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Financial
BANDHAN IN
541153

Profitability Impacted On Account Of Disruptions In North Eastern India

RATING	ACCUMULATE
CMP	492
Price Target	537
Potential Upside	9%

Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	397/650
Mkt Capital (Rs Cr)	79,239
Free float (%)	18.00%
Avg. Vol 1M (,000)	243
No. of Shares (Crs)	161
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	4496	6221	7507
PPP	3748	5309	6300
PAT	1952	3333	4038
NIM %	9.6	9.1	7.9
EPS (Rs)	16	21	25
EPS growth (%)	45.0	26.6	21.1
ROE (%)	19.0	23.3	22.9
ROA (%)	3.9	4.1	4.1
BV	94	97	122
P/B (X)	5.2	5.1	4.0
P/E (x)	30	24	20

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3QFY20 Result Update

- NII during the quarter increased by 37%/1% on YoY/QoQ basis with advances growing by 1% QoQ however the NIM during the quarter stood at 7.91% v/s 8.15%. The net profit grew by 120% YoY however it degrew by 33% QoQ on account of additional provisions made by the bank in respect to microfinance portfolio in Assam.
- Asset quality during the quarter was impacted on disruption in assam. The GNPA during the quarter stood at 1.93% v/s 1.76% QoQ. While the NNPA stood at 0.81% v/s the 0.56% QoQ.
- Advance during the quarter grew 1% QoQ With microfinance portfolio being flat, management said that Gruh portfolio growth was affected mainly on account of integration of merger and expects to get into normal trajectory in 3 to 6 months.

NIM Went Down

NII during the quarter by 37%/1% on YoY/QoQ basis with advances growing by 1% QoQ however the NIM during the quarter stood at 7.91% v/s 8.15%. Management said one of the reasons for NIM reduction was excess liquidity and as they pay balance gruh borrowings, the excess liquidity will come down and secondly the due change in recognition of Gruh NPA there has been some reversal of Interest income. Management expects NIM to go back to 8% in 1 or 2 Quarter. The Yield on advance during the quarter stood at 14% v/s 14.2% QoQ while the cost of fund was stable at 7.2%

Asset Quality Impacted

Asset quality was impacted during the quarter with on going disruptions in assam. The 30 DPD+ Portfolio as of 3QFY20 is Rs 556 Cr v/s Rs 384 Cr in Q2FY20 an increase of Rs 172 Cr out of which 162 Cr increase is from assam. The slippages from the Gruh portfolio were Rs 82 Cr out of which 50% was due to change in classification norms. Management said they have not seen any concerns on microfinance business in West Bengal as suggested by various reports. The OTR rate in Assam during the December beginning had gone to around 80% in December beginning however have returned to around 93% by the quarter end. Management said that they have benchmarked the events in north to events like demonetization and GST where they have seen things return to normal in 3 months time.

Muted Advance Growth Sequentially

Advance growth during the quarter was affected sequentially growing 1% QoQ mainly on account of gruh portfolio. The management said that the gruh finance portfolio growth was impacted mainly on account intergration during the merger process and would get to normal trajectory in 3 to 6 months. The non micro book comprises of the 10% of the portfolio Micro consists of 61% portfolio and Gruh portfolio is 29%. Out of the total portfolio of the bank around 16% is from assam 45% is from Bengal and remaining is from rest of india. The loan portfolio in state of bihar is Rs 4053v/s 3120 Cr last year while Orissa is Rs 945 Cr v/s Rs 659 Cr last year.The microfinance growth rate for the bank excluding assam stood at 33% YoY.

View and Valuation

Asset quality during the quarter was impacted primarily on account disruptions in the North eastern states. The OTR rates during the quarter for Assam went down to the tune of 80%. The Growth of the bank was also impacted with Gruh portfolio remaining flat mainly on account of integration after the merger. The NIM continued to fall after the merger and is expected to be impacted for 1 or 2 quarter as per management. The disruptions in Assam and CAA issues could impact the growth of the bank going forward and there might be need of excess provisioning of the Assam portfolio which contributes 16% of the total microfinance book which will impact the profitability. Considering the above we reduce our PAT estimate for FY20 by 8% and downgrade the stock to accumulate with reduced TP of Rs 537 at 4.4x BVFY21e.

Key risk to our rating and target

- Further Moderation of Loan Growth
- Asset quality in North eastern states

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3QFY20 Results

PAT Below Expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,650	1,833	2,631	2,690	2,718	64.7%	1.0%	4,802	6,644	38.4%
Interest Exp.	526	575	1,057	1,161	1,177	124.0%	1.4%	1,770	2,148	21.3%
NII	1,124	1,257	1,575	1,529	1,540	37.0%	0.7%	3,032	4,496	48.3%
Other Income	234	388	331	360	358	52.8%	-0.7%	706	1,063	50.5%
Total Income	1,358	1,645	1,906	1,889	1,898	39.8%	0.5%	3,738	5,559	48.7%
Ope Exp.	458	492	551	582	634	38.6%	8.9%	1,308	1,811	38.4%
PPP	900	1,153	1,355	1,307	1,264	40.4%	-3.3%	2,430	3,748	54.2%
Provisions	378	153	125	146	295	-21.9%	102.6%	374	735	96.4%
PBT	523	1,000	1,230	1,161	969	85.3%	-16.6%	2,056	3,013	46.6%
Tax	192	349	426	190	238	24.2%	25.5%	710	1,062	49.4%
Net Profit	331	651	804	972	731	120.7%	-24.8%	1,346	1,952	45.0%

Concall Highlights

- On additional provisions of Rs 200 Cr made on the standard advance in microfinance portfolio of assam , management said they were made as the OTR movement had fallen in assam in December beginning but they have improved near the quarter end.
 - Management said that considering the current situation there should not be need of accelerated provisioning during Q4FY20.
 - On GNPA movement in Gruh portfolio management said there was slippages of around Rs 82 Cr out of 50% were due to the classification change., Till last quarter asset classification was done on the basis of the NHB norms but post merger it is done as per banking regulation.
 - 30 DPD+ Portfolio as of 3QFY20 is Rs 556 Cr v/s Rs 384 Cr in Q2FY20 increase of Rs 172 Cr out of which 162 Cr increase is from assam.
 - The Management said that as per them they have not seen any concern on microfinance business in Bengal which have been suggested in various reports.
 - The total deposits from assam is Rs 1474 Cr. The average balance per DSC customer is Rs 1900.
 - Bank has benchmarked the event in north against GST and demonetization where the bank has experience that things come back to normal in 3 months time.
 - Management said the gruh portfolio growth was affected on account of integration of merger and expects to get into normal trajectory in 3 to 6 months.
 - The growth outside east india in terms of customer acquisition is faster as compared to eastern india.
 - The increase in opex was partly on account of the increase in employees and increase in advertisement expense after merger to add to that as the gruh high cost borrowings which were on INDIAN as were replaced ,the processing fees paid on loan was amortised over the period of loan and now that it has repaid borrowing uncharged processing fee can not be carried.
 - On Reduction of NIM during the quarter Management said one of the reasons was excess liquidity and as they pay balance gruh borrowings, the excess liquidity will come down and secondly the due change in recognition of Gruh NPA there has been some reversal of Interest income. Management expects NIM to go back to 8% in 1 or 2 Quarter.
 - Numbers of exclusive borrowers are in the range of 55%.
 - The Numbers of micro borrowers in west bengal would be around 45%.
 - The total number of customers in assam in microbanking would be 14.2 lakhs.
- The loan portfolio in state of bihar is Rs 4053v/s 3120 Cr last year while Orissa is Rs 945 Cr v/s Rs 659 Cr last year.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	34.2	33.2	33.7	29.9	28.9	30.8	33.4	-0.29	2.59
Empl. Cost/ Tot. Exp. %	58.2	54.0	55.9	54.9	60.3	57.1	53.7	-2.19	-3.43
Other Exp/Tot. Exp.%	41.8	46.0	44.1	45.1	39.7	42.9	46.3	2.19	3.43
Provision/PPP %	9.7	14.2	41.9	13.3	9.3	11.1	23.3	-18.61	12.19
Tax Rate %	34.9	35.0	36.6	34.9	34.6	16.3	24.6	-12.08	8.23
Int Exp./Int Inc. (%)	33.4	32.9	31.9	31.4	40.2	43.2	43.3	11.46	0.16
Other Income/NII %	20.3	21.4	20.8	30.8	21.0	23.6	23.2	2.40	-0.34
PPP/ Net Income %	79.1	81.1	80.1	91.7	86.1	85.5	82.1	1.94	-3.42
PAT/ Net Income %	46.5	45.3	29.5	51.8	51.0	63.6	47.5	17.99	-16.10
Operating Profit Growth YoY %	47.4	46.9	56.8	63.9	65.1	49.5	40.4	-16.39	-9.18
NII Growth % (YoY)	39.5	55.4	53.6	45.6	51.8	41.9	37.0	-16.56	-4.88
PAT Growth %	47.6	47.3	10.4	67.8	66.7	99.3	120.7	110.27	21.40
RoE %	4.5	4.3	2.9	5.2	4.9	4.8	3.5	0.62	-1.28
RoA %	19.9	19.6	17.1	24.1	24.4	28.3	20.0	2.90	-8.30

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield (Total Assets)	15.4	15.3	15.4	15.6	15.7	14.2	14.0	-1.40	-0.20
Cost of Funds	6.5	6.3	6.3	6.1	6.6	7.2	7.2	0.90	0.00
NIM	10.3	10.3	10.5	10.7	10.5	8.2	7.9	-2.60	-0.25

Exhibit: Yield and Cost

yield decreases and cost of fund stable

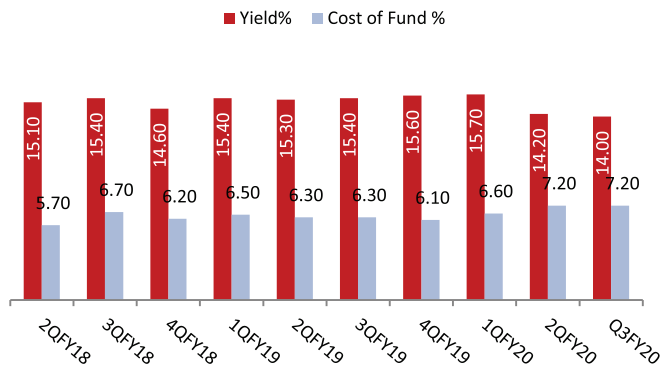
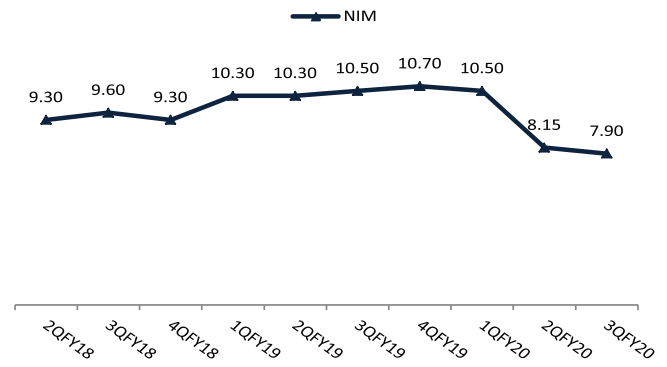


Exhibit: Net Interest Margin

NIM falls



Credit Cost Breakup

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Credit cost-NPA	1.24	0.70	0.66	0.90	5.50	0.98	1.06	0.98	1.32
Credit cost-Standard	0.36	0.81	0.12	0.20	0.20	0.53	0.23	-0.03	0.53
Total	1.60	1.51	0.78	1.10	5.70	1.51	1.29	0.95	1.85

Capital Adequacy

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
TIER 1 capital %	24	30	31	32	32	28	26	23	23
Tier 2 capital%	1	1	1	1	1	1	1	2	2
CRAR%	25	31	33	33	33	29	27	25	25

Exhibit: Other Income/Advances %

Other income as a % of total advances remains same

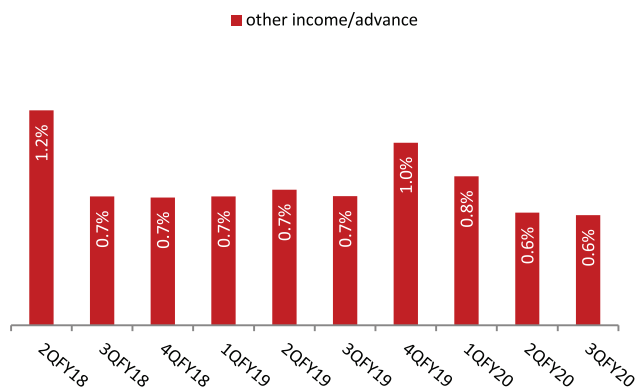
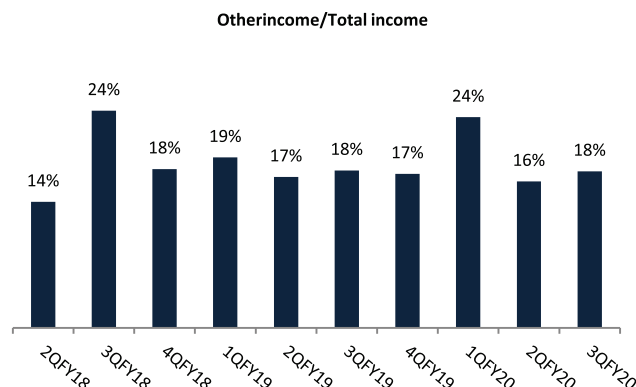


Exhibit: Other Income/ Total Income %

Healthy Other income growth



Asset Quality

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	1	1	2	2	2	2	2	-20%	10%
GNPA %	1	1	1	1	1	1	1	0.11	0.25
NNPA (Rs in Cr)	388	413	831	820	851	1,064	1,182	42%	11%
NNPA %	194	220	237	228	232	337	491	254.72	154.56
Specific PCR %	50.0	46.7	71.5	72.2	72.7	68.3	58.4	-13.09	-9.92

Exhibit: Asset Quality

Stable asset quality

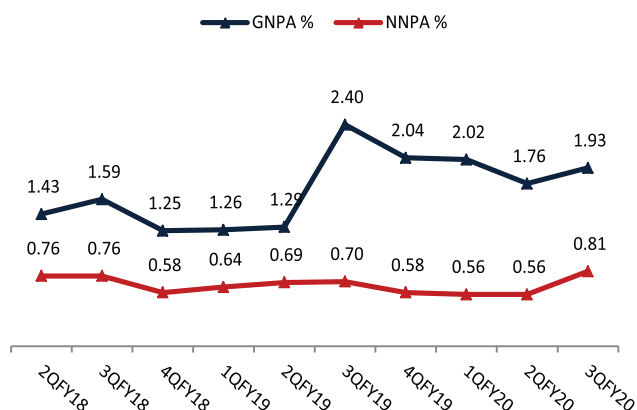


Exhibit: Provisions

PCR went down

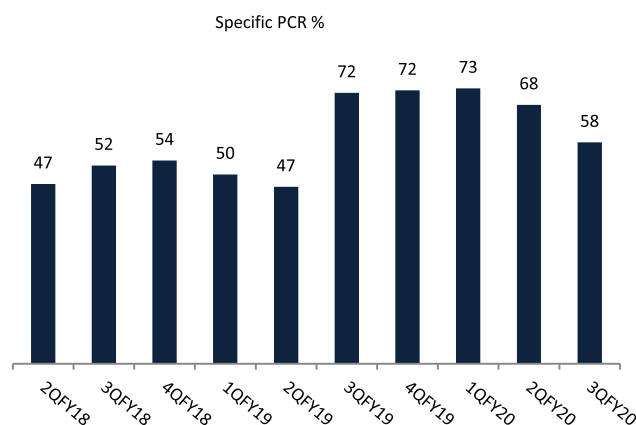


Exhibit: Advances Performance

advance growth affected sequentially

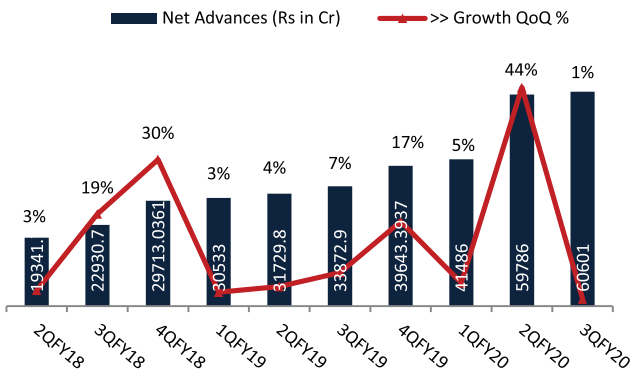


Exhibit: Advances Breakup%

Strong contribution from personal loan segment

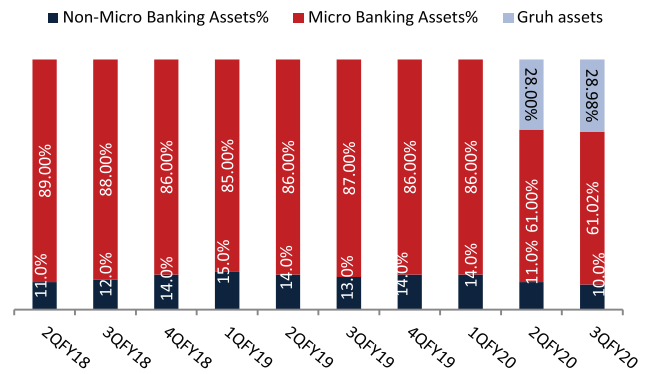


Exhibit: Deposits Performance

Deposit growth increased

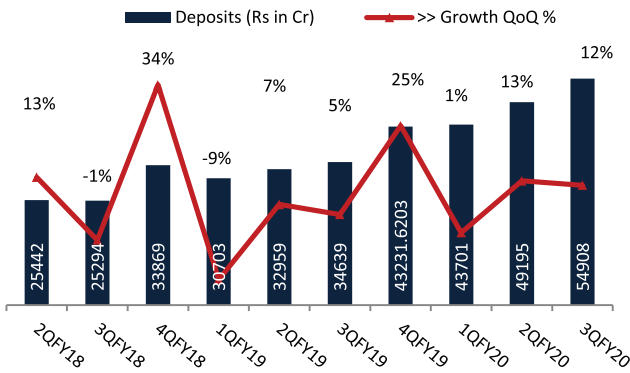


Exhibit: Credit Deposit Ratio

CD ratio falls

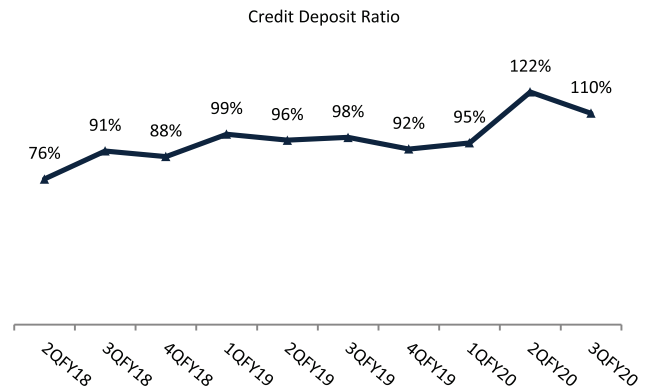
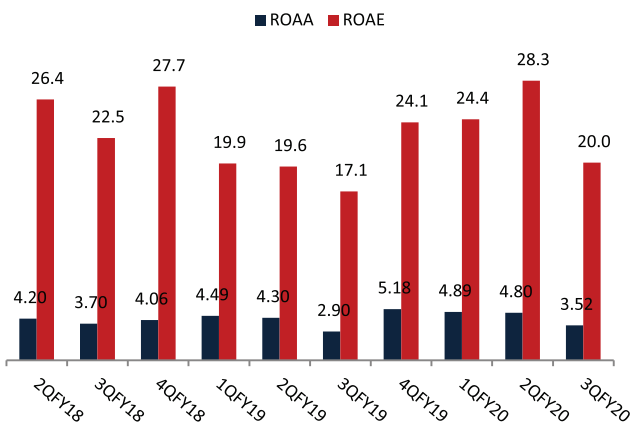


Exhibit: Return Ratios

Return ratio profile impacted



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital						
Equity Capital	1095	1095	1193	1193	1610	1610
Preference Capital	0	0	0	0	0	0
Reserves & Surplus	2239	3351	8189	10009	13963	18022
Networth	3335	4446	9382	11202	15573	19632
Deposits	12089	23229	33869	43232	59728	73724
Change (%)		92%	46%	28%	38%	23%
CASA Deposits	2610	6840	11617	17618	20307	25066
Change (%)		162%	70%	52%	15%	23%
Borrowings	3052	1029	285	521	11330	12297
Other Liabilities & Prov.	1282	1532	774	1487	2389	2949
Total Liabilities	19757	30236	44310	56442	89020	108602
Cash & Bank	810	6012	2837	3879	4021	2099
Investments	3758	5516	8372	10037	14036	17694
Change (%)		0	1	0	0	0
Advances	12438	16839	29713	39643	66895	84783
Change (%)		0	1	0	1	0
Fixed Assets	237	252	238	331	341	351
Other Assets	150	264	476	627	1338	1272
Total Assets	19757	30236	44310	56442	89020	108602

Income Statement

Fig in Rs Cr

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	1,581	3,909	4,802	6,644	10,844	12,936
Interest expended	649	1,505	1,770	2,148	4,623	5,428
Net Interest Income	933	2,403	3,032	4,496	6,221	7,507
Change (%)		158%	26%	48%	38%	21%
Other Income	150	411	706	1,063	1,476	1,623
Change (%)		174%	72%	51%	39%	10%
Core Fee Income	1,083	2,815	3,738	5,559	7,697	9,131
Treasury Income						
Others						
Total Net Income	1,083	2,815	3,738	5,559	7,697	9,131
Operating Expenses	616	1,022	1,308	1,811	2,388	2,830
Change (%)		66%	28%	38%	32%	19%
Employee Expenses	325	546	688	1,009	1,346	1,552
Pre-provisioning Profit	467	1,793	2,430	3,748	5,309	6,300
Change (%)		284%	36%	54%	42%	19%
Provisions	53	88	374	735	843	901
Change (%)		1	3	1	0	0
PBT	414	1,705	2,056	3,013	4,466	5,399
Tax	138	593	710	1,062	1,132	1,361
Profit After Tax	275	1,112	1,346	1,952	3,333	4,038
Change (%)		304%	21%	45%	71%	21%

Financial Details

Key Ratios

Y/E March	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics					
Loan Growth (%)	35	76	33	69	27
Deposit Growth (%)	92	46	28	38	23
C/D Ratio (%)	103	72	88	92	112
CASA (%)	29	34	41	34	34
Investment/Deposit (%)	24	25	23	24	24
CRAR (%)	26	31	29	29	27
Tier 1 (%)	25	30	28	28	26
Tier 2 (%)	160	118	130	90	78

Assets Quality Metrics					
Gross NPA (Rs)	86	373	820	1,297	1,632
Gross NPA (%)	0.5	1.3	2.0	1.9	1.9
Net NPA(Rs)	61	173	228	519	620
Net NPA (%)	0.4	0.6	0.6	0.8	0.7
Slippages (%)					
Provision Coverage (%)	29	54	72	60	62
Provision/Average Advances (%)	0.6	1.6	2.1	1.6	1.2

Margin Metrics					
Yield On Advances (%)	21.3	16.4	16.5	13.9	15.1
Yield On Investment (%)	9.2	7.1	6.7	6.6	6.0
Yield on Earning Assets (%)	16.5	14.8	14.2	13.4	13.6
Cost Of Deposits (%)	7.3	5.9	5.4	6.6	6.6
Cost Of Funds (%)	7.9	5.8	5.4	6.8	6.7
Spread (%)	8.5	9.0	8.9	6.6	6.9
NIM (%)	10.1	9.3	9.6	9.1	7.9

Profitability & Efficiency Metrics					
Int. Expense/Int.Income (%)	38.5	36.9	32.3	42.6	42.0
Cost to Income (%)	0.4	0.3	0.3	0.3	0.3
Cost on Average Assets (%)	-	2.6	2.5	2.4	3.0
Tax Rate (%)	0.3	0.3	0.4	0.3	0.3

Valuation Ratio Metrics					
EPS (Rs)	10.2	11.3	16.4	20.7	25.1
Change (%)	-	11.1	45.0	26.6	21.1
ROAE (%)	0.3	0.2	0.2	0.2	0.2
ROAA (%)	4.5	3.6	3.9	4.1	4.1
Dividend Payout (%)	-	-	0.1	0.1	0.1
Dividend yield (%)	-	-	0.0	0.0	0.0
Book Value (Rs)	40.6	78.7	93.9	96.8	122.0
Change (%)		93.7	19.4	3.0	26.1
P/B (X)		6.0	5.2	5.1	4.0
P/E (X)		41.5	30.1	23.8	19.6

Financial Details

Exhibit: DuPont Analysis

	FY17	FY18	FY19	FY20E	FY21E
Interest Income	15.6	12.9	13.2	13.2	13.1
Interest expended	6.0	4.7	4.3	5.6	5.5
Net Interest Income	9.6	8.1	8.9	7.6	7.6
Non-Fund Based Income	1.6	1.9	2.1	1.8	1.6
Core Fee Income	-	1.3	1.5	0.8	1.0
Trading and Other Income	1.6	0.6	0.6	1.0	0.7
Core Operating Income	9.6	9.4	10.5	8.4	8.6
Total Income	11.3	10.0	11.0	9.4	9.2
Total Operating Expenses	4.1	3.5	3.6	2.9	2.9
Employee Expenses	2.2	1.8	2.0	1.6	1.6
Other Expenses	1.9	1.7	1.6	1.3	1.3
Operating Profit	7.2	6.5	7.4	6.5	6.4
Provisions	0.4	1.0	1.5	1.0	0.9
Others					
PBT	6.8	5.5	6.0	5.4	5.5
Tax	2.4	1.9	2.1	1.4	1.4
PAT/RoAA	4.5	3.6	3.9	4.1	4.1
Equity Multiplier (x)	6.4	5.4	4.9	5.7	5.6
ROAE	28.6	19.5	19.0	23	23

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