

FIRST LIGHT

RESEARCH

[Initiation] Bandhan Bank | Target: Rs 375 | +13% | ADD

Near-term headwinds cloud prospects – initiate with ADD

Coforge | Target: Rs 3,350 | +16% | BUY

SLK Global acquisition to derisk travel business

Banking

Assam, W. Bengal MFI collections yet to pick up

SUMMARY

Bandhan Bank

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).

[Click here for the full report.](#)

Coforge

Coforge has acquired 60% stake in SLK Global Solutions – a BPM and digital solutions company for the financial services industry. The acquisition will help derisk the company's dependence on the troubled travel vertical. It will also provide a stable revenue stream and further bolster BFS and insurance vertical growth, besides being EBITDA margin-accretive. We raise FY22/FY23 EPS 5%/17% and roll to a new Mar'22 TP of Rs 3,350 (vs. Rs 2,800), based on an unchanged target P/E of 22x. The recent correction in IT stocks provides a good entry point. BUY.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	330

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.66	4bps	12bps	94bps
India 10Y yield (%)	6.02	(1bps)	(19bps)	(47bps)
USD/INR	74.75	(0.2)	(2.5)	2.0
Brent Crude (US\$/bbl)	62.95	(0.4)	(9.6)	100.0
Dow	33,801	0.9	4.0	42.5
Shanghai	3,451	(0.9)	0.4	22.1
Sensex	49,591	(0.3)	(2.8)	59.2
India FII (US\$ mn)	8 Apr	MTD	CYTD	FYTD
FII-D	12.0	(312.7)	(2,340.0)	(312.7)
FII-E	280.2	125.6	7,451.9	125.6

Source: Bank of Baroda Economics Research

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Banking

We interacted with non-listed MFI players in the states of Assam and West Bengal for a ground-level perspective on the microfinance climate amidst a resurgence of the pandemic and the ongoing assembly elections. Takeaways: (1) no loan waivers in West Bengal yet, (2) lenders in Assam waiting out the storm, (3) Covid affecting northeast states with a lag, (4) harmonisation of NBFC-MFI guidelines could hit banks and SFBs hard.

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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



BUY

TP: Rs 3,350 | ▲ 16%

COFORGE

| IT Services

| 13 April 2021

SLK Global acquisition to derisk travel business

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SLK Global – a sizeable acquisition: Coforge will initially acquire a 60% stake from SLK Global's founders who are fully exiting the business for a cash consideration of Rs 9.2bn. Fifth Third Bank's stake in SLK will reduce to 40% and will remain at that level for the next two years, after which Coforge will acquire an additional 20% stake. The transaction provides a minimum revenue commitment from Fifth Third Bank for the next five years.

Derisking of revenue streams: The deal strengthens Coforge's BFS vertical which has been growing consistently at 8-9% sequentially over the last three quarters and also helps derisk dependence on the troubled travel vertical (~20% of revenues). SLK Global offers digital platforms and BPM solutions across subsegments such as banking, cards, mortgage lending, tax settlement and insurance. Its domain expertise in the insurance segment is expected to help stabilise Coforge's insurance vertical where QoQ growth has been fluctuating. A total of 7,000 employees will be assimilated by Coforge as part of the deal.

Encouraging financials: SLK Global had consolidated revenue of US\$ 62mn in FY20 and US\$ 73mn in FY21 (15% growth despite Covid-19 impact). Fifth Third Bank will continue to be one of its top-5 clients, besides being a JV partner. We expect the acquisition to be EBITDA-accretive for Coforge.

Ticker/Price	COFORGE IN/Rs 2,891
Market cap	US\$ 2.4bn
Shares o/s	62mn
3M ADV	US\$ 15.9mn
52wk high/low	Rs 3,195/Rs 1,019
Promoter/FPI/DII	70%/13%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	36,762	41,839	46,542	61,512	75,370
EBITDA (Rs mn)	6,453	7,431	8,123	10,959	13,754
Adj. net profit (Rs mn)	4,089	4,539	4,760	7,505	9,488
Adj. EPS (Rs)	66.2	73.5	77.1	121.5	153.6
Adj. EPS growth (%)	45.9	11.0	4.9	57.6	26.4
Adj. ROAE (%)	20.3	18.7	17.1	23.6	25.3
Adj. P/E (x)	43.7	39.3	37.5	23.8	18.8
EV/EBITDA (x)	27.1	23.2	20.7	14.9	11.9

Source: Company, BOBCAPS Research



BANKING

13 April 2021

Assam, W. Bengal MFI collections yet to pick up

We interacted with non-listed MFI players in the states of Assam and West Bengal for a ground-level perspective on the microfinance climate amidst a resurgence of the pandemic and the ongoing assembly elections. Takeaways:

Vikesh Mehta

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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 protests as well as 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.

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%.



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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)

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