

Bandhan Bank Ltd.



Bandhan Bank Ltd.

Higher credit costs contracted profitability

CMP INR 291	Target INR 307	Potential Upside 5.5%	Market Cap (INR Mn) INR 469,188	Recommendation HOLD	Sector BFSI
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Result Highlights of Q1FY22

- Total business stood at INR 1,521 bn (+16.7% yoy, -4.7% qoq); despite ~2x disbursement in Q1FY22 vs Q1FY21, the portfolio declined on account of higher collection in Q1FY22 vs Q1FY21 (Portfolio under moratorium). Loan book reported at INR 803.6 bn (+8.1% yoy) and deposits reported at INR 773.4 bn (+27.6% yoy).
- Net Interest income reported at INR 21.1 bn (+16.7% yoy, 20.3% qoq) and NIM improved at 8.5% in Q1FY22 as against 8.2% in Q1FY21. Non-Interest Income reported at INR 5.3 bn (+37.7% yoy, -32.3% qoq).
- Net banking income stood at INR 26.5 bn (+20.4% yoy, +4.1% qoq) and Pre-provision profit (PPOP) reported at INR 18.7 bn (+18.1% yoy, +8.2% qoq). PPOP to loan book ratio stood at 9.3% as against 8.6% in Q4FY21.
- Cost to income ratio stood at 29.3% in Q1FY22 as against 32.0%/27.9% in Q4FY21/Q1FY21, respectively. Net profit reported at INR 3.7 bn (-32.1% yoy, 262.1% qoq).
- Bank's GNPA and NNPA stood at 8.2% (Q4FY21: 6.8%) and 3.3% (Q4FY21: 3.5%), respectively. It has provided accelerated provision on NPA accounts of INR 7.5 bn which includes additional standard asset provisions amounting to INR 3.2 bn and provisions on restructured assets worth INR 5.3 bn. Bank's provision coverage ratio improved at 62% in Q1FY22 as against 50% in Q4FY21. Bank's capital adequacy ratio stood at 24.8% (CRAR incl profit at 25.3%); Tier 1 ratio at 23.8%.

MARKET DATA

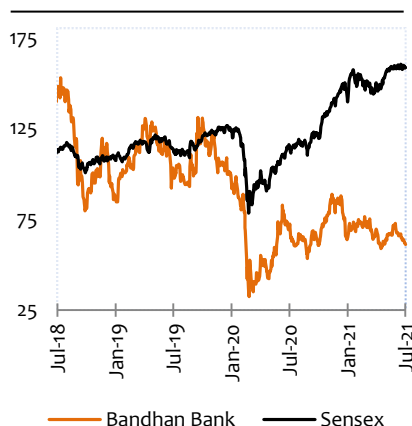
Shares outs (Mn)	1,611
Equity Cap (INR Mn)	16,106
Mkt Cap (INR Mn)	469,188
52 Wk H/L (INR)	430/251
Volume Avg (3m K)	388.1
Face Value (INR)	10
Bloomberg Code	BANDHAN IN

Key Financials

INR Crores	FY20	FY21	FY22E	FY23E
NII	6,323.9	7,563.4	10,757.6	12,950.7
PPOP	5,446.6	6,855.3	9,221.6	10,610.8
PAT	3,023.7	2,205.5	3,546.3	3,995.0
EPS (Rs.)	18.8	13.7	22.0	24.8
BVPS (Rs.)	94.4	108.1	130.1	154.9
ABVPS (Rs.)	91.9	88.2	115.2	146.6
P/E (x)	10.8x	23.0x	13.2x	11.7x
P/ABV (x)	2.2x	3.6x	2.5x	2.0x

Source: Company data, KRChoksey Research

SHARE PRICE PERFORMANCE



Bank's steady fundamentals and efficient operations

Bank's topline grew by 20% yoy; although non-interest income declined by 32.3% qoq. PPOP margin stood at 71% for the quarter as against 68%/72% in Q4FY21/Q1FY21, respectively. Bank has been able to manage its operating expenses at INR 7.8 bn (+26.4% yoy, -4.7% qoq) where other operating expenses de-grew by 28.9% qoq to INR 2.8 bn (+23.1% yoy) and employee expenses stood at INR 5 bn (+28.3% yoy, +17.4% qoq).

Bank's yield improved at 13.7% in Q1FY22 as against 13.6%/11.6% in Q1FY21/Q4FY21, respectively. cost of funds have also been declined at 5.7% in Q1FY22 as against 6.4% in Q1FY21. It has resulted in improved NIMs at 8.5% for the quarter. Since July, the bank has reduced interest on saving account which will further boost spreads during the year. It has maintained its strong capital adequacy at 24.8% and tier 1 ratio of 23.8% with cash and cash equivalents at INR 115 bn as on June 2021 which is expected to support bank's future business growth. The borrowings reduced from INR 170 bn as on March 2021 to INR 119 bn as on June 2021.

Addressing the asset quality issues

Bank's GNPA levels have further increased from 6.8% in Q4FY21 to 8.2% in Q1FY22 on account of COVID related restrictions which impacted the collection efficiency. 72% of NPA customers have done part or full payments, therefore the bank has restructured these loans worth INR 52.8 bn of which 82% of customers have paid in the last month. As the bank continues to strengthen its balance sheet with INR 13.7 bn provisions where total provisions on the balance sheet stood at INR 39.8 bn as on June 2021. Further, bank's provision coverage ratio strengthened up to 62%. Credit costs stood at 7.2% in Q1.

Asset quality levels for EEB portfolio deteriorated at 10.1%/2.4%/9.3% for SMA-1/SMA-2/NPA as on June 2021, respectively. In which, Assam state contributed at 19.5%/5.1%/17% of overall asset quality levels of SMA-1/SMA-2/NPA, respectively. As on June 2021, Assam has INR 63.5 bn worth loan portfolio of which ~INR 35.8 bn worth loans are eligible under Assam's MFI relief scheme. Additionally, bank has availed INR 143 bn Credit Guarantee Fund for Micro Units (CGFMU) coverage till March 2021. Further, bank's housing loan portfolio worth INR 2.6 bn has come out of overall restructured portfolio of INR 6.2 bn in Q4FY21.

MARKET INFO

SENSEX	52,587
NIFTY	15,763

SHARE HOLDING PATTERN (%)

Particulars	Jun 21	Mar 21	Dec 20
Promoters	39.9	39.9	40.0
FIIIs	35.4	34.9	35.2
DIIIs	2.0	1.9	4.4
Others	22.6	23.2	20.4
Total	100.0	100.0	100.0

Bandhan Bank Ltd.

Steady business growth on account of COVID restrictions

During the quarter, the bank has disbursed EEB loans worth INR 59.8 bn (+92.3% yoy); housing loans worth INR 5.1 bn and CB & Retail loans worth INR 2.5 bn (+8.7% yoy). The bank has disbursed very negligible top-up loans and nil ECLGS loans in EEB segment. However, higher collections during Q1FY22 as against Q1FY21 (period under moratorium) has resulted in overall portfolio de-growth. The bank has added 5 lakh customers during Q1FY22.

The bank is focused on its transformation to diversify further into new asset products, both secured as well as unsecured. Graduation of 13% of group loans to individual loans and investment in technology that adds new partners in treasury and digital banking. It expects bank's business to grow in line with domestic economic growth despite short-term challenges, as economic recovery to pick up once the situation is normalise.

Key Con-call Highlights

- Management highlighted that second wave largely had an impact on rural and semi-urban areas. Overall 5,471 borrowers died on account of COVID and most casualties were in 2nd wave from Madhya Pradesh.
- The CASA ratio was stable at 42.9% as on Jun'21 as against 37.1% as on Jun'20.

Advances

- The bank is successfully transforming group loans to individual loans at 13%. The bank has hired employees in order to grow its business operations in other asset portfolios. Bank's employees increased from 49,445 as on Mar'21 to 51,054 as on Jun'21.
- The bank has invested in technology in order to drive its business growth. 11% of newly added customers during Q1FY22 have opened an account with fully digital process.

Asset Quality

- During Q1FY22, bank has restructured loans worth INR 46.6 bn (EEB - INR 40.6 bn; housing - INR 6 bn). Of this restructured loan portfolio, Assam and West Bengal have 22% and 36% of loans, respectively.
- Out of 74% of NPA customers which accounts for restructuring, it includes 8% of customers who paid full and 66% of customers have done part payments.
- EEB vertical slippages stood at INR 10.4 bn, upgrades/recoveries at INR 5.1 bn as on June 2021. Total slippages stood at INR 16.8 bn and upgrades/recoveries stood at INR 9.9 bn as on June 2021.

Collections

- In Q1FY22, collection efficiency including arrears stood at 101% and for EEB segment it was at 98%. For the month of June 2021, collection efficiency (excluding arrears and NPA) stood at 84% and for EEB segment it stood at 77%.
- In West Bengal (WB) and Assam, EEB collections were impacted on account of imposed COVID restrictions from mid-May 21 to mid-July 21 as against rest of India where restrictions were withdrawn considerably post May'21. Collections for Assam and WB stood at 49%/73% for the month of Jun'21 and 67%/85% in Q1FY22, respectively.

Provisions, write offs and other key points

- During Q1FY22, the bank has not written off any loans. The bank emphasized on healthy provisions going forward to maintain its strong balance sheet. It will continue to provide provisions on standard assets and contingent provisions post COVID crisis.
- Additionally, bank has improved its PPOP to loan book ratio up to 9.3% for Q1FY22. It is expected to utilize part of the same in strengthening its balance sheet.
- Assam state government has announced scheme for MFI borrowers where Bandhan bank has INR 35.8 bn worth of Assam loans (Assam loan book: INR 63.5 bn) eligible under the scheme. Remaining portfolio of INR 27.7 bn does not eligible, as state government to offer benefit only for the borrowers with overall exposure up to INR 1.25 lakh across lenders.
- The bank has also availed CGFMU coverage that covers non-agri portfolio which is a central government guarantee given to lenders against payment of guarantee premium. First 3% of the loss of the portfolio where the guarantee is availed has to be borne by the lender. Incremental loss above 3%, of which 75% of loss to be borne by the guarantee provider and 25% has to be borne by the lender.

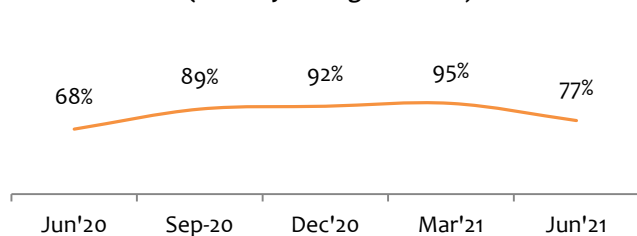
Valuation

The bank is currently trading at P/ABV multiple of 2.5x / 2.0x to ABV/share of INR 115 / INR 147 for FY22E/23E, respectively. Higher credit costs are negatively impacting bank's profitability. Bank is gaining confidence over borrowers' payment behavior. Despite economic challenges since Mar'20, borrowers are showing their willingness and ability to pay their outstanding loans either partly or fully. Healthy balance sheet, improved PCR and relief for Assam loan book are key strengths for the bank. **We reiterate our HOLD rating on the stock and maintain the target price of INR 307/share (2.7x to FY22E ABV/share).**

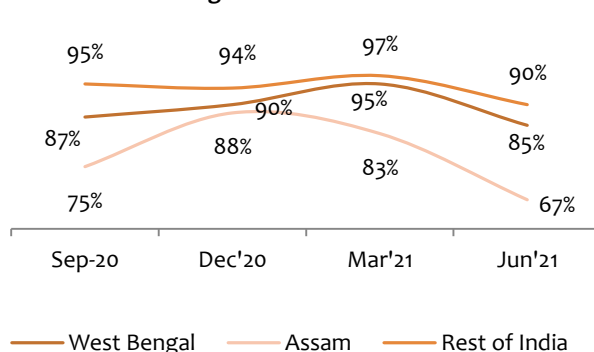
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Overall collections impacted on account of COVID restrictions during Q1FY22 across regions

EEB Collection Efficiency
(Monthly Average - Value %)

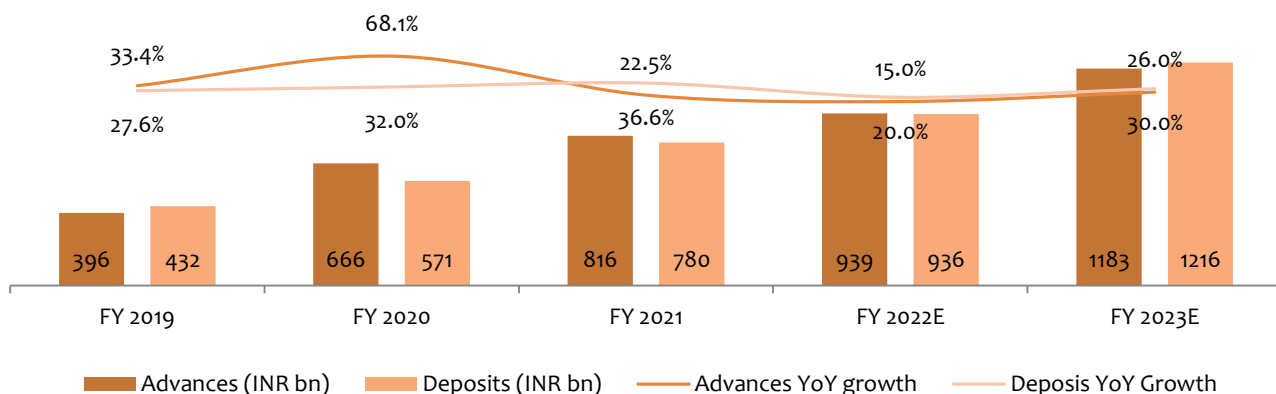


Other Segments - collections



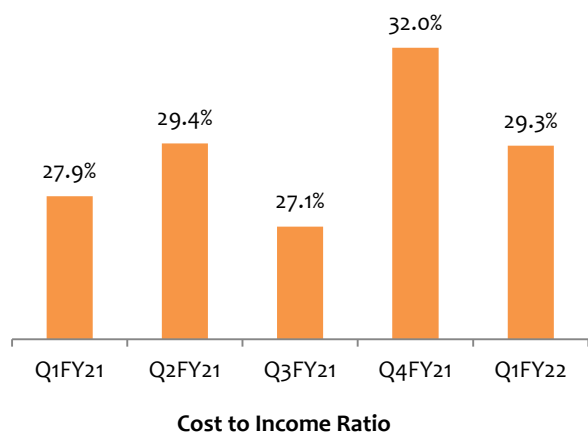
Source: Company data, KRChoksey Research

Advances and Deposits: Annual estimates FY22-23E



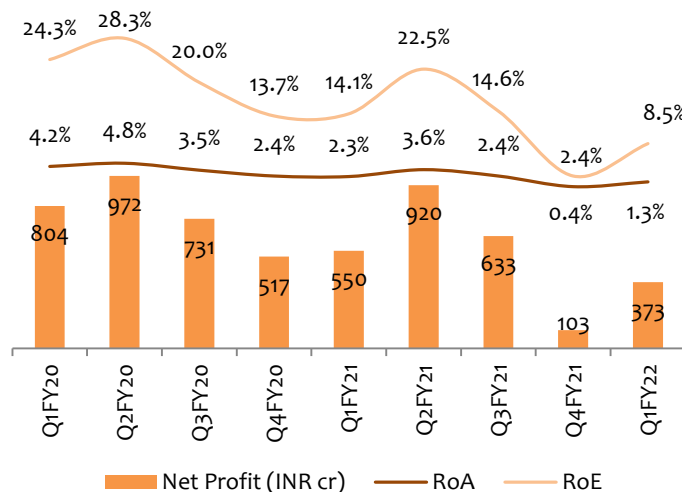
Source: Company data, KRChoksey Research

Operating Efficiency: 'one of the best performing bank'
Other operating expenses contracted, favorable for Q1



Source: Company data, KRChoksey Research

profitability trend; impact of higher credit costs



Bandhan Bank Ltd.

AUM: Quarterly Performance

Loan book-segment wise (INR bn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
EEB Group Based	452.9	465.8	477.9	517.0	532.1	2.9%	17.5%
EEB Individual	21.9	32.0	52.6	66.5	193.6	191.1%	784.0%
EEB	474.8	497.8	530.5	583.5	725.7	24.4%	52.8%
Housing	158.7	166.3	162.7	166.4	166.4	0.0%	4.9%
LAP	21.6	22.7	29.5	30.6	22.8	-25.5%	5.6%
Construction	7.2	6.3	5.2	5.2	4.4	-15.4%	-38.9%
Mortgages	196.0	195.3	197.4	202.2	193.6	-4.3%	-1.2%
NBFC-MFI	27.2	23.5	19.0	16.2	13.2	-18.5%	-51.5%
NBFC-Others	7.6	8.5	9.7	10.8	10.5	-2.8%	38.2%
SME	31.5	33.7	38.1	45.9	43.0	-6.3%	36.5%
Commercial Banking	66.3	65.7	66.8	72.9	66.7	-8.5%	0.6%
Gold	2.4	2.9	3.3	3.9	4.0	2.6%	66.7%
TD-OD	3.4	3.8	3.9	7.0	6.1	-12.9%	79.4%
Others	0.8	0.6	0.7	1.0	1.1	10.0%	37.5%
Retail	6.6	7.3	7.9	11.9	11.2	-5.9%	69.7%

Source: Company data, KRChoksey Research

Disbursements: Quarterly Trend

Disbursements (INR bn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
EEB	30.5	92.9	139.9	239.1	53.9	-77.5%	76.7%
Housing	0.6	11.4	25.9	27.3	5.9	-78.4%	883.3%
Retail	31.1	104.3	165.8	266.4	59.8	-77.6%	92.3%
CB	3.2	8.1	11.2	14.2	5.1	-64.1%	59.4%
CB & Retail*	1.2	1.2	1.4	1.8	1.0	-44.4%	-16.7%
Top up loans	2.2	5.3	7.6	15.1	1.5	-90.1%	-31.8%

Source: Company data, KRChoksey Research

* Term loan disbursements only, NA: Not Available

Deposits: Quarterly Performance

Deposits (INR bn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
CA	29.9	32.8	34.9	45.7	34.9	30.9%	38.4%
SA	194.8	220.0	270.3	292.6	297.1	8.3%	65.1%
TD	381.4	408.5	406.7	441.4	441.4	8.5%	22.4%
Total Deposits	606.1	661.3	711.9	779.7	773.4	9.5%	36.6%
Ratios							
Retail to total deposits (%)	78.0%	76.9%	81.0%	79.0%	83.0%	-200bps	100bps
CASA (%)	37.1%	38.2%	42.9%	43.4%	42.9%	50bps	660bps
Average SA per Balance (INR '000)							
General	46.0	51.3	59.1	55.7	57.7	-5.8%	32.9%
EEB	1.9	1.6	1.9	1.9	1.1	0.0%	-7.3%

Source: Company data, KRChoksey Research

Bandhan Bank Ltd.

Q1FY22 Result Analysis

Income Statement (INR in crore)	Q1FY22	Q1FY21	Q4FY21	Y-o-Y	Q-o-Q
Interest income	3410.0	3018.1	3000.7	13.0%	13.6%
Interest expense	1295.9	1206.6	1243.7	7.4%	4.2%
Net interest income	2114.1	1811.5	1757.0	16.7%	20.3%
Non interest income	533.4	386.8	787.3	37.9%	-32.3%
Operating income	2647.4	2198.3	2544.3	20.4%	4.1%
- Employee cost	499.8	389.4	425.7	28.3%	17.4%
- Other operating expenses	276.6	224.7	389.1	23.1%	-28.9%
Operating expenses	776.3	614.1	814.8	26.4%	-4.7%
Pre-provision profits	1871.1	1584.2	1729.5	18.1%	8.2%
Provisions	1374.9	849.1	1594.3	61.9%	-13.8%
Profit before tax	496.2	735.1	135.2	-32.5%	267.1%
Tax expense	123.1	185.3	32.1	-33.6%	283.1%
Net profit	373.1	549.8	103.0	-32.1%	262.1%

Source: Company data, KRChoksey Research

Ratio Analysis	Q1FY22	Q1FY21	Q4FY21	Y-o-Y	Q-o-Q
Spread Analysis					
Yield (%)	13.7%	13.6%	11.6%	10 bps	210 bps
Cost of funds (%)	5.7%	7.9%	5.7%	-222 bps	0 bps
Spread (%)	8.0%	5.7%	5.9%	232 bps	210 bps
NIM (%)	8.5%	8.2%	6.8%	35 bps	170 bps
Key ratios					
Cost to income ratio (%)	29.3%	27.9%	32.0%	139 bps	-270 bps
C/D ratio (%)	96.7%	115.1%	104.7%	-1840 bps	-799 bps
RoA	1.3%	2.3%	0.4%	-100 bps	90 bps
RoE	8.5%	14.1%	2.4%	-560 bps	610 bps

Source: Company data, KRChoksey Research

(INR cr)	As on Jun-21	As on Jun-20	As on Mar-21	Y-o-Y	Q-o-Q
Balance sheet analysis					
Deposits	77336.0	60610.0	77972.2	27.6%	-0.8%
CASA Deposits	33200.0	22473.0	33830.0	47.7%	-1.9%
CASA (%)	42.9%	37.1%	43.4%	582 bps	-50 bps
Borrowings	11910.0	16545.0	16960.4	-28.0%	-29.8%
Investments	22139.0	16182.0	25155.4	36.8%	-12.0%
Advances	74766.0	69749.0	81612.9	7.2%	-8.4%
Total Assets	110399.0	97117.0	114993.1	13.7%	-4.0%
Capital adequacy ratio (%)	24.8%	26.5%	23.5%	-165 bps	130 bps
Asset quality					
Gross NPA	6440.4	1006.7	5757.8	539.8%	11.9%
Net NPA	2457.9	335.8	2861.0	632.0%	-14.1%
GNPA (%)	8.18%	1.4%	6.81%	675 bps	137 bps
NNPA (%)	3.29%	0.5%	3.51%	281 bps	-22 bps
PCR (%)	62.0%	66.6%	50.3%	-464 bps	1169 bps

Source: Company data, KRChoksey Research

Bandhan Bank Ltd.

Exhibit 6: Financial Statements

PROFIT & LOSS ACCOUNT (INR Crores)	FY 2019	FY 2020	FY 2021	FY 2022E	FY 2023E
Interest income	6644.1	10885.5	12524.2	17236.6	20597.5
Interest expense	2148.0	4561.6	4960.9	6479.0	7646.7
Net interest income	4496.1	6323.9	7563.4	10757.6	12950.7
Non interest income	1063.0	1549.2	2109.1	2451.9	2913.5
Operating income	5559.1	7873.1	9672.4	13209.5	15864.2
Operating expense	1811.0	2426.5	2817.2	3987.9	5253.4
PPOP	3748.2	5446.6	6855.3	9221.6	10610.8
Provisions	735.1	1393.2	3906.6	4480.3	5269.6
PBT	3013.1	4053.4	2948.7	4741.3	5341.2
Tax expense	1061.6	1029.7	743.2	1195.0	1346.2
PAT	1951.5	3023.7	2205.5	3546.3	3995.0

Source: Company data, KRChoksey Research

BALANCE SHEET (INR Crores)	FY 2019	FY 2020	FY 2021	FY 2022E	FY 2023E
SOURCES OF FUNDS					
Share capital	1193.1	1610.2	1610.6	1610.6	1610.6
Reserves & surplus	10008.7	13585.2	15797.6	19343.9	23338.9
Shareholders' funds	11201.7	15195.5	17408.2	20954.5	24949.5
Borrowings	521.4	16379.2	16960.4	10854.6	9226.4
Deposits	43231.6	57081.5	77972.2	93566.7	121636.7
Other liabilities & provisions	1487.0	3061.7	2652.3	4819.2	5338.8
TOTAL LIABILITIES & EQUITY	56441.7	91717.8	114993.1	130195.0	161151.3
USES OF FUNDS					
Cash and cash equivalent	5802.7	8352.9	6192.9	10198.8	11068.9
Investments	10037.5	15351.8	25155.4	23391.7	27976.4
Advances	39643.4	66629.9	81612.9	93854.8	118257.1
Fixed & other assets	958.2	1383.2	2031.8	2749.8	3848.9
TOTAL ASSETS	56441.7	91717.8	114993.1	130195.0	161151.4

Source: Company data, KRChoksey Research

ROA Tree	FY 2019	FY 2020	FY 2021	FY 2022E	FY 2023E
Interest income	13.2%	14.7%	12.1%	14.1%	14.1%
Net interest income	8.9%	8.5%	7.3%	8.8%	8.9%
Operating income	11.0%	10.6%	9.4%	10.8%	10.9%
Operating expense	3.6%	3.3%	2.7%	3.3%	3.6%
PPOP	7.4%	7.4%	6.6%	7.5%	7.3%
Provisions	1.5%	1.9%	3.8%	3.7%	3.6%
PBT	6.0%	5.5%	2.9%	3.9%	3.7%
PAT	3.9%	4.1%	2.1%	2.9%	2.7%
Average total assets (INR Bn)	503.8	740.8	1033.6	1225.9	1456.7
Leverage (x)	4.9x	5.6x	6.3x	6.4x	6.3x
RoE (%)	19.0%	22.9%	13.5%	18.5%	17.4%

Source: Company data, KRChoksey Research

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KEY RATIOS	FY 2019	FY 2020	FY 2021	FY 2022E	FY 2023E
Growth rates					
Advances (%)	33.4%	68.1%	22.5%	15.0%	26.0%
Deposits (%)	27.6%	32.0%	36.6%	20.0%	30.0%
Total assets (%)	27.4%	62.5%	25.4%	13.2%	23.8%
NII (%)	48.3%	40.7%	19.6%	42.2%	20.4%
Pre-provisioning profit (%)	54.2%	45.3%	25.9%	34.5%	15.1%
PAT (%)	45.0%	54.9%	-27.1%	60.8%	12.7%
Balance sheet ratios					
Credit/Deposit (%)	91.7%	116.7%	104.7%	100.3%	97.2%
Advances/Total assets (%)	70.2%	72.6%	71.0%	72.1%	73.4%
Leverage (x)	4.9x	5.6x	6.3x	6.4x	6.3x
Operating efficiency					
Cost/income (%)	32.6%	30.8%	29.1%	30.2%	33.1%
Opex/total assets (%)	3.6%	3.3%	2.7%	3.3%	3.6%
Opex/total interest earning assets (%)	3.6%	3.0%	2.6%	3.4%	3.6%
Profitability					
NIM (%)	9.0%	7.7%	7.1%	9.2%	8.9%
RoA (%)	3.9%	4.1%	2.1%	2.9%	2.7%
RoE (%)	19.0%	22.9%	13.5%	18.5%	17.4%
Asset quality					
Gross NPA (%)	2.1%	1.5%	7.1%	6.5%	4.1%
Net NPA (%)	0.6%	0.6%	3.9%	2.6%	1.1%
PCR (%)	72.1%	60.8%	44.5%	60.6%	72.8%
Credit cost (%)	2.1%	2.6%	5.3%	5.1%	5.0%
Per share data / Valuation					
EPS (INR)	16.4	18.8	13.7	22.0	24.8
BV (INR)	93.9	94.4	108.1	130.1	154.9
ABV (INR)	92.0	91.9	88.2	115.2	146.6
P/E (x)	32.1x	10.8x	23.0x	13.2x	11.7x
P/BV (x)	5.6x	2.2x	2.9x	2.2x	1.9x
P/ABV (x)	5.7x	2.2x	3.6x	2.5x	2.0x

Source: Company data, KRChoksey Research

Bandhan Bank Ltd.

Bandhan Bank Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
31-Jul-21	291	307	HOLD	Buy	More than 15%
09-May-21	297	307	HOLD		
22-Jan-21	315	457	BUY	Accumulate	5% – 15%
03-Nov-20	301	431	BUY	Hold	0 – 5%
16-Jul-20	349	431	BUY		
14-May-20	252	307	BUY	Reduce	-5% – 0
15-Jan-20	492	667	BUY	Sell	Less than – 5%
24-Dec-19	503.9	667	BUY		

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Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.