

Retail Equity Research Bandhan Bank Ltd.

Banking

BSE CODE: 541153

NSE CODE: BANDHANBNK

Bloomberg CODE: BANDHAN:IN

SENSEX: 40,470

BUY

12M Investment period

Rating as per Large cap

CMP Rs 536 TARGET Rs 613 RETURN 14% ↑

(Closing: 19-11-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Merger aids strong growth

Bandhan Bank operates as a commercial bank which provides checking accounts, savings deposits and money market, mortgage and term loan services. It also offers card facilities and internet banking services. Bandhan bank merged with Gruh finance on 17th October, 2019.

- Loans and advances grew 92.3% YoY in Q2FY20 (38% excluding Gruh), with contribution of micro banking declining to 61% after the merger.
- In Q2FY20, the bank's deposit base of the merged entity increased 49.3% YoY (44.4% excluding Gruh) with a CASA growth of 41.2% YoY.
- Net interest margin (NIM) declined 200bps YoY to 8.2%, owing to 110bps lower yield on advances and 90bps higher cost of funds.
- GNPA/NNPA ratio stood at 1.76%/0.56% in Q2FY20 (vs 1.70%/0.59% in Q1FY20).
- We increase our target price to Rs. 613 based on 5.7x FY21E BVPS, and retain our BUY rating, given the potential synergies from merger, wider customer base and stable asset quality.

Strong growth in advances even excluding the merger

In Q2FY20, Loans and advances grew 92.3% YoY to Rs. 64,186cr (+43.3% QoQ) including the advances from Gruh of Rs. 18,229cr (38% YoY growth excluding Gruh). The contribution of micro finance reduced to 61% from 87% in Q2FY19 of the total advances, thereby providing diversification benefit. Deposit base of merged entity rose 49.3% YoY to Rs. 49,195cr (44.4% excluding Gruh). CASA ratio declined to 33.4% (35.0% excluding Gruh term deposit) vs. 36.9% Q2FY19, as CASA grew 41.2% YoY.

Margin decline owing to the merger

Net interest income grew 41.8% YoY to Rs. 1,529cr while net interest margin stood at 8.2% in Q2FY20 vs. 10.2% in Q2FY19, due to the decline in yield on advances (down 110bps YoY to 14.2%), and increase in the cost of funds (+90bps YoY to 7.2%). The cost-to-income ratio improved by 240bps to 30.8% in Q2FY20. Resultantly, pre-provision profit increased 49.7% YoY while net income grew disproportionately by 99.2% YoY as it benefitted from lower taxes.

Key highlights

- The merger is expected to deliver both revenue and cost synergies such as extending loans to about 2.7 lakh Gruh customers (of which 45% are self-employed providing opportunity for SME loans), lower the cost of funds for Gruh liabilities by ~150bps from the current rate
- Total banking outlets grew to 4,220 including 195 Gruh (vs. 4,000 in Q4FY19)

Asset quality stable

The bank's Gross NPA (GNPA) reached Rs. 1,064cr as GNPA ratio increased 6bps QoQ to 1.76% in Q2FY20. On the other hand, net NPA (NNPA) decreased 3bps QoQ to 0.56%. Capital adequacy ratio of the merged entity stood at 28.5% including current year's profit (25.1% excluding of which tier 1 at ratio at 23.0%) vs. 32.6% in Q2FY19.

Outlook & Valuation

The amalgamation with Gruh finance will provide the bank with substantial synergies and access to increased customer base, which in turn will help drive growth. We value the bank at 5.7x FY21E BVPS with a revised target price of Rs. 613 and retain our BUY rating on the stock.

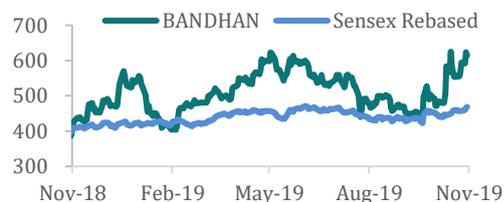
Company Data

Market Cap (cr)	Rs. 88,445
Outstanding Shares (cr)	161.0
Free Float	18.0%
Dividend Yield	0.6%
52 week high	Rs. 650
52 week low	Rs. 398
6m average volume (cr)	0.2
Beta	1.4
Face value	Rs. 10

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	82.3	82.3	82.3
FII's	5.6	6.3	6.9
MFs/Insti	10.0	9.5	8.8
Public	1.7	1.6	1.5
Others	0.5	0.4	0.5
Total	100.0	100.0	100.0
Promoter pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	10.1%	-4.3%	26.9%
Absolute Sensex	9.4%	4.8%	15.7%
Relative Return*	0.7%	-9.1%	11.2%

*over or under performance to benchmark index



Standalone (Rs. cr)	FY19A*	FY20E	FY21E
Net Interest Income	4,496	6,334	8,792
Growth (%)	48.3	40.9	38.8
NIM (%)	10.4	9.1	8.8
Pre-Provision Profit	3,748	4,769	6,307
Net Profit	1,952	2,896	3,857
Growth (%)	45.0	48.4	33.2
Adj. EPS	16.4	18.0	24.0
Growth (%)	45.0	10.0	33.2
BVPS	93.9	87.3	107.6
P/E	32.2	30.5	22.9
P/B	5.6	6.3	5.1
P/ABV	5.7	6.5	5.3
ROE (%)	19.0	22.9	24.6
ROA (%)	3.9	3.8	3.5

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY20	Q2FY19*	YoY Growth %*	Q1FY20	QoQ Growth %	H1FY20	H1FY19*	YoY Growth %*
Interest Income	2,690	1,606	67.6	2,631	2.2	5,322	3,162	68.3
Interest Expense	1,161	528	119.9	1,057	9.9	2,218	1,047	111.8
Net Interest Income (NII)	1,529	1,077	41.9	1,575	(2.9)	3,104	2,115	46.8
Non-Interest Income	360	230	56.3	331	8.8	691	441	56.7
Total Net Income	1,889	1,308	44.5	1,906	(0.9)	3,795	2,556	48.5
Total Income	3,051	1,836	66.1	2,962	3.0	6,013	3,603	66.9
Operating Expenses	582	434	34.2	551	5.8	1,133	861	31.5
Total Expenditure	1,744	962	81.2	1,607	8.5	3,351	1,908	75.6
Pre-Provision profit	1,307	874	49.5	1,355	(3.6)	2,662	1,695	57.1
Provisions	146	124	17.2	125	16.1	271	204	32.7
Profit Before Tax	1,161	750	54.9	1,230	(5.6)	2,391	1,490	60.4
Tax	190	262	(27.7)	426	(55.5)	616	521	18.2
Net Profit	972	488	99.3	804	20.9	1,775	969	83.2
EPS - Diluted (Rs)	6.0	4.1	47.8	5.0	21.0	11.0	8.1	35.8

*Q2FY19 and H2FY19 figures above are excluding the merger with Gruh Finance and hence are not comparable on YoY basis

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	4,630	5,915	6,334	8,792	36.8	48.7
Net Interest Margin (%)	9.3	11.9	9.1	8.8	(17.8)	(311.0)
Pre-Provision Profit	4,142	5,334	4,769	6,307	15.2	18.2
Net Profit	2,385	3,219	2,896	3,857	21.4	19.8
EPS (Rs)	20.0	27.0	18.0	24.0	(10.0)	(11.2)

PROFIT & LOSS

Y.E March (Rs. cr)	FY17A*	FY18A*	FY19A*	FY20E	FY21E
Interest Income	3,909	4,802	6,644	10,671	15,339
Interest Expense	1,505	1,770	2,148	4,337	6,547
Net Int. Income	2,403	3,032	4,496	6,334	8,792
% Change		26.2	48.3	40.9	38.8
Non-Int. Income	411	706	1,063	1,169	1,286
Net Income	2,815	3,738	5,559	7,503	10,079
Total Income	4,320	5,508	7,707	11,841	16,625
Operating Exp.	1,022	1,308	1,811	2,734	3,772
Total Exp.	2,527	3,078	3,959	7,071	10,319
Pre-Prov. Profit	1,793	2,430	3,748	4,769	6,307
Provisions	88	374	735	900	1,152
PBT	1,704	2,056	3,013	3,869	5,155
Tax	593	710	1,062	974	1,297
Tax Rate (%)	34.8	34.6	35.2	25.2	25.2
Net Profit	1,112	1,346	1,952	2,896	3,857
% Change		21.0	45.0	48.4	33.2
No. of Shares (cr)	110	119	119	161	161
Adj. EPS (Rs)	10.2	11.3	16.4	18.0	24.0
% Change		11.1	45.0	10.0	33.2
DPS (Rs)	0.0	1.0	3.0	2.9	3.6

*Standalone Bandhan bank numbers excluding merger with Gruh Finance

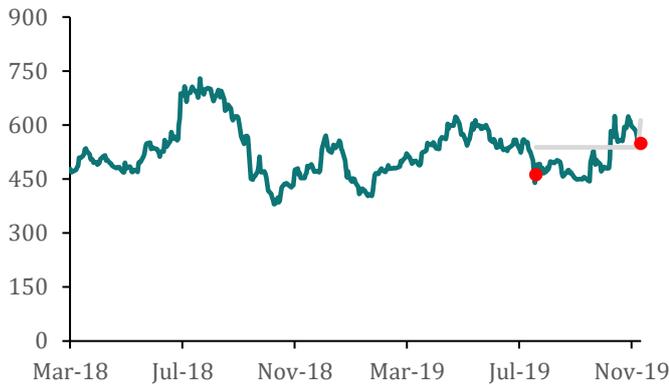
BALANCE SHEET

Y.E March (Rs. cr)	FY17A*	FY18A*	FY19A*	FY20E	FY21E
Cash & Balances	6,012	2,837	3,879	4,618	5,080
Investments	6,869	11,045	11,961	17,976	19,564
Advances	16,839	29,713	39,643	73,537	94,127
Fixed Assets	252	238	331	401	441
Other Assets	264	476	627	761	838
Total Assets	30,236	44,310	56,442	97,293	120,049
Capital	1,095	1,193	1,193	1,610	1,610
Reserves & Surplus	3,351	8,189	10,009	12,442	15,713
Deposits	23,229	33,869	43,232	60,018	78,024
Borrowings	1,029	285	521	20,155	21,163
Other Liabilities	1,532	774	1,487	3,067	3,539
Total Liabilities	30,236	44,310	56,442	97,293	120,049
BVPS (Rs.)	40.6	78.7	93.9	87.3	107.6
Adj. BVPS (Rs.)	40.0	77.2	92.0	84.6	104.2
% Change	-	93.7	19.4	(8.0)	23.1

RATIOS

Y.E March	FY17A*	FY18A*	FY19A*	FY20E	FY21E
Valuation					
P/E (x)	46.2	41.6	32.2	30.5	22.9
P/BV (x)	11.6	6.0	5.6	6.3	5.1
Div. Yield (%)	0.0	0.2	0.6	0.5	0.7
Profitab. & Return (%)					
Yield on Advances	16.7	15.4	15.4	15.0	15.1
Cost of Deposits	7.1	6.7	6.3	7.0	7.3
Spread	9.6	8.7	9.1	8.0	7.8
NIM	10.2	9.7	10.4	9.1	8.8
ROE	50.0	19.5	19.0	22.9	24.6
ROA	3.7	3.6	3.9	3.8	3.5
Capital Adequacy (%)					
CAR	26.4	31.5	29.2	27.7	26.1
Tier I	24.8	30.3	27.9	26.2	24.2
Tier II	1.6	1.2	1.3	1.6	1.9
Asset Quality (%)					
GNPA	0.5	1.3	2.0	1.8	1.9
NNPA	0.4	0.6	0.6	0.6	0.6
Operating Ratios (%)					
Credit/ Deposit	72.5	87.7	91.7	122.5	120.6
Cost/ Income	36.3	35.0	32.6	36.4	37.4
CASA	29.4	34.3	40.8	38.5	39.5

Recommendation Summary



Dates	Rating	Target
25-Jul-19	BUY	538
20-Nov-19	BUY	613

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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