

Buy

Bandhan Bank

Industry: BFSI

LKP
 Since 1948

Strong show !!!

Bandhan bank showed strong performance in Q4 – PAT grew by 68% yoy led by strong asset growth, margin expansion and cost control. Loans (on + off book) surged by 38.5% yoy while micro loans reported growth of 40%. Non-micro loan AUMs growth was at 37.3% yoy. Liabilities of the bank are gaining more traction – CASA touching 41%, retail to total deposits forming 77.4%. Margins improved further during the quarter from 10.5% to 10.7% led by improvement in CASA deposits resulting in decline in cost of funds. Additionally, with incremental slippages being at just ~₹1 bn – gross NPAs came off to 2% from 2.4% qoq. Interestingly, the bank has already provided 100% on its IL&FS exposure in Q3 and it reiterated that it doesn't has any exposure to any of the troubled NBFC/companies – which in our view is big positive. It received RBI, CCI and SEBI approval on the merger with the Gruh Finance while NCLT approval is pending. Retain BUY with the TP of ₹ 718, giving upside of 15% from the current levels

Operationally strong quarter

Q3 was one of the strong quarter for the bank operationally – PPOP grew by 64% yoy led by healthy growth in AUMs (38.5% yoy) and higher margins (+20 bps qoq to 10.7%). Micro loan AUMs grew by 40% and non-micro loans AUMs by 37%. Over the year, total number of micro-loan borrowers has increased by 23% from 7.7 mn to 9.5 mn. While, the avg. ticket size of the disbursements has gone up by ~15% from ~₹51000 in Q4FY18 to ~₹59000 in Q4FY19. Rise in the AUMs is driven by both increase in the ticket size of the loans and growth in the customer base. Other income growth too was stupendous at 91% yoy led by both core fees (~29% yoy) and income from PSLC (~₹ 1.9 bn in Q4). PSLC income is largely skewed in Q4 – ~₹ 1.8-1.9 bn is booked in Q4 vs. full year income of ₹3.1 bn. On the other hand, margins also jumped up from 10.5% to 10.7% qoq led by reduction in the cost of funds.

Liabilities gaining momentum

The bank also witnessed good traction on the liabilities side as well – CA & SA deposits grew by 50% & 52% resp. – now forming 41% of total deposits vs. 34% last year. Mgmt highlighted that there is still lot more headroom for liability expansion in current branch network as customers per branch for Bandhan is ~3000 vs. 10000-15000 for other banks. The bank has done stupendous job in building strong liability franchise in the short period of last 3-4 yrs – which is going to be the key for its future success.

IL&FS exposure fully provided in Q3, no exposure to troubled cos

On asset quality side as well, performance of the bank was good – incremental slippages were at ~₹ 1 bn. Gross/Net NPAs came off to 2%/0.6% vs. 2.4%/0.7% qoq. Last quarter, the bank had made its IL&FS exposure of ₹ 3.9 bn as an NPA and provided 100% on the same. The bank has no exposure to any troubled NBFC which in our view, is big positive.

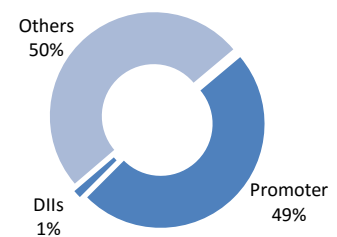
Valuations – BUY with TP of ₹ 718

Performance of the bank is gaining strength each quarter on every parameter. It has also received approvals from RBI, CCI, SEBI for merger with the Gruh Finance while approval is pending from NCLT. Merger will reduce one major headwind to reduce the promoter stake in the bank. We are upbeat on the future performance of the bank. We expect PAT to grow at CAGR of 37% during FY19-21. Although the current valuations look expensive (5.1x FY20E & 3.8x FY21E ABV), but rightly so given superior return ratios (ROE ~21% and ROA >4%) and strong visibility of asset growth. Retain BUY with the TP of ₹ 718, upside of 15% from current levels

Stock Data

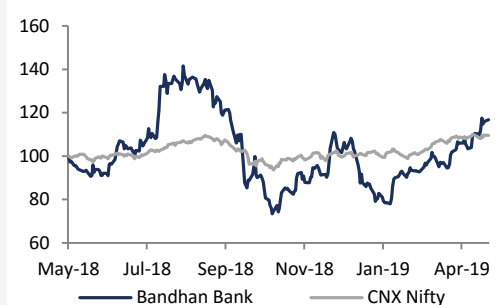
Rating	Buy
Current Market Price(₹)	623
12 M Price Target (₹)	718
Potential upside (%)	15
FV (₹)	10
Market Cap Full (₹ bn)	741
52-Week Range (₹)	741 / 369
BSE / NSE Code	541153 / BANDHANBNK
Reuters / Bloomberg	BANH.NS / BANDHAN:IN

Shareholding Pattern (March 2019)



YE Mar	FY18	FY19e	FY20e	FY21e
PAT (₹.mn)	13,456	19,515	27,209	36,812
yoy (%)	21.0	45.0	39.4	35.3
BV (₹)	78.7	93.9	125.3	168.9
ABV (₹)	77.2	92.0	122.0	163.0
P/ABV (x)	8.1	6.8	5.1	3.8
ROE (%)	19.5	19.0	20.8	21.0
ROA (%)	3.6	3.9	4.1	4.2
Gross NPAs (%)	1.3	2.1	2.2	2.4
PCR (%)	53.7	72.1	65.8	57.6

Relative Price Performance



Q4FY19 Result Highlights

(₹ mn)	Q4FY19	Q4FY18	yoy (%)	Q3FY19	qoq (%)	FY19	FY18	yoy (%)
Interest earned	18,327	13,506	35.7	16,496	11.1	66,441	48,023	38.4
-Interest/discount on advances/bills	15,938	11,785	35.2	14,356	11.0	57,272	38,236	49.8
-Income on investments	1,555	1,365	14.0	1,513	2.8	6,171	4,900	25.9
-Interest on bal. with RBI	117	96	21.8	126	-7.5	714	1,416	-49.6
-Others	717	260	175.4	501	43.0	2,283	3,471	-34.2
Interest expenses	5,752	4,872	18.1	5,256	9.4	21,480	17,701	21.3
Net Interest Income (NII)	12,575	8,634	45.6	11,240	11.9	44,961	30,322	48.3
Other Income	3,878	2,034	90.7	2,341	65.7	10,630	7,062	50.5
Total income	16,453	10,668	54.2	13,581	21.1	55,591	37,384	48.7
Operating expenses	4,921	3,630	35.6	4,576	7.5	18,110	13,083	38.4
-Employee cost	2,699	1,886	43.1	2,558	5.5	10,087	6,880	46.6
-Other operating expenses	2,222	1,744	27.4	2,019	10.1	8,023	6,203	29.3
Operating profit	11,532	7,038	63.9	9,005	28.1	37,482	24,301	54.2
Provision for contingencies	1,533	1,091	40.5	3,776	-59.4	7,351	3,742	96.4
PBT	9,999	5,947	68.1	5,228	91.3	30,131	20,559	46.6
Provision for taxes	3,491	2,069	68.7	1,916	82.2	10,616	7,103	49.4
Net profit	6,509	3,879	67.8	3,313	96.5	19,515	13,456	45.0
Equity	11,931	11,928	0.0	11,928	0.0	11,931	11,928	0.0
EPS (₹)	5.5	3.3	67.8	2.8	96.4	16.4	11.3	45.0
Ratios (%)	Q4FY19	Q4FY18	yoy (%)	Q3FY19	qoq (%)	FY19	FY18	yoy (%)
Int. exp/Int earned (%)	31.4	36.1	-	31.9	-	32.3	36.9	-
Cost/Income ratio (%)	29.9	34.0	-	33.7	-	32.6	35.0	-
Gross NPAs (₹)	8,196	3,731	119.6	8,310	-1.4	8,196	3,731	119.6
Net NPAs (₹)	2,283	1,729	32.0	2,367	-3.5	2,283	1,729	32.0
Gross NPAs (%)	2.0	1.3	-	2.41	-	2.0	1.3	-
Net NPAs (%)	0.6	0.6	-	0.7	-	0.6	0.6	-
ROA (%)	1.3	1.0	-	0.7	-	1.5	1.5	-
CAR (%)	29.2	31.5	-	32.8	-	29.2	31.5	-
Provision coverage (%)	72.1	53.7		71.5		72.1	53.7	
Yield on advances (%)								
Balance Sheet (₹ mn)	Q4FY19	Q4FY18	yoy (%)	Q3FY19	qoq (%)	FY19	FY18	yoy (%)
Sources of Funds								
Capital	11,931	11,928	0.0	11,928	0.0	11,931	11,928	0.0
Reserves and Surplus	100,087	81,891	22.2	93,460	7.1	100,087	81,891	22.2
Deposits	432,316	338,690	27.6	346,393	24.8	432,316	338,690	27.6
Investments	100,375	83,719	19.9	86,181	16.5	100,375	83,719	19.9
Advances	396,434	297,130	33.4	338,729	17.0	396,434	297,130	33.4

Source: LKP Research, Company

Profit & Loss Statement

(₹.mn)	FY17	FY18	FY19e	FY20e	FY21e
INTEREST EARNED	39,087	48,023	66,441	85,825	114,496
Interest/Discount on advances/Bills	31,214	38,236	57,272	74,274	98,900
Income from Investment	4,281	4,900	6,171	8,208	11,362
Interest on Balances with RBI & Others	790	1,416	714	800	1,000
Others	2,802	3,471	2,283	2,543	3,234
INTEREST EXPENDED	15,052	17,701	21,480	28,044	36,871
Interest on Deposits	12,911	16,816	20,717	26,989	35,612
Interest on RBI/Inter-Bank Borrowings	1,588	516	400	500	500
Others	553	368	363	555	759
Net Interest Income (NII)	24,035	30,322	44,961	57,781	77,625
OTHER INCOME	4,114	7,062	10,630	12,817	15,850
TOTAL INCOME	28,149	37,384	55,591	70,598	93,476
OPERATING EXPENSES	10,220	13,083	18,110	23,190	30,146
OPERATING PROFIT	17,929	24,301	37,482	47,408	63,330
PROVISIONS	884	3,742	7,351	5,804	7,043
Provision for Non Performing Assets	477	2,261	6,032	3,568	5,320
Profit Before Tax (PBT)	17,045	20,559	30,131	41,604	56,287
PROVISIONS FOR TAXES	5,925	7,103	10,616	14,395	19,475
PAT	11,120	13,456	19,515	27,209	36,812
(% change)	304.0	21.0	45.0	39.4	35.3
EPS	10.2	11.3	16.4	22.8	30.9
Total Paid-Up Capital	10,951	11,928	11,931	11,931	11,931

Source: Company, LKP Research

Balance Sheet

(₹.mn)	FY17	FY18	FY19e	FY20e	FY21e
APPLICATION OF FUNDS					
Cash & bank balances	60,121	28,371	38,792	41,980	55,886
Bal. with banks and money at call & short notice	13,529	26,735	19,235	21,630	27,232
Advances	168,391	297,130	396,434	531,986	704,260
Investments	55,165	83,719	100,375	152,193	197,418
Fixed Assets	2,518	2,381	3,312	4,007	4,849
Other Assets	2,637	4,764	6,270	8,778	12,289
TOTAL ASSETS	302,361	443,101	564,417	760,575	1,001,934
SOURCES OF FUNDS					
Total Paid-Up Capital	10,951	11,928	11,931	11,931	11,931
RESERVES & SURPLUS	33,513	81,891	100,087	137,601	189,627
DEPOSITS	232,287	338,690	432,316	584,599	765,500
BORROWINGS	10,289	2,850	5,214	7,113	9,746
OTHER LIABILITIES & PROVISIONS	15,320	7,741	14,870	19,331	25,130
TOTAL LIABILITIES	302,361	443,101	564,417	760,575	1,001,934

Source: Company, LKP Research

Ratios

A) Efficiency Ratios (%)	FY17	FY18	FY19e	FY20e	FY21e
Int. exp/Int. earned	38.5	36.9	37.5	37.8	37.3
NII / Total Income	85.4	81.1	80.9	81.8	83.0
Other income / Total Income	14.6	18.9	19.1	18.2	17.0
Fee income / Other income	77.9	57.3	49.2	54.0	57.8
Fee income / Total Income	11.4	10.8	9.4	9.8	9.8
Cost / Income	36.3	35.0	32.6	32.8	32.3
C-D ratio	72.5	87.7	91.7	91.0	92.0
I-D ratio	23.7	24.7	23.2	26.0	25.8
Loan / Assets ratio	55.7	67.1	70.2	69.9	70.3
Deposits / Assets ratio	76.8	76.4	76.6	76.9	76.4
CASA / Total Deposits	29.4	34.3	40.8	42.2	42.5
B) Spreads (%)	FY17	FY18	FY19e	FY20e	FY21e
Yield on Assets	15.9	13.1	11.6	11.4	11.4
Yield on Advances	21.3	16.4	16.5	16.0	16.0
Yield on Investments	9.2	7.1	6.7	6.5	6.5
Cost of Funds	7.6	6.1	5.5	5.4	5.4
Cost of Deposits	7.3	5.9	5.4	5.3	5.3
Cost of Earning Assets	6.1	4.8	4.3	4.3	4.3
Net Interest Spread	8.3	7.0	6.0	6.0	6.0
Net Interest Margin	9.8	8.3	9.1	8.9	9.0
C) Solvency Ratios (%)	FY17	FY18	FY19e	FY20e	FY21e
Gross NPAs (₹)	863	3,731	8,196	11,499	16,604
Net NPAs (₹)	612	1,729	2,283	3,935	7,041
Provisions (₹ mn)	251	2,002	5,912	7,564	9,563
Gross NPAs / Gross Advances (%)	0.5	1.3	2.1	2.2	2.4
Net NPAs / Net Advances (%)	0.4	0.6	0.6	0.7	1.0
Credit Cost (%)	0.3	0.8	1.4	0.9	0.9
Credit Cost (%)	0.5	1.1	1.7	1.1	1.1
Provisions Coverage Ratio (%) (Excl. Fl. Prov.)	29.1	53.7	72.1	65.8	57.6
D) Measures of Investment	FY17	FY18	FY19e	FY20e	FY21e
EPS (₹)	10.2	11.3	16.4	22.8	30.9
BV (₹)	40.6	78.7	93.9	125.3	168.9
Adjusted BV (₹)	40.0	77.2	92.0	122.0	163.0
DPS (₹)	0.0	0.0	1.0	1.0	1.0
Avg. ROE (%)	28.6	19.5	19.0	20.8	21.0
Avg. ROA (%)	4.4	3.6	3.9	4.1	4.2
P/E (x)	61.5	55.3	38.1	27.4	20.2
P/BV (x)	15.4	7.9	6.6	5.0	3.7
P/ABV (x)	15.58	8.1	6.8	5.1	3.8
Dividend Payout ratio (%)	0.0	0.0	6.1	4.4	3.2
Effective tax rate (%)	34.8	34.6	35.2	34.6	34.6

Ratios

E) Breakdown of ROA (%)	FY17	FY18	FY19e	FY20e	FY21e
Interest Income	15.6	12.9	11.4	11.2	11.2
Interest expenses	6.0	4.7	4.3	4.2	4.2
NII/avg assets	9.6	8.1	8.9	8.7	8.8
Non-NII/avg. assets	1.6	1.9	2.1	1.9	1.8
Total Income	11.3	10.0	11.0	10.7	10.6
Operating exp/avg. assets	4.1	3.5	3.6	3.5	3.4
Operating profit/avg assets	7.2	6.5	7.4	7.2	7.2
Provisions/avg. assets	0.4	1.0	1.5	0.9	0.8
PBT/avg. assets	6.8	5.5	6.0	6.3	6.4
Tax/avg. assets	2.4	1.9	2.1	2.2	2.2
PAT/avg. assets	4.4	3.6	3.9	4.1	4.2
Leverage	6.8	4.7	5.0	5.1	5.0
F) Growth Rates (%)	FY17	FY18	FY19e	FY20e	FY21e
Interest Income	147.2	22.9	38.4	29.2	33.4
Interest Expenses	132.1	17.6	21.3	30.6	31.5
NII	157.7	26.2	48.3	28.5	34.3
Other Income	174.5	71.6	50.5	20.6	23.7
Total Income	160.0	32.8	48.7	27.0	32.4
Operating Income	284.1	35.5	54.2	26.5	33.6
Net Profit	304.0	21.0	45.0	39.4	35.3
Deposits	92.2	45.8	27.6	35.2	30.9
Advances	35.4	76.5	33.4	34.2	32.4

Source: Company, LKP Research

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