

Bandhan Bank Limited

Industry Financial
Bloomberg BANDHAN IN
BSE CODE 541153

Healthy Operating Performance, Bottom line affected due to Higher Credit Cost

RATING	ACCUMULATE
CMP	234
Price Target	350
Potential Upside	50%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	152/650
Mkt Capital (Rs Cr)	37,672
Free float (%)	18.00%
Avg. Vol 1M (,000)	17,745
No. of Shares (Cr)	161
Promoters Pledged %	

Fig in Rs cr

FINANCIAL	FY18	FY19	FY20
NII	3032	4496	6324
PPP	2430	3748	5447
PAT	1346	1952	3024
NIM %	8.2	9.0	8.7
EPS (Rs)	11	16	19
EPS growth	0.1	0.5	0.1
ROE (%)	0.2	0.2	0.1
ROA (%)	3.9	4.1	2.1
BV	79	94	95
P/B (X)	6.0	5.6	2.0
P/E (x)	41	32	10

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4QFY20 Result Update

- ❑ NII increased by 34%/9% on YoY/QoQ basis with advances growing by 10% QOQ. NIM stood at 8.12% v/s 7.91% QoQ. The net profit fell by 21%/29% on YoY/QoQ basis on account of higher standard asset provisioning worth Rs 690 Cr.
- ❑ Asset quality during the quarter improved with GNPA at 1.48% v/s 1.93% QoQ while the NNPA stood at 0.58% v/s 0.81%. The impact of moratorium on GNPA was about 20-25 bps.
- ❑ Advance grew 10% QoQ With microfinance portfolio growing by 15%QoQ while the SME portfolio grew by 21% QoQ. Deposits during the quarter grew by 4% QoQ .

Profitability impacted to due higher credit cost

NII increased by 34%/9% on YoY/QoQ basis with advances growing by 10% QOQ. NIM stood at 8.12% v/s 7.91% QoQ. The yield on advance stood at 13.80 v/s 14% QoQ while the cost of fund stood at 6.7% v/s 7.2% QoQ. The net profit fell by 21%/29% on YoY/QoQ basis on account of higher standard asset provisioning worth Rs 690 Cr. The Additional provisioning of Rs 690 Cr was calculated considering various factors 1) industry in which customers are and how it industry is performing 2) Banks prior experience of handling challenges and how it impacted banks business. Cost to income during the quarter stood at 30.3% with employee expense growing by 34% YoY while other operating expense also grew by 34%.

Asset Quality Improved

Asset quality improved with GNPA at 1.48% v/s 1.93% QoQ while the NNPA stood at 0.58% v/s 0.81%. QoQ. The impact of moratorium on GNPA was about 25 bps. Between SME, Housing, Micro Segment 3% of the book is 0+DPD and 2.2% of the book is 30+DPD. In the Mortgage portfolio 87% of customers in value have paid instalment in Apr' 20. The balance 13% opted to conserve cash. Management has said that it would take 3 to 6 weeks for business to normalize post lockdown. In micro book 100% have asked moratorium, in mortgage book 13% have asked for moratorium till and in SME approximately 35% have asked for moratorium.

Slow Advance Growth Sequentially

Advance growth during the quarter was affected sequentially growing 10% QoQ With microfinance portfolio growing by 15% QoQ while the SME portfolio grew by 21% QoQ. The growth was affected to a certain extent by lockdown. 91% of the banks loan are priority sector loans while the 64% are micro loans.79% of borrowers in Micro segment have an average deposit balance of Rs 3,070, which is equivalent to 4+ weekly instalmen. The deposits during the quarter grew by .Deposits during the quarter grew by 4% QoQ WITH CASA Ratio at 36.84.

View and Valuation

BANDHANBNK reported mixed set of numbers for the quarter. Advance grew by 10% QoQ(YoY not comparable due to Merger) mainly led by the Microfinance segment and Deposits grew at a decent levels although low historically . NII growth was strong led by the Lower cost of fund. Asset quality improved during the quarter and the impact of Moratorium on GNPA was about 20 to 25bps. The profitability during the quarter was impacted on account of additional standard asset provisioning on account of COVID 19. Going Forward collection efficiency of the bank is expected to be impacted on account of lockdown which might take toll on asset quality thus increase credit cost may arise , management has highlighted that it would take 4 to 6 weeks for business to normalize post lockdown. However with 76% of the banks portfolio between green and amber zone collection are expected to pick up once things normalize post lockdown .Healthy capital adequacy is expected to support bank in the times of turmoil. Bank is trading at 2.48XFY20BV.We maintain Accumulate with TP of 350

Key risk to our rating and target

- ❑ Further extension of lockdown

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4QFY20 Results PAT impacted due to Higher Credit Cost

Financials	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	Fig in Rs cr		
								FY19	FY20	YoY %
Interest Inc.	1,833	2,631	2,690	2,718	2,846	55.3%	4.7%	6,644	10,885	63.8%
Interest Exp.	575	1,057	1,161	1,177	1,166	102.8%	-0.9%	2,148	4,562	112.4%
Nil	1,257	1,575	1,529	1,540	1,680	33.6%	9.1%	4,496	6,324	40.7%
Other Income	388	331	360	358	500	29.0%	39.8%	1,063	1,549	45.7%
Total Income	1,645	1,906	1,889	1,898	2,180	32.5%	14.9%	5,559	7,873	41.6%
Opex Exp.	492	551	582	634	660	34.0%	4.0%	1,811	2,427	34.0%
PPP	1,153	1,355	1,307	1,264	1,521	31.9%	20.3%	3,748	5,447	45.3%
Provisions	153	125	146	295	827	439.8%	180.6%	735	1,393	89.5%
PBT	1,000	1,230	1,161	969	693	-30.7%	-28.4%	3,013	4,053	34.5%
Tax	349	426	190	238	176	-49.6%	-26.0%	1,062	1,030	-3.0%
Net Profit	651	804	972	731	517	-20.5%	-29.2%	1,952	3,024	54.9%

Concall Highlights

- Bank is contacting to 95-97% customers on a regular basis. The overall perspective is that people are not able to come out and bank is also not able to contact them due to lockdown which is stating big challenge.
- It would take 3 to 6 weeks for business to normalize post lockdown. 50% of the customers are related to agriculture and another 20% of the customers are related to food processing.
- The Additional Standard provisioning of Rs 690 Cr was calculated on various factors 1) industry in which customers are and how it industry is performing 2) Banks prior experience of handling challenges and how it impacted banks business.
- Total additional standard asset provision bank has today is Rs 10 billion and it believes that if lockdown open and economy starts to work in next 10 -20 days these provision would be enough but would need to reassess going forward.
- Liquidity position for the NBFC to those bank has given moratorium is fairly stable but they are looking conserve cash till the time they start collection.
- The other transportation business category contains auto rickshaw and taxi.
- The 78% businesses of the customers are in green zone, 16% are in orange zone and balance are in red zone.
- Between SME, Housing, Micro Segment 3% of the book is 0+DPD and 2.2% of the book is 30+ DPD.
- Post March Deposit have grown 2%+ in April and another 1.5% till now in May
- Close to 76% of the portfolio is between green and amber zone and collections would starts once the things normalizes.
- 79% of borrowers in Micro segment have an average deposit balance of Rs 3,070, which is equivalent to 4+ weekly instalment.
- In the Mortgage portfolio 87% of customers in value have paid instalment in Apr' 20. The balance 13% opted to conserve cash. As of now some customers have been asking for the moratorium.
- 52% of the banks customers are fourth cycle and above.
- 96% of the banks offices are open and are connecting with customers to understand what would be best way for collection once lockdown opens.
- Collection efficiency including assam is 98.5% and excluding it is 99% and assam is around 93.6%.
- Many of the borrower of the bank will have loans with other banks but banks is adhering diligence while giving loans. Bank has not yet started top up loan facility for the customers.
- Collections have still not started in the green zone.
- Most of the NBFC-MFI segment customers who have not opted for the moratorium have paid the installments.
- Moratorium impact on the GNPA levels would have been 20-25 bps.
- Bank had participated in TLTRO 2 but as it was new concept has restricted it to Rs 500 Cr.

Profitability Matrix

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	33.2	33.7	29.9	28.9	30.8	33.4	30.3	0.34	-3.16
Empl. Cost/ Tot.	54.0	55.9	54.9	60.3	57.1	53.7	54.9	0.05	1.20
Other Exp/Tot.	46.0	44.1	45.1	39.7	42.9	46.3	45.1	-0.05	-1.20
Provision/PPP %	14.2	41.9	13.3	9.3	11.1	23.3	54.4	41.12	31.08
Tax Rate %	35.0	36.6	34.9	34.7	16.3	24.6	25.4	-9.52	0.83
Int Exp./Int Inc.	32.9	31.9	31.4	40.2	43.2	43.3	41.0	9.59	-2.35
Other	21.4	20.8	30.8	21.0	23.6	23.2	29.8	-1.07	6.55
PPP/ Net	81.1	80.1	91.7	86.1	85.5	82.1	90.5	-1.19	8.46
PAT/ Net	45.3	29.5	51.8	51.0	63.6	47.5	30.8	-20.97	-16.67
Operating Profit	42.8	208.2	40.5	56.7	17.2	(21.9)	439.8	399.27	461.70
NII Growth %	55.4	53.6	45.6	51.8	41.9	37.0	33.6	-12.04	-3.43
PAT Growth %	47.3	10.4	67.8	66.7	99.3	120.7	(20.5)	-88.33	-141.20
RoE %	4.3	2.9	5.2	4.9	4.8	3.5	2.4	-2.78	-1.12
RoA %	19.6	17.1	24.1	24.4	28.3	20.0	13.7	-10.40	-6.30

Margin Performance

Margin %	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (+/-)	QoQ (+/-)
Yield (Total Assets)	15.3	15.4	15.6	15.7	14.2	14.0	13.8	-1.80	-0.20
Cost of Funds	6.3	6.3	6.1	6.6	7.2	7.2	6.7	0.60	-0.50
NIM	10.3	10.5	10.7	10.5	8.2	7.9	8.1	-2.58	0.21

Exhibit: Yield and Cost

yield decreases and cost of fund falls

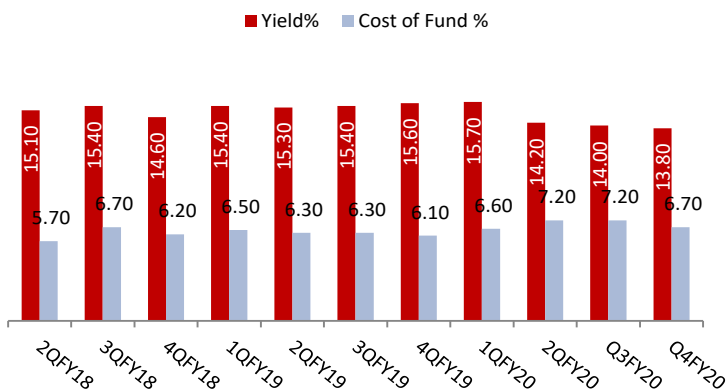


Exhibit: Net Interest Margin

NIM improves Sequentially

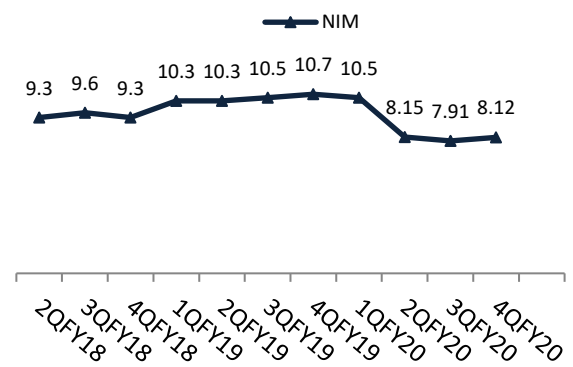


fig in Rs cr

Credit Cost Breakup

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Credit cost-NPA	0.70	0.66	0.90	5.50	0.98	1.06	0.98	1.32	1.67
Credit cost-Standard	0.81	0.12	0.20	0.20	0.53	0.23	-0.03	0.53	3.41
Total	1.51	0.78	1.10	5.70	1.51	1.29	0.95	1.85	5.08

Capital Adequacy

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

Exhibit: Other Income/Advances %

Other income as a % of total advances increases

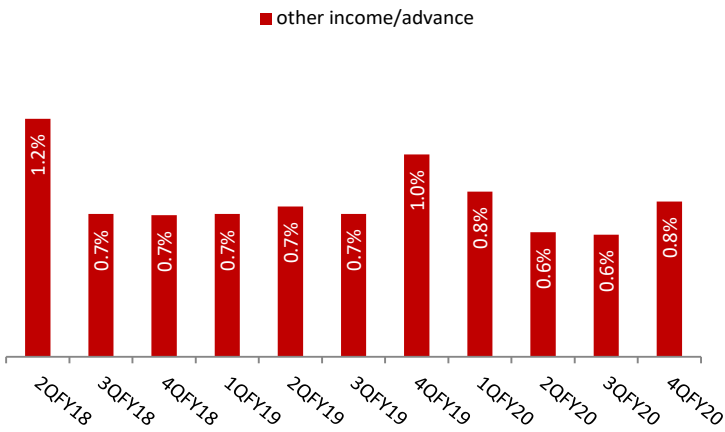
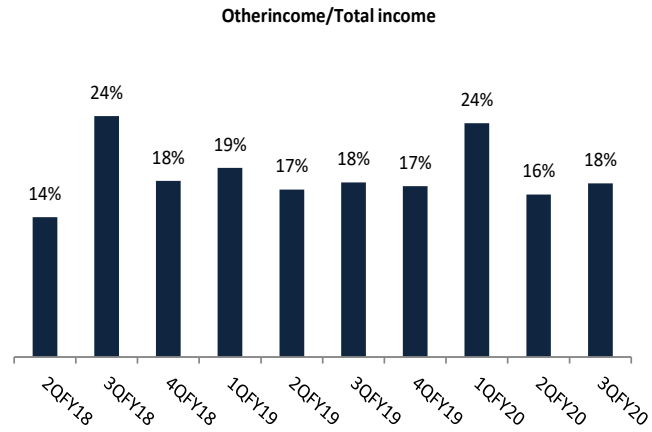


Exhibit: Other Income/ Total Income %

Healthy Other income growth



Asset Quality

fig in Rs cr

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	1	2	2	2	2	2	1	-27%	-23%
GNPA %	1	1	1	1	1	1	1	0.00	-0.23
NNPA (Rs in Cr)	413	831	820	1,020	1,064	1,182	993	21%	-16%
NNPA %	220	237	228	232	337	491	389	161.08	-102.04
Specific PCR %	46.7	71.5	72.2	77.2	68.3	58.4	60.8	-11.38	2.35

Exhibit: Asset Quality

Stable asset improved

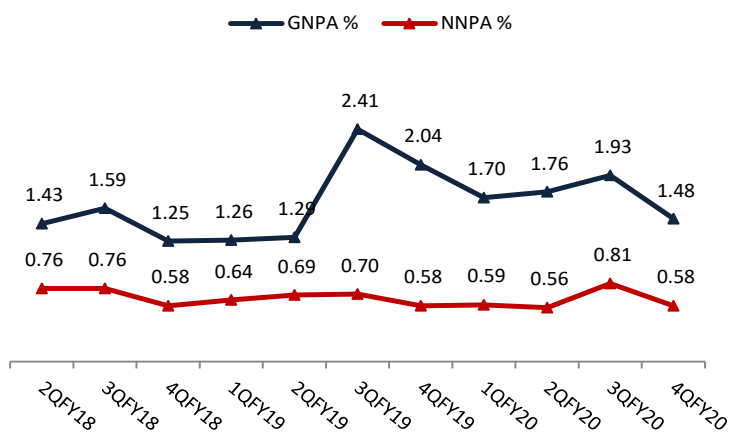


Exhibit: Provisions

Pcr increased sequentially

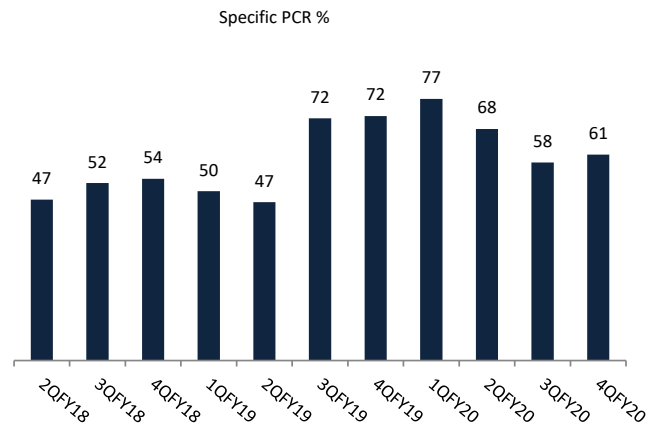


Exhibit: Advances Performance

advance growth improved sequentially

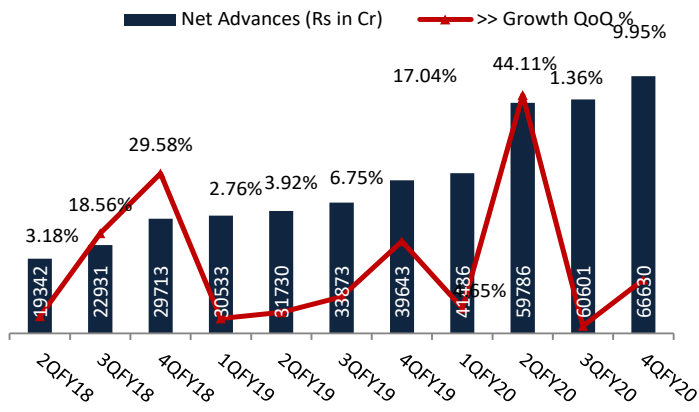


Exhibit: Advances Breakup%

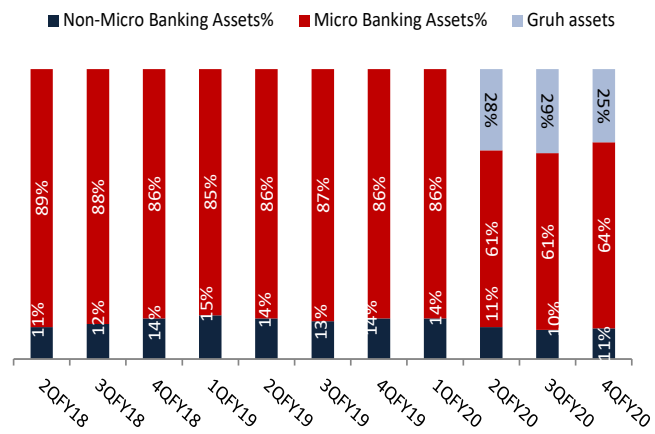


Exhibit: Deposits Performance

Deposit growth falls

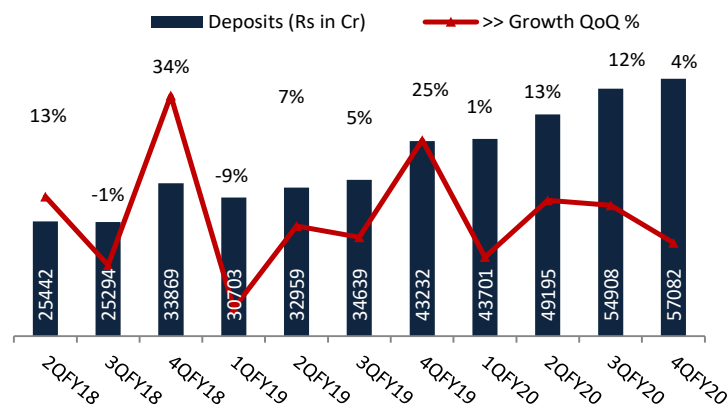


Exhibit: Credit Deposit Ratio

CD ratio increases

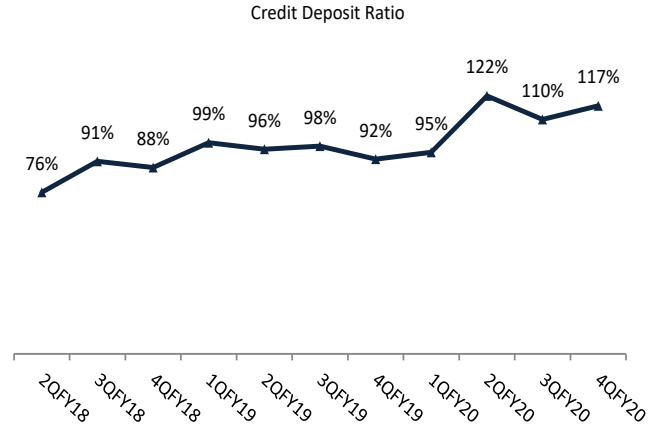
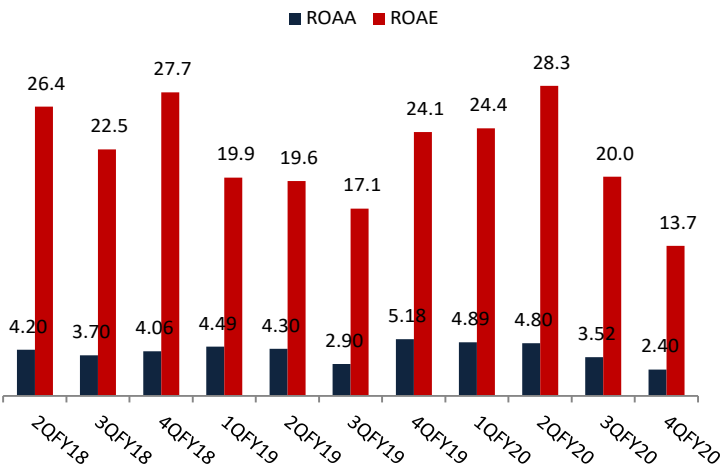


Exhibit: Return Ratios

Return ratio profile impacted



Financial Details

Balance Sheet

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital							
>> Equity Capital			1095	1095	1193	1193	1610
>> Preference Capital							
Reserves & Surplus			2239	3351	8189	10009	13585
Networth			3335	4446	9382	11202	15194
Deposits			12089	23229	33869	43232	57082
Change (%)				92%	46%	28%	32%
>> CASA Deposits			2610	6840	11617	17618	15757
Change (%)				162%	70%	52%	-11%
Borrowings			3052	1029	285	521	16379
Other Liabilities & Prov.			1282	1532	774	1487	3062
Total Liabilities			19757	30236	44310	56442	91718
Cash & Bank			810	6012	2837	3879	6345
Investments			3758	5516	8372	10037	15352
Change (%)				0	1	0	1
Advances			12438	16839	29713	39643	66630
Change (%)				0	1	0	1
Fixed Assets			237	252	238	331	369
Other Assets			150	264	476	627	1014
Total Assets			19757	30236	44310	56442	91718

Income Statement

Y/E March	FY16	FY17	FY18	FY19	FY20
Interest income	1,581	3,909	4,802	6,644	10,885
Interest expended	649	1,505	1,770	2,148	4,562
Net Interest Income	933	2,403	3,032	4,496	6,324
Change (%)		158%	26%	48%	41%
Other Income	150	411	706	1,063	1,549
Change (%)		174%	72%	51%	46%
>> Core Fee Income					
>> Treasury Income					
>> Others					
Total Net Income	1,083	2,815	3,738	5,559	7,873
Operating Expenses	616	1,022	1,308	1,811	2,427
Change (%)		66%	28%	38%	34%
>> Employee Expenses	325	546	688	1,009	1,367
Pre-provisioning Profit	467	1,793	2,430	3,748	5,447
Change (%)		284%	36%	54%	45%
Provisions	53	88	374	735	1,393
Change (%)		1	3	1	1
PBT	414	1,705	2,056	3,013	4,053
Tax	138	593	710	1,062	1,030
Profit After Tax	275	1,112	1,346	1,952	3,024
Change (%)		304%	21%	45%	55%

Financial Details

Key Ratios

Fig in Rs cr

Y/E March	FY17	FY18	FY19	FY20E
Balance Sheet Metrics				
Loan Growth (%)	35	76	33	68
Deposit Growth (%)	92	46	28	32
C/D Ratio (%)	72	88	92	117
CASA (%)	29	34	41	37
Investment/Deposit (%)	24	25	23	27
CRAR (%)	26	31	29	27
>> Tier 1 (%)	25	30	28	26
>> Tier 2 (%)	2	1	1	1

Assets Quality Metrics

Gross NPA (Rs)	86	373	820	993
Gross NPA (%)	0.5	1.3	2.0	0.0
Net NPA(Rs)	61	173	228	389
Net NPA (%)	0.4	0.6	0.6	0.0
Slippages (%)				
Provision Coverage (%)	29	54	72	61
Provision/Average Advances (%)	0.6	1.6	2.1	2.6

Margin Metrics

Yield On Advances (%)	21.3	16.4	16.5	17.9
Yield On Investment (%)	9.2	7.1	6.7	6.6
Yield on Earning Assets (%)	16.5	14.8	14.2	14.9
Cost Of Deposits (%)	7.3	5.9	5.4	6.9
Cost Of Funds (%)	7.9	5.8	5.4	7.7
Spread (%)	8.5	9.0	8.9	7.3
NIM (%)	10.1	9.3	9.6	8.7

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	38.5	36.9	32.3	41.9
Cost to Income (%)	36.3	35.0	32.6	33.6
Cost on Average Assets (%)	-	2.6	2.5	3.3
Tax Rate (%)	34.8	34.6	35.2	25.4

Valuation Ratio Metrics

EPS (Rs)	10.2	11.3	16.4	18.8
Change (%)		0.1	0.5	0.1
ROAE (%)	28.6	19.5	19.0	22.9
ROAA (%)	4.5	3.6	3.9	4.1
Dividend Payout (%)	-	-	0.2	-
Dividend yield (%)	-	-	0.0	-
Book Value (Rs)	40.6	78.7	93.9	94.4
Change (%)		0.9	0.2	0.0
P/B (X)		6.0	5.2	2.0
P/E (X)		41.5	30.1	10.2

Financial Details

Exhibit: DuPont Analysis

Fig in Rs cr

	FY17	FY18	FY19	FY20E
<i>Interest Income</i>	15.6	12.9	13.2	14.7
<i>Interest expended</i>	6.0	4.7	4.3	6.2
<i>Net Interest Income</i>	9.6	8.1	8.9	8.5
<i>Non-Fund Based Income</i>	1.6	1.9	2.1	2.1
>> <i>Core Fee Income</i>	1.3	1.3	1.5	1.2
>> <i>Trading and Other Income</i>	0.4	0.6	0.6	0.9
<i>Core Operating Income</i>	10.9	9.4	10.5	9.7
<i>Total Income</i>	11.3	10.0	11.0	10.6
<i>Total Operating Expenses</i>	4.1	3.5	3.6	3.3
>> <i>Employee Expenses</i>	2.2	1.8	2.0	1.8
>> <i>Other Expenses</i>	1.9	1.7	1.6	1.4
<i>Operating Profit</i>	7.2	6.5	7.4	7.4
<i>Provisions</i>	0.4	1.0	1.5	1.9
<i>Others</i>	-	-	-	-
<i>PBT</i>	6.8	5.5	6.0	5.5
<i>Tax</i>	2.4	1.9	2.1	1.4
<i>PAT/RoAA</i>	4.5	3.6	3.9	4.1
<i>Equity Multiplier (x)</i>	6.4	5.4	4.9	5.6
<i>ROAE</i>	28.6	19.5	19	23

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