

Company update

Banking

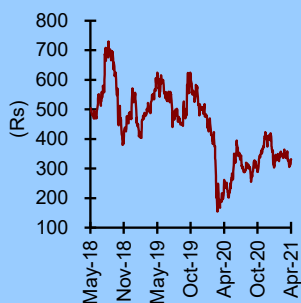
Target price Rs501

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	40.0	40.0	40.0
Institutional investors	38.1	39.6	36.8
MFs and others	4.9	3.4	1.8
FIs/Banks	0.1	0.1	0.0
Insurance Cos.	0.0	0.0	0.0
FII	33.1	36.1	35.0
Others	21.9	20.4	23.2

Source: CMIE

Price chart



Bandhan Bank

BUY
Maintained

West Bengal election outcome uncertainty
addressed; overhang subsides

Rs330

Bandhan Bank has underperformed Bank Nifty by 20-25% over past 3M/6M/12M. State-specific events in its dominating geographies of West Bengal and Assam led to deviation from its track record of better resilience than peers. There was disappointment in collection efficiency (sub-90% in Jan'21), credit cost (>5.5% annualised run-rate in Q3FY21) and proforma GNPA's (spiked to 7.12%). Besides Q3FY21 performance, uncertainty around election outcome in its dominating state has also weighed on stock performance. However, All-India Trinamool Congress (AITC or TMC) has won the West Bengal state election, thereby suggesting status quo in state administration. This will subside the major overhang of election outcome on stock performance. Bank has potential to generate more than 3.5%/20% RoA/RoE and is currently trading at sub-2x FY23E book. Maintain BUY with an unchanged target price of Rs501.

Q4FY21 business update indicated bounce in collection efficiency and 8% QoQ growth

- Bandhan Bank's financial results will be announced on 8th May'21 and it will throw more light on fundamental performance and asset quality behaviour.
- In its business update, the bank has reported retracement in collection efficiency in EEB (micro) to 95% in Mar'21 (from 92% in Dec'20 and 90% in Jan '21).
- We will need to see flow into stage-3 from 1-90 dpd pool of 14-15% and also how much proforma GNPA's get upgraded.
- Bank carries cumulative provisioning of Rs31.2bn (4.1% of overall AUM and 5.9% of MFI AUM). We are building-in further credit cost of 130bps for Q4FY21 to cover unanticipated risk in specific dominating states.
- Interest reversals on proforma GNPLs (though not warranted for customers making partial payment as interest is recovered first), will weigh on NIMs to the extent of 1.3-1.4%.
- Growth too settled at better than expected levels in Q4FY21: 8% QoQ and 21% YoY as against our expectations of 6% QoQ.
- Deposits were up 10% QoQ and 37% YoY for Q4FY21 amounting to Rs780bn. Of this, CASA share inched up to 43.4% from 42.9% QoQ and 36.8% YoY.

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Market Cap	Rs531bn/US\$7.1bn	Year to Mar	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	BANH.BO / BANDHAN IN	NII (Rs bn)	63	76	88	106
Shares Outstanding (mn)	1,610.6	Net Profit (Rs bn)	30	26	45	58
52-week Range (Rs)	430/195	EPS (Rs)	18.8	16.1	27.7	35.7
Free Float (%)	60.0	% Change YoY	26.0	-14.2	72.0	28.9
FII (%)	35.0	P/E (x)	17.6	20.5	11.9	9.2
Daily Volume (US\$'000)	53,766	P/BV (x)	3.5	3.0	2.4	1.9
Absolute Return 3m (%)	6.6	P/ABV (x)	3.7	3.3	2.6	2.1
Absolute Return 12m (%)	25.7	GNPA (%)	1.5	8.6	6.6	3.9
Sensex Return 3m (%)	5.6	RoA (%)	3.6	2.6	3.7	4.0
Sensex Return 12m (%)	46.3	RoE (%)	21.4	15.7	22.5	23.3

Table 1: Bandhan Bank Q4FY21 PAT expected to be up 7% QoQ; 31% YoY

Particulars	Q4FY20	Q3FY21	Q4FY21E	YoY chg (%)	QoQ chg (%)	Comment	
Loans	6,66,299	7,67,750	8,29,170	24	8	In its business update, the bank has reported retracement in collection efficiency in EEB (micro) to 95% in Mar'21 (from 92% in Dec'20 and 90% in Jan '21). We will need to see flow into stage-3 from 1-90 dpd pool of 14-15% and also how much proforma GNPAs get upgraded.	
Deposits	5,70,815	7,11,880	7,79,720	37	10		
NII	16,800	20,717	19,480	16	(6)		
Other income	5,002	5,533	5,540	11	0		
Total revenues	21,802	26,250	25,020	15	(5)		
Opex	6,595	7,109	7,673	16	8		
Operating Profit	15,207	19,141	17,346	14	(9)		
Provisions	8,274	10,687	8,292		(22)		
PBT	6,933	8,454	9,055	31	7		Bank carries cumulative provisioning of Rs31.2bn (4.1% of overall AUM and 5.9% of MFI AUM). We are building-in further credit cost of 100bps for Q4FY21 to cover unanticipated risk in specific dominating states.
Tax	1,760	2,128	2,264	29	6		
PAT	5,173	6,326	6,791	31	7		
				Change in bps			
NIM (computed)	7.7	8.1	7.5	(23)	(59)		
CASA mix	36.8	42.8	40.3	347	(255)		
Gross NPA ratio	1.5	7.1	8.4	692	128		
Credit cost	5.0	5.6	4.0	(97)	(157)		
ROA	2.3	2.4	2.5	14	6		
RoE	13.7	14.6	15.5	176	86		
Net NPA ratio	0.6	0.3	0.9	32	64		
Cost to income	30.3	27.1	30.7	42	359		
Cost to Assets						Growth too settled at better than expected levels in Q4FY21: 8% QoQ and 21% YoY.	
	3.0	2.7	2.8	(18)	9	Deposits were up 10% QoQ and 37% YoY for Q4FY21 amounting to Rs780bn. Of this, CASA share inched up to 43.4% from 42.9% QoQ and 36.8% YoY.	

Source: Company data, I-Sec research

Financial summary

Table 2: Profit and loss statement
(Rs mn, year ending Mar 31)

INR mn	FY17	FY18	FY18					
			Merged	FY19	FY20	FY21E	FY22E	FY23E
Net Interest Income	24,035	30,322	36,900	51,671	63,239	76,360	87,868	1,05,749
% Growth	158	26	NA	70	22.4	20.7	15.1	20.3
Fee income	3,204	4,045	4,490	6,464	7,842	9,974	12,882	16,651
Add: Other income	910	3,017	3,083	4,710	7,650	8,487	9,340	10,223
Total Net Income	28,149	37,384	44,474	62,845	78,731	94,820	1,10,090	1,32,623
% Growth	160	33	NA	68	25	20	16	20
Less: Operating Expenses	(10,220)	(13,083)	(14,176)	(19,380)	(24,265)	(27,758)	(33,460)	(40,355)
Pre-provision operating profit	17,929	24,301	30,298	43,465	54,466	67,063	76,630	92,268
NPA Provisions	(478)	(2,261)	(2,586)	(6,519)	(5,031)	(31,965)	(16,297)	(14,451)
Other provisions	(407)	(1,481)	(1,481)	(666)	(8,900)	(402)	(682)	(944)
PBT	17,045	20,559	26,231	36,280	40,534	34,695	59,650	76,872
Less: taxes	(5,925)	(7,103)	(8,747)	(12,294)	(10,297)	(8,758)	(15,027)	(19,361)
PAT	11,119	13,456	17,483	23,987	30,237	25,937	44,624	57,511

Source: Company data, I-Sec research

Table 3: Balance sheet
(Rs mn, year ending Mar 31)

	FY17	FY18	FY18					
			Merged	FY19	FY20	FY21E	FY22E	FY23E
Capital	10,951	11,928	16,101	16,101	16,102	16,102	16,102	16,102
Reserve & Surplus	33,513	81,891	97,444	1,14,831	1,35,852	1,62,404	2,02,883	2,58,087
Deposits	2,32,287	3,38,690	3,38,690	4,32,316	5,70,815	7,42,060	9,27,574	11,59,468
Borrowings	10,289	2,850	1,43,096	1,70,833	1,62,192	96,470	78,246	77,636
Other liabilities	15,320	7,741	9,794	16,996	32,217	67,253	79,041	94,121
Total liabilities	3,02,361	4,43,101	6,05,125	7,51,077	9,17,178	10,84,289	13,03,846	16,05,414
Cash & Bank Balances	73,650	55,106	55,874	69,407	83,529	55,536	64,018	75,637
Investment	55,165	83,719	85,299	1,01,858	1,53,518	1,99,184	2,28,898	2,63,061
Advances	1,68,391	2,97,130	4,51,646	5,69,317	6,66,299	7,68,864	9,41,061	11,77,055
Fixed Assets	2,518	2,381	2,535	3,463	3,688	4,230	4,653	5,119
Other Assets	2,637	4,764	9,770	7,032	10,144	56,476	65,216	84,543
Total Assets	3,02,361	4,43,101	6,05,125	7,51,077	9,17,178	10,84,289	13,03,846	16,05,414

Source: Company data, I-Sec research

Table 4: Dupont analysis
(%, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest income	15.6	12.9	12.7	13.1	12.6	12.3	12.1
Interest expense	(6.0)	(4.7)	(5.1)	(5.5)	(5.0)	(5.0)	(4.9)
NII	9.6	8.1	7.6	7.6	7.6	7.4	7.3
Other income	0.4	0.8	0.7	0.9	0.8	0.8	0.7
Fee income	1.3	1.1	1.0	0.9	1.0	1.1	1.1
Total income	11.2	10.0	9.3	9.4	9.5	9.2	9.1
Operating expenses	(4.1)	(3.5)	(2.9)	(2.9)	(2.8)	(2.8)	(2.8)
Operating profit	7.1	6.5	6.4	6.5	6.7	6.4	6.3
NPA provision	(0.2)	(0.6)	(1.0)	(0.6)	(3.2)	(1.4)	(1.0)
Total provisions	(0.4)	(1.0)	(1.1)	(1.7)	(3.2)	(1.4)	(1.1)
PBT	6.8	5.5	5.4	4.9	3.5	5.0	5.3
Tax	(2.4)	(1.9)	(1.8)	(1.2)	(0.9)	(1.3)	(1.3)
PAT	4.4	3.6	3.5	3.6	2.6	3.7	4.0

Source: Company data, I-Sec research

NM: Not meaningful

Note: From FY19 onwards numbers are on merged basis with GRUH Finance

Table 5: Key ratios

(Year ending Mar 31)

	FY17	FY18	FY18 Merged	FY19	FY20	FY21E	FY22E	FY23E
Per share data								
EPS – Diluted (Rs)	10.2	11.3	10.9	14.9	18.8	16	28	36
% Growth	304.1	11.1	NA	37.2	26.0	-14.2	72.0	28.9
DPS (Rs)	-	1.00	1.00	1.50	-	2.20	2.20	2.20
Book Value per share (BVPS) (Rs)	40.6	78.7	70.5	81.3	94.4	110.9	136.0	170.3
% Growth	33.3	93.7	NA	15.3	16.0	17.5	22.7	25.2
Adjusted BVPS (Rs)	40.0	77.2	69.8	80.1	92.6	104.6	129.6	164.1
% Growth	31.9	92.8	NM	14.8	15.5	13.0	23.8	26.6
Valuations								
Price / Earnings (x)	32.5	29.2	30.4	22.1	17.6	20.5	11.9	9.2
Price / Book (x)	8.1	4.2	4.7	4.1	3.5	3.0	2.4	1.9
Price / Adjusted BV (x)	8.2	4.3	4.7	4.1	3.6	3.2	2.5	2.0
Asset Quality								
Gross NPA (Rs mn)	863	3,731	4,432	9,337	9,928	70,786	65,893	47,662
Gross NPA (%)	0.5	1.2	1.0	1.6	1.5	8.6	6.6	3.9
Net NPA (Rs mn)	612	1,729	1,729	2,888	3,894	13,370	13,821	13,353
Net NPA (%)	0.4	0.6	0.4	0.5	0.6	1.7	1.5	1.1
NPA Coverage ratio (%)	29	53.7	61.0	69.1	60.8	81.1	79.0	72.0
Gross Slippages (%)	0.8	2.1	2.1	2.6	1.2	9.6	3.5	2.0
Credit Cost (%)	0.33	0.97	NM	1.39	2.2	4.3	1.9	1.4
Net NPL/Net worth	1.4	1.8	1.5	2.2	2.6	7.5	6.3	4.9
Business ratios (%)								
ROAA	4.43	3.61	NA	3.54	3.6	2.6	3.7	4.0
ROAE	28.6	19.5	NA	19.6	21.4	15.7	22.5	23.3
Credit Growth	35.4	76.5	NA	26.1	17.0	15.4	22.4	25.1
Deposits Growth	92.2	45.8	NA	27.6	32.0	30.0	25.0	25.0
CASA	29.4	34.3	NA	40.8	37.0	44.0	45.0	47.0
Credit / Deposit Ratio	72.5	87.7	NA	131.7	116.7	103.6	101.5	101.5
Cost-Income ratio	36.3	35.0	NA	30.8	30.8	29.3	30.4	30.4
Operating Cost / Avg. Assets	4.1	3.5	NA	2.9	2.9	2.8	2.8	2.8
Fee Income / Total Income	11.4	10.8	NA	10.3	10.0	10.5	11.7	12.6
Earnings ratios								
Yield on Advances	21.3	17.8	NA	14.9	15.4	15.4	15.0	14.7
Yield on Earning Assets	15.9	14.4	NA	12.9	13.2	13.1	13.0	12.9
Cost of Deposits	7.3	6.5	NA	5.4	6.1	6.1	6.2	6.3
Cost of Funds	7.6	6.6	NA	6.3	6.8	6.4	6.4	6.3
NIM	9.8	9.1	NA	7.8	7.7	7.9	7.8	7.7
Capital Adequacy (%)								
RWA (Rs mn)	1,74,927	3,12,662	4,00,628	4,97,013	6,02,083	7,62,051	8,82,245	10,98,467
Tier I	25.4	30.0	28.3	26.3	25.2	23.4	24.8	25.0
CAR	25.8	30.4	28.8	26.8	25.7	23.9	25.3	25.4

Source: Company data, I-Sec research

NM: Not meaningful

Note: From FY19onwards numbers are on merged basis with GRUH Finance

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