

ADD

TP: Rs 335 | ▲ 13%

BANDHAN BANK

| Banking

| 08 May 2021

Aggressive write-offs prop up asset quality

Bandhan Bank (Bandhan) reported Q4FY21 PAT of Rs 1bn (-80% YoY), much below our and consensus estimates owing to a spike in provisions. Asset quality was aided by Rs 19bn in aggressive write-offs which shaved 30bps off GNPA ratio. Collection efficiency reduced further by 3-4% in April. Credit cost is likely to remain steep in FY22 as the 0.5% provision buffer looks inadequate, PCR is low at 50% and SMA loans are elevated at ~9%. We cut FY22/FY23 EPS by 17%/13% on higher credit cost estimates and lower our Mar'22 TP to Rs 335 (vs. Rs 375).

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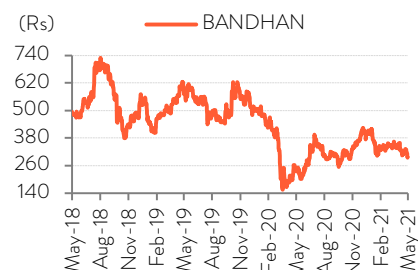
Collection efficiency in Assam dips further: Asset quality was masked by large write-offs worth Rs 19bn, which led to a reduction in GNPA ratio. The states of Assam and West Bengal contributed ~75% of the write-offs. Collection efficiency in Assam dipped further to 83% (88% in Q3), but West Bengal saw improvement to 95%. Management highlighted that collection efficiency in Apr'21 has dipped by a further 3-4%. In addition, the bank has restructured affordable housing loans worth Rs 6.2bn (3% of the mortgage book).

Ticker/Price	BANDHAN IN/Rs 297
Market cap	US\$ 6.5bn
Shares o/s	1,611mn
3M ADV	US\$ 38.6mn
52wk high/low	Rs 431/Rs 195
Promoter/FPI/DII	31%/35%/34%

Source: NSE

Microfinance remains key engine of loan growth: The bank's loan book grew 23% YoY supported by 26% growth in the microfinance portfolio (67% of AUM). The mortgage portfolio grew 9% YoY while retail credit rose 63% on a low base.

STOCK PERFORMANCE



Source: NSE

Liability franchise continues to gain traction: Deposits increased 37% YoY aided by 60% growth in CASA deposits. CASA ratio improved to 43.4%. NIM at 6.8% slipped 150bps QoQ due to interest reversals on slippages of Rs 5.3bn.

Maintain ADD: We cut FY22/FY23 EPS 17%/13% to bake in higher credit costs, and reset our target P/BV from 2.4x to 2.2x given uncertainty around the second Covid wave. Retain ADD with a TP of Rs 335 as Bandhan has high potential for growth by virtue of its presence in underpenetrated regions and loan products.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	44,954	63,239	75,634	89,779	106,899
NII growth (%)	48.3	40.7	19.6	18.7	19.1
Adj. net profit (Rs mn)	19,515	30,237	22,055	32,723	46,222
EPS (Rs)	16.4	21.6	13.7	20.3	28.7
P/E (x)	18.2	13.8	21.7	14.6	10.4
P/BV (x)	3.2	3.2	2.8	2.4	2.0
ROA (%)	3.9	4.1	2.1	2.6	2.9
ROE (%)	19.0	22.9	13.5	17.4	21.0

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Income Statement								
Interest income	30,007	28,463	33,078	5.4	(9.3)	125,242	108,855	15.1
Interest expense	12,437	11,663	12,361	6.6	0.6	49,609	45,616	8.8
Net interest income	17,570	16,800	20,717	4.6	(15.2)	75,634	63,239	19.6
Non-interest income	7,873	5,002	5,533	57.4	42.3	21,091	15,492	36.1
Net total income	25,443	21,802	26,250	16.7	(3.1)	96,724	78,731	22.9
Staff expenses	4,257	3,621	4,348	17.6	(2.1)	16,646	13,670	21.8
Other operating expenses	3,891	2,975	2,762	30.8	40.9	11,525	10,595	8.8
Operating expenses	8,148	6,595	7,109	23.5	14.6	28,172	24,265	16.1
Pre-provisioning profit	17,295	15,207	19,141	13.7	(9.6)	68,553	54,466	25.9
Total provisions	15,943	8,274	10,687	92.7	49.2	39,066	13,932	180.4
Profit before tax	1,352	6,933	8,454	(80.5)	(84.0)	29,487	40,534	(27.3)
Tax	321	1,760	2,128	(81.7)	(84.9)	7,432	10,297	(27.8)
Profit after tax	1,030	5,173	6,326	(80.1)	(83.7)	22,055	30,237	(27.1)
Balance Sheet								
Advances	816,129	666,299	767,750	22.5	6.3	816,129	666,299	22.5
Deposits	779,722	570,815	711,880	36.6	9.5	779,722	570,815	36.6
CASA ratio (%)	43.4	36.8	42.9	660bps	50bps	43.4	36.8	660bps
Yields and margins (%)								
Net interest margin	6.8	8.1	8.3	(130bps)	(150bps)			
Yield on advances	11.6	13.8	13.3	(220bps)	(170bps)			
Cost of funds	5.7	6.7	6.0	(100bps)	(30bps)			
Key ratios (%)								
Cost/Income	32.0	30.3	27.1	177bps	494bps	29.1	30.8	(169bps)
Tax rate	23.8	25.4	25.2	(161bps)	(139bps)	25.2	25.4	(20bps)
Loan to Deposit ratio	104.7	116.7	107.8	(1,206bps)	(318bps)	104.7	116.7	(1,206bps)
Capital adequacy ratios (%)								
Tier 1	22.5	25.2	21.4	(269bps)	110bps	22.5	25.2	(269bps)
Total CAR	23.5	27.4	26.2	(393bps)	(270bps)	23.5	27.4	(393bps)
Asset quality (Rs mn)								
Gross NPAs	57,578	9,928	8,592	480.0	570.1	57,578	9,928	480.0
Net NPAs	28,610	3,894	2,013	634.7	1,321.0	28,610	3,894	634.7
Gross NPA ratio (%)	6.8	1.5	1.1	533bps	570bps	6.8	1.5	533bps
Net NPA ratio (%)	3.5	0.6	0.3	293bps	325bps	3.5	0.6	293bps
Credit costs (%)	8.3	5.1	5.6	322bps	270bps	5.0	2.6	238bps
Coverage Ratio (%)	50.3	60.8	76.6	(1,047bps)	(2,626bps)	50.3	60.8	(1,047bps)

Source: Company, BOBCAPS Research

Valuation methodology

A large part of Bandhan's stressed loan pool has either been recognised as NPA or identified as SMA loans (0-90dpd) in Q4FY21. However, we pare our FY22/ FY23 EPS estimates by 17%/13% as we believe credit costs will remain elevated in FY22 given that SMA loans remain high at ~8% and the bank has a limited contingent buffer of Rs 3.9bn (0.5% of loans). Our FY22/FY23 EPS reduction is driven by assumptions of higher credit cost (350bps/250bps vs. 300bps/220bps earlier), slower loan growth (24%/23% vs. 26%/25% earlier) and lower NIM (8.0%/7.8% vs. 8.1%/8.0% earlier).

We also lower our target FY23E P/BV multiple from 2.4x to 2.2x bearing in mind that a large part of Bandhan's microfinance portfolio is still concentrated in the states of Assam and West Bengal, which are either facing geopolitical risks or localised lockdowns. In addition, the impact of the second pandemic wave on asset quality remains uncertain as restrictions in India's northeastern states are tracking western and southern parts of the country with a lag of 45-60 days. Thus, it is possible that growth and asset quality of the microfinance portfolio in northeastern regions, including Assam, may take a hit in Jul-Aug'21.

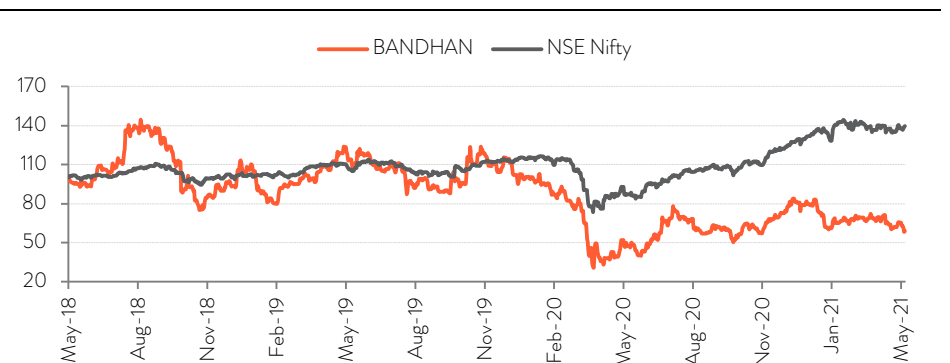
Despite these headwinds, we maintain ADD on the stock as we believe Bandhan has significant opportunities for growth by virtue of its presence in underpenetrated regions and loan products. Moreover, management's proven track record in scaling up business and building a robust liability franchise gives us confidence that the bank will successfully reorient its portfolio away from microfinance.

FIG 2 – REVISED ESTIMATES

Particulars	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net interest income (Rs mn)	89,779	106,899	94,582	116,580	(5.1)	(8.3)
Pre-provisioning profit	77,740	90,003	80,082	96,713	(2.9)	(6.9)
Net Profit (Rs mn)	32,723	46,222	39,289	53,380	(16.7)	(13.4)
EPS (Rs)	20	29	24	33	(16.7)	(13.4)

Source: BOBCAPS Research

FIG 3 – 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	FY21P	FY22E	FY23E
Net interest income	44,954	63,239	75,634	89,779	106,899
NII growth (%)	48.3	40.7	19.6	18.7	19.1
Non-interest income	10,630	15,492	21,091	23,209	28,203
Total income	55,585	78,731	96,724	112,989	135,102
Operating expenses	18,103	24,265	28,172	35,249	45,099
Operating profit	37,482	54,466	68,553	77,740	90,003
Operating profit growth (%)	54.2	45.3	25.9	13.4	15.8
Provisions	7,351	13,932	39,066	33,992	28,209
PBT	30,131	40,534	29,487	43,747	61,793
Tax	10,615	10,297	7,432	11,024	15,572
Reported net profit	19,515	30,237	22,055	32,723	46,222
Adjustments	0	0	0	0	0
Adjusted net profit	19,515	30,237	22,055	32,723	46,222

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Equity capital	11,931	16,102	16,106	16,106	16,106
Reserves & surplus	100,087	135,852	157,976	185,790	222,768
Net worth	112,017	151,955	174,082	201,896	238,874
Deposits	432,316	570,815	779,722	982,450	1,228,063
Borrowings	5,214	163,792	169,604	195,044	224,301
Other liabilities & provisions	14,870	30,617	26,523	34,480	41,376
Total liabilities and equities	564,417	917,178	1,149,931	1,413,870	1,732,613
Cash & bank balance	58,027	83,529	61,930	68,601	79,442
Investments	100,375	153,518	251,554	304,380	362,212
Advances	396,434	666,299	816,129	1,012,000	1,244,760
Fixed & Other assets	9,582	13,832	20,318	28,889	46,198
Total assets	564,417	917,178	1,149,931	1,413,870	1,732,613
Deposit growth (%)	27.6	32.0	36.6	26.0	25.0
Advances growth (%)	33.4	68.1	22.5	24.0	23.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
EPS	16.4	21.6	13.7	20.3	28.7
Dividend per share	1.2	3.8	1.0	3.0	5.7
Book value per share	93.9	94.4	108.1	125.4	148.3

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
P/E	18.2	13.8	21.7	14.6	10.4
P/BV	3.2	3.2	2.8	2.4	2.0
Dividend yield (%)	0.4	1.3	0.3	1.0	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	8.9	8.5	7.3	7.0	6.8
Non-interest income	2.1	2.1	2.0	1.8	1.8
Operating expenses	3.6	3.3	2.7	2.7	2.9
Pre-provisioning profit	7.4	7.4	6.6	6.1	5.7
Provisions	1.5	1.9	3.8	2.7	1.8
PBT	6.0	5.5	2.9	3.4	3.9
Tax	2.1	1.4	0.7	0.9	1.0
ROA	3.9	4.1	2.1	2.6	2.9
Leverage (x)	4.9	5.6	6.3	6.8	7.1
ROE	19.0	22.9	13.5	17.4	21.0

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Net interest income	48.3	40.7	19.6	18.7	19.1
Pre-provisioning profit	54.2	45.3	25.9	13.4	15.8
EPS	39.1	31.9	(36.5)	48.4	41.3
Profitability & Return ratios (%)					
Net interest margin	10.4	8.1	7.9	8.0	7.8
Fees / Avg. assets	1.2	1.1	1.0	1.0	1.0
Cost-Income	32.6	30.8	29.1	31.2	33.4
ROE	19.0	22.9	13.5	17.4	21.0
ROA	3.9	4.1	2.1	2.6	2.9
Asset quality (%)					
GNPA	2.0	1.5	6.8	6.6	6.1
NNPA	0.6	0.6	3.5	3.1	3.3
Credit cost	2.2	2.6	5.3	3.5	2.5
Provision coverage	72.1	60.8	50.3	54.0	47.7
Ratios (%)					
Credit-Deposit	91.7	116.7	104.7	103.0	101.4
Investment-Deposit	23.2	26.9	32.3	31.0	29.5
CAR	29.2	27.4	23.4	23.0	22.5
Tier-1	27.9	25.2	22.5	22.2	21.8

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

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

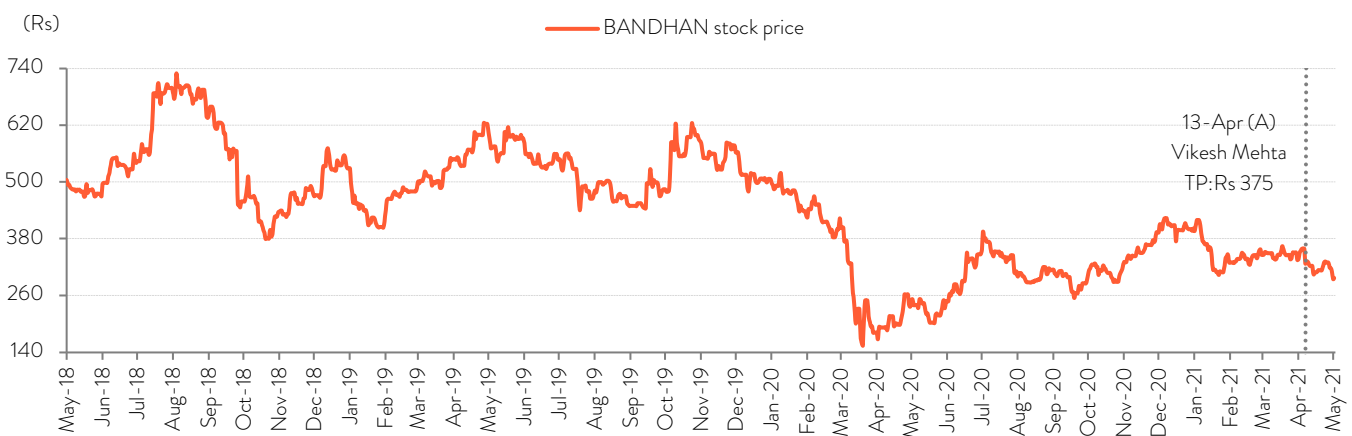
REDUCE – Expected return from -5% to +5%

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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