

## Asset Quality Stress To Persist In Near-Term!

Bandhan Bank Ltd. (Bandhan) results were above our expectations backed by improved operating performance and NIMs rebounding to normalized levels. The disbursements were impacted due to the regional lockdowns, resulting in a run-off in the loan book on a sequential basis, which was down 8% QoQ. The share of EEB (MFI loans) increased from 64% in Q1FY21 to 66% in Q1FY22. However, the share of group lending decreased from 61% in Q1FY21 to 58% in Q1FY22, in line with the bank's strategy to de-focus on group lending and shift towards Individual EEB loans.

The stress in the key geographies of Assam and West Bengal persisted with the collection efficiency (CE) remaining impacted as lockdowns were extended till mid-Jul'21. However, the bank witnessed an improvement in CE across the rest of India post lockdown easing. Asset quality deteriorated with GNPA increasing to 8.2% in Q1FY22 from 6.8% in Q4FY21. The bank has also restructured MFI loans of Rs 4,057 Cr and housing loans worth Rs 604 Cr, taking the total restructured book to Rs 4,661 Cr (6.2% of Advances).

### Key Result Highlights

- NII stood at Rs 2,114 Cr (+20% YoY, +17% QoQ), higher than our expectations of Rs 1,858 Cr. NIMs improved to 8.5% vs 8.2% in Q1FY21 and 6.8% in Q4FY21 (impacted by high-interest reversals).
- Non-Interest income came in higher at Rs 533 Cr (+38% YoY, -32% QoQ), higher than our estimate of Rs 400 Cr. Opex growth was 26% YoY. C-I ratio stood at 29.3% vs 27.9% in Q1FY21, 32% in Q4FY21.
- PPOP was at Rs 1,871 Cr (+18% YoY, +8% QoQ) vs. our estimate of Rs 1,511 Cr. Provisions stood at Rs 1,375 Cr (our expectations: Rs 1,190 Cr). The bank has made an additional provision of Rs 751 Cr towards COVID 2.0 impact. PAT stood at Rs 373 Cr (-32% YoY, +262% QoQ) vs our estimate of Rs 240 Cr

### Key Concall Highlights

- **Business Performance:** While disbursements were impacted due to the regional lockdowns resulting in tepid loan growth of 8%, the management believes that given the customer segment it serves, there are ample opportunities for growth as macroeconomic conditions improve. We trim our loan growth estimate by 3% for FY22E and keep it unchanged for FY23E.
- **Asset Quality:** CE was under pressure mainly in the key geographies as they witnessed extended lockdowns till mid-Jul'21. The management is confident of CE improving as regional lockdowns ease. The MFI relief package announced by the Assam state Govt. will also help ease the pain on the Assam MFI portfolio enabling recoveries. However, the timeline for the same is unclear. Credit costs will remain elevated in the near term as the bank looks to strengthen the balance sheet.

## Valuation & Outlook

The elevated stress in the EEB book and persisting pressure on collections in the key geographies along with a high restructured book is alarming. However, we believe the asset quality stress from the key geographies is priced in. However, a possible COVID 3.0 continues to remain a key downside risk to our estimates. We remain positive on the long-term prospects of the bank and fairly confident in the resilience of its business model. **We maintain a BUY rating on the stock with a target price of Rs 350/share, implying an upside of 20% from CMP.**

### Key Financials (Standalone)

(Rs. Cr)	FY20	FY21	FY22E	FY23E
NII	6,324	7,563	9,399	11,437
PPOP	5,446	6,855	8,183	9,808
Net Profit	2,956	2,205	2,835	5,096
EPS (Rs.)	18.4	13.7	17.6	31.6
ABV	91.9	90.3	108.8	140.0
P/ABV	3.2	3.2	2.7	2.1
NNPA (%)	0.6	3.5	2.3	1.5
ROA (%)	4.0	2.1	2.3	3.3
ROE (%)	22.4	13.5	15.2	23.0

Source: Company, Axis Research

(CMP as of July 30, 2021)

CMP (Rs)	291
Upside /Downside (%)	20%
High/Low (Rs)	430/251
Market cap (Cr)	47,835
Avg. daily vol. (6m) Shrs.	84,68,618
No. of shares (Cr)	161

### Shareholding (%)

	Jun-21	Mar-21	Dec-20
Promoter	40.0	40.0	40.0
FIIs	35.4	34.9	35.2
MFs / FIIs	1.9	1.8	3.4
Others	22.7	23.3	21.4

### Financial & Valuations

Y/E Mar (Rs. Cr)	FY21	FY22E	FY23E
NII	7,563	9,399	11,437
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Net Profit	2,205	2,835	5,096
EPS (Rs.)	13.7	17.6	31.6
ABV	90.3	108.8	140.0
P/ABV	3.2	2.7	2.1
ROAA	2.1	2.3	3.3
NNPA (%)	3.5	2.3	1.5

### Change in Estimates (%)

Y/E Mar	FY22E	FY23E
NII	-1.3	-2.1
PPOP	-0.3	-1.2
PAT	-5.1	-1.7

### Axis vs Consensus

EPS Estimates	2022E	2023E
Axis	17.6	31.6
Consensus	21.5	31.9
<b>Mean Consensus TP (12M)</b>		<b>366</b>

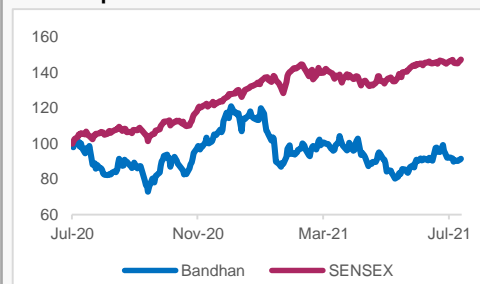
### ESG disclosure Score\*\*

Environmental Disclosure	4.5
Social Disclosure Score	31.7
Governance Disclosure Score	48.2
<b>Total ESG Disclosure Score</b>	<b>22.4</b>

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

### Relative performance



Source: Capitaline, Axis Securities

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## Key Concall Highlights (Contd...)

### Business Performance

- **NIM improvement aided by lower CoF** - NIMs stood at 8.5% during Q1FY22 vs 8.2% in Q1FY21, aided by improving CoF. The bank expects to maintain NIMs at similar levels as it is confident of containing CoF in the range of 5.7-6%, mainly aided by improving the share of retail TDs and low-cost CASA deposits.
- **Way ahead for business in Assam** – The management indicated that Bandhan would not shy away from operating in Assam if the business environment continues to remain benign. Given the stress and the unfavourable operating environment during Q1FY22, the bank refrained from disbursing any new or top-up loans during the quarter in the region. However, taking a cue from historical instances of loan waiver announcements (AP in 2010 and UP in 2017), the management indicated the customer behaviour and the quality of the portfolio has improved post such event and remains hopeful of a similar improvement in Assam.

### Asset Quality

- **Collections remain subpar in WB and Assam** - In West Bengal (WB) and Assam, restrictions were imposed starting mid-May'21 and continued till mid-July'21, impacting the collection efficiency of these states as against the rest of India where withdrawal of restrictions happened post-May'21. CE in WB/Assam stood at 73%/49% in Jun'21 and 85%/67% during Q1FY22.
- **Asset Quality stress persists** - Asset quality pain was visible especially from the MFI segment. GNPA deteriorated from 6.8% in Q4FY21 to 8.2% in Q1FY22. Slippages were mainly in the MFI book (Rs 1,040 Cr) and the balance from the housing finance book. The bank also saw upgrades and recoveries of Rs 510 Cr in the MFI book. On an overall basis, slippages for Q1FY22 stood at Rs 1,682 Cr while recoveries and upgrades were Rs 999 Cr.

Segmental GNPA was 9.4% (vs 7.6% in Q4FY21) in EEB book, 3.4% (vs 3.1% in Q4FY21) in Housing Finance, 2.7% (vs 2.5% in Q4FY21) in Retail Portfolio, and 11.5% (vs 9.1% in Q4FY21) in Commercial Banking portfolio.

The states of West Bengal and Assam continue to witness incremental stress with the SMA-1 book increasing from 3.5% to 12.1% QoQ in WB and 5.6% to 19.5% in Assam. SMA-2 improved marginally in WB from 3.2% to 2.6% and remained flat at 5% in Assam. MFI NPAs in WB stood at 12.7% (vs 10.2% in Q4FY21) and at 17% (vs 14.2% in Q4FY21) in Assam.

- **Provisions to remain elevated in the near term**- Provisions stood at Rs 1,375 Cr (our expectations: Rs 1,190 Cr). The bank has made an additional provision of Rs 751 Cr towards the impact of COVID 2.0. ***It has guided for elevated provisions as it intends to strengthen the balance sheet and also take care of any unforeseen blips on the asset quality front, especially from the restructured pool. We had factored in higher credit costs for FY22E and further increased the credit costs for FY22E by another 4% for any arising contingencies. We believe credit costs would be elevated and a shade below ~5%.***
- **'Assam MFI Relief Package' is a relief** – Out of the total Assam portfolio of Rs 6,350 Cr, ~56% of the portfolio amounting to Rs 3,580 Cr is eligible for the Assam Govt. resolution plan. The balance portfolio of Rs 2,770 Cr is not eligible to avail the relief as the disbursements have been made post 31 Dec'20 (Rs 1,850 Cr) or the overall exposure from Bandhan and other lenders exceed the prescribed limit of Rs 1.25 Lakh (Rs 820 Cr). In the non-eligible portfolio, 76% of these customers are paying as of Jun'21. The bank carries an overall provision of Rs 1,600 Cr. ***The timeline of the implementation of this package is unclear.*** (\*\*Refer Exhibit 1)
- **Restructured Book** – The bank had restructured loans in the housing finance segment worth Rs 617 Cr (3.1% of the housing finance book). During Q1FY22, the bank further restructured loans worth Rs 4,057 Cr in the MFI book and Rs 604 Cr in the housing finance book. The total provision held by Bandhan Bank against the restructured book (COVID 1.0 + COVID 2.0) currently stands at Rs 530 Cr (~11.2% of the restructured book). The restructuring facility was extended to partly paying customers or to customers in geographies that were under strict lockdowns/restrictions for the entire quarter. ***The management indicated that the restructured book pipeline is unclear and expects the requests to decrease as the restrictions are eased.***

## Change in Estimates

	Revised		Old		% Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
NII	9,399	11,437	9,527	11,677	(1.3)	(2.1)
PBP	8,183	9,808	8,209	9,924	(0.3)	(1.2)
Provisions	4,392	2,995	4,215	2,995	4.2	(0.0)
PAT	2,835	5,096	2,987	5,183	(5.1)	(1.7)

Source: Axis Securities

- While lockdowns in key states of Assam and WB were implemented later due to the ongoing assembly election, the unlock process, too, was delayed and began mid-Jul'21 onwards resulting in subpar collections. Given the cautious approach of the bank in extending credit to the stressed states, we believe the near-term credit growth would be impacted. We thus trim our credit growth estimates from 24% in FY22E to 21% in FY22E. However, with Bandhan being one of the prominent players in the eastern geographies, as well as considering the customer segment it services, we foresee credit growth picking up from FY23E onwards as macros improve. We retain our earlier estimate of 27% YoY loan growth in FY23E.
- As the bank focuses on improving the provision cover coupled with the stress in the key geographies, a possibility of COVID 3.0 and to cover any future stress in the inherently risky MFI business, we expect the credit costs to remain elevated in FY22E/23E. We increase our credit cost estimates from 4.6% earlier to 4.9% in FY22E and keep them unchanged for FY23E assuming normalcy to return. Higher credit costs will result in earnings cut of 5/2% in FY22E/23E respectively.

### \*\* Exhibit 1: Assam Govt. MFI Relief Package Highlights

Category	Government of Assam Stance	Borrower Stance
<b>Microfinance Loans not adhering to the RBI norms set out for NBFC-MFIs</b>		
Loan size >Rs 1.25L or loan given by > 3 lenders	<ul style="list-style-type: none"> <li>N.A</li> </ul>	<ul style="list-style-type: none"> <li>The customer will be expected to pay the entire amount owed to the lender over and above Rs 125 Lc to every lender in excess of 3 lenders as per the pre-decided timeline.</li> </ul>
<b>Microfinance Loans adhering to the RBI norms set out for NBFC-MFIs</b>		
Women Borrowers paying their loans regularly ('Standard' Customers)	<ul style="list-style-type: none"> <li>The Govt. of Assam will incentivize these borrowers for timely repayment of their dues.</li> <li>The Govt. will pay the outstanding amount or Rs 25K whichever is lower</li> </ul>	<ul style="list-style-type: none"> <li>Any amount in excess of Rs 25,000 will have to be paid by the borrower.</li> </ul>
Women Borrowers who stopped paying their loans post poll announcement	<ul style="list-style-type: none"> <li>The Govt. of Assam will pay the overdue amount and the borrower will become a standard asset.</li> <li>The Govt. will observe the repayment behaviour of the customer for the next 3-6 months and as an incentive for regularizing of payments, will pay the borrower a benefit equal to lower of Rs 25,000 or loan amount in a staggered manner.</li> </ul>	<ul style="list-style-type: none"> <li>The borrower will have to repay regularly the balance amount of the loan</li> </ul>
Women Borrowers whose accounts are overdue and cannot pay due to COVID or other reasons	<ul style="list-style-type: none"> <li>The loan to be waived off (liability of the Govt. of Assam) but the borrower Credit Bureau scores will be impacted. Intimation of the same will be given to customers.</li> <li>These customers will not be allowed to avail loans henceforth.</li> </ul>	<ul style="list-style-type: none"> <li>N.A</li> </ul>

Source: Media Reports, Axis Securities

**Result Update (Standalone)**

(Rs Cr)

	Q1FY22	Q1FY21	% YoY	Q4FY21	% QoQ
Net Interest Income	2114.1	1811.5	16.7	1757.0	20.3
Non-Interest Income	533.4	386.8	37.9	787.3	-32.3
Operating expenses	776.3	614.1	26.4	814.8	-4.7
Staff Cost	499.8	389.4	28.3	425.7	17.4
Pre provision profits	1871.1	1584.2	18.1	1729.5	8.2
Provisions and contingencies	1374.9	849.1	61.9	1594.3	-13.8
PBT	496.2	735.1	-32.5	135.2	267.1
Provision for Tax	123.1	185.3	-33.6	32.1	283.1
PAT	373.1	549.8	-32.1	103.0	262.1

**Business Update**

Disbursements	<b>6740.0</b>	<b>3660.0</b>	<b>84.2</b>	<b>29750.0</b>	<b>-77.3</b>
EEB	5980.0	3110.0	92.3	26640.0	-77.6
Housing Finance	510.0	320.0	59.4	1420.0	-64.1
Commercial Banking	150.0	160.0	-6.3	1510.0	-90.1
Others	100.0	70.0	42.9	180.0	-44.4

**AUM**

<b>AUM</b>	<b>80360.0</b>	<b>74330.0</b>	<b>8.1</b>	<b>87040.0</b>	<b>-7.7</b>
EEB	53210.0	47478.0	12.1	58350.0	-8.8
Housing Finance	19360.0	19561.0	-1.0	20210.0	-4.2
Commercial Banking	6670.0	6629.0	0.6	7290.0	-8.5
Others	1120.0	662.0	69.2	1190.0	-5.9

**Deposits**

<b>Deposits</b>	<b>77336.0</b>	<b>60610.0</b>	<b>27.6</b>	<b>77972.2</b>	<b>-0.8</b>
CASA Deposits	33197.0	22473.0	47.7	33830.0	-1.9
CASA Ratio	42.9%	37.1%		43.4%	
Retail Deposits %	82.6	77.7		78.8	

Cost-Income ratio (%)

Cost-Income ratio (%)	29.3	27.9	-139bps	32.0	270bps
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**Asset Quality**

Gross NPA (%)	8.18%	1.43%		6.81%	
Net NPA (%)	3.29%	0.48%		3.51%	
PCR (%)	62%	57%		50%	

**Capital Adequacy**

CRAR	24.8%	26.5%		23.5%	
Tier I	23.8%	23.2%		22.5%	
Tier II	1.0%	3.3%		1.0%	

Source: Company, Axis Research

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E
Interest Earned	10,885	12,524	15,394	18,753
Interest Expended	4,562	4,961	5,995	7,316
<b>Net Interest Income</b>	<b>6,324</b>	<b>7,563</b>	<b>9,399</b>	<b>11,437</b>
Other Income	1,549	2,109	2,397	2,887
<b>Total Income</b>	<b>7,873</b>	<b>9,672</b>	<b>11,796</b>	<b>14,324</b>
<b>Total Operating Exp</b>	<b>2,427</b>	<b>2,817</b>	<b>3,613</b>	<b>4,516</b>
<b>PPOP</b>	<b>5,446</b>	<b>6,855</b>	<b>8,183</b>	<b>9,808</b>
Provisions & Contingencies	1,393	3,907	4,392	2,995
<b>PBT</b>	<b>4,053</b>	<b>2,949</b>	<b>3,791</b>	<b>6,814</b>
Provision for Tax	1,030	743	956	1,718
<b>PAT</b>	<b>3,023</b>	<b>2,205</b>	<b>2,835</b>	<b>5,096</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E
<b>SOURCES OF FUNDS</b>				
Share capital	1,610	1,611	1,611	1,611
Reserves and surplus	13,585	15,798	18,230	22,843
<b>Shareholders' funds</b>	<b>15,195</b>	<b>17,408</b>	<b>19,841</b>	<b>24,454</b>
Deposits	<b>57,082</b>	<b>77,972</b>	<b>97,972</b>	<b>1,21,972</b>
Total Borrowings	<b>16,379</b>	<b>16,960</b>	<b>16,085</b>	<b>18,479</b>
Other Liabilities, provisions	3,062	2,652	2,902	3,152
<b>Total</b>	<b>91,718</b>	<b>1,14,993</b>	<b>1,36,800</b>	<b>1,68,057</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	8,353	6,193	7,441	8,532
Investments	15,352	25,155	27,689	30,813
Advances	66,630	81,613	99,130	1,25,537
Fixed and Other assets	1,383	2,032	2,540	3,175
<b>Total Assets</b>	<b>91,718</b>	<b>1,14,993</b>	<b>1,36,800</b>	<b>1,68,057</b>

Source: Company, Axis Securities

**Ratio Analysis**
**(%)**

Y/E March	FY20	FY21	FY22E	FY23E
<b>VALUATION RATIOS</b>				
EPS	18.8	13.7	17.6	31.6
Earnings Growth (%)	15%	-27%	29%	80%
BVPS	94.4	108.1	123.2	151.8
Adj. BVPS	91.9	90.3	108.8	140.0
RoAA (%)	4.1	2.1	2.3	3.3
ROAE (%)	22.9	13.5	15.2	23.0
P/E (x)	15.5	21.3	16.5	9.2
P/ABV (x)	3.2	3.2	2.7	2.1
Dividend Yield (%)	0.0	0.3	0.9	1.0
<b>PROFITABILITY</b>				
Yield on Total Assets (%)	14.0	12.9	13.0	13.1
Cost of Funds (%)	6.9	6.1	5.9	6.0
Core Spread (%)	7.1	6.8	7.1	7.2
NIM (%)	8.1	7.8	8.0	8.0
<b>OPERATING EFFICIENCY</b>				
Cost-Income Ratio (%)	30.8	29.1	30.6	31.5
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	68	22	21	27
Deposit Growth (%)	32	37	26	24
Equity/Assets (%)	17	15	15	15
Equity/Loans (%)	23	21	20	19
Total Capital Adequacy Ratio (CAR)	27.4	26.1	22.0	20.2
Tier I CAR	25.2	21.3	18.2	17.4
<b>ASSET QUALITY</b>				
Gross NPLs (Rs Cr)	993	5,758	6,580	5,990
Net NPLs (Rs Cr)	389	2,861	2,311	1,911
Gross NPLs (%)	1.5%	7.1%	6.6%	4.8%
Net NPLs (%)	0.6%	3.5%	2.3%	1.5%
Coverage Ratio (%)	61%	50%	65%	68%
Provision/Avg. AUM (%)	2.6	5.3	4.9	2.7
<b>ROAA TREE</b>				
Net Interest Income	8.5	7.3	7.5	7.5
Non-Interest Income	2.1	2.0	1.9	1.9
Operating Cost	3.3	2.7	2.9	3.0
Provisions	2.0	3.8	3.5	2.0
Tax	1.4	0.7	0.8	1.1
ROAA	4.0	2.1	2.3	3.3
Leverage (x)	5.6	6.3	6.8	6.9
ROAE	22.4	13.4	15.2	23.0

Source: Company, Axis Securities

## Bandhan Bank Price Chart and Recommendation History



Date	Reco	TP	Research
04-Mar-21	BUY	425	Initiating Coverage
10-May-21	BUY	355	Result Update
15-Jul-21	BUY	355	Company Update
02-Aug-21	BUY	350	Result Update

Source: Axis Securities

**About the analyst****Analyst:** Dnyanada Vaidya**Contact Details:** dnyanada.vaidya@axissecurities.in**Sector:** BFSI**Analyst Bio:** Dnyanada Vaidya is MMS (Finance) with over 4 years of research experience in the Banking/NBFC sector.**Disclosures:**

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<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%
<b>NOT RATED</b>	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
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