buy	Anand Dama

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



### Analyst: Anand Dama

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#### Sector

Banks

#### Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-Banks</b>	<b>20.49</b>	<b>20.46</b>	<b>-0.2%</b>	<b>-3</b>	<b>100.00</b>
Axis Bank	2.25	2.34	4%	9	11.43
AU Small Finance Bank	0.24	0.19	-18%	-4	0.95
Bandhan Bank	0.26	0.30	18%	4	1.46
Bank of Baroda	0.16	0.11	-31%	-5	0.53
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.15	0.22	48%	7	1.09
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.04	NA	4	0.21
Federal Bank	0.19	0.23	23%	4	1.13
HDFC Bank	6.83	6.94	2%	11	33.88
ICICI Bank	5.03	5.19	3%	16	25.31
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.63	0.73	16%	10	3.55
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.79	2.30	-18%	-49	11.22
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.11	0.08	-27%	-3	0.40
State Bank of India	1.63	1.78	9%	15	8.69
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.03</b>	<b>NA</b>	<b>3</b>	<b>0.16</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	01-Apr-19	06-May-20	05-Nov-20	04-Feb-21	07-Apr-21	06-May-21
EAP - BFSI-Banks	100.0	68.6	91.5	120.7	112.7	112.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	67.7	90.1	118.5	110.6	110.3

\*Performance measurement base date 1<sup>st</sup> April 2019

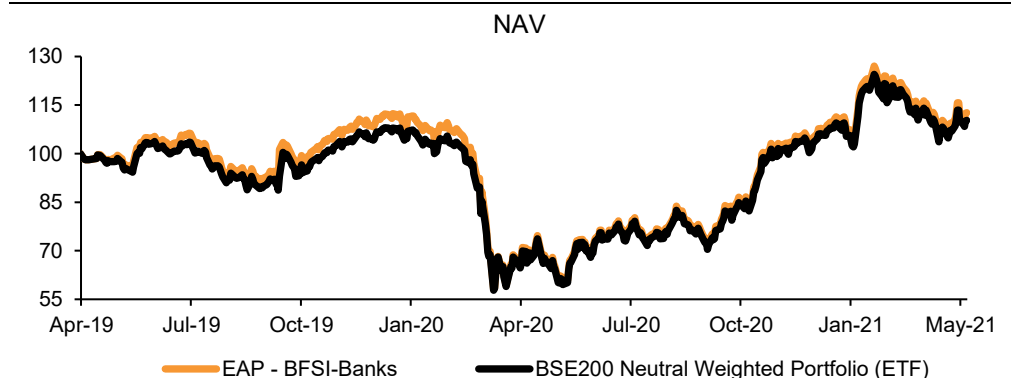
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	0.0%	-6.7%	23.2%	64.2%
BSE200 Neutral Weighted Portfolio (ETF)	-0.3%	-6.9%	22.5%	63.0%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”



## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 09 May 2021 20:42:21 (SGT)

Dissemination Date: 09 May 2021 20:43:21 (SGT)

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