

ADD

TP: Rs 375 | ▲ 13%

BANDHAN BANK

| Banking

| 13 April 2021

Near-term headwinds cloud prospects – initiate with ADD

We initiate coverage on Bandhan Bank (Bandhan) with ADD and a Mar'22 TP of Rs 375 based on 2.4x FY23E P/BV. We believe Bandhan's strategy to diversify beyond microfinance would spur a 24% CAGR in loans over FY20-FY23.

Further, a liability profile backed by granular deposits should cushion the impact of a changing loan mix on NIM. Long-term growth prospects look promising, but we await clarity on near-term asset quality outcomes given the elections in key markets of Assam and West Bengal (together 40% portfolio exposure).

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Asset diversification a positive move: Bandhan is targeting a reduction in microfinance loan share from 66% in Q3FY21 to 30% in FY25 by leveraging opportunities in commercial banking, housing and retail. This will derisk the loan portfolio away from the volatile microfinance segment – a positive move that we expect will support a 24% CAGR in loan book over FY20-FY23.

Impressive scale-up of deposit franchise: The bank has built a granular deposit franchise with CASA ratio/retail deposit share at 43%/81% as of Q3FY21, on par with large peers. We believe this would lower cost of funds and offset yield pressure due to the changing loan mix, cushioning NIM at 8-8.4% over FY20-FY23.

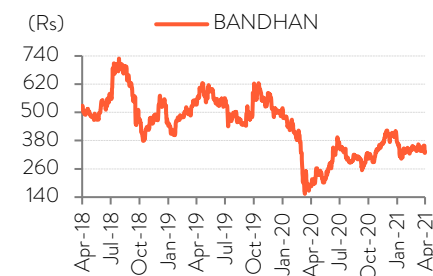
Asset quality concerns remain an overhang: Bandhan could face substantial downside risks to asset quality if the [recent loan waiver poll promises](#) in Assam materialise (the state forms 16% of its microfinance portfolio). Any similar waivers in West Bengal can have significantly adverse outcomes (47% exposure). Bandhan holds additional provisions of 4%/6% of total AUM/microfinance loans, and we project credit costs of 5%/3%/2.2% for FY21/FY22/FY23.

Initiate with ADD: Near-term asset quality pain could outweigh long-term positives, in our view. We value the stock at 2.4x FY23E P/BV.

Ticker/Price	BANDHAN IN/Rs 332
Market cap	US\$ 7.1bn
Shares o/s	1,610mn
3M ADV	US\$ 48.0mn
52wk high/low	Rs 431/Rs 174
Promoter/FPI/DII	40%/35%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	44,954	63,239	78,795	94,582	116,580
NII growth (%)	48.3	40.7	24.6	20.0	23.3
Adj. net profit (Rs mn)	19,515	30,237	24,057	39,289	53,380
EPS (Rs)	16.4	21.6	14.9	24.4	33.1
P/E (x)	20.3	15.4	22.2	13.6	10.0
P/BV (x)	3.5	3.5	3.0	2.6	2.1
ROA (%)	3.9	4.1	2.4	3.2	3.5
ROE (%)	19.0	22.9	14.7	20.4	23.1

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.

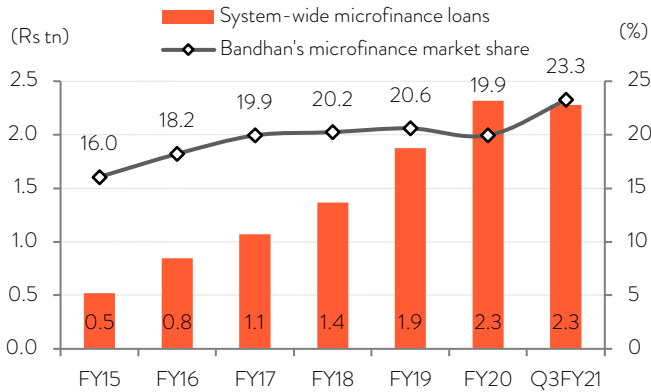


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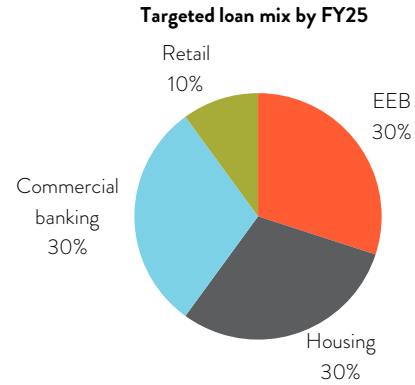
Focus charts

FIG 1 – BANDHAN DOMINATES THE MICROFINANCE SPACE



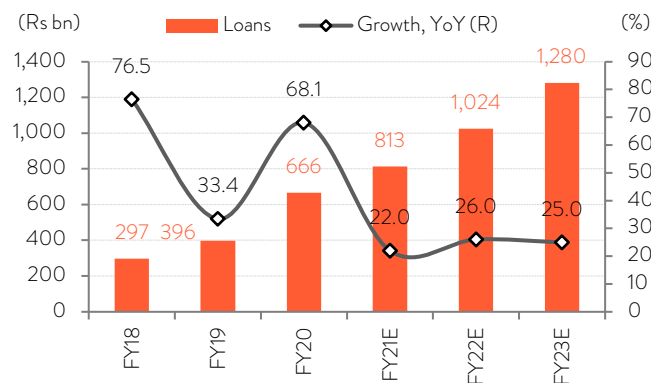
Source: Company, BOBCAPS Research

FIG 2 – ASSET DIVERSIFICATION STRATEGY A POSITIVE MOVE



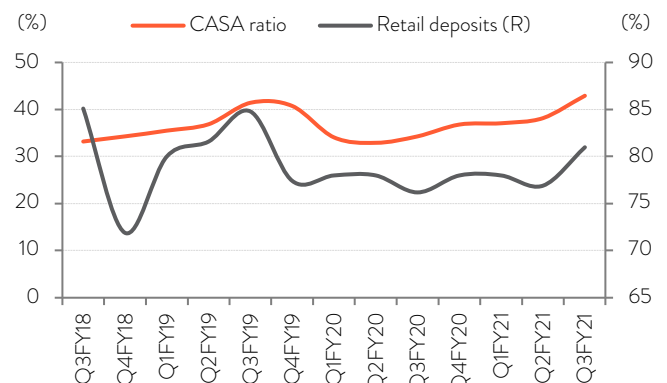
Source: Company, BOBCAPS Research

FIG 3 – LOAN GROWTH EXPECTED TO REMAIN STRONG



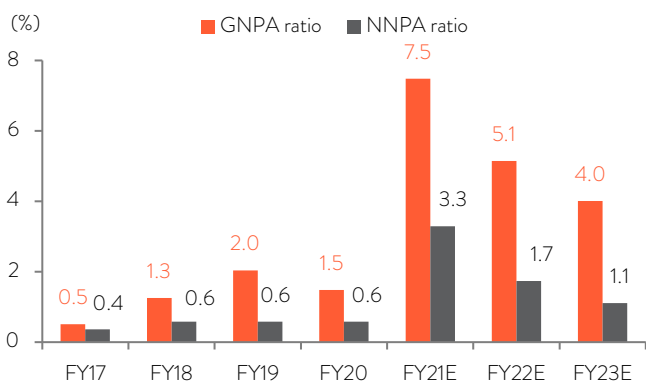
Source: Company, BOBCAPS Research

FIG 4 – LIABILITY FRANCHISE IS GRANULAR



Source: Company, BOBCAPS Research

FIG 5 – NEAR-TERM ASSET QUALITY OUTCOME EXPECTED TO BE VOLATILE



Source: Company, BOBCAPS Research

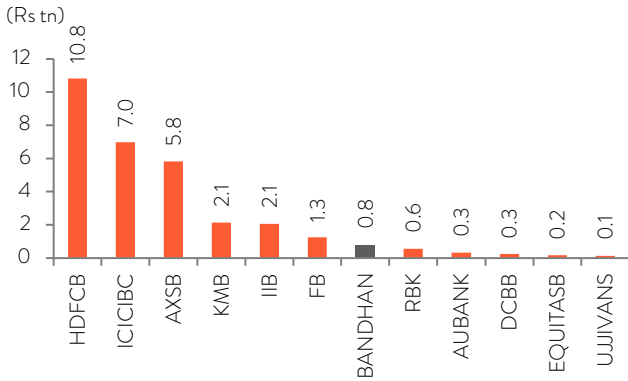
FIG 6 – SHARP DECLINE IN COLLECTION EFFICIENCY IN KEY STATES

States	Dec'20 (Value %)	1-16 Jan 2021 (Value %)
West Bengal	90	89
Assam	88	78
Rest of India	94	94
Total	92	90

Source: Company, BOBCAPS Research

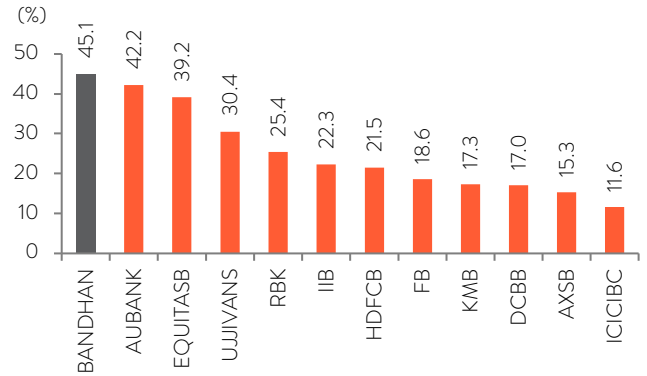
Peer comparison

FIG 7 – LOAN BOOK/AUM, Q3FY21



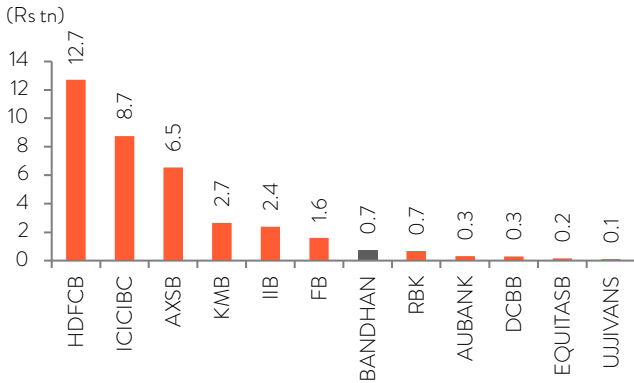
Source: Company, BOBCAPS Research

FIG 8 – AUM CAGR, FY17-FY20



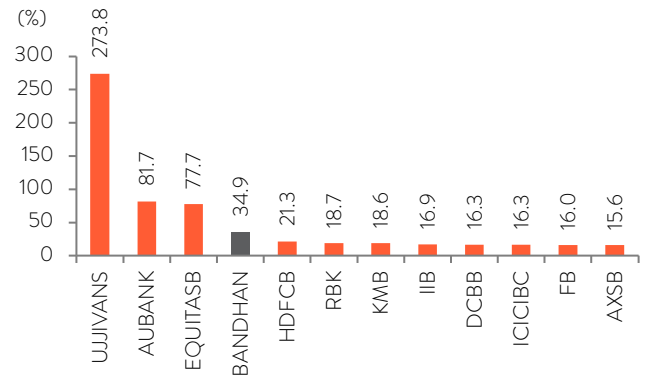
Source: Company, BOBCAPS Research

FIG 9 – DEPOSITS, Q3FY21



Source: Company, BOBCAPS Research

FIG 10 – DEPOSIT CAGR, FY17-FY20



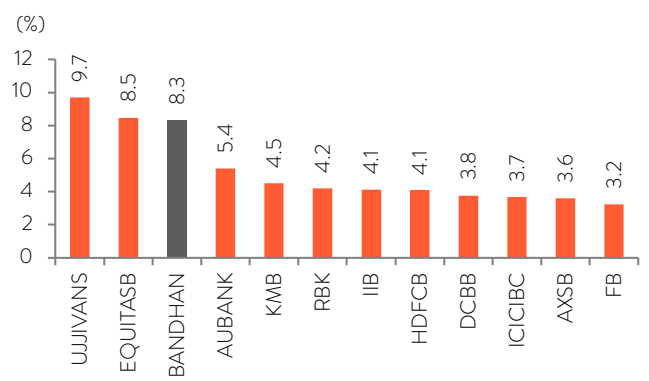
Source: Company, BOBCAPS Research | AUBANK CAGR over FY18-FY20

FIG 11 – PAT CAGR, FY17-FY20



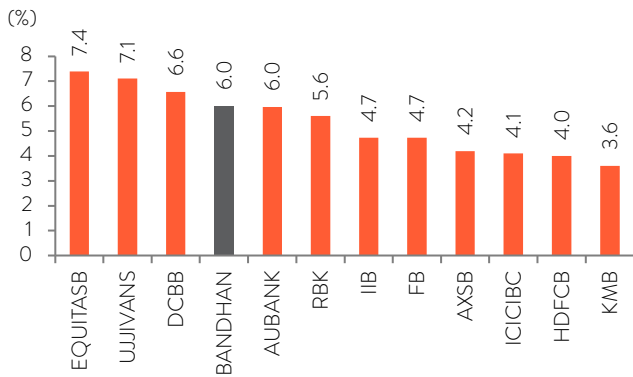
Source: Company, BOBCAPS Research

FIG 12 – NIM, Q3FY21



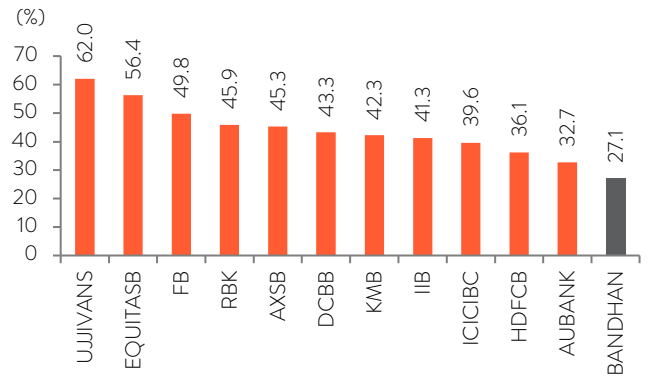
Source: Company, BOBCAPS Research

FIG 13 – COST OF FUNDS, Q3FY21



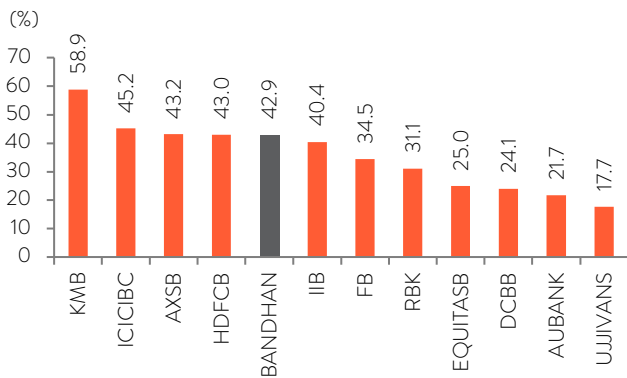
Source: Company, BOBCAPS Research

FIG 14 – COST-TO-INCOME RATIO, Q3FY21



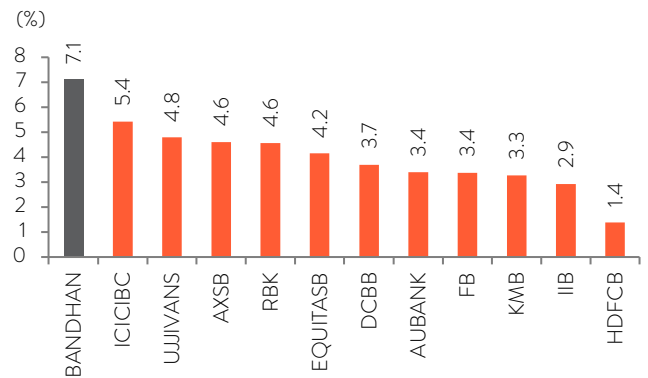
Source: Company, BOBCAPS Research

FIG 15 – CASA, Q3FY21



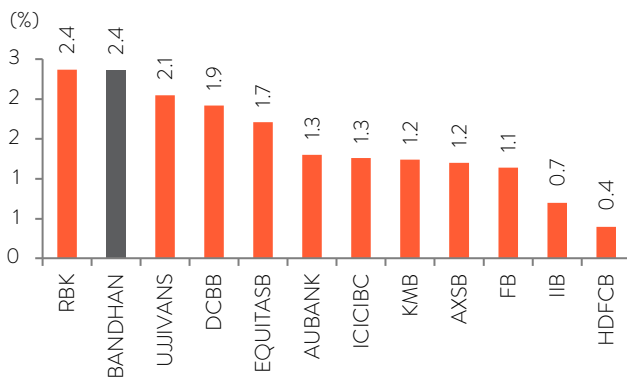
Source: Company, BOBCAPS Research

FIG 16 – PROFORMA GNPA RATIO, Q3FY21



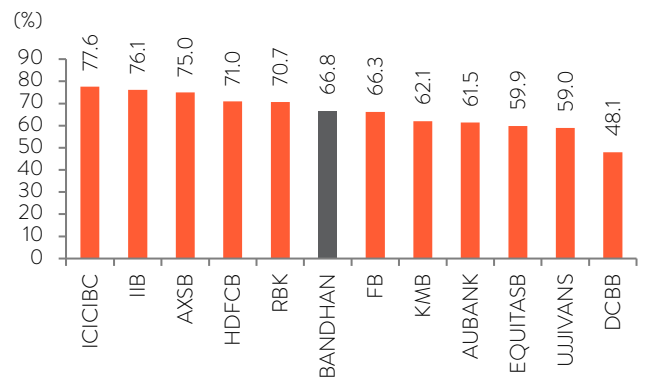
Source: Company, BOBCAPS Research

FIG 17 – PROFORMA NNPA RATIO, Q3FY21



Source: Company, BOBCAPS Research

FIG 18 – PROFORMA PCR, Q3FY21



Source: Company, BOBCAPS Research

FIG 19 – PEER COMPARISON SNAPSHOT

Bank	Mkt Cap (Rs bn)	ROA (%)			ROE (%)			P/BV (x)			P/E (x)		
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
BANDHAN	528	2.4	3.2	3.5	14.7	20.4	23.1	3.0	2.6	2.1	22.2	13.6	10.0
AUBANK	336	2.7	2.1	2.3	23.7	17.5	19.9	6.2	5.2	4.3	30.2	32.3	23.8
AXSB#	1,947	0.6	1.4	1.4	6.2	14.0	15.0	1.9	1.7	1.5	32.8	13.1	10.9
ICICIBC#	3,725	1.4	1.5	1.8	12.9	13.4	15.7	2.2	2.0	1.7	21.4	17.9	13.5
HDFCB#	7,536	1.9	2.0	2.0	16.9	18.2	19.1	3.7	3.2	2.8	24.2	19.7	16.3
KMB#	3,453	1.8	1.9	2.0	12.8	12.7	13.3	3.6	3.2	2.8	47.4	40.5	34.3
IIB	640	0.9	1.7	2.0	7.7	13.5	15.5	1.5	1.4	1.2	20.7	10.7	8.3
RBK	113	0.6	1.0	1.2	4.8	8.1	10.4	0.9	0.8	0.8	18.8	10.6	7.7
FB	142	0.8	0.8	0.8	9.7	10.4	11.2	0.9	0.8	0.8	9.6	8.3	7.1
DCBB	29	0.7	0.7	0.9	6.8	7.2	8.6	0.8	0.8	0.7	11.8	10.6	8.3
EQUITASB*	59	1.6	1.8	1.9	11.2	13.9	16.2	1.8	1.6	1.3	16.6	11.4	8.7
UJJIVANS*	50	0.2	2.1	2.2	0.3	13.7	15.8	1.7	1.5	1.3	92.7	11.5	8.5

Source: Bloomberg, BOBCAPS Research | #Core PBV, *Bloomberg estimates

Investment rationale

Lending profile transformation to derisk portfolio

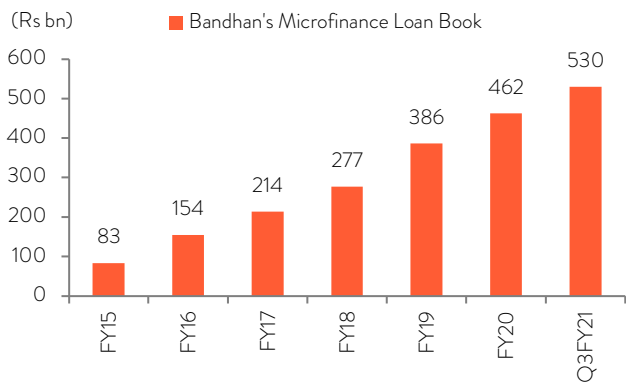
Bandhan is the domestic market leader in the microfinance space with Rs 475bn in AUM and a fifth of market share. Though the microfinance business remains the mainstay, its loan book share has been consciously run down from 100% in FY16 to 66% in Q3FY21 as the bank diversified into housing (25%) and commercial banking (8%) loans. Management recently outlined a five-year plan to target an equal 30% portfolio share for the microfinance, home and business loan segments along with 10% retail contribution by FY25 – this will further derisk the business away from the volatile micro segment and aid a 24% loan CAGR over FY20-FY23, in our view.

Dominant force in microfinance space

Bandhan Bank began operations in 2001 as an NGO that provided microfinance loans to women in West Bengal, before transitioning to an NBFC structure in 2009. It was then incorporated as a bank in 2015 after becoming one of two companies to receive a universal banking license from the RBI. Bandhan currently has India’s largest microfinance book at Rs 475bn and commands >20% market share. The business has clocked a 40% CAGR over FY15-FY21 and forms ~66% of the bank’s loan book currently

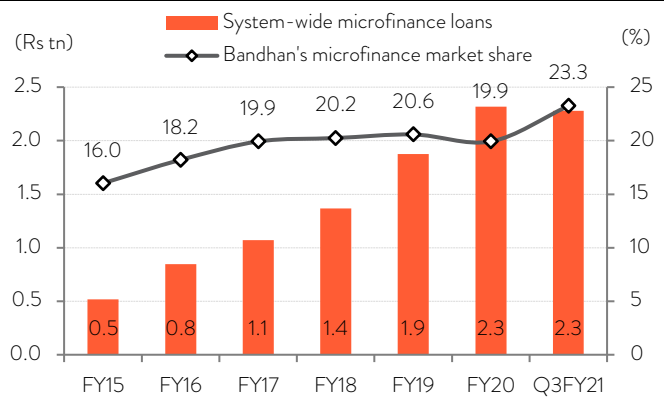
India’s eastern and northeastern regions account for 75-80% of the total loan portfolio and the bank’s microfinance market share in its core geographies of West Bengal and Assam is as high as ~70%. Bandhan remains largely rural-focused with >70% of microfinance loans and ~60% of overall loans disbursed to customers in rural areas.

FIG 20 – MICROFINANCE LOAN BOOK CAGR OF 40%, FY15-FY20...



Source: Company, BOBCAPS Research

FIG 21 – ...AND MARKET SHARE EXPANSION TO ~23%



Source: Company, BOBCAPS Research

To mitigate asset risk, Bandhan follows a group-based individual lending model for microfinance loans and not the joint lending group (JLG) structure that a majority of its peers follow. Bandhan's model has no concept of joint liability within the groups and loans are disbursed based on underwriting standards for each customer and their respective ability to repay. Credit discipline is observed through mutual support within the group which ensures that members repay promptly. Collections are scheduled on a weekly basis, either at the branch or as online repayments.

FIG 22 – MICROFINANCE LENDING MODELS – BANDHAN FOLLOWS GROUP-BASED INDIVIDUAL LENDING

Particulars	Group-based individual lending	Joint Lending Groups (JLG)	Self Help Groups (SHG)
Microfinance model	Credit-led	Credit-led	Savings-led (members collectively save money for six months to avail credit)
Type of borrowers	Women	Women	Women and Men
Lending method	~30-member group	~5-member group	10-20-member group
Liability	Individual liability – credit discipline is observed through mutual support within the group which ensures prompt repayment	Group liability – in case of default by a member, other members of the group fund the deficit	Individual liability
Loan processing time	1 week	1 week	4-5 months
EMI collection frequency	Weekly	Weekly / Monthly	Monthly
Credit decision	Head of Doorstep Service Centre visits customer's home to verify loan application details and, if satisfied, sanctions the loan	Entire group and the centre decide the quantum of loan	Group leader decides the quantum of loan for the member

Source: Industry reports, BOBCAPS Research

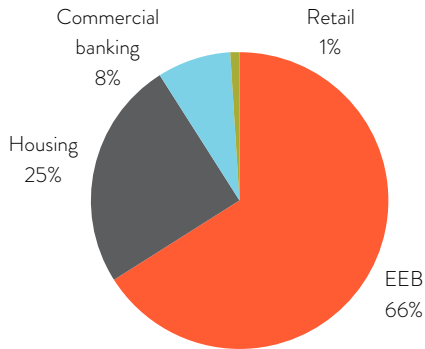
Five-year diversification plan to derisk loan book

While the microfinance business remains the mainstay, Bandhan has been gradually diversifying into other product lines to derisk the business. Microfinance loan share has reduced from ~100% in FY16 to 86% in FY19 and further to 66% as of Q3FY21 after the acquisition of housing finance company Gruh Finance from HDFC in 2019. Housing loans currently form 25% of the book, followed by commercial banking at 8% and retail loans at 1%.

The bank recently outlined a five-year plan to further derisk the lending business away from the volatile microfinance segment by:

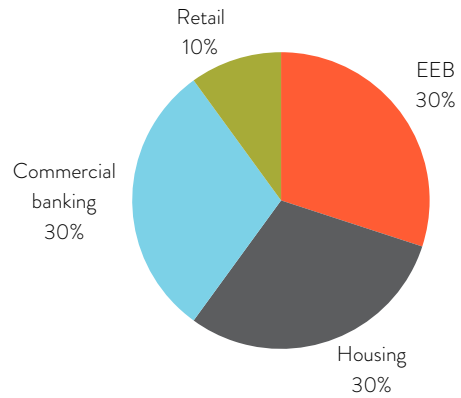
- Halving microfinance (i.e. Emerging Entrepreneur Business or EEB) loan share from 66% to 30% by FY25 by promoting individual loans to micro loan customers
- Expanding housing loan share to 30% from 25% with a focus on micro and affordable home products
- Scaling up commercial banking (MSME) from 8% to 30% of the mix by cross-selling to existing EEB customers
- Enhancing retail loan share from 1% to 10% by providing personal loans, gold loans, two-wheeler and vehicle finance, and consumer credit

FIG 23 – LOAN MIX AS OF Q3FY21



Source: Company, BOBCAPS Research

FIG 24 – TARGETED LOAN MIX BY FY25

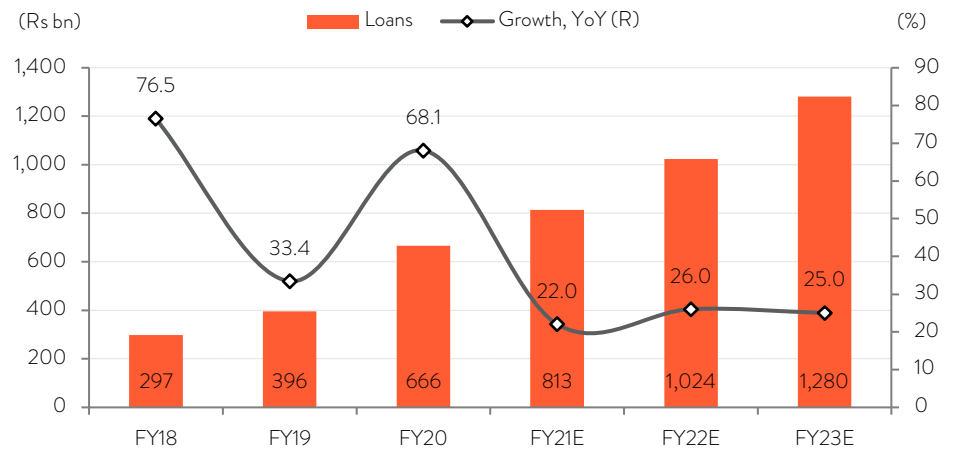


Source: Company, BOBCAPS Research

Expect 24% loan CAGR over FY20-FY23

Bandhan’s strategy of derisking its portfolio by reducing product concentration is a step in the right direction but execution remains key. We build in a loan book CAGR of 24% for FY20-FY23 led by faster growth in non-microfinance segments.

FIG 25 – LOAN CAGR OF 24% EXPECTED OVER FY20-FY23E



Source: Company, BOBCAPS Research

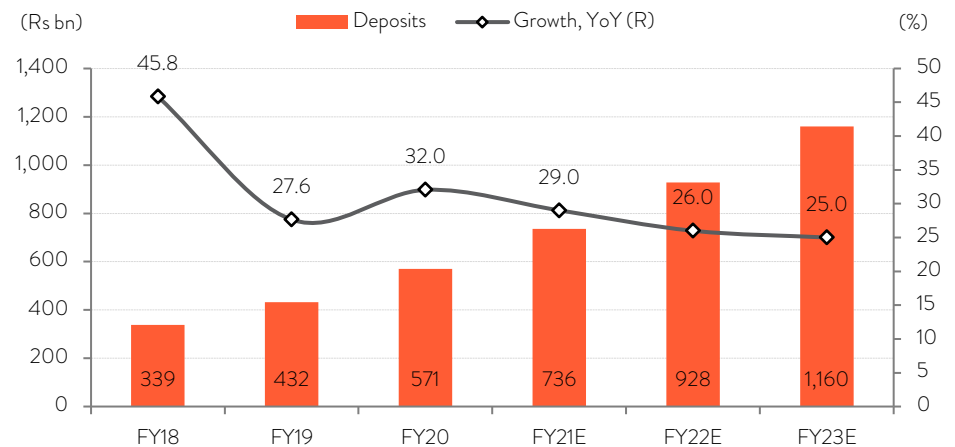
Impressive scale-up in liability franchise

Bandhan is the market leader in microfinance but even more commendable has been its transformation into a retail deposit-funded universal bank over the past few years. The bank managed to replace almost all the liabilities grandfathered from its erstwhile microfinance entity within just three years of commencing operations in 2015. Moreover, it took a mere four years to acquire >Rs 100bn in savings account deposits vis-à-vis a decade for IndusInd Bank and Kotak Bank. Bandhan's deposit franchise has accelerated at a 47% CAGR over FY16-FY20 and we expect the momentum to continue.

Strong brand, large network key to deposit growth

In our view, the primary factors behind Bandhan's success in garnering deposits have been (1) its strong acceptance as a retail brand coupled with a concentrated focus in its home market of West Bengal, and (2) a large presence in East and North East India (65% branches) which enables it to access the significantly under-penetrated eastern and northeastern markets. The bank plans to triple its branch network over FY20-FY25 by building a stronger presence outside home markets.

FIG 26 – STRONG TRACTION IN DEPOSITS LIKELY TO CONTINUE WITH 27% CAGR EXPECTED OVER FY20-FY23E

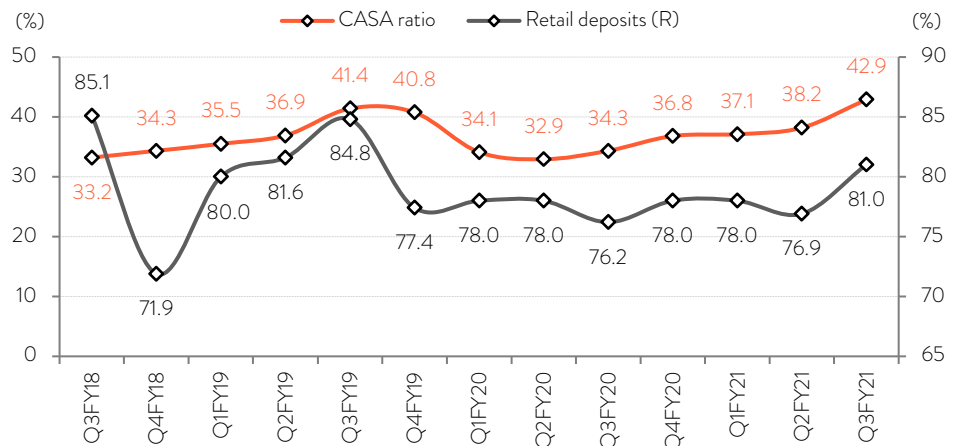


Source: Company, BOBCAPS Research

Embedding granularity in deposits

A big positive in Bandhan's deposit journey has been its limited reliance on bulk funds. The bank currently has a CASA ratio of 43% and a retail deposit share of 81%. Savings deposits are granular in nature with non-microfinance customers holding an average account balance of ~Rs 40,000. Microfinance customers are required to open savings account with the bank, but Bandhan does not aggressively sell deposit products to them and, as such, micro-banking customers form a mere 5% of deposits.

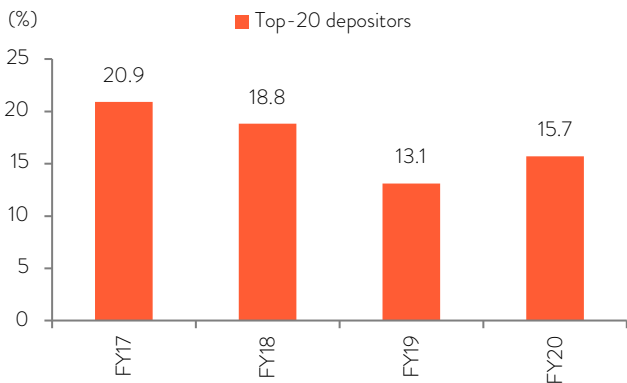
FIG 27 – BEST-IN-CLASS SHARE OF CASA AND RETAIL DEPOSITS



Source: Company, BOBCAPS Research

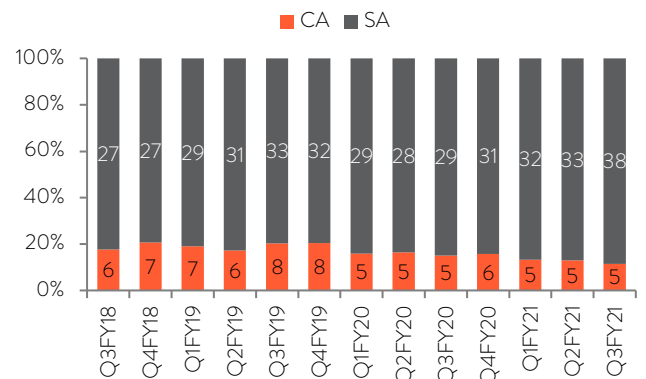
The bank is also making strides towards reducing the concentration of its top-20 depositors, which has come down from 21% in FY17 to 16% in FY20. The CASA mix is, however, skewed in favour of savings accounts – the current deposit franchise forms a mere 5% of total deposits, leaving scope for improvement.

FIG 28 – SHARE OF TOP-20 DEPOSITORS REDUCING



Source: Company, BOBCAPS Research

FIG 29 – CURRENT DEPOSIT SHARE CAN BE IMPROVED

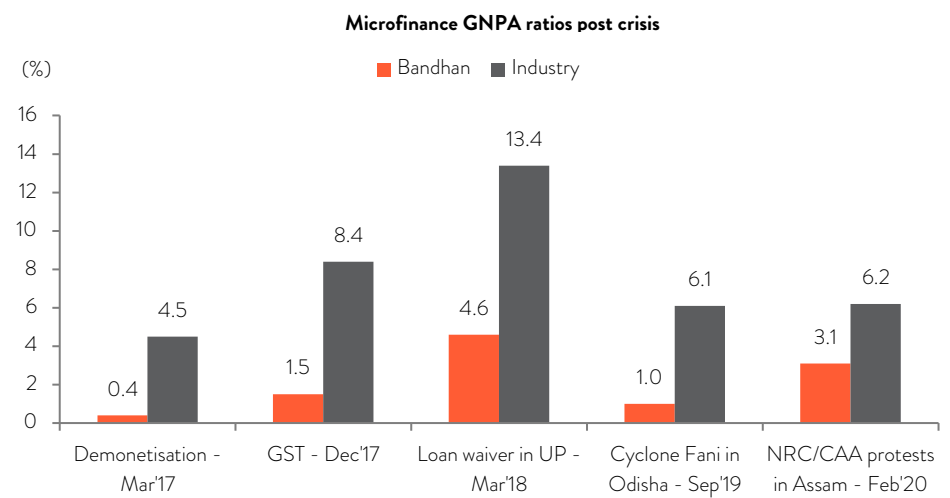


Source: Company, BOBCAPS Research

Strong asset quality record but near-term headwinds

Bandhan has repeatedly demonstrated credibility in managing external disruptions such as changes in political regime, demonetisation, GST, and a host of natural calamities (Fig 11). Asset quality fallout following such events has been limited as compared to peers and the bank has managed to restore its normal repayment and delinquency rates within a few months. In our view, this can be attributed to its strong connect with customers and weekly collection model. Nevertheless, our checks suggest elections in the key geographies of Assam and West Bengal could present a challenge to asset health and remain a near-term overhang on the stock.

FIG 30 – HIGHER RESILIENCE VIS-À-VIS INDUSTRY DURING CRISES



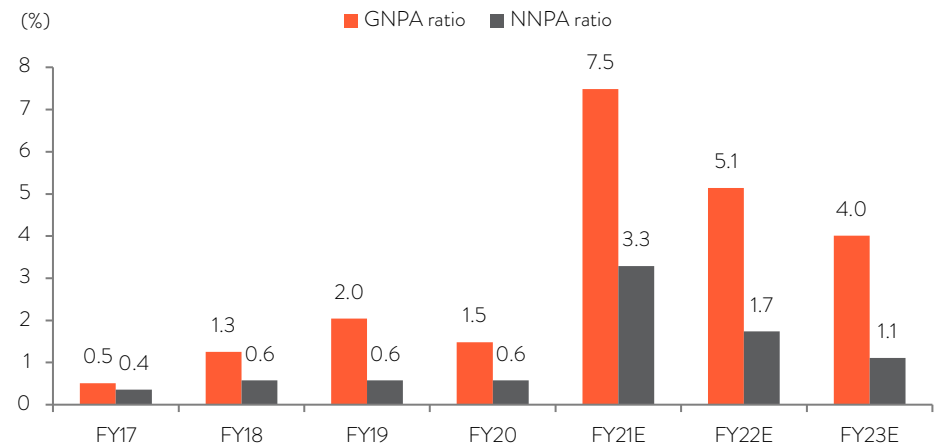
Source: Company, BOBCAPS Research

Pandemic and polls portend near-term volatility

We believe near-term asset quality outcomes for the bank would be volatile due to Covid-19 disruptions as well as potential loan waivers in the state of Assam which forms 16% of its microfinance portfolio. Risks to asset quality are even higher if similar loan waivers are announced during the ongoing elections in West Bengal (47% exposure). Assam and West Bengal together form over 60% of Bandhan's microfinance portfolio and ~40% of total loans.

The bank's asset quality has deteriorated sharply in Q3FY21 with proforma GNPA ratio rising to 7.1% (vs. 1.5% in Q2FY21). We estimate that GNPA ratio will remain at elevated levels of 7.5%/5.1%/4% through FY21/FY22/FY23.

FIG 31 – NEAR-TERM ASSET QUALITY OUTCOME EXPECTED TO BE VOLATILE



Source: Company, BOBCAPS Research

Microfinance collection efficiency still below pre-Covid levels

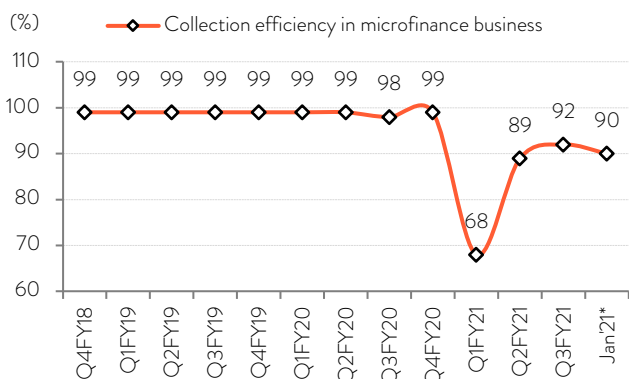
Collection efficiency in the microfinance business is improving but remains well below pre-Covid levels of ~99%. Collection rates climbed from 68% in Jun'20 to 92% in Dec'20 before slipping marginally to 90% in Jan'21 (up to the 16th of the month) following loan waiver speculation in Assam. The state saw a steep drop to 78% in January from 88% in December while West Bengal saw a marginal decline. The rest of India (ex-Assam and West Bengal) has remained stable at 94%.

FIG 32 – MICROFINANCE COLLECTION EFFICIENCY OF TOP STATES

States	Dec'20 (Value %)	1-16 Jan 2021 (Value %)
West Bengal	90	89
Assam	88	78
Rest of India	94	94
Total	92	90

Source: Company, BOBCAPS Research

FIG 33 – MICROFINANCE COLLECTION EFFICIENCY AT 90%



Source: Company, BOBCAPS Research | *Data for 1-16 Jan 2021

FIG 34 – COLLECTION EFFICIENCY ACROSS SEGMENTS

Business	As a % of loans	Sep'20	Dec'20	Jan'21*
Microfinance loans	66	89	92	90
Affordable housing	25	98	98	NA
Commercial banking	9	98	98	NA
Overall bank		92	94	NA

Source: Company, BOBCAPS Research | *Data for 1-16 Jan 2021

Large provisioning buffer lends comfort...

Over 90% of the deterioration in Q3FY21 proforma GNPA ratio to 7.1% was driven by the microfinance segment. As on Dec'20, Bandhan had ~80% of customers paying in full and ~13% paying a part of their dues. Its current book – considered as loans up to 8 days overdue on proforma basis – stood at 76.5%, the 9-30dpd book was at 5.5%, 30-60dpd at 5.5% and 60-90dpd at 4.5%.

FIG 35 – LOAN BOOK STATUS AS OF DEC'20

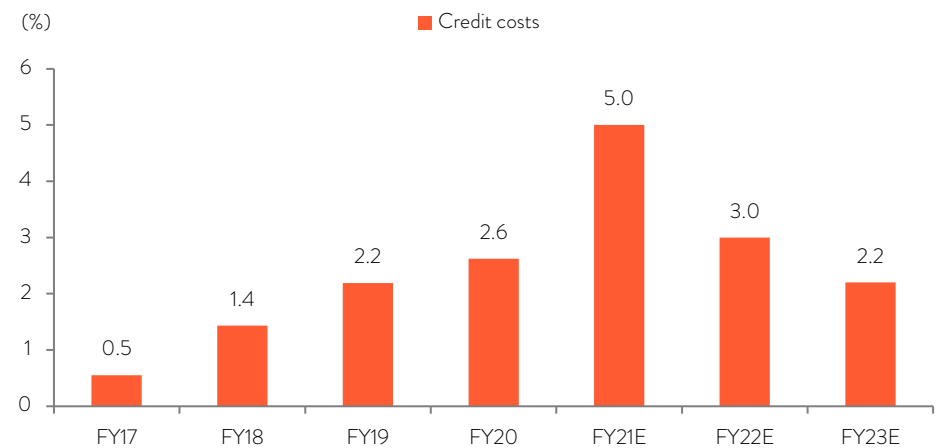
Particulars	% of book
Current (up to 8 days overdue)	76.5
9-30dpd	5.5
30-60dpd	5.5
60-90dpd	4.5

Source: Company, BOBCAPS Research

...but credit costs to remain high

Management had earlier guided for FY21 credit costs of 300-350bps but with the developing situation in Assam, this has been revised up to 500bps. The bank has already created additional standard asset provisions worth ~Rs 31bn (3.9%/ 5.9% of overall/microfinance AUM) which offers a reasonable buffer, in our view. We expect credit costs to remain elevated at 5% in FY21, 3% in FY22 and 2.2% in FY23.

FIG 36 – EXPECT CREDIT COSTS TO STAY ELEVATED



Source: Company, BOBCAPS Research

Lenders cautious over West Bengal and Assam portfolio

Bandhan has ~70% market share in the states of West Bengal and Assam. We interacted with non-listed MFI players in these states for a ground-level perspective on the microfinance climate amidst a resurgence of the pandemic and the ongoing assembly elections. Key takeaways:

- No loan waivers in West Bengal yet:** Our checks suggest the microfinance sector in West Bengal is recovering marginally MoM but is yet to attain normalcy, as livelihood and income levels of the state's underbanked customers remain weak. Recovery in client activation and collection efficiency rates has been delayed because unlocking was pushed to Sep'20, transportation opened with a lag, and value chain businesses were affected. Currently, the second wave of the pandemic and elections are key challenges. Payment delays, however, are largely due to poor borrower cash flows and not prospective loan waivers.

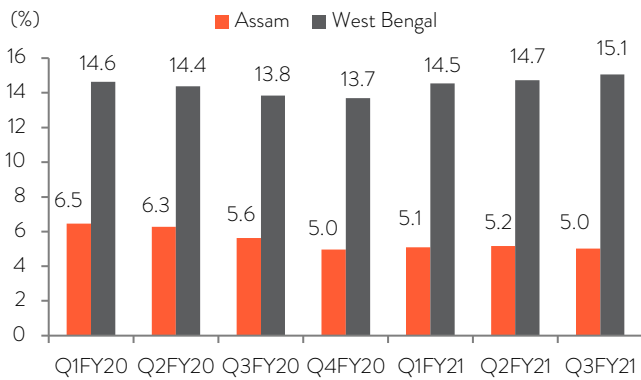
- Lenders in Assam waiting out the storm:** In Assam, microfinance loans overdue for more than 30 days (PAR>30 days) stood at <1% in Sep'19, but asset quality has deteriorated to ~25% in Dec'20 due to political protests last year alleging overleveraging and disconnect with the repayment ability of borrowers, further compounded by the pandemic. Microfinance loan waiver promises during the ongoing polls have further eroded the credit culture.

Lenders are currently operating at 65-80% collection efficiency depending on location and many players based in middle-to-upper Assam have stopped disbursing fresh loans in mid-January. The last phase of elections in the state ended on 6 April but lenders are looking to assess the situation post results on 2 May before resuming disbursements.

- Stricter regulation yet to be enacted:** The Assam Micro Finance Institutions (Regulation of Money Lending) Bill, 2020, has not yet been enacted as the last few stages of the bill are still to be finalised. This bill is largely based on the RBI's guidelines for NBFC-MFIs – capping overall loan outstanding at Rs 125k, limiting the ticket size of loans to permanent tea garden workers, laying down strict norms for door-to-door collections, barring deployment of collection agents, and instituting compulsory moratorium in case of natural adverse events.
- Covid affecting northeast states with a lag:** In terms of restrictions due to the pandemic, states in the northeastern region of India are tracking western and southern parts of India with a lag of 45-60 days. Hence, it is possible that growth and asset quality of the microfinance portfolio in Assam and West Bengal may take a hit in Jul-Aug'21 but the impact is unlikely to be as severe as the initial lockdown phase.

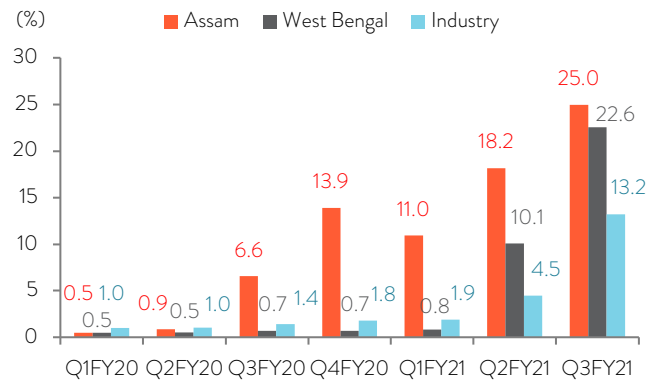
- Harmonisation of NBFC-MFI guidelines could hit banks and SFBs hard:**
 NBFCs-MFIs, and not banks, currently offer the cheapest lending rates in the sector. In the absence of regulatory guidelines, some banks offer loans as high as 24-26% plus processing fees. If the RBI’s proposal to bring the regulatory framework for banks in line with the stricter norms in place for microfinance lenders, banks could see their margins on these loans capped at 10%.

FIG 37 – WEST BENGAL AND ASSAM FORM ~20% OF MICROFINANCE PORTFOLIO



Source: Company, BOBCAPS Research

FIG 38 – PAR>30 DAYS HIGHER THAN INDUSTRY IN ASSAM AND WEST BENGAL



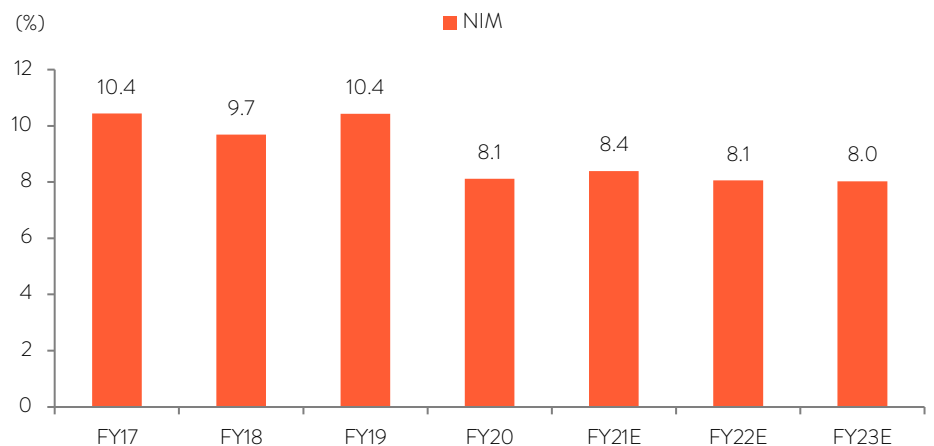
Source: Company, BOBCAPS Research | PAR – Portfolio at risk

Highly profitable franchise

Improving granularity of liabilities should help Bandhan maintain a healthy NIM of 8-8.4% over FY20-FY23. Its cost-to-income ratio is expected to hold at current levels of ~30% in the medium term as the bank is currently in an investment phase. Backed by recovery in loan growth and gradual moderation in credit costs, we project a recovery in ROA/ROE to 3.5%/23.1% by FY23.

Margins expected to remain healthy

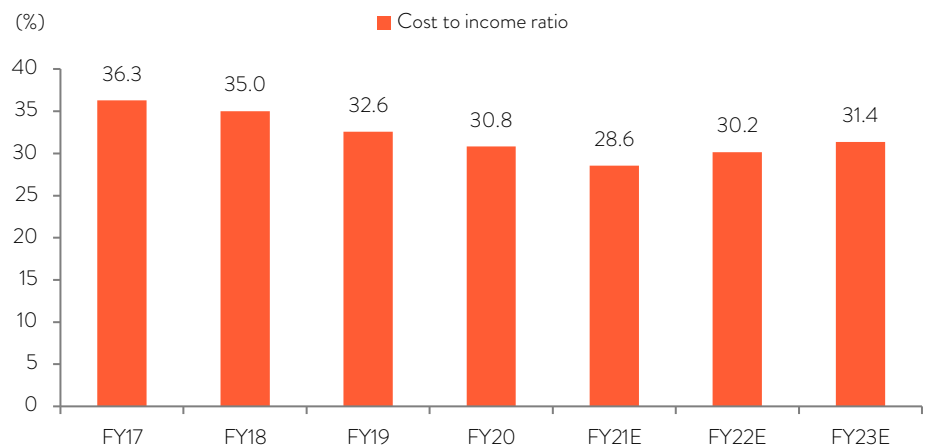
Bandhan maintains a healthy margin given a large contribution from the higher yielding microfinance portfolio, strong deposit accretion and a rising share of low-cost deposits. We expect an NII CAGR of 23% over FY20-FY23, largely tracking loan growth, and model for NIM in the range of 8-8.4% as lower funding costs should offset any yield compression pressure arising from the planned change in loan mix.

FIG 39 – NIM TO RANGE BETWEEN 8% AND 8.4% OVER FY21E-FY23E

Source: Company, BOBCAPS Research

Cost-to-income ratio stable

At 27% as of Q3FY21, Bandhan's operating efficiency ratio is relatively better than some private banks. However, the bank is currently in an investment phase entailing distribution network expansion and technology platform upgrades. Hence, the cost-to-income ratio is likely to remain at current levels of ~30% in the medium term.

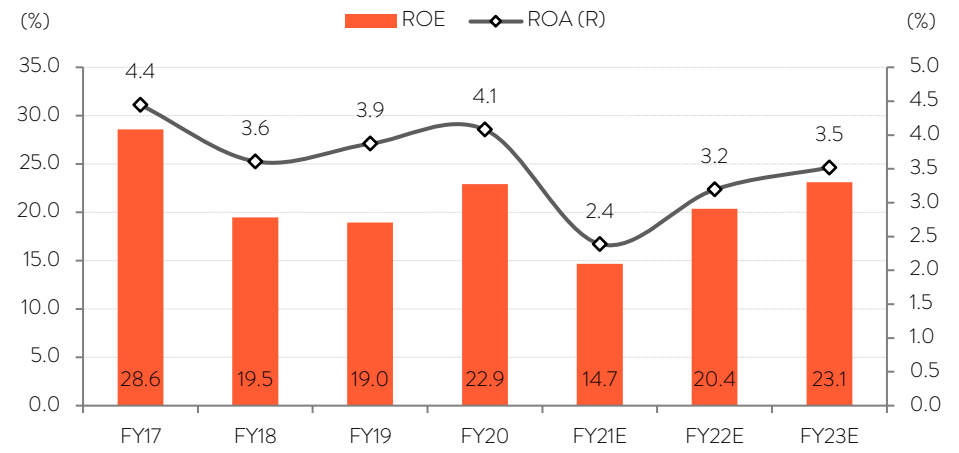
FIG 40 – INVESTMENT IN DISTRIBUTION NETWORK TO KEEP COST-TO-INCOME RATIO FLATTISH

Source: Company, BOBCAPS Research

Return ratios forecast to rebound by FY23

Bandhan has historically maintained healthy profitability, but the recent spike in provisions has exerted pressure on FY21 performance with ROA/ROE estimated to decline to 2.4%/14.7%. We believe return ratios would retrace closer to normal pre-Covid levels by FY23, rising to 3.5%/23.1% on the back of a recovery in loan growth and gradual moderation in credit costs.

FIG 41 – EXPECT ROA/ROE OF 3.5%/23.1% IN FY23E



Source: Company, BOBCAPS Research

Valuation methodology

We believe Bandhan has significant opportunities for growth by virtue of its presence in underpenetrated regions and loan products. Moreover, management's proven track record in scaling up the microfinance business and building a robust liability franchise gives us confidence that the bank will successfully reorient its portfolio.

That said, a large part of Bandhan's portfolio is still dominated by microfinance, and the asset quality of this segment is susceptible to various exogenous factors. Though the bank has built adequate buffers in this portfolio, the political events in Assam and West Bengal will remain an overhang on the stock in the near term.

At CMP, the stock is trading at 2.6x one-year forward P/BV, ~40% discount to its three-year average of 4.4x. We believe concerns over asset quality will continue to outweigh long-term positives – initiate coverage with ADD and a Mar'22 target price of Rs 375, based on a target multiple of 2.4x FY23E P/BV arrived at using the Gordon Growth Model.

FIG 42 – VALUATION SUMMARY

Components of Gordon growth model	Assumptions (%)
Cost of equity (%)	14
Blended ROE (%)	20
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	5.0
Long term dividend payout ratio (%)	75.0
Justified P/BV Multiple (x)	2.4
Implied BVPS (Rs)	157
Value per share (Rs)	375

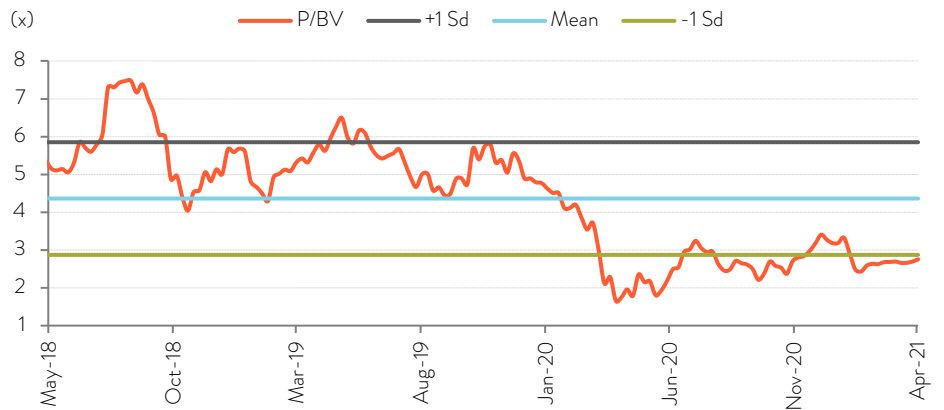
Source: BOBCAPS Research

FIG 43 – BOBCAPS VS. CONSENSUS ESTIMATES

Particulars	FY21E	FY22E	FY23E
EPS (Rs)			
BOBCAPS estimates	14.9	24.4	33.1
Consensus estimates	16.2	26.4	34.1
BOBCAPS vs. Consensus (%)	(7.5)	(7.4)	(2.9)
BVPS (Rs)			
BOBCAPS estimates	109.3	130.0	156.6
Consensus estimates	107.6	129.9	157.1
BOBCAPS vs. Consensus (%)	1.6	0.1	(0.3)

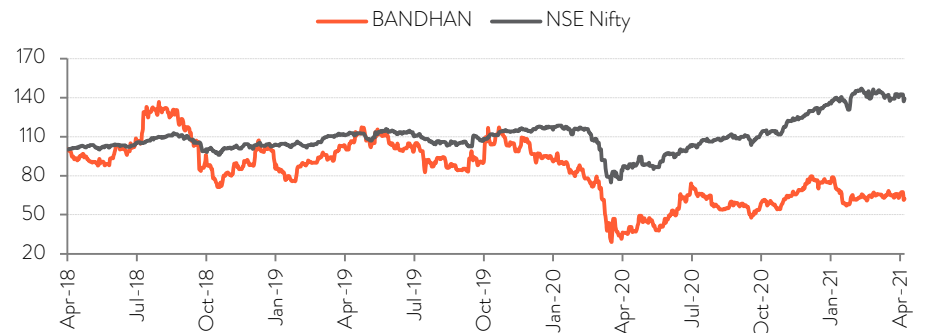
Source: Bloomberg, BOBCAPS Research

FIG 44 – P/BV BAND 1Y FORWARD



Source: Bloomberg, Company, BOBCAPS Research

FIG 45 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Higher loan concentration and unsecured book:** Assam and West Bengal alone contribute over 60% of the bank’s microfinance loan book. Further, over 60% of its portfolio is unsecured and hence higher risk.
- **Tightening of regulations:** Banks are currently not covered under the stricter RBI regulations for NBFC-MFIs. Proposed harmonisation of these guidelines could erode the competitive advantage enjoyed by banks.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	44,954	63,239	78,795	94,582	116,580
NII growth (%)	48.3	40.7	24.6	20.0	23.3
Non-interest income	10,630	15,492	17,978	20,074	24,346
Total income	55,585	78,731	96,773	114,656	140,926
Operating expenses	18,103	24,265	27,631	34,574	44,214
Operating profit	37,482	54,466	69,142	80,082	96,713
Operating profit growth (%)	54.2	45.3	26.9	15.8	20.8
Provisions	7,351	13,932	36,980	27,557	25,350
PBT	30,131	40,534	32,162	52,525	71,363
Tax	10,615	10,297	8,105	13,236	17,984
Reported net profit	19,515	30,237	24,057	39,289	53,380
Adjustments	0	0	0	0	0
Adjusted net profit	19,515	30,237	24,057	39,289	53,380

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	11,931	16,102	16,102	16,102	16,102
Reserves & surplus	100,087	135,852	159,909	193,305	236,008
Net worth	112,017	151,955	176,012	209,407	252,111
Deposits	432,316	570,815	736,351	927,803	1,159,753
Borrowings	5,214	163,792	124,482	143,154	164,627
Other liabilities & provisions	14,870	30,617	61,233	79,603	95,524
Total liabilities and equities	564,417	917,178	1,098,078	1,359,967	1,672,015
Cash & bank balance	58,027	83,529	62,486	69,639	81,123
Investments	100,375	153,518	207,249	250,771	298,418
Advances	396,434	666,299	812,885	1,024,236	1,280,294
Fixed & Other assets	9,582	13,832	15,457	15,322	12,179
Total assets	564,417	917,178	1,098,078	1,359,967	1,672,015
Deposit growth (%)	27.6	32.0	29.0	26.0	25.0
Advances growth (%)	33.4	68.1	22.0	26.0	25.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	16.4	21.6	14.9	24.4	33.1
Dividend per share	1.2	3.8	0.0	3.7	6.6
Book value per share	93.9	94.4	109.3	130.0	156.6

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	20.3	15.4	22.2	13.6	10.0
P/BV	3.5	3.5	3.0	2.6	2.1
Dividend yield (%)	0.4	1.1	0.0	1.1	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	8.9	8.5	7.8	7.7	7.7
Non-interest income	2.1	2.1	1.8	1.6	1.6
Operating expenses	3.6	3.3	2.7	2.8	2.9
Pre-provisioning profit	7.4	7.4	6.9	6.5	6.4
Provisions	1.5	1.9	3.7	2.2	1.7
PBT	6.0	5.5	3.2	4.3	4.7
Tax	2.1	1.4	0.8	1.1	1.2
ROA	3.9	4.1	2.4	3.2	3.5
Leverage (x)	4.9	5.6	6.1	6.4	6.6
ROE	19.0	22.9	14.7	20.4	23.1

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	48.3	40.7	24.6	20.0	23.3
Pre-provisioning profit	54.2	45.3	26.9	15.8	20.8
EPS	39.1	31.9	(30.7)	63.3	35.9
Profitability & Return ratios (%)					
Net interest margin	10.4	8.1	8.4	8.1	8.0
Fees / Avg. assets	1.2	1.1	0.9	0.9	0.9
Cost-Income	32.6	30.8	28.6	30.2	31.4
ROE	19.0	22.9	14.7	20.4	23.1
ROA	3.9	4.1	2.4	3.2	3.5
Asset quality (%)					
GNPA	2.0	1.5	7.5	5.1	4.0
NNPA	0.6	0.6	3.3	1.7	1.1
Provision coverage	72.1	60.8	57.9	67.4	73.1
Ratios (%)					
Credit-Deposit	91.7	116.7	110.4	110.4	110.4
Investment-Deposit	23.2	26.9	28.1	27.0	25.7
CAR	29.2	27.4	25.5	24.9	24.7
Tier-1	27.9	25.2	24.7	24.2	24.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

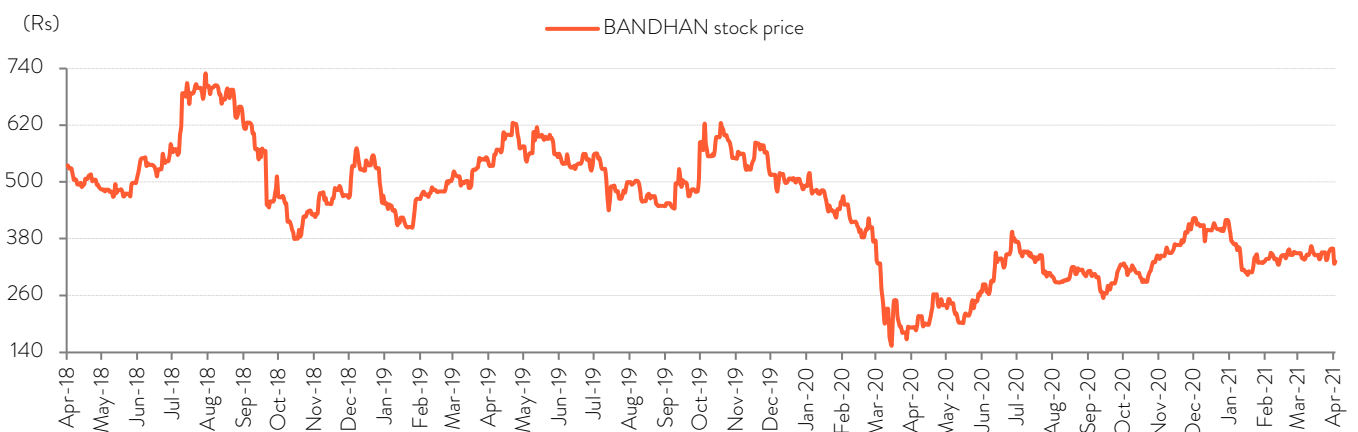
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

RATINGS AND TARGET PRICE (3-YEAR HISTORY): BANDHAN BANK (BANDHAN IN)



B – Buy, A – Add, R – Reduce, S – Sell

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