

Company update

Banking

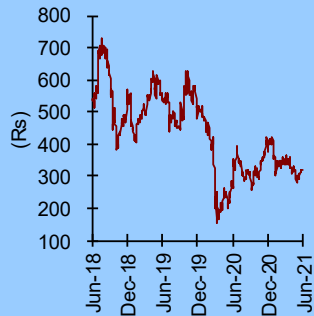
Target price: Rs465

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	40.0	40.0	40.0
Institutional investors	38.1	39.6	36.8
MFs and others	4.9	3.4	1.8
FIs/Banks	0.1	0.1	0.0
Insurance Cos.	0.0	0.0	0.0
FII	33.1	36.1	35.0
Others	21.9	20.4	23.2

Source: CMIE

Price chart



Bandhan Bank

BUY

Maintained

A couple of favourable incremental developments **Rs316**

Bandhan Bank witnessed a couple of favourable developments in the week gone by (Jun 13-19). Firstly, RBI's consultative paper on harmonisation of regulations for MFIs subsidises the concerns of the bank being subjected to maximum number of lenders or lending rate cap. Secondly, Assam government's decision of providing relief as well as incentive for MFI loans will partially address one of the key concerns of its elevated stress pool in Assam (14% in 90+dpd and 11% in 31-90 dpd bucket for Assam as of Mar '21). Bandhan Bank, with highest market share in Assam (>55% market share with Rs70bn exposure), is naturally bound to benefit from the scheme designed in a way to retain credit culture and promote responsible repayment behaviour. However, it is difficult to quantify the extent of impact as borrower indebtedness of only up to Rs125k is eligible and Bandhan is actively graduating borrower from MFI to individual loans. Maintain BUY with a target price of Rs465. Key risk: Stress elevated beyond our expectations due to second covid wave disruption.

Assam government announces relief/incentive, staying committed to its poll promise:

Assam government is staying committed to its poll promise, announced its decision of providing relief as well as incentives for MFI loans. Assam, in particular, has witnessed huge stress build up for the entire MFI industry (due to socio-economic-political reasons) with 0+ dpd being as high as 50% as of March 31st, '21 – this includes 180+ dpd at 13.6%, 90+ dpd at 10.5%, 30+ dpd at 24.4% and 1+dpd at 11.7%.

Our view on incentive and relief announced by the state government:

- The proposed announcement is win-win for lenders as well as borrowers. The nuances and conditionalities attached will help retain the credit culture (which is otherwise the biggest risk of any waiver announcement). At the same time, it also will promote responsible lending, borrowing and repayment behaviour.
- Regular/standard (0 dpd) customers are encouraged by offering them incentive and risk of they becoming overdue due to interim disruption can be addressed adequately.
- Overdue customers are offered waiver only for overdue installments (not undue outstanding exposure). Government by waiving overdue installments will make them regular and post that the borrower will be further incentivised to regularly honour his/her upcoming installment. With this, forward flow to higher dpd bucket will be capped.
- Also, complete waiver to stressed/needy borrowers is offered with conditionality of borrowers being downgraded in credit bureau score. This being detrimental to future loan eligibility, borrowers will try to settle the loan rather than seeking full waiver.

What about individual loans of Bandhan Bank with higher ticket size:

Bandhan Bank has been actively graduating its high vintage borrowers from group to individual loans - proportion of Assam in individual loans is up from 1% in FY20 to 12% in FY21. However, given these are high vintage customers with repayment track record, delinquency behaviour for them will be superior to group loans.

Market Cap	Rs509bn/US\$6.9bn	Year to Mar	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	BANH.BO / BANDHAN IN	NII (Rs bn)	63	76	87	105
Shares Outstanding (mn)	1,610.6	Net Profit (Rs bn)	30	22	34	54
52-week Range (Rs)	430/215	EPS (Rs)	18.8	13.7	21.3	33.5
Free Float (%)	60.0	% Change YoY	26.0	-27.1	55.9	56.8
FII (%)	35.0	P/E (x)	16.9	23.1	14.9	9.5
Daily Volume (US\$'000)	48,141	P/BV (x)	3.4	2.9	2.5	2.0
Absolute Return 3m (%)	(6.2)	P/ABV (x)	3.4	3.3	2.8	2.1
Absolute Return 12m (%)	16.6	GNPA (%)	1.5	6.8	6.0	4.5
Sensex Return 3m (%)	6.8	RoA (%)	3.6	2.1	2.8	3.8
Sensex Return 12m (%)	55.1	RoE (%)	21.4	13.5	18.2	23.4

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Profile of industry wise MFI portfolio in Assam

- Outstanding MFI portfolio for the industry stands at Rs120bn spread across 2.6mn customers. Of this, 55% is lent by banks, 22% by NBFC-MFI, 25% by SFBs and 15% by NBFCs.
- 77% borrowers in Assam have loans from less than 2 lenders and only 10% exposure is to borrowers who have exposure with 4 or more lenders.
- Assam in particular has witnessed huge stress build up for the entire MFI industry (due to socio-economic-political reasons) with 0+ dpd being as high as 50% as of March 31st, '21 – this includes more than 180+ dpd at 13.6%, 90+ dpd at 10.5%, 30+ dpd at 24.4% and 1+dpd at 11.7%.

Eligible borrowers

- Eligibility for relief as well as incentive is to borrowers with overall indebtedness of up to Rs125k or having loans with <3 lenders (following RBI definition of MFI loans). This has reduced the eligible outstanding pool from Rs120bn to Rs89bn.
- Also, it intends to exclude loans where lenders are charging higher interest rates thereby, further bringing down the eligible pool to Rs82.5bn.
- Overall, the scheme is likely to benefit 2.2mn borrowers. Detail on incentives and waiver will be taken by the cabinet in July' 21.

Eligible borrowers are categorised into three groups:

- **Regular and standard borrowers:** They will be incentivised for regular payment to the extent of Rs25k or outstanding whichever is lower. Moral hazard of they not being taken care of is well addressed through this. They will use these proceeds to repay their loans or for any other purpose. It expects 0.5mn borrowers to get classified under this availing benefit of Rs12.5bn. Credit bureau score will continue as it is and will be unaffected.
- **Delinquent borrowers** (particularly who have overdues as they stopped paying post waiver announcement): State government will repay the overdue amount and bring customer back to the regular bucket. However, now they need to resume repaying their installments regularly. To make them more disciplined, it might look to incentivise this category of customers as well after a quarter or two.
- **Long overdue real stressed borrowers with inability to repay:** Government will provide one-time relief to poor, needy and stressed borrower based on the customer application form, post verification by lender. It will waive off the entire outstanding loan after conducting checks and issue them zero due certificate. However, they will be tagged as defaulting or settlement borrower with credit bureau and will henceforth, not be eligible to take any further loans.

Specific exclusions:

- Only loans disbursed before December 31, 2020 will be considered.
- Family receiving regular pension or owning four-wheeler will not be considered for waiver of loans.

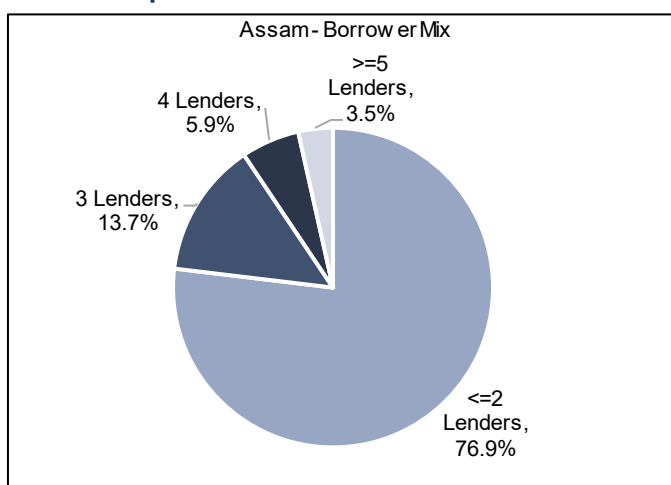
Industry wide Assam portfolio profile

Table 1: More than 90% exposure in Assam is to less than 3 lenders

	<=2 lenders	3 lenders	4 lenders	>=5 lenders	Total
Assam	76.9%	13.7%	5.9%	3.5%	100.0%
Uttar Pradesh	71.6%	12.9%	7.6%	7.9%	100.0%
West Bengal	71.4%	15.2%	7.8%	5.6%	100.0%
Rajasthan	67.5%	14.6%	8.6%	9.3%	100.0%
Bihar	65.9%	15.5%	9.4%	9.2%	100.0%
Maharashtra	65.1%	14.9%	9.0%	11.0%	100.0%
Madhya Pradesh	62.0%	13.6%	9.0%	15.4%	100.0%
Karnataka	60.4%	15.6%	10.4%	13.6%	100.0%
Orissa	57.8%	17.7%	11.4%	13.1%	100.0%
Tamil Nadu	48.8%	14.5%	12.0%	24.7%	100.0%
Total	63.7%	14.9%	9.4%	12.0%	100.0%

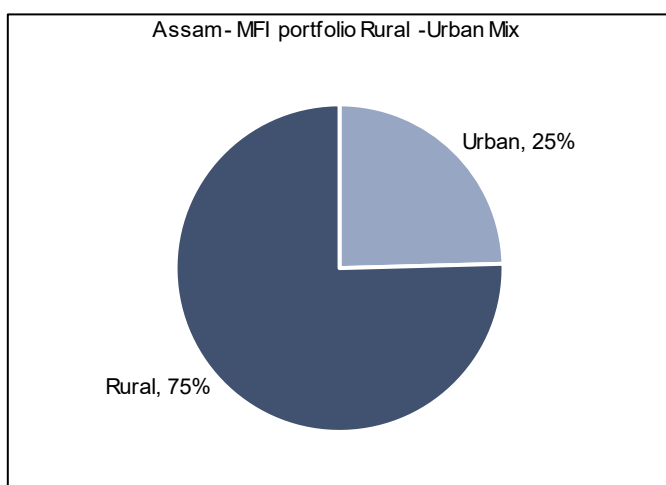
Source: Company data, I-Sec research

Chart 1: Exposure with >3 lenders is mere 10%



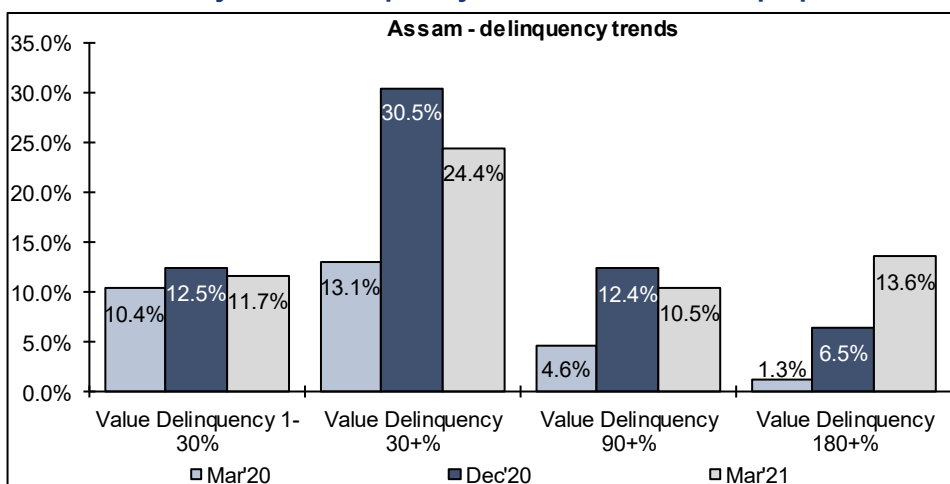
Source: Company data, I-Sec research

Chart 2: Concentrated more in rural areas



Source: Company data, I-Sec research

Chart 3: Industry-wide delinquency trend in Assam: 0+ dpd pool of >50%



Source: Company data, I-Sec research

Bandhan Bank – Assam portfolio behaviour

Table 2: Recognised or identified stress pool at 20% for WB, 35% for Assam and 8% for other states

(Rs mn)	West Bengal	Assam	Others	Total
EEB AUM	2,62,575	70,020	2,50,905	5,83,500
Proportion of EEB	45.00%	12.00%	43.00%	100.00%
8-30 days	4.00%	7.00%	2.00%	3.30%
31-60 days	3.00%	6.00%	1.00%	2.80%
61-90 days	3.20%	5.00%	1.00%	2.50%
>90 days	10.20%	14.20%	3.10%	7.60%
ECLGS	3.70%	5.20%	2.00%	3.10%
0-7 days ex ECLGS	75.90%	62.60%	90.90%	80.70%
8-30 days	10,503	4,901	5,018	19,256
31-60 days	7,877	4,201	2,509	16,338
61-90 days	8,402	3,501	2,509	14,588
>90 days	26,783	9,943	7,778	44,346
Write-offs	7,720	6,710	4,860	19,290
ECLGS	9,699	3,660	4,941	18,300
>90 days + write-offs	34,503	16,653	12,638	63,636
>90 days + write-offs as % of AUM	13.10%	23.80%	5.00%	10.90%
>90 days + write-offs as % of lagged AUM	15.90%	25.80%	7.00%	13.80%
>90 days + w/offs + SMA-2	42,905	20,154	15,147	78,224
>90 days + w/offs + SMA-2	16.30%	28.80%	6.00%	13.40%
>90 days + w/offs + SMA-2 + ECLGS	52,604	23,814	20,088	96,524
>90 days + w/offs + SMA-2 + ECLGS	20.00%	34.00%	8.00%	16.50%

Source: Company data, I-Sec research

Table 3: Bandhan Bank's stress pool (8+ dpd bucket) is elevated for Assam

EEB DPD movement	8-30 days		31-60 days		61-90 days		>90 days & NPA	
	Dec'20	Mar'21	Dec'20	Mar'21	Dec'20	Mar'21	Dec'20	Mar'21
Overall	6.60%	3.30%	5.80%	2.80%	4.20%	2.50%	7.80%	7.60%
Assam	8.00%	7.00%	7.00%	6.00%	4.10%	5.00%	13.00%	14.20%
West Bengal	5.00%	2.00%	4.00%	1.00%	3.30%	1.00%	4.60%	3.10%
Rest of India	8.00%	4.00%	7.00%	3.00%	5.10%	3.20%	8.90%	10.20%

Source: Company data, I-Sec research

Table 4: Collection efficiency improved QoQ; Q1FY22 numbers – a true test

States	Sep'20	Dec'20	Mar'21 (Incl. WO & NPA)	Mar'21 (Excl. WO & NPA)
Assam	75%	88%	83%	94%
West Bengal	87%	90%	95%	98%
Rest of India	95%	94%	97%	99%
Total	89%	92%	95%	98%

Source: Company data, I-Sec research

Table 5: Gradually reducing exposure in Assam

State-wise group plus individual loans portfolio share			
		Mar'20	Mar'21
Assam		14%	12%
West Bengal		47%	45%
Others		39%	43%

Source: Company data, I-Sec research

Table 6: Eligible high vintage borrowers elevated to individual loans

States	Mar'20	Mar'21
Assam	1%	12%
West Bengal	8%	15%
Others	3%	8%

Source: Company data, I-Sec research

Table 7: Not much incremental top-up loans post lifting of moratorium

Top-up loans - No. of borrowers availed as a % of borrower on that quarter	Sep'20	Dec'20	Mar'21
Assam	8.4%	1.7%	0.0%
West Bengal	9.9%	2.9%	0.5%
Rest of India	3.3%	2.0%	0.9%
PAN India	6.5%	2.3%	0.7%

Source: Company data, I-Sec research

Table 8: Assam has nil top-up loans in Q4FY21, down from 6% in Q2FY21

Top-up loans - Disbursements in key states as a % of portfolio on that quarter	Sep'20	Dec'20	Mar'21
Assam	5.6%	1.1%	0.0%
West Bengal	6.0%	1.8%	0.3%
Rest of India	3.0%	1.9%	0.7%
PAN India	4.8%	1.7%	0.5%

Source: Company data, I-Sec research

Financial summary

Table 9: Profit and loss statement

(Rs mn, year ending Mar 31)

INR mn	FY17	FY18	FY18					
			Merged	FY19	FY20	FY21P	FY22E	FY23E
Net Interest Income	24,035	30,322	36,900	51,671	63,239	75,634	86,742	1,05,253
% Growth	158	26	NA	70	22.4	19.6	14.7	21.3
Fee income	3,204	4,045	4,490	6,464	7,842	4,956	12,882	16,651
Add: Other income	910	3,017	3,083	4,710	7,650	16,135	9,340	10,223
Total Net Income	28,149	37,384	44,474	62,845	78,731	96,724	1,08,964	1,32,127
% Growth	160	33	NA	68	25	23	13	21
Less: Operating Expenses	(10,220)	(13,083)	(14,176)	(19,380)	(24,265)	(28,172)	(33,230)	(39,877)
Pre-provision operating profit	17,929	24,301	30,298	43,465	54,466	68,553	75,734	92,250
NPA Provisions	(478)	(2,261)	(2,586)	(6,519)	(5,031)	(990)	(29,862)	(20,385)
Other provisions	(407)	(1,481)	(1,481)	(666)	(8,900)	(38,075)	(747)	(959)
PBT	17,045	20,559	26,231	36,280	40,534	29,487	45,126	70,905
Less: taxes	(5,925)	(7,103)	(8,747)	(12,294)	(10,297)	(7,432)	(10,746)	(16,994)
PAT	11,119	13,456	17,483	23,987	30,237	22,055	34,380	53,911

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending Mar 31)

	FY17	FY18	FY18					
			Merged	FY19	FY20	FY21P	FY22E	FY23E
Capital	10,951	11,928	16,101	16,101	16,102	16,106	16,106	16,106
Reserve & Surplus	33,513	81,891	97,444	1,14,831	1,35,852	1,57,976	1,88,210	2,39,813
Deposits	2,32,287	3,38,690	3,38,690	4,32,316	5,70,815	7,79,722	9,12,275	10,94,730
Borrowings	10,289	2,850	1,43,096	1,70,833	1,62,192	1,69,604	1,63,246	1,62,636
Other liabilities	15,320	7,741	9,794	16,996	32,217	26,523	29,041	34,121
Total liabilities	3,02,361	4,43,101	6,05,125	7,51,077	9,17,178	11,49,931	13,08,878	15,47,405
Cash & Bank Balances	73,650	55,106	55,874	69,407	83,529	61,929	67,503	76,650
Investment	55,165	83,719	85,299	1,01,858	1,53,518	2,51,554	2,66,647	2,87,979
Advances	1,68,391	2,97,130	4,51,646	5,69,317	6,66,299	8,16,129	9,46,709	11,54,985
Fixed Assets	2,518	2,381	2,535	3,463	3,688	4,867	4,653	5,119
Other Assets	2,637	4,764	9,770	7,032	10,144	15,451	23,366	22,673
Total Assets	3,02,361	4,43,101	6,05,125	7,51,077	9,17,178	11,49,931	13,08,878	15,47,405

Source: Company data, I-Sec research

Table 11: Dupont analysis

(% , year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Interest income	15.6	12.9	12.7	13.1	12.1	11.8	12.0
Interest expense	(6.0)	(4.7)	(5.1)	(5.5)	(4.8)	(4.7)	(4.6)
NII	9.6	8.1	7.6	7.6	7.3	7.1	7.4
Other income	0.4	0.8	0.7	0.9	1.6	0.8	0.7
Fee income	1.3	1.1	1.0	0.9	0.5	1.0	1.2
Total income	11.2	10.0	9.3	9.4	9.4	8.9	9.3
Operating expenses	(4.1)	(3.5)	(2.9)	(2.9)	(2.7)	(2.7)	(2.8)
Operating profit	7.1	6.5	6.4	6.5	6.6	6.2	6.5
NPA provision	(0.2)	(0.6)	(1.0)	(0.6)	(0.1)	(2.4)	(1.4)
Total provisions	(0.4)	(1.0)	(1.1)	(1.7)	(3.8)	(2.5)	(1.5)
PBT	6.8	5.5	5.4	4.9	2.9	3.7	5.0
Tax	(2.4)	(1.9)	(1.8)	(1.2)	(0.7)	(0.9)	(1.2)
PAT	4.4	3.6	3.5	3.6	2.1	2.8	3.8

Source: Company data, I-Sec research

NM: Not meaningful

Note: From FY19onwards numbers are on merged basis with GRUH Finance

Table 12: Key ratios

(Year ending Mar 31)

	FY17	FY18	FY18 Merged	FY19	FY20	FY21P	FY22E	FY23E
Per share data								
EPS – Diluted (Rs)	10.2	11.3	10.9	14.9	18.8	14	21	33
% Growth	304.1	11.1	NA	37.2	26.0	-27.1	55.9	56.8
DPS (Rs)	-	1.00	1.00	1.50	-	2.20	2.20	2.20
Book Value per share (BVPS) (Rs)	40.6	78.7	70.5	81.3	94.4	108.1	126.9	158.9
% Growth	33.3	93.7	NA	15.3	16.0	14.5	17.4	25.3
Adjusted BVPS (Rs)	40.0	77.2	69.8	80.1	92.6	94.8	113.5	147.5
% Growth	31.9	92.8	NM	14.8	15.5	2.4	19.7	30.0
Valuations								
Price / Earnings (x)	31.2	28.1	29.2	21.3	16.9	23.1	14.9	9.5
Price / Book (x)	7.8	4.0	4.5	3.9	3.4	2.9	2.5	2.0
Price / Adjusted BV (x)	7.9	4.1	4.5	4.0	3.4	3.3	2.8	2.1
Asset Quality								
Gross NPA (Rs mn)	863	3,731	4,432	9,337	9,928	57,578	60,383	54,970
Gross NPA (%)	0.5	1.2	1.0	1.6	1.5	6.8	6.0	4.5
Net NPA (Rs mn)	612	1,729	1,729	2,888	3,894	28,610	28,772	24,452
Net NPA (%)	0.4	0.6	0.4	0.5	0.6	3.5	2.9	2.1
NPA Coverage ratio (%)	29	53.7	61.0	69.1	60.8	50.3	52.4	55.5
Gross Slippages (%)	0.8	2.1	2.1	2.6	2.6	8.1	4.0	2.3
Credit Cost (%)	0.33	0.97	NM	1.39	2.2	5.1	3.4	2.0
Net NPL/Net worth	1.4	1.8	1.5	2.2	2.6	16.4	14.1	9.6
Business ratios (%)								
ROAA	4.43	3.61	NA	3.5	3.6	2.1	2.8	3.8
ROAE	28.6	19.5	NA	19.6	21.4	13.5	18.2	23.4
Credit Growth	35.4	76.5	NA	26.1	17.0	22.5	16.0	22.0
Deposits Growth	92.2	45.8	NA	27.6	32.0	36.6	17.0	20.0
CASA	29.4	34.3	NA	40.8	36.8	43.4	44.3	47.0
Credit / Deposit Ratio	72.5	87.7	NA	131.7	116.7	104.7	103.8	105.5
Cost-Income ratio	36.3	35.0	NA	30.8	30.8	29.1	30.5	30.2
Operating Cost / Avg. Assets	4.1	3.5	NA	2.9	2.9	2.7	2.7	2.8
Fee Income / Total Income	11.4	10.8	NA	10.3	10.0	5.1	11.8	12.6
				3.5	3.6	2.1	2.8	3.8
Earnings ratios								
Yield on Advances	21.3	17.8	NA	14.9	15.4	14.7	14.3	14.1
Yield on Earning Assets	15.9	14.4	NA	12.9	13.2	12.3	12.0	12.2
Cost of Deposits	7.3	6.5	NA	5.4	6.1	6.0	5.8	5.7
Cost of Funds	7.6	6.6	NA	6.3	6.8	5.9	5.7	5.6
NIM	9.8	9.1	NA	7.8	7.7	7.4	7.2	7.5
Capital Adequacy (%)								
RWA (Rs mn)	1,74,927	3,12,662	4,00,628	4,97,013	6,02,976	7,73,733	9,16,215	11,14,132
Tier I	25.4	30.0	28.3	26.3	25.2	22.5	22.3	23.0
CAR	25.8	30.4	28.8	26.8	25.7	22.9	22.7	23.4

Source: Company data, I-Sec research

NM: Not meaningful

Note: From FY19onwards numbers are on merged basis with GRUH Finance

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