

Collection trends improving steadily; Deposit franchise remains strong

Expect credit cost to stay under control

We interacted with the top management of Bandhan Bank led by MD & CEO, Mr. Chandra Shekhar Ghosh and CFO, Mr. Sunil Samdani. Key insights from the discussion highlighted below:

Center meeting rate >80% now; collection trends improving steadily; uptick to continue

- The center meeting format has changed. The size of meetings has reduced to 5-10 people to maintain social distancing norms and meeting time has also gone down. The center meeting run-rate is over 80% currently. However, rural attendance has improved significantly in comparison to urban.
- Bandhan management has indicated that collection efficiency in the MFI business has recovered to 55-60%, and it expects this to further improve to ~70% by Jun'20. 50% of the bank's borrowers are in Agri and allied businesses while 20% are in food processing and retail. Despite the lockdown, businesses of these borrowers are operational, thus providing visibility for further improvement in collection efficiency. Overall, the bank expects collection efficiency to attain normalcy by Sep'20. Collections have largely come from the surplus funds available and not from savings deposits as ~70% of total MFI customers maintain an average savings deposit balance of ~INR3k. Collection efficiency at Mumbai location currently stands at 30%.
- The bank has indicated that collection trends in the housing/SME portfolio are currently similar to Apr'20 levels, however, an improvement is expected in the coming months. This is because Moratorium 2.0 is expected to be better than Moratorium 1.0 as activities had come to a complete halt in the latter while it is now resuming gradually under the former. Bandhan has also launched new products to provide business loans to self-employed customers from its housing portfolio.

Cautious approach toward fresh disbursements in 1HFY21

- Bandhan is maintaining a cautious stance toward disbursements in 1HFY21 and is focused on improving collections trends. However, based on the borrower's requirement and credit profile, it will provide top-up loans of up to INR20k-25k to support their immediate business needs, provided the borrower has never defaulted or delayed installments. Further, management believes the micro-credit industry will attain normalcy faster, and thus, expects higher disbursements over 2HFY21. Overall, Bandhan expects new to credit (NTC) customer acquisition to slow down to 8-9% over FY21E.

Liability franchise remains strong; stable trends in retail deposits

- The deposit traction during Apr-May'20 reflected better trends v/s Mar'20 numbers.
- Retail deposits formed ~78% of total deposits while CASA ratio stood at 36%. In terms of geographical mix, ~71% is from rural areas while ~29% is from urban.

Expect credit cost to rise to 1.5% in FY21E in addition to existing provisions

- Bandhan expects credit cost at 1% in a normal business environment. However, due to the COVID-19 crisis, credit cost is expected to rise to 1.5% in FY21E as the bank carries an additional provision buffer of INR10b – INR6.9b made toward COVID; INR3.1b additional provisions on standard assets higher than regulatory requirement – which forms ~1.5% of total loans. Given the current assessment based on customer feedback and collection trends, the 1.5% credit cost estimate would be sufficient to manage the current impact of the COVID crisis.

Bandhan Bank



Mr. Chandra Shekhar Ghosh
MD & CEO

Mr. Ghosh is the Founder, Managing Director and CEO. He founded Bandhan Bank in 2001 and has a total experience of 27 years in the field of microfinance and development. He has been conferred with many awards such as *'Excellence in Banking'*, *'Lifetime contribution to the MFI sector by an individual'* and *'Entrepreneur of the Year'* by Forbes and ET in 2014, etc. He holds a Master's degree in Science (Statistics) from Dhaka University.

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Impact of cyclone Amphan; collection efficiency in affected districts stands at 40%

In the most affected regions (e.g. South 24 Parganas district), the current collection efficiency run-rate stands at 40%. Based on the initial assessment disclosed earlier, the bank expects overall impact of INR2.6b. The earlier cyclone in the past (such as Fani) suggests that it takes around 3 months for collection trends to normalize.

Other important highlights:

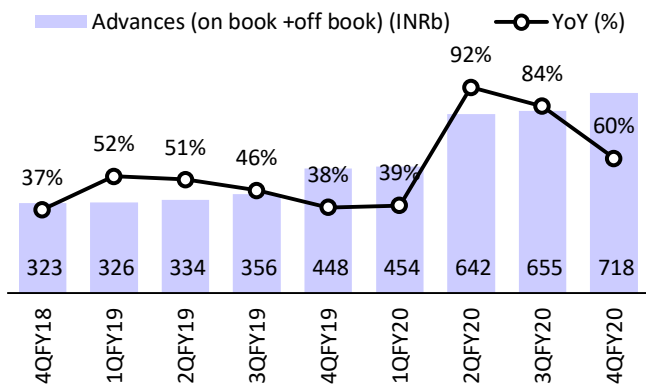
- Mr. Ghosh's role in Bandhan is that of a professional CEO (he is not a promoter CEO), and thus, no impact is expected from the corporate governance framework proposed by the RBI in its discussion paper.
- The average ticket size on outstanding MFI loan is INR40k.
- Bandhan has a unique customer base of 50%. Further, another 30% have loans with just one more lender.
- Around 6lac borrowers have loan exposure of INR1-INR1.5lacs.
- ~99% staff is currently working and nearly all branches are operational now.

Valuation and view

As economic activity is picking up in India, we are seeing steady improvement in collection trends. Bandhan has guided to reach collection efficiency at 70% by Jun'20. Also, incidence of moratorium availed has been declining, and thus, Moratorium 2.0 will have lower impact v/s Moratorium 1.0. Further, Bandhan has created COVID-19-related provisions of INR6.9b. The bank has guided for controlled delinquencies amid heightened concerns on asset quality, citing its historical track record in dealing with such crises. However, we remain cautious and expect higher delinquencies in the near term. LGD should remain lower (v/s peers) due to Bandhan's strong market share and higher unique customer base. We maintain **Buy** rating with TP of INR350 (2.6x FY22E).

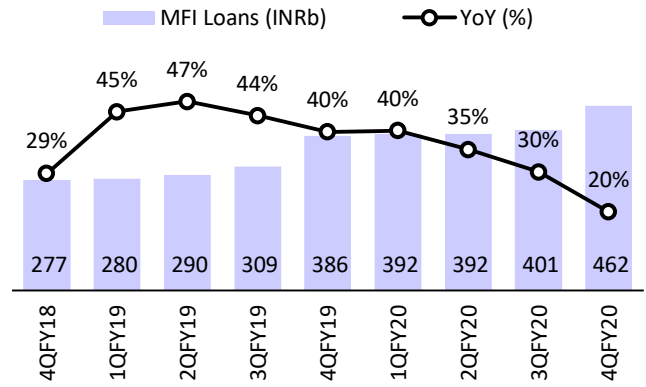
Story in charts

Exhibit 1: Total advances grew 60.5% YoY to INR718b



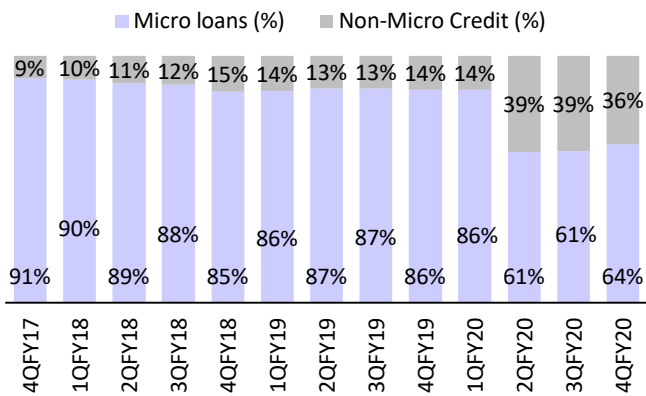
Source: MOFSL, Company

Exhibit 2: MFI loan grew 20% YoY (+15% QoQ)



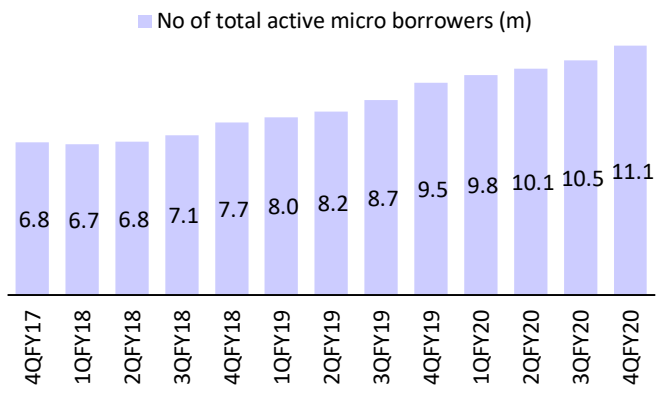
Source: MOFSL, Company

Exhibit 3: MFI book forms 64% while mortgages form ~25%



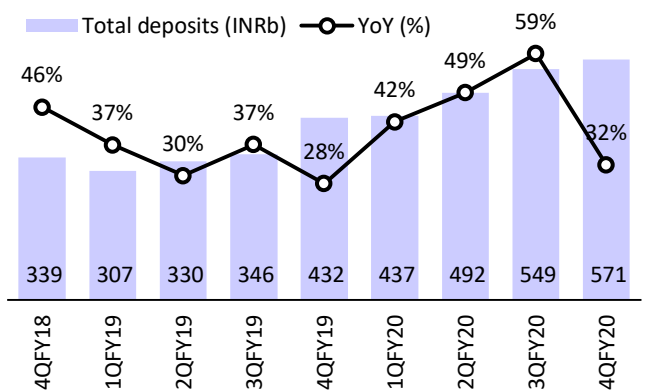
Source: MOFSL, Company

Exhibit 4: Active MFI borrowers grew 17% YoY to 11.1m



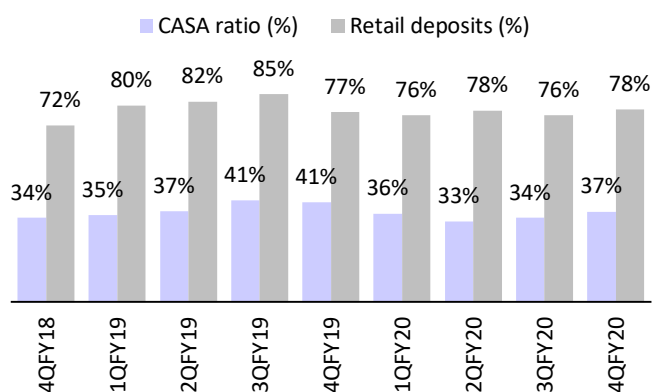
Source: MOFSL, Company

Exhibit 5: Total deposits grew 32% YoY to INR571b



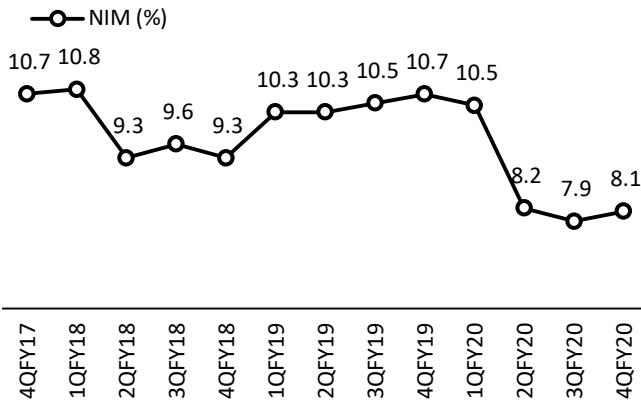
Source: MOFSL, Company

Exhibit 6: CASA ratio improved to ~37% while retail deposits formed ~78% of total deposits



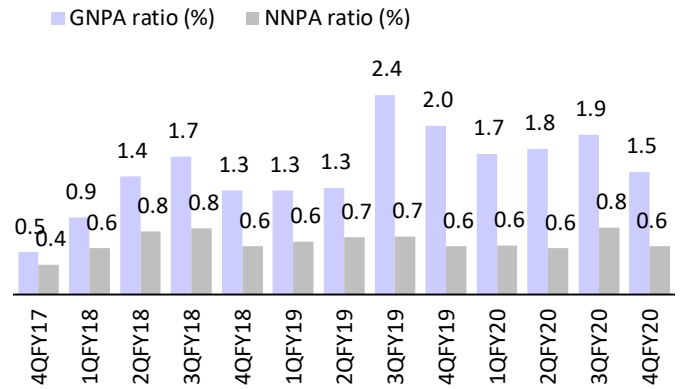
Source: MOFSL, Company

Exhibit 7: Margins expanded ~20bp QoQ to 8.1%



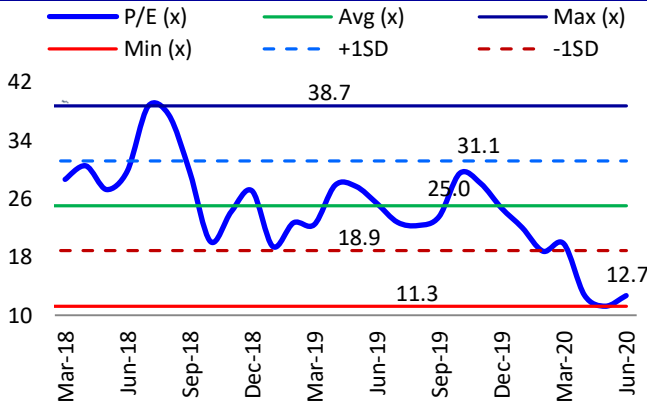
Source: MOFSL, Company

Exhibit 8: Asset quality improved with GNPA/NNPA ratio declining 45bp/23bp to 1.48%/0.58%



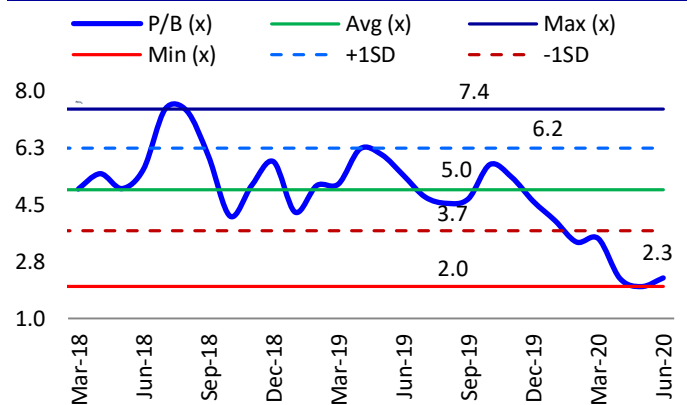
Source: MOFSL, Company

Exhibit 9: Trend in one-year forward P/E



Source: MOFSL, Company

Exhibit 10: Trend in one-year forward P/BV



Source: MOFSL, Company

Financials & Valuations

Income Statement							(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Interest Income	15.8	39.1	48.0	66.4	108.9	130.3	151.2
Interest Expense	6.5	15.1	17.7	21.5	45.6	54.8	61.8
Net Interest Income	9.3	24.0	30.3	45.0	63.2	75.5	89.4
Growth (%)	NM	157.7	26.2	48.3	40.7	19.4	18.4
Non Interest Income	1.5	4.1	7.1	10.6	15.5	18.1	22.7
Total Income	10.8	28.1	37.4	55.6	78.7	93.7	112.1
Growth (%)	NM	160.0	32.8	48.7	41.6	19.0	19.7
Operating Expenses	6.2	10.2	13.1	18.1	24.3	31.8	39.8
Pre Provision Profits	4.7	17.9	24.3	37.5	54.5	61.8	72.3
Growth (%)	NM	284.1	35.5	54.2	45.3	13.5	16.9
Core PPOp	4.6	17.7	23.8	37.1	54.0	61.3	71.6
Growth (%)	NM	281.1	34.6	55.7	45.5	13.5	16.9
Provisions (excl tax)	0.5	0.9	3.7	7.4	13.9	18.4	19.2
PBT	4.1	17.0	20.6	30.1	40.5	43.5	53.1
Tax	1.4	5.9	7.1	10.6	10.3	11.0	13.4
Tax Rate (%)	33.4	34.8	34.6	35.2	25.4	25.2	25.2
PAT	2.8	11.1	13.5	19.5	30.2	32.5	39.7
Growth (%)	NM	304.0	21.0	45.0	54.9	7.5	22.2
Balance Sheet							
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	11.0	11.0	11.9	11.9	16.1	16.1	16.1
Reserves & Surplus	22.4	33.5	81.9	100.1	135.9	170.0	200.3
Net Worth	33.3	44.5	93.8	112.0	152.0	186.1	216.4
Deposits	120.9	232.3	338.7	432.3	570.8	690.7	870.3
Growth (%)	NM	92.2	45.8	27.6	32.0	21.0	26.0
of which CASA Dep	26.1	68.4	116.2	176.2	210.4	262.9	348.6
Growth (%)	NM	162.4	70.0	51.6	19.4	24.9	32.6
Borrowings	30.5	10.3	2.9	5.2	163.8	147.4	137.1
Other Liabilities & Prov.	12.8	15.3	7.7	14.9	30.6	32.1	33.8
Total Liabilities	197.6	302.4	443.1	564.4	917.2	1,056.3	1,257.5
Current Assets	31.7	73.6	55.1	58.0	83.5	86.9	94.9
Investments	37.6	55.2	83.7	100.4	153.5	188.8	232.3
Growth (%)	NM	46.8	51.8	19.9	52.9	23.0	23.0
Loans	124.4	168.4	297.1	396.4	666.3	765.0	913.5
Growth (%)	NM	35.4	76.5	33.4	68.1	14.8	19.4
Fixed Assets	2.4	2.5	2.4	3.3	3.7	4.2	4.6
Other Assets	1.5	2.6	4.8	6.3	10.1	11.4	12.2
Total Assets	197.6	302.4	443.1	564.4	917.2	1,056.3	1,257.5
Asset Quality							
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
GNPA	0.2	0.9	3.7	8.2	9.9	17.9	21.3
NNPA	0.1	0.6	1.7	2.3	3.9	6.6	7.1
GNPA Ratio	0.2	0.5	1.3	2.1	1.5	2.3	2.3
NNPA Ratio	0.1	0.4	0.6	0.6	0.6	0.9	0.8
Credit Cost	0.0	0.3	1.0	1.9	2.6	2.5	2.2
PCR (Excl Tech. write off)	45.4	29.1	53.7	72.1	60.8	63.1	66.8

Financials & Valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Spread Analysis (%)							
Avg. Yield- on Earning Assets	18.7	17.3	13.9	14.2	15.6	14.1	13.9
Avg. Yield on loans	20.6	21.3	16.4	16.5	17.9	15.9	15.8
Avg. Yield on Investments	7.0	9.2	7.1	6.7	6.6	6.5	6.3
Avg. Cost of Int. Bear. Liab.	8.7	8.0	6.5	6.0	8.3	7.3	7.1
Avg. Cost of Deposits	7.0	6.8	6.7	6.5	6.4	6.8	6.6
Interest Spread	10.0	9.4	7.5	8.2	7.4	6.8	6.8
Net Interest Margin	11.0	10.7	8.8	9.6	9.1	8.2	8.2

Capitalisation Ratios (%)

CAR	29.0	26.4	31.5	29.2	27.4	23.3	22.4
<i>Tier I</i>	26.7	24.8	30.3	27.9	25.2	22.9	22.0
<i>Tier II</i>	2.3	1.6	1.2	1.3	2.2	0.5	0.4

Business and Efficiency Ratios (%)

Loans/Deposit Ratio	102.9	72.5	87.7	91.7	116.7	110.8	105.0
CASA Ratio	21.6	29.4	34.3	40.8	36.9	38.1	40.1
Cost/Assets	3.1	3.4	3.0	3.2	2.6	3.0	3.2
Cost/Total Income	56.9	36.3	35.0	32.6	30.8	34.0	35.5
Cost/Core income	57.0	36.6	35.4	32.8	31.0	34.2	35.7
Int. Expense/Int.Income	41.0	38.5	36.9	32.3	41.9	42.0	40.9
Fee Income/Total Income	13.7	13.8	17.7	18.4	19.1	18.7	19.6
Non Int. Inc./Total Income	13.8	14.6	18.9	19.1	19.7	19.4	20.2
Empl. Cost/Total Expense	52.8	53.4	52.6	55.7	56.3	56.7	56.7
Investment/Deposit Ratio	31.1	23.7	24.7	23.2	26.9	27.3	26.7

Profitability Ratios and Valuation

RoE	8.3	28.6	19.5	19.0	22.9	19.2	19.7
RoA	1.4	4.4	3.6	3.9	4.1	3.3	3.4
RoRWA	2.2	7.4	5.6	5.7	5.6	4.3	4.4
Book Value (INR)	30	41	79	94	94	116	134
Growth (%)	NM	33.3	93.7	19.4	0.5	22.5	16.3
Price-BV (x)	8.9	6.7	3.5	2.9	2.9	2.3	2.0
Adjusted BV (INR)	30	40	78	93	93	113	131
Price-ABV (x)	8.9	6.8	3.5	2.9	2.9	2.4	2.1
EPS (INR)	2.5	10.2	11.8	16.4	21.6	20.2	24.7
Growth (%)	NM	NM	15.8	39.1	31.9	-6.4	22.2
Price-Earnings (x)	108.0	26.7	23.1	16.6	12.6	13.5	11.0
Dividend Per Share (INR)	0.0	0.0	1.2	3.6	0.0	4.7	5.9
Dividend Yield (%)	0.0	0.0	0.4	1.3	0.0	1.7	2.2

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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