

# Bandhan Bank

## Surging micro-credit stress

BANDHAN Bank's 4QFY21 PPOP growth (14% YoY) was lower than our estimates, while lower-than-expected provisions drove the beat in earnings. Micro-credit (EEB) portfolio witnesses surge in slippages/write-offs during the quarter as Assam portfolio continues to witness deterioration. We revise our FY22/FY23E earnings estimates downwards by 11.5/9.7%, on account of higher credit costs and moderation in loan growth expectations. Maintain BUY with revised TP of INR413. Low-cost deposit traction, along with BANDHAN's strong RoAE potential, underpin our stance.

- Micro-credit portfolio witnesses enhanced stress:** BANDHAN Bank's asset quality witnessed significant deterioration with pro-forma 4Q slippages/write-offs at 11%/10% (annualised), leading to >200bps decline in NIM. Assam portfolio, as highlighted in the previous quarter, remains under stress with write-offs/GNPA at ~11%/14% and collection efficiency at ~83%. GNPA's for EEB portfolio rose to 7.6%, of which ~72% are making part payments, as per management. Housing segment also witnessed deterioration with GNPA at ~3% and another ~3% of portfolio as restructured.
- Provisions surge, bank taps into COVID buffer as well:** Non-tax provisions increased to INR15.9bn (~8% annualised), although lower than our estimates. The accelerated write-offs led to bank tapping into the COVID buffer (now reduced from INR31.2bn to INR3.9bn) to maintain its PCR at ~50%. We increase our LLP estimates to 2.6% during FY22-FY23E to factor in the increase in portfolio stress and low PCR.
- Strong loan growth across segments; deposit franchise continues to gain traction:** AUM grew by 21% YoY on the back of strong growth in EEB portfolio (26.3% YoY). EEB (individual) share increased to 7.6% of AUM. Housing loans grew by 9% YoY, although disbursements grew sequentially by 27%. Deposits grew by 37% YoY, with improving CASA ratio at 43.4%, bringing down cost of funds by ~30bps sequentially.

### Financial summary

(INR mn)	4Q FY21	4Q FY20	YoY (%)	3Q FY21	QoQ (%)	FY20	FY21P	FY22E	FY23E
NII	17,570	16,800	4.6%	20,717	-15.2%	63,239	75,634	93,371	111,180
PPOP	17,295	15,207	13.7%	19,141	-9.6%	54,466	68,553	80,662	93,447
PAT	1,030	5,173	-80.1%	6,326	-83.7%	30,237	22,055	37,308	50,293
EPS (INR)	0.6	3.2	-80.1%	3.9	-83.7%	18.8	13.7	23.2	31.2
ROAE (%)						22.9	13.5	19.5	21.8
ROAA (%)						4.08	2.13	2.97	3.37
ABVPS (INR)						91.9	90.3	118.4	147.5
P/ABV (x)						3.24	3.30	2.52	2.02
P/E (x)						15.9	21.8	12.9	9.5

### Change in estimates

INR mn	FY22E			FY23E		
	Old	New	Chg	Old	New	Chg
Loan	1,019,890	1,015,769	-0.4%	1,253,446	1,238,284	-1.2%
NIM (%)	8.0	7.9	-9 bps	7.9	7.8	-10 bps
NII	87,767	93,371	6.4%	108,482	111,180	2.5%
PPOP	74,215	80,662	8.7%	90,280	93,447	3.5%
PAT	42,165	37,308	-11.5%	55,714	50,293	-9.7%
ABVPS (INR)	128.4	118.4	-7.8%	159.1	147.5	-7.3%

Source: Bank, HSIE Research

## BUY

CMP (as on 07 May 2021)	INR 297
Target Price	INR 413
NIFTY	14,823

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR442	INR 413
EPS %	FY22E	FY23E
	-11.5%	-9.7%

### KEY STOCK DATA

Bloomberg code	BANDHAN IN
No. of Shares (mn)	1,611
MCap (INR bn) / (\$ mn)	479/6,436
6m avg traded value (INR mn)	4,022
52 Week high / low	INR 431/195

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(9.8)	(10.1)	17.9
Relative (%)	(6.8)	(27.6)	(38.6)

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	40.0	40.0
FIs & Local MFs	16.4	15.5
FPIs	35.2	34.9
Public & Others	8.4	9.6
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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